

Verification of the Implementation of Sustainability Commitments

Public summary report on verification findings



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

Proforest conducted the verification of IOI's implementation of its Sustainable Palm Oil Policy and related commitments in two stages spanning the period from end May 2018 until end January 2019. A report of the interim findings from Stage 1 of the verification process was released and uploaded on the IOI website in October 2018. This summary report describes the key findings at the conclusion of the verification process. Specific headline findings on implementation of sustainability commitments are summarised below.

Human rights and working conditions

Significant progress has been made in terms of commitments relating to labour and working conditions. The findings relating to implementation were also broadly positive in the locations visited, supporting the previous verification by external bodies that had previously been undertaken in a small number of locations. However, there is still limited evidence of a fully systematic approach to the monitoring of human rights and labour conditions, and no current involvement of an external partner. Therefore, on-going follow-up to evaluate implementation across IOI operations is required, particularly in relation to recruitment fees, minimum wage, regularisation of workers in Sabah, documented systems and records, understanding by workers of entitlements and conditions, and treatment of pregnant workers.

HCV identification and management

The HCVs identified in the estates visited by the verification team were generally appropriate and in line with HCV best practices. However, based on the HCV assessment reports sighted, the in-house assessments are not up-to-date with the existing guidance for HCV. The current HCV management and monitoring plans are adequate to meet minimum standards but there is significant room for improvement, particularly with regard to landscape-level considerations. In the case of relevant operational regions, there should be an analysis of HCVs and their management needs across the region.

A root cause in the inadequacy of management and monitoring measures is the lack of consistent and accurate HCV data. There is no central depository of HCV data, although the process to consolidate and verify HCV and other geospatial data has now commenced.

Current management of buffer zones that were previously subject to historical overplanting is consistent with RSPO guidelines on buffer areas planted with oil palm. Under the commitments in the SIP and RSPO P&C requirements, there is no clear imperative for active rehabilitation of buffer areas, but an opportunity exists to embrace internal recommendations for more active rehabilitation of these areas.

IOI Pelita

The Long Teran Kanan grievance remains the subject of intensive engagement. The process of working with the affected communities and external parties to agree an action plan is continuing. IOI developed a resolution plan with input from Grassroots which has been submitted to the RSPO Complaints Panel for review and endorsement. 8 out of the 9 groups involved in the dispute have consented to the resolution process proposed by IOI. The remaining group is awaiting advice from their legal advisor. The RSPO Complaints Panel have allowed IOI to proceed with the implementation of the Stage 1 Resolution Plan (building capacity, awareness and support structures) while waiting for the decision of the remaining group.

The appointment of new staff 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.

Ketapang peatland management

Ketapang peatland management has moved forward significantly during the verification period, in relation to resolution of the specific RSPO grievance and the wider landscape-level process. Specifically, on 26th September 2018, the complaints and outstanding RSPO grievance related to PT BSS, PT SKS and PT BNS have been closed by the Complaints panel and sent to the RSPO Internal Monitoring Unit.

Although delayed from its original timeline, the implementation of the Ketapang Landscape Project has now successfully commenced. This is a key SIP commitment and aims to provide a coherent basis for conservation and sustainable development planning in the landscape, through a multi-stakeholder approach. The initial round of discussions and consultations has already been held with local authorities, surrounding plantation companies and local communities. The engagement process will continue into 2019, and feedback has been positive thus far.

Third-party suppliers

IOI took over supplier engagement programmes to ensure policy implementation in September 2018 from BLC. IOI is now utilising TFT's Tools for Transformation (T4T) platform to underpin engagement with direct mill suppliers in Sabah and Peninsular Malaysia. For the direct mill supply base, IOI plans to utilise self-assessment as the basis for targeted engagement activities. The supplier engagement programme is underway in Sabah but there is not yet a coherent workplan to build on initial activities and deliver on policy commitments. No evidence was seen of activities in Peninsular Malaysia.

There are no current programmes to ensure policy implementation in the indirect supply base, which comprises the majority of mills supplying to IOI. Specific SIP commitments on risk assessment, peat exposure and supplier-level risk review are not being met.

IOI's grievance tracker is available online, but only one grievance was raised in 2018, and none since IOI assumed responsibility for supplier engagement in September 2018. This is despite the fact that NGOs raised grievances against many upstream suppliers in late 2018, including many in IOI's supply base.

Management systems

The implementation of sustainability commitments continues to be undermined to some extent by inadequate management systems, including unclear roles and responsibilities and problematic document and data management, as well as broader issues of training and capacity building.

1 Introduction

Proforest was formally appointed by IOI Group in May 2018 to conduct an external verification of the implementation of their Sustainable Palm Oil Policy (SPOP). The policy which was first launched in March 2014 with revisions in 2016 and 2017. The verification process applies to the palm oil operations of the IOI Group, including plantations and crude palm oil (CPO) mills, and processing facilities, as well as the global third-party supply base supplying to IOI.

The objective of the external verification was presented in the Terms of Reference as an assessment of progress with the implementation of IOI's Sustainable Palm Oil Policy, including the third-party supplier annex. 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 external verification process aims to assess the current level of performance, in terms of the implementation of IOI's sustainability commitments, and in addition to identify opportunities for improvement.

