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The Palm Oil Financing Handbook

Practical guidance on responsible financing and investing in the palm oil sector

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CONTENTS

5 **PART I: INTRODUCTION**

5 **What's this handbook about?**
7 **How to use the handbook**
8 **The palm oil production chain**
10 **Sustainability in the palm oil sector**
12 **Financial institutions and palm oil**
Who's doing what?
Reducing risks in palm oil investments and investing
13 **Sustainable banking and investing – a wider issue**

16 **PART II: DEVELOPING A RESPONSIBLE PALM OIL FINANCING AND INVESTMENT POLICY**

16 **Developing the policy and procedures**
17 **Defining the scope of the policy**
Geographic reach
Coverage of downstream operations
Application in cases of partial or indirect links to the palm oil sector
Which of your financial institution's activities are bound by the policy
19 **Differentiating your approach to upstream and downstream companies**
20 **RSPO traceability and verification systems**
21 **A model policy**
23 **Model sustainable palm oil investment policy**

26 **PART III: IMPLEMENTING THE POLICY**

26 **Screening clients seeking credit or related services**
28 **Screening steps explained**
34 **Reviewing candidate companies for non-lending activities**
36 **Reviewing steps explained**

39 **PART IV: MAKING THE POLICY MORE EFFECTIVE**

40 **Integrating the policy into your financial institution's operational procedures**
40 **Helping clients to comply with your financial institution's policy**
Assisting upstream clients
Assisting downstream clients
Encouraging downstream clients to join the RSPO
Dealing with bioenergy clients
44 **Making the policy transparent**
45 **Making the policy open to complaints and grievances**

47 **ANNEXES**

47 **Annex 1:** RSPO Principles, Criteria and major indicators
52 **Annex 2:** Quick assessment checklist – palm oil - upstream companies (producers)
53 **Annex 3:** Quick assessment checklist – palm oil - downstream companies (manufacturers, refiners, traders and buyers of products containing palm oil)
61 **Annex 4:** Model client questionnaire
58 **Annex 5:** Model set of palm oil sector sustainability covenants
62 **Annex 6:** Model template for an RSPO alignment plan for proposed new upstream production units or expansion of existing units
65 **Annex 7:** Glossary

LIST OF FIGURES AND TABLES

Figure 1: Overview of the palm oil production chain - *page 9*
Figure 2: Model screening process - *page 27*
Figure 3: Model engagement process - *page 35*

Table 1: Key sustainability impacts of palm oil production - *page 11*
Table 2: Examples of financial institutions'palm oil policies - *page 12*
Table 3: Suggested criteria for classifying investee companies - *page 36*

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PART I: INTRODUCTION

What's this handbook about?

The aim of this handbook is to:

- help financial institutions to reduce the environmental and social risks associated with transactions in the palm oil sector;
- enable more sustainable palm oil production.

The how-to guidance focuses on developing and implementing a responsible palm oil finance and investment policy. By establishing such a policy, your financial institution can confirm its commitment to sustainable palm oil production and set out its requirements for current and prospective clients or investees in the palm oil sector, including producers, processors and traders of palm oil.

This handbook will help your financial institution set up – and implement – a responsible palm oil investment policy.

A responsible palm oil policy will need to cover the full range of companies involved in the palm oil sector, including **upstream companies** (those involved in the production of crude palm oil) and **downstream companies** (those involved in the refining, trading and use of palm oil products).

The guidance provided here has benefited from the input of representatives of several financial institutions including ABN Amro Bank, Fortis, HSBC, the International Finance Corporation, ING Bank, Rabobank, and Standard Chartered, and from CIS Cooperative Insurance, as an institutional investor.

Further guidance and information is available at www.panda.org/palmoilfinancing

Who is this handbook for?

The primary target audiences for this handbook are staff of financial institutions:

- senior policy managers and sustainability specialists (who are responsible for developing a responsible palm oil policy);
- credit officers (who will be largely responsible for implementing the policy in banks);
- other "deal team" members (i.e. those who make business decisions and investment proposals within the institution); and
- fund managers and investment analysts (who will be responsible for implementing the policy for equity investments).

The handbook will also be useful for top managers, as they will need to know the key issues associated with a responsible palm oil policy. These managers can focus on the summaries provided at the end of each section.

Some sections may also be useful to other readers interested in sustainable banking, responsible investment or responsible palm oil production.

The model responsible palm oil policy proposed in this handbook is based on standards developed by the Roundtable on Sustainable Palm Oil (RSPO) - a multi-stakeholder group comprising industry, NGOs and government. The RSPO's Principles and Criteria for Sustainable Palm Oil Production (RSPO criteria) represent the most credible, transparent and robust standards in the market.

The guidance for assessing environmental and social risks in the palm oil sector takes into account the RSPO's certification system. This system involves RSPO-endorsed assessments of palm oil operations and certification of those operations that comply with the RSPO criteria. The certification system also sets rules for verifying the use of RSPO-certified palm oil in products at any point in the supply chain (from processing through refining, manufacturing to sale or end-use). Your financial institution may choose to rely on the RSPO certification systems to assess a client's or investee's environmental and social performance, or alternatively, conduct its own assessments – whether measured against the RSPO criteria or your financial institution's own policy criteria.

Your financial institution may choose to rely on the RSPO certification systems or conduct its own assessments.

If you choose to rely on the RSPO certification system, you will still need to supplement this with other procedures to:

- assess proposals to develop new mills and plantations (since a project still in development cannot be certified) and,
- cover cases where a client or investee needs time to achieve an RSPO-compliant level of performance in some or all of its operational units.

The model screening process addresses these scenarios.

Box 1: Roundtable on Sustainable Palm Oil (RSPO)

The RSPO is a non-profit organization that brings together major players along the palm oil supply chain including plantation companies, processors, traders, manufacturers, retailers, banks and investors, and non-governmental organizations (NGOs). The founding members of the RSPO in 2004 were Aarhus United UK Ltd, The Body Shop (UK), Golden Hope Plantations Bhd (Malaysia), Karlshamns AB (Sweden), Loders Croklaan (Netherlands), Malaysian Palm Oil Association, Migros Genossenschafts Bund (Switzerland), Pacific Rim Palm Oil Ltd (Singapore), Unilever NV (Netherlands) and WWF. Now with about 250 ordinary members, the RSPO estimates that its membership covers at least one-third of the global palm oil production.

In November 2005, the RSPO adopted a set of criteria for sustainable palm oil production. The 39 criteria are grouped under 8 principles, ranging from, for example, "environmental responsibility and conservation of natural resources and biodiversity" to "responsible consideration of employees and of individuals and communities affected by growers and mills". RSPO members can only claim compliance with RSPO criteria for production units that have been certified by RSPO-accredited assessors.

For more information, visit www.rspo.org

How to use the handbook

This handbook is designed to help your financial institution develop a well-crafted palm oil financing policy and make it operational. With this in mind, the handbook provides guidance on many of the necessary elements, including:

- Suggestions on the scope of the policy and the range of finance and investment services to which it will apply (see pages 17 to 19);
- A model policy that illustrates the kinds of commitments and safeguards that might need to be included (see pages 21 to 23);
- A model screening process for lending activities and supporting documents and templates (see pages 27 to 37 and Annexes 2 to 6), and
- A model screening process for use by institutional investors with guidance appropriate for their investments in the palm oil sector (see pages 34-37).

You can therefore use the handbook as a roadmap to help guide your financial institution as it develops its own responsible palm oil policy and sets up procedures for implementation.

Which bits should you read?

You do not need to read the whole handbook from cover to cover! Pick the sections that are most relevant to your area of work or interest. There is a note at the beginning of each section, suggesting which parts would be most useful for different readers. Look for the 'walking book' symbol.

A general indication of the relevance of each section is provided below.

Page	Section	Most relevant for
5	**PART I:** Introduction	All readers
16	**PART II:** Developing a responsible palm oil finance and investment policy	Senior policy managers, sustainability specialists
26	**PART III:** Implementing the policy	Credit officers, fund managers and investment analysts
39	**PART IV:** Making the policy more effective	Senior policy managers, sustainability specialists

A glossary is provided in Annex 7 for readers unfamiliar with some of the technical terms used in the handbook.

Read these two pages if you are unfamiliar with the palm oil production processes.

The palm oil production chain

The oil palm (*Elaeis guineensis* Jacq.) originates from the coastal regions of West Africa and has been grown in other parts of the world since the end of the 19th century. Its production is generally limited to latitudes of approximately ten degrees north and south of the equator, at altitudes below 700 metres and with a minimum rainfall of 1600 mm per year. Currently, around 10 million hectares are planted with oil palm worldwide, predominantly in Indonesia and Malaysia.

The oil palm produces two types of oils: palm oil from the fibrous mesocarp (flesh) and lauric oil from the palm kernel. After harvesting, the fresh fruit bunches (FFB) must be processed as soon as possible to prevent a rapid build-up of free fatty acids that could adversely affect the quality of the oil. In the conventional milling process, the bunches are sterilized and stripped of the fruitlets, which are then digested and pressed to extract the crude palm oil (CPO). The oil palm nuts are separated from fibre in the press cake and cracked to obtain palm kernels. These are then crushed in another plant to obtain crude palm kernel oil (CPKO) and a by-product, palm kernel cake (PKC), which is used as animal feed. Physical splitting or 'fractionation' of CPO and CPKO in the refinery produces the liquid olein fraction and a solid stearin component.

Palm oil and palm kernel oil have a wide range of applications. About 80 percent is used for food applications while the rest is feedstock for a number of non-food applications. Among the food uses, refined, bleached and deodorized (RBD) olein is used mainly for cooking and frying oils, shortening and margarine while RBD stearin is used for the production of shortening and margarine. RBD palm oil (i.e. unfractionated palm oil) is used for producing margarine, shortening, vegetable ghee, frying fats and ice cream. Several blends have been developed to produce solid fats with a zero content of trans-fatty acids. In the production of ice cream, milk fats are replaced by a combination of palm oil and palm kernel oil. A blend of palm oil, palm kernel oil and other fats replaces milk fat for the production of non-dairy creamers or whiteners.

Palm oil and palm kernel oil are also ingredients for the production of specialty fats, which include cocoa butter equivalents (CBE) and cocoa butter substitutes (CBS) and general purpose coating fats. CBE and CBS have physical properties that are similar to cocoa butter and are widely used for production of chocolate confectionery.

Non-food uses of palm oil and palm kernel oil are produced either directly or through the oleochemical route, which produces various types of chemical ingredients for the soap, detergent and cosmetic industries. Some of these chemicals are also used in the chemical industry for plasticizers, coatings, etc.

A recent trend is the usage of by-products of the oleochemical industry as well as crude palm oil as energy sources for electricity plants and increasingly as biofuel and biodiesel. Bioenergy companies are playing an increasingly significant role in the palm oil sector.

Figure 1: Overview of the palm oil production chain

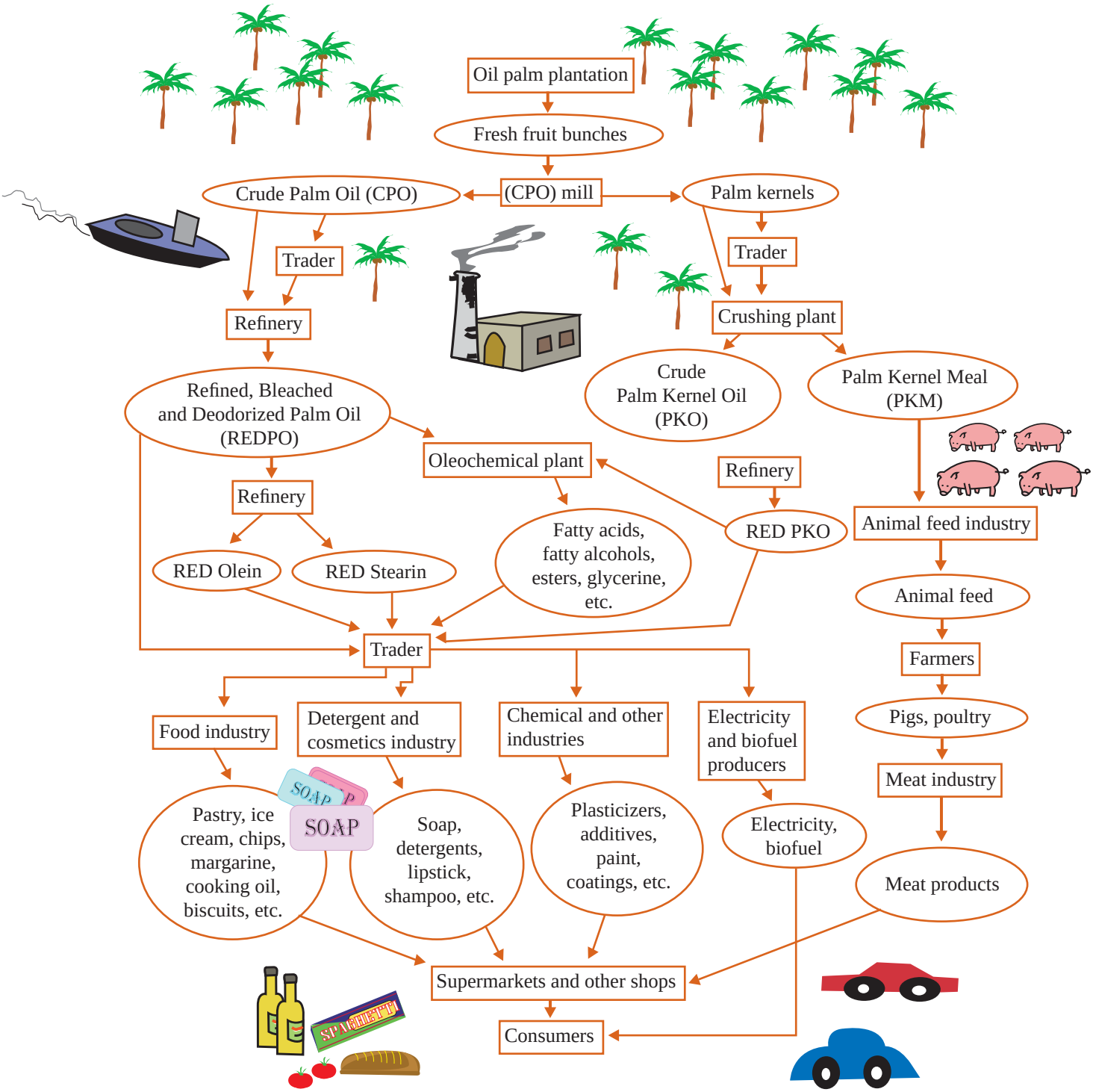

Figure 1 provides a schematic overview of the oil palm production chain. Downstream companies – traders, food companies and retail chains – often have significant buying power that gives them a strong influence over the whole supply chain. These downstream companies can therefore set conditions on the environmental and social practices of plantations and CPO mills. Companies that are vertically integrated can also play a large part in ensuring the sustainable production and processing of palm oil, since these companies own both upstream and downstream operations.

Read the rest of the Introductory section if you are looking for information on the sustainability issues involved in producing and processing palm oil or how the financial sector is addressing sustainability in general terms.

Sustainability in the palm oil sector

For more information on sustainability in the palm oil sector, see panda.org/palmoilfinancing

Global production of palm oil has doubled over the last decade to a current level of over 36 million metric tonnes per year – with Malaysia and Indonesia accounting for about 87 %. Worldwide demand for palm oil is expected to double by 2020 and new plantations are being developed or existing ones expanded in Indonesia, Malaysia and other Asian countries, as well as in Africa and Latin America.

Palm oil production is a major source of income for producer countries, and serves as an important source of nutrition for people in many developed and developing countries. Numerous oil palm plantations have shown that sustainable production methods are feasible, available and compatible with a profitable bottom line. However, bad practices in parts of the industry have caused serious impacts. The major impacts are listed below.

Social. Where the rights and interests of local communities are ignored, new plantations can create social conflicts. In some cases, failure to follow the proper land acquisition procedures, or the clearing of community land without having properly informed and consulted with local communities, has not only caused negative external impacts but has also rebounded to impact the companies involved. Such poor practices have generated disputes and land rights conflicts that have hampered the ability of the companies to expand as planned.

Ecological. In many locations, plantation developers have cleared large areas of natural forests and other ecosystems with high conservation values, to create space for plantations. Such practices result in the destruction of habitats containing rare and endangered species and an increase in human wildlife conflict as populations of large animals such as tigers, elephants and orangutans, are squeezed into increasingly isolated fragments of natural habitat. Princeton University and the Swiss Federal Institute of Technology estimate that between 1990 and 2005, 55-60% of oil palm expansion in Malaysia and Indonesia occurred at the expense of forests.

Climate. Forest conversion by plantation companies contributes to climate change, with deforestation causing around 20 per cent of all human induced greenhouse gas (GHG) emissions. The practice of draining and converting tropical peatland forests is especially damaging to climate mitigation efforts, as these "carbon sinks" store more carbon per unit area than any other ecosystem in the world. In addition, the burning of forests to clear land for plantations has been a major source of haze in Southeast Asia, posing serious health problems. In Indonesia, government authorities have commenced legal proceedings against several palm oil companies for illegal use of fire to clear land for plantation development. Burning can also have negative consequences for palm oil production, as the haze produced by the burning can reduce the productivity of oil palm trees by hindering photosynthesis, reducing the activity of pollinating weevils, and affecting the health and vision of the plantation workers, thereby restricting their ability to harvest the fruit.

