



# **SMALLHOLDER ENGAGEMENT FRAMEWORK**

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# 1 Background and Context

Smallholders are an integral part of the communities where SIPEF operates and play a key role in the Group's sustainable palm oil supply chain. They are regarded as valued business partners, with shared interests in productivity, quality and long-term agricultural value. SIPEF is committed to responsible and inclusive growth, ensuring that smallholders receive support, training and resources to strengthen yields, promote environmental stewardship and enhance livelihoods, while mitigating human rights risks.

Across its operations in Papua New Guinea and Indonesia, SIPEF works with smallholders through a variety of structured arrangements. The Group has established several programmes to support different types of oil palm smallholders, ranging from scheme-based cooperatives and village partnerships to independent producers.

All of SIPEF's third-party fresh fruit bunch (FFB) suppliers are smallholders<sup>1</sup> with whom SIPEF has an agreement, whose production locations are known and mapped and who are either already certified to the Roundtable on Sustainable Palm Oil (RSPO) standards or are working towards certification within the Group's RSPO Time Bound Plan.

In addition, SIPEF actively engages with independent smallholders in Indonesia who are not yet part of the Group's supply base, aiming to support their inclusion in SIPEF's certified sustainable and traceable supply chain, where possible.

## 1.1 Papua New Guinea

SIPEF's smallholder programme in Papua New Guinea (PNG) began in the 1980s, when the Group and the PNG government were the founding partners of Hargy Oil Palms Ltd (HOPL). During this period, HOPL collaborated with the PNG and Australian governments and the World Bank in a public-private partnership aimed at promoting sustainable rural development. The programme linked commercially viable, export-oriented oil palm plantations with widespread smallholder participation, with the goal of fostering economic empowerment and inclusion.

The scheme enabled thousands of farming families to gain ownership of state land. Each family was allocated approximately six hectares and benefited from the combined support of government-backed smallholder services and the expertise, services and market access provided by HOPL. Since then, the Oil Palm Industry Corporation (OPIC) was established and, together with HOPL, continues to deliver technical support to growers. HOPL also remains responsible for road and bridge maintenance, transport, milling and sales.

Today, the 3,646 smallholders supplying HOPL are all classified as **associated smallholders**. While they independently own and manage their land and take full ownership of crop choice and management decisions, they are categorised as **scheme smallholders** as per the RSPO definitions, as they can only sell to mills within their vicinity and have a standing arrangement with HOPL's mills. The relationship between SIPEF and these smallholders remains mutually beneficial. All HOPL-associated smallholders have been RSPO certified since 2009 and all

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<sup>1</sup> It includes a small contribution from outgrowers within the supply base.

cultivated areas have been fully mapped. FFB are collected from each smallholder, weighed by crane truck, and payment is made by HOPL on a fortnightly basis.

## 1.2 Indonesia

SIPEF's engagement with smallholders in Indonesia is also shaped by local context and grounded in mutually beneficial agreements that are formalised through law and underpinned by Free, Prior and Informed Consent (FPIC). These arrangements fall into two broad categories: **scheme smallholders**, where SIPEF manages operations, and **independent smallholders**, who manage their own land and sell to SIPEF based on sustainability commitments.

### 1.2.1 Scheme smallholders

Under the **smallholder cooperatives (*Koperasi*)** programme in Musi Rawas, SIPEF manages the production areas on behalf of cooperative members who entrust their land for managed cultivation. The company develops and plants the land and carries out all operational inputs and management up to and including harvesting and crop recovery. A purchase agreement is put in place for the FFB at market prices, providing cooperative members with a steady income over a 25-year period. During the immature phase, members receive an advanced monthly payment, which, together with development costs, is later recovered through the purchase agreement. The managed areas in Musi Rawas are typically large contiguous blocks, with one reaching up to 2,500 hectares. These are subdivided into individual land titles of around 2 hectares each, with the landowners collectively represented through a cooperative that enters into a formal agreement with SIPEF.

