

**CDP: Corporate Value Propositions for  
Collective Landscape Initiatives**

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## 1. Overview

### 1.1. Problem Framing

According to the New York Declaration of Forests, the number of companies committing to reduce or eliminate deforestation in their supply chain has not increased, and rainforest destruction increased by 12% from 2019 to 2020 because of agricultural commodity production (CDP, 2021). To tackle the negative trend of deforestation and the slow progress in companies' risk management and commitment, CDP proposed a collective approach of landscape and jurisdictional initiatives (L/JIs) in 2021 (CDP, 2021). L/JIs are the approach to integrate multiple stakeholders in landscape management such as land-use plans, policies, and investments to address systemic issues of deforestation and sustainable development at a wider scale, which may not be easy to address without stakeholders' involvement (CDP, 2023). Since 2021, CDP has seen a growing trend of companies disclosing and engaging with L/JIs: a 74% increase from 2020 to 2021, and a more than 300% increase from 2021 to 2022 (CDP, 2023; 2022; n.d.-d). However, as Table 1 shows, more than 80% of the companies responding to the CDP Forest questionnaire have not engaged with LA/JA each year.

**Table 1:** The number of companies reporting engagement with L/JIs

|         | 2020 | 2021       | 2022         |
|---------|------|------------|--------------|
| (A)     | 27   | 48 (+74%)  | 192 (+309%)  |
| (B)     | 687  | 865 (+26%) | 1,043 (+21%) |
| (A)/(B) | 3.9% | 5.5%       | 18.4%        |

*Note:* (A) represents the number of disclosing companies reporting engagement in L/JIs in CDP's Forest questionnaire, and (B) represents the number of reporting companies in CDP's Forest questionnaire. (A)/(B) shows the ratio of the companies disclosing their engagement with L/JIs among the companies responding to the Forest questionnaire (CDP, 2023; 2022; n.d.-d).

To increase the number of downstream companies engaged in L/JIs and mature the level of commitment, CDP has looked for the business cases and the purported benefits for companies to

engage with L/JIs. CDP's specific questions required researching examples of L/JIs from a corporate perspective in Latin America (LATAM) and Southeast Asia (SEA), as well as how different organizations are communicating the benefits of engaging in L/JIs to encourage further corporate engagement and disclosure.

## **1.2. Summary of Deliverables**

The following materials are the strategy products for CDP's corporate value propositions for collective landscape approaches. The first product is a landscape analysis of how different organizations communicate about the benefits and metrics of L/JIs for corporations, with a recommendation for a financial analysis approach using publicly disclosed information. The second product is the analysis of a series of examples of corporate L/JI engagement from which a guideline was developed to communicate engagement benefits. We conducted a comparative analysis of different examples of corporations that do not report through CDP but are engaged with L/JIs. We also evaluated their sustainability progress through various financial, social, and environmental metrics and indicators. Finally, an introduction to corporate supply chain engagement is presented to further develop governance mechanisms at the local level by promoting different strategies.

The landscape analysis establishes the benefits corporations can obtain from engaging in L/JIs. These are distributed along a series of social, environmental, and economic metrics. Financial benefits are of particular relevance to corporations, and a strong financial analysis is presented for the palm oil Japanese companies Kao, Fuji Oil, and L'Oreal. It is worth noting that these examples have strong financial relevance in the case of L/JIs but lack governance integration into their programs.

The corporate comparative analysis takes into account financial metrics like revenue, investment, and share, as well as social indicators like employment, community development, smallholders' impact, and environmental indicators around biodiversity conservation, carbon sequestration, and sustainable land management. Although it does not consider governance metrics, some investments are engaged with local authorities and organizations, such as the Rainforest Alliance and the Forest Stewardship Council (FSC) forest management certification (Mirova, 2022). Professor David Manuel Navarrete from Arizona State University's Global Institute of Sustainability and Innovation

has recommended that governance would not only be evaluated through metrics and indicators but be perceived as a process (Manuel-Navarrete, personal communication, June 20, 2024). Under that lens, it is recommended that corporate reporting include disclosure of governance stages and progress in the supply chain.

Lastly, we prepared three guides to the benefits of L/JIs for CDP reporting initiatives with a series of recommendations for communicating engagement strategies for both investors and companies that may expect both non-financial and financial outcomes from L/JIs. Professor Datu Buyung Agusdinata from Arizona State University's School of Sustainability, College of Global Futures, has advised from his experience that the communication strategies would need to be differently tailored for philanthropic investors and conventional investors when requesting their support on sustainability projects; philanthropic investors would expect more environmental and social outcomes whereas conventional investors would expect more financial returns together with non-financial outcomes (Agusdinata, personal communication, June 20, 2024). These recommendations are supported by another set of examples from companies in SEA and LATAM that can potentially benefit from engaging with L/JIs.

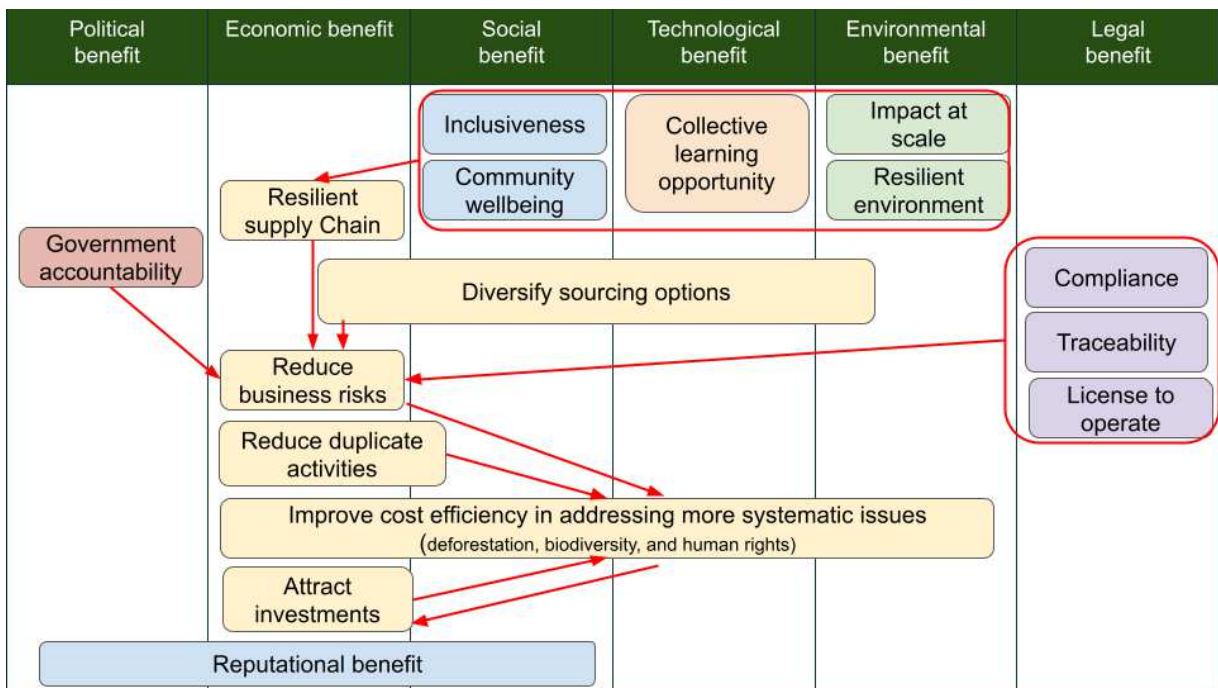
## **2. Landscape Analysis**

### **2.1. The Benefits of Engaging with L/JIs for Companies that Organizations Communicate**

The way L/JIs are communicated affects the awareness of L/JIs. Especially, if the objective is to have the corporate sector actively participate, it would be effective to communicate the benefits to companies. In 2021, when the White House announced the Plan to Conserve Global Forests, including the United States Agency for International Development (USAID) Business Case for Collective Landscape Action, it mentioned that L/JIs would help companies “meet sustainability goals, attract financing, and provide local employment” (The White House, 2021). To the extent of our research on seven non-profit organizations, while two organizations communicated more about the roles and responsibilities of companies to engage with L/JIs, the other five organizations suggested specific benefits companies could derive from engaging with L/JIs (Clarmondial, 2022; Conservation International, 2019; ISEAL, 2024-a; Forest 500, 2022; Rainforest Alliance, 2020; Tropical Forest Alliance, n.d-a.; World Economic Forum, 2024). Table 1 shows the PESTEL categorization of the

benefits for companies engaging with L/JIs, which were highlighted by those five organizations: Conservation International, ISEAL, Rainforest Alliance, Tropical Forest Alliance, and World Economic Forum. By grouping and mapping the related benefits, we can see that L/JIs could contribute to long-term community well-being and a more resilient environment, which leads to a more resilient supply chain and more procurement options for companies. Companies can also reduce business risk by ensuring government accountability and compliance. Moreover, they can improve cost efficiency in addressing systemic social and environmental issues by reducing duplicative activities among stakeholders. Notably, both non-financial and financial benefits for companies are pointed out by those organizations.

