Implementation of Musim Mas Sustainable Palm Oil Policy

2016 Diagnostic Report on Musim Mas site verifications in Riau Province - Indonesia

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About CORE

CORE stands for Consortium of Resource Experts, consisting of Daemeter (www.daemeter.org), Proforest (www.proforest.net) and Rainforest Alliance (www.ra.org).
This Consortium is a partnership formed to take maximum advantage of collective, complimentary skills, expertise and networks to advance a shared mission and commitment to sustainable, sound economic development.

Executive Summary

Musim Mas announced their Sustainability Policy in December 2014, applicable immediately to their own operations and those of all third-party suppliers. Musim Mas requires supplier mills and their suppliers of FFB to meet their policy commitments, but recognises that compliance will require a process of constructive engagement with mills and their parent companies, delivered in partnership with CORE. An important component of this engagement is to deliver a programme of mill-level verification assessments.

The verification assessment programme verifies the performance of identified high risk mills against Musim Mas' policy commitments, both to highlight areas where improvement is needed to close compliance gaps, and to inform an engagement strategy at the level of the supplier company group. A tertiary purpose of the assessments is to help identify common sustainability challenges that inform the planning of interventions that Musim Mas would aim to roll out across priority landscapes. CORE has followed an initial approach that focuses on:

- Engaging with clusters of mills in priority landscapes, with an initial emphasis on regencies in Riau province.
- Prioritising mills owned by plantation company groups that are key suppliers to Musim Mas, based on total volumes & strategic commercial partnerships.

CORE targeted achieving an initial tranche of 10 site verification assessments in 2016, clustered in priority regencies in Riau province, Indonesia. The priority regencies for Musim Mas are: Kuantan Singingi, Kampar and Siak, selected on the basis of relative environmental sustainability risk and volumes sourced. Eight of the assessments have been completed to date, with two more planned in early 2017.

This diagnostic report provides input that will enable Musim Mas and CORE to develop a strategic approach to address issues raised at a landscape level. The report aims to combine findings from the verification assessments with knowledge of complementary initiatives in Riau province, as the basis for planning interventions. Findings are presented in three parts:

1. Basic analysis of the level of compliance of the mills against the indicators of the verification checklist, for the first five assessments to date.
2. Initial analysis of key landscape-level challenges identified by the verification results to date.
3. Brief review of existing initiatives in priority provinces relevant to addressing the identified challenges.

Implementation of verification assessments has proceeded as planned in Riau, with the objective of building supplier compliance with Musim Mas' commitments. This now gives a solid baseline to engage with suppliers much more actively in 2017 and

beyond on the implementation of critical sustainability requirements, including deforestation, smallholder FFB traceability, peatland management and labour practices.

To address both the specific verification findings and broader barriers to improving sustainability performance, we recommend that CORE and Musim Mas focus on the following:

1. **Develop and monitor the implementation of corrective action plans for each of the mills based on the findings of the visits.** This should aim to secure buy-in/ communication from senior management not directly involved in the verification process, as well as address the lack of understanding in addressing subjects where the mill lacks capacity.

2. **Develop and deliver a series of capacity building workshops for key mill and plantation companies.** For mills to effectively implement the corrective action plans, staff need to develop capacity in key areas. The workshops allow the mills to share challenges and strategies for overcoming them, and potentially develop a potential support network.

3. **Develop a long-term capacity building programme to address critical areas of non-compliance, as well as contribute to production and livelihood objectives.** Key policy commitments such as labour conditions, land tenure for smallholders, production practices on peat, as well as recent and continued deforestation need to be addressed in a systemic and comprehensive way by taking fundamental steps to develop capacity at a provincial level.

4. **Identify existing landscape level initiatives that Musim Mas can actively contribute to,** that seek to address some of the sustainability challenges related in this report. This report identifies two specific initiatives that merit serious consideration, namely Kabupaten Hijau – Green District Initiative and Serikat Petani Indonesia (SPI) Riau, but it is also recommended that CORE undertake fieldwork across the 3 regencies in early Q1 to review wider options.

More detailed recommendations for policy implementation activities in 2017 and beyond will be developed in partnership with Musim Mas.

Contents

1. Introduction

CORE's Support to Musim Mas during 2016 has focused on supplier engagement in the first agreed priority location, Riau, selected on the basis of volumes of production and risk criteria. This report provides an overview of the results of the programme of mill verification assessments undertaken by CORE during 2016.

1.1 Background

Musim Mas announced their Sustainability Policy in December 2014, applicable immediately to their own operations and those of all third-party suppliers. The policy comprises five key commitments:

1. Bring benefits to the community
2. No deforestation of High Conservation Value (HCV) areas and High Carbon Stock (HCS) forest.
3. No development of peatland regardless of depth.
4. Fully comply with local, national and international laws
5. Establish a traceable supply chain

Musim Mas requires supplier mills and their suppliers of FFB to meet their policy commitments, but recognises that compliance will require a process of constructive engagement with mills and their parent companies. An important component of this engagement is to deliver a programme of mill-level verification assessments, in partnership with the CORE consortium (comprising Proforest, Daemeter, and the Rainforest Alliance).

Critical to Musim Mas's policy implementation strategy is a transformation objective, taking a landscape level approach to implementation and focusing effort in places where impact can be achieved.

1.2 Objectives and progress to date

The verification assessment programme verifies the performance of identified high risk mills against Musim Mas' policy commitments, both to highlight areas where improvement is needed to close compliance gaps, and to inform an engagement strategy at the level of the supplier company group. A tertiary purpose of the assessments is to help identify common sustainability challenges that would help to inform the planning of interventions that Musim Mas would aim to roll out across priority landscapes.