2 Methodology

The overall external verification process was undertaken in two stages. During Stage 1 of the verification process (from end of May until early July 2018), the Proforest team conducted interviews with IOI personnel based in Putrajaya, Gomali, Lahad Datu and Ketapang, conducted external stakeholder interviews, as well as a comprehensive review of documents over a series of visits to the Putrajaya offices.

The document review and consultation activities continued during Stage 2, up to the end of January 2019. Over the course of the verification period, the Proforest team spoke to over 40 IOI personnel across several departments and operational units and managed to reach out to 22 stakeholders ranging from environmental and social NGOs, buyers, government agencies, a trade union, local community representatives and recruitment agencies.

A report describing the interim findings from Stage 1 of the verification process was finalised in September and uploaded on the IOI website in October 2018. Stage 2 of the verification process focused on field assessments, and ran from mid-November 2018 to end January 2019. The team also included an assessment of operational management systems in stage 2, in response to specific feedback from the SAP at the end of Stage 1.

The following site visits were conducted as part of Stage 2.

1. Peninsular Malaysia – Gomali grouping, Gomali palm oil mill, Kuala Jelei estate, Bukit Dinding estate, Sagil estate (21st – 24th Nov 2018).
2. Sabah – Morisem grouping, Morisem palm oil mill, Morisem 3 estate, Leepang 2 estate, Leepang 3 estate and Leepang 4 estate (17th – 21st Dec 2018).
3. Pontianak, Indonesia (26th – 27th Nov 2018).

For the site assessments in Peninsular Malaysia and Sabah, the verification team was made up of four assessors (two from Proforest and two independent assessors). Interviews were

conducted with the management, administration and sustainability staff on the ground as well as the estate and mill workers (about 30 from Gomali and 36 from Morisem).

Proforest staff travelled to Pontianak to meet with BKSDA at their provincial office, the Head of Plantation of PT SNA, the EHS-Sustainability Manager of PT SNA and a member of the RSPO verification team for the complaint case involving PT SKS, PT BNS, PT BSS and PT SNA. A further site visit to Ketapang was under consideration for inclusion in the Stage 2 activities. Further consultations with stakeholders involved in the Ketapang landscape project indicated that a site visit by the Proforest team to Ketapang would not yield new information for the purpose of this verification. Therefore, further information on IOI's operations in Indonesia was based on the findings from this discussion as well as consultations with the Global Environment Centre (GEC), other relevant reports and progress updates shared by IOI.

This verification process involved a cut-off date for reporting of 25 January 2019, after which no further information on implementation was collected from IOI or stakeholders. The results summarised in this report reflect findings up to this date.

3 Verification findings

3.1 Existing plantations

3.1.1 Certification and monitoring

Certification progress

RSPO and RSPO NEXT certifications are still ongoing. All management units in Malaysia have been successfully RSPO certified except for the operations in Sarawak. The target to certify the Indonesian operations is by the end of 2020. IOI is currently addressing the non-conformances found during the audits at four of its selected mills before progressing further with RSPO NEXT certification.

IOI missed its initial target to obtain MSPO certification for all its Malaysian plantations by end of 2018 due to challenges in audit scheduling and auditor availability. At the close of verification only 11 out of 14 mills have received MSPO certification.

Labour rights monitoring system

Internal audits are periodically conducted by the Corporate Sustainability, Plantation Sustainability and the Regional Sustainability teams separately using different checklists. Internal audits are mostly conducted to prepare for RSPO, MSPO, and ISCC annual audits using 3 separate checklists which would include elements of labour rights, depending on the certification requirements. In addition, two specific internal labour audits were conducted in 2018 using an initial labour rights monitoring checklist. Results of the internal audits are shared with the managers of the operating units for further action or development of relevant action plans. However, these activities have not yet been organised into a systematic internal labour rights monitoring system.¹

Findings from the site assessments and worker interviews found that monitoring mechanisms for labour rights still require improvement especially during the recruitment and termination (contract expiry, resignation, abscondment) stages of the employment cycle. It was also found from staff interviews, that there was no compilation or analysis of

¹ According to IOI, wider implementation of these audits using a finalized labour monitoring checklist will be rolled out across all regions in phases in the first half of 2019.

the number and types of grievances reported at the Group level. A centralised internal grievance log (Excel spreadsheet) is currently being developed but it is still very preliminary.

The verification also found problems with the documentation and records (e.g. missing information, inconsistent information, errors) with regards to the monthly minimum wage analysis, passport management and control, worker status (e.g. on long leave, repatriated, absconded), etc. There is a need for IOI to review the existing checklists used to ensure that the key indicators for labour rights are properly identified and monitored by the various sustainability teams.

In the absence of a defined systematic approach to labour rights monitoring, and/or the on-going involvement of an external partner to verify labour conditions, it is not yet possible to assert that IOI's policy commitments on human rights and workplace conditions are being implemented across all operations.

3.1.2 Environmental management

Identification and protection of High Conservation Value (HCV) areas, no deforestation and protection of HCS areas.