**Table 1: PESTEL Categorization of the Benefits for Companies Engaging with L/JIs**



**2.2. The Metrics Organizations Recommend to Measure L/JI Outcomes**

While the PESTEL categorization in Section 2.1 clarified that both non-financial and financial benefits for companies are communicated, the landscape looks different if we conduct a similar categorization of the metrics the organizations propose to measure the outcome of L/JIs. As far as we studied the metrics that the six non-profit organizations propose, most of the metrics to measure the

initiative's outcome are social, environmental, and technological indicators. Five organizations recommend the use of quantitative indicators in ecosystem conservation, human well-being, governance, and production; for example, the percentage of land protected and crop productivity (yield/ha) (Accountability Framework Initiative, n.d.; Consumer Goods Forum, 2023; ISEAL, 2024-b; LandScale, n.d.; Produce Conserve Include, n.d.). While cost efficiency is listed as a benefit for companies, ROI or other cost efficiency metrics are not utilized (ISEAL, 2024-b). One resource that may help companies have an idea of financial costs is the guide provided by Tropical Forest Alliance (Tropical Forest Alliance, n.d.-b). The guide shows 20 interventions with an estimated cost range, which is shown as “\$\$ - \$\$\$\$” (Tropical Forest Alliance, n.d.-b).

**Table 2:** PESTEL Categorization of the Metrics Recommended by Organizations

| Political outcome                                       | Economic outcome  | Social outcome  | Technological outcome  | Environmental outcome                   | Governance outcome                                     |
|---|---|---|--|---|--|
| Government coordination on land use policy and planning | Estimated cost range “\$\$ - \$\$\$\$”  | % of population under poverty                           | Fertilizer use efficiency                                    | Area (ha) and % of land protected       | % of land with formalized land tenure rights           |
|   | How can non-financial metrics be translatable to financial metrics for companies? | % of population undernourished                          | Water use efficiency   | Area of degradation                     | # of unresolved land, resource conflicts or grievances |
|   |   | % of children not attending schools                     | Land area using integrated pest management                   | Area of restoration                     | # of population facing land conflicts                  |
|   |   | % of households access to water                         | Land area using sustainable land mgmt practices              | Changes in threats to species           | Stakeholder participation in land use policy           |
|   |   | # of child labor  | Crop / livestock / forest plantation productivity (yield/ha) | Area of land protected for biodiversity | Perceived level of corruption                          |
|   |   | % of smallholders' products in the institutional market |  | Trends in seasonal water quantity       | Incidence of illegality                                |
|   |   |   |  |   | Concentration of toxic materials in water              |

To the extent of our research, although both non-financial and financial benefits for companies are pointed out, the recommended metrics have focused on measuring environmental, social, and governance impacts, and have not been translated into financial metrics to measure financial outcomes for companies. This different trend leads to the following questions: what financial benefits would L/JIs generate for companies, and what valuation methods would companies use?

### 2.3. Financial Analysis Case Studies

To analyze the potential financial outcomes L/JIs would generate for companies, this report analyzes L/JIs for palm oil in Southeast Asia, which were reported in CDP Forest 2023 questionnaires. After focusing on a case study of L/JI by Kao Corporation, a company that received the CDP Triple A award for four consecutive years in 2021, the analysis will be expanded to include examples of other companies, that scored A- or higher in the 2023 Forest questionnaire and with palm oil accounting for 20% or more of both sales and procurement: Fuji Oil and L’Oreal (CDP, n.d.-a, n.d.-b, n.d.-c).

#### 2.3.1. Kao’s Activities to Promote Responsible Procurement

Kao Corporation is one of the largest companies in Japan's consumer product and chemical product industry, procuring palm oil from Indonesia and Malaysia. As of 2023, 99% traceability to palm oil mills and 87% traceability to palm plantations has been completed, aiming at achieving 100% traceability by 2025 in collaboration with suppliers, landholders, and non-governmental organizations (NGOs) (Kao, 2024-a). Through traceability, Kao aims to shift 100% of its palm oil procurement to palm oil certified by the Roundtable on Sustainable Palm Oil (RSPO) by 2025, which was 40% as of 2023 (Kao, 2024-a). The company has initiated L/JIs in Indonesia since 2020, called “Smallholder Inclusion for better Livelihood and Empowerment program” (SMILE Program), for its palm oil supply chain (CDP, n.d.-b).

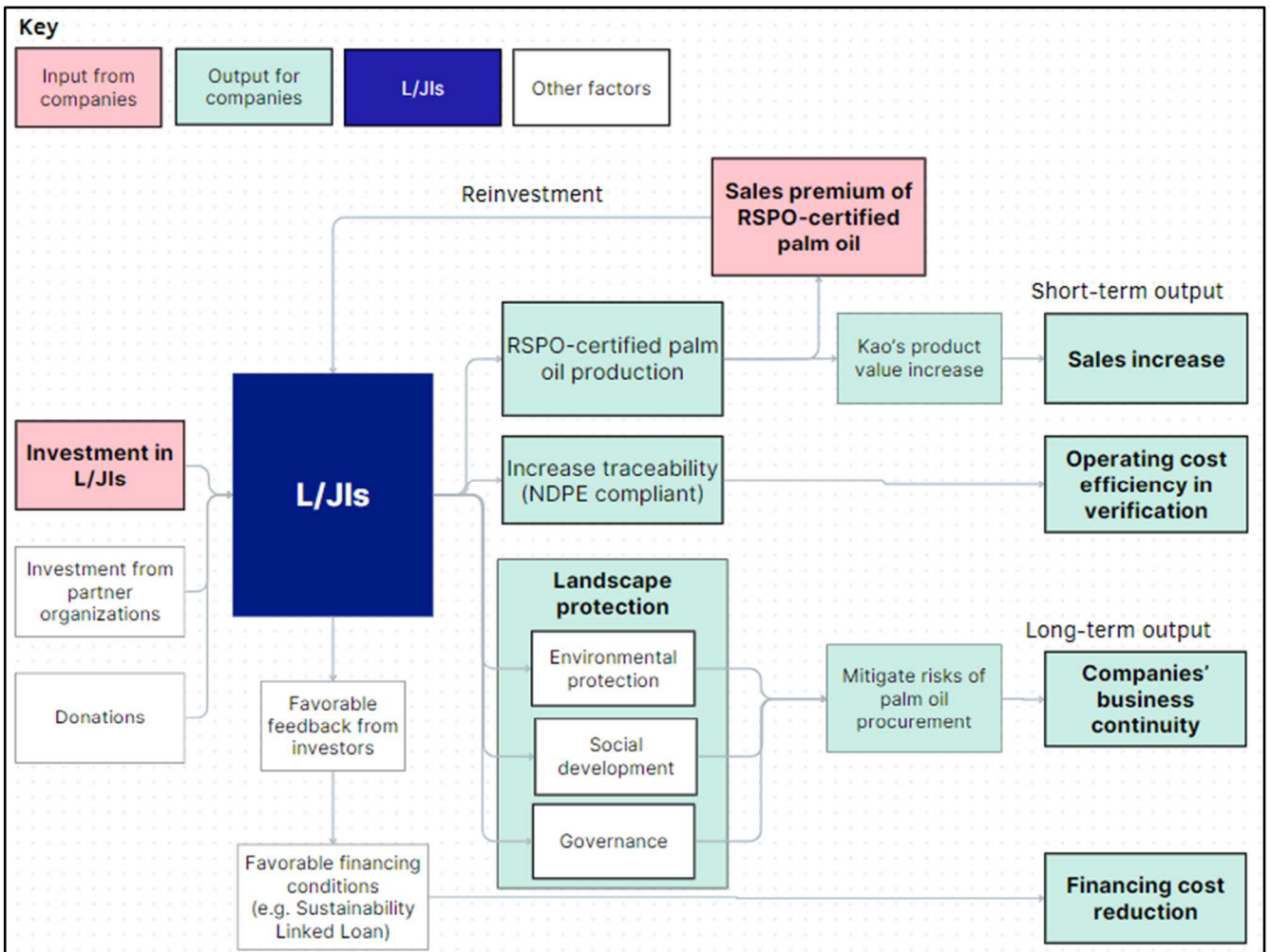
**Figure 1: SMILE Program Overview**

| SMILE Program  |  |   |
|--|--|---|
| Location: Indonesia (North Sumatra, Riau, Jambi )<br>Period: 2020-2030   |  |   |
| Program Members  | Objective  | Goals   |
| Kao Corporation<br>(a palm oil consumer)<br>Apical Group<br>(an exporter of palm oil)<br>Asian Agri<br>(a palm oil producer) | Support smallholders to; <ul style="list-style-type: none"> <li>• Increase their yield and productivity</li> <li>• Minimize the need for the extensification of agricultural land, and avoid deforestation</li> <li>• Obtain RSPO certification</li> </ul> | Support 5,000 smallholders managing 18,000 ha of plantations.<br><br>>>More than 3,000 smallholders were supported, and 839 smallholders obtained RSPO certification by 2023. |
| (Kao, 2020, n.d.)  |  |   |

### 2.3.2. Financial Analysis of Kao's SMILE Program

While Kao has monitored and disclosed the number of smallholders participating in the training and obtaining RSPO certification through the SMILE Program, the company has not disclosed a comprehensive analysis of the financial benefits of engaging with the L/JI in the Sustainability Reports or responses to CDP Forest questionnaires (Kao, 2024-a; CDP, n.d.-b). However, we utilized the publicly-disclosed data to analyze the input to and the output from the SMILE Program and estimated the financial impacts of the SMILE Program on Kao.

