

Verification of IOI Group's Implementation of Sustainability Commitments

Stage 1: Document Review and Consultation

Public Report – September 2018



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.

About this Report

This is Proforest's interim summary report on the results of its verification of IOI Group's implementation of sustainability commitments. It is based on the Stage 1 findings obtained through documents review and interviews with IOI Group staff and stakeholders. The final and more conclusive findings will be reported once Proforest's Stage 2 field work is completed.

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Abbreviations

ACOP	Annual Communication of Progress
BKSDA	<i>Balai Konservasi Sumber Daya Alam</i> (Conservation of Natural Resources Agency - Indonesia)
BLC	Bunge Loders Croklaan
BSR	Business for Social Responsibility
CSR	Corporate Social Responsibility
DGPEDC	Directorate of Peatland Degradation Control of the Directorate General for Pollutant and Environmental Degradation Control
ECC	Employee Consultative Committee
EHS	Environment, Health and Safety
FFB	Fresh fruit bunches
FPIC	Free, Prior and Informed Consent
GEC	Global Environment Center
GFW	Global Forest Watch
GHG	Greenhouse gas
HCS	High Carbon Stock
HCSA	High Carbon Stock Approach
HCV	High Conservation Value
HCVF	High Conservation Value Forest
HCVRN	High Conservation Value Resource Network
IOI LC	IOI Loders Croklaan
JCC	Joint Consultative Committee
MSPO	Malaysian Sustainable Palm Oil
NGO	Non-governmental organisation
NPP	New Plantings Procedure
OHS	Occupational Safety and Health
PPE	Personal Protective Equipment
PT BNS	PT Berkat Nabati Sawit
PT BSS	PT Bumi Sawit Sejahtera
PT KPAM	PT Kalimantan Prima Agro Mandiri
PT SKS	PT Sukses Karya Sawit
PT SNA	PT Sawit Nabati Agro
RSPO	Roundtable on Sustainable Palm Oil
SAP	Sustainability Advisory Panel

SEPA	Sabah Environmental Protection Agency
SIP	Sustainability Implementation Plan
SPOP	Sustainable Palm Oil Policy
SPOS	Sustainable Palm Oil Supervisors
WRI	World Resources Institute

1 Background

IOI Group's (IOI) Sustainable Palm Oil Policy (SPOP) was first launched in March 2014. In August 2016, the SPOP was revised with stakeholder consultation and released together with an accompanying Sustainability Implementation Plan (SIP). The SIP is updated on a quarterly basis and sets the activities, milestones and timelines to realise the commitments articulated in the SPOP. The SPOP was further revised in June 2017 to address labour rights issues, incorporate the application of the High Carbon Stock Approach (HCSA) methodology and its social requirements, and add an Annex on the implementation of commitments by third party suppliers.

In April 2017, IOI publicly committed to the commissioning of an independent verification of the implementation of its SPOP, and the related commitments, in the second quarter of 2018. Proforest was formally appointed to conduct the verification in May 2018.

It should be noted that Proforest have had a previous consulting relationship with the IOI Group, mainly through services to IOI Loders Croklaan relating to third party suppliers. Although Proforest has had no involvement in the overwhelming majority of IOI's activities that form the scope of this assessment, the assessment process does however need to be described as 'external', rather than 'independent'. In order to address any perceptions of insufficient objectivity, the process is also including an additional third party, Daemeter, to provide a peer review function.

2 Scope and Methodology

The scope of the verification is to assess performance against the sustainability requirements as defined in:

1. The Sustainable Palm Oil Policy (SPOP), including the third-party supplier annex
2. The Sustainability Implementation Plan (SIP), which seeks to operationalise the SPOP
3. The additional commitments as defined on 28 April 2017 (although these are largely incorporated into the SIP)

The overall verification process is being undertaken in two stages, and includes the following techniques to identify and evaluate the evidence for successful implementation:

- Document review (stage 1): many indicators depend on documentation such as plans, procedures and records
- Consultation (stage 1): interviews with internal staff and external stakeholders, to gather perspectives and evidence
- Field assessment (stage 2): some site visits are essential to confirm implementation and current performance

During Stage 1 of the verification process, document review was conducted over a series of visits to the Putrajaya offices from end of May until early July. In addition, the Proforest verification team conducted interviews with personnel based in Putrajaya, Gomali, Lahad Datu and Ketapang (Annex 1). Most were conducted as in person interviews at the IOI offices in Putrajaya while a few were conducted over the phone and via email exchanges. The Proforest team developed a list of external stakeholders with input from IOI sustainability staff and the Sustainability Advisory Panel (SAP). The team managed to reach a range of priority stakeholders (Annex 2) and will continue to consult with more stakeholders during subsequent field assessments (Stage 2 of the verification process).

Where stakeholders raised issues for review and investigation, these have been followed up where possible during Stage 1, and will also inform the Stage 2 fieldwork.

This report describes the interim findings from Stage 1 of the verification process (document review and consultation) and thereby provides an interim evaluation of compliance level and implementation progress (section 3 below).