CORE targeted achieving an initial tranche of 10 site verification assessments in 2016, clustered in priority regencies in Riau province, Indonesia. The priority regencies for Musim Mas are: Kuantan Singingi, Kampar and Siak, selected on the basis of relative environmental sustainability risk and volumes sourced. Eight of the assessments have been completed to date, with two more planned in early 2017. An introductory workshop was also held in Medan early in 2016 for key supplier

companies to effectively communicate Musim Mas' policy commitments, the practical implications for operations, and mechanisms for implementation.

This diagnostic report provides input that will enable Musim Mas and CORE to develop a strategic approach to address issues raised at a landscape level. The report aims to combine findings from the verification assessments with knowledge of complementary initiatives in Riau province, as the basis for planning interventions. As an initial step, this report presents analysis of the findings from the first five site verifications, augmented by wider understanding of landscape-level challenges and awareness of other relevant initiatives in Riau. When CORE has completed all 10 site assessments in the first quarter of 2017, the report will be updated.

2. Methodology

2.1. Risk assessment

Risk assessment is an essential element of supplier engagement methodology, as understanding variation in risk factors helps to (a) identify the regencies where priority groups are clustered for engagement to advance landscape transformation aims; (b) inform selection of mills to include as part of the mill verification programme; and (c) allow visibility on group level risk profiling and monitoring of progress. Specifically, the mills within each key company group have been classified into risk categories, and on this basis CORE and Musim Mas have identified mills to be included as part of the verification programme.

2.2 Selection of mills for verification

In agreement with Musim Mas, CORE has followed an approach that focuses on:

- Engaging with clusters of mills in priority landscapes, with an initial emphasis on regencies in Riau province.
- Prioritising mills owned by plantation company groups that are key suppliers to Musim Mas, based on total volumes & strategic commercial partnerships.

On this basis, the list of mills selected for verification assessment, together with the site verification dates, is as follows:

No	Site verification date	Regency	Mill Name
1	25 - 30 July 2016	Kuantan Singingi*	Mill A
2	10 - 14 August 2016	Indragiri Hulu	Mill B
3	17 - 21 Oct 2016	Kampar*	Mill C
4	31 Oct - 4 Nov 16	Siak*	Mill D
5	14 - 18 Nov 2016	Bengkalis	Mill E
6	21 - 25 Nov 2016	Kuantan Singingi*	Mill F
7	5 - 9 Dec 2016	Bengkalis	Mill G
8	5 - 9 Dec 2016	Kuantan Singingi*	Mill H

*priority regency for Musim Mas

For inclusion in this initial version of the diagnostic report, CORE has conducted five mill site verifications from 25 July to 18 November 2016, the mills are located within Riau Province.

2.3 Mills' supply base overview

The mills' supply bases are variable; mills are sourcing from their own or other companies' plantations to some extent, but are largely dependent on third party suppliers e.g. traders or FFB agents. Each mill also has a different strategy to maintain its supply base and to retain acceptable levels of FFB supplies on hand. Below is the mills' supply bases overview:

Mill	Proportion of Total Supply Base (%)					
	Owned Plantation	Associated Smallholder	Plantation Company	Independent grower	Cooperative	Traders/ Agent
A			10.00%			90.00%
B			13.60%		28.20%	58.20%
C	31.00%	9.00%	5.00%	22.00%	33.00%	
D			15.00%	55.00%	10.00%	20.00%
E			29.52%	12.72%		57.76%

Note: Traceability level for each supply category, in order starting from low risk to high risk:

1. Owned plantation, FFB came from managed plantation own by organization
2. Associated smallholder, FFB came from smallholders that have an agreement with organization in term of plantation nursing and/or replanting program
3. Plantation company, FFB came from other company that own plantation
4. Independent grower, FFB came from large plantation or smallholder
5. Cooperative, FFB came from a group of farmers whose joined in an autonomous association of people united voluntarily to meet their common economic, social and cultural needs
6. Traders/ Agent, FFB came from middle man whose purchase FFB from different source e.g. farmers, cooperative or other plantation and deliver the FFB it to mill2.4 Site Verification Process

CORE utilise a standard approach to verification including defined indicators, methodology, reporting template, and continuous improvement plan, agreed with Musim Mas.

A mill-level verification assessment is a site-based assessment of the performance of a palm oil mill and its FFB supply base against a set of indicators. The process of third party site verification can be summarized in the diagram below:

The purpose of the site verification is to document conformance with the requirements of Musim Mas' Sustainability Policy by the mill. This is not an audit nor a pass/fail assessment. Rather, it is aimed to provide a road map for improvement to close compliance gaps and achieve higher levels of performance.

The site verification process begins with initial engagement where the mill provides information about the mill organization profile and operation. This information is desk reviewed by the verification team prior to the site visit. The field visit starts with an opening meeting and ends with a closing meeting in the mill location; all related personnel and the management representative are expected to attend both meetings. The verification team uses three different approaches to confirm their observations: document review, interview with staff/worker and field observation. Preliminary observations are presented and discussed in the closing meeting. The verification team then prepares a verification report which presents the findings and a recommended action plan for improvement.

The verification indicators have been developed from Musim Mas' sustainability commitments, divided into the following eight sections:

No	Section	Indicators
1	Land tenure and legislation	7 indicators
2	Deforestation	6 indicators
3	Development on peat lands	3 indicators
4	Use of fire	1 indicator
5	Management of environmental impacts	3 indicators
6	Greenhouse gas (GHG) emissions	2 indicators
7	Social compliance	14 indicators
8	Supply chains	5 indicators
	TOTAL	41 indicators

2.5 Categorisation of site verification results

The initial output from the assessments is a report covering all the findings from the verification visit. The mill-level site verification process results in a set of findings, which categorise conformance with each indicator using the following results classification system:

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

The second output is a corrective action plan that details recommendations for how a mill should work toward closing out gaps that have been highlighted in the findings report.