SIPEF partners with 50 groups of smallholders from villages around its Agro Muko operations through its **village smallholder (*Kebun Masyarakat Desa—KMD*)** programme. Similar to the *Koperasi* model, SIPEF is entrusted with land management, developing and operating the production areas on behalf of the villages. Each community is represented by an association that enters into a contract with SIPEF. Payments are calculated based on production, market rates and a service fee, and are made to the association for communal development projects. These payments are transparently published in the local newspaper. The plots are typically located close to the communities and managed as contiguous blocks, usually under 100 hectares. The programme generates significant revenue for village cooperatives and their social initiatives.

### 1.2.2 Independent smallholders

Independent smallholders in Indonesia manage their own land and may choose to sell to SIPEF based on their commitment and progress toward RSPO certification. SIPEF currently sources from a group of independent smallholders supplying its Umbul Mas Wisesa mill in Northern Sumatra. This group operates under a memorandum of understanding (MoU) with SIPEF, committing to comply with the Group's sustainability requirements. In turn, SIPEF purchases their FFB at competitive market rates, provides technical support to ensure ongoing compliance and covers the cost of external audits. The cooperative was the first SIPEF supplier to be certified under the RSPO Independent Smallholder Standard.

SIPEF is actively working to expand its certified smallholder supply base by engaging more independent producers.

## 2 Smallholder Engagement Framework

SIPEF is committed to supporting smallholder suppliers in achieving certification by providing technical assistance, extension services and targeted training through its smallholder support programmes. The company actively engages with both existing and new smallholders as part of its strategy to contribute towards the Group's goal of sourcing 100% RSPO-certified palm products under identity-preserved or segregated supply chains. These efforts equip smallholders with the knowledge and tools necessary to meet sustainability standards and ensure their continued inclusion in SIPEF's responsible supply chain.

SIPEF's Smallholder Engagement Framework outlines how the Group works with its smallholder suppliers to ensure compliance with SIPEF's policies and progress toward a 100% RSPO-certified supply base. The framework adopts a stepwise approach, illustrated in the flowchart below, and is aligned with the procedures defined in SIPEF's [Responsible Purchasing Policy](#) (RPuP).

The stepwise approach consists of the following key elements:

- expression of interest;
- GIS-based screening criteria;
- awareness and commitment;
- technical requirements;
- external certification (e.g., RSPO, ISPO, ISCC, etc.);
- internal control system; and
- regular reporting

The internal control system includes training and awareness, regular inspections, internal audits, external certification and documented procedures to address non-conformances and manage suspensions. All of SIPEF's smallholder supply bases are mapped and can be viewed on SIPEF's online interactive mapping platform, GeoSIPEF ([www.geosipef.com](http://www.geosipef.com)).

## 2.1 Screening Criteria

SIPEF only accepts FFB from smallholders who meet its screening criteria for entry into its supply chain. These criteria are aligned with both its own policies, including its no deforestation, no new developments on peat and no exploitation (NDPE) policies, as well as the Principles and Criteria of the RSPO. Before new smallholders are accepted into SIPEF's programmes, they undergo a due diligence process to assess compliance with the requirements set out in the RPuP.

### Requirements:

- 2.1.1. Legal ownership is verified
- 2.1.2. Production location is known and mapped
- 2.1.3. Demonstration of genuine commitment to carry out RSPO New Planting Procedure for new plantings
  - Smallholder is already RSPO certified or has the potential to become certified within SIPEF's RSPO TimeBound Plan
- 2.1.4. Compliance with SIPEF's Responsible Plantations Policy (RPP) and other relevant policies in all operations of the supply base

Once the screening criteria are met, smallholders entering SIPEF's supply chain either sign new agreements or, where relevant, commit through existing agreements to maintaining ongoing compliance. These criteria are based on RSPO requirements for the certification of independent or scheme smallholders, utilising RSPO's binary definition of smallholders. The following checklist sets out the screening criteria used to evaluate smallholders upon their expression of interest to supply to SIPEF.