**Figure 2: Input and Output Analysis of L/JIs**



As Figure 2 shows, when we think about the lifecycle of the L/JIs, the largest input would be the companies' investment in the initiative. In the case of Kao, the estimated investment over the 11 years of the SMILE Program is 500 million JPY, which is equivalent to \$3.3 million with the USD/JPY of 150 (CDP, n.d.-b). The output from the L/JIs would be RSPO-certified palm oil produced by the smallholders

in the short-term, and the landscape protection in the long-term. Those outputs could be translated into financial benefits.

The short-term financial benefit would be a sales increase of the products using RSPO-certified oil, by adding more value from sustainable procurement and landscape protection. For example, Kao has seen sales growth in the U.S. market by communicating RSPO certification and estimated a 5% potential sales increase in the palm-derived business in the Chemical Business segment (CDP, n.d.-b; Kao, 2024-b). The long-term benefit would be business continuity by mitigating the risks of palm oil procurement. In Kao's business, palm oil is used in most of its products which accounts for 81-90% of the revenue, and the company procures 70% of palm oil from those regions covered by the SMILE Program (CDP, n.d.-b). From a corporate financing perspective, companies could potentially reduce financing costs by receiving favorable evaluations of their sustainability commitments from investors and CDP. For example, Kao started its first Sustainability Linked Loan in 2023, whose interest rate will fluctuate according to the achievement level of the Sustainability Performance Target, which is receiving CDP A scores in two or more categories (Kao, 2023). If their engagement with the SMILE Program contributes to improving the evaluation from the investors and CDP, the lower interest rate could be regarded as a financial benefit from L/JIs. As summarized in Table 3, the SMILE Program could potentially bring financial benefits to Kao. Please see Appendix A for the detailed calculation and supplementary data.

**Table 3: Financial Analysis of the 11-year SMILE Program**

|  | mil USD      | Note   |
|--|--------------|--|
| Investment in the initiative                           | 3.3          | Equivalent to 500mil JPY   |
| Purchasing cost of RSPO-credit generated from the L/JI | 0.7          | Cost of \$65k per year, estimated as RSPO credit price of \$6.5 multiplied by 10k ton RSPO credits generated from SMILE Program in 2023. Please see Appendix A for further details of cost estimation.   |
| Incremental cost of RSPO-certified palm oil            | 126.5        | Annual incremental cost of \$11.5mil. Please see Appendix 1 for further details of cost estimation.  |
| <b>Total Input</b>                                     | <b>130.5</b> |  |
| Sales increase in the Chemical Business                | 660          | Kao estimated \$85mil or +5% sales increase at the company level in 2023 due to RSPO certification. As 70% of palm oil is procured from the L/JI region, it is estimated to be \$85mil x 70% = \$60mil. If a 5% increase continues, the 11-year cumulative impact could be \$660mil. |
| Financing cost reduction                               | 1.3          | Favorable rates of the Sustainability Linked Loan. Please see Appendix A for further details of cost estimation.   |
| <b>Total Output</b>                                    | <b>661.3</b> |  |

### 2.3.3. Financial Analysis of the Other Palm Oil L/JIs in Southeast Asia

By utilizing the input and output analysis, we continued the financial analysis of the other L/JIs by Fuji Oil Holdings, Inc. and L'Oreal. Similarly, the key components of financial analysis are;

- Input components: the investments in L/JIs, and incremental procurement and operational costs of switching from non-certified palm oil to RSPO-certified palm oil.
- Output components: potential sales increase by communicating RSPO certification with customers, and cost reduction opportunities in terms of operation and financing.

If the above data is not publicly available, we estimated them by utilizing publicly disclosed information, such as the ratio of palm oil's procurement spend and palm oil's revenue contribution, the ratio of RSPO-certified oil procurement, and the ratio of palm oil procurement from the L/JIs regions. Please see Appendix B for the detailed calculation and supplementary data.

**Table 4:** Financial Analysis of Fuji Oil and L'Oreal's L/JIs

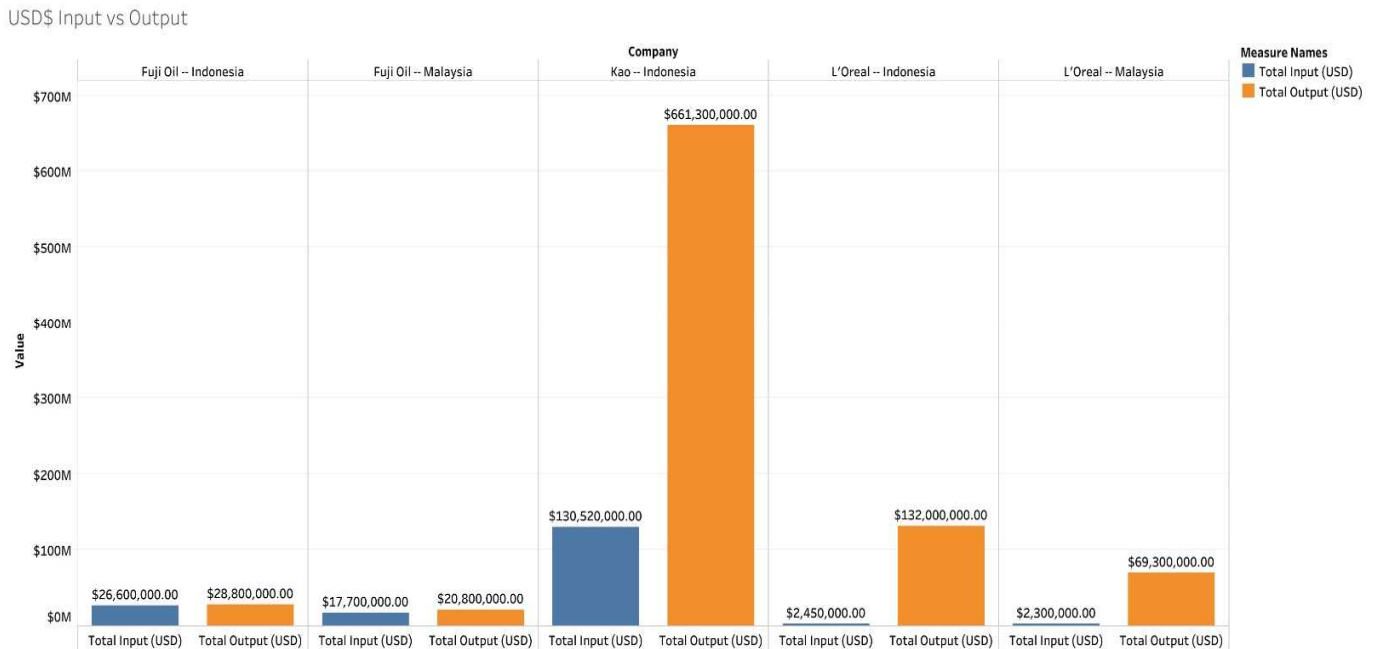
(Unit: mil USD, Period of calculation: equal to the period of L/JI)

|   | Fuji Oil (Indonesia)<br>(2018-2025) | Fuji Oil (Malaysia)<br>(2022-2025) | L'Oreal (Indonesia)<br>(2020-2025) | L'Oreal (Malaysia)<br>(2015-2025) |
|---|-------------------------------------|------------------------------------|------------------------------------|-----------------------------------|
| Investment in the initiative                | 0.2                                 | 0.1                                | 0.65                               | 1.2                               |
| Incremental cost of RSPO-certified palm oil | 26.4                                | 17.6                               | 1.8                                | 1.1                               |
| <b>Total Input</b>                          | <b>26.6</b>                         | <b>17.7</b>                        | <b>2.5</b>                         | <b>2.3</b>                        |
| Sales increase                              | 28.8                                | 20.8                               | 126                                | 66                                |
| Operating cost reduction                    | 0                                   | 0                                  | 6                                  | 3.3                               |
| <b>Total Output</b>                         | <b>28.8</b>                         | <b>20.8</b>                        | <b>132</b>                         | <b>69.3</b>                       |

To the extent of our research, the macro-level financial input and output analysis using publicly available data could help CDP grasp the financial overview of the L/JIs; the L/JIs could potentially contribute to positive financial outcomes for the companies. On the other hand, one of the limitations of this approach would be that it is not an onsite measurement of outputs from the L/JIs. If a company conducts multiple projects for sustainable palm oil procurement, as L'Oreal has conducted five different projects, this macro-level estimation could average the impacts of those multiple initiatives (CDP, n.d.-

c). In such a case, it would be recommended to collect more information from the companies to quantify the outcomes solely from the L/JIs.