2.6 Regency level initiative mapping

Alongside the site verification trends described above, CORE also carried out a desktop based review of ongoing or planned 'landscape initiatives' in MM's three priority regencies of Siak, Kuantan Singingi and Kampar. In addition, effort was made to compile available information on Bengkalis regency, as a slightly lower priority. The assessment was carried out in a semi-systematic fashion, compiling information available from public domain resources; interviews with NGOs, companies, media contacts and other members of CORE's professional network; Google searches; and inputs from Musim Mas. For each initiative, effort was made to indicate lead project proponent, project partners, project objectives, landscape focus, and general alignment to Musim Mas objectives for transformation.

The desk top approach offers a preliminary indication of project opportunities, but should not be viewed as a comprehensive list of all possible project opportunities on the ground, since there are certain to be other more local initiatives that are not captured here. Finally, from a desktop perspective, it was not possible to acquire information across all variables for all projects. A follow-up, 2-3 day, field-based assessment is recommended for each regency, to augment the project list and further build out the project database before final decisions are made about which projects to support.

3. Findings

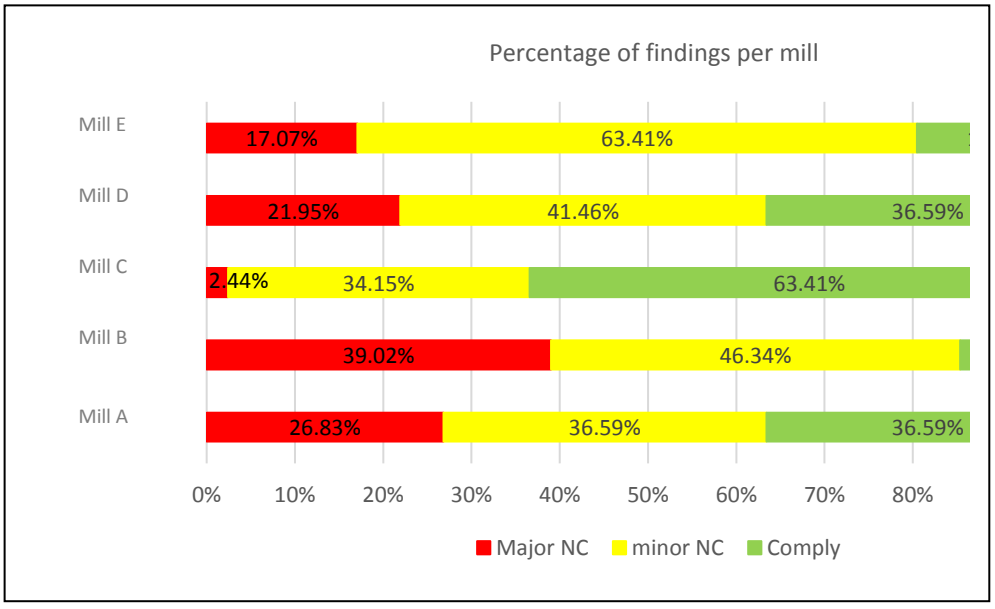
Findings are presented in three parts:

1) Basic analysis of the level of compliance of the mills against the indicators of the verification checklist, for the first five assessments to date (3.1);
2) Initial analysis of key landscape-level challenges identified by the verification results to date (3.2); and
3) Brief review of existing initiatives in priority provinces relevant to addressing the identified challenges (3.3).

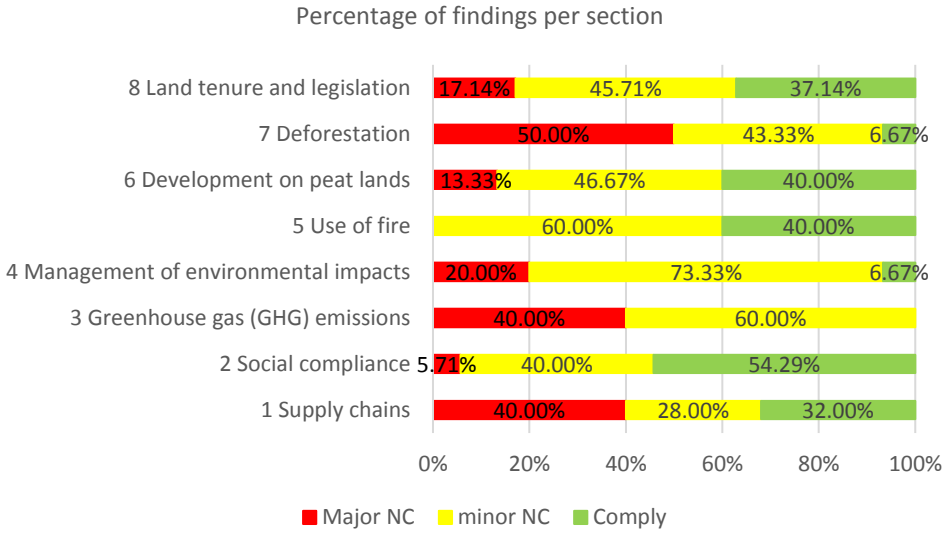
These are then combined to identify initial recommendations for policy implementation activities, for further consideration by Musim Mas and CORE (3.4).