3 Stage 1 Verification Findings

The interim verification findings from Stage 1 are presented below in four main sections:

- Section 3.1 aims to take a holistic view of compliance by evaluating progress and performance in the context of the commitments articulated in the SPOP.
- Section 3.2 highlights a number of cross-cutting issues that have been identified which are considered to be impede the implementation of SIP and SPOP commitments, particularly if left unaddressed.
- Section 3.3 highlights headline findings against key commitments
- Section 3.4 identifies priorities for fieldwork in stage 2 of the verification process

3.1 Verification findings against SPOP sections

Commitments described in the SPOP are organised into key thematic areas. The presentation of the findings in this section is organised according to the main themes of the SPOP commitments but does not strictly follow the same arrangement of the SPOP and SIP. Text in *italics* at the start of each section summarises the relevant SPOP commitments. This section provides an explanation of the findings to date by qualitatively assessing the current implementation of the SIP against the broader commitments of the SPOP.

3.1.1 Certification progress

To implement RSPO NEXT commencing end of 2016, 100% RSPO certification by 2020, 100% MSPO certification by the end of 2018.

The Proforest verification team found that the assessment audits for RSPO NEXT have been conducted or arranged according to the schedule set by IOI in the SIP. Only four mills¹ have been identified to undergo RSPO NEXT assessment audits and there is no indication on whether the number of mills will be expanded in future or if there is a target set for the number of mills certified.

IOI's target to achieve 100% RSPO certification by 2020 is also published in RSPO's Annual Communication of Progress (ACOP). At present, all 14 mills in Malaysia are RSPO certified. The mill and estates in Ketapang are undergoing RSPO certification preparation with a target certification audit date set for middle of 2019.

Based on the certification audit schedule (version May 2018), IOI should be on track to reach its target of 100% MSPO certification by end of 2018 barring any delays in certificate issuance.

3.1.2 Environmental Management

Identification and protection of HCV areas and HCS forests

¹ Ladang Sabah, Pukin, Syarimo and Leepang palm oil mills.

HCV assessments for the existing plantations in Malaysia were conducted internally by trained staff in the sustainability team. Based on staff interviews, HCV reports are reviewed internally on an annual basis in Sabah. The reports are prepared by the respective Sustainable Palm Oil Supervisors (SPOS) and checked by the regional Sustainability Manager and other senior executives. Due to the heavy reliance on internal capacity to undertake review, monitoring and management of HCVs, it is important to ensure that the responsible staff are kept up to date with the latest developments and tools and are properly trained to carry out their responsibilities effectively. It is also critical to ensure that IOI's HCV assessments, and management, for existing plantations are consistent with best practice. However, assessments for Bahau and Pukin which were reviewed in 2018 appeared to be following the outdated HCVF toolkit rather than HCVRN's Common Guidance for HCV Identification. Interviews with some staff also indicated that there is a gap in capacity building for HCV identification, monitoring and management. In particular, HCV identification and management must take account of the wider landscape-level context of plantation management units.

There is no clarity from available records on how well HCV areas are managed and monitored centrally over the years. Records of HCV areas and other conservation areas are fragmented and at times inconsistent which make centralised monitoring (if any) very difficult. The Proforest team's findings indicate a lack of systematic management of the data.

For the operations in Indonesia (PT BSS, PT BNS, PT SKS and PT KPAM), the HCV assessments were conducted by Aksenta, and have not yet been reviewed by Proforest. According to staff, work is ongoing to develop integrated management plans for HCV, HCS and peat areas in Ketapang and this will also include a review of HCV areas (target completion end of 2018)

As the Malaysian plantations were established before the development of the HCS Approach (HCSA), no HCS assessments for Malaysia are available. There are no HCS assessments for the operations in Indonesia as well except for PT KPAM (see below).

No deforestation of HCV forests and HCS forests (using the revised HCSA) in new plantings

The last wholly unplanted area is KPAM. IOI made an explicit commitment to using the HCSA for the last unplanted concession (i.e. KPAM), pending the outcome of the Convergence process in integrating the HCS methodologies. Convergence was achieved at the end of 2016 and the new integrated HCSA toolkit was released in May 2017. IOI submitted their New Planting Procedure (NPP) report, including HCV assessment, for KPAM in April 2018. However, the report makes no reference to the usage of the HCSA methodology in any of its assessments. This is inconsistent with IOI's commitment to HCSA especially since an HCS assessment report for PT KPAM was submitted to the HCSA secretariat in April 2018 and was later approved by the HCSA review panel.

However, there have been recent cases of land clearing and road construction activities at KPAM, which were taking place before NPP submission, and which were publicly acknowledged by IOI in June 2018. The situation in Kalimantan is considered to be very complex and governance is poor. IOI still has room for improvement in terms of putting management systems in place and building capacity of sustainability personnel in their operations in Ketapang. A transparent process to resolve the ongoing situation in KPAM is now urgently needed. The implementation of the Ketapang Landscape Project, which is a key SIP commitment, would be crucial to provide a multi-stakeholder, landscape-level approach to mitigate and manage problems in the region. However, this process remains delayed with little activity on the ground to date. Several versions of the project proposal

have been developed and IOI and the stakeholders involved are still finalising the project design.

No development of peatlands, protection of peatlands, and use of Best Management Practices for existing plantations on peat

Based on interviews with plantation sustainability team, peat mapping and drainability assessments have been completed for plantation areas with peat². However, there does not appear to be a standardised approach in the mapping of peatlands across IOI's operational regions and data is not consolidated or analysed at the central level. As such there was no readily available summary on peatlands within existing plantations.

