proforest

IOI Loders Croklaan:

Technical support for responsible sourcing of palm oil

2016 Summary Report

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About Proforest

Proforest is an independent mission-driven organisation working in the field of natural resource management and specialising in practical approaches to sustainability. Our expertise covers all aspects of the natural resources sector, from biodiversity conservation, sustainable forestry and agricultural commodities production to responsible sourcing, supply chain management and investment.

Proforest works to transform commodity production as well as supply chains and sectors through developing **awareness** about sustainability, helping to generate **commitment** to better practice, supporting **implementation** of these commitments in practice and working with the wider community to increase the positive **impact.**

Proforest Ltd provides direct support to companies implementing responsible production, sourcing and investment for agricultural and forest commodities.

The Proforest team is international and multilingual and comes from a wide variety of backgrounds, including industry, academia and civil society. This allows us to work comfortably with diverse organisations in a range of cultures. We have in-house knowledge of more than 15 languages, including English, Bahasa Indonesia, Portuguese, Mandarin, French and Spanish.

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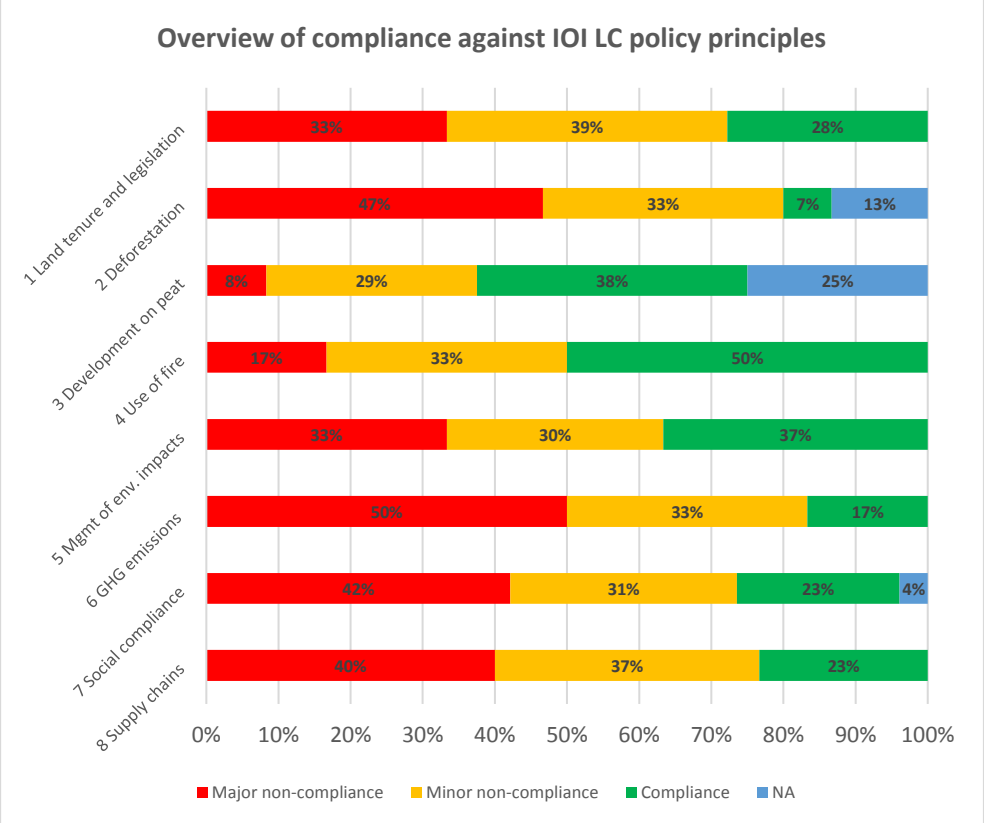
Executive Summary

In 2016 Proforest supported IOI Loders Croklaan with the continued implementation of their Sustainable Palm Oil policy, published 2014[1]. The policy applies to all company-owned and third party supplier mills, and mill verifications form part of the strategy to ensure the policy is implemented across the supply base. Six third party mill verification assessments were carried out in Sabah, Malaysia, between April and September and the findings are summarized in this summary report. Geospatial risk analyses were also performed on the entire global IOI Loders Croklaan (IOI LC) mill universe, the results of which will be used to identify mills for inclusion in the 2017 partnership. The results of the six mills visited are included in this report.