Screening Criteria Checklist for Smallholder		
Name of smallholder:		
Size of planted area (ha):		
Location:		
Coordinate:		
No.	Criteria/Question	Critical/Non-Critical
1	Does the Smallholder have a valid work agreement with the Company?	Critical
2	Does the Smallholder commit to work with SIPEF to become RSPO certified within 5 years?	Critical
3	Commitment to restoration of non-compliant deforestation/conversion as per RSPO requirements.	Non-critical
4	Does the smallholder have legal land title document or ownership titles for their land?	Critical
5	Does the smallholder understand and agree to comply with all applicable policies?	Critical
6	Does the smallholder commit to no new planting or no expansion of existing farms in primary forests, HCV areas, HCS Forests, in riparian areas or on steep slopes (more than 25 degrees or as in National regulation)?	Critical
7	Does the smallholder commit to biodiversity conservation?	Non-critical
8	Was the smallholder's first oil palm planting established before 2010 (or 2005)?	Critical
9	The smallholder can prove that there is no new planting on peat, regardless of depth, after 31 December 2015.	Critical

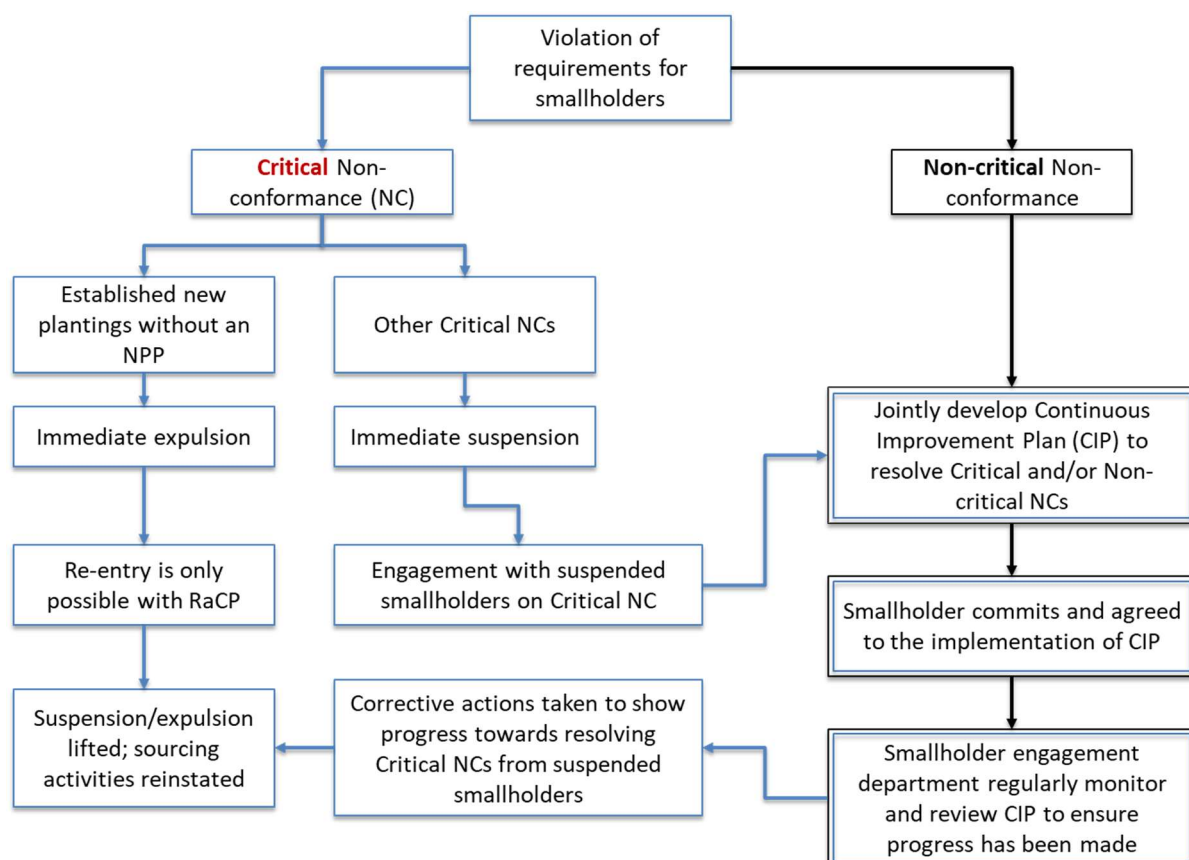
10	No new planting on peat and replanting on peat only in areas with low risk of flooding and saline intrusion.	Critical
11	Smallholder commits to no use of Paraquat, chemical listed on Rotterdam and Stockholm Conventions, or WHO class Ia or Ib.	Critical
12	Does the smallholder commit to not use child labour and forced labour?	Critical
13	Does the smallholder commit to paying minimum wage?	Non-critical
14	Does the smallholder commit to respect legal and customary tenure and/or rights and only acquire land from indigenous peoples or local peoples with their Free and Prior Informed Consent?	Critical
15	Does the smallholder commit to resolve any existing disputes through a participatory process?	Non-critical
16	Is the smallholder registered as a member of an organisation (Farmer Group or Cooperative)?	Critical
17	Does the smallholder commit to mitigate impacts on food security?	Non-critical
18	Does the smallholder prevent environmental pollution by not disposing domestic garbage and hazardous waste in its place?	Non-critical
19	Does the smallholder use the burn method (fire) for New Planting preparation or replanting?	Non-critical
20	Does the smallholder use PPE based on the tasks and associated risks?	Non-critical
21	Has the smallholder registered as a health BPJS participant?	Non-critical
22	Has the smallholder been trained on best crop cultivation practices?	Non-critical
23	Does the smallholder commit to minimise the use of chemicals, including pesticides and chemical fertilisers?	Non-critical
24	If the smallholder land is on peat soil, has land management been carried out to maintain the water table level?	Non-critical
25	Has the smallholder ever submitted complaints to the company regarding the impact of the company's operations and has this been properly addressed by the company?	Non-critical