Freshwater. Indiscriminate use of fertilizers and insecticides by some producers is polluting surface and groundwater sources. The primary processing of palm oil in CPO mills presents a separate set of issues, the principal one being the potential for water pollution from the direct release of mill effluent, and the effects of this pollution on downstream biodiversity and people.

Table 1 summarizes some of the sustainability issues associated with the production of palm oil.

Table 1: Key sustainability impacts of palm oil production

	Impact	Bad Practice	Best Practice
Environmental	Forest conversion	Uncontrolled – causing lowland tropical deforestation	Commitment to protect forests with High Conservation Values
	Clearance techniques	Use of fire – causing smoke haze and CO_2 emissions	Use of zero-burning techniques
	Choice of site	Planting on marginal and fragile soils – causing erosion and hydrology problems	Site selection based on assessments of soils and topography
	Soil fertility	Heavy harvest offtake – reduces fertility	Recycling of organic materials and considered use of fertilizers
	Use of pesticides and herbicides	Overuse – causing water pollution	Integrated Pest Management to reduce pesticide use and cultural techniques to reduce herbicide use
	Biodiversity	No consideration of biodiversity impacts in plantation planning and management	Plantation planning and management seeks to maintain wildlife habitats and protect endangered species
	Water management	Drainage of deep peat soils and unsustainable use of irrigation	No conversion of peat lands and sustainable water use and recycling of waste water
Social	Competing land claims	Disputes with previous land-owners/users	Focus on negotiation and conflict resolution
	Social justice	Violence, inappropriate use of police/military	Recognition of local peoples' use rights and the need to secure their free, prior and informed consent to developments that affect those rights; fair and transparent grievance procedures
	Workers' rights	Lack of regard for legal rights re. collective bargaining, health and safety etc.	Compliance with or beyond legal requirements

In contrast with the bad practices described above, palm oil produced by responsible growers needs fewer inputs and results in less pollution and soil degradation. If best practices are applied in selecting and acquiring land for new plantations, palm oil can be produced without further destruction of natural forests and associated GHG emissions or disregard for the rights and livelihoods of forest dependent peoples. Sustainable palm oil production can help to meet the world's growing demand for edible oils and generate income and employment for local rural economies in tropical regions.

Financial institutions and palm oil

Who's doing what?

In the past few years, several commercial banks have sharpened their risk assessment policies with respect to oil palm (and timber) plantations, in order to avoid undue negative environmental and social impacts of their lending and investment activities.

The main banks that have developed written statements on palm oil – either as stand-alone policies or as part of broader policy commitments – are shown in Table 2. In addition, a number of financial institutions have joined the RSPO, including ANZ Banking Group Limited, Co-operative Insurance Society, HSBC Bank Malaysia Berhad, HSBC Indonesia, the International Finance Corporation, Rabobank, Standard Chartered Bank and WestLB AG.

Table 2: Examples of financial institutions palm oil policies

Bank	Palm oil policy	Supporting documentation
ABN Amro	Part of broader Forestry and Tree Plantations Policy	www.forestandtradeasia.org/files/ABN%20Amro%20Risk%20Policies.doc
Fortis	Part of broader Agri Sustainability Policy	www.fortis.com/sustainability/media/pdf/Palm_oil_policy_public_summary.pdf
ING	Part of broader Forestry & Plantations Sector Policy	http://www.ing.com/group/showdoc.jsp?docid=306483_EN&menopt=ins%257Ccrp#P10_3557
Rabobank	Stand-alone policy on palm oil	http://www.rabobank.com/content/images/palmoilcode_rabobank_tcm43-37342.pdf
HSBC	Part of broader Forest Land and Forest Products Sector Guideline	http://www.hsbc.com/1/PA_1_1_S5/content/assets/csr/080905_forest_land_and_forest_products_sector_policy_summary.pdf
JP Morgan Chase	Part of broader Forestry and Biodiversity Policy	www.jpmorganchase.com/cm/cs?pagename=Chase/Href&urlname=jpmc/community/env/policy/forest
Bank of America	Part of broader Foresty Practices Policy	http://environment.bankofamerica.com/article.jsp?articleId=FORESTS-PRACTICES

Socially Responsible Investment is gaining increased recognition as a way to manage investment risk. Whilst some investors have developed exclusion policies for specific funds, others have engagement policies across all funds, aimed at influencing the behaviour of investee companies. Engagement policies may cover such areas as: environmental impact, labour rights, and human rights.

All these issues are relevant to the palm oil sector. One institutional investor that has been actively involved in efforts to promote sustainable palm oil production is the Co-operative Insurance Society (CIS), which is represented on the RSPO Executive Board. CIS has engaged with investee companies involved in the palm oil supply chain to encourage them to join the RSPO and to commit to buying sustainably produced palm oil. Other institutional investors looking at sustainability issues in palm oil supply chain companies include the F&C Asset Management Group, First State Investments, and CCLA Investment Management.

Reducing risks in palm oil investments and investing

Oil palm plantations and processing mills that adopt sustainable practices are less exposed to a number of risks including:

- compliance risks due to violation of regulations in producer countries;
- social risks due to conflicts with indigenous peoples, local communities, labourers and NGOs;
- market risks due to the loss of market share as more and more buyers demand sustainable palm oil; and
- reputation risks as unsustainable practices can damage their reputations.

Downstream, consumer-facing companies using palm oil are also exposed to risk due to consumer concerns about the impacts of palm oil.

Reducing these risks strengthens the commercial prospects of your client or investee and in turn reduces your financial institution's exposure to a number of risks including:

- default risks as the risks facing your client or investee might easily lead to a severely diminished capacity to service its debts; and
- reputation risks as the financing of unsustainable practices will damage your financial institution's reputation.

Clients and investee companies can increase their commercial prospects by reducing their compliance, social, market and reputation risks. This, in turn, reduces your financial institution's exposure to default and reputation risks.

Sustainable banking and investing – a wider issue

Developing and implementing a responsible palm oil policy will normally be part of a larger effort by a financial institution to adopt a sustainable approach in all its operations. There would be limited value in developing a responsible palm oil policy if your financial institution's overarching policies and procedures do not recognize environmental and social risks more broadly.

Three initiatives addressing sustainability issues within the financial sector are outlined below.

The **UNEP Finance Initiative** is a UN-led partnership with the private financial sector. It is built around voluntary statements of commitment by banks and insurance companies – the UNEP Statement by Banks on the Environment and Sustainable Development (launched in 1992) and the UNEP Statement of Environmental Commitment by the Insurance Industry (launched in 1995). Over 160 financial institutions, worldwide, have endorsed these aspirational declarations of intent.

The **Principles for Responsible Investment (PRI)** is another UN-led initiative for the investment sector. These principles, launched in 2006, are also voluntary and aspirational, providing a menu of possible actions for incorporating environmental, social, and corporate governance issues into mainstream investment practices. The PRI are open to all institutional investors, investment managers and professional service partners to support. So far, over 340 bodies have signed the principles. While the PRI do not cover palm oil specifically, the systems that signatories put in place can help facilitate development and implementation of responsible palm oil investment policies.

The **Equator Principles** is the most well known sustainable banking initiative. The principles were launched in 2003 and revised in 2006. The principles are pegged to the Performance Standards of the International Finance Corporation and provide a framework for banks to review, evaluate and mitigate or avoid negative environmental and social impacts and risks associated with projects that they finance. Some 61 banks and other financial institutions have now adopted these principles (as of August 2008). While this initiative is a welcome development, the Equator Principles refer only to the field of project finance. As project finance plays a limited role in the oil palm industry, the principles are less relevant for this sector. However, many of the financial institutions that have adopted the principles have used the IFC Performance standards as a basis for broader environmental and social risk management across a range of financial products.

Key points from Part I

- Your financial institution's responsible palm oil policy will need to cover both upstream companies (those involved in the production of crude palm oil) and downstream companies (those involved in the refining, trading and use of palm oil products).
- Your financial institution can use the Roundtable on Sustainable Palm Oil (RSPO) certification systems and company progress reports to assess a client's or investee's performance on sustainability issues. However, your financial institution will need to develop its own assessment systems for planned new upstream projects, and upstream operations not yet performing to the standard required for RSPO certification.
- Downstream companies, as well as vertically integrated palm oil companies, have a strong influence on the entire supply chain and so can play a key role in encouraging sustainable production and processing methods.
- Numerous oil palm plantations have shown that sustainable production methods are feasible, available and compatible with a profitable bottom line. However, bad practices in parts of the industry have caused serious ecological, social, climate and freshwater impacts. Such impacts pose material risks to producers and financial institutions.
- By developing and implementing a responsible palm oil policy, your financial institution will not only support the shift to sustainable palm oil production and processing, but will also reduce its reputation and default risks of investing in this sector.

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PART II: DEVELOPING A RESPONSIBLE PALM OIL FINANCING AND INVESTMENT POLICY

We suggest that you read all of Part II if you are charged with developing or reviewing your financial institution's responsible palm oil policy. Other readers need only read the key points summary at the end of Part II.

Developing the policy and procedures

This part of the handbook presents a model example of a responsible palm oil policy, which you can use as the basis for developing or reviewing your financial institution's own policy. This part also outlines the process involved in developing the policy and the essential elements that need to be included.

This handbook uses the RSPO definition of sustainable palm oil production: "Sustainable palm oil production is comprised of legal, economically viable, environmentally appropriate and socially beneficial management and operations."

One way to go about developing your financial institution's policy is to establish a working group to consult widely on the appropriate parameters of the policy and to develop a draft policy for consideration by the board of directors. Financial institutions that have developed palm oil or similar policies have found it useful if this working group comprises:

- senior management;
- those units responsible for developing operational procedures;
- business teams with responsibilities for palm oil sector transactions;
- the legal department, and
- any units dealing with environmental or social issues.

Additionally, it may be useful to have external inputs from clients, NGOs and others.

The working group could first set out to learn from the experiences of other financial institutions in developing responsible palm oil policies. The working group can draw on this handbook and the experience and resources of the Roundtable on Sustainable Palm Oil (RSPO).

Your working group will need to:

1. Draw up the policy. The document should clearly state the environmental and social conditions your financial institution places on its investments in and financial services to the sector. These conditions could be based on the RSPO criteria. The policy needs to be consistent with other policies of your financial institution.

2. Develop a set of procedures for implementing the policy that are integrated with existing operating procedures for each business area of your financial institution. The procedures should cover how your financial institution will screen companies, how it will work with companies that have not or cannot achieve compliance, and how it will communicate the policy to clients, prospects, investees and other stakeholders. See Part III of the handbook for detailed guidance on such procedures.

3. Manage the internal roll-out of the policy and procedures. This will involve training staff (for example credit risk officers, asset managers) who will be directly involved in screening companies against the policy. The working group should also create feedback mechanisms that will assist them to refine the procedures to make them more effective. For example, as experience is gained, the procedures should be adapted to integrate better with other processes in your financial institution or to give additional guidance where needed to make them more user-friendly.

4. Manage communication with external stakeholders. This will involve outreach activities and the development of written materials (for example guidance notes and leaflets) to explain the policy to clients and other palm oil companies that are likely to apply for financing. Ideally, your financial institution will make this information available in an information pack containing clear explanations of all the policy requirements and procedures, key changes to your financial institution's previous financing conditions and procedures, and information on where companies can get technical support to address the sustainability requirements in the policy. Your financial institution will also need to communicate its policy to other external stakeholders and its shareholders via its website, brochures, corporate social responsibility reports, conference presentations etc. As appropriate, your financial institution can translate the policy and related materials into languages understood by local stakeholders.

5. Set up a monitoring and reporting system. Your financial institution will need to monitor its financing and investment operations to ensure the policy is applied universally across all transactions falling within its scope. Stakeholders will also expect your financial institution to report its performance in implementing the policy. The reporting mechanisms will be similar to those mentioned above for communicating with external shareholders.

Defining the scope of the policy

In developing your financial institution's responsible palm oil policy, you will need to clearly define its scope in terms of:

- geographic reach;
- coverage of downstream operations;
- application in cases of partial or indirect links to the palm oil sector; and
- which of your financial institution's activities are bound by the policy.

Geographic reach

To be meaningful and credible, the policy should apply to all of your financial institution's activities in the palm oil production chain, irrespective of geographical location. The cultivation of palm oil is limited to the tropical areas of Asia, Africa and South America, with Malaysia and Indonesia accounting for nearly 90 percent of global output at present. Much smaller, but still significant and potentially increasing, producers are Colombia, Costa Rica, Ecuador, Honduras, Ivory Coast, Papua New Guinea, Nigeria and Thailand.

Refining, trading and manufacturing companies all over the world can be involved in the palm oil production chain. Also, companies listed in one location will often have operations or source materials from other regions. It is therefore important to make your policy globally applicable.

Coverage of downstream operations

The policy should apply to both upstream companies (i.e. those directly involved in growing oil palm and primary processing to produce crude palm oil) and downstream companies (i.e. those involved in refining palm oil or trading, manufacturing or using products containing palm oil). However, the requirements for upstream production units will need to be different from those applicable to operations downstream in the supply chain – this is explained on pages 19 to 20.

Application in cases of partial or indirect links to the palm oil sector

The application of your financial institution's policy to clients or investees only partly, or indirectly involved in the palm oil sector should depend on the materiality of risk. A client's business may only include a small proportion of exposure to the palm oil sector, yet that exposure may still create material risks for your financial institution and the client.

Your policy will thus need to acknowledge the different degrees to which clients or investees can participate in the palm oil sector. Where funds are to be used for a known purpose, directly linked to palm oil (for example lending to a specific mill or plantation, or investment in a single new greenfield project), the approach will be different to circumstances where the funding is not directly tied to palm oil projects or operations (for example general corporate financing, or letters of credit).

How important does oil palm need to be for a company, before that company is included in the scope of your responsible palm oil policy? In answering this question, your financial institution will need to balance the merits of certainty in the policy (for example through use of a percentage-based threshold) with the need for flexibility to cover many different risk scenarios (for example a client mining company might own a single plantation that is a minor item in the client's overall asset base, yet exposes your financial institution to reputation risk because the plantation is highly controversial). Your policy may be more effective if its applicability in cases of marginal connection to palm oil production is not based on an arbitrary threshold but rather on preliminary, case-by-case assessment of the materiality of risk. Linked to this, you may also wish to create discretion in your policy to treat a corporate conglomerate as a single unit for screening purposes, where the group operates as a single business and/or the outside world perceives it as a single entity. To limit its reputation risks in these circumstances, your financial institution may wish to assess the sustainability of the palm oil activities of the wider group, rather than restrict the assessment to the activities of the single subsidiary that has applied for the finance.

Which of your financial institution's activities are bound by the policy

The policy will need to state clearly how it applies to the range of financial services that your financial institution offers to companies in the palm oil production chain, and investments in such companies. These financial services and investments may include:

- commercial banking services, such as loans, project finance, credit facilities, advisory services and trade finance;
- investment banking services, including mergers and acquisitions advisory services and the underwriting and managing of share and bond issuances;
- asset management services involving investments in the stocks of companies in the palm oil production chain, whether on your own account or on behalf of assets under management; and
- trust banking services, including the management of offshore trust activities.

The policy will also need to set out how it applies to new financing applications and investments as well as existing contracts and assets. For example, the policy could apply to new loan applications during the due diligence and approval procedures, and to existing contracts as they come up for renegotiation or a major review. If your financial institution wants to accelerate the process, it could offer incentives to clients to align voluntarily with the policy at the time of the next semi-annual and/or annual review.

Differentiating your approach to upstream and downstream companies

A comprehensive sustainable palm oil investment policy should cover both upstream and downstream elements of the palm oil production chain. However, the policy would need to include separate requirements for each.

Upstream companies are those involved in:

- growing oil palm (plantations, cooperatives, smallholders and others); and/or
- primary processing of the oil palm fruit into crude palm oil (CPO) mills.

After harvesting, oil palm fruits have to be processed within 24 hours to avoid the rapid build-up of free fatty acids. This means that CPO mills are usually located on or near plantations, are often owned by plantation companies and are generally developed in tandem with plantations. In addition, a large share of the bank loans that plantation companies attract is used for constructing CPO mills. So, for the purposes of this handbook, plantations and CPO mills are considered together as one operational group. This mirrors the RSPO criteria, which are directed at the practices of CPO mills and plantations, with the unit of certification being a mill and its plantation supply base.

Your financial institution can play an important role in ensuring a sustainable palm oil supply chain, by encouraging its downstream clients and investees to adopt a responsible purchasing policy.

Downstream companies are those involved in one or more of the following activities:

- national or international trading of palm oil products (including oleochemicals and biofuels);
- crushing palm kernels;
- refining palm oil and/or palm kernel oil;
- use of palm oil in the production of:
    - oleochemicals;
    - food, especially cooking oil, salad oil, mayonnaise, sauces, margarine, frying fat, shortenings, potato chips, crisps, instant noodles, snacks, biscuits, bread, cakes, pastry, chocolate, confectionaries, ice cream, coffee whitener;
    - soaps, detergents and cosmetics;
    - biofuel and biodiesel;
    - electricity and;
- trading or retailing products containing palm oil.

Downstream companies are exposed to market and reputation risks if they allow ‘unsustainable’ palm oil to enter their supply chains. These companies can mitigate these risks by preferential sourcing of RSPO-certified palm oil and stimulating their suppliers to operate sustainably.

The palm oil market is in many respects a ‘buyers market’ and buyers can exert considerable influence over plantations and CPO mills – especially if your financial institution encourages them to do so.