The mills were assessed using the *TWG Standard Methodology for Conducting Mill-Level Verification Assessments*, version 3 of March 2016, superseded by version 4 of June 2016 (see Annex 1). These were modified slightly to cover all of IOI LC's policy commitments.

Across the six mills visited, there was complete compliance with **25% of the indicators.** Individual mills' level of compliance ranged from 13-41%. Averaged



across the six mills, major non-compliances were found against 37% of the indicators. Individual mills had major non-compliances ranging from 17-63% of the

[1] Updated August 2016.
www.ioigroup.com/Content/S/PDF/Sustainability%20Palm%20Oil%20Policy.pdf

indicators. Minor non-compliances averaged at 33% across all mills, ranging from 22-46%. These overall compliance figures are shown in the figure above.

Positive findings included:

- Land conflicts are minimal
- Most plantings were established prior to Nov 2005 cut-off date for High Conservation Value (HCV) plantings – with no major expansion plans
- Some positive environmental impact mitigation measures (i.e. wildlife management, biogas capture) have occurred
- Little to no peat areas impacted
- Use of fire for planting/replanting and waste management is minimal
- Some operations have minimised chemical usage in favour of IPM and recycling mill wastes – EFB as fertiliser
- Child labour, forced or bonded labour are minimal, despite some evidence of illegal labour.

Levels of compliance with different aspects of the IOI LC policy were varied but the following **key gaps** were widespread:

- Lack of formal policy commitments to HCV, HCS, peat, and no exploitation of workers or communities
- Non-compliance with various areas of relevant laws and regulations
- Riparian areas are not well respected
- Lack of Environmental Impact Assessments
- Lack of Social Impact Assessments
- Inadequate mitigation measures for environmental impacts
- Use of Paraquat or class 1A or 1B pesticides at 50% of the mills visited
- No mills had a documented commitment to respect human rights
- Infringements relating to illegal labour
- Working conditions, pay, and benefits not respected in some cases
- Personal protective equipment (PPE) and worker housing lacking or of low quality
- Open, transparent and effective grievance mechanisms are not in place
- Minimal efforts to facilitate the inclusion of smallholders
- Ineffective traceability mechanisms to guarantee the origins of third party supplied FFB

In addition to the findings relating specifically to the policy verification checklist, broader trends were observed. It was noted that some mills require increased awareness and understanding of technical concepts such as HCV and HCS. Other mills expressed a lack of commitment from senior management (often from parent companies and not physically present at the mill location) to invest in improvements to certain aspects of the mill infrastructure and equipment.

Government degazettment of protected areas or reclassification of land use could lead to mills sourcing from plantations established on what may have been HCV or HCS forest. This was observed at one of the mills visited, and has the potential to

arise in other mills in IOI LC's supply chain. Although legal, FFB sourced from such sites would not comply with company policy commitments on HCV and HCS.

Recommendations to address the policy gaps and broader issues detected during the verification visits include:

1. **Proforest and IOI LC to jointly develop time bound action plans (TBAPs) for each of the mills based on the findings of the visits.** Previously mills have been requested to develop their own TBAPs based on the verification findings, but some delays occur due to lack of buy-in/ communication from senior management not directly involved in the verification process, and through the lack of understanding and confidence in addressing subjects where the mill lacks capacity.

2. **Develop and deliver a series of capacity building workshops for mill staff.** For mills to effectively implement the TBAPs staff need to develop capacity in key areas. The workshops also allow the mills to share challenges and strategies for overcoming them, develop a potential support network, and more broadly to build capacity on a regional level.

3. **Senior IOI LC management to engage with mill and parent company counterparts on the importance of critical areas of non-compliance.** Key policy commitments such as illegal labour, lack of PPE, and recent and continued deforestation need to be addressed at a senior level and any potential commercial consequences for the failure to deal with them made clear.