Technical training on peatland management and BMPs for staff of SNA group was conducted in Ketapang by GEC in July 2017. Apparently, similar trainings are also planned for Malaysia but have not yet been conducted. Recommendations related to the clearing, management and rehabilitation of 141 ha at PT BSS have been either completed or in progress³. Records of the tree planting activities were also kept and updated periodically. Water table monitoring reports for PT BSS are available for 2017 (Jan-Oct) and 2018 (Jan, Apr). The reports are submitted on a quarterly basis to the Ministry of Environment and Forestry (Kementerian Lingkungan Hidup dan Kehutanan). Internally, the water monitoring data is managed by the research department. It was also noted that PT BSS is collaborating with the Directorate of Peatland Degradation Control of the Directorate General for Pollutant and Environmental Degradation Control (DGPEDC) in a pilot project for the development of a proper system for plantation water level management.

Based on review of draft reports and correspondence, IOI is on track to resolving the complaints and outstanding RSPO grievance related to PT BSS, PT SKS and PT BNS.

One major concern is the delay in the finalisation of IOI's Peatland Protection Policy. The original deadline for the finalisation of the Policy was by the end of 2016 but it was only finalised and made publicly available in July 2018 while this policy verification exercise was on-going. Although the Peatland Protection Policy refers to the SPOP, the Policy itself adds little value to the existing commitments in the SPOP and instead fails to reinforce the key commitments relating to i) no new development on peatlands regardless of depth ii) the potential for rehabilitation of areas identified as unsuitable for oil palm replanting, and iii) the potential for compensation of degraded areas where rehabilitation is not possible.

Similar to SPOP, the scope of the Peatland Protection Policy covers IOI's plantation and manufacturing divisions globally, as well as third-party suppliers. As such, the Policy should also be also signed off by the Group Head of Sustainability or Group CEO.

Implementation of programs to progressively reduce GHG emission, recycle/reuse palm biomass and generate renewable energy by methane capturing.

Based on the documents reviewed as well as staff interviews, Proforest is not convinced that there is a standardised data collection system for GHG emissions (same issue with HCV, other conservation areas and peat data). Consequently, it would be difficult to manage and monitor emissions at the central level as well as check for data errors. The

² Soil survey reports and drainability assessments on Bukit Leelau, Leepang, Pamol, Sejam and Tabing were sighted. A peat verification report for PT BSS and a peat survey report for PT SKS were also available.

³ GEC's report in 2017

determination of a baseline target for emission reduction as well as the finalisation of IOI's GHG reduction plan have been delayed.

The plan to install biogas capturing systems at IOI mills is on track based on the timelines set by the company according to staff interviews and available documents. At the time of writing, Proforest is still unable to verify any documents which describe the status of the ongoing research by IOI personnel on methane reduction at the Peninsular Malaysia mills. This will be followed up in Stage 2 of the verification exercise.

Enforcement of IOI Group's no-burning policy.

IOI's Zero Burning Policy (May 2018) can be found publicly on its website. IOI has also undertaken many activities and partnerships with local government agencies⁴ and NGOs⁵ to strengthen efforts on fire prevention and mitigation. There are Fire Alert Information System and Rapid Response Plans for both Malaysia and Indonesia and the Fire Prevention Plan for Sabah region is currently awaiting approval by the Sabah Forestry Department.

No use of Paraquat and pesticides that are categorised as World Health Organization Class 1A or 1B.

The use of paraquat has been banned in all IOI units since 2011. As a result, this commitment has been marked as complete in the SIP. However, no mention was made with regards to other Class IA and IB pesticides. A random check⁶ of RSPO audit reports indicated that a very small number of Class IA and IB chemicals (Brodifacoum, Flocoumafen and Warfarin) were still stored in some estates. IOI released a revised Agrochemical Policy in July 2018 whereby the use of certain Class 1 chemicals (other than paraquat) is only allowed under exceptional circumstances. However, the SIP does not reflect this exception.

3.1.3 Human Rights and Workplace Conditions

Respect and uphold the rights of all workers in accordance with the Universal Declaration of Human Rights, the International Labour Organization's core

⁴ Peatland Landscape MoUs were signed individually by PT BNS, PT BSS, PT SKS & PT KPAM with BKSDA (Balai Konservasi Sumber Daya Alam) in 2016. Consequently, a 5-year action plan was developed jointly for each of the operating units to strengthen conservation and fire prevention efforts in the landscape.

⁵ According to a report by GEC in 2017, collaboration between PT SNA and adjacent forest plantation PT BMJ on fire monitoring and info sharing has led to more efficient fire prevention and control. Joint training of PT BSS staff and surrounding communities was also conducted. Several meetings were held between PT SKS, PT BNS, PT BSS, BKSDA, GEC and local communities in 2016 on matters related to wildlife conservation and fire prevention.

⁶ Three out of five audit reports that were randomly selected from RSPO's online database indicated that a very small number of Class 1A and Class 1B chemicals were still found in the estates.

conventions, United Nations Guiding Principles on Business and Human Rights and the principles of Free and Fair Labour in Palm Oil Production.

Uphold the right to freedom of association.

Eliminate all forms of illegal, forced, bonded, compulsory or child labour and follow responsible recruitment practices including not charging recruitment related fees at any stage in the recruitment process.