Applying a responsible palm oil policy to these downstream companies entails assessing their purchasing policies and the extent to which they encourage their suppliers to operate in an environmentally and socially responsible manner.

In general, your financial institution's ability to influence the palm oil procurement practices of a downstream company will depend on the significance of palm oil to the company's overall operations, your exposure to the company and your policy framework. Broadly speaking, it is not realistic to make the financing of retailers contingent on their having a responsible procurement policy for one commodity (in this case, palm oil). A possible exception is the financing of retailers that produce and label their own brand products and would therefore be included on the above list in their capacity as manufacturers. One of the founding members of the RSPO is Migros, a Swiss retailer that pioneered the responsible sourcing of palm oil (from Ghana) for its own brand margarine.

Your financial institution will therefore need to determine if and how it can apply its policy to the financing of large multi-product downstream companies. One approach could be to develop a broader policy that requires clients to assess the environmental and social impacts of their products, and to put in place measures to improve sustainability where significant risks are evident. In this way, a range of broader issues (fisheries, timber products etc.) can be addressed. Some external stakeholders will expect you to apply your policy to all companies, so it may be important to develop a clear argumentation for each category of company exempted from your policy.

For its asset management operations, your financial institution may also wish to apply an engagement policy that feeds into company valuations, rather than a purely divestment or exclusion approach. See page 34-37 for details.

RSPO traceability and verification systems

The RSPO recognises four approaches to ensuring the traceability of RSPO-certified palm oil in the market. These approaches are:

Full segregation. This involves keeping material from RSPO-certified plantations separate from material from non-RSPO plantations at every stage of production, processing, refining and manufacturing along the supply chain.

Identity preserved. This involves a supply chain that assures that the RSPO-certified sustainable palm oil, and its derivatives delivered to the end user, is uniquely identifiable to a specific mill and its supply base and is kept physically isolated from all other oil palm sources throughout the supply chain (including other segregated RSPO-certified sources). The oil is then traceable from the estate/plantation where the fresh fruit bunches are harvested through to the end user.

Mass balance. This does not involve segregating RSPO and non-RSPO material but instead is based on ensuring that the total quantity of RSPO product at any stage in the supply chain is proportional to the quantity of RSPO raw material used. Thus, if half of the raw material used by a refinery is RSPO-certified, half of the refinery's production can be counted as RSPO material. In this approach, the amount of RSPO material reaching the end user reflects the amount of palm oil produced by RSPO-certified plantations. However, no direct physical link is maintained between the plantations and the final product. RSPO-certified material in end products may, in fact, have come from any source.

Book and Claim. In this approach, instead of trying to trace RSPO material through the supply chain from plantation to end-user, the 'RSPO' element of the oil is traded separately from the oil itself. This is done by issuing a tradable certificate to RSPO-certified producers, which they can then sell to downstream palm oil users wanting to claim that they support sustainable palm oil production. The actual oil enters the normal supply chain and is traded without any claim attached.

The RSPO requires that any tracing mechanism based on one of the above approaches must be supported by a rigorous verification system (including a verification standard, accreditation requirements and verification process requirements). As increasing volumes of certified palm oil enter the market, your financial institution will be able to rely on the RSPO-endorsed traceability mechanisms and verification systems to corroborate a company's claims related to its progress in sourcing RSPO-certified palm oil.

A model policy

Box 2 on page 23 sets out a model policy, based on the RSPO principles and criteria.

In developing your responsible palm oil policy, you can adapt this model to fit the characteristics of your financial institution's business and its exposure to the palm oil sector. If you already have a policy that covers palm oil, this model can serve as a reference point when the policy next comes under review.

The model is presented in relatively concise form to make it more amenable for use in external communications. It assumes that a supplementary set of procedural documents will detail how the policy applies in practice. Your financial institution will need to develop its own set of documented procedures to support implementation of its policy. For asset management, it may be necessary to define an engagement process that would precede divestment.

The model policy sets out clear and unambiguous commitments and requirements. For many financial institutions, establishing a policy along these lines would entail a major departure from their current practices and would require a rethinking of their role and the requirements they place on their palm oil clients or their engagement of companies within their investment portfolio.

Part III of this handbook provides practical guidance on integrating the policy into existing procedures. In addition, model tools for use in implementing the policy are presented in Annexes 2 to 6. The guidance and tools would need to be adapted to fit the policy adopted by your financial institution.

Financial institutions that have already adopted palm oil policies have found that these policies often result in stronger relationships with their clients and investees.

A strong policy should benefit your financial institution's clients and investees, by providing a clear set of sustainability benchmarks. Achieving these benchmarks should ultimately make their businesses more sustainable. Potential benefits to clients and investees include:

- increased or maintained access to markets;
- better supply chain fidelity and stronger relations with the value chain;
- faster and cheaper access to capital;
- reduced risk of loss of social licence to operate;
- better relations with NGOs and reduced brand and reputation damage; and
- better and more cost effective production through introduction of better practices required to achieve compliance with RSPO criteria.

As many clients in the palm oil sector will increasingly feel the need to operate more sustainably (partly because of pressure from external stakeholders), your financial institution's knowledge and advice on these issues might well be appreciated. The experiences of banks that have already adopted palm oil policies is that these policies often result in stronger relationships with their clients, for the benefit of both parties. A better understanding of how a client or investee company manages environmental and social risks will also enhance your financial institution's ability to assess accurately the risk profile of that company.

The model policy accommodates stepwise progress to sustainability across the full range of a company's activities. This flexibility will allow companies time to make the necessary changes to their production, processing and procurement practices with respect to palm oil. This aspect is important and reflects:

- the nascent market for RSPO-certified palm oil;
- the challenges some producers will face in achieving RSPO-compliant performance levels and in remedying flawed historical land clearing or land acquisition practices that would otherwise disqualify them from RSPO certification; and
- the varying levels of influence your financial institution will be able to exert depending on the nature of its relationship with the company.

The model policy recognizes the need to allow "full compliance over time", rather than strictly declining potential deals with companies on grounds that their production units are not all RSPO-certified, or because their supply chains are not yet completely free of palm oil from unsustainable sources. A company's progress towards better performance will often depend on its ability to make the investments needed to transform its operating practices. Your financial institution could support such transformation by financing a company as its mills and plantations progress towards full compliance with the RSPO criteria. However in doing so you should be mindful of the potential reputation risks that your financial institution may face, and the assurance that you can rely on (in terms of capacity and commitment) from your client.

The model policy does not expressly prioritize the most critical screening criteria. However, the policy achieves this indirectly by aligning with the RSPO's certification system. The RSPO has identified "major indicators" that cover a critical subset of the full RSPO criteria (see Annex 1). In most cases, if a production unit fails to satisfy a major indicator, it will be ineligible for RSPO certification. In developing its palm oil policy, your financial institution can choose to use the RSPO certification sytem or to develop its own screening framework with the same or different priority criteria. Either way, choosing a limited number of such 'deal-breaker' criteria makes for a pragmatic screening process. It gives an assurance that companies have achieved a minimum threshold, while allowing some flexibility to address the full RSPO criteria within an appropriate timeframe. For asset management, an extended process of engagement may be more appropriate, concluding with potential divestment for companies that present the highest risk due to their failure to address such criteria.

The model policy does not expressly refer to reduction of GHG emissions associated with palm oil plantations and mills. However, the reference to "responsible development of new plantings" mirrors RSPO principle 7, which addresses the GHG issue indirectly. RSPO criterion 7.3 bars the conversion of primary forests and high conversation value habitats for the purpose of establishing palm oil plantations. By prohibiting the clearing of such habitats, the RSPO principles seek to sever the link between palm oil production and deforestation and associated burning, the major source of GHG emission potential from the palm oil sector. The RSPO intends to develop measures to deal more directly with GHG emissions. In November 2007, the RSPO General Assembly called for a working group to be set up to review all issues relating to Greenhouse Gas emissions, and possible amendments needed to the RSPO Principles and Criteria to address this issue.

Box 2: Model sustainable palm oil investment policy

Statement of commitment
XYZ will ensure that its investments in, and financial services to, the palm oil sector are adequately screened and monitored to fund only those growers, millers and downstream palm oil users that are committed to minimizing and mitigating environmental and social risks associated with palm oil production and processing.

Scope of the policy
XYZ will apply this policy to all its services to, and investments in, the palm oil sector worldwide. For the purposes of this policy, the palm oil sector includes:

- upstream production units (crude palm oil mills and the plantations that supply them, including contract growers and other smallholders); and
- downstream users (refiners, manufacturers, traders and industrial users of products containing palm oil).

The policy applies to all financial services provided by XYZ (including commercial banking, investment banking, asset management and trust banking) and all investments made by XYZ. The policy will be applied to financing agreements and investments that predate this policy upon their renewal or as they become due for major review.

XYZ shall exercise discretion in deciding whether to apply this policy to: (a) transactions that only have an indirect connection to palm oil production and trade; or (b) the provision of financial services to, or investment in, a company that has only marginal involvement in the palm oil sector. XYZ will make such decisions on a case-by-case basis after assessing the materiality of risk to XYZ.

When financing or investing in a legal entity that is part of a larger corporate group, XYZ may elect to make such investment conditional upon related legal entities agreeing to comply with this policy.

Conditions on investment in the palm oil sector
Companies with upstream palm oil production units must commit to achieving compliance with the criteria of the Roundtable on Sustainable Palm Oil (RSPO), which address the following 8 principles:

1. Commitment to transparency
2. Compliance with applicable laws and regulations
3. Commitment to long-term economic and financial viability
4. Use of appropriate best practices by growers and millers
5. Environmental responsibility and conservation of natural resources
6. Responsible consideration of employees and of individuals and communities affected by growers and mills
7. Responsible development of new plantings
8. Commitment to continuous improvement in key areas of activity

A company will be required to demonstrate this commitment for each of its upstream production units by attaining RSPO certification of the unit or by committing to a time-bound, stepwise plan to achieve RSPO certification of the unit.

A company will be required to plan and develop any new production unit, or any significant expansion of the plantation area or mill capacity of an existing production unit, in a manner consistent with RSPO criteria and achieve RSPO certification within an agreed time period soon after the new or expanded production unit becomes operational.

A company with downstream operations will be required to commit to progressively increasing the volume of palm oil entering its supply chains that is sourced from RSPO-certified production units as a proportion of the total volume of palm oil entering its supply chains.

Transparency
XYZ will ensure transparency in the application of this policy and will provide its clients and prospects with clear information about its requirements and procedures. It will also publicly report on its performance in implementing this policy.

Through joining the RSPO, XYZ will stay abreast of developments in the sector and report annually on its progress in implementing this policy.

Key points from Part II

- Sustainable palm oil production entails legal, economically viable, environmentally appropriate and socially beneficial management and operations.

- In developing your financial institution's responsible palm oil policy, it may be useful to set up a working group to consult widely on the appropriate parameters of the policy and to develop a draft policy for consideration by the board of directors. The working group might include representatives from senior management, business units associated with palm oil sector transactions, those units responsible for developing operational procedures, asset managers, and any units dealing with environmental or social issues. External advice and input (from clients, NGOs and others) may also be useful in framing the policy.

- The steps involved in establishing a responsible palm oil policy should include: (1) drawing up the policy; (2) developing a set of procedures for implementing the policy; (3) managing the internal roll-out of the policy and procedures; (4) managing communication with external stakeholders; and (5) setting up a monitoring and reporting system.

- The scope of the policy will need to be defined, including which of your financial institution's activities are bound by the policy.

- Your financial institution will need to consider how its policy will apply to transactions with a limited connection to palm oil production, or to companies with marginal involvement in the palm oil sector. One approach is to decide this case-by-case, based on a preliminary assessment of the materiality of risk.

- Downstream companies are exposed to market and reputation risks if they allow 'unsustainable' palm oil to enter their supply chains. These companies can mitigate these risks by preferential sourcing of RSPO-certified palm oil and stimulating their suppliers to operate sustainably. Your financial institution can play an important role in encouraging its downstream clients and investees to adopt responsible purchasing policies. However, your financial institution's ability to influence the palm oil procurement practices of a downstream company will depend on the significance of palm oil to the company's overall operations, your financial institution's exposure to the company and the strength of your financial institution's policy on palm oil and screening procedures.

- A strong policy should benefit your financial institution's clients and investee companies, by providing a clear set of sustainability benchmarks. If achieved, these will bring benefits such as market access, supply chain fidelity, access to capital, a social licence to operate, reduced risk of brand and reputation damage, and greater efficiency due to introduction of better management practices required to achieve compliance with RSPO criteria.

- Financial institutions that have adopted palm oil policies have found that these policies often result in stronger relationships with their clients or investees, for the benefit of both parties.

- The model policy recognizes the need to allow "full compliance over time" with RSPO criteria and responsible procurement, and the role a financial institution can play in providing funding for a company need to transform its operating practices.

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PART III: IMPLEMENTING THE POLICY

We suggest you read all of Part III if you are responsible for implementing your financial institution's responsible palm oil policy, or charged with designing or reviewing the implementation procedures. Other readers need only read the key points summary at the end of Part III.

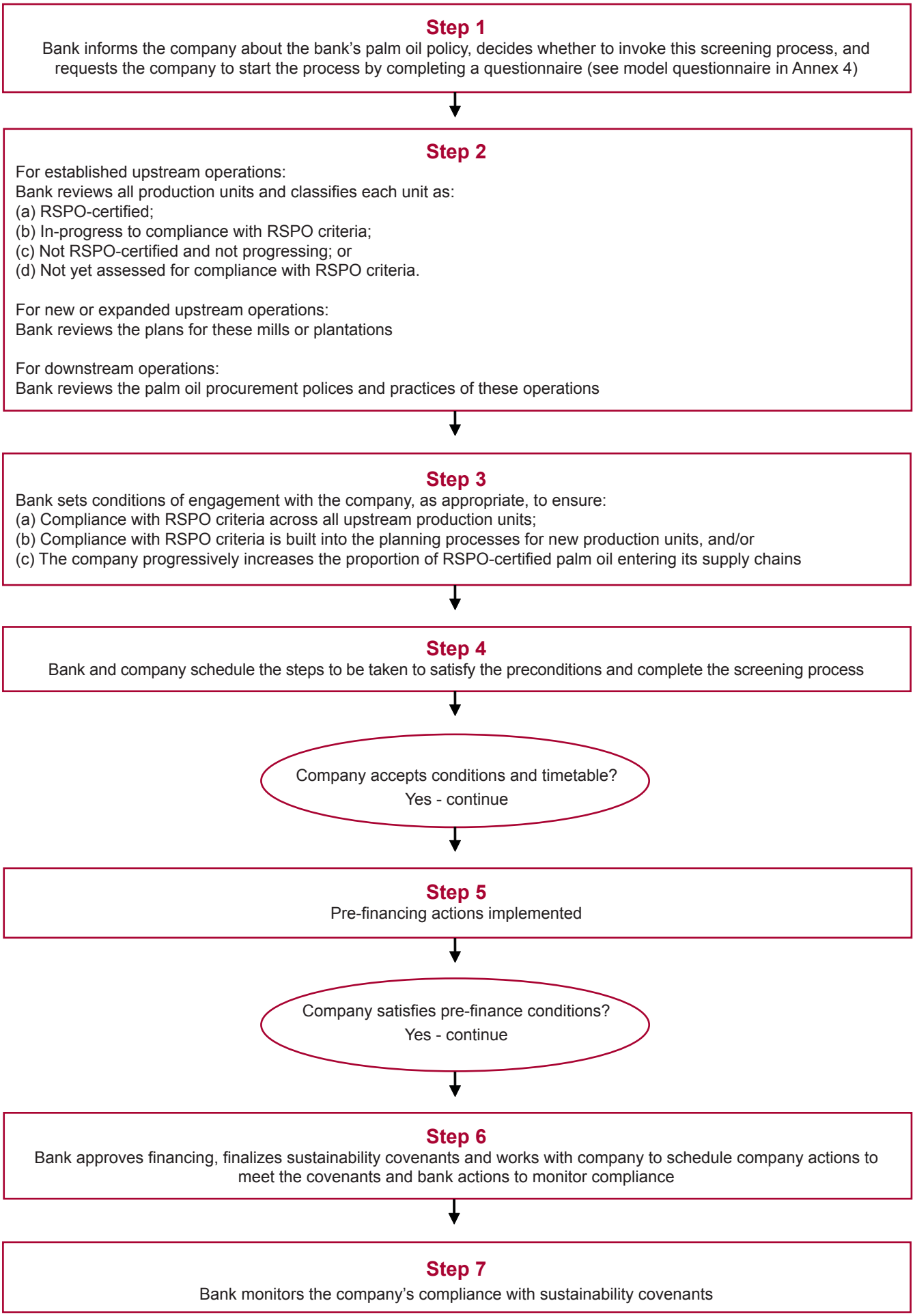
This part of the handbook provides guidance on how you can put your financial institution's responsible palm oil policy into practice. It outlines the steps involved in implementing the model policy. It also suggests several ways to assist clients and investees meet the policy requirements in an efficient and cost-effective manner. Importantly, the part also identifies ways in which your financial institution can provide value added services to a client or investee that will help it address environmental and social issues and turn them to business advantage.

The two sets of steps described below constitute possible approaches to implementation, firstly for banks' lending activities and secondly for banks' and other financial institutions' investment activities. These steps can be modified as needed to fit your financial institution's circumstances. If your financial institution already has well-developed procedures for the implementation of its palm oil policy, the narrative on the steps and supporting tools may provide some pointers that you can use to strengthen or review those procedures.