**Figure 3: Macro-level financial analysis on the L/JIs**



In summary, the macro-level estimation through the input and output analysis can be used as a starting point for discussions with companies. For example, CDP could share the macro-level analysis with the companies, and discuss if the analysis results and the parameters are aligned with their observations and their parameters. CDP could also help them identify the main drivers of sales and costs related to L/JIs, and advise them to collect and monitor the relevant data. Although we focused on the RSPO-certified palm oil to measure the output in the case study, CDP and the companies may find other certifications or standards that may be more applicable to each L/JI, such as the NDPE compliance or the POIG verification. Such a dialogue between CDP and the companies would help companies analyze their financial benefits and incorporate L/JIs into their business strategies. It could also help CDP's communication by presenting the business case for financial benefit to other companies not yet involved in L/JIs.

### **3. Identification of Best Practices**

#### **3.1. Overview**

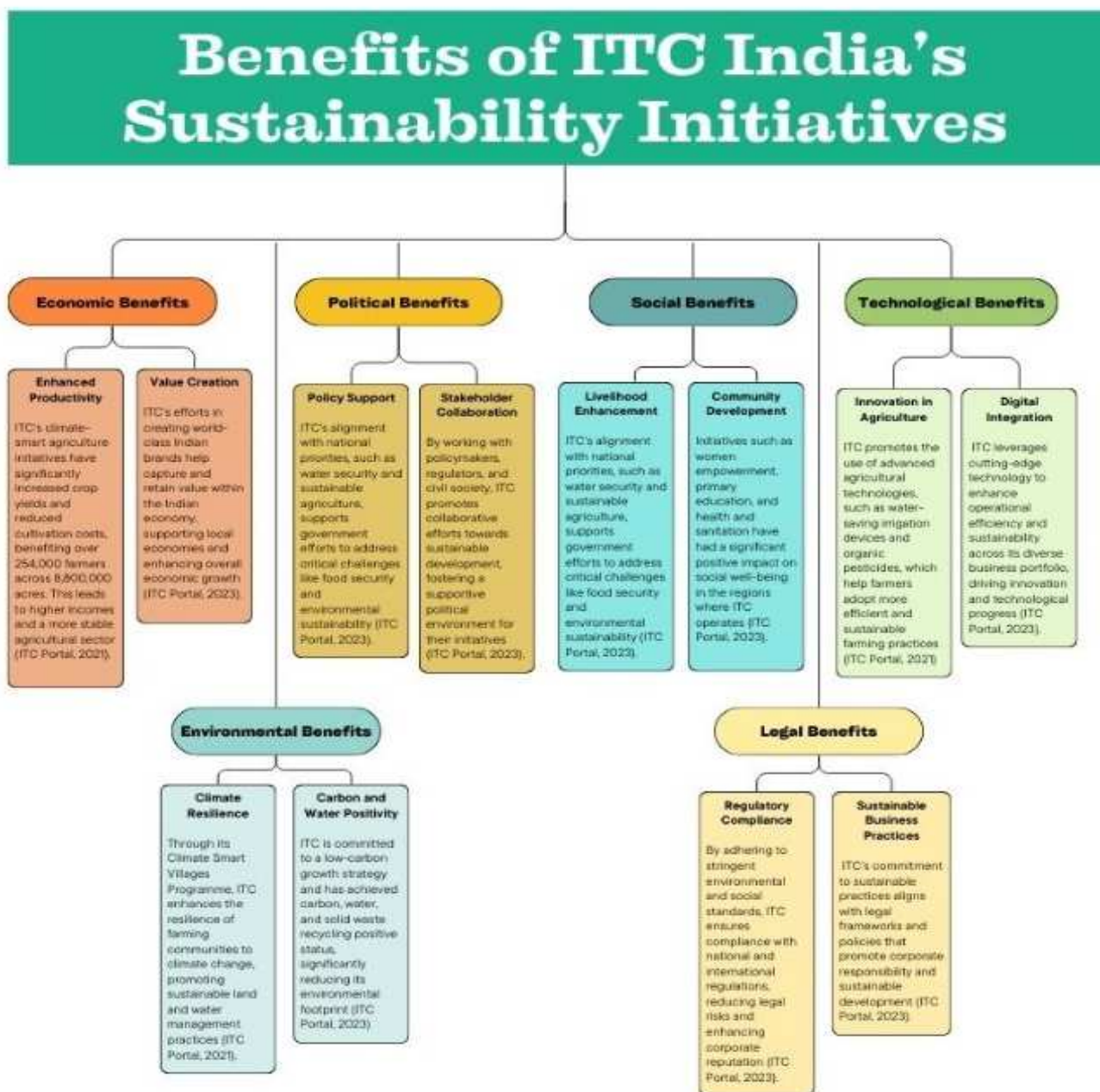
Businesses that integrate L/JI within their key sourcing regions have the potential to mitigate risk, achieve sustainability targets, and generate resilient outcomes. However, the successful implementation of L/JIs hinges on several critical factors (JA Resource Hub, n.d.). Key challenges include knowledge gaps, funding limitations, the need for long-term stakeholder commitment towards shared objectives, and the development of robust monitoring and reporting frameworks to generate market signals that incentivize large-scale investments. Additionally, establishing clear guidelines for businesses' contribution and attribution claims is crucial to strengthening the business case for L/JI investment (JA Resource Hub, n.d.). In terms of long-term, multifaceted benefits, the various objectives of comprehensive L/JIs contribute to better livelihoods, conservation, climate change mitigation, and sustainable development. These outcomes are long-term advantages for everyone engaged in the effort, provided that the commitment to collective action is maintained (Maddox, 2021).

Businesses can increase their efforts in supply chain monitoring, traceability, and verification. Traceability and certification of direct operations and supplier chains, such as the Jurisdictional Approach to RSPO certification<sup>11</sup>, are typical practices in LA/JA. Companies that collaborate with smallholders or producers can impact and advance a set of standards for suppliers and strategies for creating capacity to fulfill sustainability commitments across a region or legal system. Supply chains can be made less risky, and businesses can enhance oversight over whole regions or jurisdictions. Companies may ensure they accomplish their sustainability goals by sourcing from landscapes and jurisdictions with a collaborative strategy to improve and construct more resilient results. Those achievements can be accomplished by working cooperatively within a high-priority area for corporate supply chains and aligning goals with local actors.

### 3.2. The Case of ITC India

In this case study, we present the benefits reported by ITC in their sustainability reports. ITC (India) has a long history of sustainability initiatives, including large-scale afforestation programs, water conservation efforts in agriculture, and developing biodegradable packaging. ITC has consistently ranked high on sustainability indices and enjoys a strong brand reputation, contributing to its financial success.

Figure 1



## Economic Benefits

1. **Enhanced Productivity:** ITC's climate-smart agriculture initiatives have significantly increased crop yields and reduced cultivation costs, benefiting over 254,000 farmers across 8,800,000 acres. The initiatives lead to higher incomes and a more stable agricultural sector (ITC Portal, 2021).
2. **Value Creation:** ITC's efforts in creating world-class Indian brands help capture and retain value within the Indian economy, supporting local economies and enhancing overall economic growth (ITC Portal, 2023).

## Political Benefits

1. **Policy Support:** ITC's alignment with national priorities, such as water security and sustainable agriculture, supports government efforts to address critical challenges like food security and environmental sustainability (ITC Portal, 2023).
2. **Stakeholder Collaboration:** By working with policymakers, regulators, and civil society, ITC promotes collaborative efforts toward sustainable development, fostering a supportive political environment for its initiatives (ITC Portal, 2023).

## Social Benefits

1. **Livelihood Enhancement:** ITC's programs in sustainable agriculture, afforestation, and vocational training have created substantial employment opportunities and improved living standards in rural communities (ITC Portal, 2021).
2. **Community Development:** Initiatives such as women empowerment, primary education, and health and sanitation have had a significant positive impact on social well-being in the regions where ITC operates (ITC Portal, 2023).

## Technological Benefits

1. **Innovation in Agriculture:** ITC promotes the use of advanced agricultural technologies, such as water-saving irrigation devices and organic pesticides, which help farmers adopt more efficient and sustainable farming practices (ITC Portal, 2021).
2. **Digital Integration:** ITC leverages cutting-edge technology to enhance operational efficiency and sustainability across its diverse business portfolio, driving innovation and technological progress (ITC Portal, 2023).

## Environmental Benefits

1. **Climate Resilience:** Through its Climate Smart Villages Programme, ITC enhances the resilience of farming communities to climate change, promoting sustainable land and water management practices (ITC Portal, 2021).
2. **Carbon and Water Positivity:** ITC is committed to a low-carbon growth strategy and has achieved carbon, water, and solid waste recycling positive status, significantly reducing its environmental footprint (ITC Portal, 2023).

## Legal Benefits

1. **Regulatory Compliance:** By adhering to stringent environmental and social standards, ITC ensures compliance with national and international regulations, reducing legal risks and enhancing corporate reputation (ITC Portal, 2023).
2. **Sustainable Business Practices:** ITC's commitment to sustainable practices aligns with legal frameworks and policies that promote corporate responsibility and sustainable development (ITC Portal, 2023).