No retention of workers' passports/identity documents or withholding of workers' wages other than that prescribed by law.

Pay all workers the statutory monthly minimum wage and overtime compensation, in accordance with the current labour regulations.

Provide fair and equal employment opportunities for all employees.

Three policies were released publicly by IOI in October 2017:

- IOI Plantation Equal Opportunity Employment & Freedom of Association Policies
- IOI Plantation Minimum Wages & Leave Pay Policies in Malaysia
- Foreign Workers Recruitment Guideline & Procedure in Malaysia (updated May 2018)

These policies currently do not cover Indonesia. The Equal Opportunity Employment & Freedom of Association Policy cites adherence to applicable laws in Malaysia, but not Indonesia. The SIP only provided timelines for full implementation of new guidelines and policies introduced in October 2017 for Peninsular Malaysia, Sandakan and Lahad Datu but not for the other regions.

Both the BSR (2017)⁷ and Finnwatch (2018)⁸ reports recorded generally satisfactory reviews of IOI's compliance to its labour commitments, for those operations that were assessed.

A training and workshop session was also conducted by BSR in October 2017 to address gaps in IOI's labour practices for the management team from the plantation division and sustainability personnel.

Interviews with representatives from four recruitment agencies used by IOI indicated that the "No Recruitment Fee" Policy is being actively communicated and implemented. Representatives of the recruitment agencies said they have easy access to and are in regular communication with the HR Manager based at IOI's Putrajaya offices. The agencies seem to have a systematic recruitment process to ensure that the necessary national legal requirements as well as IOI's requirements are met. Increasingly, new workers are recruited through recommendations and introductions from the existing foreign workers at IOI estates rather than through walk-in interviews or scouting by the agencies. The agencies and IOI HR view this positively as it often means that the new workers already have some knowledge of the working conditions and environment at IOI estates prior to committing to the employment contract.

⁷ Summary on Migrant Worker Management Assessment: Luangmanis Estate in Sabah (Site visit to Luangmanis Estate and Ladang Sabah POM in June 2017)

⁸ Working Conditions at IOI Group's Oil Palm Estates in Sabah, Malaysia (Site visit to Moynod, Luangmanis and Baturong 1 estates in December 2017)

During its visit, BSR noted that the due diligence and monitoring system of recruitment agencies have not yet been fully formulated to ensure that the ‘no recruitment fee’ policy is fully implemented. Other relevant practices which could also help ensure the implementation of this policy, such as post-arrival interviews, have also not yet been implemented. During Finnwatch’s visit later in the year, the assessment team noted that separate monitoring had been implemented to ensure the payment of minimum wages and steps had been taken to prepare for the implementation of the policy that prohibited the deduction of recruitment fees by estates. IOI has also committed to undertaking a living wage study as part of its promise to provide a living wage to workers in future. Although originally targeted for completion at the end of June 2018, there has been some delays in commencing the study. At the time of writing, IOI is in the process of finalising the agreement with a consultant for the study.

However, both BSR and Finnwatch have indicated that worker awareness on salary structure and leave entitlement is still poor. BSR’s report also highlighted a lack of standardised training materials for workers. Proforest found that IOI is in the process of implementing more comprehensive and effective worker induction training to address this gap, but the progress of implementation still needs to be checked.

The extent to which workers can exercise their rights under the new Freedom of Association Policy remains to be seen. Finnwatch noted in its report that the workers interviewed were not aware of the concept of trade unions and the presence of worker unions. Perhaps, some awareness raising for the workers would be beneficial. It was also pointed out during staff interviews that union fees are the main deterrent for foreign workers to participate in worker unions.

Unofficial workforce (spouses) and recruitment of temporary agency workers in the estates in Sabah continue to be a risk for IOI according to Finnwatch. Interviews with the regional sustainability manager indicate that steps are being taken by the respective estate management to address this. The status of this exercise still needs to be checked in Stage 2.

Both Finnwatch and BSR noted that no evidence of child labour was sighted during their visits.

Promote a safe and healthy working environment that is free of sexual harassment.

Grievances are managed and monitored by individual operating units. There are several channels for the mill and estate workers to submit their complaints. The most common channels used by workers are the “Green Book” and the Employee Consultative Committee (ECC). Grievances recorded in the “Green Book” are usually dealt with promptly by the respective Estate Managers. The most common types of grievance are those related to maintenance of worker housing and facilities and use of safety gear. Grievances reported are also discussed during the management review meetings (once every six months) and Joint Consultative Committee (JCC) meetings. Workers can also choose to raise their grievances directly to their supervisor, Estate Manager or to the Human Resources Department (in Putrajaya) via the grievance hotline⁹. Staff interviews

⁹ The grievance hotline is not yet available for the Sandakan region

indicated that there is no compilation or analysis of the number and types of grievances reported at the Group level.

There are concerns that the current grievance mechanism may not be suitable for grievances of a more sensitive nature such as harassment and bullying. Questions have been raised whether the ECC and Gender Committee are properly equipped to record, report and follow up on grievances received. BSR also found during its site visit that not all workers were aware of the ECC. Dealing with employee grievance can be a delicate matter and members of ECC and Gender Committee need to be given the right skills and tools to be able to do so effectively. At the same time, sufficient management support (e.g. capacity building, resources, incentives, etc.) is also required as there is an investment of time and effort on the worker's part to be an effective member of either committees.