Screening clients seeking credit or related services

This section of the handbook describes a process for screening clients seeking credit (or prospective clients) for compliance with the model palm oil policy on page 23. The process is outlined in Figure 2 and in the detailed step-by-step narrative on the following pages. Importantly, your bank should undertake such a review process concurrently and jointly with the assessment of the financial viability of the company.

Figure 2: Model screening process - credit services



Screening steps explained

Step 1 Bank informs the company about the bank's responsible palm oil policy, decides whether to invoke this screening process, and requests the company to start the process by completing a questionnaire

To begin the process, the bank would need to inform the client or applicant company about its responsible palm oil policy and the conditions it sets on financing in the palm oil sector. Ideally, the bank will have a pre-application information pack that explains the review process to clients and sets out opportunities and responsibilities within that process.

Ideally, the bank's "deal teams" will be aware that the bank has a responsible palm oil policy, and will make queries at a very early stage to begin assessing the prospective client's level of commitment and capacity on sustainability issues. Simple checklists to guide such preliminary queries are included in the annexes to this handbook. Annex 1 contains a checklist for upstream companies (i.e. producers), and Annex 2 contains a checklist for downstream companies (manufacturers, refiners, traders and buyers of products containing palm oil). When dealing with vertically integrated companies, or companies with mills that source fresh fruit bunches from third-party plantations, both checklists will be applicable.

If the company, or the proposed form of finance, has a marginal or indirect connection to the palm oil sector, the bank will need to decide whether the company should go through the screening process described below. The bank can base this decision on a preliminary assessment of the materiality of risk posed by the company's links to the palm oil sector (whether through a separate business unit, affiliated entity, or procurement of products containing palm oil). This will involve some basic enquiries to establish the degree to which the company and its close affiliates, are involved in palm oil production or rely on palm oil as a raw material in the products they trade or manufacture. If the company has a connection to a specific plantation, the bank could do some basic internet research or check with NGOs and industry contacts, to find out if the plantation is linked to any controversy. If the bank assesses palm oil related risk as negligible, it can elect not to invoke the palm oil sustainability screening process. the bank could reverse this decision at a later point if information gathered during the standard credit risk assessment reveals a material environmental or social risk related to palm oil.

The company's first task will be to complete a questionnaire that will provide the basic information that the bank needs in order to do an initial screening of the company against the palm oil policy (see model questionnaire in Annex 4). The information and documentation that the company will need to provide includes:

- the company's policies on environmental and social sustainability generally, and with respect to the palm oil sector. This will include relevant certification reports (for example ISO 14001);
- an inventory and map of all palm oil production units (plantations and CPO mills) owned by the company, details of acquisition (date, former use, legal title etc) and the status of each in terms of RSPO certification;
- details of any proposed acquisitions of palm oil production units currently owned by other companies;
- details of any plans to establish new palm oil production units or to expand existing ones;
- details of acquisition (date, former use, legal title etc) and the status of each in terms of RSPO certification;
- details of any proposed acquisitions of palm oil production units currently owned by other companies;
- details of third-party suppliers of palm oil that will be processed or used by the company; and
- details of the palm oil procurement policies and practices of any downstream operations.

Step 2 Initial review

For established upstream operations: Bank reviews the information on upstream palm oil production units of the company and classifies the RSPO criteria compliance and verification status of each unit

In this step, the bank will need to review the documentation provided by the company to identify all of its existing mills and plantations, third-party sources of CPO, and where relevant, any plans to acquire additional mills and plantations. The bank will need to make a preliminary classification of the status of RSPO criteria compliance and verification for each production unit identified. This is a 'desk-top' exercise to identify the certification status of each production unit. At this point it would also be prudent for the bank to check, via internet research, if the company is involved in any controversial projects or is on the receiving end of any NGO campaigns.

This step should not require the bank to commission any field assessments of the production units as it will rely on RSPO certificates to verify which units are certified, and reports of independent assessors to verify which units are in progress to certification.

Suggested categories for this initial classification are:

(a) RSPO-certified

This classification covers production units that are certified as compliant with RSPO criteria. The RSPO certification system involves audits by accredited certification bodies of the practices within a given production unit (for example, a single CPO mill and the plantations that supply it). The bank can rely on these RSPO certification audits and records to verify whether a given production unit is operating in compliance with RSPO criteria. An RSPO-certified production unit would clearly satisfy the model policy set out on page 23.

The RSPO has defined generic international indicators for each of its criteria and has also approved several national interpretations of these criteria. When a national interpretation is finalized and approved for a given country, it replaces the international criteria in that country. Until then, the international criteria and indicators apply.

The RSPO has defined a sub-set of the international indicators as 'major'. These indicators automatically trigger 'Major Non-conformities' when not complied with. In most cases, a production unit's failure to satisfy a major indicator will make it ineligible for RSPO certification.

The RSPO's principles, criteria and major indicators are set out in Annex 1.

(b) In progress to compliance with RSPO criteria

This classification refers to a production unit that is making stepwise progress towards compliance with the RSPO criteria. To qualify for this qualification, the unit's management practices would need to have undergone a baseline assessment against the RSPO criteria to identify areas of non-compliance ('gaps'). The managing company would also need to have committed to implementing a time-bound action plan that sets out how and when the production unit will achieve compliance with RSPO criteria (to close the gaps) in a stepwise manner.

To reduce the burden of verifying that a unit is truly 'on-track' to RSPO certification, the bank could require the company to use RSPO-accredited certifiers or other suitably qualified assessors to conduct the baseline gap assessment and periodic (for example yearly) reviews of progress in implementing the action plan.

A production unit falling into this category would satisfy the model policy set out on page 23. The policy enables the bank to finance companies that have yet to achieve RSPO-compliant levels of performance across all their production units, so long as the company is prepared to make the necessary changes to its production and processing practices within an agreed time scale. The bank can work with such companies to help them improve their performance, rather than simply rejecting their applications. By supporting companies that are willing to make stepwise progress towards sustainability, the bank is

likely to make a larger net contribution to sustainability in the palm oil sector than it would by refusing to engage with such companies. Rejection obviously constrains bank lending opportunities and may limit the incentives for such companies to reform their practices, by forcing them to seek finance from banks or other investors that do not apply sustainability safeguards or support their clients to improve their environmental and social practices.

Clearly, there is a potential reputation risk to the bank in financing a company with uncertified production units. However, the bank can cite the company's commitment to make stepwise progress to certification to counter any criticism of such financing. The bank can also discontinue the relationship if the company fails to implement this commitment (see conditions of engagement under step 3 on next page).

(c) Not RSPO-certified and not progressing
This classification refers to a production unit assessed as having poor prospects of achieving compliance with RSPO criteria.

A production unit falling in this category would not satisfy the model policy set out on page 23.

The company would not be eligible to receive financial services from the bank unless it first undertook serious action to improve the sustainability of its activities in this production unit. If the unit was flawed by historical bad practice (for example unfair land acquisition processes, or conversion of high conservation value forests), the unit could be disqualified from achieving certification, no matter what improvements are made to current management practices. In some circumstances, it may be possible for a company to remedy historical actions that would otherwise preclude RSPO certification (for example by returning land to communities whose rights were disregarded).

(d) Not yet assessed for compliance with RSPO criteria
This classification refers to a production unit that has not yet undergone any formal assessment of compliance with RSPO criteria.

A production unit falling in this category would need to be assessed before any judgment can be made on whether it satisfies the model policy. This will likely require field work and interviews with company staff, which may best be undertaken by competent third-party consultants.

For new or expanded upstream operations: Bank reviews the plans for these mills or plantations

In this step, the bank will need to review the documentation provided by the company regarding any plans to establish new mills and plantations, including any significant expansion of plantation area or mill capacity in existing production units, and any assumptions on the sourcing of palm oil from third parties (for example plasma programs in Indonesia).

This initial review step will involve the following:

- identifying all production units to be established or expanded by the company during the financing term, including any proposed third-party CPO sources;
- clarifying the development timetable for each unit (for example identifying the expected timing of key stages such as preliminary planning, land acquisition, environmental and social impact assessments (ESIA), land and soil surveys, nursery establishment, land preparation, planting and mill construction);
- conducting a preliminary review of the company's commitment and capacity to ensure RSPO criteria are achieved, particularly in the ESIA and the land acquisition and preparation processes;
- informal (internet) search of company performance etc.; and
- collating all available and relevant planning documents.

For downstream operations: Bank reviews the palm oil procurement policies and practices of these operations

This step applies to companies that have downstream operations in the palm oil sector (i.e. businesses that refine palm oil or those that manufacture or trade in products containing palm oil), including vertically integrated companies that have both upstream and downstream operations.

The review process for downstream operations focuses on a company's procurement policies and practices and needs to be conducted at a company-wide level. This initial review step will involve the following:

- listing all downstream palm oil operations of the company (where company has these);
- ascertaining whether the company has a responsible palm oil procurement policy that covers all these operations. This policy should include a commitment to phasing out all trade in palm oil that is not produced in compliance with the RSPO principles; and
- reviewing the completeness of traceability and verification systems in place to implement the policy.

This will involve reviewing the procedures used to: (a) inform suppliers of the company's responsible procurement standards; and (b) phase out suppliers that are not able to supply RSPO-certified palm oil or products containing the same; and estimating the total volume of palm oil entering the company's supply chains and what proportion of it is sourced from RSPO-certified production units.

Step 3 Bank sets conditions of engagement with the company

This step involves identifying the conditions that the company needs to meet to comply with the bank's policy. The bank will need to draft these conditions and present them to the company. Some of these will be preconditions to a finance deal, while others will apply as covenants during the financing term. For upstream operations, the conditions will need to be tailored to the circumstances of each production unit (existing or planned). For downstream operations, the conditions will tend to relate to company-wide procurement policies and practices.

A sample set of sustainability covenants is provided in Annex 5.

(a) Conditions to ensure compliance with RSPO criteria across all existing upstream production units
For each identified production unit, including third-party sources of CPO, the bank should specify broad preconditions to qualify for finance, and sustainability covenants (to be fulfilled during the finance period). Generic examples of such conditions are set out below:

- For RSPO-certified production units:
  - Preconditions to qualify for finance – None
  - Sustainability covenants – The company maintains RSPO certification.
- For production units in progress to compliance with RSPO criteria:
  - Preconditions to qualify for finance – Company commits to implement an action plan (i.e. to make stepwise progress towards compliance with RSPO criteria) and to report annually on progress against time-bound targets specified in the action plan.
  - Sustainability covenants – Company implements the action plan, provides annual progress reports, meets the progress targets specified therein and achieves RSPO certification within an agreed timeframe.
- For production units that are not RSPO certified and not progressing:
  - Preconditions to qualify for finance – Company takes serious remedial action such that the production unit can be re-classified as 'in-progress' and dealt with as such (see previous).
- For production units not yet assessed for compliance with RSPO criteria
  - Preconditions to qualify for finance – Company shall engage a qualified assessor (ideally an RSPO-accredited certification body) to conduct a preliminary assessment of the production unit's compliance with RSPO criteria. Depending on the preliminary assessment result, the company shall either submit the unit to a full assessment and obtain RSPO certification, or develop an action plan to qualify as an 'in-progress' production unit, and be dealt with as such (see previous).

(b) Conditions to ensure that compliance with RSPO criteria is built into the planning processes for new production units
In broad terms, a company that intends to establish a new or expanded production unit should commit to develop the unit consistently with RSPO criteria.

The company will often require prior credit approval before it takes steps to establish the new unit or expand existing facilities. This provides the opportunity at an early planning stage for the bank to insist that best practices are followed with respect to social and environmental impact assessment, planning processes and land acquisition and preparation. The bank may consider providing a first installment of finance to ensure these critical early planning and establishment stages properly address the RSPO sustainability criteria. This finance would need to be carefully structured so that the bank could decline further finance if the client fails to develop the project responsibly, while at the same time not penalizing the client for electing to relocate the project to avoid potential environmental or social risks uncovered during the planning phase.

The company should develop a detailed 'RSPO alignment' plan for each planned new production unit or expansion, which specifies the steps to be taken to ensure that the production unit is established consistently with RSPO criteria. The plan should include a budget and timetable for the completion of issue-specific plans (for example business plan, environmental impacts monitoring and mitigation, water management, social impacts and monitoring, and training), polices and procedures (for example personnel, FFB pricing policy, worker health and safety, information disclosure, and complaints and grievances procedures) and actions (for example ESIA, HCVF assessments and conservation plans, and processes to secure free and prior informed consent from communities with traditional rights). A model template for such a plan is included in Annex 6.

The sustainability conditions for new or expanded production units can be broken down into:

- Preconditions to qualify for finance – Company develops and commits to implementing an RSPO alignment plan (or equivalent) for each planned new production unit, including third-party sources of CPO, or significant expansion of plantation area or mill capacity in an existing production unit.
- Sustainability covenants – For each planned new production unit, including third-party sources of CPO, or significant expansion of plantation area or mill capacity in an existing production unit, the company will:
    - implement an RSPO alignment plan approved by the bank;
    - provide six-monthly reports on its progress in implementing the plan; and
    - achieve RSPO certification within six months of the production unit becoming operational.

(c) Conditions to ensure downstream operations procure palm oil responsibly

The overarching condition applying to a company's downstream operations is that the company progressively increases the proportion of RSPO-certified palm oil entering the supply chains for those operations.

The time needed for a given company to switch to total reliance on RSPO-certified palm oil will depend on the diversity of products that the company trades or manufactures, the complexity of its supply base, and the quantity of RSPO-certified palm oil available on the global market.

This overarching condition can be broken down into:

- Preconditions to qualify for finance – The company adopts a responsible palm oil procurement policy that applies to all its downstream operations.
- Sustainability covenants – The company will:
    - develop and implement an action plan (with clear targets and progress milestones) for improving its palm oil procurement (i.e. reducing its reliance on non-RSPO-certified palm oil and progressively increasing the proportional amount of palm oil within its supply chains that is sourced from RSPO-certified production units); and
    - track and report the volume of palm oil entering its supply chains that is sourced from RSPO-certified production units as a proportion of the total volume of palm oil entering its supply chains.

Step 4 Bank and company schedule the steps to be taken to satisfy the preconditions and complete the screening process

At this point, the bank needs to collaborate with the company to prepare a timetable detailing the pre-financing actions the company needs to take to meet the pre-conditions identified in Step 3.

In addition, the timetable should set out actions that the bank will take as part of the screening and assessment process, insofar as these involve the company. This will help ensure that the bank has the opportunity to verify the information provided by the company and to review plans and other documents that the company will prepare as outputs of its agreed pre-finance actions. For instance, for proposed new production units, the bank may schedule site visits to gain direct insights on the social and environmental setting, and interviews with those involved in the ESIA and other planning processes. The bank might also commission experts to review the business plan, environmental and social impacts monitoring and mitigation plan, water management plan, training plan and other outputs of the RSPO alignment plan.

For existing production units classified as "in-progress to compliance with RSPO criteria", the bank may want to examine the quality and feasibility of the action plan. This could involve commissioning an expert peer review, site visits, and interviewing senior staff of the company.

If the company refuses to commit to the time-phased actions or prevaricates, the bank will need to consider whether it wishes to engage further with the company to agree on an alternative timetable, or refuse the loan application. If the company agrees to the commitments required, the bank can proceed with steps set out below.

Step 5 Pre-financing actions implemented

This step involves the company and the bank implementing the actions scheduled under Step 4. If the bank identifies serious gaps or discrepancies in the company's implementation of agreed steps, or in the quality of agreed plans and outputs, it will need to communicate these shortcomings to the company and request the company to take remedial action as appropriate.

Where financing is linked to the establishment of new plantations and mills, the bank may feel it is appropriate to provide collateral pre-project financing to ensure that planning, site selection, land acquisition and ESIA are done scrupulously and that the appropriate safeguard assessments are undertaken.

Step 6 Bank approves financing, finalizes sustainability covenants and works with company to schedule company actions to meet the covenants and bank actions to monitor compliance

After the company has completed the agreed pre-financing actions and the bank has completed its screening process, the relevant staff will need to prepare the report for the bank's approval committee recommending whether or not to approve the financing application.

The bank will need to finalize the sustainability covenants to be written into the financing agreement. This will involve refinement of the conditions of engagement identified under Step 3 to ensure that they match the current status of each of the company's upstream production units (existing or planned) and its downstream operations. A model set of sustainability covenants is provided in Annex 5.

If the company is assessed as compliant with its policy, the bank can approve the loan or other credit facility sought by the company.

Step 7 Bank monitors the company's compliance with sustainability covenants

The bank will need to monitor the company's progress in implementing the actions agreed under Step 6 and its compliance with the sustainability covenants. The bank will be able to rely on the RSPO certification process to monitor the ongoing performance of the company's RSPO-certified production units. It will also be able to rely on the RSPO-endorsed traceability mechanisms and verification systems to corroborate a company's claims related to the volume of RSPO-certified palm oil sourced.

To monitor upstream production units that are in-progress to compliance with RSPO criteria, the bank will review regular progress reports submitted by the company. The bank can reserve the right to audit these reports or insist on independent auditing.

Monitoring related to new or expanded production units will involve close tracking of the 'RSPO alignment plan' to make sure that the required actions are implemented, that plans and other outputs are up to standard, and that recommended safeguards are taken on board by the company. The bank will need to ensure that the outputs (plans, policies, procedures and recommendations) of the RSPO alignment process are sufficiently rigorous and feasible to enable the production unit to achieve compliance with RSPO criteria when it becomes operational.