### 3.3. The Case of Siak Pelalawan Landscape Programme (SPLP), Riau, Indonesia

SPLP brings together various stakeholders like palm oil companies, NGOs, and government bodies -SPLP helps them adopt sustainable practices like obtaining certifications such as ISPO and

RSPO and following proper land registration procedures -the Siak and Pelalawan districts may address fires, peatland degradation, and deforestation with a cohesive strategy.

**Figure 2**



## Environmental Benefits

1. **Reduced Deforestation and Forest Degradation:** SPLP brings together stakeholders to implement sustainable palm oil practices, aiming to halt and reverse deforestation in the region. Since the inception of SPLP, the deforestation rate in Siak and Pelalawan has decreased by approximately 25% (Siak Pelalawan Landscape Programme, n.d.). It protects critical ecosystems and biodiversity. Collaborative efforts focus on the preservation of over 500,000 hectares of natural forests and the restoration of 100,000 hectares of degraded lands (Tropical Forest Alliance, 2018).
2. **Peatland Conservation:** Jurisdictional approaches like SPLP promote responsible land management, minimizing risks of fire and degradation of peatlands, which are significant carbon stores. The program has successfully protected 250,000 hectares of peatland, reducing carbon emissions by an estimated 10 million tons of CO<sub>2</sub> annually (Tropical Forest Alliance, 2018).

Additionally, conservation activities help preserve water quality and prevent land subsidence, which is critical for maintaining the region's hydrological balance (Wijaya et al., 2020).

### **Financial Benefits**

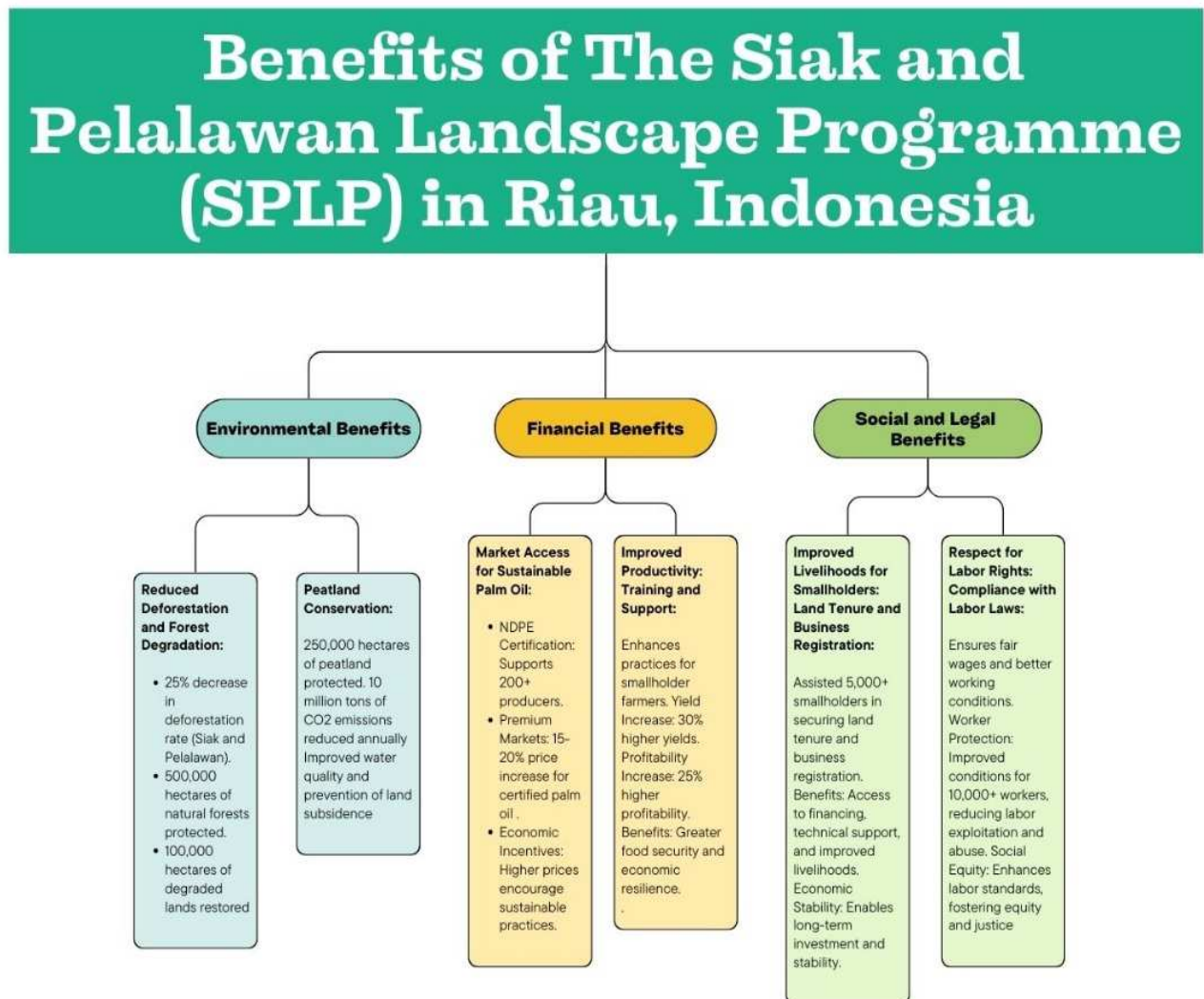
1. **Market Access for Sustainable Palm Oil:** SPLP supports producers in achieving No Deforestation, No Peatland, and No Exploitation (NDPE) certification. This certification has allowed over 200 palm oil producers to access premium markets, resulting in a 15-20% price increase for their sustainably produced palm oil (Golden Agri-Resources, n.d.). Certified sustainable palm oil fetches higher prices, providing economic incentives for producers to adopt and maintain sustainable practices (Johnson & Luukkanen, 2016).
2. **Improved Productivity:** Training and support provided by SPLP help smallholder farmers optimize their practices, potentially leading to increased yields and profitability. Smallholders have reported a 30% increase in yields and a 25% increase in profitability due to improved agricultural techniques and better access to inputs (Stories from the field - The Siak Pelalawan Landscape Programme, n.d.). This enhanced productivity contributes to greater food security and economic resilience in the region (Rusmana, 2019).

### **Social and Legal Benefits**

1. **Improved Livelihoods for Smallholders:** SPLP assists smallholders in formalizing their land ownership and business registration. This initiative has resulted in over 5,000 smallholders securing land tenure and business registration, facilitating access to financing and technical support, and enhancing their livelihoods (Stories from the field - The Siak Pelalawan Landscape Programme, n.d.). Secure land tenure and business formalization enable farmers to invest in their operations, improving long-term economic stability and social welfare (Fisher et al., 2018).
2. **Respect for Labor Rights:** Jurisdictional approaches aim to ensure compliance with labor laws within the landscape. It protects worker rights and contributes to a more equitable and sustainable palm oil sector. SPLP has helped improve labor conditions for over 10,000 workers by ensuring fair wages and better working conditions, reducing instances of labor exploitation

and abuse (Siak Pelalawan Landscape Programme, n.d.). Enhanced labor standards prevent exploitation, ensure fair wages, and improve working conditions, thereby fostering social equity and justice (Barrientos et al., 2016).

**Figure 3**



### 3.4. Best Corporate Practices that Have Led to Positive Outcomes for Investors

The Land Degradation Neutrality Fund was launched in 2013 as a joint effort between the private sector and other stakeholders through an investment fund. It is coordinated by the French-based sustainable investment firm Mirova along with other partners like some European governments and the European Sustainable Trade Initiative (IDH), as well as NGOs like WWF, and other private investors

(UN CCD, n.d.). It finances diverse small and medium businesses in the tropics of LATAM, SEA, and Africa who do not report through the CDP, but are engaged in J/JIs. Their 2022 report highlights key information and achievements from 10 projects across the three regions that were aided by the IDH and WWF by conducting an Environmental and Social Management System (ESMS) as a means to evaluate initial conditions to later develop an action plan of improvement (IDH, n.d.).

These projects have various degrees of L/JI involvement, have duration ranges between 8 and 15 years of funding, investment rates of 1 to more than 20 million USD, and LDN share participation of 11 to 76 percent (Mirova, 2022). The different strategies and programs through which they participate in L/JIs are sustainable land management, community development with smallholders and local inhabitants, agroforestry practices to restore degraded land, and conservation programs through designated protected areas within the projects' land management. Eight of these ten projects involve smallholder partnerships throughout the landscape, while two are purely private and employ people from the surrounding territories and landscapes. Four projects are timber businesses, one produces pharmaceutical natural precursors obtained from a tree, while the rest produce cacao, coffee, honey, citrus, and hazelnuts. Half of them have certifications with the Rainforest Alliance and the Forest Stewardship Council (FSC). L/JI involvement is measured by the ESMS through various metrics like hectares under sustainable land management, tons of sequestered CO<sub>2</sub>, as well as the number of impacted individuals from the community including the number of women in management positions for some projects (Mirova, 2022).