It should also be noted that the operations in Ketapang has not set up a proper grievance mechanism yet (only the Grievance book is available presently).

The IOI Plantation Policy on Harassment at Workplace was released in July 2018 while the verification is ongoing. The newly released policy is too succinct to adequately express IOI's commitment to provide a working environment that is free from sexual harassment. While it is not realistic to provide an exhaustive list, the Policy should at least provide some common examples of what constitutes harassment and sexual harassment before referring to an external source. This will be helpful in communicating this policy for the understanding of all employees. There are important differences in how general harassment and sexual harassment cases are managed and investigated and it would make sense to adopt specific procedures to deal with sexual harassment than to employ the normal grievance channels. In this respect, IOI should consider the role of the Gender Committee (or even other avenues) which is not mentioned in the Policy.

Access to health services at the plantation clinic is provided for free to workers and their family. According to the BSR report, interviewed workers were generally happy with the plantation clinic and the free access to these services. However, there were some concerns about expenses incurred for required health services which are not provided by the clinic. One of BSR's recommendations was for IOI to consider expanding the range of services provided by some of the larger plantation clinics to help mitigate such expenses.

Provide adequate equipment and training on the implementation of health and safety policies.

Provide training and development to employees to ensure achievement of their full potential.

IOI has a training schedule for workers covering a broad range of topics and conducts "Train the Trainer" (TTT) programmes to strengthen the competency of internal trainers.

Personal Protective Equipment (PPE) are provided for free to workers and BSR noted that workers have a good awareness of standard procedures relating to injuries in the workplace and generally felt that IOI is a safe place to work. OHS standards are explained to workers through daily roll calls and training.

Implement a labour rights monitoring system, with the involvement of an external partner to verify labour conditions, compliance with labour policy requirements

and improve welfare and working conditions; Take meaningful corrective action to address any identified non-compliances or improper labour practices.

In January 2017, IOI engaged BSR to assist in the implementation of fair and proper labour practices together with a labour rights monitoring system for plantations in Malaysia. BSR was also tasked to verify the corrective measures taken and recommend any additional actions needed. A summary report by BSR was published on IOI's website in September 2017 but without an action plan to address the gaps highlighted during the site assessment. There is no evidence that an on-going labour rights monitoring system has been put in place as it appears that BSR's engagement ended after the report submission.

Document review and staff interviews indicated that the Plantation Sustainability Team and the Corporate Sustainability Team conducted two internal audits (one in Peninsular Malaysia and one in Sabah) to check on the implementation of the SPOP commitments on human rights and labour conditions. No formal plan has been made to replicate the audits across all IOI's operations.

There is no available action plan to address the gaps highlighted by BSR during the site assessment. As mentioned, IOI has taken steps to monitor the implementation of the "no recruitment fee" policy via post arrival interviews and to strengthen the training for workers on leave entitlement and salary structure. However, the status of other recommendations such as strengthening child labour monitoring (by checking enrolment and attendance rates against number of children in plantation) is unknown. More importantly, BSR's findings were based on one site visit to an estate and a mill in Sandakan. As such, the findings are not sufficiently representative of all IOI's operations. It is also the case that Finnwatch's visits were limited to plantations where permission had been given to carry out their visit.

In the absence of a systematic labour rights monitoring system, and/or the on-going involvement of an external partner to verify labour conditions, there is currently no basis for any assertion that IOI's policy commitments on human rights and workplace conditions are being implemented across all operations.

3.1.4 Community Development and Social Impact

There are no prescribed milestones or activities for IOI's commitment on community development and social impact (as described in SPOP) in the SIP. Corporate social responsibility activities undertaken by IOI such as the provision of infrastructure, employment and education opportunities, conservation and community empowerment, were reported in their 2017 Sustainability Report.

Based on staff interviews, smallholder support and inclusion in IOI's palm oil supply chain is left to the management of the individual operating units rather than through a coordinated effort at the central level. In the case of PT SNA, smallholder affairs are handled by their Corporate Social Responsibility (CSR) department which is independent from the Sustainability-EHS department. The lack of clarity and coordination at the central level is also reflected in ACOP reporting where information on smallholder support is inconsistent from year to year as well as within the same year. The partnership with Kerry Group, Wild Asia and Fortuna Palm Oil Mill in Sabah to implement a 3-year Small-Growers Support Programme occurred before IOI's divestment of Loders Croklaan. With the divestment, this programme falls completely under BLC's management.

External stakeholder meetings are held annually by the respective operating units. Relevant local government agencies (immigration, environment, forestry, police, etc.),

NGOs and local community representatives¹⁰ are invited. Local communities can choose to channel any issues or grievances at these meetings, through the community liaison person¹¹, or directly to the IOI HQ via the grievance hotline. Staff interviews indicate that there are no reported issues with local communities in the operational units in Peninsular Malaysia and Sabah.

Effective stakeholder engagement especially with local communities requires specialised skills and experience. However, Proforest found that most of the capacity building or training programmes for staff do not focus on topics such as FPIC, mediation, conflict resolution and communication.