4. **Develop a smallholder pilot project** to support implementation of best practices, improved production, and incrementally remove critical non-compliances from the smallholder supply base. This should be linked to existing and planned initiatives such the RSPO's Sabah jurisdictional initiative, and make use of tested and available tools such SHARP's Responsible Sourcing for Smallholders[2].

[2] http://www.sharp-partnership.org/RSS

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1 Introduction

This report provides an overview of the part of the programme of work undertaken jointly by Proforest and IOI Loders Croklaan (IOI LC) during 2016. It focuses on six mill-level verifications conducted in Sabah, Malaysia, between April and September 2016, the findings of which are discussed and analysed to provide an understanding of the key areas of non-compliance with IOI LC's policy. Secondarily, it provides an updated geospatial analysis for the mills where the verification visits were conducted.

1.1 Background

IOI LC adopted a Policy on Sustainable Palm Oil in November 2014, committing the company to sustainable palm oil sourcing, and to building a traceable and transparent palm oil supply chain. IOI LC sourcing is done via the IOI Group, hence IOI LC and Proforest are assessing the implementation of the policy on direct suppliers of IOI Group. Specific policy commitments include no deforestation of high conservation value (HCV) lands or high carbon stock (HCS) areas; no development on peat; and respecting the rights of employees, indigenous peoples and local communities. These are grouped into eight principles during the mill verification assessments, as detailed in the Findings section.

Proforest has been supporting IOI LC to implement their sustainable palm oil policy since 2014 by risk assessing and prioritising mills for verification assessments, and convening and delivering workshops to IOI staff and third party suppliers. In addition to the IOI LC policy, IOI Group released an updated sustainable palm oil policy effective from August 2016. During 2016 Proforest has partnered with IOI LC to provide broader technical support designed to underpin effective policy implementation. This support has included:

A. **Communication & strategic advice:** support on strategic and management level issues, communication and reporting on progress both internally and externally.

B. **Risk analysis of mills:** An update of geospatial risk assessment of all mills within the IOI LC supply base and appropriate analyses at different scales to identify high risk areas and prioritise sites for future engagement and verification.

C. **Supplier and internal engagement:** To effectively communicate the IOI LC policy commitments to supplier mills and parent companies within the IOI Group, the practical implications for operations, and mechanisms for implementation.

D. **Mill-level verification** of selected higher risk mills in the supply base.

2 Methodology

2.1 Mill selection

The region of Sabah in Malaysia was identified by IOI LC as a strategic focus for mill engagement in 2016. This was driven by the following factors: (1) Sabah has many mills that form part of IOI LC's supply chain; (2) IOI LC had agreed an arrangement

with another company whereby they would coordinate on mill verifications so as not to target the same mills; (3) by working with mills across a defined landscape rather than mills in isolation, the desired transformation of practices will have a wider impact on sustainability in the landscape, to be reinforced through subsequent capacity building to address key gaps. All mills visited were non-RSPO grower members and not part of any RSPO certified units.

This report covers the six mills assessed by Proforest and IOI LC jointly between April and September 2016. IOI LC also undertook two further mill verifications, one done independently by The Forest Trust (TFT), the other by IOI LC staff. Those findings are not covered in this report.

2.2 Mill verification methodology

2.2.1 Overview

A mill-level verification assessment is a site-based assessment of the performance of a palm oil mill and its Fresh Fruit Bunches (FFB) supply base against a set of criteria and indicators based on IOI LC's sustainable palm oil policy.

The purpose of the mill-level verification assessments is:

- To improve understanding of the operations of the mill and its FFB suppliers;
- To assess the compliance of the mill and suppliers against IOI LC's policy;
- To identify gaps and/or areas where capacity-building and support are needed;
- To develop a time-bound action plan to close the gaps.