3.1. Verification assessment results overview

The figure below shows the relative number of compliances, and major- and minor non-compliances against each indicator for each mill, across the eight sections of the verification checklist. This enables a clear comparison of the relative overall performance of each mill, highlighting which mills might deserve more immediate attention and support. Mill B shows the highest percentage Major NC, with 39.02%. Mill B is followed by Mill A with 26.83% of Major NCs. Mill C only has one Major NC, in this case for deforestation, and shows the highest percentage of compliance among five mills at 63.41%. These overall results suggest that Mill B and Mill A are highest priority for on-going engagement and support of the action Plan to improve compliance.



The next figure presents an overview of compliance against the eight sections in the verification checklist. As the number of indicators varies under each principle, compliance/non-compliance figures are converted to percentage to facilitate comparison between the key areas. The detailed calculation is presented in Appendix B. This shows the aggregated levels of compliance across the five mills, within each section of indicators. Some of the non-compliances identified are better addressed at mill level, while others would benefit from a wider landscape level approach (see section 3.4).



The aggregated findings indicate three checklist sections that have the highest percentage of major non-compliances, namely: deforestation, greenhouse gas (GHG) emissions and supply chain. Compliance with deforestation principle has the highest percentage of indicators as major non-compliance (50%), while greenhouse gas emission and supply chains are rated second with 40% of indicators as major non-compliances.

Based on the assessments carried out to date, the main thematic issues identified in each of the eight indicator sections are as follows:

(i) Deforestation:

- Deforestation risk in the wider landscape, both planned and unplanned, and the worsening impact this has on traceability challenges, confirmed through evidence of recent (undated) conversion of secondary forest e.g. at a supplier plantation of Mill D in Siak regency, and a supplier plantation of Mill E in Bengkalis regency. Dates of conversion need to be further verified.
- The mills rely on the commitment of “no deforestation” included in the agreement with their supply base (smallholders, growers and plantation companies) without taking any measure for further verification.
- It was confirmed through a visit to supplier plantation of Mill D in Siak Regency that it was converted from secondary forest and there were evidence of big trees reminisce. Similar observation was also found at the supply base

plantation of Mill E in Bengkalis Regency, dead tree trunk were found which indicated that the area were previously forested, however this needs to be further verified.

- There is complexity in implementation of HCV and HCS. In terms of HCV, given that a large proportion of smallholder development took place between 10-30 years ago, there is high risk that HCVs were converted. There was reportedly presence of elephant habitat in Kuantan Singingi regency and in Bengkalis regency. Formal assessments of HCV and HCS have not been undertaken by supplier plantations, no HCS and HCV assessment were conducted prior to supplier's plantation establishment after November 2005 in Kuantan Singingi, Kampar and Siak regencies. This suggests many FFB suppliers to the mills may not be compliant with HCV or HCS provisions of MM policy.
- Weak controls on expansion of independent farmers (both small scale and largescale) as well as emerging class of entrepreneurs establishing large plots (>100 ha) without proper permits. For example, an individual buy multiple plots of small scale land (2Ha), without obtaining a proper plantation permit.

(ii) Greenhouse gas (GHG) emission:

- Three out of five mills visited have not implemented GHG emission commitment yet; Mills A, D and E. For the two mills that have developed GHG emission program, all sources of GHG within these mills have been identified (All sources of GHG within the mill is identified although this is not the case for the supply base), and improvement can still be made through identification of GHG at the supply base and GHG emission reduction plan for the mill.

(iii) Supply chain/traceability:

- Traceability of outside third party FFB, especially in supply sheds where there is significant risk of illegal FFB originating from the Forest Zone or protected areas. A major effort needs to be undertaken to address the allegations from Eyes on the Forest that Mill A located in Kuantan Singingi received illegally produced FFB from Tesso Nilo National Park. There is no assurance that the FFB supplied to Mill B located in Indragiri Hulu does not come from farm inside Bukit Tigapuluh protected area which is only half an hour drive from the mill.
- Traceability is low due to the complex nature of how FFB is currently being supplied to the mill through multiple layers of traders and collectors. In was observed in Mill B located in Indragiri Hulu that the FFB delivery volume to the mill (per trader) is much larger than what can possibly be produced by the total area of the supply base belongs to those traders. This means FFB sourcing from outside third parties is extensive.
- The visited mills only have the first layer information of it supply base i.e. the holder of the Delivery Order (DO) who either have a written contract with the mill or only a verbal commitment. In most cases the mills do not have a more detail information of the holder of the DO supply base which include: the identity of the farmer and his farm location, area and land right status.

- No specific efforts or resources are allocated to improve the productivity of the smallholders' plantation other than providing them with empty fruit bunch ash from the boiler.

(iv) Management of environmental impacts

- At the mill level, all requirements have been adequately met. However, finding related to non-compliance is related to the growers. This is because the growers are mostly smallholders where environment impact assessments are not legally required. Improvements can be made on issues such as waste (domestic and hazardous), water pollution, and soil subsidence. Poor waste management was observed in the suppliers of all of the four mills except in Mill C where it was observed that hazardous and non-hazardous waste were well managed in compliance with 2015 Proper Requirements.
- Smallholders planting do not have buffer strips along river courses leading to increased risk of sedimentation and offside movement of agricultural chemicals.

(v) Land tenure and legislation

- Overall legal compliance, the mill has commitment to comply with applicable national regulation or the law. All the mills have obtained necessary permits for their operations.
- The compliance for the suppliers' commitment to land tenure rights has some risks due to the lack of traceability.
- No issue and evidence observed for land conflict.
- Problems were identified here, and elsewhere throughout Riau, related to obtaining finalization of forest release permits for already planted areas, arising from occurrence of multiple conflicting spatial planning maps.