The bank could also require the company to notify the bank, within three days, of any unusual incidents (pollution, social unrest, strikes etc.).

The bank will need to review the results of its monitoring of the company's compliance with sustainability covenants in conjunction with its reviews of the company's financial performance. The bank may then need to request further explanations on particular issues, specifying the timeframe for the company's response. Then, based on the response, the bank will need to flag any problem areas – i.e. where the company has not provided satisfactory explanations or where there are evident cases of slippage in the agreed schedule for achieving compliance with the sustainability covenants. These will need to be included in regular monitoring reports, along with an analysis of any associated risks and a list of the necessary corrective actions to be taken by both the bank and company.

Reviewing candidate companies for non-lending activities

Your financial institution can implement a similar process as that outlined above for investment activities and other non-lending services. The screening process will need to be adapted to fit the activity, whether it be investment banking, asset management, trust banking, institutional investment or managing and/or underwriting a share or bond issue, and the advisory services that accompany these activities.

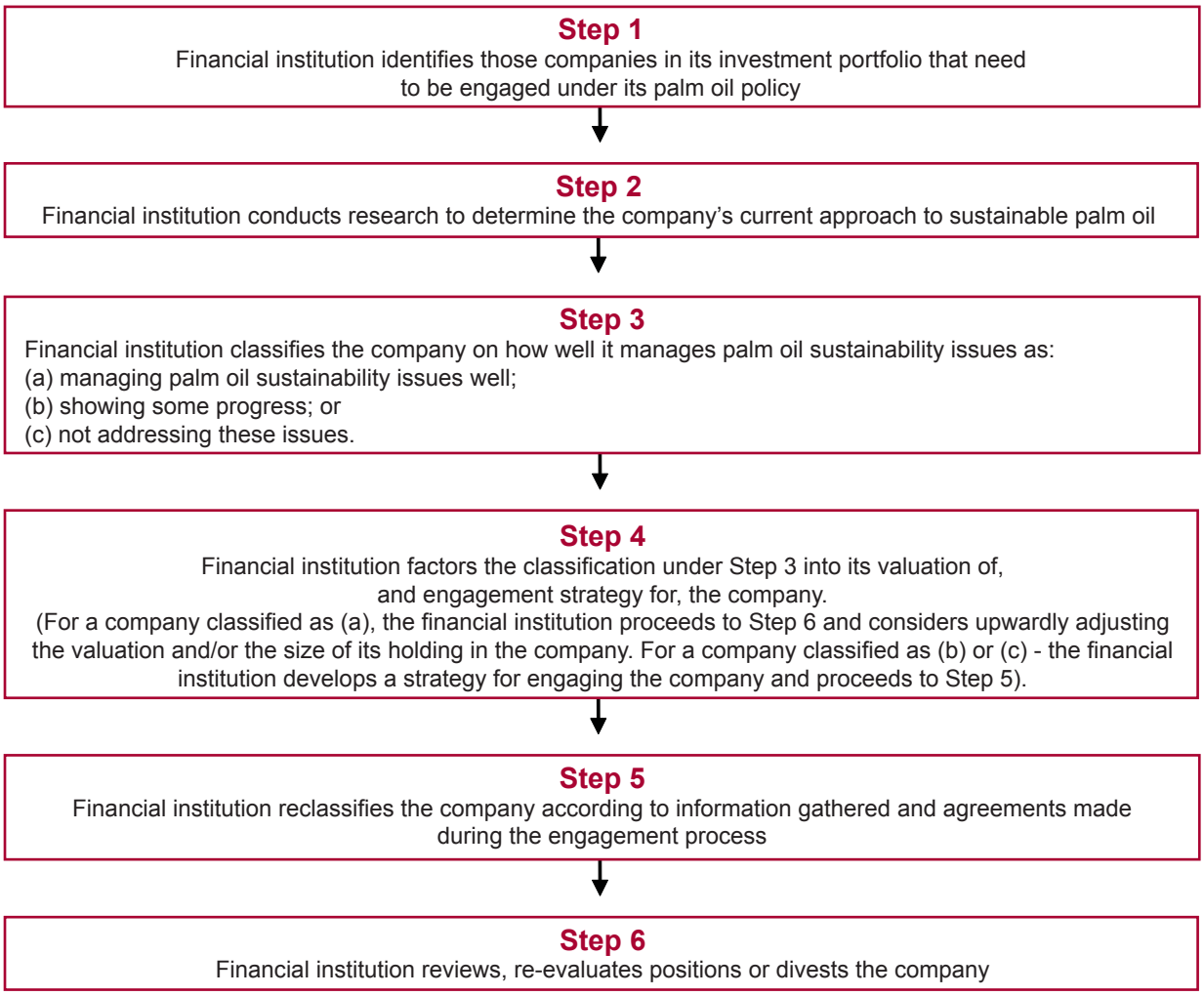
In the case of investment banking, a key difference with lending activity is that your financial institution may have a shorter relationship with these clients – a few months, as opposed to the several years associated with commercial loans. In addition, your financial institution will have little leverage with these clients once it has provided the investment banking services. Thus, for example, a palm oil company that your financial institution assists in arranging an Initial Public Offering (IPO) could potentially renege on its commitment to comply with RSPO criteria immediately after the IPO. This is less likely to occur where the client includes commitments to responsible palm oil production and purchasing as positive 'selling points' in the offering and integrates them into the equity positions and business plan. Your financial institution could require the client to indemnify your financial institution for any liabilities to investors that could arise due to failure of the client to honour sustainability assurances in prospectus documents. Your financial institution can apply sustainability requirements either as pre-conditional filters on the eligibility of the client to receive investment banking services or, as conditions for any

future financing applications by the client (for example a client that breaches a sustainability condition after the IPO could be disqualified from applying to your financial institution for other financial services in the future).

For asset managers and institutional investors, a process of engagement with investees is often the most effective approach to ensuring alignment with your financial institution's palm oil policy. However, if an investee company derives a significant proportion of its revenue from palm oil related activities, or if its brand value is at risk if it fails to address sustainability issues associated with palm oil, that company's failure to respond to engagement may expose your financial institution to significant risk. In such cases, your financial institution may need to re-evaluate its position with the company and potentially divest in order to protect shareholder value. This approach reflects the different relationship between institutional investors and investee companies compared to that between a bank and its lending clients. An asset manager can exert an influence using an engagement approach and may wish to adjust its valuation and size of holding in that company in light of the information gained through engagement if it judges that company to be managing its social and environmental risks particularly poorly or conversely, to be outperforming its peers in this area. A shareholder's influence over an investee company however, naturally depends on the size of the holding it has in that company and the attitude of that company to shareholder engagement. One possible model for engagement is outlined in Figure 3 and in the subsequent explanation of the steps involved.

The same procedure is possible for assets managed on behalf of external parties, although it is necessary to discuss this procedure with your client when accepting its mandate. Or, in the case of investment funds offered to retail investors, the procedure could be explained in the prospectus and other promotional materials.

Figure 3. Model engagement process



Reviewing steps explained

Step 1 Financial institution identifies those companies in its investment portfolio that need to be engaged under its palm oil policy

In this step, your financial institution identifies the companies in its investment portfolio with potential involvement in the palm oil supply chain and categorizes them as having major or minor involvement with the palm sector and/or material risk due to this association. See discussion on applying a responsible palm oil policy in cases of partial or indirect links to the palm oil sector on page 18, and related guidance under Step 1 of the screening process for clients seeking credit or related services on page 28. Your financial institution will continue with an engagement process only for companies with major involvement in palm oil or that present a material risk due to their links to controversial palm oil operations.

Step 2 Financial institution conducts research to determine the company's current approach to sustainable palm oil

Your financial institution's research can include the company's own publications (for example sustainability reports), the RSPO website (which holds a list of members and their progress reports), press reports and NGO reports. Your financial institution may need to contact the company directly for further information, or it may decide that the absence of publicly available information is indicative of poor transparency on the issue and conclude that the company is not addressing the issue and prioritize the company for further engagement.

Step 3 Financial institution classifies the company on how well it manages palm oil sustainability issues

The definition of what constitutes adequate management of the issue will vary depending on the significance of palm oil to the company and its position in the palm oil supply chain. Table 3 shows one possible classification system.

Table 3. Suggested criteria for classifying investee companies

Classification	Upstream Operations	Downstream Operations
(a) Managing palm oil sustainability issues well	Company is a member of RSPO, some or all of its plantations have achieved RSPO certification and there is a timetable for the remaining plantations to become certified.	Company is a member of RSPO, sources some or all of its palm oil from certified sustainable sources and there is a timetable for the remainder of the palm oil it buys to become certified.
(b) Showing some progress	Company is a member of RSPO and has reported some progress towards achieving certification in its progress report to the RSPO.	Company is a member of RSPO and has reported some progress in working with its suppliers to source certified sustainable palm oil.
(c) Not addressing these issues	Company is not a member of RSPO, does not report on progress towards addressing sustainability in its operations and/or has been highlighted in press or NGO reports as a poor performer in this area.	Company is not a member of RSPO, does not report on progress towards sourcing sustainable palm oil and/or has been highlighted in press or NGO reports as a poor performer in this area.

Step 4 Financial institution factors the classification under Step 3 into its valuation of, and engagement strategy for, the company

For further information on how your financial institution can classify mills, plantations and downstream operations, see the detailed guidance on pages 29-31 (for Step 2 of the screening process for clients seeking credit or related services).

Taking account of the size of the company and the nature of its operations, the investor financial institution assesses where the company is now and what it should be working towards in order to manage palm oil related risk appropriately. The guidance provided on pages 31-34 (for Steps 3 to 7 of the screening process for clients seeking credit or related services) should assist in this.

Your financial institution will contact the company, either by a letter outlining your financial institution's concerns and requesting that the company address these issues, or by arranging a meeting. The aim of this engagement is for your financial institution to learn more about how the company is managing the issue at present and to encourage it to work towards adopting best practice. Since not all companies will respond to investor queries, your financial institution should establish a timetable for engagement and decide when to move on to Step 5 if no response is received.

Step 5 Financial institution reclassifies the company according to information gathered and agreements made during the engagement process

In light of the information gathered in Step 4, the company is reclassified according to Table 3.

Step 6 Financial institution reviews, re-evaluates positions or divests the company

Companies falling into category (a) will need to be monitored periodically to ensure they continue to maintain this status. You may also wish to review your valuation of these companies in light of the fact that they are ahead of the curve in terms of their ability to supply the growing demand for sustainable palm oil.

If a plan for progress has been established and the company is classified in category (b), a realistic time-frame for review should also be agreed. If palm oil is material to the company's business, you may also consider how this new plan is likely to affect the value of the company. Although costs may increase initially, it is likely that production methods will become more efficient and there may be increased demand for the company's products when the company, or its suppliers, become certified.

If a company proves unwilling to address sustainability issues after repeated attempts at engagement and remains in category (c), your financial institution should assess the implications. This may go beyond the company's involvement in the palm oil supply chain since it may be indicative of the company's attitude towards social and environmental issues more broadly. You may therefore wish to reassess your valuation of the company and ultimately the size of your holding in the company. Failure to address social and environmental issues, particularly high profile ones such as those faced by the palm oil industry, can erode long-term shareholder value and your financial institution may take a decision to divest from some of the worst performing companies.

Key points from Part III

- The seven-step model screening process for clients seeking credit involves the collection and review of information on a company's palm oil-related policies and practices; the establishment of an agreed set of pre-financing conditions to ensure that the company's upstream operations are, or will be, compliant with RSPO criteria and that its downstream operations are procuring palm oil responsibly; the development of an agreed plan of action for each of the company's downstream operations to achieve or maintain RSPO compliance; the establishment of sustainability covenants and the monitoring of the company's compliance with these covenants.

- For asset management, a simplified six-step model engagement process involves the classification of a company's involvement in the palm oil supply chain as major or minor; the collection of publicly-available information on the company's palm oil related policies and practices; classification of the company's current policies as good, progressing or inadequate; engagement to encourage improvement; and monitoring progress, revaluation of the company or divestment.

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PART IV: MAKING THE POLICY MORE EFFECTIVE

We recommend you read all of Part IV if you are charged with developing or reviewing your financial institution's responsible palm oil policy. Other readers need only read the key points summary at the end of Part IV.

This part of the handbook gives some pointers on what your financial institution can do to help ensure that its responsible palm oil policy is a success. Suggestions are given on how to:

- integrate the palm oil policy with your financial institution's operational procedures;
- enable clients to comply with the policy;
- make implementation of the policy transparent; and
- deal with complaints and grievances.

First though, a few general recommendations on making the policy operational and effective:

- Clearly assign responsibility for implementation of the policy to one of the directors or senior management within the bank;
- Make sure that the policy's operating procedures are understandable for relevant staff, clients and other stakeholders;
- Involve the human resources division in ensuring that required competencies are developed and training provided;
- Adjust your financial institution's internal incentives as needed to reward deal-making teams not just for speed and volume of transaction, but also for addressing sustainability;
- Try to be as transparent as possible, within the legal boundaries of client confidentiality, on the implementation of your policy. Your financial institution could publish the number of deals screened (approved without conditions, approved conditional, declined) in its annual report, and could stimulate its clients to disclose their environmental and social due diligence documents;
- Be proactive in financing companies and community initiatives that exhibit strong and innovative commitments to sustainable development; and
- Participate in the Roundtable for Sustainable Palm Oil (RSPO) to learn more about sustainability issues in the sector and to network with companies that are committed to addressing environmental and social concerns in the industry.

Integrating the policy into your financial institution's operational procedures

Each financial institution will need to find the best way to implement its responsible palm oil policy alongside its standard operating procedures. Below are some general pointers on integrating the policy.

Parallel processes. Your financial institution will need to ensure that the review and screening processes involved in implementing its responsible palm oil policy are conducted in parallel to the financial due diligence procedures. This should be the case whether the policy is being applied to the approval of applications for commercial loans or investment banking services, or to the inclusion of a company in the investment universe of your financial institution. These parallel processes will need to converge at key points to ensure sustainability screening is fully factored into financing decisions in a timely manner. Due diligence on some aspects of palm oil transactions can be lengthy and time consuming – with attendant knock-on impacts in terms of the timing of transaction decisions and disbursements/investments.

Close collaboration. Review and screening for compliance with the social and environmental criteria will require specialist input, most likely from outside consultants. It is important therefore that these consultants work closely with you, the credit officer or asset manager, and your legal department, to keep you informed of the progress and results of their work and to feed these results directly into your assessment procedures and, in turn, your report to your financial institution's approval committee.

Building capacity and confidence within deal teams. It is important to provide relevant and clear materials for relationship managers and transaction staff so that they can engage with clients. Some financial institutions have developed business case material that outlines costs and benefits of adopting more sustainable practices. Their staff can use these in discussions with clients.

Clarity for clients. Your financial institution will need to provide clear information to its clients and prospects to show exactly how it is integrating the policy into its procedures and how the policy ties in with other policies and priorities of the financial institution. For example, when it comes to setting out the conditions for financing, the sustainability-related covenants attached to the loan agreements need to be presented alongside the finance-related covenants. These procedures will need to adapted where necessary to deal with the dynamics of syndicated lending and late entrants to deals.

Helping clients to comply with your financial institution's policy

This section outlines some ways in which your financial institution can work with its clients and prospects to help them comply with its responsible palm oil policy. Your financial institution can explore ways of presenting its sustainability procedures as advisory or relationship management services, that if implemented effectively should help it attract higher quality clients over time.

For both upstream and downstream companies, achieving compliance with your financial institution's responsible palm oil policy can be a lengthy process. That is why the model policy presented in this handbook includes a 'stepwise' approach to working with companies that have uncertified production units. Such an approach will allow your financial institution to help its clients to meet all the criteria of its policy within a reasonable timeframe. You may also want to encourage clients to participate in the RSPO to benefit from the guidance provided to its members and to share their experiences and strengthen the industry commitment towards sustainability.

A similar approach can be taken for asset management. As a shareholder of these companies your financial institution can engage with them and advise them to address the issues highlighted during the review process. Such an engagement strategy is most effective when undertaken together with other shareholders. Your financial institution can, in collaboration with other shareholders, hire a specialized consultant or asset managers to undertake and manage your engagement activities in the palm oil sector.

Assisting upstream clients

Assisting clients with upstream operations will entail your financial institution providing them with practical guidance, and in some cases financial assistance, to help them fulfill the commitments they make under the sustainability covenants and agreements. As already mentioned, your financial institution may decide to finance a company's efforts to achieve compliance with RSPO criteria for an existing mill or plantation, or provide pre-project finance for a new mill or plantation to ensure that the environmental and social impact assessment (ESIA) covers the RSPO-relevant issues and that the RSPO-required safeguard assessments are undertaken (see pages 29-33). In addition, for new mills or plantations, your financial institution could help the client combine the various safeguard-related assessments it is obligated to conduct and to integrate them with its own planning procedures, to help cut down on the costs involved.

Your financial institution can help its clients comply with its palm oil policy by providing them with guidance – and in some cases financial support – to enable them to fulfill their various sustainability commitments in a cost-effective manner.

Your financial institution may also need to direct its clients to literature, expert consultants, resource networks and sources of funding to help them undertake the necessary safeguard procedures such as the environmental and social impact assessment and the occupational health and safety plan.