HCV and HCS areas within IOI's operations can be broadly classified into two main types: HCV areas within well-established plantations, mainly in Peninsular Malaysia and Sabah, and those identified within the context of new plantings in West Kalimantan, Indonesia. For the established plantations, HCV assessments were conducted by the IOI sustainability team and the reports are periodically reviewed internally. For new plantings, HCV and HCS (in the case of PT KPAM) assessments were conducted by external assessors. The scope and quality of the HCV assessments vary greatly between the in-house assessments and the external assessments and to a certain extent this is expected given that the resources and efforts should be based on the scale and risks involved. However, based on the HCV assessment reports sighted (mainly for the estates visited during the field verification exercise), the in-house assessments are not up-to-date with the existing guidance for HCV as prescribed by the HCV Resource Network (HCVRN).

The HCVs identified in the estates visited by the verification team were generally appropriate and in line with HCV best practices. In general, the current HCV management and monitoring plans are adequate to meet minimum standards but there is still significant room for improvement, particularly with regard to landscape-level considerations in terms of linking up HCV and conservation areas (e.g. large mammal movement patterns, ecological connectivity etc.). In the case of relevant operational regions, there should be an analysis of HCVs and their management needs across the region. This would allow for the identification of potential collaborative management and monitoring measures with internal (involving different estates) and external parties at the landscape level. IOI is working with external partners and relevant stakeholders towards this end in the Ketapang landscape in Kalimantan, but such an approach is currently not yet being actively pursued in other relevant operational regions.

Training of staff on human-wildlife conflict has only been conducted in the Morisem region through a collaboration between IOI, Sabah Forestry Department, the Wildlife Rescue Unit (WRU), Bornean Sun Bear Conservation Centre and HUTAN (a Sabah-based NGO). Other HCV-related training conducted for IOI staff/workers focused on forest buffer zone & riparian reserve management, HCV awareness and wildlife (RTE species).

River buffer areas and buffer zones for adjacent protected areas (e.g. national park, wildlife reserve) at all estates visited were well demarcated and signposted. The widths of the buffer areas were in conformance with regulations/guidelines relevant to Peninsular Malaysia and Sabah respectively.

The SIP commitments on integration and remapping of HCV, HCS and peat areas (where possible), followed by review and enhancement of management and monitoring plans for all HCV and HCS areas, have not yet been fulfilled. A root cause in the inadequacy of management and monitoring measures is the lack of consistent and accurate HCV data and a lack of systematic data management. Records of HCV areas and other conservation areas are fragmented² and at times inconsistent³ which make centralised monitoring (if any) very difficult. IOI has initiated the process to consolidate and verify their HCV and other geospatial data.

Use of Best Management Practices, as defined in the RSPO P&C and the RSPO manual on Best Management Practices for existing oil palm cultivation on peat.

Based on interviews with the plantation sustainability team and document review, peat mapping and drainability assessments have been completed for plantation areas with peat. 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 in the relevant operating units in Indonesia and Peninsular Malaysia⁴ have been conducted. According to the IOI Sustainability team, internal trainings for Sabah will likely take place sometime in April 2019, after the revised RSPO BMP for peat has been endorsed and finalised. It was observed during the site assessment in Sabah that the relevant estate staff would require additional technical support to manage their peat areas properly.

IOI is also working with GEC to implement a Mini Landscape Level project for Bukit Leelau; the project started in September 2018.

Reduction of GHG emissions

GHG emissions data for certified units are collected and calculated using PalmGHG (RSPO) and the ISCC GHG methodology (ISCC) depending on the respective certification requirements.

The SIP commitment to develop a transparent GHG reduction strategy for IOI Group, including clear saving targets, has not yet been met. 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 as 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. There have been several delays in finalising the baseline target and the GHG reduction plan. The timeline has now been extended to 2019. The installation of biogas plants seems to be progressing according to schedule. Three biogas plants are already in operation and four more plants are supposed to be completed and operational in 2019.

² HCV data is collected and monitored by region. Review of HCV data from Peninsular Malaysia and Sabah also showed that the type of data collected is not standardized. There appears to be no centralized dataset kept by the Corporate Sustainability Team or the Plantation Sustainability Team.

³ Figures for HCV, other conservation area and peat which were publicly reported in IOI's Annual Report 2017, Sustainability Report 2017, ACOP 2017 and ACOP 2018 and IOI's own internal records were found to be inconsistent. The inconsistencies were reported to IOI staff for investigation.

⁴ It was pointed out during Stage 1 that scheduled peat trainings for operations in Malaysia was severely delayed. A training was finally conducted for the staff at Bukit Leelau in January 2019.

Enforcement of 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 agencies and NGOs 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 Organisation Class 1A or 1B.

The use of paraquat has been phased out of IOI's operations since 2011 and RSPO audit reports confirm that the use of paraquat has stopped but several sites still have small amounts of Class 1 chemicals in storage. 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. The 2018 Q3 SIP was amended to reflect this exception.

3.1.3 Human rights and workplace

Findings from the site assessments indicated that (i) foreign workers' recruitment guideline and procedures including no-recruitment fee policy, (ii) minimum wage policy and (iii) freedom of association policy are being implemented and communicated to workers on the ground. These policies currently do not cover 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. An overall labour policy for the PT SNA group is being drafted and is expected to be available for review and endorsement by senior management in March 2019.

The "one-off" ex-gratia payment for workers hired before the implementation of the no-recruitment fee policy still has not been implemented as of end Dec 2018, pending approval of the payment rates and terms.