(vi) Development on peatlands

- As elsewhere in Riau, there is a need to Coordinated water management on peat landscape hydrological units that are occupied by more than one party (and sometimes several hundred or even thousand)
- Best management practice for peatland is something that is not yet well defined and implemented by the mill management and its supply base.
- It was observed in Indragiri Hulu regency that part of a large grower and a plantation company are located on peat land. No action is implemented to manage soil subsidence and water level on those areas. Some efforts to maintain water level on peatland were observed in suppliers' plantation of Mill C in Kampar regency and Mill D in Siak regency however they do not maintain a subsidence measurement record.
- Most of the visited suppliers in Siak regency especially in Pauh and Libo villages have their plantations on peatland, some suppliers have plan to expand to other areas where most of the locations are peat land. This presents a clear risk for new developments on peat, in violation of MM policy.

(vii) Social compliance

- All the mills have a CSR program but the program development process did not involve the community and other stakeholders thus the program is not

based on community concern and not integrated with existing community development plan.

- While there is no evidence for active form of child labour, based on interviews with smallholders of Mill B in Indragiri Hulu regency, children do accompany their parents to the farm outside of school hours and there is risk for them to be exposed to the hazardous environment such as exposure to chemicals and harvesting.
- No sufficient PPE worn by workers for harvesting and spraying as observed at the large growers and plantation companies of the supply base of Mill B. No sufficient PPE was distributed to the mill workers of Mill E to replace the broken PPE.
- No Social Impact Assessment was conducted in Mill D and Mill E to identify the affected group and the impact of the mill operation to the community around the mill.

(viii) Use of fire

- Mill management are fully aware that use of fire for new development is prohibited and most of their suppliers are also aware that this is illegal practice. However, fire risk still need to be managed in the wider landscape, and it's synergy with deforestation above.

Based on site observation, interviews with farmers and the use of geospatial, evidence of the use of fire for land preparation was apparent on several areas around the farmers' areas in the supply base of Mill E in Bengkalis regency.

3.2. Landscape-level issues identified

Many of the non-compliance issues identified above reflect general conditions in Riau Province. Several macro themes shared across mill verifications, combined with lessons from the supplier engagement process and wider knowledge of the team, are summarised here:

(i) General points

- Supplier engagement programme is critical for all mills visited, as this activity/ process helps to build relationships/trust between the supplier (in this case traders/dealers/collection centres) and the mill. This is a keystone for understanding where FFB comes from, understanding level of risk associated with its production, and developing interventions to address these risks.
- Once supplier farmers are identified (sometimes this is a near impossible task, so in such cases it would be more important for mill to at least know which villages potential supplying farmers likely come from), a separate engagement programme would be required – one that focuses more on farmer extension services, and advice on agronomic and sustainable practices.

(ii) Commitment to sustainability

- Level of commitment to sustainability depends on whether the mill itself is committed to ISPO or RSPO. For the mills assessed, they were not ISPO

certified, and thus the level of commitment towards continuous improvement not readily there.

(iii) Traceability: understanding extent of traceability that can be achieved

- Level of traceability fundamentally depends on the type of supply base delivering FFB to the mill. If it is an inti-plasma scheme (PIR), then traceability is feasible to the scheme smallholder level. However, if it is an independent mill relying entirely on third parties, or any mill relying on independent third parties, then traceability is usually available to the immediate supplier to the mill, which could be a trader, a collector or a smallholder him/herself. In this case, more work is needed to trace from trader/supplier to farmer.
- Thus, traceability to farm is generally low (Inti-plasma mill scenario, with some independent smallholders) to extremely low (independent mill scenario).

(iv) Legality

- Ensuring legality: whether it is based on operations in general or where FFB is produced, the extent of this issue is usually unknown as enforcement of these issues is currently not being done.
- Mills have in some cases communicated legality requirements to their suppliers (dealers etc) however there is lack of capacity in methods to verify FFB legality. Suppliers are very well-versed in quality requirements but have only recently been introduced to legality/no-deforestation requirements.
- Of the mills assessed in this context – where there is a protected area close by, the risk of FFB being produced within the PA and entering the mill is high (although traceability to the farmer level is extremely low).

(v) Deforestation

- Generally, no HCV or HCS assessments are undertaken for third party FFB suppliers (links back to point 2 above) – In cases where ISPO/RSPO certification is sought, the mills have carried out HCV assessments. HCS awareness is extremely low to absent.
- Landscape context of the mill makes it clear/evident that deforestation continues to take place in the wider supply shed, including at the smallholder level.
- One mill has plans to expand on peat – however provincial governor has not signed this off yet.

(vi) Peat (new development)

- Like point above on ‘deforestation’, this continues to take place in Riau in general.

(vii) Peat (existing)

- Low levels of understanding/awareness of how to manage plantations on peat. There is general understanding to have canals and to monitor subsidence level, but often mills do not know how to do these activities well and what the purpose is.

- There is an urgent need for mills in Riau with existing plantations on peat to better understand how to manage water levels and (where feasible) how to rehabilitate

(viii) Land tenure

- Generally, land titles held by smallholders are SKT and SKGR
- Conflicts with communities for the mills assessed are not major.