Assisting downstream clients

Your financial institution should also encourage and assist clients with downstream operations to achieve compliance with its palm oil policy and help them reduce the risks of having unsustainably produced palm oil in their supply chains. In this case, your financial institution can point them to information sources, best practice examples and guidance on how to responsibly source palm oil and palm oil products and encourage suppliers to adopt sustainable production and processing practices. Expectations should be adjusted to take into account the size of the company and existing practices that can be built upon.

A few best practice examples

The following are examples of frontrunner downstream companies which your financial institution can present as examples of leadership. Clients can visit the websites and contact the companies for further details.

Unilever (www.unilever.com): One of the largest consumer goods businesses in the world, Unilever is a founding member of the RSPO. Since 1998 the company has been using a set of ten sustainable agriculture indicators to measure improvements by a pilot set of its suppliers. These indicators measure, for example, changes in soil health, pest control methods and biodiversity levels. Unilever has also formed a taskforce to develop a more transparent sourcing system and standards for palm oil, including contracts, specifications, tracking and tracing, and best practice criteria for plantations. In May 2008, Unilever pledged to have all of the palm oil in its supply chains certified as sustainable by 2015.

Migros (www.migros.ch): Switzerland's leading retailer, Migros is also a founding member of the RSPO. In 1999 the company worked with WWF to develop a set of 31 sustainability criteria for palm oil (available at: www.rspo.org/PDF/Resources/Migros%20Criteria.pdf). The criteria cover transparency and verification, legal compliance, and technical, environmental and social requirements. Migros has also drawn up a set of guidelines for using these criteria to assess the practices of oil palm suppliers and has committed to change over to palm oil that meets these criteria, in three stages. The company's entire range of fats and margarines is manufactured using palm oil produced according to the criteria. The next step will be to switch all of Migros' internal production (bakery products, soups, sauces, confectionery, cosmetics, washing products) to using sustainable palm oil. Then the company will encourage its external suppliers to use palm oil that complies with its criteria.

Encouraging downstream clients to join the RSPO

Your financial institution should also encourage its downstream clients to join the RSPO – following the example of an insurance company in the UK, CIS, sister company to the Co-operative Bank. In 2005 CIS wrote to over fifty of the companies it invests in, including consumer product manufacturers, retailers, chemicals and oil companies, urging them to consider membership of the RSPO. Nine companies (Boots, BP, Marks & Spencer, Morrisons, Northern Foods, Reckitt Benckiser, Sainsbury's, Tesco, and Uniqema (ICI)) responded positively and joined the RSPO, while a further eight companies stated either that their suppliers are RSPO members or that they are encouraging their suppliers to join the RSPO.

Dealing with bioenergy clients

There is growing interest worldwide in the use of palm oil as a bioenergy feedstock. Some palm oil is already used for biofuel in the transport sector. Palm oil bionergy is also sometimes used for electricity or heat generation.

Your financial institution's involvement with palm oil bionergy companies should be based on the same principles as those mentioned above for downstream companies – i.e. encouraging them to source their palm oil from sustainably managed plantations, and encouraging them to work with their palm oil suppliers to shift to sustainable production and processing practices.

However, prudent screening of these clients will require your financial institution to address not only the issues currently covered by the RSPO criteria, but also two additional issues:

- greenhouse gas emissions: this relates to the positive or negative impact that the production, processing and use of palm oil for bioenergy has on greenhouse gas (GHG) emissions. Biofuels have been promoted as a renewable energy source that can reduce the use of fossil fuels and the associated GHG emissions. However, land-use changes associated with the cultivation of biofuel feedstocks, and energy used in their production, processing and use, can produce more GHG emissions than the use of fossil fuel counterparts. For example, where palm oil is produced on cleared forest land or drained and burned peatland.
- displacement of food crops: this relates to the concern that the planned major expansions of palm oil plantations for biofuel may lead to the loss of prime agricultural land for food production.

Financial institutions need to exert particular caution when considering investing in energy companies planning to source palm oil for biofuel. The potential sustainability problems associated with using palm oil for biofuel include not only the issues covered in this handbook but also others related to greenhouse gas emissions and the possible loss of agricultural land for food production.

The need for such caution is likely to increase as more governments establish bionergy targets and incentives that are contingent on compliance with sustainability safeguards. In addition to climate change mitigation objectives, policies promoting the use of renewable energy for transport and power are motivated by concerns over energy security and rural economic development. Currently more than 50 countries have set specific targets on the share of renewable sources in the energy sector and/or in the transport sector. Collectively, these targets are likely to create steady and growing demand for biofuels.

The European Union has recently adopted a binding target of 20% for the share of renewables in total energy generation, with a specific 10% target for the transport sector. The US Congress mandated a 4 billion gallon annual target for biofuel blending (at the moment nearly exclusively based on corn based ethanol). Developing countries are also promoting biofuel production. India, for example, has adopted a 5% blending target while China is planning to increase its biofuel production and consumption by nearly ten times by 2010 reaching 12 million tonnes per year.

Bionergy policies contain different social and environmental safeguards. China, for example, prohibits the use of food crops for biofuels and biofuel crop cultivation on arable land, while promoting the use of degraded, idle lands. Several European countries have sustainability requirements at national level, while the EU plans to introduce a directive covering liquid biofuels by the end of 2008. The directive is expected to set environmental, social and GHG reduction benchmarks, and biofuels that do not meet these will not count towards the EU mandatory targets for renewables.

These issues suggest a need for financial institutions to take additional caution when considering financing, or investing in, energy companies planning to source palm oil for biofuel. These issues go beyond the scope of this handbook. For instance, in evaluating an energy company's overall response to climate change issues, your financial institution may want to review the company's overall commitments to energy efficiency and fuel efficiency. This could include a review of its efforts to explore the use of a range of renewable energies (such as wind, solar, wave and geothermic heating) rather than a narrow focus of its activity in the bioenergy field.

A useful document on which to base your financial institution's approach to biofuel companies is the standard developed by the Roundtable on Sustainable Biofuels (http://www.bioenergywiki.net/index.php/Roundtable_on_Sustainable_Biofuels). Additional information can be obtained from the 'Sustainable Production of Biomass' project group set up by the Dutch government. The report, 'Criteria for Sustainable Biomass Production' , is available at www.forum-ue.de/bioenergy/txtpdf/project_group_Netherlands_criteria_for_biomass_production_102006bonn.pdf. The document sets out criteria and indicators grouped under six themes: greenhouse gas balance; competition with food, local energy supply, medicine and building materials; biodiversity; economic prosperity; social well-being; and environment.

A very good review by the UK government on the indirect impacts of biofuel development can be downloaded from http://www.dft.gov.uk/rfa/reportsandpublications/reviewoftheindirecteffectsofbiofuels.cfm .

You may also want to refer to a recent WWF position paper on biofuels which sets out a similar set of principles for sustainable biofuel production, processing and use. This paper, 'WWF Position on Biofuels' , is available at: www.assets.panda.org/downloads/wwf_position_ biofuels.pdf.

Another useful report, by CIS, examines the importance of sustainable biofuels from an investor's perspective. This report, 'Sustainability of Biofuels – Risks and Opportunities' is available at: www.cis.co.uk/images/pdf/Biofuels_full.pdf.

Making the policy transparent

Being transparent about its responsible palm oil policy will enable your financial institution to build confidence with other stakeholders, such as clients, institutional investors, prospects, NGOs and community organizations. In the past and even today, many oil palm plantations which harm local communities and the environment have not had any difficulty in obtaining investment capital. Some stakeholders therefore are sceptical about the role that financial institutions play in this industry. These stakeholders will not only want information about the objectives and criteria of your responsible palm oil policy, but also about its implementation and results. Publicizing the policy and the standard procedures associated with its implementation is the first step to supporting transparency.

Within the legal boundaries of client confidentiality, your financial institution should try to provide meaningful information on the implementation of its policy – for example, in its annual sustainability report or in its member report to the RSPO. This might include information on the number of deals screened (approved without conditions, approved conditional, and declined). When clients do not object, your financial institution could also publish key data on the financing – just as many financial institutions are doing already with regard to syndicated loans and underwriting syndicates. Your financial institution can also encourage its clients to disclose their environmental and social due diligence documents.

One of the first practical things your financial institution can do is to begin to report annually on the progress it is making in implementing its responsible palm oil policy, within an annual sustainability report on its economic, environmental and social performance. The Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) are a good source of information and guidance on how to compile and present this report. For more details, visit www.globalreporting.org. Rabobank is a recognized frontrunner in this field and its recent Annual Sustainability Reports have been ranked highly among international companies worldwide. For more details visit www.rabobank.com/content/about_us/corporate_social_responsibility.

Financial institutions that are members of the RSPO are required to report annually on their progress towards meeting the RSPO Code of Conduct, as are other members of the RSPO.

Making the policy open to complaints and grievances

External parties may have grievances or complaints on how your financial institution's responsible palm oil policy is applied. For instance, a local community in which one of your clients is operating could feel aggrieved by unfair practices of the client that contravene the law or the terms of its covenants with your financial institution. To address these kinds of issues in a fair and transparent manner, your financial institution could specify who is responsible for the responsible palm oil policy and to whom external stakeholders should address complaints about a client's possible non-compliance with the policy.

It should also be noted that the RSPO has developed its own procedures for complaints and grievances by external stakeholders, which apply to all its members. If your financial institution is, or becomes, a member of the RSPO, it will therefore need to commit to these procedures.

Key points from Part IV

- Integrating your financial institution's responsible palm oil policy into its standard palm oil investment procedures will entail:
  - implementing the policy in parallel with the financial due diligence procedures;
  - close collaboration between the social and environmental screening and the financial assessment procedures; and
  - informing client companies about how the palm oil policy ties in with other policies and priorities of your financial institution.

- Your financial institution can help its upstream clients to comply with its palm oil policy by providing them with practical guidance, and in some cases financial assistance, to help them fulfill the commitments they make under the sustainability covenants and agreements.

- Helping downstream clients comply could entail pointing them to information sources, best practice examples and guidance on how to responsibly source palm oil and palm oil products and encourage suppliers to adopt sustainable production and processing practices. Your financial institution can also encourage downstream clients to join the RSPO.

- Financial institutions need to exert particular caution when considering investments in downstream companies that source palm oil for biofuel. The issues here relate not only to those covered in this handbook, but also to potential problems with greenhouse gas emissions and competition for food.

- Your financial institution can show that it takes its responsibilities in the palm oil sector seriously, by being transparent about its responsible palm oil policy and by publicly reporting on the implementation of the policy.

- Your financial institution needs to be prepared for the possibility that external stakeholders may have complaints and grievances about the implementation of its responsible palm oil policy. RSPO members will also need to commit to the complaints and grievances procedures of this body.

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ANNEX 1

RSPO Principles, Criteria and major indicators

Readers are referred to the RSPO website (www.rspo.org) for the full text of RSPO indicators and related guidance, including national interpretations.

Note: Failure to comply with any one of these major indicators would normally make a company ineligible for RSPO certification.

Principle 1: Commitment to transparency

Criteria	Major Indicators
1.1 Oil palm growers and millers provide adequate information to other stakeholders on environmental, social and legal issues relevant to RSPO Criteria, in appropriate languages & forms to allow for effective participation in decision making.	Records of requests and responses must be maintained.
1.2 Management documents are publicly available, except where this is prevented by commercial confidentiality or where disclosure of information would result in negative environmental or social outcomes.	This concerns management documents relating to environmental, social and legal issues that are relevant to compliance with RSPO Criteria. Documents that must be publicly avai able include, but are not necessarily limited to: - Land titles/user rights (criterion 2.2). - Health and safety plan (4.7). - Plans and impact assessments relating to environmental and social impacts (5.1, 6.1, 7.1, 7.3). - Pollution prevention plans (5.6). - Details of complaints and grievances (6.3). - Negotiation procedures (6.4). - Continuous improvement plan (8.1).

Principle 2: Compliance with applicable laws and regulations

Criteria	Major Indicators
2.1 There is compliance with all applicable local, national and ratified international laws and regulations.	- Evidence of compliance with relevant legal requirements. - A documented system, which includes written information on legal requirements. - A mechanism for ensuring that they are implemented. - A system for tracking any changes in the law. The systems used should be appropriate to the scale of the organisation.
2.2 The right to use the land can be demonstrated, and is not legitimately contested by local communities with demonstrable rights.	Documents showing legal ownership or lease, history of land tenure and the actual legal use of the land. - Evidence that legal boundaries are clearly demarcated and visibly maintained. - Where there are, or have been, disputes, additional proof of legal acquisition of title and that fair compensation has been made to previous owners and occupants; and that these have been accepted with free prior and informed consent. - Absence of significant land conflict, unless requirements for acceptable conflict resolution processes (criteria 6.3 and 6.4) are implemented and accepted by the parties involved.
2.3 Use of the land for oil palm does not diminish the legal rights, or customary rights, of other users, without their free, prior and informed consent.	Maps of an appropriate scale showing extent of recognised customary rights (criteria 2.3, 7.5 and 7.6) - Copies of negotiated agreements detailing process of consent (criteria 2.3, 7.5 and 7.6)

Principle 3: Commitment to long-term economic and financial viability

Criteria	Major Indicators
3.1 There is an implementedmanagement plan that aims to achieve longterm economic and financial viability.	- A documented business or management plan (minimum 3 years). - Annual replanting programme, where applicable, projected for a minimum of 5 years with yearly review.

Principle 4: Use of appropriate best practices by growers and millers	
Criteria	**Major Indicators**
4.1 Operating procedures are appropriately documented and consistently implemented and monitored.	- Standard Operating Procedures for estates and mills are documented - A mechanism to check consistent implementation of procedures is in place. - Records of monitoring & the actions taken are maintained.
4.2 Practices maintain soil fertility at, or where possible improve soil fertility to, a level that ensures optimal and sustained yield.	- Records of fertilizer inputs are maintained. - Evidence of periodic tissue and soil sampling to monitor changes in nutrient status. - A nutrient recycling strategy should be in place.
4.3 Practices minimise and control erosion and degradation of soils.	- Maps of fragile soils must be available. - A management strategy should exist for plantings on slopes above a certain limit (needs to be soil and climate specific). - Presence of road maintenance programme. - Subsidence of peat soils should be minimised under an effective and documented water management programme. - A management strategy should be in place for other fragile and problem soils (e.g. sandy, low organic matter, acid sulfate soils)
4.4 Practices maintain the quality and availability of surface and ground water.	- An implemented water management plan. - Protection of water courses and wetlands, including maintaining and restoring appropriate riparian buffer zones. - Monitoring of effluent BOD. - Monitoring of mill water use per tonne of FFB .
4.5 Pests, diseases, weeds and invasive introduced species are effectively managed using appropriate Integrated Pest Management (IPM) techniques.	- An IPM plan is documented and current. - Monitoring extent of IPM implementation including training. - Monitoring of pesticide toxicity units (a.i./LD 50 per tonne of FFB or per hectare). Due to problems in the accuracy of measurement, monitoring of pesticide toxicity is not applicable to smallholders.
4.6 Agrochemicals are used in a way that does not endanger health or the environment. There is no prophylactic use of pesticides, except in specific situations identified in national Best Practice guidelines. Where agrochemicals are used that are categorised as World Health Organisation Type 1A or 1B, or are listed by the Stockholm or Rotterdam Conventions, growers are actively seeking to identify alternatives, and this is documented.	- Justification of all agrochemical use. - Records of pesticide use (including active ingredients used, area treated, amount applied per ha and number of applications). - Documentary evidence that use of chemicals categorised as World Health Organisation Type 1A or 1B, or listed by the Stockholm or Rotterdam Conventions, and paraquat, is reduced and/or eliminated. - Use of selective products that are specific to the target pest, weed or disease and which have minimal effect on non-target species should be used where available. However, measures to avoid the development of resistance (such as pesticide rotations) are applied. - Chemicals should only be applied by qualified persons who have received the necessary training and should always be applied in accordance with the product label. Appropriate safety equipment must be provided and used. All precautions attached to the products should be properly observed, applied, and understood by workers. Also see criterion 4.7 on health and safety. - Storage of all chemicals as prescribed in FAO or GIFAP Code of Practice (see Annex1). All chemical containers must be properly disposed of and not used for other purposes (see criterion 5.3). - Application of pesticides by proven methods that minimise risk and impacts. Pesticides are applied aerially only where there is a documented justification. - Proper disposal of waste material, according to procedures that are fully understood by workers and managers. Also see criterion 5.3 on waste disposal. - Specific annual medical surveillance for pesticide operators, and documented action to eliminate adverse effects. - No work with pesticides for pregnant and breast-feeding women.
4.7 An occupational health and safety plan is documented, effectively communicated and implemented.	The health and safety plan covers the following: - A health and safety policy, which is implemented and monitored. - All operations where health and safety is an issue have been risk assessed and procedures and actions are documented and implemented to address the identified issues. All precautions attached to products should be properly observed and applied to the workers. - All workers involved in the operations have been adequately trained in safe working practices (see also criterion 4.8). Adequate and appropriate protective equipment should be available to labourers at the place of work to cover all potentially hazardous operations, such as pesticide application, land preparation, harvesting and, if it is used, burning. - The responsible person should be identified. There are records of regular meetings between the responsible person and workers where concerns of all parties about health, safety and welfare are discussed. Records detailing the occurrence and issues raised should be kept. - Accident and emergency procedures should exist and instructions should be clearly understood by all workers. Accident procedures should be available in the appropriate language of the workforce. Assigned operatives trained in First Aid should be present in both field and other operations and first aid equipment should be available at worksites. Records should be kept of all accidents and periodically reviewed. Workers should be covered by accident insurance. - Recording of occupational injuries. Suggested calculation: Lost Time Accident (LTA) rate (either specify acceptable maximum, or demonstrate downward trend).
4.8 All staff, workers, smallholders and contractors are appropriately trained.	- A formal training programme that includes regular assessment of training needs and documentation of the programme. - Records of training for each employee are kept. The training programme should be appropriate to the scale of the organisation.

