

**VALUE-BASED INTERMEDIATION
FINANCING AND INVESTMENT IMPACT
ASSESSMENT FRAMEWORK
(VBIAF) SECTORAL GUIDE:
PALM OIL**
31 March 2021



Acknowledgments

This document is a collaborative effort by the Value-based Intermediation Community of Practitioners, regulators and relevant stakeholders.

Project Team:

Project manager	Muhammad Farihan bin Ahmad, Maybank Islamic Berhad
Secretariat	Aliah Hanim Mohd Nor, Bank Negara Malaysia (BNM) Siti Nurul Ain Zakaria, BNM Shahira Zaireen Johan Arief Jothi, BNM
Technical experts	Faudzy Asrafudeen Sayed Mohamed, Malaysian Palm Oil Council (MPOC) Mohd Izham Hassan, MPOC Dr Sanath Kumaran, (formerly of) Malaysian Palm Oil Certification Council Rashyid Redza Anwarudin, Sime Darby Plantation Berhad Benjamin Low, World Wide Fund for Nature (WWF) Malaysia Charmaine Chee, (formerly of) WWF-Malaysia
Sub-working group members	Juliana Tan Abdullah, Alliance Islamic Bank Berhad (AIS) Zulfikar Hashan Jamalkhir, AIS Aida Mansor, AIS Norliyana Ibrahim, AmBank Islamic Berhad (AmBank Islamic) Wan Sherliza Binti Wan Ahmad Sepwan, AmBank Islamic Ah Yong Mun Hoe, Bank Pertanian Malaysia Berhad (Agrobank) Muhammad Nurhafez bin Sharif, Agrobank Shahizzudin bin Mohd Said, Agrobank Nor Amira Nazwa binti Mohd Mazlan, Agrobank Ngu Ching Ching, Malayan Banking Berhad
Observers	Association of Islamic Banking and Financial Institutions Malaysia (AIBIM)

DISCLAIMER

This document only serves as a guidance to the user. Any views, findings, interpretations, conclusions or information provided in this document are a result of the collaboration between the institutions identified above and hence, do not necessarily represent the official policy of the said institutions unless otherwise stated, nor do references to or citing of trade names or commercial processes, constitute endorsement, recommendation or preference by the said institutions.

CONTENTS

A.	INTRODUCTION	7
B.	DEFINITIONS AND SCOPE	10
C.	COMMERCIAL PROPOSITION	11
D.	IMPACT-BASED RISK MANAGEMENT	14
E.	APPENDICES	34
F.	ESSENTIAL READINGS	53

List of acronyms and abbreviations

ACB	Accredited Certification Body
BNM	Bank Negara Malaysia
CB	Certification Body
CCPT	Climate Change and Principle-based Taxonomy
CITES	Convention on International Trade in Endangered Species
CPO	Crude Palm Oil
CSPO	Certified Sustainable Palm Oil
EIA	Environmental Impact Assessment
ESG	Environmental, Social and Governance
FELDA	Federal Land Development Authority
FFB	Fresh Fruit Bunch
FI	Financial Institutions
FPIC	Free, Prior and Informed Consent
FW	Global Forest Watch
GHG	Greenhouse Gas
ha	Hectares
HBV	High Biodiversity Value
HCS	High Carbon Stock
HCV	High Conservation Value
IPCC	Intergovernmental Panel on Climate Change
ISCC	International Sustainability and Carbon Certification
ISPO	Indonesian Sustainable Palm Oil
IUCN	International Union for Conservation of Nature
JAS	Jabatan Alam Sekitar (<i>Department of Environment</i>)
JKKP	Jabatan Keselamatan dan Kesihatan Pekerjaan (<i>Department of Occupational Safety and Health</i>)
JPS	Jabatan Pengairan dan Saliran (<i>Department of Irrigation and Drainage</i>)
KBA	Key Biodiversity Area
KPDNHEP	Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna (<i>Ministry of Domestic Trade and Consumer Affairs</i>)
LGD	Loss Given Default
MPOB	Malaysian Palm Oil Board
MPOCC	Malaysian Palm Oil Certification Council
MS	Malaysian Standard
MSPO	Malaysian Sustainable Palm Oil
NC3BUR2	Malaysia 3 rd National Communication and 2 nd Biennial Update Report to UNFCCC
NDPE	No Deforestation, No Peat and No Exploitation
NGO	Non-governmental organisation
OPMC	Oil Palm Management Certification
OSH	Occupational Safety and Health
PD	Probability of Default
PERKESO	Pertubuhan Keselamatan Sosial
PK	Palm Kernel
POME	Palm Oil Mill Effluent
PPE	Personal Protection Equipment

REDD+	Reducing Emissions from Deforestation and Forest Degradation
RSPO	Roundtable on Sustainable Palm Oil
SCC	Supply Chain Certification
SCRIPT	Soft Commodity Risk Platform
SEIA	Social and Environmental Impact Assessment
SPOC	Sustainable Palm Oil Cluster
SPOTT	Sustainability Policy Transparency Toolkit
TCFD	Task Force on Climate-related Financial Disclosures
UNDRIP	United Nations Declaration on the Rights of Indigenous Peoples
UNFCCC	United Nations Framework Convention on Climate Change
UNPFII	United Nations Permanent Forum on Indigenous Issues
VBI	Value-based Intermediation
VBIAF	Value-based Intermediation Financing and Investment Impact Assessment Framework – Guidance Document
WHO	World Health Organisation

The rest of this page has been intentionally left blank.

Foreword

Chairman of VBIAF Sectoral Guide Working Group

In an increasingly interconnected and sophisticated world, and combined with rising expectations for enhanced corporate governance and transparency, the myriad of environmental and societal issues plaguing the world manifest the profound need for corporations and financial institutions to actively manage risks and opportunities related to emerging environmental and social trends. Amongst others, floods, climate change risks, pollution, waste management, water scarcity, deforestation, loss of biodiversity, wealth disparity, lack of access to finance, occupational safety and health deficiencies, poverty and labour abuse are calling for corporations and financial institutions to serve not only an economic, but an environment and social purpose.

The notion that the fiduciary duty of corporations and financial institutions is limited to the maximisation of shareholder value, gives rise to reluctance to integrate environmental, social and corporate governance (“ESG”) considerations in decision-making processes. But the tide has shifted as evidence has grown that ESG issues have financial implications, and could ultimately contribute to more stable economies, which is in the interest of all market players.

To financial institutions, it is abundantly clear that ESG challenges could lead to the customers’ inability to meet their financial obligations to the financial institutions or depreciation of the customers’ collateral. The success of financial institutions and their ability to remain profitable and relevant is intrinsically dependent on the long-term prosperity of the planet and societies which they serve.

Today, we are facing a global health crisis unlike any, with the COVID-19 attacking societies at their core. This unprecedented situation in recent history presents a new set of challenges with far-reaching ramifications for financial institutions. The current COVID-19 pandemic is a painful reminder that financial institutions are exposed to financial risks stemming from potential disruption to the global supply chain and customers’ operations. And unless financial institutions behave responsibly and participate in the efforts to alleviate the devastating impact to societies, financial institutions themselves could perish from this major health and economic crisis.

Islamic financial institutions stand in good stead to contribute towards a vibrant economy, which is underpinned by a healthy civil society and a sustainable planet. The inherent principles of fairness and social responsibility which are intrinsically linked to being Shariah compliant, are poised to support financial stability, sustainable ecosystem, efficient use of resources and innovation to create new market opportunities. Islamic financial institutions are able to better manage environmental and social impacts in a way that contributes to the sustainable development of the global society, which resonates with the increase in society’s consciousness and thus presents an enormous opportunity for Islamic finance.

Recognising the need to come to the fore, a number of Islamic banks in Malaysia under the auspices of Bank Negara Malaysia (“BNM”) are committed to promote the concept of Value-based Intermediation (“VBI”), which aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the environment, community, and economy, consistent with the shareholders’ sustainable returns

and long-term interests. VBI promotes a more holistic observation of Shariah by ensuring that Islamic banking offerings and practices not only comply with Shariah requirements but also achieve the intended outcomes of Shariah. More business opportunities could be created if the current paradigm could be shifted to extend beyond compliance, towards delivering value propositions not only to consumers, but to the wider stakeholders within the society and the economy at large. Together with BNM, these Islamic banks have formed the VBI Community of Practitioners (“COP”) to pool their resources and expertise to codify VBI via inter alia the VBI Strategy Paper, Implementation Guide for VBI, VBI Scorecard and VBI Financing and Investment Impact Assessment Framework (“VBIAF”) – Guidance Document.

To support the implementation of the VBIAF, the COP has established the VBIAF Sectoral Guide Working Group to develop sectoral guides on selected sectors and activities. The sectoral guides would facilitate financial institutions to implement an ESG impact-based risk assessment framework, by recommending key impact-based risk factors of the sector or activity which can typically generate significant risks if not well managed, but could present opportunities if the risks are proactively addressed. They also provide examples of measurement metrics across the entire risk impact-based assessment process.

The palm oil sector was selected to be in the first cohort of the VBIAF Sectoral Guides due to its significant contribution to Malaysia’s economy and its susceptibility to environmental and social issues. This first edition of the palm oil guide covers the upstream activities and will be enhanced at subsequent stages to cover additional parts of the palm oil value chain.

The VBIAF Sectoral Guides provide the parameters which facilitate a financial institution to overlay its credit or investment decisions with an ESG risk score, so that the financial institution is able to derive final outcomes which incorporate the ESG impact of its financing and investment decisions. In addition, the Sectoral Guides are intended to provide transparency to customers and investors in relation to financial institutions’ ESG assessment considerations in arriving at their final financing and investment decisions.

I wish to take the opportunity to express my gratitude to BNM, the COP, the project manager, industry experts and members of the working group for their tireless dedication and cooperation, without which the VBIAF Sectoral Guide for Palm Oil would not be a reality.

Thank you.

EQHWAN MOKHZANEE

Chief Executive Officer
AmBank Islamic Berhad

A. INTRODUCTION

Objective

1. This document presents further guidance on implementing impact-based assessments of this sector. This document should be read together with the overarching framework described in the VBIAF.
2. This document also serves as complementary guidance to facilitate the classification of economic activities of financing and/or investments as per the classification system outlined in the CCPT issued by BNM.

Approach

3. The guidance provided is developed in reference to applicable policy documents issued by BNM, Malaysian laws and regulation, standards and guidance issued by international/ multi stakeholder organisations and initiatives and publicly available information on best practices adopted by relevant institutions and practitioners.

Applicability

4. This guidance is intended for FIs. Counterparties of the FIs (e.g. customers and/or investors) may refer to this guidance to obtain a general perspective on areas/ criteria considered in financing and investment assessments. However, final decision-making is subject to the policies and procedures of the respective FIs.

The rest of this page has been intentionally left blank.

Sector context

5. Palm oil is one of the industries that make up Malaysia's agriculture sector and contributed to 37.7% of the overall agriculture sector's contribution to Gross Domestic Product (GDP)¹ in 2019. The palm oil industry plays an important role in contributing towards export earnings, job creation and alleviating poverty amongst the rural communities in Malaysia. More than 500,000 smallholders are involved in palm oil cultivation in the country.
6. Palm oil is a critical commodity for global food security². Given that oil palm offers a far greater yield at a lower cost of production than other oil crops, replacing it with other oil crops could lead to more deforestation and biodiversity loss, and exacerbate climate change. It is therefore important to produce palm oil sustainably to address and limit the environmental and social issues arising from unsustainable production.
7. However, cultivation practices in the agriculture sector have significant impact on the environment and climate change. In this regard, Malaysia has reiterated its commitment made at the Rio Summit in 1992 to retain at least 50% of its land area under forest cover.
8. In addition, the Government of Malaysia has made the MSPO certification scheme mandatory for oil palm growers and palm oil processing facilities by December 2019. The policy is intended to ensure the sustainability of the entire palm oil supply chain that includes independent smallholders, organised smallholders, estate owners, processing facilities, buyers/ traders, retailers and consumers (Box 1).

Box 1. Malaysia and MSPO

"Malaysia is committed to sustainable development. We have taken steps, for example, in improving production methods to ensure that our palm oil production is sustainable. By December 2019, the Malaysian Sustainable Palm Oil (MSPO) standards will become mandatory. This will ensure that every drop of palm oil produced in Malaysia will be certified sustainable by 2020."

Excerpt from the speech of Malaysia's Prime Minister at the general debate of the 73rd session of the United Nations General Assembly in New York, 28 September 2018.

The implementation of MSPO certification throughout the entire palm oil supply chain is expected to result in increased productivity, improved traceability and transparency, and ultimately bring greater awareness and acceptance of the MSPO standards in the move towards sustainable palm oil production.

¹ The overall agriculture sector contributed to 7.1% of the GDP in 2019.

² Oil palm is more efficient (uses less land to produce oil than any other oil-crops) and uses less pesticides and less fertilisers.

9. Other initiatives in sustainable agriculture include the Malaysian Good Agricultural Practices (MyGAP) which is a comprehensive certification scheme for the agricultural, aquaculture and livestock sectors (targets to increase yield per hectare, and optimise the use of land and fertilisers) and methane recovery from POME (targets to set up biogas capture facilities at 500 mills over a 10-year period).
10. The Ministry of Plantation Industries and Commodities (formerly known as the Ministry of Primary Industries) will also be putting in place several new policy³ initiatives (Box 2) to further strengthen the sustainability of the oil palm industry⁴.