(ix) Health & safety

- Several issues were noted with regards to health & safety – especially in the context of safe working conditions. For example, rarely PPE is being worn by the smallholders, dealers, and at the mill and plantation level.
- Health & Safety issues are further exacerbated by chemical related activities, causing skin rashes, and other ailments reported by smallholders/ dealers

(x) Pay & Labour Conditions

- Lack of fair pay for 'loose fruit picker' identified in one mill. Usually payment (both at the plantation & farmer level) is made directly to the harvester – which includes work related to lose-fruit picker. So, payment is made to the harvester for a one-person job, however in reality there are two. Pay is made directly to harvester, and any benefits are also only provided to the harvester. Therefore, the loose fruit pickers are extremely vulnerable (no benefits, not adequate pay (not enough to meet legal minimum)

(xi) Resources and capacity development

- Of the mills assessed – significant investment in capacity/personnel will certainly be needed to implement the requirements of the MM policy. There are some knowledgeable individuals available who would can take this forward, but considerable additional resources are required.
- Financial support was found to be available at the mills visited, however to mobilize it for sustainability purposes, a higher-level commitment is required.

(xii) Other observations

- The Siak regency government is currently very cautious in signing off any new development plans (previous governor in jail for signing off new development plans easily to companies)

3.3 Known landscape level initiatives

Known landscape level initiatives well suited to addressing some of the challenges related above are few, but there are at least two that merit consideration. A brief overview is provided below.

The first and most well suited is a multi-stakeholder initiative taking shape in Siak regency, referred to as **Kabupaten Hijau Siak**. The initiative is envisaged to grow

into a formal jurisdictional approach. The concept for the initiative is still being developed, but is generally viewed to be trending well, with positive government engagement to date, and a committed set of collaborative NGO partners. It's also receiving good press in regional and national media. Larger goals of the project include protecting conservation areas (e.g. Zamrud National Park, Giam Siak Kecil Biosphere Reserve), assistance for oil palm replanting and transitioning away from monoculture, tree planting programs, and eventually peat land hydrology management. Partners include the Siak government head and supporting agencies; Greenpeace, Elang, Jikalahari, Walhi Riau, YMI, Fitra Riau and JMGR; and technical support partners including WRI, Winrock and potentially Daemeter. The initiative does not yet have formal private sector partners, but project proponents understand that such partnerships will be key. The project presents an opportunity for Musim Mas to join early in the development stage over the next year.

Another project potentially worth considering is the multi-stakeholder **Tesso Nilo (TN) Community-Based Ecosystem Revitalization Program.** The plan is to use two nearby ex-HPH forestry permit areas (HSL+SRT) for land redistribution, allocating community forestry permits where possible, and to pursue law enforcement against companies and financial backers of the encroachment. If successful, this initiative would become a model for handling protected area encroachment across Indonesia, especially where smallholder oil palm is a driver of encroachment. The geographic focus is more in Inhil and Pelalawan regency, but include regions of Kampar and Kuansing which form a buffer zone to the park. Musim Mas support to this project would help to address risks of illegal FFB sourcing from TN National Park.

The team recommends additional follow up work, especially in Kampar and Kuantan Singingi regencies to obtain a fuller picture of landscape initiatives on the ground in these regions, which in general offer lower visibility than the others considered.

The key characteristics of the existing initiatives identified here, are summarised in the following table.

Project	Partners	Goals & Progress
Siak		
Kabupaten Hijau – Green Regency Initiative	**Govt**: Bupati Siak, other agencies **NGOs**: Greenpeace, Elang, Jikalahari, Walhi Riau, YMI, Fitra Riau **Community group**: JMGR **Others likely to join**: WRI, Daemeter **Donors**: Winrock, with support from ASLI (USAID) and Packard Foundation (mainly funding peat activities, partnering with Elang).	Concept is still being developed; larger goals include protecting conservation areas (e.g. Zamrud National Park, Giam Siak Kecil Biosphere Reserve), assistance for oil palm replanting and transition away from monoculture, tree planting programs, probably peat hydrology. Not much awareness/support among top regency bureaucrats yet, nor communities, etc. Concept not yet developed into priorities, activities, indicators yet. This builds on earlier work conducted in Siak, including some on RSPO certification for smallholders in seven villages (Sungai Apit and Pusako sub regencies). Other stakeholders (e.g. companies) not yet involved/invited. Unclear what level of data collection/analysis has occurred, or will be needed. Future funding options not yet explored. There is a need for a full one year set-up period, including convening, studies, design of detailed framework, as well as budget needs and fund raising. There should be potential to bring in additional stakeholders (e.g. companies).
Giam Siak Kecil Biosphere Reserve	**Govt**: MOEF, LIPI, BKSDA Riau, **Company**: APP	One centrepiece for conservation in Siak & Bengkalis is the Giam Siak Kecil Biosphere reserve, established in partnership with Sinar Mas Forestry, LIPI and Riau BKSDA in 2012. This c 700,000 ha biosphere reserve is degraded and under threat, but still hosts a tiger and elephant populations, and could serve as a platform to experiment with multi-use, sustainable land management programs.
Zamrud National Park Initiative	**Govt**: MOEF, provincial government **Company**: APRIL	APRIL had signed an agreement with the Ministry of Environment and Forestry to collaborate on protection of the new Zamrud National Park in Siak, but this agreement was cancelled in July 2016 by the Minister. Representatives of the Ministry complained that APRIL was using the collaboration in order to achieve FSC certification and thereby increase their value on the global market. Some say the project could resume pending further discussions between APRIL and MOEF. See here: http://www.riauonline.co.id/2016/07/25/menteri-siti-nurbaya-batalkan-perjanjian-kerjasama-dengan-april
Restorasi Ecosystem Riau (RER)	**Company**: APRIL **NGOs**: TNC, FFI, Bidari	This initiative covers 150,000 ha in the core area of the Kampar Peninsula peat landscape (Siak and Pelalawan regencies). 'Ecosystem Restoration Concession' permits have been obtained. Activities include supporting community patrols for monitoring, establishing baselines through assessments, restoring degraded