Principle 5: Environmental responsibility and conservation of natural resources and biodiversity

Criteria	Major Indicators
5.1 Aspects of plantation and mill management, including replanting, that have environmental impacts are identified, and plans to mitigate the negative impacts and promote the positive ones are made, implemented and monitored, to demonstrate continuous improvement.	- Documented impact assessment. - Where the identification of impacts requires changes in current practices, in order to mitigate negative effects, a timetable for change should be developed.
5.2 The status of rare, threatened or endangered species and high conservation value habitats, if any, that exist in the plantation or that could be affected by plantation or mill management, shall be identified and their conservation taken into account in management plans and operations.	Information should be collated that includes both the planted area itself and relevant wider landscape-level considerations (such as wildlife corridors). This information should cover: - Presence of protected areas that could be significantly affected by the grower or miller. - Conservation status (e.g. IUCN status), legal protection, population status and habitat requirements of rare, threatened, or endangered species, that could be significantly affected by the grower or miller. - Identification of high conservation value habitats, such as rare and threatened ecosystems, that could be significantly affected by the grower or miller. If rare, threatened or endangered species, or high conservation value habitats, are present, appropriate measures for management planning and operations will include: - Ensuring that any legal requirements relating to the protection of the species or habitat are met. - Avoiding damage to and deterioration of applicable habitats. - Controlling any illegal or inappropriate hunting, fishing or collecting activities; and developing responsible measures to resolve human-wildlife conflicts (e.g., incursions by elephants).
5.3 Waste is reduced, recycled, re-used and disposed of in an environmentally and socially responsible manner.	- Documented identification of all waste products and sources of pollution. - Safe disposal of pesticide containers. - Having identified wastes, a waste management and disposal plan must be developed and implemented, to avoid or reduce pollution.
5.4 Efficiency of energy use and use of renewable energy is maximised.	- Monitoring of renewable energy use per tonne of CPO or palm product in the mill. - Monitoring of direct fossil fuel use per ton of CPO (or FFB where the grower has no mill)
Use of fire for waste disposal and for preparing land for replanting is avoided except in specific situations, as identified in the ASEAN guidelines or other regional best practice.	- Documented assessment where fire has been used for preparing land for replanting.
5.5 Plans to reduce pollution and emissions, including greenhouse gases, are developed, implemented and monitored.	- An assessment of all polluting activities must be conducted, including gaseous emissions, particulate/soot emissions and effluent (see also criterion 4.4). Significant pollutants and emissions must be identified and plans to reduce them implemented. - A monitoring system must be in place for these significant pollutants which goes beyond national compliance. - The treatment methodology for POME is recorded. Note: RSPO needs to address all issues relating to Greenhouse Gas emissions, as set out in the Preamble to this document.

Principle 6: Responsible consideration of employees and of individuals and communities affected by growers and mills

Criteria	Major Indicators
6.1 Aspects of plantation and mill management, including replanting,that have social impacts are identified in a participatory way, and plans to mitigate the negative impacts and promote the positive ones are made,implemented and monitored, to demonstrate continuous improvement.	- A documented social impact assessment including records of meetings. - Evidence that the assessment has been done with the participation of affected parties. Participation in this context means that affected parties are able to express their views through their own representative institutions, or freely chosen spokespersons, during the identification of impacts, reviewing findings and plans for mitigation, and monitoring the success of implemented plans. - A timetable with responsibilities for mitigation and monitoring, reviewed and updated as necessary, in those cases where the assessment has concluded that changes should be made to current practices. - Particular attention paid to the impacts of outgrower schemes (where the plantation includes such a scheme).

Principle 6 continued

Criteria	Major Indicators
6.2 There are open and transparent methods for communication and consultation between growers and/or millers, local communities and other affected or interested parties.	- Documented consultation and communication procedures. - A nominated management official responsible for these issues. - Maintenance of a list of stakeholders, records of all communication and records of actions taken in response to input from stakeholders.
6.3 There is a mutually agreed and documented system for dealing with complaints and grievances, which is implemented and accepted by all parties.	- The system resolves disputes in an effective, timely and appropriate manner. - Documentation of both the process by which a dispute was resolved and the outcome. - The system is open to any affected parties.
6.4 Any negotiations concerning compensation for loss of legal or customary rights are dealt with through a documented system that enables indigenous peoples, local communities and other stakeholders to express their views through their own representative institutions.	- Establishment of a procedure for identifying legal and customary rights and a procedure for identifying people entitled to compensation. - A procedure for calculating and distributing fair compensation (monetary or otherwise) is established and implemented. This takes into account gender differences in the power to claim rights, ownership and access to land; differences of transmigrants and long-established communities; differences in ethnic groups' proof of legal versus communal ownership of land. - The process and outcome of any negotiated agreements and compensation claims is documented and made publicly available.
6.5 Pay and conditions for employees and for employees of contractors always meet at least legal or industry minimum standards and are sufficient to provide decent living wages.	- Documentation of pay and conditions. - Labour laws, union agreements or direct contracts of employment detailing payments and conditions of employment (e.g., working hours, deductions, overtime, sickness, holiday entitlement, maternity leave, reasons for dismissal, period of notice, etc) are available in the languages understood by the workers or explained carefully to them by a management official. - Growers and millers provide adequate housing, water supplies, medical, educational and welfare amenities to national standard or above, where no such public facilities are available or accessible (not applicable to smallholders).
6.6 The employer respects the right of all personnel to form and join trade unions of their choice and to bargain collectively. Where the right to freedom of association and collective bargaining are restricted under law, the employer facilitates parallel means of independent and free association and bargaining for all such personnel.	- A published statement in local languages recognizing freedom of association. - Documented minutes of meetings with main trade unions or workers representatives.
6.7 Children are not employed or exploited. Work by children is acceptable on family farms, under adult supervi-sion, and when not interfering with education programmes. Children are not exposed to hazardous working conditions.	- Documentary evidence that minimum age requirement is met.
6.8 Any form of discrimination based on race, caste, national origin, religion, disability, gender, sexual orientation, union membership, political affiliation, or age, is prohibited.	- A publicly available equal opportunities policy including identification of relevant/affected groups in the local environment. - Evidence that employees and groups including migrant workers have not been discriminated against.
6.9 A policy to prevent sexual harass-ment and all other forms of violence against women and to protect their reproductive rights is developed and applied.	- A policy on sexual harassment and violence and records of implementation. - A specific grievance mechanism is established.
6.10 Growers and mills deal fairly and transparently with smallholders and other local businesses.	- Current and past prices paid for FFB shall be publicly available. - Pricing mechanisms for FFB and inputs/services shall be documented (where these areunder the control of the mill or plantation). - Evidence shall be available that all parties understand the contractual agreements they enter into, and that contracts are fair, legal and transparent. - Agreed payments shall be made in a timely manner.
6.11 Growers and millers contribute to local sustainable development wherever appropriate.	- Demonstrable contributions to local development that are based on the results of consultation with local communities.

Principle 7: Responsible development of new plantings

Criteria	Major Indicators
7.1 A comprehensive and participatory independent social and environmental impact assessment is undertaken prior to establishing new plantings or operations, or expanding existing ones, and the results incorporated into planning, management and operations.	- Independent impact assessment, undertaken through a participatory methodology including external stakeholder groups. - Appropriate management planning and operational procedures. - Where the development includes an outgrower scheme, the impacts of the scheme and the implications of the way it is managed should be given particular attention.
7.2 Soil surveys and topographic information are used for site planning in the establishment of new plantings, and the results are incorporated into plans and operations.	- Soil suitability maps or soil surveys adequate to establish the long-term suitability of land for oil palm cultivation should be available. - Topographic information adequate to guide the planning of drainage and irrigation systems, roads and other infrastructure should be available.
7.3 New plantings since November 2005, have not replaced primary forest or any area required to maintain or enhance one or more High Conservation Values.	- An HCV assessment, including stakeholder consultation, is conducted prior to any conversion. - Dates of land preparation and commencement are recorded
7.4 Extensive planting on steep terrain, and/or on marginal and fragile soils, is avoided.	- Maps identifying marginal and fragile soils, including excessive gradients and peat soils, should be available. - Where limited planting on fragile and marginal soils is proposed, plans shall be developed and implemented to protect them without incurring adverse impacts.
7.5 No new plantings are established on local peoples' land without their free, prior and informed consent, dealt with through a documented.	Refer to criteria 2.2, 2.3, 6.2, 6.4 and 7.6 for indicators and guidance on compliance.
7.6 Local people are compensated for any agreed land acquisitions and relinquishment of rights, subject to their free, prior and informed consent and negotiated agreements.	- Documented identification and assessment of legal and customary rights. - Establishment of a system for identifying people entitled to compensation. - Establishment of a system for calculating and distributing fair compensation (monetary or otherwise). - Communities that have lost access and rights to land for plantation expansion are given opportunities to benefit from plantation development. - The process and outcome of any compensation claims should be documented and made publicly available. - This activity should be integrated with the SEIA required by 7.1.
7.7 Use of fire in the preparation of new plantings is avoided other than in specific situations, as identified in the ASEAN guidelines or other regional best practice.	- No evidence of land preparation by burning. - Documented assessment where fire has been used for preparing land for planting. - Evidence of approval of controlled burning as specified in ASEAN guidelines or other regional best practice. - This activity should be integrated with the SEIA required by 7.1.

Principle 8: Commitment to continuous improvement in key areas of activity

Criteria	Major Indicators
8.1 Growers and millers regularly monitor and review their activities and develop and implement action plans that allow demonstrable continuous improvement in key operations.	The action plan for continual improvement should be based on a consideration of the main social and environmental impacts and opportunities of the grower/mill, and should include a range of indicators covered by these principles and criteria. As a minimum, these must include, but not necessarily be limited to: - Reduction in use of certain chemicals (criterion 4.6). - Environmental impacts (criterion 5.1). - Waste reduction (criterion 5.3). - Pollution and emissions (criterion 5.6). - Social impacts (6.1).

Annex 2

Quick assessment checklist – palm oil - upstream companies (producers)

This checklist is intended to be used by "deal teams" in preliminary negotiations with a company to assess the company's commitment and capacity on sustainability issues. This is intended to be indicative only and should complement similar "early-stage" queries on commercial viability.

QUERY	WHAT THE RESPONSE INDICATES
Is the company a member of the Roundtable on Sustainable Palm Oil (RSPO)?	Producer members are required to work towards implementing the RSPO principles and criteria in their mills and plantations and report on their progress. You can check the RSPO website (www.rspo.org) to see if they have reported on their progress.
Are all or some of the company's plantations RSPO-certified?	To achieve certification a mill and the surrounding plantations must have undergone an independent audit to verify compliance with the RSPO principles and criteria. These cover a wide range of sustainability issues including legal compliance, long term financial viability, continuous improvement of management practices, environmental impact, labour issues, indigenous peoples' rights and stakeholder consultation.
Has the company set targets for achieving RSPO certification of all its plantations?	Achieving certification usually requires a transition strategy to build new capacities in the company, improve practices, and conduct various social and environmental assessments and planning processes. Thus not all companies can achieve certification overnight. The company should, though, have a time-bound commitment to achieve certification across all its plantations and mills. Ideally, this commitment should be backed by baseline appraisal of each operational unit and a stepwise plan to close the gaps identified in the appraisal to achieve certification.
Is the company planning to establish new plantations or expand existing ones? If yes, what steps will it take to manage environmental and social impacts?	The RSPO principles and criteria prohibit the expansion of plantations into primary forests and areas with "high conservation values". They also require stakeholder consultations and the free, prior informed consent of indigenous peoples with rights over the area. If new plantations disregard such requirements they are likely to generate disputes and controversy, as well as being disqualified from RSPO certification once they become operational.
Has the company implemented an environmental (and /or social) management system?	A management system is important to ensure that the company has processes and controls governing its operations. Good systems will refer to industry good practices and may have third-party certification of management systems e.g. ISO 14001.
Has the company been the subject of complaints, negative media reports, or protests by NGOs, or local communities?	It is important to understand the nature and scope of such opposition. Determine whether the views of critics are credible and whether they represent local or international perspectives.

Annex 3

Quick assessment checklist – palm oil - downstream companies (manufacturers, refiners, traders and buyers of products containing palm oil)

This checklist is intended to be used by "deal teams" in preliminary negotiations with a company to assess the company's commitment and capacity on sustainability issues. This is intended to be indicative only and should compliment similar "early-stage" queries on commercial viability.

QUERY	WHAT THE RESPONSE INDICATES
Is the company a member of the Roundtable on Sustainable Palm Oil (RSPO)?	Downstream RSPO members are required to report their progress in promoting the RSPO principles. You can check the RSPO website (www.rspo.org) to see if they have reported on their progress.
Does the company have a public policy on responsible palm oil procurement?	Such a policy is evidence that the company is aware of the reputation and market access risks associated with the sale or use of products containing unsustainable palm oil. In essence the policy should include a commitment to phasing out all trade in palm oil that is not produced in compliance with the RSPO principles. A strong policy will include a target of achieving 100% certified supply of palm oil by a specific date.
Is the company encouraging its suppliers to provide RSPO-certified palm oil?	If the company is serious about implementing its policy, it will have targets, plans and systems to progressively increase the proportion of RSPO-certified palm oil in its supply chains. This would include a plan to phase out suppliers that are not able to supply RSPO-certified palm oil or products containing the same.
Has the company implemented an environmental (and /or social) management system?	A management system is important to ensure that the company has processes and controls governing its operations. Good systems will refer to industry good practices and may have third party certification of management systems e.g. ISO 14001.
Has the company been the subject of complaints, negative media reports, or protests by NGOs, or consumer associations?	Such controversy should put you on alert. That said, it is important to understand the nature and scope of the opposition and to determine if the views of critics are credible and represent local or international perspectives.

ANNEX 4

Model client questionnaire

The following is a model questionnaire that would be sent to potential clients seeking finance or existing clients prior to a review. These clients would need to complete and return the questionnaire to your financial institution as one input to the screening process.

The questionnaire comprises four parts:

- General information
- Established upstream production units
- Proposed new upstream production units
- Downstream operations

Note to clients about the purpose of the questionnaire:

This questionnaire is designed to help XYZ assess your company's compliance with XYZ's responsible palm oil policy. We would be grateful if you could provide the requested information and supporting documents and answer all questions relevant to your company's circumstances. If you have any questions, XYZ's contact person is (insert name, position, telephone number and email address).

If your company is part of a larger corporate group and its sister companies or subsidiaries also participate in the palm oil sector, please first discuss the corporate structure with our credit risk assessors. XYZ may decide to treat your corporate group (or parts of it) as a single unit for the purpose of applying XYZ's palm oil policy. In that case, you should complete this questionnaire on behalf of the whole corporate group or the part of it so determined.

1. General information

Please nominate your contact person on matters relating to compliance with our banks sustainable palm oil investment policy:

Name: _____ Email: _____

Position: _____ Telephone: _____

Is your company a member of the RSPO? Please attach a map showing the location of the production units listed in the following tables.

2. Established upstream production units

Please complete the following table by listing each production unit (ie. CPO mill and the plantations that supply it) owned or managed by your company and filling in the columns for that unit. Please see guidance materials on classification of status of compliance with RSPO criteria. Please include any production units that your company is in the process of buying or otherwise acquiring.

Name of unit	Location (province/state and country)	Capacity of CPO mill	Plantation Area	Year of first harvest	Status of compliance with RSPO criteria (check relevant category ☐) ✓	Supporting documentation provided	Other comments
					☐ RSPO certified ☐ In-progress ☐ Not certified or in-progress ☐ Not yet assessed		
					☐ RSPO certified ☐ In-progress ☐ Not certified or in-progress ☐ Not yet assessed		

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3. Proposed new upstream production units

Please complete the following table by listing each planned new production unit (ie. a CPO mill and the plantations that supply it) or proposed expansion of plantation area or mill capacity in an existing production unit owned by your company and filling in the columns for that unit.

Name of unit	Location (province/state and country)	Proposed capacity of CPO mill	Proposed plantation area	Expected Year of first harvest	Stage of development (check category that best describes current stage ☐) ✓	Supporting documentation provided	Other comments
					☐ Several sites under consideration ☐ Site chosen ☐ ESIA underway ☐ Land acquisition underway ☐ Land preparation and planting underway		
					☐ Several sites under consideration Site chosen ☐ ESIA underway ☐ Land acquisition underway ☐ Land preparation and planting underway		

Questions concerning new or expanding upstream production units

1. Is your company willing to commit to implementing an RSPO alignment plan (or equivalent) for each planned new production unit or significant expansion of plantation area or mill capacity in an existing production unit?

☐ YES (If yes, please provide a copy) ☐ NO

2. Does your company already have a documented RSPO alignment plan or similar for each of the above listed units?

☐ YES (If yes, please provide a copy) ☐ NO

4. Downstream operations

Please complete the following table by listing each of your company's downstream operations in the palm oil sector (i.e. businesses that refine palm oil or trade, manufacture or make industrial use of products containing palm oil).