The LDN Fund has some shortcomings, especially as they relate to individual financial disclosure of revenue and current ROI rates that are not made publicly available leading to a lack of punctual information about positive outcomes for investors. Upon closer examination, these small and medium businesses rarely disclose their financial annual reports. Another shortcoming relates to governance involvement with other local stakeholders. Surely they are supported by various international stakeholders, but there is little information about local governance strategies. That is not to say there are no local partnerships as many projects declare the relevance of partnering with local governments (Kennemer, n.d; Mountain Hazelnuts, n.d.). However, it seems to follow big multinational corporations' strategies of L/JI involvement.

On the other hand, the LDN Fund purpose of corporate L/JI involvement is met and while financial information is not disclosed some projects have been going on for more than four years meaning revenue and ROI could be yielding positive outcomes for investors. The LDN Fund and its partners have put great effort into the ESMS metrics and indicators to track progress in the social and environmental spheres and certainly have fostered collaboration and involvement of other stakeholders who are also benefiting from these projects (IDH, n.d.). Finally, a great positive outcome from these projects and the LDN Fund example is the view they offer from smaller and medium-sized businesses who are engaged in L/JIs but do not report through the CDP. In that regard, exploring what constitutes the LDN Fund ESMS can provide significant insight for the CDP to also address its collective landscapes approach and forest questionnaire to larger and bigger corporations. In other words, these small and medium-sized enterprises have valuable outcomes from which larger corporations can learn. From an L/JI perspective, these partnerships and collaborations are what these approaches are all about.

#### **4. Recommendations and Communication Materials**

##### **4.1. Recommendations**

To further bolster the successful integration and operationalization of L/JIs, we propose several recommendations grounded in best practices and landscape analysis. First, developing tailored training programs for stakeholders would help ensure a comprehensive understanding and engagement with L/JIs. Training modules could include the basic principles of L/JIs, specific benefits and opportunities that L/JIs provide, and practical strategies for effective implementation and engagement. However, customizing the program to the specific needs of stakeholders would help address the challenges faced by various stakeholder groups, including small and medium-sized enterprises, local communities, and government bodies. Establishing and fostering collaborative platforms and networks would also facilitate the sharing of knowledge, experiences, and best practices among stakeholders. Such platforms could include regular workshops, online forums, and partnerships with academic and

research institutions. By fostering collaboration, stakeholders can collectively address common challenges, leverage synergies, and drive innovation in L/JIs.

Secondly, to measure the impact and effectiveness of L/JIs, it is imperative to implement robust monitoring and evaluation frameworks. These frameworks include clear indicators and metrics that assess both financial and non-financial outcomes. Regular monitoring and reporting will provide valuable insights into the progress of L/JIs, identify areas for improvement, and ensure accountability. Engaging third-party evaluators can enhance the credibility and transparency of the monitoring and evaluation process.

Thirdly, effective communication will facilitate the successful adoption of L/JIs by keeping stakeholders informed of L/JI's progress, benefits, and challenges through transparent and regular communication channels. Developing comprehensive communication strategies that include newsletters, social media updates, and community meetings would contribute to continuous stakeholder engagement. Additionally, leveraging success stories and case studies can illustrate the tangible benefits of L/JIs and inspire broader participation. Advocating for supportive policies and aligning L/JIs with existing government initiatives would also contribute to their long-term success. Such effective communication will help build multi-sectoral partnerships across the private sector, civil society, government, and international organizations, and can amplify the impact of L/JIs by pooling resources, expertise, and influence from various sectors. Collaborative efforts would contribute to enhancing the scalability and replicability of successful L/JIs models across different regions and contexts.

Lastly, the use of advanced technology and data analytics can significantly enhance the implementation and impact of L/JIs. Geographic Information Systems (GIS), remote sensing, and data analytics tools can provide valuable insights into landscape dynamics, resource distribution, and environmental impacts. Integrating technology would help stakeholders make informed decisions, optimize resource allocation, and track the effectiveness of their initiatives in real-time.

## 4.2. Communication Materials

Through the landscape analysis and the analysis of the best practices, we conclude that the companies could receive both non-financial and financial benefits from L/JIs. It also revealed the opportunities to support the small and medium-sized businesses that may not be familiar with L/JIs and CDP would like to attract to L/JIs. To support their onboarding to L/JIs and active engagement with stakeholders, we prepared the three communication guides.

First, "[Guide to the Benefits of Landscape and Jurisdictional Approaches for CDP Reporting Initiatives](#)" outlines the benefits of engaging with L/JIs, including but not limited to, enhanced stakeholder engagement, identification of regional opportunities, proactive risk management, and alignment with government initiatives. In addition, it recommends communication strategies for investors and customers, such as highlighting opportunities for business growth by adding the value of landscape protection and sustainable procurement to their products and mitigating procurement risks. Secondly, "[An Introduction to Supply Chain Engagement](#)" introduces communication methodologies for small and medium-sized enterprises to create solid connections with the stakeholders on their supply chain. The examples include a case study of NGOs, such as OXFAM, and the Plan for Appropriate Technology in Health (PATH). Thirdly, "[An Introduction to ESG-Investor Engagement](#)" outlines communication strategies for small and medium-sized enterprises to attract ESG-investors to their organizations. To attract funding for sustainability initiatives, the communication guide advises identifying and communicating issues that matter to investors, such as governance practices. The guide also illustrates the steps to effectively communicate with ESG investors.

## Appendix A

### Supplementary Information Used in Financial Analysis of Kao's SMILE Program

Table 3 in Section 2.3.2 describes the financial estimation of the SMILE Program by Kao. Appendix A explains the details of each component utilized in the financial analysis.

- RSPO credit price and RSPO-certified oil procurement cost assumptions

Table 1 shows the estimation of incremental costs of purchasing RSPO-certified oil. At the company level, the cost could increase by \$6.6 million in the 40% RSPO-certified procurement scenario in 2023, and by \$16 million in the 100% procurement scenario. As 70% of palm oil procurement is from the regions of the SMILE Program, the incremental cost related to the SMILE Program could be estimated to be \$4.6 million in the 40% scenario and \$11.5 million in the 100% scenario.

**Table 1:** Simulation of Kao's RSPO-certified Palm Oil Procurement Costs

| Type of procurement     | Incremental cost per ton/credit (\$) |                 |   | As of 2023<br>(40% RSPO-certified) |                             | 2023 estimation<br>(if 100% RSPO-certified) |                             |
|-------------------------|--------------------------------------|-----------------|---|------------------------------------|-----------------------------|---|-----------------------------|
|                         | Low                                  | High            | Mid                                     | Volume<br>(thousand ton)           | Estimated cost<br>(k\$)     | Volume<br>(thousand ton)                    | Estimated cost<br>(k\$)     |
| <b>Mass Balance</b>     | <b>\$64.37</b>                       | <b>\$120.69</b> | <b>\$92.53</b>                          | <b>64</b>                          | <b>\$5,921.86</b>           | <b>160</b>                                  | <b>\$14,804.64</b>          |
| <b>Book &amp; Claim</b> |                                      |                 |   | <b>110</b>                         | <b>\$632.82</b>             | <b>275</b>                                  | <b>\$1,582.04</b>           |
| CSPO                    | \$0.34                               | \$4.35          | \$2.35                                  | 91                                 | \$213.40                    | 228   | \$533.49                    |
| IS-CSPO                 | 2.92                                 | 10.26           | 6.59                                    | 17                                 | \$112.71                    | 43  | \$281.77                    |
| IS-CSPKO                | 119.89                               | 274.85          | 197.37                                  | 2                                  | \$306.71                    | 4   | \$766.78                    |
| <b>Total</b>            |                                      |                 |   | <b>174</b>                         | <b>\$6,554.67</b>           | <b>435</b>                                  | <b>\$16,386.68</b>          |
|                         |                                      |                 |   | <b>Procurement coverage</b>        | <b>Estimated cost (k\$)</b> | <b>Procurement coverage</b>                 | <b>Estimated cost (k\$)</b> |
|                         |                                      |                 | <b>Regions covered by SMILE Program</b> | <b>70%</b>                         | <b>\$4,588.27</b>           | <b>70%</b>                                  | <b>\$11,470.68</b>          |

*Note.* Kao procures RSPO-certified palm oil through the Mass Balance and the Book & Claim (Kao, n.d.). The incremental cost of Mass Balance is calculated by assuming an 8-15% increase from the reference price of non-certified oil in Indonesia in February 2024, announced by the Trade Ministry (Finch, 2024; Oliphant and Simon.,2022). The incremental cost of Book & Claim referred to the low-end and high-end prices in the RSPO credit marketplace in 2023 (RSPO, n.d.). The midpoint is the average of the low-end and

high-end. The 2023 volume is the reported amount in Kao's Palm Oil Dashboard (Kao, n.d.).