Project	Partners	Goals & Progress
		sites, and developing management plans in consultation with stakeholders. See more background at http://www.rekoforest.org/about
Kampar & Kuansing		
Tesso Nilo Community-Based Ecosystem Revitalization Program	**Govt**: MOEF, Riau govt, regency govt, police, military **NGO**s: YMI, Jikalahari, Walhi Riau	Tess Nilo National Park is in Indragiri Hulu and Pelalawan regencies, but the buffer zone extends into Kuansing and Kampar regencies. A multi-stakeholder initiative was launched in 2016 to handle encroachment into Tesso Nilo National Park. An official letter was issued by the Minister of Environment and Forestry to form the Tesso Nilo Community-Based Ecosystem Revitalisation Operational Team (SK Menteri Lingkungan Hidup dan Kehutanan (KLHK) Republik Indonesia, Nomor : SK.4271/Menlhk-Setjen/Rokum/HPL.1/9/2016 Tentang Pembentukan Tim Operasional Revitalisasi Ekosistem Tesso Nilo Dengan Pendekatan berbasis Masyarakat). The plan is to use two ex-HPH forestry permit areas (HSL+SRT) for land redistribution, allocate community forestry permits where possible, and pursue law enforcement against companies and financial backers of the encroachment. If successful, this initiative would become a model for handling protected area encroachment across Indonesia. Progress: Currently the NGOs partners are busy trying to build relations with local communities (there has been aggression towards environmental NGOs in the past, when villagers feel that their livelihoods may be threated), mapping out oil palm plots and tracing ownership. See http://mitrainsani.or.id/revitalisasi-ekosistem-blok-tesso-nilo-berbasis-masyarakat/
Protected Area buffer zone farmer engagement	Serikat Petani Indonesia (SPI) Riau	SPI works in Kuansing, Bengkalis and Kampar. In Kuansing, they work in the ex-HSL (a HPH) area of Kuansing, which is a buffer zone to Tesso Nilo National Park. They have done some data collection for 3500ha of oil palm smallholders there, and are working as part of the larger multi-stakeholder initiative to handle encroachment into Tesso Nilo described above. SPI supports training for farmers, distribution of trees for

Project	Partners	Goals & Progress
		reforestation efforts, formation of farmer cooperatives, and support to achieve ISPO/RSPO standards.
Unnamed initiative	WWF	WWF apparently has a project in Kuansing that aims to engage with farmers in regions or already at risk of deforestation and encroachment into protected areas. Further details are currently lacking.

3.4 Recommendations for Musim Mas intervention priorities

Implementation of verification assessments has proceeded as planned in Riau, with the objective of building supplier compliance with Musim Mas' commitments. This now gives a solid baseline to engage with suppliers much more actively in 2017 and beyond on the implementation of critical sustainability requirements, including deforestation, smallholder FFB traceability, peatland management and labour practices.

To address both the specific verification findings and broader barriers to improving sustainability performance, we recommend that CORE and Musim Mas focus on the following:

1. **Develop and monitor the implementation of corrective action plans for each of the mills based on the findings of the visits.** This should aim to secure buy-in/ communication from senior management not directly involved in the verification process, as well as address the lack of understanding in addressing subjects where the mill lacks capacity.

2. **Develop and deliver a series of capacity building workshops for key mill and plantation companies.** For mills to effectively implement the corrective action plans, staff need to develop capacity in key areas. The workshops allow the mills to share challenges and strategies for overcoming them, and potentially develop a potential support network.

3. **Develop a long-term capacity building programme to address critical areas of non-compliance, as well as contribute to production and livelihood objectives.** Key policy commitments such as labour conditions, land tenure for smallholders, production practices on peat, as well as recent and continued deforestation need to be addressed in a systemic and comprehensive way by taking fundamental steps to develop capacity at a provincial level.

4. **Identify existing landscape level initiatives that Musim Mas can actively contribute to,** that seek to address some of the sustainability challenges related in this report. This report identifies two specific initiatives that merit serious consideration, namely Kabupaten Hijau – Green District Initiative and Serikat

Petani Indonesia (SPI) Riau, but it is also recommended that CORE undertake fieldwork across the 3 regencies in early Q1 to review wider options.

More detailed recommendations for policy implementation activities in 2017 and beyond will be developed in partnership with Musim Mas.

Appendix A: Details of Verification Findings

Detail calculation of percentage findings per mill, presented below:

	Major NC		Minor		Comply		Total
Mill	Qty	%	Qty	%	Qty	%	
1 Mill A	11	26.83%	15	36.59%	15	36.59%	41
2 Mill B	16	39.02%	19	46.34%	6	14.63%	41
3 Mill C	1	2.44%	14	34.15%	26	63.41%	41
4 Mill D	9	21.95%	17	41.46%	15	36.59%	41
5 Mill E	7	17.07%	26	63.41%	8	19.51%	41
Grand Total	**44**		**91**		**70**		**205**

Detail calculation of percentage findings per section/ principle, presented below:

	Major NC		Minor NC		Comply	
Section	Qty	%	Qty	%	Qty	%
1 Land tenure and legislation	6	17.14%	16	45.71%	13	37.14%
2 Deforestation	15	50.00%	13	43.33%	2	6.67%
3 Development on peat lands	2	13.33%	7	46.67%	6	40.00%
4 Use of fire	-	-	3	60.00%	2	40.00%
5 Management of environmental impacts	3	20.00%	11	73.33%	1	6.67%
6 Greenhouse gas (GHG) emissions	4	40.00%	6	60.00%	-	-
7 Social compliances	4	5.71%	28	40.00%	38	54.29%
8 Supply chains	10	40.00%	7	28.00%	8	32.00%
Grand Total	**44**		**91**		**70**	

Appendix B: Consolidated Recommendation from 5 Mill Verifications

These recommendations were developed to address trending issues identified through completing 5 mill verifications as described in Section 3.1.