Box 2. The Ministry of Plantation Industries and Commodities' (formerly known as the Ministry of Primary Industries) additional policies on oil palm

- *Limit the nation's total oil palm cultivated areas to 6.5 million ha by 2023;*
- *Implement the ban on new planting of oil palm in peatland areas and enforcing stricter rules on existing plantation in these areas;*
- *Implement the ban on conversion of permanent forest reserves to oil palm or other agricultural crops; and*
- *Provide an official map of oil palm planted areas nationwide for public access to improve transparency.*

The rest of this page has been intentionally left blank.

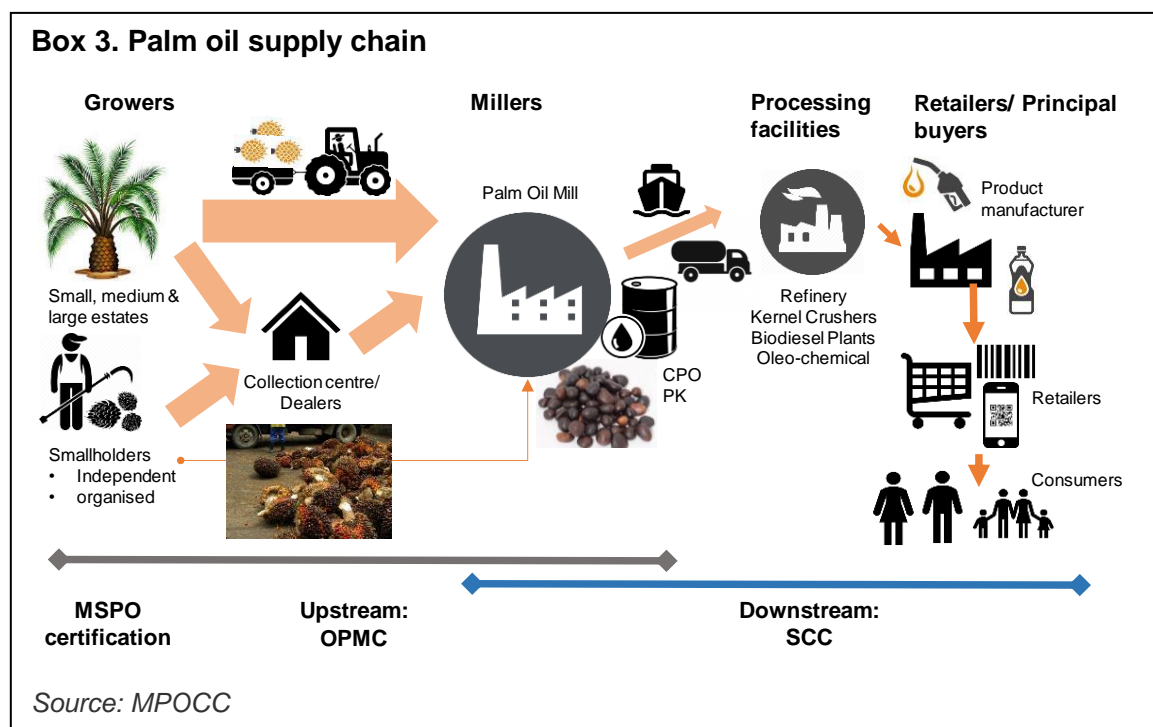
³ <https://www.mpi.gov.my/index.php/media-bm/arkib-siaran-media/siaran-media-tahun-2019/6259-inisiatif-baharu-setahun-pentadbiran-yb-puan-teresa-kok-menteri-industri-utama-mpi>

⁴ <https://www.nst.com.my/business/2019/11/540854/ministry-outlines-policies-enhance-oil-palm-sustainability>

B. DEFINITIONS AND SCOPE

Definitions

11. The palm oil supply chain can be broadly categorised into four sub-categories (Box 3) :-
- (i) **Growers** who are involved in the cultivation of oil palm that include nurseries, oil palm estates (including independent and organised smallholders) primarily involved in the production of FFBs;
 - (ii) **Millers** who are involved in the processing of FFBs to produce CPO and PK as primary products and biomass as secondary product;
 - (iii) **Processing facilities** including palm refiners, PK crushers, biodiesel plants and oleo-chemical plants who manufacture products that are used in diverse end use applications, including home and personal care, pharmaceuticals, food and nutrition, flavours and fragrances, biofuel, lubricants and industrial chemicals; and
 - (iv) **Retailers/ principal buyers** who are involved with food production, packaged goods, beverages, retailers and consumer goods manufacturers.



Scope

12. The first edition of this guidance will focus on upstream activities, which covers growers (e.g. estates, independent smallholders, organised smallholders) and palm oil millers.

C. COMMERCIAL PROPOSITION

13. The Government of Malaysia has in place several programmes/ initiatives to facilitate full compliance with the MSPO certification by the end of 2019 :-
- (i) Income tax deduction for MSPO certified premises and CBs to obtain accreditation under Standards Malaysia⁵ (applicable annually).
 - (ii) RM100 million grant for entrepreneurs who obtain the MSPO certification⁴.
 - (iii) Increase support for auditing fees to 100% and preparation costs to 50% for medium-sized estates (40.46 ha to 1,000 ha)⁶.
 - (iv) Provision of RM550 million in soft loans/ financing with an interest rate/ profit rate of 2% for oil palm smallholders⁷.
 - (v) Allocation of RM27 million to support the MPOB's efforts to market palm oil internationally and counter anti-palm oil campaigns⁸.
 - (vi) Allocation of RM30 million for research and development to develop higher value added downstream uses of palm oil⁹.
14. Statistics provided by the MPOCC indicate a significant gap in MSPO certification progress for independent smallholders (Table 1). The latest statistics on MSPO certification are available at <https://mspotrace.org.my/>

Table 1. Progress of OPMC certification (as at 31 December 2020)

Category	Total planted area* (ha)	Entities certified	Area certified (ha)	%
Independent smallholdings	979,892	170 clusters	311,739.51	31.61
Organised smallholdings	681,532	465 clusters/ estates	671,583.90	98.54
Plantations	4,232,294	3,794 estates	4,223,794.00	99.80
Total	5,900,157	4,429	5,207,117.41	88.25

Category	Total mills*	Units certified	Milling Capacity (MT/Hr)	%
Palm Oil Mills	452	340	22,770	95.35

Source: MPOB (<https://mspotrace.org.my/>)

⁵ Garis panduan bagi potongan perbelanjaan di bawah perenggan 34(6)m dan 34(6)ma Akta Cukai Pendapatan 1967 bagi maksud pengiraan cukai pendapatan, 2012. Available for download at www.hasil.gov.my.

⁶ <https://www.mpocc.org.my/incentives>

⁷ Official Portal of the Ministry of Finance Malaysia.

⁸ <https://mpi.gov.my/index.php/en/media-2/mpic-in-the-news/245-palm-oil-2019/6922-palm-oil-govt-allocates-rm550-mln-palm-oil-replanting-loan-fund-for-smallholders>

⁹ <https://www.mpi.gov.my/index.php/en/media-2/mpic-in-the-news/250-news-general-2019/6930-budget-budget-2020-speech>

15. Group certification for independent smallholders are organised by the MPOB through the Extension Officers nationwide. Financial support for the MSPO audits, PPE, and documentation is carried out by the MPOB. Financial sustainability of independent smallholders relies on a number of factors, such as, good quality planting material, good agronomic practices, high quality yields (FFB Grade A) and good cost management¹⁰.

In order to achieve FFB Grade A and good cost management, it is essential for smallholders to get financial assistance to sustain and manage their estate sustainably by complying with the mandatory schemes such as MSPO throughout the validity of the certificate and continuously, thereafter.

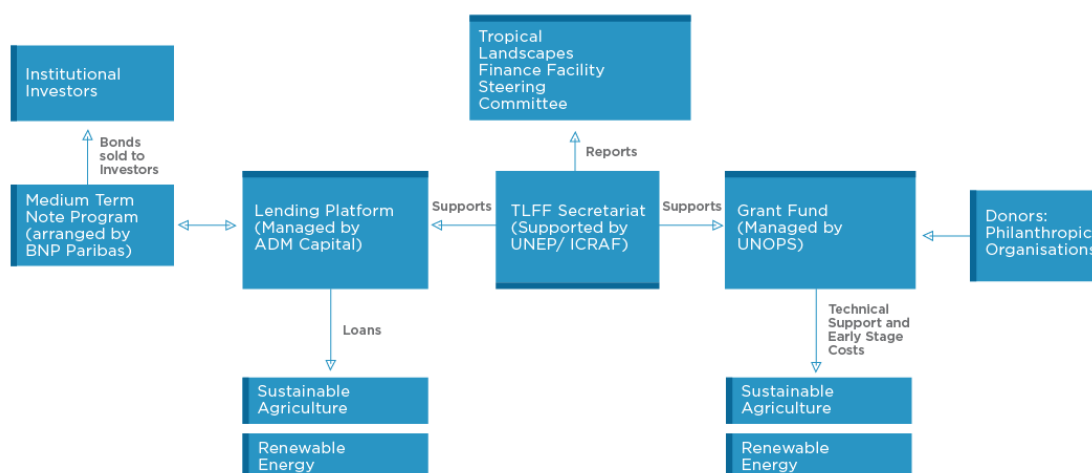
The rest of this page has been intentionally left blank.

¹⁰ "Financial Sustainability for Oil Palm Independent Smallholders", George Samuel Koshy, Asad Ata; 2017. Research summary and outcome available at www.misi.edu.my/misi2016-v2/centers-of-excellence/center-for-sustainable-value-networks/

16. Currently, there are specialised financing products offered for this sector by a number of FIs which target medium and large sized estates. An example which involves an international collaboration is illustrated below (Box 4).

Box 4. Tropical Landscapes Finance Facility (TLFF)

TLFF is an initiative supported by the Indonesian government and facilitated by UN Environment, World Agroforestry Centre, ADM Capital and BNP Paribas. TLFF consists of a Lending Platform and a Grant Fund. Under the Lending Platform, long-term loans issued by TLFF are securitised through a Medium-Term Note (MTN) programme. The Grant Fund provides technical assistance and co-funds early stage development costs, offering an opportunity for corporate and private foundations to leverage their funding with private finance. The TLFF Secretariat works in a collaborative manner with stakeholders and offers comprehensive support towards the achievement of the stated goals of TLFF. The Secretariat assists and provides administrative support to the TLFF Lending Platform, TLFF Grant Fund and all other related entities.



Source: <http://tlffindonesia.org/>

The rest of this page has been intentionally left blank.

D. IMPACT-BASED RISK MANAGEMENT

Policy statement

17. Following the regulatory mandate¹¹ in Malaysia, FIs should ensure that they conduct businesses with local counterparties in the palm oil supply chain who are MSPO certified, where applicable.
18. FIs need to also consider other relevant certifications that may have significant impact on the activities of the counterparties in the jurisdictions that they operate. In particular, counterparties with operations outside of Malaysia would need to comply with other global voluntary sustainability certification schemes such as RSPO and ISPO, and mandatory schemes in that jurisdiction.
19. FIs need to take a nurturing approach to facilitate compliance with the above certifications. This requires FIs to obtain commitment from their counterparties, agree on a time-bound action plan, adequately monitor progress and agree on rectification/ exit conditions in cases of breaches/ non-compliances.

I. Impact-based risk identification

(a) Key impact assessment¹²

20. FIs should identify and balance trade-offs between the positive¹³ (benefits) and negative (risks) impacts related to financing and/or investing (and any other relevant financial activities) in this sector.
21. Table 2 provides a brief description of the key impact-based risk categories/themes in this sector in Malaysia. The impact categories/themes are classified based on ESG risk aspects and have been adapted from CDC Group plc (The UK's development finance institution) Sector profiles¹⁴. The identified categories can typically generate significant risks if not well managed but could present significant opportunities to add value if the risks are proactively addressed.

¹¹ Licence to conduct oil palm cultivation will be contingent upon MSPO certification. Hence, FIs are potentially exposed to legal risk if they conduct businesses with counterparties without valid MSPO certification and licence.

¹² As stated in paragraph 52 of VBIAF, impact assessment should be conducted at both customer and transaction levels. The guidance provided in this document focuses on transaction-level risks but may also be used to assess customer-level risk. Customer-level on-boarding process is stated in paragraph 40 and Table 3 of VBIAF.

¹³ As stated in the introduction, some of the positive impact of palm oil is that it is an important contributor towards export earnings, job creation and alleviating poverty amongst the rural communities in Malaysia.