The components of a mill-level verification assessment are similar to those of a typical certification assessment, including document review, physical observation, interviews and reporting; however, it is made clear from the outset to the mill **that the process is not a formal audit**, that findings will be discussed as they arise and recommendations for improvement suggested throughout the visit. It is also clearly communicated that the objective of the visit is to initiate a collaborative approach between the mill, its suppliers, and IOI LC to develop ways to improve the performance of the mill through a time-bound action plan (TBAP), rather than to penalise suppliers or simply produce a report. Termination of commercial relations with IOI LC is a potential consequence for failure to address identified key non-compliances, but is considered a last resort. The preferred option is to support the supplier to improve practices. This is further detailed below in section 2.4.

The duration of the assessments typically lasted three to four days. The mill verifications covered in this report were carried out using the *TWG Standard Methodology for Conducting Mill-Level Verification Assessments*, versions 3 of March 2016, superseded by version 4 of June 2016.

Mills were prioritised based on a process carried out by a third party and selected for verification based both on this and the volume supplied. The mill prioritisation process considers spatial and non-spatial attributes within a 50km radius from the mill. This is currently standard practise to assess the likely supply base of a mill. Spatial attributes include data on key biodiversity areas, legally protected areas, presence of peat, and possible forest disturbance within a mill's potential supply

base. Non-spatial attributes include relevant sustainability policies of each mill, RSPO (or equivalent) certification status, and other publicly reported information.

2.3 Scope of assessments

The thematic scope of the verification assessments is determined by IOI LC's policy. The set of criteria and indicators used were from the *TWG Standard Methodology*, with supplementary criteria added to ensure all aspects to the policy are covered. The geographical scope, or unit of assessment, is the palm oil mill and its supply base. This includes **company plantations, external producers, collection centres, and smallholders**. Supplier definitions are shown in Box 1.

Information about the mill's supply base was collected by Proforest in advance of the visit to prepare the visit schedule and logistics. Sampling was designed to ensure that where different types of supplier have been present within the mill supply base each has been included within the verification visit schedule. In some cases it was not possible to visit the ideal sample of suppliers to each mill due to logistical or practical reasons, such as the management team of external commercial plantations being unavailable for interview. This is recorded within each individual mill report.

2.4 Outputs and expected outcomes

The initial output from the assessments is a report covering all the findings from the verification visit, recommendations for closing out identified gaps and improving performance, along with a description of the mill and its supply base. A copy is given to both the mill, the parent company, and IOI LC. The indicators are scored using the following classification system:

Box 1.
Supplier definitions

***Smallholder**:* A farmer growing oil palm, where the family provides the majority of labour, the farm provides the principal source of income and the planted area is usually below 50 hectares.

***Associated smallholder**:* An oil-palm smallholder under exclusive contract to supply FFB to the mill. Also known as: scheme smallholder, smallholder outgrower, plasma farmer.

***Independent FFB grower**:* A farmer growing oil palm who is not under exclusive contract to supply FFB to the mill. Also known as: third-party supplier.

***Plantation**:* The land containing oil palm and associated infrastructure, riparian zones and conservation set-asides. Also known as: estate.

Sources: RSPO Principles and Criteria 2013; Sustainable Palm Oil Platform (www.sustainablepalmoil.org).

Compliance	• Compliance with indicator.
Minor non-compliance	• Has the potential to decrease the performance against this indicator over time; *and/or* • Is an isolated occurrence or occurs at a low level which is unlikely to have, or is not observed to have, a substantial impact on the overall performance of the mill and its supply base against this indicator; *and/or* • Can be corrected immediately.
Major non-compliance	• Is a non-compliance with legal requirements; *and/or* • Is a systematic occurrence or occurs at a high level which is likely to have, or is observed to have, a perceptible impact on the overall performance of the mill and its supply base against this indicator; *and/or* • Is immediately dangerous to life and health.

Some indicators were not applicable at certain mills; for example, where no peat is present, the criteria pertaining to the development and management of plantings on peat are not relevant. Additionally, some deforestation and social criteria with cut-off dates linked to the development of new plantings were not applicable where no new plantings had occurred after those dates.

Prior to the report write up the preliminary findings and recommendations are presented to the mill management at a closing meeting at the end of the verification visit. This ensures management are aware of the likely content of the report and its findings, and gives the opportunity for the mill to respond and to clarify any outstanding issues.