Freedom of association and right to collective bargaining

Interviews with management and workers indicated that there are no restrictions on workers to join the union or participate in union activities. A review of worker contracts also confirms that the right to freedom of association and collective bargaining is not restricted. Requests by the union for facilities to conduct meetings with workers have all been met and workers who are union representatives are given time off to attend meetings.

However, most of workers interviewed during the site assessments demonstrated a poor understanding of the concept of a workers' union. Some interviewed workers could not demonstrate basic knowledge of their rights to freedom of association and collective bargaining. A similar finding was also raised in the Finnwatch report.

Eliminate all forms of illegal, forced, bonded, compulsory or child labour and follow responsible recruitment practice

Proforest did not identify any egregious evidence of forced, bonded, compulsory or child labour during the site assessments. IOI has taken steps to monitor the implementation of the "no recruitment fee" policy via post arrival interviews. 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.

However, some of the workers interviewed still report having to incur fees at some point in the recruitment phase. Workers also did not seem to fully understand the coverage of

IOI's no recruitment fee policy. The verification did not manage to provide clarity on the purpose of these fees and how they were incurred. Therefore, this was raised to IOI as an issue for further investigation by their team as part of their labour rights monitoring.

Foreign workers for operations in Peninsular Malaysia are recruited through recruitment agencies in India, Nepal and Indonesia. According to the agencies interviewed, most of the potential workers who approach them for work were recommended by existing workers at IOI who may be their friends or family members. The usage of sub-contractors was not detected. The situation in Sabah is quite different from Peninsular Malaysia. Interviews at Morisem revealed that potential workers would show up (sometimes at the recommendation of current workers at IOI) at the mill and estate offices to be interviewed for recruitment. Some of these potential recruits are already residing in Sabah and have worked previously in other estates while some of them are recent arrivals from Sulawesi. However, the issue in Sabah is that many of the workers are still waiting for their work permits to be processed by the Sabah Immigration Department. According to management, there are clear processes for the recruitment of workers in Sabah and application of work permits but the timeframe for the permits to be secured can be long and unpredictable.

Nevertheless, all workers are provided with 5-year work contracts (with the option of annual renewal upon completion) and there was no observed difference in wages, benefits and employment terms between the documented and undocumented workers (who are being supported by IOI in obtaining official permits). Most of the workers hired in Sabah are based on recommendation by existing workers.

On the issue of child labour, the presence of children living in the estate or mill compound (much more prevalent in Sabah compared to Peninsular Malaysia) is recorded when management conducts the housing census. However, proactive monitoring mechanisms as recommended by BSR in their report have not been implemented. Management relied on staff observation and worker check roll to detect underaged workers.

Educational facilities are provided to workers' children in the form of creches or day care centres, HUMANA schools (primary education) and CLC schools (secondary education for Indonesians). All workers interviewed claimed that their young children utilise the aforementioned facilities. During school holidays, all the schools carry out additional activities and this was observed during field visits.

No retention of workers' passports/identity documents or withholding of workers' wages

During the site visits in Peninsular Malaysia and Sabah, the assessment team did not come across any instances whereby a worker's wages have been withheld.

The passport return programme implemented by IOI provides 3 options to workers with regards to the safekeeping of passports. Workers can choose to keep their own passports, keep their passports in lockers provided by management or voluntarily give their passports to management for safekeeping. The options taken up by the workers vary across the sites visited. In the sites visited in Sabah, almost all the passports are being kept by the workers themselves. In the mill and estates visited in Peninsular Malaysia, many workers still prefer to leave their passports with management for safekeeping. All the workers interviewed understand IOI's passport return procedure and felt that they have unrestricted access to their passports.

Random checks at some of the sites visited found that the passport management records were generally poor and can be improved. Although the passports have already been returned to workers, there will be periods when the management will be holding the passports (for permit and passport renewals). This periodic transfer of passports between worker and management is not yet properly documented.

Minimum wage and overtime compensation

Based on the salary slips observed on site, workers appear to be getting minimum wage (the minimum wage is complied with if the daily minimum wage is met). In cases where monthly minimum wage (RM 1000 for Peninsular Malaysia and RM 920 for Sabah⁵) is not met, it is mostly found to be due to absenteeism or if there are less than 26 work days in the month. Monitoring of monthly minimum wage compliance is carried out at each operating unit.

IOI has a policy target to help workers earn 20% more than the minimum wage. Based on the operating units visited in Morisem, close to half of the workers (females are more affected than males) still fall below RM 920 a month. One reason for this is that these female workers are only working to supplement their husbands' income and therefore, they do not work every day of the week. Recruitment of contract workers (i.e. workers not on permanent terms of conditions) was highlighted as a risk by Finnwatch, in terms of vulnerability to abuse, although Proforest did not find any evidence of such contract workers in the estates we visited. It should be noted that the management of each operating unit remains sufficiently different that different employment scenarios can occur, and therefore IOI should include these issues in internal monitoring.

All workers were generally satisfied with the working hours and amount of work stipulated by IOI. Any observation with regards to deductions in salary is compliant with legal requirements and has received consent from the workers.