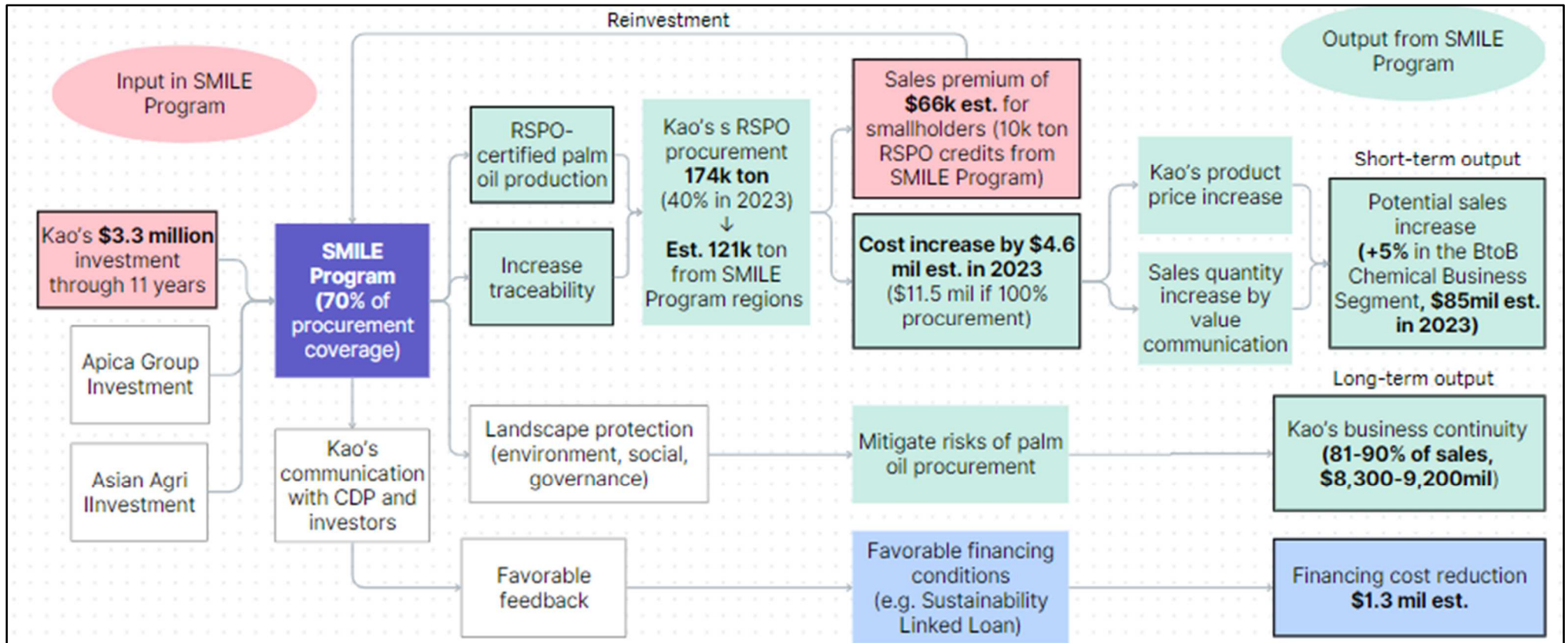
- Sales increase assumptions

A few steps of calculation were conducted. Firstly, Kao responded to the CDP Forest questionnaire that its 2022 palm oil-derived sales in the Chemical Business are estimated to be 282 billion JPY, which accounts for 70% of the Chemical Business revenue (CDP, n.d.-b). If we apply the 70% to 2023 revenue, the palm-oil-derived Chemical Business sales would be 256 billion JPY (Kao, 2024-b). Secondly, Kao reported that the company has seen a 5% sales increase by shifting to RSPO-certified palm oil. If we apply the 5% increase to 256 billion JPY revenue, it would be 268.8 billion JPY or \$85.5 million in 2023 (Kao, 2024-b). Considering 70% of palm oil is sourced from the SMILE Program region, it is estimated at \$60 million at the SMILE Program level by multiplying 85.5 million by 70% (CDP, n.d.-b).

- Financing cost reduction assumptions

Although the loan interest rate of Sustainability Linked Loan is generally not disclosed, we could estimate that the spread of Kao would be 0.3-0.5% by comparing Kao's average short-term loan rate of 0.38% with the 3-month and 6-month Tokyo Interbank Offered Rate (TIBOR) of 0.07%-0.14% in 2023, and Kao's average long-term loan rate of 0.63% with the four-year government bond rate of 0.1% in 2023 (JBA TIBOR Association, n.d.; Kao, 2023; Ministry of Finance, n.d.). Since the Sustainability Link loan has a face value of 20 billion yen, \$130 million, and a term of 4 years, so if the spread is halved, Kao's financial gain would be approximately \$1.3 million. (Kao, 2023).