The second output is a TBAP that details how a mill intends to close out gaps between IOI LC policy and current company practise highlighted in the findings report. The TBAP is typically developed by the mill in accordance with their own priorities, existing plans, and resources, but also because it is important the mill have a sense of ownership over the plan and not be prescribed a course of action by a third party. Nonetheless Proforest and IOI LC offer the mills advice, guidance, and feedback on the contents of the TBAP, or more proactive support, as required. IOI LC also take an active and important role in supporting the supplier. The mill and its supply base usually complete the TBAP three months after receiving the final verification visit report.

The expected outcome of these two outputs is an improvement in the performance of the mill and its supply base in areas where there are identified gaps against the IOI LC policy. This is verified through the establishment of a monitoring programme of the TBAP implementation by Proforest and/or relevant staff from IOI LC. Post verification capacity building workshops are arranged to support the mills during the implementation phase.

3 Findings

This section presents an overview of the mills assessed including information on their location, size, and supply base. It provides an analysis of the level of compliance of the mills against the eight principles of the verification checklist:

1. Land tenure and legislation – 6 indicators
2. Deforestation – 5 indicators
3. Peatlands – 4 indicators
4. Fire – 2 indicators
5. Environmental impacts – 5 indicators
6. Greenhouse gas emissions – 2 indicators
7. Social compliance – 17 indicators
8. Supply chains – 5 indicators

3.1 Overview of mill supply base

All mills visited source FFB from a combination of their own plantations and external suppliers, be they commercial estates, independent smallholders, or a mix of both. Smallholder FFB is delivered through collection centres rather than direct to the mill.

3.2 Verification findings overview

Figure 3.3.1 presents an overview of compliance against the eight principles in the verification checklist. As the number of indicators varies under each principle, compliance/ non-compliance figures have been converted to percentage to facilitate comparison between the key areas.

Across the six mills visited, there was complete compliance with **25% of the indicators.** Individual mills' level of compliance ranged from 13-41%. Averaged across the six mills, major non-compliances were found against 37% of the indicators. Individual mills had major non-compliances ranging from 17-63% of the indicators. Minor non-compliances averaged at 33% across all mills, ranging from 22-46%. These overall compliance figures are shown in the figure above.