Name of business operation	HQ location (province/state and country)	Palm oil sector activities (check one or more □) ✓	Other comments
		□ trading in palm oil products (including oleochemicals); □ crushing palm kernels; □ refining palm oil and/or palm kernel oil; □ production of oleochemicals; □ food production; □ production of soaps and detergents □ production of cosmetics; □ production of biofuel; □ electricity generation; □ retailing □ other, please specify …….	
		□ trading in palm oil products (including oleochemicals); □ crushing palm kernels; □ refining palm oil and/or palm kernel oil; □ production of oleochemicals; □ food production; □ production of soaps and detergents □ production of cosmetics; □ production of biofuel; □ electricity generation; □ retailing □ other, please specify …….	

Questions concerning your company's downstream operations

1. Do you have a policy for the responsible purchasing of palm oil ?

☐ YES (If yes, please provide a copy of your policy or specify your weblink.) ☐ NO

2. Does it cover all of the above listed business operations?

☐ YES ☐ NO (If no, please specify the scope of the policy.)

3. What is your estimate of the total volume of palm oil entering your company's supply chains?
____tonnes per year

4. What proportion of this is sourced from RSPO certified production units?
____%

5. Have you set targets for progressively increasing the proportional amount of palm oil within your company's supply chains that is sourced from RSPO-certified production units?

☐ YES (If yes, please describe your target.) ☐ NO

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ANNEX 5

Model set of palm oil sector sustainability covenants

Special Clause #. Palm Oil Sector Sustainability Covenants

#.1 With respect to each production unit identified in Schedule X1, the borrower shall do all things reasonably necessary to maintain the unit's certificate of compliance with the RSPO principles and criteria.

#.2 With respect to each production unit identified in Schedule X2, the borrower shall do all things reasonably necessary to implement the action plan referenced in the schedule, to meet the progress targets specified in the plan and to achieve a certificate of compliance with the RSPO principles and criteria before the date specified in the schedule.

#.3 With respect to each planned new production unit, or significant expansion of plantation area or mill capacity in existing production unit, identified in Schedule X3, the borrower shall do all things reasonably necessary to implement the RSPO alignment plan referred to in the Schedule and to achieve a certificate of compliance with the RSPO principles and criteria within six months of the production unit becoming operational.

#.4 With respect to the downstream operations specified in Schedule X4, the borrower shall do all things reasonably necessary to progressively increase the volume of palm oil within its supply chains that is sourced from the RSPO-certified production units as a proportion of the total volume of palm oil entering those supply chains and to meet the targets specified in the schedule.

#.5 The borrower shall verify its compliance with the covenants in this clause by furnishing the bank with the reports and documents specified in Schedule X1, X2, X3 and X4 and shall permit the bank or its nominated agents to conduct such audits and inspections of the borrower's production units and operations as the bank considers necessary to verify the facts and opinions stated in such reports and documents.

Schedule X1 *(RSPO certified production units)*

Name of RSPO certified production unit _____

Location (province/state and country) _____

Item	Due date for submission of item to the bank
Copies of successive certificates of compliance with the RSPO criteria and indicators.	Within 30 days of receipt of the certificate by the borrower.
Summary reports prepared by the relevant certifying body outlining the results of each successive certification assessment (including monitoring or surveillance assessments). The report shall include a summary of findings, any identified non-compliances, and issues raised by stakeholder consultation.	Within 30 days of receipt of the summary report by the borrower.

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Schedule X2 *(production units in progress to compliance with RSPO criteria)*

Name of production unit.	Location (province/ state and country).	Action plan reference number and date of bank approval.	Date before which RSPO certification to be achieved.

Reports and documents to be furnished to the bank for each of the abovementioned production units -

Item	Due date for submission of item to the bank
Successive iterations of the borrower's action plan to achieve compliance with RSPO criteria and indicators with respect to the unit.	Within 30 days of each modification of the action plan.
Annual reports on progress achieved in implementing the action plan prepared by an RSPO-accredited certification body or other suitably qualified person approved by the bank. The report shall include a summary of the borrower's progress in implementing the action plan, any identified non-compliances, issues raised by stakeholder consultation and any recommended corrective actions or modifications to the action plan.	(insert due date for the first annual report) and thereafter respective annual reports are due on the anniversary of that date.
Copy of certificate of compliance with the RSPO criteria and indicators (upon successful completion of the action plan).	Within 30 days of receipt of the certificate by the borrower.

Schedule X3 *(proposed new production units or significant expansions of existing units)*

Name of planned new production unit or unit to be expanded.	Location (province/state and country).	RSPO alignment plan reference number and date of bank approval.

Reports and documents to be furnished to the bank for each of the abovementioned production units -

Item	Due date for submission of item to the bank
Successive iterations of the borrower's RSPO alignment plan.	Within 30 days of each modification of the plan.
Six-monthly reports on progress in implementing the RSPO alignment plan. The reports shall include a summary of the borrower's progress in implementing the action plan, a list of draft and final versions of outputs completed during the reporting period, acknowledgement and justification for any slippage in plan implementation and any proposed corrective actions or modifications to the action plan.	(insert due date for the first report) and thereafter successive reports are due at six monthly intervals.
Copies of outputs (drafts or final versions) specified in the RSPO alignment plan as requested by the bank.	Within 30 days of the bank requesting a copy of a given output.
Copy of certificate of compliance with the RSPO criteria and indicators (after commencement of operations).	Within 30 days of receipt of the certificate by the borrower.

Schedule X4 *(downstream operations in the palm oil sector and targets for increasing the proportion of palm oil within the borrower's supply chains that is sourced from the RSPO-certified production units) .*

Note: leave blank if borrower has no downstream operations in the palm oil sector

	Downstream business unit 1	Downstream business unit 2	Downstream business unit 3	Downstream business unit 4
	(insert name and HQ location)	(insert name and HQ location)	(insert name and HQ location)	(insert name and HQ location)
Baseline specify year …….				
Estimated total quantity of palm oil (tonnes per annum)				
Total quantity of RSPO certified palm oil (tonnes per annum)				
Proportion	%	%	%	%
Year 1 target				
Total quantity of palm oil				
Total quantity of RSPO certified palm oil				
Proportion	%	%	%	%
Proportion	%	%	%	%

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Schedule X4 continued

	Downstream business unit 1	Downstream business unit 2	Downstream business unit 3	Downstream business unit 4
	(insert name and HQ Location)	(insert name and HQ Location)	(insert name and HQ Location)	(insert name and HQ Location)
Year 2 target				
total quantity of palm oil				
Total quantity of RSPO certified palm oil				
Proportion	%	%	%	%
Year 3 target				
total quantity of palm oil				
Total quantity of RSPO certified palm oil				
Proportion	%	%	%	%

Reports and documents to be furnished to the bank for each of the business units mentioned in schedule X4 -

Item	Due date for submission of item to the bank
Successive iterations of the borrower's responsible palm oil procurement policy and related action plan and targets.	Within 30 days of each modification of the policy or plan.
Yearly reports on progress in implementing the responsible palm oil procurement policy and related action plan. The report shall include a summary of the borrower's progress in implementing the action plan, an estimate of the volume of palm oil entering its supply chains that is sourced from RSPO-certified production units as a proportion of the total volume of palm oil entering its supply chains, acknowledgement and justification for any slippage in plan implementation and any proposed corrective actions or modifications to the action plan or targets.	(insert due date for the first annual report) and thereafter respective annual reports are due on the anniversary of that date.

ANNEX 6

Model template for an RSPO alignment plan for proposed new upstream production units or expansion of existing units

RSPO alignment plan for (insert name of project)

Note: This template should be used to document a separate alignment process for each planned new production unit or significant expansion of plantation area or mill capacity in existing production unit.

Activity	Output	Related RSPO criteria	Budget and person responsible	Timing (specify starting month for activity, and expected completion dates for draft and final outputs)
1. ESIA				
Assess environmental and social baseline conditions	Environmental and social baseline study	7.1		
Identify potential environmental and social impacts	Documented impact assessment Analysis of primary forest and High Conservation Values present in the site and surrounding area	5.1, 5.2, 7.1, 7.3		
Compare feasible alternative sites, technologies, and designs	Report on alternative options for CPO mill and plantations and impacts associated with each	7.1		
Identify preventive, mitigating, and compensatory measures	Recommended practices to – • maintain soil fertility • minimise and control soil erosion and degradation • maintain the quality and availability of surface and ground water • ensure agrochemicals do not endanger the environment • conserve endangered species • maintain high conservation values • ensure Waste is reduced, recycled, re-used and disposed of in an environmentally and socially responsible manner • Efficiency of energy use • Avoid use of fire for waste disposal and for preparing land for replanting is avoided • Avoid extensive planting on steep terrain, and/or on marginal and fragile soils • reduce pollution and emissions, including greenhouse gases • mitigate negative social impacts	4.2, 4.3, 4.4, 4.5, 5.2, 5.3, 5.4, 5.5, 5.6, 6.1, 7.1, 7.2, 7.3, 7.4, 7.5		

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Annex 4: Continued

Activity	Output	Related RSPO criteria	Budget and person responsible	Timing (specify starting month for activity, and expected completion dates for draft and final outputs)
Public consultation and disclosure	Records of consultation processes showing the participation of affected parties including requests and concerns raised and company responses	1.1, 6.1, 6.2, 6.4, 7.1, 7.5		
Design monitoring system	Monitoring Plan	5.1, 7.1, 8.1		
2. Operational Plans				
Planning to ensure long-term economic and financial viability	A documented business or management plan (minimum 3 years)	3.1		
Planning to ensure pests, diseases, weeds and invasive introduced species are effectively managed using appropriate Integrated Pest Management (IPM) techniques.	IPM plan	4.5		
Planning to ensure occupational health and safety	An occupational health and safety plan	4.7		
Training needs assessment for staff, workers, smallholders and contractors	Training plan	4.8		
Development of open and transparent methods for communication and consultation between growers and/or millers, local communities and other affected or interested parties.	Documented consultation and communication procedures.	6.2		
Development of a system for dealing with complaints and grievances, that is acceptable to all parties.	A documented dispute resolution system. Documentation of the process by which any disputes are resolved and the outcome.	6.3		
Facilitate the rights of personnel to independent and free association and collective bargaining.	A published statement in local languages recognizing freedom of association	6.6		
Develop equitable personnel policies and procedures	Publicly available personnel policies and procedures with adequate safeguards and provisions on – • Pay and conditions • child labour • equal opportunities • sexual harassment and violence in the workplace	6.5, 6.8, 6.9, 6.10		

Annex 4: Continued

Activity	Output	Related RSPO criteria	Budget and person responsible	Timing (specify starting month for activity, and expected completion dates for draft and final outputs)
3. Land acquisition				
Identification and resolution of any land conflicts	Court order or settlement agreement resolving the conflict, or conflict resolution processes underway	2.2		
Identify the extent of legal or customary rights, of other users of the land	Maps showing extent of recognised customary rights	2.3, 6.4, 7.5,7.6		
Establishment of a procedure for identifying legal and customary rights and a procedure for identifying people entitled to compensation.	a procedure for identifying legal and customary rights and a procedure for identifying people entitled to compensation	6.4		
Negotiations with individuals or communities with legal or customary rights, to secure their free, prior and informed consent	The process and outcome of any negotiated agreements and compensation claims is documented and made publicly available.	2.3, 6.4, 7.5, 7.6		
Agreeing and paying fair compensation to previous owners and occupants of the land,	Agreements providing for fair compensation of previous owners and occupants. Documentation that demonstrates above agreements negotiated on the basis of free and prior informed consent	2.2		
Obtaining legal rights to the land	Title deeds, lease or other documents conferring the right to occupy the land	2.2		
Develop equitable personnel policies and procedures	Publicly available personnel policies and procedures with adequate safeguards and provisions on – • Pay and conditions • child labour • equal opportunities • sexual harassment and violence in the workplace	6.5, 6.8, 6.9, 6.10		

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Annex 4: Continued

Activity	Output	Related RSPO criteria	Budget and person responsible	Timing (specify starting month for activity, and expected completion dates for draft and final outputs)
4. Land surveys and preparation				
Soil surveys and topographic mapping for site planning (to be closely integrated with ESIA process)	Results are incorporated into plans and operations.	7.2		
Identify any primary forest or area containing one or more High Conservation Values on which palm oil cannot be planted (to be closely integrated with ESIA process)	Maps of areas in and around the site to be maintained in natural condition and not replaced with palm oil	7.3		
Identify areas of steep terrain and marginal and fragile soils where extensive planting is to be avoided (to be closely integrated with ESIA process)	Maps of areas in and around the site where extensive planting is to be avoided	7.4		
Develop and implement procedures to identify areas over which consent for planting has been withheld by local communities with legal or customary rights (to be closely integrated with ESIA and land acquisition process).	Procedures for identifying and marking boundaries of excluded areas agreed with local communities and implemented. Boundaries of excluded areas are marked and mapped	7.5		
5.Monitoring and reporting				
Quarterly reviews of implementation of this RSPO alignment plan	Corrective actions identified and implemented to ensure the outputs (plans, policies, procedures and recommendations) of the RSPO alignment process are of sufficient rigour and feasibility to enable the production unit to achieve compliance with RSPO criteria.			
Monitor and report progress in process implementation	Six-monthly progress reports including justification for any slippages and proposed corrective actions			

ANNEX 7: GLOSSARY

Accreditation: Third-party attestation related to a certification body conveying formal demonstration of its competence to carry out specific certification tasks.

Certification refers to an assessment process that leads to the issue of a certificate by an independent party, which verifies that a production unit to a defined standard. In the case of RSPO certification the relevant production unit is a CPO mill and the plantations that supply it.

Certification body: Third party that assesses and certifies the conformity of organisations with respect to published standards or other normative documents.

Crude palm oil (CPO): Oil derived from the fibrous pulp or mesocarp of the oil palm (*Elaeis guineensis* Jacq.).

Customary rights: Patterns of longstanding community land and resource usage in accordance with indigenous peoples' customary laws, values, customs and raditions, including seasonal or cyclical use rather than formal legal title to land and resources issued by the State. (From World Bank Operational Policy 4.10).

Downstream companies are those involved in refining palm oil or trading, manufacturing or using products containing palm oil.

Environmental and Social Impact Assessment (ESIA): A process of predicting and evaluating the environmental and social effects of an action or series of actions on the environment, then using the conclusions as a tool in planning and decision-making.

Fresh fruit bunches (FFB) refers to freshly harvested, unprocessed bunches of oil palm fruit.

High Conservation Values (HCVs) are the following attributes of a forest or other ecosystem:

- HCV1: globally, regionally or nationally significant concentrations of biodiversity values (e.g. endemism, endangered species).
- HCV2: globally, regionally or nationally significant large landscape level forests, contained within, or containing the management unit, where viable populations of most if not all naturally occurring species exist in natural patterns of distribution and abundance.
- HCV3: rare, threatened or endangered ecosystems.
- HCV4: provision of basic services of nature in critical situations (e.g. watershed protection, erosion control).
- HCV5: fundamental to meeting basic needs of local communities (e.g. subsistence, health).
- HCV6: critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in cooperation with such local communities). (See: 'The HCVF Toolkit' – available from hcvfnetwork.org).

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High Conservation Value Forest (HCVF): The forest necessary to maintain or enhance one or more High Conservation Values (HCVs).

Integrated pest management (IPM): An approach to pest management that employs a combination of cultural, physical, chemical and biological methods to keep pest populations below economic threshold levels.

Initial Public Offering (IPO): The first sale of a private company's shares to the public.

Outgrowers: Farmers, where the sale of FFB is exclusively contracted to the grower/miller. Outgrowers may be smallholders.

Palm Oil Sector comprises upstream production units, downstream users and the parent companies and subsidiaries of companies with such operations.

Plantation: The land containing oil palm and associated land uses such as infrastructure (e.g., roads), riparian zones and conservation set-asides.

Primary Forest: A primary forest is a forest that has never been logged and has developed following natural disturbances and under natural processes, regardless of its age. Also included as primary, are forests that are used inconsequentially by indigenous and local communities living traditional lifestyles relevant for the conservation and sustainable use of biological diversity. The present cover is normally relatively close to the natural composition and has arisen (predominantly) through natural regeneration. (From FAO Second Expert Meeting On Harmonizing Forest-Related Definitions For Use By Various Stakeholders, 2001).

Roundtable on Sustainable Palm Oil (RSPO) is a non-profit organization that brings together different stakeholders in the palm oil sector, including plantation companies, traders and processors, retailers, banks and investors, and non-governmental organizations (NGOs). Its mission is to advance the production, procurement and use of sustainable oil palm products through: the development, implementation and verification of credible global standards and, the engagement of stakeholders along the supply chain.

RSPO criteria refers to the RSPO principles and criteria, and accompanying guidance and definitions, endorsed by the RSPO.

Smallholders: Farmers growing oil palm, sometimes along with subsistence production of other crops, where the family provides the majority of labour and the farm provides the principal source of income and where the planted area of oil palm is usually below 50 hectares in size.

Stakeholders: An individual or group with a legitimate and/or demonstrable interest in, or who is directly affected by, the activities of an organisation and the consequences of those activities.

Sustainable palm oil production is comprised of legal, economically viable, environmentally appropriate and socially beneficial management and operations, as defined by application of the RSPO criteria.

Upstream companies are those directly involved in growing oil palm and primary processing to produce crude palm oil.

Use rights: Rights for the use of forest resources that can be defined by local custom, mutual agreements, or prescribed by other entities holding access rights. These rights may restrict the use of particular resources to specific levels of consumption or particular harvesting techniques.

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- ensuring that the use of renewable natural resources is sustainable
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