¹⁴ CDC Sector profiles draw on internationally recognised standards and guidance, particularly the International Finance Corporation Performance Standards and the World Bank Group Environmental, Health and Safety (EHS) Guidelines. <https://toolkit.cdcgroup.com/sector-profiles/agriculture-and-aquaculture/>

Table 2. Key impact-based risk categories/ themes

Category	Risk transmission
(a) Environment	
Land access, land-use, land-use change and acquisition	<ul style="list-style-type: none"> • Land use/ land-use change not approved by the relevant Land Office or the respective state government for oil palm cultivation. • Delays and additional costs of securing land and access, particularly if it involves resettlement of the local population and/or economic displacement of communities. • Acquisition of land without FPIC (perceived “land grabbing”). • Corruption/ bribery in land acquisition process. • Higher operational costs due to inadequate land use planning.
Biodiversity loss and deforestation	<ul style="list-style-type: none"> • Adverse EIA [Act 127: Environmental Quality Act (Prescribed Activities) (Environmental Impact Assessment) Order, 2000]. • Damage to biodiversity due to unsustainable production practices. • Deforestation and encroachment into forest reserves. • Adverse interaction with local communities if ecosystem services are damaged or access to use is impaired. • Negative impacts of large scale conversion of forests and human-wildlife conflict on protected areas, endangered species and/or critical habitats and the associated delays and additional costs to address and prevent such impacts.
Climate/ emissions GHG	<ul style="list-style-type: none"> • Excessive GHG emissions through deforestation, agriculture waste etc. burning, draining and degrading peat release vast amounts of GHGs (especially methane) and are particularly difficult to put out. • Land degradation and poor productivity, particularly cultivation of peatlands. • Land clearance through open burning and forest fires [Act127: Environmental Quality Act (Prescribed Activities) (Open Burning) Order 2005]. • Lower productivity or product loss due to increased weather risks (e.g. climate change-induced drought). • Inefficient use of energy throughout the supply chain.
Water	<ul style="list-style-type: none"> • Destruction of riparian zone. • Inefficient use of water in regions with high water source vulnerability.
Pollution prevention and resource use efficiency	<ul style="list-style-type: none"> • Flooding and silt deposits flowing into rivers as a result of soil erosion¹⁵. • Water and soil pollution arising from direct release of waste and palm oil effluent¹⁶. • Land clearance through open burning resulting in air pollution and transboundary haze.

¹⁵ Planting on unsuitable slopes can lead to soil erosion and loss.

¹⁶ From release of untreated effluents and indiscriminate use of pesticides, herbicides and fertilisers.

Category	Risk transmission
	<ul style="list-style-type: none"> Fines for non-compliance with pollution prevention legal requirements, especially with respect to solid waste and hazardous materials management and disposal. Threats to the availability of soil due to overuse and the associated higher operational costs.
Supply chain management	<ul style="list-style-type: none"> Loss of customers or lack of market access due to lack of traceability and supply chain sustainability.
(b) Social	
Labour rights and working conditions	<ul style="list-style-type: none"> Prosecution or fines for human rights abuses (including forced, child and/or trafficked labour) and poor working/ living conditions (including discriminatory treatment of migrant workers and other indicators of forced labour). Lower production efficiency arising from deterioration of labour relations and workers' health (e.g. labour disputes and exposure to excessive pesticides and herbicides). Higher costs to recruit and train new workers if high turnover and rely on seasonal labour/ part-time employment. Costs of remediation to address labour issues/ violations.
OSH	<ul style="list-style-type: none"> Prosecution or fines for failure to comply with OSH regulations and causing injuries/ fatalities of workers/ contractors. Loss of production/ business due to increased incidences of injuries/ accidents. Additional legal costs and higher payments for protection cover due to higher/ frequent claims.
Human rights and community relations	<ul style="list-style-type: none"> Additional costs to address social opposition and criticism over land use conflicts. Higher compensation claims from surrounding communities exposed to immediate and long-term safety and health risks. Displacement of communities, involuntary resettlement and violation/infringement of rights of indigenous/vulnerable groups without FPIC. Costs of remediation to address human rights issues.
(c) Governance	
Governance mechanism	<ul style="list-style-type: none"> Lack of strategic planning on sustainability including policy statements, clear and tangible action plans and proper reporting and monitoring. Lack of resources dedicated to sustainability matters including technical expertise on MSPO/ RSPO etc.

22. A list of applicable laws and standards regulating this sector is provided in the Appendix.

(b) Customer on-boarding checklist

23. FIs need to develop an appropriate customer on-boarding checklist based on the key impact categories and potential risk transmission channels identified above.
24. Table 3 suggests the information required for the initial on-boarding assessment to determine transaction-level risks as described in the next section :-

Table 3. Initial on-boarding checklist

Category	Growers		Miller
	L	S	
Land access, land-use, land-use change and acquisition			
Land description (e.g. size, type of land, proximity to water source, forest reserve, peat, indigenous people and communities) ♦	✓	✓	✓
Valid land-use term (e.g. oil palm/ agriculture) and planning permission ♦	✓	✓	✓
EIA and/or SEIA report ♦	✓	n/a +	✓
FPIC* ♦	✓	n/a	✓
Biodiversity loss and deforestation			
HCV assessment	✓	n/a	n/a
HCS assessment	✓	n/a	n/a
Land clearance method ♦	✓	✓	n/a
Desktop biodiversity assessment ♦	✓	n/a	n/a
Climate/ GHG emissions			
Climate mitigation and/ or GHG management plan (including best management practices for peat)*, GHG emissions report	✓	✓	✓
Efficient energy use*	✓	✓	✓
Climate adaptation strategy e.g. adaptive cultivation practices, alternative irrigation technology etc.	✓	✓	✓
Water			
Water management – policy, source of water, usage monitor*	✓	✓	✓
Riparian management ¹⁷ – policy, mitigation plan*	✓	n/a	n/a
Pollution prevention and resource use efficiency			
Waste/ effluents management plan (JAS)* ♦	✓	✓	✓
Permit of purchasing and storage of diesel (KPDNHEP)* ♦	✓	✓	✓
On-site assessment – waste/ effluent/ chemical storage, handling and disposal	✓	✓	✓
Air quality measurement and management*	✓	✓	✓
Supply chain management			
Status of MSPO/ RSPO certification (e.g. current, renewal, new application)	✓	✓	✓
Desktop/ on-site assessment	✓	✓	✓
Labour rights and working conditions			
Use of migrant and vulnerable workers ♦	✓	✓	✓

¹⁷ <https://www.water.gov.my/jps/resources/auto%20download%20images/584651b23652f.pdf>

Category	Growers		Miller
	L	S	
Labour management – policy, formal contracts, training, grievance/ complaints mechanism*	✓	✓	✓
Desktop/ On-site assessment – working condition scanning, living arrangements	✓	✓	✓
Issues reported and how they were resolved	✓	n/a	✓
OSH			
OSH management – policy, training, monitoring, audits	✓	✓	✓
Certification of Fitness for machinery in plant (JKKP) ◆	n/a	n/a	✓
Steam Engineer's Certificate of Competency (JKKP) ◆	n/a	n/a	✓
Sufficient protection – coverage, compensation ◆	✓	✓	✓
On-site assessment – working condition, safety/ protection gears	✓	✓	✓
Issues reported and how they were resolved	✓	n/a	✓
Human rights and community relations			
Stakeholder management – policy including FPIC, grievance/complaints mechanism*	✓	n/a	✓
Engagement programmes including awareness, supporting community events*	✓	n/a	✓
Governance			
Sustainability commitment, strategy and policy including monitoring mechanism, transparency and disclosure	✓	n/a	✓
Status of MSPO/ RSPO certification (e.g. current, renewal, new application) and time-bound action plan ^{18,19} ◆	✓	✓	✓
Participation in any government programmes (e.g. FELDA) and/or recipient of government assistance (funding, technical) ◆	✓	✓	✓
Desktop research against global tools (e.g. SCRIPT, SPOTT, GFW, Water Risk Filter*)	✓	n/a	n/a

* where applicable, L = medium and large estates of at least 40.46 ha, S = smallholders, estates less than 40.46 ha

+ FIs may refer to RSPO smallholder-friendly SEIA (https://rspo.org/library/lib_files/preview/477)

- Initial on-boarding should be conducted at the customer and transaction-levels for new and/or existing counterparties depending on the FI's implementation approach (refer to scope in VBIAF pp. 3-4).
 - FIs should give particular attention to new estates (regardless of size) which have yet to obtain MSPO or other relevant certification(s) since these transactions would be of higher risk.
- ◆ Indicates the minimum information required for an effective initial on-boarding.

25. FIs should update the above assessment at least annually and/ or when renewing/ reviewing financing facility/ investment (e.g. by requiring the counterparty to provide at least an annual report).

¹⁸ MSPO audits are conducted by CBs. List of accredited CBs can be found here: <https://www.mpocc.org.my/certification-bodies>.

¹⁹ List of MSPO certification status can be found here: <https://www.mpocc.org.my/mspo-certification> and also through "MSPO Trace" <https://mspotracer.org.my/> (phone app available free for download).

26. Examples of customer on-boarding checklists are provided in the Appendix.

(c) Exclusion list

27. FIs should develop an exclusion list which would serve as a baseline risk appetite. Examples of general activities that should be avoided are provided in Table 6 of VBIAF pp. 30-31. Specific activities that should be avoided in this sector include :-
- (i) new estates that convert or degrade HBV/ HCV and HCS forests, primary forests, forest reserves and peatland. Reference checks can be done through the Malaysia Biodiversity Information System (MyBIS) which lists the protected areas in Malaysia²⁰;
 - (ii) banned and/or harmful planting practices such as indiscriminate open burning for the purpose of land clearing; and
 - (iii) exploitation of people and communities including activities that are against national labour laws and indigenous people's rights.

II. Impact-based risk measurement

(a) Key impact measures/ indicators

28. FIs should develop different impact metrics/ indicators for different counterparties (e.g. medium and large estates, smallholders and millers).
29. FIs need to assign appropriate risk score/ level for each of the impact metric/ indicator. As stated in footnote 52 of VBIAF, FIs would need to consider factors such as the likelihood and materiality²¹ of the impact-based risks, consideration of stakeholders' interest and national priorities/ targets. The assessment should include, where relevant, an analysis of the severity of the environmental risk, as well as capacity, commitment and track record of the customer in managing such risk. Transactions with higher environmental risk should be subjected to in-depth due diligence, which may include site visits and independent review by environmental risk specialists.

²⁰ MyBIS is a one-stop repository database system that provides and facilitates access to information on biodiversity studies and management in Malaysia. The copyright of this system belongs to the Kementerian Air, Tanah dan Sumber Asli (KATS) <https://www.mybis.gov.my/one/pamaps.php>

²¹ As suggested in VBIAF, FIs may refer to Bursa Malaysia's "Sustainability Toolkit: Materiality Assessment" and "Sustainability Toolkit: Materiality Matrix" and the Sustainability Accounting Standard Board (SASB)'s Materiality Map.

30. Table 4 provides examples of **transaction-level risk metrics and risk score** for each of the categories identified²² :-

Table 4. Transaction-level risk metrics and risk score

Category	Inherent risk level	Metric	Mitigation	Risk score/ level ²³
Land access, land-use, land-use change and acquisition				
HCV and HCS forests, primary forests, forest reserves and peatland (L) ♦	<ul style="list-style-type: none"> Unacceptable risk for new estate High for existing estate 	<ul style="list-style-type: none"> Amount of peatland ecosystem restored Amount of trees replanted Funding towards biodiversity conservation activities 	<ul style="list-style-type: none"> Effective commitment to conservation/ reforestation[†] 	Example for existing estate, % of peatland area restored :- <ul style="list-style-type: none"> High – 0-50% Medium – 51-99% Low – 100%
Valid land term (palm oil/ agriculture) and planning permission (L, S, M) ♦	High	<ul style="list-style-type: none"> Valid land term and planning permission 	<ul style="list-style-type: none"> Disbursement subject to obtaining valid documents 	Example :- <ul style="list-style-type: none"> Unacceptable/ High – No valid documents Moderate – Credible evidence of preliminary approval/ in progress status from relevant authorities Low – Valid documents from relevant authorities
EIA and/or SEIA report ²⁴ (L,S) ♦	High	<ul style="list-style-type: none"> Satisfactory report 	<ul style="list-style-type: none"> Disbursement subject to effective mitigation 	Example :- <ul style="list-style-type: none"> Unacceptable/ High – Unsatisfactory report Medium – Sufficient evidence that effective mitigation
FPIC (L) ♦				

²² The suggested metrics are not definitive or exhaustive. FIs should review the appropriateness of the metrics suggested and use more relevant and specific metrics and categories where applicable.

²³ The risk score/level provided is an example. FIs can use either a numeric score (1-5) or categorisation (High, Medium, Low) according to their respective internal risk methodologies. FIs should determine the appropriate risk score/ level based on their respective risk appetites. Examples for some of the risk scores/ levels are intentionally not provided as they will depend on the respective project/ transaction baselines.

²⁴ For smallholders, SEIA report can be adapted using RSPO's Smallholder-Friendly Manual for SEIA.