Workers interviewed showed an understanding of their payslips up to a certain level. However, not all workers understand how some of the piece-rated work is calculated. Salary slips generally do not show a breakdown of the work done and terms used are not standardised. According to IOI, a new IT system would be implemented mid-2019 to allow for integration with all operating units and regional centers and a certain degree of standardisation in practices, therefore greatly reducing or removing data errors, gaps and inconsistencies that are present in the current system.

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. Although IOI has taken steps to strengthen the training for workers on leave entitlement and salary structure, the assessment by Proforest found that these gaps remain.

IOI has also committed to undertaking a living wage study as part of its promise to provide a living wage to workers in future. The study was originally targeted for completion at the end of June 2018. IOI is now participating in a fair and decent living wage study led by Monash University Malaysia.

Fair and equal employment opportunities for all

While the Proforest team did not observe any significant differences in the treatment of workers based on race, nationality, gender, etc., there are differences in allowances and housing provisions at different estates visited. There are also differences in the housing amenities provided by management in the sites visited in Peninsular Malaysia and in Sabah. The differences are attributed to the difference in management rather than any discriminatory approach. According to management, some operational units are more

⁵ These were the rates at the time of assessment. As of 1st January 2019, the monthly minimum wage for both Peninsular Malaysia and Sabah is RM 1,100.

generous in providing certain benefits or incentives in order to attract workers especially if they are situated in more remote areas.

There is an outstanding issue relating to pregnant workers, as there are no maternity leave benefits for foreign workers. IOI is in the process of finalising a policy or guideline for pregnant workers which is focused on safety and working conditions. However consequent livelihood impacts on pregnant workers also requires some urgent consideration for inclusion in this policy.

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

In all units visited, sexual harassment was not identified as an issue (interviews with Gender Committee (GC) chair and female workers). However, interviews with management at the HQ level indicated that sexual harassment issues have been brought to their attention in the past and the complaints were channelled directly to senior management and not via procedures set up at the operational unit level. A half-day session was organised with *Jabatan Tenaga Kerja* (JTK, Human Resources Department) for the GC members in both Peninsular Malaysia and Sabah to raise awareness on sexual harassment and female worker welfare.

Awareness of IOI's sexual harassment policy and the GC are mixed, with female workers being slightly more aware than male workers. Generally, it was found that the gender committees at IOI are ineffective at being a platform to improve welfare or working conditions for female workers. Workers' awareness on available grievance channels can range from low, moderate to high, depending on the channel.

Questions have been raised whether the ECC and GC are properly equipped to record, report and follow up on grievances received. Dealing with employee grievance can be a delicate matter and members of ECC and GC need to be given the right skills and tools to be able to do so effectively. The need to strengthen the capacity of the ECC and GC was also highlighted by BSR in their report.

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

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 at. OSH standards are explained to workers through daily roll calls and training. All workers interviewed were aware of the medical benefits and facilities provided by IOI. OSH related matters (e.g. accident reporting) are generally in compliance with legal requirements.

Provide training and development to employees

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. Almost all the trainings are conducted internally and focused more on company policies and operational processes and procedures rather than on values and skills.

For IOI's new/recent policies, the majority of workers interviewed demonstrated poor knowledge and awareness. Interviewed workers claimed that their command of the language (Bahasa Malaysia) and literacy levels were significant factors affecting their ability to understand the briefing/training sessions provided by management. This lack of understanding potentially has a serious effect in undermining the effectiveness of the briefings and trainings held by IOI.

3.1.4 Community development and social impact

There are no prescribed milestones or activities for IOI's commitments on community development and social impact (as described in SPOP) in the SIP. Corporate social responsibility activities undertaken by IOI were reported in their 2017 and 2018 Sustainability Reports.

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.

As part of IOI's operational SOP, each operating unit maintains a stakeholder list and conducts annual external stakeholder consultation meetings. Each operating unit would also assign one of their assistant managers as the social focal point and community liaison representative. Local communities can choose to channel any issues or grievances at these annual meetings, through the community liaison representative, or directly to the IOI HQ via the grievance hotline.

A review of previous meeting minutes as well as staff and local stakeholder interviews indicated that there are no major grievance or issue raised by 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 community engagement, mediation, conflict resolution and communication.

3.2 Additional commitments for new plantings

No deforestation and protection of High Conservation Value (HCV) areas and High Carbon Stock (HCS) forests, as defined by the HCS Approach

IOI's last wholly unplanted concession area is KPAM in Ketapang, Indonesia. IOI made an explicit commitment to using the HCS Approach for KPAM. The HCS assessment report for PT KPAM was submitted to the HCSA secretariat in April 2018 and was later approved by the HCSA review panel.

During initial land clearing in late July 2018, the local management of PT SNA found potential HCS and peatland areas that were not identified in the earlier assessments and suspended further clearing work. GEC was engaged to conduct a site assessment, during which several additional potential HCV, HCS and peatland areas were identified. All these areas were further delineated and land clearing was cancelled for these areas. GEC has confirmed that all HCV and HCS areas have been protected from development, and the previously damaged area (less than 1 ha) is now under rehabilitation. IOI will be addressing the issue via a revised integrated management plan and a rehabilitation programme for the cleared areas and has committed to open and transparent communication with RSPO on the progress.