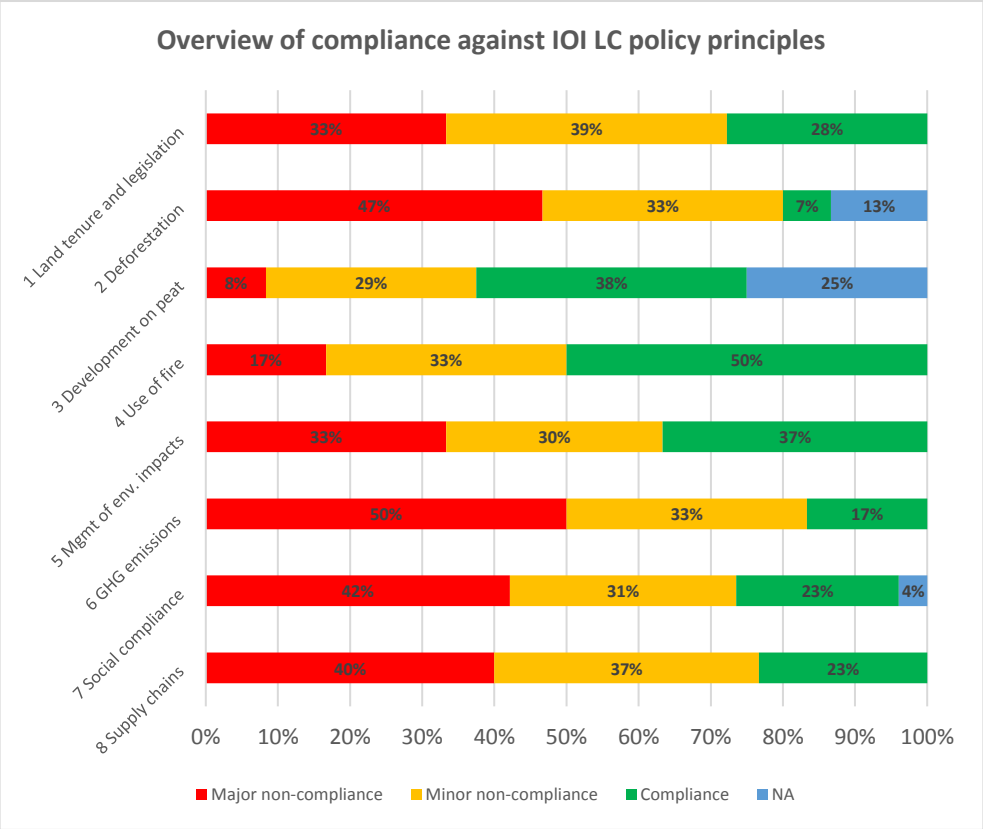

Figure 3.3.1. Overview of compliance (%) from all mills against the eight principles

The mills were least compliant against GHG emissions, deforestation, social compliance, and supply chains. The highest levels of compliance were found on the use of fire, development of peat land, and environmental impact management.

3.2.1 Land tenure and legislation

The main areas where major non-compliances were recorded were the lack of policy commitments to key responsible sourcing criteria (e.g. HCV, HCS, peat, FPIC), and implementation plans[3]. It is not uncommon for mills to be in breach in of some

[3] Although these are not legal requirements, HCV, HCS, peat and FPIC are included under this section in the context of company policy commitments.

aspects of local, national, and international laws and regulations, and some compliance issues were recorded during this series of visits.

One notable area of non-compliance is the hiring of undocumented illegal workers. This is a common issue across the plantation sector and there is a need for government intervention. Historical non-compliance to POME discharge parameters for 20ppm of biochemical oxygen demand (BoD) are also frequently breached; however, some suppliers have installed polishing plants, geotubes or decanter systems to reduce BoD levels. Scheduled waste treatment and disposal also has room for improvement, i.e. storage and management of empty chemical containers.

Another issue is that the minimum wage is not consistently met. Several factors contribute to this and work with the mills is needed to distinguish them from one another to address this issue. There is also generally poor documentation and record keeping within Occupational Health and Safety (OSH) departments, and lack of competence of OSH officers.

In contrast, five out of six mills were compliant with both indicators related to land rights, suggesting there are low levels of land tenure conflict in the region.

3.2.2 Deforestation

The principal issue identified with deforestation is a lack of awareness and understanding from the mills and external suppliers about technical concepts such as High Conservation Value (HCV) and High Carbon Stock (HCS) forest. Only one mill visited explicitly referenced HCV in their Planting Manual and showed an awareness of HCS. There was one case of recent deforestation (2016) on what was potentially an HCV and HCS area at one of the mills due to recent reclassification of part of a forest reserve. The main source of the major non-conformities is due to the development of land without realising HCV and HCS studies in advance, and therefore HCV management plans, rather than to observed deforestation. Available

evidence also suggested that new mills and plantations were located on former timber concessions and cattle ranches and not forested areas.

Positive finding: *Conservation of burial site (HCV 6)*

Negative finding: *Likely recent conversion of HCV and HCS forest.*

3.2.3 Peatlands and riparian management

No new plantings were found to have occurred on peat. Further, where existing plantations were on peat good management practices were generally implemented. The major non-compliances were related to the lack of riparian zones and the use of agrochemical inputs close to watercourses.

3.2.4 Fire

There was one case recorded of fire having been used for land preparation at one of the mills visited, despite them demonstrating an awareness of the illegality of the practise. Management later said that this was done in isolated spots by workers to control rodents, but acknowledged the practice must not be continued. Burning of some domestic waste, EFB, and substandard FFB was also observed at the same mill. At a different mill there was evidence of burning of solid waste at one of the estates. The remaining four mills all had either explicit no-burning policy commitments or zero-burning practices as part of their plantation operation manuals. They also had adequate fire prevention strategies and equipment, although some improvement in awareness raising and training of staff would be beneficial.