Category	Inherent risk level	Metric	Mitigation	Risk score/ level ²³
				measures are in place to address issues identified - Low – Satisfactory report
Biodiversity loss and deforestation				
HCV and/or HBV/ HCS assessment (L) ♦	Unacceptable/ High	• Satisfactory report	• Disbursement subject to effective mitigation	Example :- - Unacceptable/ High – Unsatisfactory report - Medium – Sufficient evidence that effective mitigation measures are in place to address issues identified - Low – Satisfactory report
Land clearance method (L, S) ♦	Unacceptable/ High	• Number of hotspots/ fires in estates ²⁵	• Effective no burning policy [†]	Example :- - Unacceptable/ High – Persistent history of reports on burning practices - Medium – Rare reports of burning practices and sufficient evidence that effective mitigation measures are in place - Low – No incidents
Climate/ GHG emissions				
GHG emissions (L, S, M)	High/ Medium	• GHG emissions (KgCO ₂) per tonne reduced (scope 1,2, 3) • % of renewable energy use	• Effective GHG management [†]	Example of metric: GHG per tonne :- - High – - Medium –

²⁵ There is no publicly available official report on hotspots/ fires in Malaysia. Hotspot maps are derived from satellite imagery and often need to be verified on the ground for its authenticity. Some useful sites include <https://www.doe.gov.my/portalv1/en/>, <https://www.haze.gov.sg/>, <http://asmc.asean.org/asmc-hotspot>, <https://fires.globalforestwatch.org/home/>, <http://www.simedarbyplantation.com/sustainability/hotspot-dashboard>

Category	Inherent risk level	Metric	Mitigation	Risk score/ level ²³
		• % of biogas capture or CH ₄ avoidance ²⁶		- Low –
Efficient energy (L, S, M)		• Amount of energy savings per tonne of FFB/ CPO	• Effective energy management [†]	
Climate adaptation strategy (L, S, M)		• (Depends on respective strategy e.g. diversification, integrated systems)	• Effective climate adaptation management [†]	
Water				
Water use (L, S, M)	High/ Medium	• Amount of water savings per tonne of FFB/ CPO	• Effective water management [†]	Example water savings per tonne :- - High – - Medium – - Low –
Riparian zone (L)		• Improvements in riparian vegetation	• Effective riparian zone management [†]	
Pollution prevention and resource use efficiency				
Waste/ effluents/ soil degradation (L, S, M) ♦	High/ Medium	• Improvement in water quality/ soil fertility metrics • Improvement in treatment of waste • Reduction of waste per tonne of FFB/ CPO • Chemical usage per ha of estate • Number of hotspots/ fires in estates • Air quality	• Effective pollution management [†]	Example chemical usage per ha :- - High – - Medium – - Low –
Supply chain management				
Status of certification (L, M)	High/ Medium	• % of supply chain MSPO/ RSPO certified	• Time-bound action plan with	Example % of supply chain MSPO certified :-

²⁶ Recommended for all mills by 2020. In 2014, the Government of Malaysia mandated new palm oil mills and old mills that are expanding their capacity to install methane avoidance facilities (Source: NC3BUR2).

Category	Inherent risk level	Metric	Mitigation	Risk score/ level ²³
			effective monitoring	<ul style="list-style-type: none">- High – 0-50%, no certification- Medium – 51-99%- Low – 100%, additional certification e.g. RSPO
Labour rights and working conditions				
Use of migrant and vulnerable workers (L, S, M) ♦	High/ Medium	<ul style="list-style-type: none">• % of migrant workers• % of vulnerable workers• Average salary per month• Number of legal cases/ disputes per year• Indicators of forced labour• Indicators of child labour	<ul style="list-style-type: none">• Effective human resource management[†]	Example % of migrant workers :- <ul style="list-style-type: none">- High – 20-100%- Medium – 6-19%- Low – 0-5%
Labour management (L, S, M)				
OSH				
OSH management (L, S, M)	High/ Medium	<ul style="list-style-type: none">• Number of occupational injuries/ accidents• Number of legal cases/ disputes• Satisfactory machinery maintenance reports• Satisfactory training reports	<ul style="list-style-type: none">• Effective OSH management[†]	Example number of incidents :- <ul style="list-style-type: none">- High – High number of incidents and claims (e.g. 20 per 100 workers)- Medium – Few number of incidents and claims (e.g. 10 per 100 workers)- Low – Rare incidents and claims (e.g. 1 per 100 workers)
Machinery operation (L, S, M) ♦				
Sufficient protection (L, S, M) ♦	Medium	<ul style="list-style-type: none">• % of employee with protection (e.g. PPE, PERKESO)• Sufficient coverage (takaful/ insurance)		Example % of employee with PERKESO :- <ul style="list-style-type: none">- High – 0-50%- Medium – 51-99%- Low – 100%, adequate coverage e.g. 10-12 times of income

Category	Inherent risk level	Metric	Mitigation	Risk score/ level ²³
Human rights and community relations				
Stakeholder management (L, M)	High/ Medium	<ul style="list-style-type: none">• Number of legal cases/ disputes• Number of complaints• Number of engagement programmes• Progress reports on complaints handling	<ul style="list-style-type: none">• Effective stakeholder management[†]	Example number of legal cases/ disputes :- <ul style="list-style-type: none">- High – High number of cases and claims (amount in RM)- Medium – Few number of cases and claims- Low – Zero cases
Engagement programmes (L, M)				
Governance				
Valid certification (L, S, M) ◆	High	<ul style="list-style-type: none">• % of area (ha) which are MSPO or other sustainability schemes certified• % of mills which are MSPO/ RSPO certified• Progress to MSPO/ RSPO certification	<ul style="list-style-type: none">• Time-bound action plan with effective monitoring	Example % of area (ha) which are MSPO/ RSPO certified :- <ul style="list-style-type: none">- High – 0-50%- Medium – 51-99%- Low – 100%, clean audit and surveillance report, additional certification e.g. RSPO, ISCC

Applicability () : L = medium and large estates of at least 40.46 ha, S = smallholders, estates less than 40.46 ha, M = millers

◆ Indicates minimum scoring criteria

31. †Effective management is evidenced by amongst others, clear and comprehensive policy and procedures, adequate reporting and monitoring, appropriate grievance/ complaints mechanism and sufficient rectification planning. When making an assessment regarding the effectiveness of such policies/ programmes, FIs should consider independent information obtained either internally or externally such as audit/ surveillance reports, compliance reports, reports/ filings/ checks with regulatory authorities and/or civil societies (if available), and news reports. FIs should, as part of its due diligence process, assess and monitor the counterparty's commitment, capacity and track record in environmental and social risks management.
32. The risk score/ levels provided are for illustrative purposes only. FIs could use either a numeric score (e.g. 1-5) or categorisation (e.g. High, Medium, Low) according to their respective internal risk methodologies. FIs should determine the appropriate risk score/ level based on their respective risk appetites.
33. FIs need to determine a decision-making rule based on the aggregate risk score/ level of the impact-based metrics/ indicators above and their respective risk appetite statement. As stated in paragraph 53 of VBIAF, the decision-making rule need to consider both the transaction-level and customer-level risks. Table 5 suggests a description of transaction-level risks and decision-making rule specific to this sector:

Table 5. Example of decision-making rule

Unacceptable risk	A transaction involving activities on the exclusion list. This includes existing counterparties that exhibit continuous poor impact performance. No approval should be given.
High risk	Scores "High" for the majority of key impact categories/ themes but has satisfactory mitigation strategy. Approval must be subject to strict compliance conditions/ covenants.
Medium risk	Scores "Medium" or "Low" in the majority and exhibit evidence of effective mitigation strategy. Approval can be subject to additional compliance conditions/ covenants.
Low risk	Scores "Low" for all impact categories and exhibit evidence of effective mitigation strategy. Approval can be subject to standard compliance conditions/ covenants.

(b) Certifications

34. As stated in paragraph 56 of VBIAF, FIs may deem a counterparty that is certified with an established certification standard, such as the nationally mandated MSPO, to have sufficiently managed the key impact-categories/ themes. FIs need to ensure that the certifications are current and valid. FIs may assign a Medium/ Low risk score/ level for some or all of the impact-based categories/ themes required to calibrate a minimum scoring criteria (◆).

35. FIs may rely on the risk reports/ assessments provided by the following certifications²⁷ :-
- (i) Local operations – MSPO and other sustainability certifications, if applicable.
 - (ii) Overseas operations – RSPO, ISCC or ISPO (for Indonesia only) certifications.
 - (iii) Other relevant schemes – the Palm Oil Innovation Group, Rainforest Alliance, Tropical Forest Trust, HCV approach or HCS approach.
36. However, as further clarified in VBIAF, any reliance on a particular certification standard should only be made if the certification matches FIs’ impact-based risk appetite for the particular sector and jurisdiction that the counterparty is operating in. In such instance, FIs may not need to conduct further due diligence on the counterparty’s operations, capacity and track record. If the certification standard is inadequate, FIs should review the reports/ assessments including any available audit/ surveillance reports to identify impact-risks that are not adequately addressed by the respective certifications.
37. FIs need to be aware of the differences in the methodology of the various certification schemes and the impact on FIs’ impact-risk scoring. Table 6 provides a summary of key elements in the certification process of 4 certification schemes²⁸.

Table 6. Summary of certification process by certification schemes					
Key element		Scheme			
		RSPO	ISCC	ISPO	MSPO
Certification	Who: independent 3rd Party				
	How: audit				
	How often: annual surveillance				
	Who decides: certification body				
Accreditation	Fully independent accreditation				
Complaints	Documented procedures available				
Transparency	Audit reports publicly available				
Claims	Supply chain verification				

Note:
Dark shading: process reaches best practice, with greatest restrictions on activities
Mid-shade: intermediate state
No shading: absence of process

38. A summary of comparisons of leading palm oil certification schemes is provided in the Appendix.

²⁷ Table 11 of VBIAF p. 35 also provides a list of general certifications e.g. MS ISO 14001: 2015, MS 1722:2011, OHSAS 18001, MS 1900.

²⁸ All certification schemes undergo periodical revisions. The comparisons provided are based on the most recently available standards and are to be used for reference only.

(c) GHG calculator/ methodology

39. For the purpose of calculating GHG emissions of the activities of the FIs' counterparties, the following methodologies are recommended :-

- (i) RSPO PalmGHG Calculator²⁹
- (ii) GHG Protocol as recommended by TCFD;
- (iii) GHG methodology by RSPO³⁰;
- (iv) GHG methodology by ISCC³¹; or
- (v) ISO 14064.

40. In addition, the above information may be used by FIs to disclose Scope 3 GHG emissions or financed emissions and the related risks of their counterparties in line with TCFD recommendations.

41. For smallholders and palm oil millers, the use of detailed GHG methodology may not be practical. In these cases, FIs should consider a portfolio approach to compute GHG emissions.

(d) Financial risk assessment (TCFD)

42. As stated in paragraph 34 of VBIAF, impact-based risks can also result in financial impact that can impair the FIs' safety and soundness. Hence, FIs need to understand the financial vulnerabilities that may arise in this sector as a result of these impact-based risk factors³². Impact-based risks identified above mainly relate to the impact of the counterparties' activities on the environment and society (the effects of which will have impacts on the counterparties). However, TCFD recommendations mainly focus on the impacts of climate-related risks and opportunities on the counterparties (reverse perspective).

43. Table 7 maps examples of physical and transition risks³³ arising from environmental triggers in this sector against established financial risks taxonomy³⁴ :-

²⁹ <https://www.rspo.org/certification/palmghg/palm-ghg-calculator>

³⁰ <https://www.rspo.org/files/project/GreenHouse.Gas.Working.Group/Report-GHG-October2009.pdf>

³¹ https://www.iscc-system.org/wp-content/uploads/2017/02/ISCC_DE_205_GHG-emission-calculation-methodology.pdf

³² Paragraph 50 of VBIAF states the use of impact-based metrics to improve FI's risk prediction models for stress testing purposes.

³³ Climate-related risks are not limited to physical and transition risks and may include other risks such as liability risk and operational risk. Where applicable, FIs need to also consider the impact of these risks in their assessment.

³⁴ "Enhancing environmental risk assessment in financial decision-making" (July 2017), G20 Green Finance Study Group.

Table 7. Example of physical, transition and financial risk

Physical risk ³⁵	Transition risk	Financial risk
<ul style="list-style-type: none"> • Acute (event driven) e.g. increased frequency of severe floods result in lower yields/ damage to crops, soil erosion, inability to cultivate land, increased irrigation costs. • Chronic (longer term shifts in climate patterns) e.g. sustained higher average temperatures causing chronic drought and heat waves result in lower yields/ damage to crops, land degradation, altered growing conditions and seasons. 	<ul style="list-style-type: none"> • Mandatory MSPO certification (in Malaysia) and additional policy on oil palm cultivation (Box 2). • Change in laws relating to the sector. • New laws on climate change. • Changing customer behaviour/ demand for palm oil. 	<ul style="list-style-type: none"> • Business/ legal risks – increased operational and compliance costs, decrease in revenue arising from reduced crop yields and/or reduced demand for palm oil related products and services, disruption in production capacity, fines and penalties. • Credit/ market risks – higher expected loss (higher PD and LGD) due to limited income growth/ reduced cash flows/ income³⁶, higher costs (e.g. takaful/ insurance)/ degradation of collateral value (land).

44. FIs may rely on the assumptions presented in the NC3BUR2 and technical supplement³⁷ prepared by TCFD in conducting scenario analysis relating to climate-related risks and opportunities. As for other environmental risks, FIs may consider referring to “Exploring Natural Capital Opportunities, Risks and Exposure”³⁸ as a guide in assessing the financial impacts³⁹ of natural capital risk on their operations.