## 2.2 Suspension and Re-entry Requirements

Any smallholder cultivation found to be in violation of critical criteria is subject to suspension or removal from SIPEF's supply base. The list below outlines the critical criteria that, if violated, will result in immediate suspension or expulsion:

- 2.1.1. Unable to provide evidence of legitimate land-use rights, or if the land is under legitimate dispute by parties with legal, customary, or user rights
- 2.1.2. Land clearing resulted in deforestation, or the degradation of areas identified as High Conservation Value (HCV) or High Carbon Stock (HCS) forest after 31 December 2015
- 2.1.3. New planting conducted on peatland, regardless of depth after 31 December 2015
- 2.1.4. Unwilling or fail to implement the RSPO New Planting Procedure (NPP) prior to any new planting activities
- 2.1.5. Use of child labour, forced labour and evidence of human rights violations
- 2.1.6. Use of banned and/or prohibited agrochemicals

The decision to suspend or expel depends on the severity of the breach and whether remediation is possible. Ongoing compliance to all non-critical criteria is enforced through internal inspections, training and awareness and external audits. The flowchart below shows the suspension and re-entry procedure SIPEF has in place to address non-compliances within its smallholder supply bases.



Note: A flowchart showing the smallholder suspension and re-entry process.



## 2.3 Monitoring and Tracking Compliance

Comprehensive records are maintained to ensure transparency and compliance with RSPO standards. The suspension or expulsion of smallholders is also systematically monitored and tracked through both the internal control system and external certification processes.

Key information captured for monitoring purposes includes:

- Smallholder types (e.g., independent, scheme, or associated)
- Number of RSPO-certified smallholders
- Certified planted area (hectares)
- Volume of FFB sourced from RSPO-certified smallholders (in tonnes)

These data points are regularly updated and reviewed to ensure accuracy and to support continuous improvement in smallholder inclusion and certification efforts. Please refer to the table below for detailed figures.