IOI-Pelita

IOI's involvement in the dispute with the Long Teran Kanan communities began with the purchase of 70% equity from a joint-venture company, Rinwood-Pelita Sdn. Bhd. in 2006. In 2010, a complaint was lodged to RSPO against IOI by eleven NGOs and the Long Teran Kanan community. The process to mediate and resolve this social conflict continues till today. About 4,266 ha of land has been planted and according to staff, IOI has lost management control over most of these areas (as a result of the dispute) and is currently managing slightly over 1000 ha of planted area. IOI-Pelita does not have a mill so the fresh fruit bunches (FFB) are sold to an external mill.

IOI developed a resolution plan with input from Grassroots¹² which has been submitted to the RSPO Complaints Panel for review and endorsement. In late June 2018, IOI and Grassroots, with RSPO as an observer, also visited the 7 longhouses and 4 breakaway groups to socialise the action plan and obtain consent. There are 3 main stages to the resolution plan, as explained by staff:

- Stage 1: awareness/capacity building of the local communities and putting in place governance structures
- Stage 2: 3D participatory mapping with communities
- Stage 3: Negotiation of settlement (witnessed by the Sarawak government, RSPO, Grassroots, etc.)

Based on staff interviews, IOI is in the process of appointing an independent facilitator for the resolution process. IOI will also set up an external stakeholder panel to act as advisors. IOI has embarked on several initiatives including planning work for the participatory mapping with the community, the compilation of a list of NGOs and legal advisors for the community capacity building, and the development of socialisation materials and its translation into local dialects. According to staff, IOI's role is to provide the necessary tools, legal support, capacity building, resources, and support (i.e. facilitate and organise meetings, consultations) to the communities as part of the resolution process. Aside from this, IOI is also assisting the community in carrying out road repair works and providing building materials for the repair of the longhouses.

¹⁰ Only NGOs and local communities close to the head office or near IOI operations are invited for stakeholder meetings.

¹¹ One of the assistant estate managers at each operating unit will be responsible for community liaison.

¹² Grassroots officially withdrew as a complainant on 22 June 2018 to extend its role to provide input, guidance or advice in the development of IOI's resolution plan and implementation as well as review progress. More information on Grassroots' withdrawal can be found on RSPO's complaint tracker.

The comments from stakeholders were mixed on the IOI-Pelita case although a slight majority expressed cautious optimism that IOI is now moving in a positive direction in resolving the dispute with the communities. Views of some stakeholders are still negatively affected by past actions of IOI which they considered to have been done in bad faith¹³. The appointment of new staff¹⁴ to manage stakeholder engagement has improved relations with the affected communities and other stakeholders. However, IOI and the stakeholders that were consulted also acknowledged that there are still significant challenges to overcome, such as the internal land disputes (overlapping claims between communities) as well as disputes between the communities and the Sarawak government. The continuous “illegal” harvesting of FFB by certain quarters of the community may also hamper the process due to the vested interest in profits gained.

Views from stakeholders about Pelita remain uncertain. Pelita was seen to play a key role in the decision to file an appeal against the 2010 Miri High Court judgement. Some stakeholders feel that Pelita may play a passive role in this resolution process, leaving IOI to take the lead and for the resolution to run its course while others are concerned that Pelita may be a stumbling block to the process.

3.1.5 Traceable Supply Chains and 3rd Party Supplier Engagement

Comments from stakeholders coupled with Proforest’s own findings have highlighted 3rd party supplier engagement as an area of weakness and concern.

Risk assessments have been previously conducted by Proforest as part of the contract with IOI LC (now Bunge LC). However, it is not clear how these will be updated in future; WRI’s GFW Pro is also behind schedule and not yet available. A key question that relates to all parts of the SIP regarding 3rd party suppliers is how IOI will manage this now that it has divested Loders Croklaan. Presently an agreement is in place until September 2018 whereby BLC is sharing this function with IOI, but a clear plan detailing how this will be managed by IOI after September 2018 is necessary. Currently, IOI has only designated one person to oversee all responsibilities related to 3rd party supplier engagement. This is clearly insufficient.

IOI also needs to review how milestones and activities related to this commitment is being expressed in the SIP to avoid miscommunication with stakeholders. For instance, the 10 mill risk assessments annually and development of guidelines for suppliers are generally not being completed with the implementation partner (Proforest). Instead, resources are being concentrated on other forms of engagement with mills. For instance, a series of technical workshops and roundtables facilitated by Proforest and other NGOs such as GEC and SEPA covering topics such as peat, GHG, labour, human rights, FPIC, traceability and certification requirements has been conducted in the period of September 2015 to April 2018. However, the text in the SIP has not been updated to communicate the replacement of guidelines with engagement workshops.

These observations also apply to related specific commitments concerning third party suppliers, including:

¹³ Examples include IOI’s decision to appeal the High Court decision in 2010 despite informing the communities that it would not and more recently IOI’s announcement at the end of 2017 on possible divestment of its stake in IOI-Pelita (which has since been retracted).

¹⁴ The IOI Head of Stakeholder Engagement was appointed in May 2018 and the Community Liaison Officer for IOI-Pelita was hired in the 3rd quarter of 2017.

- IOI's claim that a peat exposure mapping in its supply chain has been conducted¹⁵. Based on Proforest's knowledge, there has not been a specific peat exposure mapping exercise on IOI's entire supply chain. Instead, presence of peat in the supply chain was only identified through the mill risk assessment exercise (subject to confirmation by the assessment team during the site visits).
- Review of all direct suppliers' sustainability commitments against IOI policy requirements and group level risk review of upstream companies in IOI supply base, where no evidence of capacity and planned activities beyond September 2018 has yet been confirmed.