III. Impact-based risk management and mitigation

45. FIs need to include clear and comprehensive terms and conditions in the contractual agreements with the counterparties (applicable to new or renewal contracts) :-
- (i) Identify applicable laws/ regulations/ standards/ certification that are related to the oil palm industry in Malaysia such as MSPO and other applicable certifications such as RSPO/ ISCC if applicable, and require the counterparties to be MSPO certified and comply with the Environmental Quality (Prescribed Activities) (Environmental Impact Assessment) Order 2015).

³⁵ NC3BUR2 (pp.102-105).

³⁶ Estimation of potential losses of FFB by oil palm estates during La Niña in 2010 and 2011 were about 239,181 and 224,776 tonnes respectively, with estimated potential income losses of RM155.10million and RM168.22million. The assessment estimated that the oil palm cultivation areas prone to flood would increase from about 68,531 ha to 126,597 ha (+85%) and 384,275 ha (+460%) in 2030 and 2050 respectively (ibid).

³⁷ “The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities”. TCFD

³⁸ https://www.unepfi.org/wordpress/wp-content/uploads/2018/11/NCFA_Exploring-Natural-Capital-Opportunities-Risks-and-Exposure_Nov-2018.pdf

³⁹ <https://impakter.com/nature-risks-are-financial-risks/>

- (ii) Identify and require specific commitments from the counterparties including commitment to :-
 - a time-bound action plan to comply with mandatory MSPO certification;
 - if applicable, a time-bound action plan to achieve 100% certification from RSPO or other;
 - NDPE i.e. no conversion/ deforestation of HCV area, HCS area and primary forests, no planting on protected or preserved areas, no new plantation development on peat or swamp regardless of depth;
 - no burning policy including fire prevention measures;
 - protection of KBA;
 - energy efficiency;
 - best management practices relating to sustainable production (including rehabilitating peat at the end of planting cycle, reforest and/ or restore degraded land and environmental management techniques for fertiliser/ water use, energy efficiency and waste management;
 - smallholder inclusivity; and/ or
 - achieving 100% traceability to the plantation level and supply chain.
 - (iii) Identify event(s) that would constitute impact-based non-compliance/ breach e.g. failure to produce/ obtain MSPO certification and other if applicable, by a specified period, certification withdrawn, evidence of land burning/ deforestation activity, evidence of human trafficking/ illegal/ unfair labour practices, failure to comply with time bound plan and require counterparty to report on such incidents.
 - (iv) Identify standard representations and warranties to be furnished by the customer e.g. EIA/ SEIA report, MSPO certification and other if applicable, MSPO audit report and RSPO Annual Communication of Progress (if applicable).
 - (v) Identify escalation and exit procedures including remedies/ penalties and event of default.
 - (vi) Identify incentives, if applicable e.g. step-down pricing if meet certain impact-based targets.
46. In addition to the above terms, FIs may consider including the following expectations on their counterparties or encourage counterparties to perform the following to improve positive impact and/or mitigate negative impact :-
- (i) follow new planting procedures⁴⁰;
 - (ii) follow best management practices³³ for existing oil palm cultivation on peat; and/or
 - (iii) start implementing TCFD recommendations and commit to setting science-based targets to manage GHG emissions.

⁴⁰ Guidance provided by RSPO <https://rspo.org/>

47. FIs need to establish clear escalation and exit procedures :-
- (i) Identify time bound rectification plan(s) e.g. reforestation over 3 to 5 years.
 - (ii) Identify penalty(ies) e.g. increase/ step-up pricing, temporarily stop availability of revolving/ trade finance facility, no additional facility.
 - (iii) Identify events of default e.g. continuous breach/ repeated breach, certification withdrawn, and action to be taken such as cancel undisbursed financing amount, recall financing and terminate relationship (negative list).
48. FIs should also recommend their counterparties to take on appropriate and adequate protection such as⁴¹ :-
- (i) Crops harvest/ yield protection – Protection either against loss of crops due to natural disasters or loss of revenue due to declines in prices.
 - (ii) Income protection for smallholders and workers – Protection against loss of income due to illness or injury.
 - (iii) Carbon Capture and Sequestration (CCS) liability – Protection against loss associated with CCS activity that is the process of capturing carbon from a waste stream, compressing it into a liquid, and storing it in geological foundations thousands of feet below the surface.
 - (iv) Pollution liability – Protection against loss associated with an existing or new pollution event and includes an embedded green remediation supplementary payment. Green remediation includes the increase in costs for following standards, products, methods and processes for improving the environment, increasing energy efficiency and enhancing safety and property protection. This also includes the increase in costs attributable to apply green techniques which operate to minimise waste generation, reduce energy consumption, or conserve natural resources in the execution of a clean-up.
49. FIs should collaborate with relevant stakeholders to facilitate appropriate nurturing programmes :-
- (i) Customers :-
 - Collaborate with relevant government agencies/ local authorities/ NGOs to provide training/ awareness programme and advisory services on sustainable palm oil standards/ certification particularly to smallholders.
 - Conduct regular workshop for FIs' customers to share experience and knowledge with the support of relevant external parties (e.g. MPOCC representatives).
 - Offering green financial products to incentivise customers to improve on their sustainability practices (e.g. reduced margin based on pre-determined target relating to improvements in conservation and protection of biodiversity within the customer's own operations/ estates).

⁴¹ Some of the suggested protection/insurance products may not yet be available in Malaysia.

- Setting aside part of the total financing (at preferential rates) to the customer for certification (including both own estates and smallholders' estates).
- (ii) Community :-
- Collaborate with relevant government agencies/ local authorities/ NGOs to conduct awareness/ education programmes on sustainable palm oil and broader sustainability standards/ conventions (e.g. National Policy on Biological Diversity, National Policy on Climate Change, IUCN Red List, National Red List, Endangered species by CITES⁴², HBV, HCV, HCS).
 - General education and promotion of green finance alternatives to the public through roadshows and social media platforms.
 - Smallholders community development programmes (e.g. to improve financial literacy, generate alternative income, improve yields, best practice in sustainable production).

IV. Impact-based risk reporting and monitoring

50. FIs should establish appropriate reporting mechanisms to adequately monitor the impact-based performance, based on the impact measures/ indicators, of their counterparties (Table 8). An impact-based risk report may be constructed as follows :-
- (i) Objective: Provide comprehensive information on material impact-based risk factors that is critical for effective risk management decision-making.
- (ii) Minimum components and examples :-
- Impact-based target(s)
 - 100% compliance with MSPO certification and other certifications if applicable, by counterparties
 - 100% subscription to income protection by smallholders
 - Key impact risk(s) and outlook (positive, stable, negative)
 - deforestation
 - land use/ peat land conversion
 - no land burning
 - labour relations
 - waste management
 - Impact-based metrics at portfolio level
 - % of portfolio that is MSPO compliant
 - progress update on MSPO certification e.g. on track, delayed
 - % of customers with high, medium, low risk scoring, trend of scoring (improving, unchanged, deteriorating)
 - % of smallholders with income protection products
 - Climate change metrics

⁴² The Convention on International Trade in Endangered Species of Wild Fauna and Flora (<https://www.cites.org/eng/disc/species.php>)

- internal climate change target(s) – aggregate GHG emissions⁴³
- climate change classifications⁴⁴
- Compliance
 - Internal audit findings/ site visits/ surveillance audits
 - Exception reporting/ breaches e.g. lapsed MSPO certification and other if applicable, incidents of land burning
 - Rectification action plan and progress
 - Penalties/ fines imposed by regulatory bodies e.g. immigration, OSH
 - Penalties/ cancelled financing

51. FIs also need to monitor and report on stakeholder feedback (Table 8). A stakeholder feedback report may be constructed as follows :-

- (i) Objective: Provide comprehensive information on key capacity building/ engagement initiatives and feedback/ grievances from wider stakeholder that is critical for effective risk management decision-making.
- (ii) Minimum components :-
 - Nature of capacity building for key stakeholders (directly related to sector) e.g. employee, customers, community
 - Nature/ types of feedback/ grievance – positive/ negative, non-compliances/ breaches
 - Summary of action plan e.g. community engagement, additional green-improvement financing
 - Status of action plan e.g. complete, in-progress
 - Impact e.g. improved policies and procedures, improved public sentiment/ branding, reduction in GHG emissions

The rest of this page has been intentionally left blank.

⁴³ FIs should assess its total GHG emissions at portfolio level, and proactively manage them using science-based targets.

⁴⁴ Following the classification of economics activities as outlined in the CCPT.

Table 8. Reporting channel and type of report

Stakeholder	Channel	Type of report/ information content	Frequency
Internal			
1. Board/ Risk Management Committee	<ul style="list-style-type: none"> Board/ Management meetings 	<ul style="list-style-type: none"> Impact-based risk Stakeholder feedback 	Quarterly
2. Employees (e.g. customer relationship managers, credit officers)	<ul style="list-style-type: none"> Department meetings/ focus groups Feedback forms/ surveys Intranet/ Internal communication channels 	<ul style="list-style-type: none"> Impact-based risk Stakeholder feedback Trainings/ up-skilling programmes on relevant sustainability policies, procedures, systems, products and services 	Quarterly
External			
3. Regulators	<ul style="list-style-type: none"> Meetings Seminars/ Forums Annual Report 	<ul style="list-style-type: none"> Impact-based risk Stakeholder feedback 	Ad-hoc
4. Shareholders/ Investors	<ul style="list-style-type: none"> Annual Report Annual general meeting Briefings 	<ul style="list-style-type: none"> Impact-based risk Stakeholder feedback 	Annually
5. Customers	<ul style="list-style-type: none"> Distribution channels Feedback forms/ surveys Other technologies (e.g. social media, call centres) Annual report 	<ul style="list-style-type: none"> Impact-based risk* Stakeholder feedback <p>*customer/ transactional level information</p>	Ad-hoc
6. Community/ Local authority	<ul style="list-style-type: none"> Community engagement programs Focus groups Feedback forms/ surveys Other technologies e.g. social media, call centres Annual report 	<ul style="list-style-type: none"> Impact-based risk Stakeholder feedback 	Ad-hoc

The rest of this page has been intentionally left blank.

E. APPENDICES

1. Technical glossary

Term	Definition	Source
ACB	<p>An organisation that is accredited by Standards Malaysia to undertake the MSPO certification assessment and issues a certificate. ACBs have to apply to MPOCC to become notified CBs to enable them to issue accredited certificates recognised by MPOCC. CBs process applications for certification, conduct audits and make decisions to award MSPO Certificate for OPMC or SCC.</p> <p>Note: For RSPO, all ACBs are accredited by the Assurance Services International⁴⁵.</p> <p>For ISCC, the American National Standards Institute (ANSI) accredits certification bodies to conduct ISCC certification.</p>	<p>MPOCC Certification System document (MSPO Certification Scheme)</p> <p>RSPO</p> <p>ISCC</p>
Biodiversity	<p>Biological diversity or biodiversity is the variety of life on the planet. This includes the diversity within species, between species and of ecosystems.</p> <p>Biological diversity or biodiversity means the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.</p>	<p>MSPO standard</p> <p>Convention on Biological Diversity⁴⁶</p>
Critical habitat	Is a term and designation adopted in the U.S. Endangered Species Act defining a habitat area essential to the conservation of a listed species, though the area need not actually be occupied by the species at the time it is designated.	U.S. Fish and Wildlife Service
Customary rights	Patterns of long-standing community land and resource usage created in accordance with the law of the state or nation.	MSPO standard
EIA	<p>A process of predicting and evaluating the effects of an action or series of actions on the environment, then using the conclusions as a tool in planning and decision-making.</p> <p>A process of evaluating the likely environmental impacts of a proposed project or development, taking into account inter-related socio-economic, cultural and human-health impacts, both beneficial and adverse.</p>	<p>MSPO standard</p> <p>Convention on Biological Diversity</p>
FPIC	A specific right that pertains to indigenous peoples and is recognised in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). It allows them to give or withhold consent to a project that may affect them or their territories. Once they have given their consent, they can withdraw it at any stage.	UNPFII UNDRIP

⁴⁵ <https://rspo.org/certification/bodies>

⁴⁶ <https://www.cbd.int/convention/articles/?a=cbd-02>

Term	Definition	Source
Fragile soils	Fragile soils are problematic and marginal soils in which their utilisation requires higher production cost due to specific management requirements.	MSPO standard
GHG	Gaseous constituent of the atmosphere, both natural ⁴⁷ and anthropogenic ⁴⁸ , that absorbs and emits radiation at specific wavelengths, within the spectrum of infrared radiation emitted by the Earth's surface, the atmosphere and the clouds. Water vapour (H ₂ O), carbon dioxide (CO ₂), nitrous oxide (N ₂ O), methane (CH ₄) and ozone (O ₃) are the primary greenhouse gases in the Earth's atmosphere	IPCC ⁴⁹
HBV	Land that has one of the following status: a) primary forest; b) areas designated by law or by the relevant competent authority to serve the purpose of nature protection; c) areas for the protection of rare, threatened or endangered ecosystems or species recognised by international agreements or included in lists drawn up by intergovernmental organisations.	MSPO standard
HCS	The HCS approach is a methodology that distinguishes forest areas for protection from degraded lands with low carbon and biodiversity values that may be developed.	HCS Approach Steering Group
HCV	HCV are biological, ecological, social or cultural values of outstanding significance or critical importance within a landscape. The HCV approach aims to ensure that areas for biodiversity, and cultural and community needs are protected while allowing economic development and agricultural production.	HCV Resource Network
Independent smallholders	Independent smallholders are individual farmers who own or lease less than 40.46 hectares of oil palm farm and manage the farm themselves. Independent smallholders or leases may employ workers to carry out daily work at their farms.	MSPO standard
KBA	Sites contributing significantly to the global persistence of biodiversity, in terrestrial, freshwater and marine ecosystems. The Global Standard for the Identification of Key Biodiversity Areas (IUCN 2016) sets out globally agreed criteria for the identification of KBAs worldwide.	IUCN
Migrant workers	A person who migrates from one country to another (or who has migrated from one country to another) with a view to being employed other than on his/ her own account.	International Labour Organisation
National Red List	The IUCN Red List of Threatened Species™ is internationally recognised as the most respected and robust inventory of global conservation status of plants and animals. It provides a standard and repeatable method for assessing the extinction risk of a species around the world. Regional and National Red Lists provide an equivalent method to assess	National Red List ^{50,51}

⁴⁷ Such as decomposition of organic matter.