Negative finding: *Evidence of burning for recent land clearance (2016)*

3.2.5 Environmental impacts

Although an EIA must be presented before a MPOB license is issued, five of the six mills were unable to present a copy of the EIA during the assessment. One mill said they did not have, or were not aware of having one. As a result, numerous examples of environmental impacts were observed both at the mill facilities and plantations. The biochemical oxygen demand (BoD) level in the water discharge was above permitted levels at three of the mills visited at different times during the past 12 months. It should be noted that the threshold for BoD has recently been lowered, so some infractions of this kind may be expected as mills adjust their systems to meet the new parameters. Some mills have installed polishing plants, dewatering systems, and electrolysis coagulation plants in order to meet these requirements. Waste management was also poor across all mills, leading to further avoidable impacts.

The use of Paraquat or 1A or 1B class pesticides was observed in the supply bases at three of the mills. Although not permitted under IOI LC's policy, it should be noted that Paraquat use is permitted by the Malaysian Government on oil palm under two years old.

3.2.6 Greenhouse gas emissions

Five of the mills had not carried out assessments to identify their sources of GHGs. This lack of assessments was the main cause of non-conformities registered against the verification indicators; however, it should be noted that most had made efforts to reduce GHGs through activities such as biogas, electrical generation through biomass (EFBs, crushed kernels), composting, effluent filtration systems, and methane capture projects.

3.2.7 Social compliance

Social compliance is the principle with the largest number of corresponding indicators (17). Across the six mills, on average there was full compliance with less than a quarter of the indicators. Mills showed major and minor non-compliances with an average of 73% of the indicators.

All mills lacked a documented policy to protect human rights and prevent abuses. Ubiquitous non-compliances were recorded against the mills having conducted social impact assessments and the implementation of measures to mitigate these impacts. Again, it should be noted that an SIA is not required by law. Formal grievance mechanisms were also undocumented across all six mills; however, some grievances were still being heard and dealt with. No mills were compliant with indicators relating to illegal labour as per ILO Conventions 29 and 105, or workers' pay, hours of work, benefits and working conditions. Minor non-conformities were found against one mill on the indicator relating to sexual harassment due to the lack, implementation, and communication of a policy. Worker housing was generally of an inadequate standard, although ongoing improvements at a number of the mills were observed. Only two mills were found to provide suitable PPE and necessary training in hazardous activities and the application of substances.

Positive findings are that compliance was found across all mills on indicators related to no discrimination in hiring and employment practices. All mills were generally compliant on the process of contracting foreign workers, although two mills retained the passports of foreign workers for safekeeping, but interviews with both management and workers suggested they were free to request them at will.

Positive finding: *New workers' quarters*

Negative finding: *Class 1 pesticides observed*

3.2.8 Supply chains

No mills had documented measures to support smallholders to improve sustainability and responsible production, or to support their livelihood needs, and actively facilitate their inclusion in the supply chain. However, this is not to say that the lack of documented measures means no efforts are being made in this area. One mill did provide EFB compost to smallholders at cost price, and it should be emphasised that smallholders do receive free assistance from the Malaysian Palm Oil Board (MPOB) on various aspects of agronomy, which is funded by what growers and millers of palm oil pay to MPOB. Overall smallholders were happy with their treatment by the mills and felt that pricing was explained clearly, although there is room for improvement on this point in some cases.

There is scope for improvement in upgrading traceability of FFB arriving from smallholders and other external suppliers. Examples of expired or lacking MPOB licenses were widespread across the mills assessed. An expired or lacking MPOB license makes the sale of FFB illegal, but not its cultivation.

4 Conclusions and recommendations

IOI LC with the support of Proforest have been successful in engaging with third party mills and securing agreement to conduct verification visits. This success owes in large part to the direct involvement of IOI LC, IOI Procurement, and IOI Commodity Trading staff in the region. The inclusion of these staff as active verification team members is also positive, demonstrating to the mill the interest of the buyer, and allowing for direct communication between both parties. This permits commercial issues to be discussed where necessary, which would be beyond the remit of Proforest.