A. mill level interventions (led by mill): The recommendations for the mills are further classified as short term action (with asterisks) and long term action. The objective is to enable the mills to focus on the immediate action that can be carried out in shorter term while developing measures for longer term actions;

B. mill level interventions (led by Musim Mas): Musim Mas will try to gain access to and work with the mills on their action plan. This first step will be possible for some of the mills but not all the supplying mills.

C. landscape level interventions: These recommendations will need support from other stakeholders including governments, civil society groups and the private sector. Musim Mas could attempt to integrate these recommendations with the known landscape-level intervention to develop strategies for collaborations with other support. Musim Mas could also take the lead to initiate communication with the relevant stakeholders.

Principle/Section	(A) Mill Corrective Action	(B) Musim Mas Support	(C) Other Support
Land Tenure & Legislation	• *Collect basic information on the current and future suppliers to make sure that they are not in forest zone or protected area • *Improve the current sustainability policy to cover Musim Mas' sustainability policy • *Need to verify suppliers' land ownership type and proper plantation permit	• Facilitate the development of the sustainability policy and standard.	• Include local government to support legal land ownership and tenure rights. • Local government need to establish control of the registration of land expansion.
HCV & Deforestation	• *Engage and communicate with the traders and/or smallholders on the importance of not converting new	• Together with the mills in the region, undertake a landscape level HCV	• Support from consultants or NGO's with experience in participatory mapping.

	land before a rapid assessment is undertaken and to understand the type of habitat prior to conversion. • *Carry out HCV assessment in plantations and associated smallholders (planted after 2010) • Develop a management program for identified HCV areas within own plantation/mill for future or for replanting own plantation (if any) • Develop a system to verify their supplier commitment to "no deforestation"	assessment to identify future potential areas and risks. • Share the knowledge with the mills about developing a verification system to verify the commitment of the mills' supply base to "no deforestation."	
Development on Peatlands	• *Prepare a policy to prohibit new development on the peat land • *Maintain a subsidence measurement record • Increase awareness of suppliers to apply best management practices for replanting in peatland • Consider rehabilitation or restoration	• Advise mill and its supply base that have own plantation on Best Management Practices in peatland plantation • Coordinate water management on peatland landscape that are occupied by more than one party.	• Support from consultants, NGO's, or an official portal to provide information on location of peatlands and development status
Use of Fire	• *Share the good agricultural practices to the suppliers without using fire in land preparation • Carry out a series of meeting on the no burning policy to smallholders	• Contribute experience of implementing good agricultural practices to the suppliers without using fire in preparing land.	• The plantation/ agriculture service office in Riau province can be contacted for extension on

		• Provide training on fire management for plantation company.	implementation of no-burning policy.
Environment Impact Management	• *Engage and communicate with its traders and/or smallholders on the importance of raising awareness on waste management and the use of hazardous agrochemicals. • Improve the waste water management and develop control mechanism near the villages to measure contamination from mill effluent. • Integrate the result of HCV study into UKL/UPL revision so that identified HCV areas included in the management of UKL/UPL (legal terms)	• Increase awareness by providing expertise to the mills and their suppliers on waste management and the use of hazardous agrochemical.	• Seek advice from government office on spatial plan development progress and best management practice in buffer zones and protection of water from agriculture activities.

Greenhouse Gas (GHG) emissions	• *Prepare a management and monitoring plan to support an action plan of emission reduction • *Calculate and monitor the GHG emissions using applicable GHG tools (ISPO, RSPO)	• Provide support to the mills for GHG reduction program which is beneficial to the landscape level.	• Engage consultant or NGO with expertise in GHG assessment to support financial analysis and sourcing of finance for methane capture and POME /EFB fertilizer production system.
Social compliance	• *Carry out socialisation for workers on the declaration of human rights and ILO convention and other regulation related to manpower, especially on child labour. • *Improve the analysis on the root cause of work accident occurrence (especially in own plantation) to find out preventive solutions and to increase hygienic awareness for workers	• Share experience in the development process of social policies and support of management and monitoring plan	• Consultant or other service providers with social expertise dimension to the development and implementation of action plan to mitigate negative social impact.

	• Conduct Social Impact Assessment (SIA) for own plantation and mill • Improve CSR activities to be more strategic and aligned with local community development plan		
• Traceability	• Develop and implement procedures on FFB purchase as the traceability policy. The implementation of traceability by the mill could start with its lowest risk rank (plantation company) to the medium risk (cooperative) and the highest risk rank (the traders type). • *Develop a registration system for its supply base to the origin of the FFB to the extent of the farm level and do not stop at the agent/trader level. The information must include: the identity of the farmer and his farm location, area and land right status. • Check on quota during FFB purchase is an initial step to ensure traceability. • The incoming FFB should be supported with a record of FFB origin.	• Support in developing traceability system and policies on traceability. • Support the tracing process of the mills' supply base e.g. GIS support for farm survey, mapping and analysis. • Provide relevant support to its suppliers to improve the productivity of its supply base. Start a separate engagement programme that focuses more on agronomic and sustainable practices.	• Use consultant /NGO to support participatory farm mapping, production data and support the use of apps of farmers /traders and mills to build a good communication