		2022	2023	2024
<b>SIPEF Group</b>				
Scheme	# of RSPO certified smallholders	4,165	4,878	4,879
	RSPO certified planted area (Ha)	15,909	18,639	18,634
	RSPO certified FFB volumes (tonnes)	272,007	252,378	229,540
Independent	# of RSPO certified smallholders	30	30	29
	RSPO certified planted area (Ha)	60	60	60
	RSPO certified FFB volumes (tonnes)	643	679	806
<b>Indonesia</b>				
Scheme	# of RSPO certified smallholders	520	1,232	1,233
	RSPO certified planted area (Ha)	1,102	3,832	3,827
	RSPO certified FFB volumes (tonnes)	17,651	19,964	27,574
Independent	# of RSPO certified smallholders	30	30	29
	RSPO certified planted area (Ha)	60	60	60
	RSPO certified FFB volumes (tonnes)	643	679	806
<b>Papua New Guinea</b>				
Scheme	# of RSPO certified smallholder	3,645	3,646	3,646
	RSPO certified planted area (Ha)	14,807	14,807	14,807
	RSPO certified FFB volumes (tonnes)	254,356	232,414	201,965

Note: Data for 2023 and 2024 are based on data from SIPEF's 2024 Integrated Annual Report (IAR 2024). Data for 2022 is based on data from SIPEF's IAR 2023.

### 3 Revision and Review

This Framework shall be reviewed periodically and may be amended from time to time to ensure continued relevance, legal compliance and alignment with SIPEF's operational and governance needs. Any material revisions must be approved by the Board of Directors.

The most recent version of this Framework shall be deemed the applicable version and shall supersede all previous versions.

All amendments will be recorded in the revision history below.

#### Revision History

Version	Revision Date	Description	Sections affected	Reviewed by	Approved by
1	12 August 2025	Date of approval	Original version	Executive Committee	Board of Directors

\* \*

### 4 Annex - Supplier Compliance Roadmap: NDPE and RSPO Targets with KPIs

All smallholders within SIPEF's supply base must be fully aligned with the Group's No Deforestation commitment (NDP) under the Responsible Plantations Policy (RPP) and Responsible Purchasing Policy (RPuP) before being integrated into SIPEF's certified and traceable supply chain. Compliance is verified through annual monitoring by a third-party service provider, and supported by a completed historical assessment, which confirmed that no deforestation has occurred in SIPEF's supplier areas since the cut-off date of 31 December 2015.

To support the integrity and continuous improvement of its responsible sourcing strategy, SIPEF applies a structured, multi-step approach to smallholder integration and development. This includes the following key components:

1. Ongoing mapping and due diligence of potential smallholders against SIPEF's sustainability policies and frameworks (e.g., EUDR, NDPE, RSPO), acknowledging that this remains a continuous process, even beyond regulatory thresholds such as Indonesia's 20% rule.
2. Early socialisation and commitment-building around SIPEF's core policies, including the Responsible Plantations Policy (RPP) and Responsible Purchasing Policy (RPuP), to ensure mutual understanding and alignment.
3. An initial onboarding phase, during which the smallholder may not yet be supplying to SIPEF mills, but is guided towards full supply chain compliance while building trust and transparency.

4. Regular capacity-building activities, encompassing policy refreshers, training in best management practices (BMPs) and support in areas as financial literacy and sustainable agronomy.
5. Enhanced monitoring of smallholder plots, through a combination of internal and external audits, real-time Deforestation and Fire Monitoring (DCF) and productivity assessments. Technological advancements are also being explored to ensure full traceability of Fresh Fruit Bunches (FFB) entering SIPEF's mills.
6. Certification support, focusing on both ISPO and RSPO schemes in Indonesia. Certification is viewed as the culmination of the smallholder engagement journey and formally qualifies them as compliant suppliers into SIPEF's supply chain.

These priorities are backed by clearly defined sustainability targets and achievements, with dedicated KPIs for suppliers reported in the [SIPEF's integrated Annual Report](#).

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