Whilst the interaction with management at the mills during the assessments was generally good, senior management, often from the mill's parent companies and not based physically at the mill, can be challenging to engage with. This makes explaining the findings and securing commitment for expected process of developing and implementing a TBAP difficult. This is one factor that has resulted in fewer than hoped for TBAPs being submitted by the mills this year. Moreover, the lack of awareness and understanding of key concepts by some mill staff means producing and implementing an appropriate TBAP is problematic.

Overall compliance against all indicators underpinning the IOI LC sustainable palm oil policy was low. Performance and the nature of non-compliances varied from mill to mill, but the following trends are apparent:

- Mills lack knowledge of technical concepts such as HCV and HCS, which are key parts of IOI LC's policy commitments. As a result, no mills had formal policy commitments around these requirements
- Land conflict with local communities was uncommon at the mills visited
- Some recent deforestation was observed, and with no formal policies to prevent it, further deforestation is likely as mills wish to expand their operations and refineries in Sandakan compete for CPO
- Riparian areas are not well respected. It was frequently observed that palm is planted close to the edges of watercourses that results in soil erosion and water contamination from the application of agrochemicals
- The use of fire for land preparation is not prevalent, with only one case observed
- EIAs were either lacking or not presented to the verification teams during the assessments. This has resulted in inadequate mitigation measures being implemented for many avoidable impacts
- Waste management practices were generally poor across all mills
- 50% of the mills visited (or their direct suppliers) were found to be using Paraquat or class 1A or 1B pesticides
- GHG emissions have not been systematically identified, but some measures had been undertaken to reduce them and improve efficiency
- No mills had a documented commitment to respect human rights. Further, no mills had identified social issues through an SIA, although, where identified, some mitigation measures had been developed and implemented in response
- Infringements against ILO Conventions 29 and 105 on illegal labour were detected, and child labour was reported in external suppliers to some mills
- Working conditions, pay and benefits were below the required standard in some cases
- PPE and worker housing was lacking or of low quality
- Open, transparent and effective grievance mechanisms are not in place
- Minimal efforts have been made to facilitate the inclusion of smallholders into the supply chain, or ensure that those supplying the

mill with FFB are not cultivating oil palm illegally, either without an MPOB license or on illegally occupied lands

Some of these non-compliances are of significant concern and should be followed up robustly by IOI LC with support from Proforest. Priority areas to address should include gaps with legal compliance, lack of worker's PPE which could be life-threatening, cases of illegal or child labour, working conditions, pay and benefits, and recent (since the 2014 enactment of the IOI LC sustainable palm oil policy) deforestation.

To address both the specific verification findings and the broader barriers in improving the production standards at the mills we offer the following recommendations:

1. **Proforest and IOI LC to jointly develop time bound action plans (TBAPs) for each of the mills based on the findings of the visits.** Previously mills have been requested to develop their own TBAPs based on the verification findings, but some delays occur due to lack of buy-in/ communication from senior management not directly involved in the verification process, and through the lack of understanding and confidence in addressing subjects where the mill lacks capacity.

2. **Develop and deliver a series of capacity building workshops for mill staff.** For mills to effectively implement the TBAPs staff need to develop capacity in key areas. The workshops also allow the mills to share challenges and strategies for overcoming them, develop a potential support network, and more broadly to build capacity on a regional level.

3. **Senior IOI LC management to engage with mill and parent company counterparts on the importance of critical areas of non-compliance.** Key policy commitments such as illegal labour, lack of PPE, and recent and continued deforestation need to be addressed at a senior level and any potential commercial consequences for the failure to deal with them made clear.

6. **Develop a smallholder pilot project** to support implementation of best practices, improved production, and incrementally remove critical non-compliances from the smallholder supply base. This should be linked to existing and planned initiatives such the RSPO's Sabah jurisdictional initiaitive, and make use of tested and available tools such SHARP's Responsible Sourcing for Smallholders[4].

[4] http://www.sharp-partnership.org/RSS