IOI still has room for improvement in terms of putting management systems in place and building capacity of sustainability personnel in their wider operations in Ketapang. The implementation of the Ketapang Landscape Project, which is a key SIP commitment, provides a multi-stakeholder, landscape-level approach to mitigate and manage problems in the region. Although initially delayed, the South Ketapang Landscape Initiative was launched in the 4th quarter of 2018 with partners Aidenvironment and GEC as a 5-year

programme. Initial consultations have been held with local authorities, surrounding plantation companies and local communities. The feedback has been positive thus far, and a range of next steps have been identified for further engagement activities as the planning develops during 2019.

No development of peatlands regardless of depth, and protection of peat lands through water management and fire prevention

On 26th September 2018, the complaints and outstanding RSPO grievance related to PT BSS, PT SKS and PT BNS were closed by the Complaints panel and sent to the RSPO Internal Monitoring Unit.

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.

One major concern raised during Stage 1 of the verification was the delay in the finalisation of IOI's Peatland Protection Policy. The original deadline for finalisation 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. The Policy is supplemented by a Peat Management Guideline and an SOP for Water Management in Peat area (for existing plantations); both are internal documents which have not been fully socialised and implemented on the ground. Technical training on peatland management and BMPs for staff of SNA group was conducted in Ketapang by GEC in July 2017.

Respect the land tenure rights of indigenous and local communities, including their right to give or withhold their FPIC to operations on land over which they hold legal, communal or customary rights in accordance with the UNDRIP and the social requirements for conserving High Carbon Stock Forests

Note: not mentioned in SIP as the grievance with IOI Pelita is reported under Transparency and Wider Engagement. For matters related to PT SNA in Indonesia, refer to the Ketapang landscape approach above.

Fire prevention and rapid response programme

Separate MOUs were signed with BKSDA on biodiversity and fire prevention management for PT BNS, BSS, KPAM, SKS in 2016 for a 5-year term with individual workplans for the collaboration programme from 2016-2020. Funding for the workplans come mainly from IOI. Proforest has not verified if the workplan is being implemented accordingly or if there are any delays or changes in the published workplans.

An overall fire management plan for the SNA group and a fire risk map for PT BSS have been prepared. Training sessions have been conducted for staff on fire prevention and control.

Meetings involving GEC, PT BSS, PT SKS, PT BNS, BKSDA and local communities were held on matters related to wildlife/conservation area, danger of fire and fire prevention. PT SNA is also engaging with neighbouring estates on inter-company collaboration to prevent and control fire hazards.

3.3 Traceable supply chains and third-party supplier engagement

IOI's commitments relating to 3rd party suppliers were managed by Bunge Loders Croklaan (BLC) until September 2018, under an agreement following IOI's divestment of BLC. The new arrangements are summarised in this section.

Traceability

Mill lists including the name, coordinates and controlling group of each mill in IOI's supply chain are published online. The current dashboard (undated) shows 100% traceability to mills for palm oil, and 98% for palm kernel oil. However, there is some uncertainty about the numbers of mills in the supply base. The current dashboard itself has inconsistent figures, stating both 516 supplying mills and 1393 mills in different graphics, while the mill lists that are online show approximately 500 mills in the full list ("Total IOI Group Full Mill List"), but the disaggregated data shows closer to 1200 mills. This may be due to some duplication but may also reflect a lack of control of the data.

Traceability to plantation has not yet been achieved and cannot be considered as on track for 100% by 2020. This commitment will almost certainly require recalibration.

Supplier engagement

IOI took over supplier engagement programmes to ensure policy implementation in September 2018 from BLC. IOI is now utilising TFT's Tools for Transformation (T4T) platform to underpin engagement with direct mill suppliers in Sabah and Peninsular Malaysia. Activities up to the end of 2018 comprised the following:

- One policy-level workshop at Sandakan, attended by 27 mills, to brief on the T4T process. (It is understood that an additional mini workshop took place in Peninsular Malaysia).
- T4T mill self-assessment. A current snapshot of progress shows current results of the self-assessment process for 43 mills supplying to IOIEO. Of these, 26 have completed self-assessment.

IOI has stated that two mill-level assessments were also undertaken in Q4 2018, but no evidence has been sighted.

The document 'Supply Chain Responsible Sourcing' (October 2018) summarises the planned approach to policy implementation in the third-party supply base. The scope of this is assumed to be limited to the direct mill supply base in Sabah and Peninsular Malaysia, but this is not defined. The document does not include mill-level field assessments as a component. There is no overall workplan for 2019 being implemented as yet.

For the direct mill supply base, IOI plans to utilise self-assessment as the basis for targeted engagement activities. The supplier engagement programme is underway in Sabah but there is not yet a coherent workplan to build on initial activities and deliver on policy commitments. No evidence was seen of activities in Peninsular Malaysia.

There are no current programmes to ensure policy implementation in the indirect supply base, which comprises the majority of mills supplying to IOI. This includes both procurement by IOI Commodity Marketing and by IOI Acidchem, and is currently a significant omission.

In addition, specific SIP commitments on risk assessment, peat exposure and supplier-level risk review are not being met:

- No evidence that IOI is continuing to use GFW, or that mills will be regularly risk assessed using spatial data.
- A peat exposure mapping of IOI's supply base in Malaysia, Kalimantan and Sumatera was conducted in 2016. However, it is not clear what actions were taken to mitigate the impact of 3rd party suppliers or what processes in place to update the risk maps.
- No evidence of group-level risk reviews for supplier companies was sighted.