3.1.6 Transparency and Wider Engagement

IOI's Palm Oil Dashboard was launched in December 2016 and contains information such as certified volumes, traceability numbers, supplier engagement and risk assessment as well as links to the latest IOI sustainability news and grievance list. The information is updated either quarterly or annually. An interactive map showing the locations of mills and estates in Peninsular Malaysia and Sabah is available through the dashboard; however, these do not show the boundaries of the estates, only point markers. The estates of IOI-Pelita do not feature on the map and the Indonesian concessions can be downloaded as a pdf by registering on the IOI website without restrictions. These maps do show the concession boundaries. Maps are included in audit reports currently published on RSPO website and submitted to RSPO via ACOP. Only concession boundaries of IOI's concessions in Sabah and Kalimantan are found on the GeoRSPO platform.

IOI's Grievance list is updated quarterly and published on the IOI website. Updates on Pelita and Ketapang are available as well as other cases involving 3rd party suppliers. There are currently 10 cases on the Grievance list. Staff interviews indicate that there are plans to have a specific communication strategy on the IOI-Pelita case due to the high interest from stakeholders.

The IOI Sustainability team updates and publishes the SIP on a quarterly basis to communicate the progress in implementing its commitments under SPOP. However, there are several issues with the SIP that makes it a poor document for external communication in its current form.

1. Convoluted and difficult for external readers to track progress. For instance, milestones and activities are not always differentiated which make timelines difficult to follow
2. No proper communication of changes, i.e. when activities or milestones are revised, when milestones/activities are archived, when timelines have shifted (this is important especially when there are significant delays, e.g. the delay in finalising the peatland protection policy)
3. Descriptions used are sometimes inaccurate which can convey mixed messages or comes across as "overselling" (e.g. SIP did not reflect that the development of supplier guidelines was replaced with engagement workshops, the BSR engagement was actually smaller in scale than initially described).

Aside from this, IOI also publishes an annual sustainability report. Preparation of the 2018 sustainability report is ongoing with an external consultant.

Despite the formal processes outlined above, the evidence suggests an on-going tendency not to embrace a culture of transparency. For example, there was no evidence of on-going liaison with the principal complainants in relation to the Ketapang peatland RSPO

¹⁵ Key Milestones for IOI Group, Progress update: 7 July 2017

grievance, the announcement (later rescinded) that IOI Pelita would be divested was clearly made without adequate consultation, and the public acknowledgement of encroachment/development at KPAM was delayed and reactive.

3.2 Cross-cutting Issues relating to compliance

Operational arrangement

The decentralisation of roles and responsibilities of sustainability personnel across various functions and regional departments has made coordination and management of the implementation of SPOP and SIP somewhat unwieldy. As an indicator of this lack of clarity, an organisational chart showing sustainability responsibilities and functions has not been formally defined; in response to the verification team's requests, a simple organogram was drafted during this process. Sustainability responsibilities are scattered across estates, regional teams, the plantations team and the central sustainability function. As a result, in addition to implementation challenges, data collection and management are also fragmented across the various departments¹⁶. The fragmentation of information and responsibilities has also led to inconsistencies in data and potential data errors. It does not help that many of the sustainability staff are new (less than 2 years, a few less than 6 months).

Staff turnover

Several stakeholders have raised the high staff turnover at IOI as an issue concern as the lack of continuity and institutional knowledge will impede the implementation of SPOP and SIP. Proforest did not investigate staff turnover rates and causes. It was acknowledged that many of the staff with sustainability responsibilities are relatively new, but this was also due to creation of new positions within the various departments to increase capacity to carry out the SIP activities.

Allocation of resources

Another issue that came up as a recurring question during Stage 1 was the adequacy of resources for sustainability. There were concerns that budget allocation may not adequately support the implementation of SPOP and SIP, and as an extreme example of this, it was noted that the IOI-Pelita community liaison officer has not been equipped with a laptop until now. The Proforest team did not manage to explore how budgets are allocated and shared between the various departments and operational units for SIP implementation but would seek clarity on this issue before the end of the verification exercise.

Lack of holistic approach in incorporating SPOP across all IOI's operations

Some of the stakeholders have commented that the SIP (and to a certain extent the SPOP) focused on addressing specific modular problems highlighted by NGOs and that it has not been effective enough in changing the overall corporate attitude.

The provisions of SPOP apply to all IOI operations worldwide, including subsidiary companies, joint ventures and companies in which IOI has management control. However, the application of many of its commitments associated with labour is confined to

¹⁶ An exception to this is the supply chain data (all sales data from plantation to mill, to refinery to end buyer) which is centrally collected and managed by Commodity Marketing department.

plantation operations¹⁷. There is no mention on how some of these commitments are extended to non-plantation divisions such as oleochemicals.

The application of SIP also appears to be Malaysia centric when it comes to labour issues with no mention on how and when these commitments will be eventually implemented in Indonesia. One stakeholder even pointed out that Indonesia is left out in IOI's Vision and Core Value statement¹⁸.