⁴⁸ Such as burning fossil fuels and agriculture.

⁴⁹ https://www.ipcc-data.org/guidelines/pages/glossary/glossary_fg.html

⁵⁰ <https://www.nationalredlist.org/home/about/>

⁵¹ The Red List of Mammals for Peninsula Malaysia (2017) is available here: [http://www.wildlife.gov.my/images/document/penerbitan/lainlain/REDLIST_OL%20\(M\)_2018%20edited.pdf](http://www.wildlife.gov.my/images/document/penerbitan/lainlain/REDLIST_OL%20(M)_2018%20edited.pdf)

Term	Definition	Source
	species status at smaller spatial scales – at the local, national or regional level.	
Oil palm fruit dealers	A business entity that purchases oil palm fruit (FFB) from small holding or estates with weighbridge/ collection centre facilities and sell to a palm oil mill.	Criteria and Guidelines on MPOB license application
Organised smallholders	Organised smallholders are farmers (with planted area of less than 40.46 hectares of oil palm farm). Smallholdings are managed by government agencies such as FELDA, FELCRA (Federal Land Consolidation and Rehabilitation Authority), RISDA (Rubber Industry Smallholders Development Authority), SALCRA (Sarawak Land Consolidation and Rehabilitation Authority), SLDB (Sabah Land Development Board) and other state agencies.	MSPO standard
Peat soils	Peat or organic soils are soils with organic soil material that make up more than half the total cumulative thickness of the upper 100 cm of soil. If the depth of the bedrock is less than 100 cm, the total thickness of the organic soil layers taken cumulatively is more than half of the depth to bedrock.	MPOB ⁵²
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. It is referred to 'direct human disturbance' as the intentional clearing of forest by any means (including fire) to manage or alter them for human use. Also included are forests that are used inconsequentially by indigenous and local communities living traditional lifestyles relevant for the conservation and sustainable use of biological diversity. National and state interpretations shall consider whether a more specific definition is required. Identified customary lands however are not considered as primary forest.	Convention on Biological Diversity ⁵³
Riparian zone	The riparian zone is the area of land (including floodplains) adjacent to a watercourse. A watercourse is the channel that a flowing body of water follows.	JPS
SEIA	A combined analysis of SIA and EIA to identify and evaluate the potential socio-economic and cultural impact of a proposed development on the lives and circumstance.	MSPO standard
Supply chain	The series of steps through which palm oil products are transferred from the smallholders/estates to the end users.	MSPO standard
Sustainable development	Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.	Brundtland Report (1987)
Vulnerable groups	Children, pregnant women, elderly people, malnourished people, and people who are ill or immunocompromised, are particularly vulnerable when a disaster strikes, and take a relatively high share of the disease burden associated with emergencies.	WHO

⁵² <http://palmoilis.mpob.gov.my/publications/TOT/TT529.pdf>

⁵³ <https://www.cbd.int/forest/definitions.shtml>

2. List of applicable laws and regulations⁵⁴

Oil Palm Estates

No	Act
1	Act 4: Employees' Social Security Act 1969
2	Act 71: Weight and Measures Act 1972
3	Act 127: Environmental Quality Act <ul style="list-style-type: none"> • (Prescribed Premises) (Crude Palm Oil) Regulation 1977 • Control of Emission from Petrol Engines Regulation 1996 • Control of Emission from Diesel Engines Regulation 2000 • (Prescribed Activities) (Environmental Impact assessment) Order 2000 • (Prescribed Activities) (Open Burning) Order 2003 • (Prescribed Conveyance) (Scheduled Wastes) Order 2005 • Scheduled Wastes Regulation 2007 • Industrial Effluent Regulation 2009
4	Act 133 : Street, Drainage and Building Act 1974
5	Act 134 : Aboriginal People Act 1954
6	Act 139: Factory and Machinery Act 1967 <ul style="list-style-type: none"> • Safety, Health and Welfare Regulation 1970 • Fencing of Machinery and Safety Regulation 1970
7	Act 149: Pesticide Act 1974 <ul style="list-style-type: none"> • Pesticides (Pest Control Operator) Rules 2004 • Pesticides (Registration) Rules 2005 • Pesticides (Licensing for Sale and Storage for Sale) Rules 2007
8	Act 150 : Passport Act 1966
9	Act 154 : Destruction of Disease Bearing Insects Act 1975
10	Act 155 : Immigration Act 1959/63
11	Act 167 : Plant Quarantine Act 1976
12	Act 226 : National Parks Act 1980
13	Act 227 : Pensions Act 1980
14	Act 262 : Trade Union Act 1959
15	Act 265 : Employment Act 1955
16	Act 313 : National Forestry Act
17	Act 341 : Fire Services Act 1988
18	Act 350 : Children and Young Person Act 1966
19	Act 353 : Employment Restriction Act 1968
20	Act 385 : Land Conservation Act 1960
21	Act 418 : Waters Act 1960
22	Act 446 : Workers' Minimum Standards of Housing and Amenities Act 1990
23	Act 452 : Employees Provident Fund Act 1991
24	Act 486 : Land Acquisition Act 1960
25	Act 514: Occupational Safety and Health Act 1994 <ul style="list-style-type: none"> • Safety and Health Committee (SHC) Regulations 1996 • Use and Standard of Exposure of Chemical Hazardous to Health (USECCH) Regulation 2000 • Notification of Accident, Dangerous Occurrence, Occupational Poisoning Occupational Disease (NADOPOD) Regulation 2004

⁵⁴ In Malaysia over 60 laws and regulations cover the oil palm industry in Malaysia. Refer to Malaysian Oil Palm Sustainability Manual, 2015 published by MPOB. Available for purchase at http://palmsoppe.mpob.gov.my/mpob/index.php?route=product/product&product_id=964

No	Act
	<ul style="list-style-type: none"> • Classification, Packaging and Labelling of Hazardous Chemicals (CLASS) Regulation 2013 • Guidelines on Medical Surveillance
26	Act 582: MPOB Act 1998 <ul style="list-style-type: none"> • Licensing Regulation 2005 • Malaysian Palm Oil Board (Quality) Regulations 2005 • Malaysia Palm Oil Board (CESS) (Oil Palm Fruit) Order 2007
27	Act 55 : Water Services Industry Act 2006
28	Act 670 : Anti Trafficking in Person and Anti-Smuggling of Migrants Act 2007
29	Act 716 :Wildlife Conservation Act 2010
30	Act 732 : National Wages Consultative Act 2011
31	Sarawak: <ul style="list-style-type: none"> • Labour Ordinance • Natural Resources and Environment Ordinance 1993 • Natural Resources and Environment (Prescribe Activities) Order 1994 • Wildlife Protection Ordinance 1998 • Wildlife Protection Rules 1998 • Wildlife Protection (Edible Bird's Nests) Rules 1998 • National Parks and Nature Reserve Ordinance 1998 • Water Ordinance 1998 • Sarawak Biodiversity Centre Ordinance 1997 • Fire Danger Rating System Order 2004 • Forests Ordinance
32	Sabah: <ul style="list-style-type: none"> • Labour Ordinance • Environment Protection Enactment 2002 • Environment Protection (Prescribed Activities) Order 2005 • Environment Protection (Prescribed Activities) (Environmental Impact Assessment) Order 2005 • EIA Guideline on Oil Palm Plantation Development • EIA Guideline for Construction on Hillslope • EIA Guideline for River Sand and Stone Mining
33	Jabatan Pengairan dan Saliran : Garis Panduan melibatkan Rizab Sungai
34	Peraturan-Peraturan Kawalan Bekalan 1974 : Panduan Permohonan Permit untuk Membeli Barang-Barang Kawalan Berjadual : KPDNHEP

Palm Oil Mills

No	Act
1	Employment Act 1955
2	Act 491 : Human Resources Development Act 1992
3	Children and Young Persons (Employment) Act 1966
4	Holidays Act 1951 (Revised 1989)
5	Income Tax Act 1967
6	Income Tax (Deduction from Remuneration Rules 1994)
7	Trades Union Act 1959
8	Act 574 : Penal Code
9	Act 446 : Workers Minimum Standards Of Housing and Amenities Act
10	Companies Act 1965
11	Immigration Act 1959/1965
12	Act 344 : Police Act 1967 and Auxiliary Police Regulation 1970
13	Minimum Retirement Age Act 2012
14	Employees Social Security Act 1969
15	Act 452 : Employees Provident Fund Act 1961 and Employees Provident Fund Act 1991
16	Act 597 : Human Right Commission of Malaysia Act 1999
17	Industrial Relation Act 1967
18	Act 273 : Workmen's Compensation Act 1952
19	Anti-Corruption Act 1997
20	Act 246 : Private Employment Agency Act 1981
21	Act 418 : Water Act 1920
22	Act 655 : Suruhanjaya Perkhidmatan Air Negara (SPAN) 2006 – Water Services Industry Act 2006
23	Act 149 : Pesticides Act 1974 and Regulations, Rules and Order
24	Act 447 : Electricity Supply Act 1990
25	Act 448 : Electricity Supply (Successor Company) Act 1990 and Regulations
26	Act 354 : Drainage Work Act 1954
27	Act 386 : Irrigation Areas Act 1959
28	Act 133 : Street, Drainage and Building Act 1974
29	DOE (Water Quality Index)
30	Act 154 : Destruction of Disease Bearing Act 1975
31	Act 281 : Food and Regulations Act 1983 (Revised 2003)
32	Act 206 : Arms Act 1960
33	Environmental Quality Act 1974
34	Act 1001 : Private Employment Agency
35	Code of Practice on the Prevention and Eradication of Sexual Harassment in the Workplace
36	Act 64 : Sales Tax Act 1972 and Regulations
37	National Land Code (Act 56 of 1900)and Regulations (LAND)
38	Act 610 : Energy Commission Act 2001
39	Garis Panduan Untuk Menyemak Pelan Bangunan Bagi Rumah Pekerja Tetap Dibawah Peraturan-Peraturan Standard Minimum Perumahan dan Kemudahan Pekerja 1990 GPA (Semakan 1996)
40	Act 344 : Police Act 1967 and Auxiliary Police Regulation 1970
41	Act 206 : Arms Act 1960
42	Unclaimed Money Act 1900
43	Act 64 : Sales Tax Act 1972
44	Act 333 : Road Transport Act 1967

No	Act
45	Act 71 : Weights and Measures Act 1972
46	Act 122 : Control of Supplies Act 1961
47	Act 341 : Fire Services Act 1988
48	<p>OSH Act 1994</p> <ul style="list-style-type: none"> • Employers Safety and Health General Policy Statement (Exception) Regulations 1996 • Control of Industrial Major Accident Hazards Regulation 1996 • Safety and Health Committee Regulations 1996 • Safety and Health Officer Regulations 1997 • Safety and Health Officer Order 1997 • Prohibition of Use of Substance Order 1999 • Use and Standard of Exposure of Chemical Hazardous to Health Regulations 2000 • Notification of Accident, Dangerous Occurrence, Occupational Poisoning Occupational Disease Regulation 2004 • Classification, Labelling and Safety Data Sheet of Hazardous Regulation 2013
49	<p>Factory and Machinery Act</p> <ul style="list-style-type: none"> • Notification of Fitness and Inspection Regulations 1970 • Safety, Health and Welfare Regulations 1970 • Steam Boiler and Unfired Pressured Vessel Regulations 1970 • Certificates of Competency Examination Regulations 1970 • Fencing of Machinery and Safety Regulation 1970 • Noise Exposure Regulations 1970
50	Act 582 : Malaysian Palm Oil Board Act 1998
51	Crude Palm Oil (CESS) Order 1998
52	Palm Oil Industry (Licensing) Regulation 1979
53	Palm Oil Industry (Compounding of Offences) Regulation 1982
54	Palm Oil Industry (Contract Registration) Regulation 1985
55	Crude Palm Oil (CESS) (Oil Palm Fruit) Order 2007
56	Malaysian Palm Oil Board (Quality) Regulations 2005
57	Malaysia Palm Oil Board (CESS) (Oil Palm Fruit) Order 2007
58	Malaysian Standard MS1784: Part 2:2006 Good Agricultural Practice GAP-Part 2:Oil Palm (<i>Elaeis guineensis</i> Jacq) Department of Standard Malaysia, 2006
59	Palm Oil Mill Product Losses Management and Monitoring Guidance-MPOA NO: 2/2005
60	Code of Good Milling Practice-MPOB
61	MARDI and DOE Land Suitability Guidelines
62	Windfall Profit Levi Act 1998
63	Permit Kerja Lebih Masa (Over Time Permit)
64	Lesen Alam Sekitar (Environmental License)
65	Lesen Pemprosesan Buah Kelapa (Coconut Processing License)
66	Lesen Pepasangan Persendirian (Personal Installation License)
67	Kementerian Perdagangan Dalam Negeri
68	Fire Certificate
69	Pendaftaran Syarikat/ Perniagaan (Company/ Business Registration)