IOI stated that the detailed Policy Annex on policy implementation in relation to third party suppliers is currently under review.

Certified volumes

According to the RSPO 2017 ACOP completed by IOI (the latest available), IOI processes a total of almost 2 million tonnes of PO/PKO-related products annually, of which around 25% is RSPO certified. These figures date to before the Loders Croklaan demerger. The ACOP's timebound plan states that IOI will achieve 100% of its volumes as RSPO certified by 2020. However, given that IOI has noted to the verification team that using more RSPO oil is desirable whenever possible, but that it is "market driven and dictated by our buyers", IOI needs to define a more realistic plan for increasing the use of RSPO certified volumes.

Grievance tracking

IOI's grievance tracker is available online, but only one grievance was raised in 2018, and none since IOI assumed responsibility for supplier engagement in September 2018. This is despite the fact that NGOs raised grievances against many upstream suppliers in late 2018, including many in IOI's supply base. There is no evidence that IOI has registered and evaluated these multiple grievance cases (in line with commitments in the policy annex).

3.4 Transparency and wider engagement

An open and transparent approach to resolving outstanding grievances with the involvement of affected stakeholders, including successfully concluding the mediation process with the affected longhouse communities in Sarawak, to the satisfaction of all parties - 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 with RSPO against IOI by eleven NGOs and the Long Teran Kanan community. The process to mediate and resolve this social conflict continues till today.

When the Stage 1 verification started, there were 11 groups involved in the dispute – 7 longhouses and 4 breakaway groups. Since then the 11 groups have become 9 (due to some groups merging). IOI developed a resolution plan with input from Grassroots⁶ which was submitted to the RSPO Complaints Panel for review and endorsement. At the close of verification, 8 of the 9 groups have consented to the resolution process proposed by IOI. On 25th of February 2019, the RSPO Complaints Panel gave IOI approval to proceed with the implementation of the Stage 1 Resolution Plan (building capacity, awareness and support structures) while waiting for the final group to decide.

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.

⁶ 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.

IOI has also increased internal headcount at the HQ level and on the ground to oversee the dispute resolution, e.g. the number of staff on-site at IOI-Pelita in charge of community liaison has increased from one to two. There is now a dedicated page on IOI's website on news and updates relating to IOI-Pelita to improve external communications on the status of the grievance.

However, IOI and the stakeholders who 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. There seems to be some concern over the lack of procedures for compensation which may delay the implementation progress of the resolution plan. There also appears to be a lack of communication and coordination between the various sustainability teams and the stakeholder engagement team, and this issue needs to be resolved internally by IOI.

Making maps of all IOI plantations publicly available, subject to any legal restrictions

An interactive map showing the locations of mills and estates in Peninsular Malaysia and Sabah is available through IOI's Palm Oil Dashboard; however, these do not show the boundaries of the estates, only point markers. The Indonesian concession maps with boundaries can be viewed as a pdf by registering on the IOI website without restrictions. The planted area map of IOI-Pelita can be downloaded as a pdf as of end 2018. Concession maps are also submitted to RSPO via ACOP. Only concession boundaries of IOI's concessions in Sabah and Kalimantan are found on the GeoRSPO platform.

Launching a public reporting system (Company dashboard) to communicate traceability information, progress on resolution of outstanding complaints and updates on suppliers' engagement and verification

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 on a quarterly basis.

IOI's Grievance list is published on the IOI website and provides updates on Pelita and Ketapang as well as other cases involving 3rd party suppliers.

Transparently report on progress by IOI Group on compliance with this Policy on a quarterly basis and additionally as needed

The IOI Sustainability team updates and publishes the SIP and sustainability progress updates on a quarterly basis. The SIP is the main document 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.

The SIP also needs to be able to indicate more transparently on the changes in activities and timelines that have occurred as part of IOI's adaptive management. The SIP should also be presented in a clear and simpler manner to enable external parties to understand and track IOI's progress. Interviews with staff indicated that when the SIP was first developed, the intention was to provide as much information as possible on the efforts undertaken by IOI. The SIP was also then used both for external communication and for staff to internally track and monitor implementation. This unfortunately contributed to its current convoluted structure. These problems were already acknowledged by the sustainability team and steps are being taken to address them. In 2019, the SIP will take on a different format and will be

updated biannually instead of quarterly. The first release of the revamped SIP is scheduled for June/July 2019.

Aside from the SIP, IOI also publish an annual sustainability report which can be found on their website.

3.5 Management systems

Decentralisation and differences in operational management

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. Sustainability responsibilities are scattered across estates, regional teams, the plantations team and the central sustainability function. Due to the different reporting lines and different setups of the various teams, there is very little cohesion and consistency in how management activities are implemented. As a result, in addition to implementation challenges, data collection and management are also fragmented and inconsistent across the various departments. The fragmentation of information and responsibilities has also led to inconsistencies in data and potential data errors. This is further compounded when many of the sustainability staff are new (less than 1-2 years) and lack institutional memory.

From an operational perspective, the operating units are grouped together by regional centres. Due to the different management styles of the regional heads and a certain measure of autonomy given to the individual operating units, differences can be found in documentation systems, procedures and even worker benefits as described in some of the sections above.