Limitations of the SIP format

The SIP in its current form is a poor tool to communicate IOI's progress in implementing the commitments under SPOP. There have been multiple changes in the various versions of SIP over time, including changes in activities, timelines and milestones as part of adaptive management and in response to challenges in implementing some of the activities on the ground. In addition, completed SIP activities are archived and completely removed from later versions of the SIP. As these changes are not highlighted and explained in the subsequent versions of the SIP, it is very difficult for external parties to track and verify the full implementation progress of SIP activities. Every effort has been made to compile all the activities (including the archived ones) from all the various versions of the SIP into the verification checklist that has been used.

3.3 Headline interim findings on key commitments

Based on the verification findings detailed in section 3.1, the following headline findings can be summarised for selected key commitments.

IOI-Pelita. The Long Teran Kanan grievance is far from resolution and remains the subject of intensive engagement. The process of working with the affected communities and external parties to agree an action plan is continuing.

Human rights and working conditions. Although significant progress has been made in terms of commitments relating to labour and working conditions, actual implementation has been transparently verified only in a small number of locations. Systematic follow-up to evaluate implementation across IOI operations is required.

Ketapang peatland management. IOI's commitment to implement best practice peatland management across the Ketapang peatland landscape has stalled. Although the RSPO complaint is expected to be resolved imminently, there are now encroachment/development issues at KPAM, and the landscape-level plan has not yet commenced.

Third party suppliers. Mechanisms to proactively monitor third party suppliers are being implemented by Bunge Lodders Croklaan on a transition basis. There are currently no provisions in place at IOI to continue with this process beyond September, which requires urgent action to put new arrangements in place. There is no evidence that peatland exposure in the third-party supply base has been analysed. This needs to be urgently addressed in line with the wider action on third party suppliers.

¹⁷ The policies are labelled as IOI Plantation policies and signed off by the Plantation Director rather than Group CEO

¹⁸ As highlighted in IOI's Annual Report 2017

We recommend that these key issues need to be the subject of relentless focus by the IOI sustainability team, and should also be emphasized in Stage 2 of the verification process.

3.4 Priorities for Stage 2 Verification

Based on the verification findings to date, the proposed priorities for Stage 2 (fieldwork) of the verification process are as follows:

1. Implementation of labour commitments and policies. A sample of operations in Sabah (either Sandakan or Lahad Datu) and Peninsular Malaysia. Site selection should exclude those already visited by Finnwatch, BSR and IOI during their internal labour audits (i.e. Luangmanis, Paya Lang, Moynod and Baturong 1 estates and Ladang Sabah palm oil mill).
2. HCV identification and management. A sample of estates in Sabah and Peninsular Malaysia.
3. Ketapang, including development/encroachment at KPAM, landscape-level peatland management and community engagement.
4. IOI-Pelita: progress of action plan, depending on further stakeholder consultation to confirm the added value of inclusion in this verification process.
5. Third party supply base, to confirm provision for on-going scrutiny and level of performance.

Stage 2 will also include supplementary document review and further stakeholder consultation to follow up on outstanding issues. Following Stage 2, a final verification report will be prepared, showing the level of compliance against indicators derived from the SPOP and SIP. The report will include a summary of findings that will categorise each indicator as either 'on-track', 'outstanding issues' or 'significant failing' in order to provide additional clarity, together with an overview of relative performance levels across each section of the SPOP.

Annex 1 List of staff interviewed

	Name	Position
1	Agos Atan	Regional Sustainability Manager (Sabah)
2	Alindra Gerald Sintik	Executive (Plantation Sustainability)
3	Bagus Kuncoro	Sustainability – EHS Manager
4	Carl Dagenhart	Head of Stakeholder Engagement
5	Chuah Ping Shien	Sustainability Executive
6	Hanna Hazirah	Sustainability Executive
7	Iliyana Mohd Sah	Executive (Plantation Sustainability)
8	Lai Pui Leong	HR Manager (HQ)
9	Lim Jit Uei	Head of Group Commodity Marketing
10	Ling Kea Ang	Head of Internal Audits
11	Mohd Badri Bin Ahmat Zairu	HR Executive (HQ)
12	NB Sudhakaran	Plantation Director
13	Ravi Tony	Manager, Sustainability, Safety & Health (P. Malaysia)
14	Raymond Alfred	Manager, Plantation Sustainability
15	Rina Rahayu	Manager (Operations)
16	Subramaniam Arumugam	Head of Plantation (PT SNA)
17	Surina Ismail	Group Head of Sustainability
18	William Siow	Sustainability Manager, Corporate
19	Yeo Lee Nya	Responsible Sourcing Lead

Annex 2 List of stakeholders consulted in Stage 1

- 1 Aidenvironment
- 2 Bunge Loders Croklaan (BLC)
- 3 Business for Social Responsibility (BSR)
- 4 Finnwatch
- 5 Forest Peoples Programme (FPP)
- 6 Global Environment Centre (GEC)
- 7 Grassroots
- 8 Kao Corporation
- 9 Neste Oil
- 10 Malaysian Palm Oil NGO Alliance (PONGO Alliance)
- 11 Roundtable on Sustainable Palm Oil (RSPO)
- 12 PT Primadaya Pratama Pandukarya (Recruitment agency for Indonesia)
- 13 PT Bina Kridatama Lestari (Recruitment agency for Indonesia)
- 14 Relation Employment Service PVT LTD (Recruitment agency for Nepal)
- 15 Vazir Enterprises (Recruitment agency for India)

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