3. Customer on-boarding checklist – for medium estates, large estates and millers

Customer:	Location:
Financing amount:	
Purpose of financing (brief description):	
Exclusion list: <input type="checkbox"/> Yes <input type="checkbox"/> No	New estate: <input type="checkbox"/> Yes <input type="checkbox"/> No
Land size (ha): Land type: Land term:	MSPO (and other international standards, if applicable) status: <input type="checkbox"/> Current <input type="checkbox"/> New application [state target completion date] <input type="checkbox"/> Renewal [state status of application]
1. Land access, land-use, land-use change and acquisition	
<input type="checkbox"/> Proximity to water source, forest reserve, indigenous people and communities	Remarks: <i>Must have appropriate planting permit/ licence</i> <i>Include significant elements cited in internal/ external reports, mitigations</i>
<input type="checkbox"/> EIA/ SEIA report	
<input type="checkbox"/> FPIC	
	Risk grade:
2. Biodiversity loss and deforestation	
<input type="checkbox"/> HBV/ HCV assessment	Remarks: <i>Validate through external sources (e.g. government agencies, interview with neighbours)</i> <i>Include significant elements cited in internal/ external reports, mitigations</i>
<input type="checkbox"/> HCS assessment	
<input type="checkbox"/> Land clearance method	
<input type="checkbox"/> No burning policy	
	Risk grade:
3. Climate/ GHG emissions	
<input type="checkbox"/> GHG policy	Remarks: <i>Include estimate of GHG, review electricity bills</i> <i>Include significant elements cited in internal/ external reports, mitigations</i>
<input type="checkbox"/> GHG reporting	
<input type="checkbox"/> Efficient energy policy	
	Risk grade:
4. Water	
<input type="checkbox"/> Water management policy	Remarks: <i>Validate through external sources (e.g. government agencies, review water bills)</i> <i>Include significant elements from internal/external reports, mitigations</i>
<input type="checkbox"/> Riparian management policy	
	Risk grade:

5. Pollution prevention and resource use efficiency	
<input type="checkbox"/> Waste and chemical management policy	Remarks: <i>Validate through external sources (e.g. government agencies, interview with neighbours, reports against the customer)</i> <i>Include significant evidence from internal/ external reports, mitigations</i>
<input type="checkbox"/> Waste/ effluents management plan approved by JAS	
<input type="checkbox"/> Permit of purchasing and storage of diesel by KPDNHEP	
<input type="checkbox"/> Air emissions management	
Risk grade:	
6. Supply chain management	
<input type="checkbox"/> Fully compliant supply chain	Remarks: <i>Include evidence of compliance (e.g. valid MSPO certifications) and mitigations</i>
Risk grade:	
7. Labour rights and working conditions	
<input type="checkbox"/> Comprehensive human resource policy	Remarks: <i>Validate through external sources (e.g. government agencies, interview with neighbours, reports against the customer, review outstanding legal cases)</i> <i>Include significant evidence from internal/ external reports, mitigations</i>
<input type="checkbox"/> Use of migrant workers and vulnerable workers	
<input type="checkbox"/> Grievance/complaints mechanism	
<input type="checkbox"/> Adequate training	
<input type="checkbox"/> Appropriate benchmark salary and workers protection	
Risk grade:	
8. OSH	
<input type="checkbox"/> Comprehensive OSH policy	Remarks: <i>Validate through external sources (e.g. government agencies, interview with neighbours, reports against the customer, review outstanding legal cases)</i> <i>Include significant evidence from internal/ external reports, mitigations</i>
<input type="checkbox"/> Certification of fitness for machinery from JKKP	
<input type="checkbox"/> Adequate training and safety equipment	
<input type="checkbox"/> Incident reports	
Risk grade:	
9. Human rights and community relations	
<input type="checkbox"/> Comprehensive stakeholder management policy	Remarks: <i>Include significant evidence from internal/ external reports, review outstanding legal cases, mitigations</i>
<input type="checkbox"/> Engagement programmes in the past year	
<input type="checkbox"/> Grievance/ complaints mechanism	
Risk grade:	
10. Governance	
<input type="checkbox"/> Publicly available policy statement	Remarks: <i>Include feedback from government agencies/ interview</i>
<input type="checkbox"/> Written E&S policy	
<input type="checkbox"/> Effective reporting and monitoring	

<input type="checkbox"/> In-house/ external expertise	<i>Include significant evidence from internal/ external reports, mitigations</i>
	Risk grade:
11. Desktop research	
<input type="checkbox"/> Review latest MSPO/ RSPO audit/ surveillance report	Remarks: <i>Include significant elements from reports</i>
<input type="checkbox"/> Global assessment tools (e.g. SCRIPT, SPOTT)	
<input type="checkbox"/> Adverse news articles, reports from regulators, civil societies etc.	
	Risk grade:
12. On-site visit	
<input type="checkbox"/> Working conditions	Remarks: <i>Include significant elements from reports</i>
<input type="checkbox"/> Fuel, waste and chemical storage	
<input type="checkbox"/> Safety of equipment and heavy machinery	
<input type="checkbox"/> Adequacy of safety equipment/ gear	
<input type="checkbox"/> Site location – confirm land description	
	Risk grade:
Final risk grade:	
Recommendation:	
Additional conditions:	

The rest of this page has been intentionally left blank.

4. Customer on-boarding checklist – for independent and organised smallholders

Customer:	Location:
Financing amount:	
Purpose of financing (brief description):	
Exclusion list: <input type="checkbox"/> Yes <input type="checkbox"/> No	New estate: <input type="checkbox"/> Yes <input type="checkbox"/> No
Land size (ha): Land type: Land term:	MSPO status: <input type="checkbox"/> Current <input type="checkbox"/> New application [state target completion date] <input type="checkbox"/> Renewal [state status of application]
1. Land access, land-use, land-use change and acquisition	
<input type="checkbox"/> Proximity to water source, forest reserve, indigenous people and communities	Remarks: <i>Must have appropriate land express condition of agriculture land/ oil palm cultivation in land title</i>
<input type="checkbox"/> Land express condition (agriculture land/ oil palm cultivation in the land title)	
	Risk grade:
2. Biodiversity loss and deforestation	
<input type="checkbox"/> Land clearing method	Remarks: <i>Validate through external sources (e.g. government agencies, interview with neighbours)</i>
<input type="checkbox"/> No burning policy	
<input type="checkbox"/> Checking with related government agencies	
	Risk grade:
3. Climate/ GHG emissions	
<input type="checkbox"/> GHG estimate (if applicable)	Remarks: <i>Include estimate of GHG, review electricity bills</i>
<input type="checkbox"/> Efficient energy use (if applicable)	
	Risk grade:
4. Water	
<input type="checkbox"/> Water use	Remarks: <i>Validate through external sources (e.g. government agencies, review water bills)</i>
<input type="checkbox"/> Riparian management (if applicable)	
	Risk grade:
5. Pollution prevention and resource use efficiency	
<input type="checkbox"/> Waste, chemical and effluents management	Remarks: <i>Validate through external sources (e.g. government agencies, interview</i>
<input type="checkbox"/> Permit of purchasing and storage of diesel by KPDNHEP (if applicable)	

<input type="checkbox"/> Checking with related government agencies	<i>with neighbours, reports against the customer)</i>
	Risk grade:
6. Supply chain management	
<input type="checkbox"/> Fully compliant supply chain	Remarks: <i>Include evidence of compliance (e.g. valid MSPO certifications)</i>
	Risk grade:
7. Labour rights and working conditions	
<input type="checkbox"/> Use of migrant workers and vulnerable workers	Remarks: <i>Validate through external sources (e.g. government agencies, interview with neighbours, reports against the customer, review outstanding legal cases)</i>
<input type="checkbox"/> Appropriate benchmark salary and workers protection	
<input type="checkbox"/> Grievance/ complaints (formal/ informal)	
<input type="checkbox"/> Training (formal/ informal)	
<input type="checkbox"/> Checking with related government agencies	
	Risk grade:
8. OSH	
<input type="checkbox"/> Adequate training and safety equipment	Remarks: <i>Validate through external sources (e.g. government agencies, interview with neighbours, reports against the customer, review outstanding legal cases)</i>
<input type="checkbox"/> Incident reports (formal/ informal)	
<input type="checkbox"/> Checking with related government agencies	
	Risk grade:
9. Human rights and community relations	
<input type="checkbox"/> Grievance/ complaints (formal/ informal)	Remarks: <i>Include significant evidence from internal/ external reports, review outstanding legal cases, mitigations</i>
<input type="checkbox"/> Checking with related government agencies	
	Risk grade:
10. Governance	
<input type="checkbox"/> Support from government agencies (funding or technical)	Remarks: <i>Include feedback from government agencies/ interview</i>
<input type="checkbox"/> Years of experience	
<input type="checkbox"/> Training and expertise	
	Risk grade:
11. Desktop research	
<input type="checkbox"/> Review latest MSPO/ RSPO audit/ surveillance report	Remarks: <i>Include significant elements from reports</i>
<input type="checkbox"/> Adverse news articles, reports from regulators, civil societies etc.	
	Risk grade:

12. On-site visit	
<input type="checkbox"/> Working conditions	Remarks: <i>Include significant elements from reports</i>
<input type="checkbox"/> Fuel, waste and chemical storage (if applicable)	
<input type="checkbox"/> Safety of equipment and heavy machinery (if applicable)	
<input type="checkbox"/> Adequacy of safety equipment/ gear	
<input type="checkbox"/> Site location – confirm land description	
	Risk grade:
Final risk grade:	
Recommendation:	
Additional conditions:	

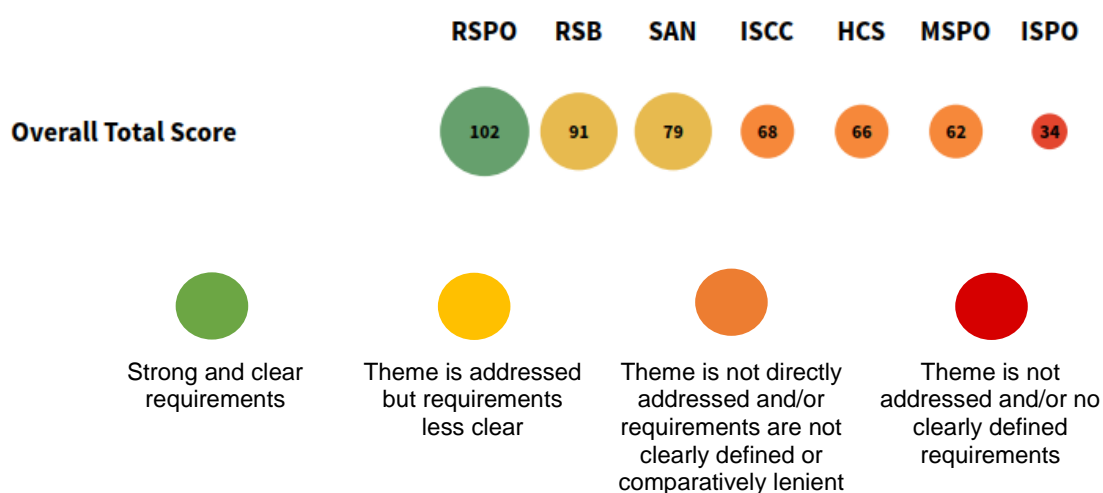
The rest of this page has been intentionally left blank.

5. Summary of comparisons of leading palm oil certification schemes

- (i) A Comparison of Leading Palm Oil Certification Standards Forest Peoples Programme, published on 22 November 2017⁵⁵.

Themes	Assessed against
Customary rights	8 indicators including provisions for FPIC, participatory mapping, access to information and inclusive participation in negotiated agreements.
Treatment of smallholders	4 indicators including smallholders' access to fair credit, their ability to access markets to sell their FFB and whether the standard gives provisions to ensure smallholders are paid fair prices for their FFB.
Social and environmental safeguards	8 indicators including participatory social and environmental impact assessments, rights to water, protection of human rights defenders and whether the standards offered conditions for providing community development.
Core labour standards	8 indicators including commitments to no child labour, no slavery-like practices, as well as requirements pertaining to minimum wage, protection of migrant workers and free collective bargaining.
Gender and discrimination	Provisions for gender sensitive complaints procedures, the protection of reproductive rights, and no discrimination and sexual harassment commitments.
Quality assurance	5 indicators including requirements to provide independent third-party verification of adherence to the schemes principles and criteria, to accredit certification bodies and to include formal public consultations during the audit process.