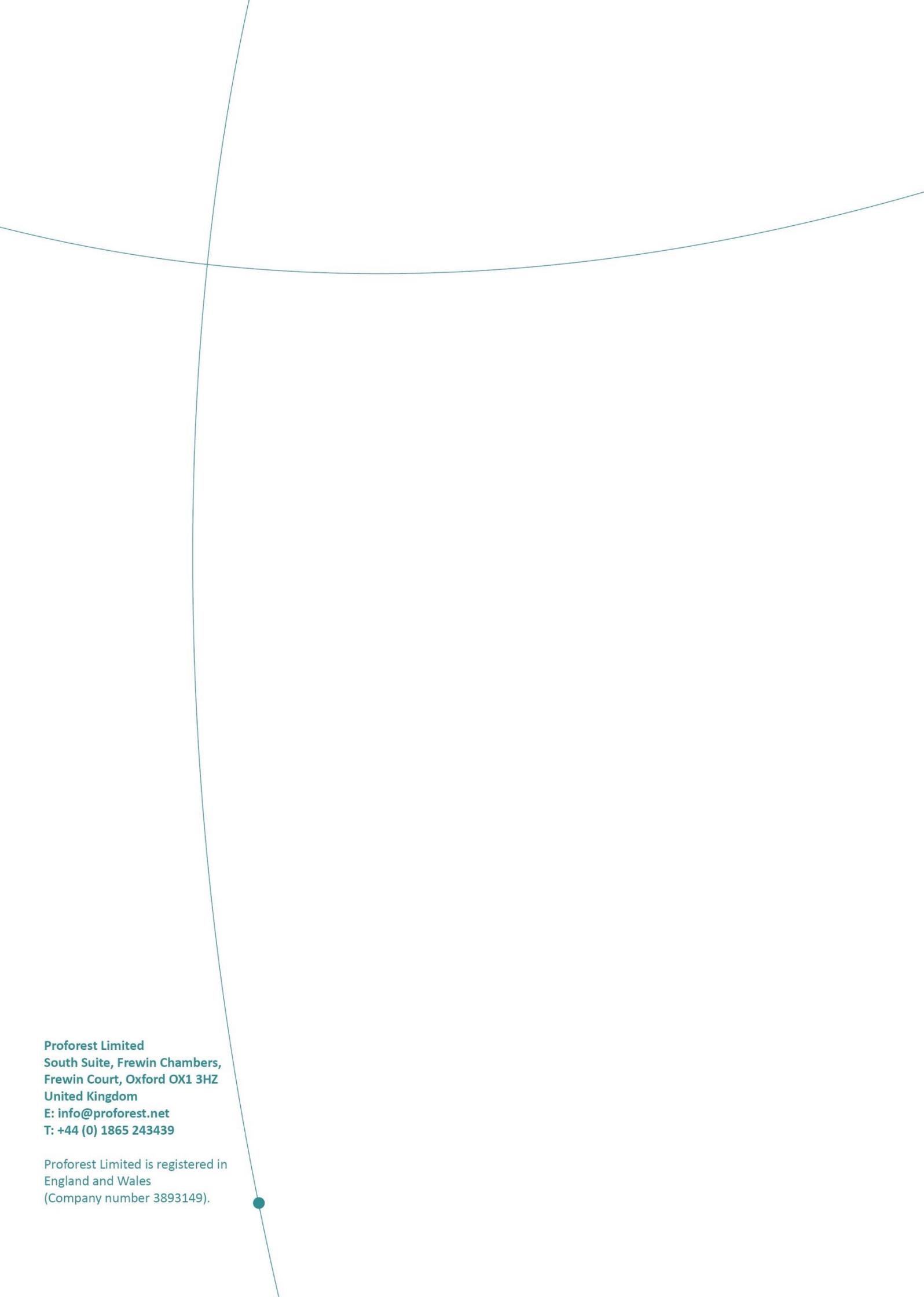
Mill and estate managers interviewed during the site assessments claimed that issues/progress are reported to the relevant regional centre, which is responsible for coordinating the various operating units in the area. Different teams work together through report-sharing as well as internal memos and circulars. Regular review meetings are held at different levels to discuss sustainability practices and operational matters. For example in Sabah, quarterly review meetings are held for the Lahad Datu region (this would be similar for the Sandakan region as well). Management review meetings involving both Sandakan and Lahad Datu management teams are held once in 6 months and are attended by the Plantation Director and other management personnel from IOI HQ. Senior management meetings are also held in the HQ office involving all the heads of operation.

All managers interviewed also claimed that they are allocated sufficient budgets specifically for implementing and monitoring activities related to labour rights.

Document management

In all estates and mills visited, it was found that document control and management can be significantly improved. In some cases, documents are not dated, not attributed to any author, designated personnel or department, and do not have revision numbers. Many documents are kept as part of documentation and reporting requirements for certification audits but do not seem to actively inform decision-making.

Staff are sometimes unable to explain missing and inconsistent information when queried. This is problematic as it is an indication that they do not understand how the data was collected and recorded. It is also a sign that many of these documents and reports are not used by staff as errors, abnormalities and missing information are not readily detected. For example, errors in records relating to accident reporting, HCV monitoring and abscondment records went unnoticed until detected during the Proforest site assessment.



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