**Figure 1:** Input and Output Analysis of the SMILE Program

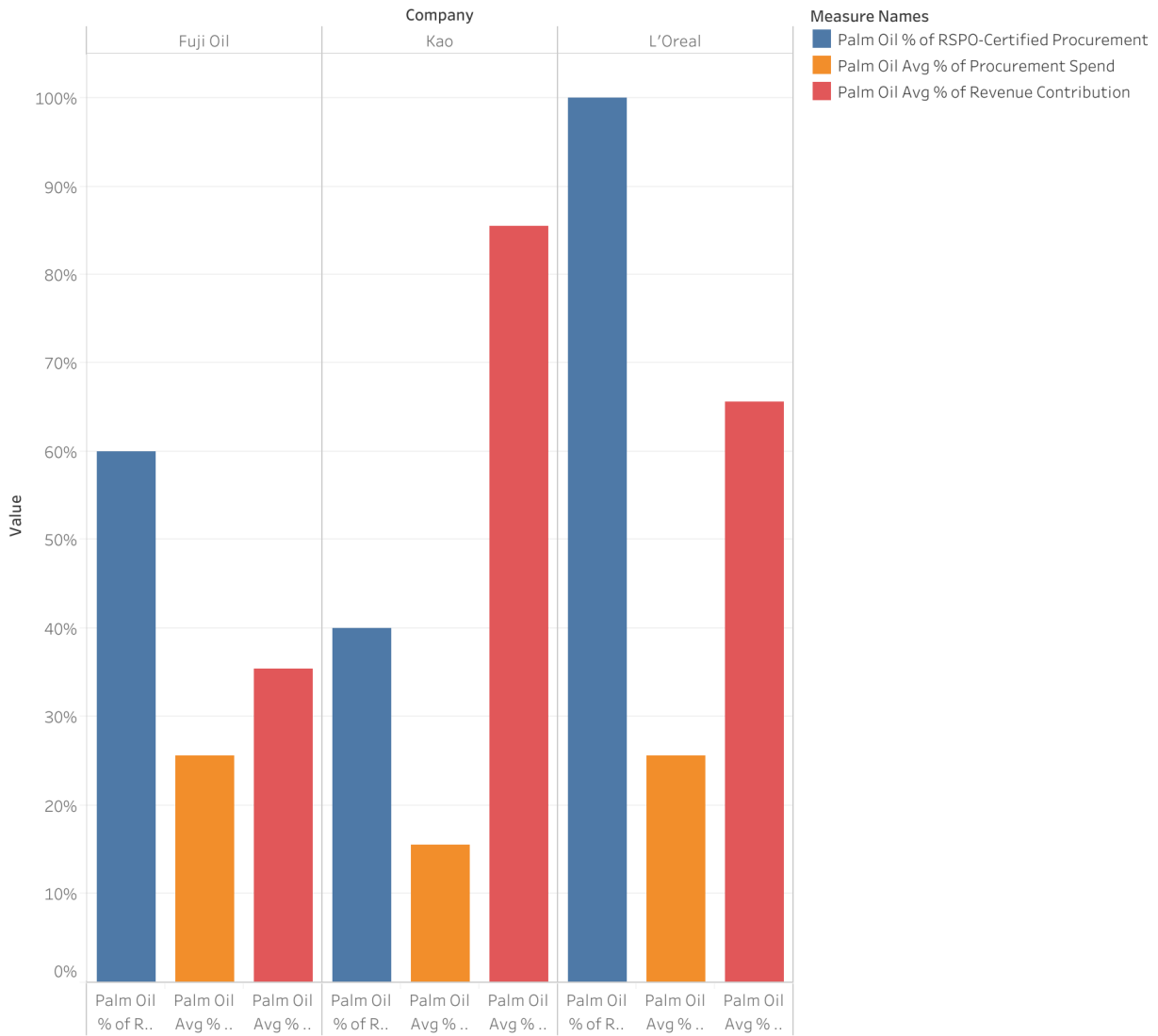


## Appendix B

### Financial Analysis of L/JIs (Kao, Fuji Oil, and L'Oreal)

**Figure 1: Palm Oil Contribution to Companies' Revenue and Procurement**

% of Procurement vs Revenue



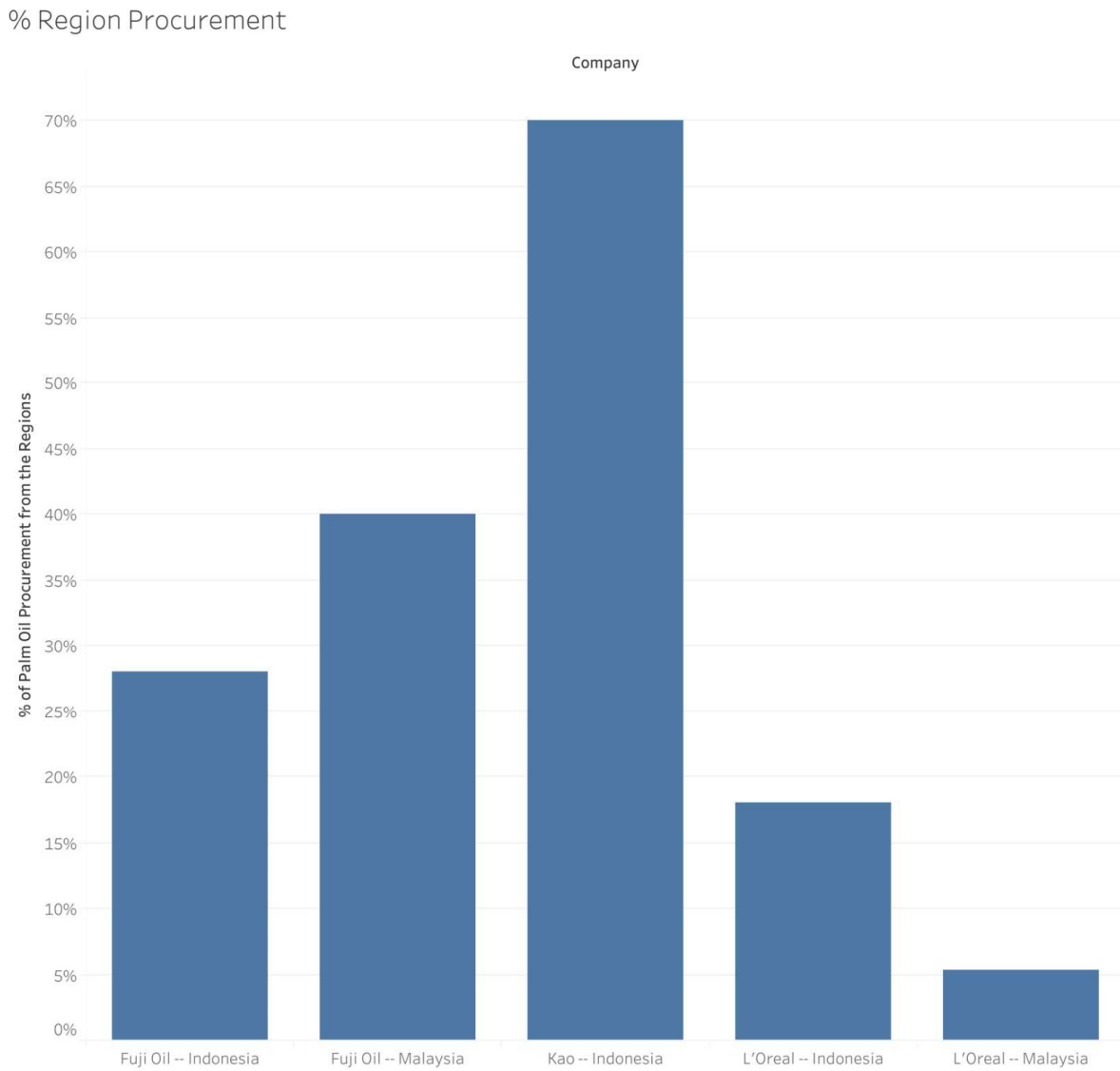
**Figure 2: Percentage of Palm Oil Procurement From the Regions Where L/JIs Are Conducted**

Figure 3: Financial Analysis of L/JIs

|                         |  | Kao  | Fuji Oil   |  | L'Oreal  |  |
|-------------------------|--|--|--|--|--|--|
| Company overview        |  | Manufacturing and selling hygiene, body care and house care products   | Manufacturing and selling vegetable oils, chocolate, soy-based ingredients to food producers   |  | Manufacturing and selling cosmetics and beauty care products   |  |
| Palm oil                | % of procurement spend (CDP F1.1)                                      | 11-20% (2023)  | 21-30% (2022)  |  | 21-30% (2022)  |  |
|                         | % of revenue contribution (CDP F1.2)                                   | 81-90% (2023)  | 31-40% (2022)  |  | 61-70% (2022)  |  |
|                         | % of RSPO-certified procurement (including RSPO credits / Book&Claim)  | 40% (2023)   | 60% (June 2023)  |  | 100% since 2012  |  |
|                         | % of NDPE procurement  | Traceability: 99% to mills, 87% to plantations (2023)  | Traceability: 100% to mills, 95% to plantations (June, 2023)   |  | Traceability: 96% to mills, 66% to plantations (2022)  |  |
| L/JI                    | Name of the project  | SMILE Program  | Aceh Tamiang Landscape   | Southern Central Forest Spine Landscape      | Siak Pelalawan Landscape Programme   | SPOTS Project                            |
|                         | Location   | Indonesia  | Indonesia  | Malaysia                                     | Indonesia  | Malaysia                                 |
|                         | Participation type   | Partner / Founder  | Convener / Contributor   | Convener / Contributor                       | Funder   | Convener                                 |
|                         | Lead organizations   | Kao, Asian Agri, Apica Group   | Earthworm Foundation, Mars Inc, Hershey, Musim Mas   | Earthworm Foundation, Ferrero, Nestle, Oleon | Cargill, L'Oréal, Musim Mas, Neste, PepsiCo, and Unilever  | L'Oréal, Wilmar, Clariant/GAC, Wild Asia |
|                         | % of palm oil procurement from the regions (CDP F6.10.c)               | 70% (2023)   | 28% (2022)   | 40% (2022)                                   | 18% (2022)   | 5.3% (2022)                              |
|                         | Input  | Program investment (CDP F6.10.b)   | 500mil JPY / \$3.3mil (2020-2030)<br>+\$65k per year (2023) by purchasing RSPO credit from the SMILE Program   | 26.5 mil JPY / \$0.2mil (2018-2025)          | 13.2 mil JPY / \$0.1mil (2022-2025)  | 0.7 mil EUR / \$0.65mil (2020-2025)      |
|                         | Incremental procurement cost   | Est. \$11.5mil per year (if 100% RSPO-certified procurement in 2023)   | The procurement cost of RSPO-certified oil of 12.6-14.3 billion JPY / \$84-95million per year at the company level. (CDP F3.2)<br>>> Assuming RSPO-certified oil is 15% more expensive, the incremental cost is \$11-12mil.                  |  | The cost of 1.61mil EUR / \$1.5mil, including annual costs to support field projects, one-off costs for NDPE compliance methodology and verification. (CDP F3.2)   |  |
|                         |  |  | Est. \$11mil x 28% = \$3.3mil  | Est. \$11mil x 40% = \$4.4mil                | Est. \$1.5mil x 18% = \$0.3mil   | Est. \$1.5mil x 5.3% = \$0.1mil          |
| Output                  | Sales increase by adding value of sustainable procurement (short-term) | Est. \$60mil (2023) of potential sales increase in the palm-derived sales in the Chemical Business (5% increase) by communicating RSPO certification. (CDP F3.2) | Potential sales increase in the USA and Europe by communicating RSPO certification and Deforestation-free. Although % is not disclosed, it is estimated 6% increase (2 billion JPY / \$13mil) of Plant-based Oil Business in Europe in 2023. |  | 118-393mil EUR / \$110-367mil per year at the company level. Mitigating risks of sales decreases due to the reputational risks of not committing to environmental sustainability. (CDP F3.1.b)   |  |
|                         | Cost reduction   | Est. 0.2% loan spread improvement (\$1.3mil) by achieving the sustainability target of Sustainability Link Loan.   | unknown  |  | Cost reduction of 6-8mil EUR / \$5.6-7.5mil by switching from procurement of externally-NDPE-verified palm oil to fully-traceable palm oil. (CDP F3.2)   |  |
|                         | Mitigating procurement risks (long-term)                               | Securing sales. Est. 81-90% of sales (\$8,300-9,200mil) at the company level   | Securing sales. Est. 31-40% of sales at the company level  |  | 1. 52.4-78.6mil EUR / \$49-73mil per year at the company level. Mitigating risks of cost increase due to supply limitations in Indonesia and Malaysia (CDP F3.1.b)<br>2. 5-20mil EUR / \$4.7-18.7mil per year at the company level. Mitigating risks of palm oil cost volatility. (CDP F3.2) |  |
| Estimated Profitability |  | Positive return  | Positive return  | Positive return                              | Positive return  | Positive return                          |
|                         | Total Input (mil USD)  | 130.52   | 26.6   | 17.7   | 2.45   | 2.3                                      |
|                         | Total Output (mil USD)   | 661.3  | 28.8   | 20.8   | 132  | 69.3                                     |

Note: Regarding the FX rate, USD/JPY=150, EUR/USD=1.07. To the extent of our research, Fuji Oil's two L/JIs aim to increase traceability and deforestation-free palm oil. However, due to the limited availability of their procurement of deforestation-free palm oil, the analysis above uses the volume and cost information of RSPO-certified palm oil as an alternative. Regarding the estimated profitability calculation, it is not considering each company's discounted rate or long-term output. The calculation period is limited to the extent of the initiative period. (CDP, n.d.-a, n.d.-c; Earthworm, n.d.-a, n.d.-b; Fuji Oil, 2024-a, 2024-b; L'Oreal, n.d.)

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