Total Score of Palm Oil Certification Standards

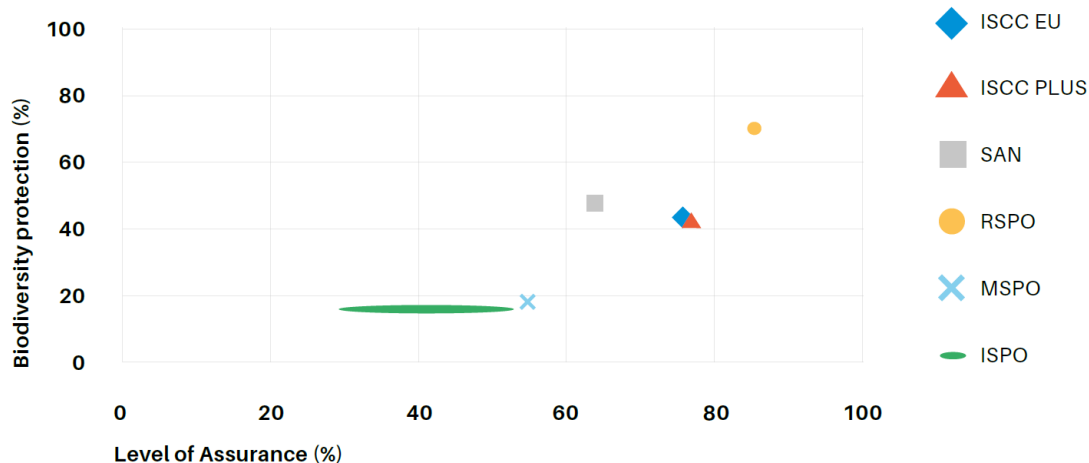


⁵⁵ <https://www.forestpeoples.org/en/responsible-finance-palm-oil-rspo/report/2017/comparison-leading-palm-oil-certification-standards>

- (ii) Setting the biodiversity bar for palm oil certification: assessing the rigour of biodiversity and assurance requirements of palm oil standards⁵⁶.

Biodiversity	Level of assurance
<p>Includes themes concerning how standards face the main threats to biodiversity loss:</p> <ul style="list-style-type: none"> • habitat loss and degradation, • fragmentation and connectivity loss, • direct mortality (i.e. through over exploitation, • pollution, invasive species, anthropogenic • introduced disease and, fire) and • anthropogenic climate change. <p>It also includes other themes, being:</p> <ul style="list-style-type: none"> • the process for protection of biodiversity, • legality in the context of biodiversity, • restoration and • the involvement of communities in protection of biodiversity. 	<p>12 themes were selected for analysis of assurance level:</p> <ul style="list-style-type: none"> • accreditation, • independency of audit, • selection of and requirements to Certification • Bodies, • standard requirements and compliance levels of • standard, • scope of certification at farm producer level, • complaints mechanism, • auditing (frequency) and risk assessment, • stakeholder consultation, • non-conformities and sanctions, • group certification / verification, • cross-recognition and • transparency.

BIODIVERSITY PROTECTION VS. LEVEL OF ASSURANCE



⁵⁶ IUCN National Committee of the Netherlands, publication 2019
https://www.iucn.nl/files/publicaties/iucn_nl_setting_the_biodiversity_bar_for_palm_oil.pdf

6. Case study: Sime Darby Plantation Berhad

Key Risk Area/ Category

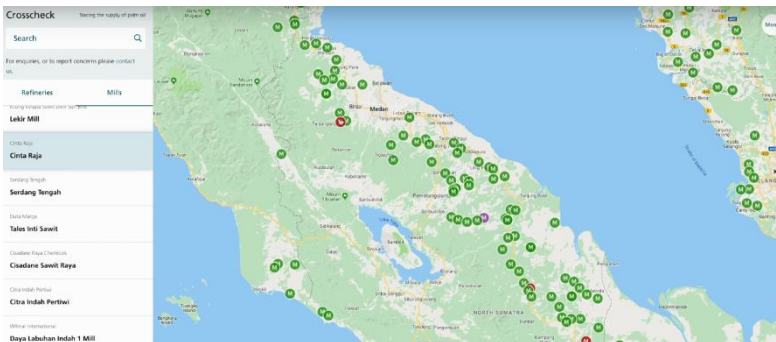
Risk area/ Category	Description	Mitigation measure
Safety and health	Major accidents due to non-compliance to policies and procedures that may lead to death or severe injury	<ul style="list-style-type: none"> • Environment, Safety and Health (ESH) and Emergency Response policies and procedures established and implemented • ESH performance monitoring & reporting implemented • Regular safety training, dialogues and roadshows and dedicated OSH departments/committees
Local community grievances	Challenges arising from local community grievances due to real or perceived concerns that may lead to operational disruptions and loss of goodwill	<ul style="list-style-type: none"> • Establishment of clear FPIC procedures • Grievance mechanisms implemented and issues addressed • Regular engagement with stakeholders
Climate change	Impacts from climate change (i.e. rainfall patterns, water scarcity, drought may adversely impact operations)	<ul style="list-style-type: none"> • Water and soil conservation efforts including initiatives to create water bodies/reservoirs • Flood mitigation measures • Reduction in operational carbon emissions as part of national and international reduction efforts • Research and development efforts into resilient planting material (e.g. drought-resistance, genome) • Fire prevention system and SOP to prevent and combat fires within 5km radius of operating areas
Threat of major plant disease outbreak	The potential threat of disease outbreak and/or pests either not being identified in a timely manner or not being mitigated effectively could potentially result in significant tracts of plantation being affected and/or being wiped out	<ul style="list-style-type: none"> • Breeding and utilisation of disease tolerant planting materials • Regular onsite monitoring and control vis-à-vis pests and disease outbreak at estates
Human rights	Potential allegations of human rights abuses by NGOs /governments in relation to labour practices	<ul style="list-style-type: none"> • GCAD, Group Compliance, Group HR, Group SQM and SDP's HR are conducting an assessment on internal HR practices. These practices are

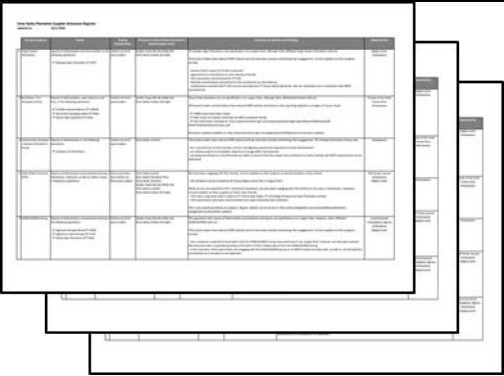
Risk Category	area/	Description	Mitigation measure
			<p>assessed in terms of its effectiveness and compliance with UN's Guiding Principles on Human Rights</p> <ul style="list-style-type: none"> • Formation of Plantation Human Rights Task Force to coordinate assessments to identify areas for improvement where there may be potential human rights violations • Engagement with external consultant to provide assessments and constructive advice on human rights practices
Waste management		Impact of overflowing effluent waste to monsoon drains, streams/rivers causing pollution which can result in prosecution, fines, disruption in operations and severe reputational damage	<ul style="list-style-type: none"> • Established SOP on waste/effluent management • Dedicated training courses (i.e. Certified Environment Professional in the Palm Oil Mill Effluent) conducted • ESH performance monitoring and reporting implemented
Fire and haze		Open burning and trans-boundary haze from Indonesia	<ul style="list-style-type: none"> • Zero open burning policy established and implemented • Use of satellite surveillance to monitor hotspots 24/7 • Regular engagement with local authorities • Emergency response and fire prevention teams established
Deforestation		New compliance requirement that does not allow development on natural ecosystem and land with HCS and HCV	<ul style="list-style-type: none"> • Commitment to avoid deforestation of primary forest as well as HCS & HCV area • Engagement with standard setters and NGOs • Part of HCS Approach Steering Group to develop no-deforestation methodology with stakeholders, including NGOs
RSPO		NGO attacks on palm products and related products due to inconsistent practices which are against RSPO's P&Cs	<ul style="list-style-type: none"> • Observe best agro-management practices in all field operations • RSPO, ISCC and SCCS Certification • Monitoring and reporting of RSPO Certification Audit non-compliance status

Risk Category	area/	Description	Mitigation measure
			<ul style="list-style-type: none"> • Sustainability Management System Manual implemented
Supply chain sustainability		Potential sustainability issues (e.g. deforestation, human rights abuses) in the supply chain from third-party CPO or FFB suppliers	<ul style="list-style-type: none"> • Ensuring traceability of supply chain and transparency via online platforms, e.g. Crosscheck • Engagement with NGOs and service providers to identify risks and issues with supply chain • Engagement with suppliers • Maintaining grievance register for issues within supply chain

Source: Adapted and updated from Sime Darby Plantation Berhad Sustainability Report 2016, www.simedarbyplantation.com

Dealing with Suppliers – Policy Statement to “Work with Suppliers to Draw the Line against Deforestation”

Area	Key highlight
Crosscheck - our approach to traceability	<ul style="list-style-type: none"> • Crosscheck is an online mapping tool that we have developed as a mechanism to increase the traceability of our oils throughout our supply chain. It is accessible online to anyone, making it a tool that invites others to detect and report incidents to us.  <ul style="list-style-type: none"> • All reported issues are recorded in our Supplier Grievance Register, published on the websites of Sime Darby Plantation and Sime Darby Oils. We endeavour to expedite the investigation and verification process that follows the reporting of an alleged breach. The status of each problem and the action we are taking is available in the Supplier Grievance Register.

Area	Key highlight
	 <ul style="list-style-type: none"> • We act on NDPE violations by third-party suppliers when they occur at the level of the mills that supply us directly and when there is evidence of breaches in compliance elsewhere in their Group operations.
Draw the Line - our approach to suspension	<ul style="list-style-type: none"> • At Sime Darby Plantation, we want to draw the line on deforestation and the practices that contribute to it. Therefore, in the event of a violation of NDPE standards, we will notify that supplier of our requirement that they commit to: <ul style="list-style-type: none"> ○ Stop work immediately on the affected land. ○ Develop a plan for remediating the damaged forest. ○ Develop a programme to improve their ongoing operational practices to meet NDPE standards. • If the supplier concerned is unwilling to make these commitments, it is our policy to suspend them. Once a supplier has been suspended, purchases will not resume until our strict conditions are met.
The Path to Re-engagement – our approach to raising supplier standards	<ul style="list-style-type: none"> • The steps towards re-instatement in our supply chain are as follows: <ul style="list-style-type: none"> ○ Public acknowledgement of the clearing and the necessity for remediation. ○ Development within 2 months of time-bound plans for the recovery of HCS and HCV forests and/or peatland cleared, and agreement not to use the area cleared for commercial production. ○ Development within 2 months of NDPE policies and time-bound implementation plans for operational improvement to meet those standards, covering their group-wide operations. ○ Commitment to regular progress reports against our stepped Operational Improvement Programme, with third party verification. ○ Independent annual audits of continued compliance.

Source: Sime Darby Plantation Berhad Policy Statement “Working with Suppliers to Draw the Line against Deforestation”

F. ESSENTIAL READINGS

1. CDC's ESG Agriculture and Aquaculture Toolkit, <https://toolkit.cdcgroup.com/sector-profiles/agriculture-and-aquaculture/>
2. The Malaysian Sustainable Palm Oil (MSPO) Certification Scheme, <https://www.mpocc.org.my/mspo-certification-scheme>
3. PRI Responsible Investment in Farmland Report 2014-15, Principles for Responsible Investment, <https://www.unpri.org/download?ac=4001>
4. SPOTT – Sustainability Policy Transparency Toolkit, <https://www.spott.org/palm-oil/>
5. World Bank Group Framework and IFC Strategy for Engagement in the Palm Oil Sector, https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/agribusiness/resources/palmoil_landingpage
6. Overview of Industry 2018, MPOB, http://bepi.mpob.gov.my/images/overview/Overview_of_Industry_2018.pdf
7. Palm Oil Buyers Scorecard, <https://palmoilscorecard.panda.org/>
8. Keep Palm ... Edible-oil sustainability in Asia (2018), http://awsassets.panda.org/downloads/clsau_blue_books___keep_palm___jul_2018_.pdf
9. Setting the Biodiversity Bar for Palm Oil Certification: Assessing the Rigor of Biodiversity and Assurance Requirements of Palm Oil Standards, IUCN, https://www.iucn.nl/files/publicaties/iucn_nl_setting_the_biodiversity_bar_for_palm_oil.pdf
10. Key guidance documents for smallholders, <https://rspo.org/smallholders/smallholder-key-documents>
11. WWF Palm Oil Buyers Scorecard 2020, https://palmoilscorecard.panda.org/file/WWF_Palm_Oil_Scorecard_2020.pdf

The rest of this page has been intentionally left blank.