

RESPONSIBLE BUSINESS CONDUCT

Pilot project on the implementation of the OECD-FAO Guidance for Responsible Agricultural Supply Chains

FINAL REPORT



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For more information, please visit: www.fao.org/economic/est/issues/investment and www.fao.org/in-action/responsible-agricultural-investments



About Kumi Consulting

Kumi Consulting is a sustainability consultancy specialising in due diligence and responsible business practices in commodity supply chains. Kumi supported the OECD and FAO in the implementation of the pilot project on the OECD-FAO Guidance for Responsible Agricultural Supply Chains.

For more information, please visit: kumi.consulting



About the OECD-FAO Guidance

The [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#) (the OECD-FAO Guidance) provides a common framework for the application of responsible business practices in agricultural supply chains. It is based on and incorporates various long-standing standards for responsible business conduct (RBC), such as the UN Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises (OECD Guidelines), the International Labour Organisation Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (ILO MNE Declaration), and the UN Committee on World Food Security's Principles for Responsible Investment in Agriculture and Food Systems (CFS-RAI Principles). The OECD-FAO Guidance targets domestic and international, small, medium and large enterprises across the entire agricultural supply chain, from smallholders, farmers' organisations, co-operatives and start-up companies to MNEs through parent companies or their local affiliates, state-owned enterprises and funds, private financial actors and private foundations. To find out more please visit: mneguidelines.oecd.org/rbc-agriculture-supply-chains.htm.

About this report

Section I provides background information on the OECD-FAO Guidance, OECD and FAO work on responsible agricultural supply chains, and how this work contributes to the objectives set out in the 2030 Agenda for Sustainable Development.

Section II describes the pilot activities that were implemented from February 2018 to October 2019, including the baseline and progress analysis, peer-learning webinars, and in-person meetings. It includes information about the methodology through which data and information used in this report were analysed, as well as the limitations of this pilot project.

Section III presents the findings from the overall pilot following the structure of the five-step due diligence framework presented in the OECD-FAO Guidance. The analysis in this section also includes cross-comparisons with the baseline data. This section contains the overarching findings and the detailed findings on how participants are implementing the recommendations of the OECD-FAO Guidance. It draws lessons learned throughout the pilot including through the peer-learning webinars, in-person meetings with pilot participants and the diverse group of stakeholders interested in promoting uptake of due diligence to address risks in agricultural value chains. It lays out the main challenges and opportunities companies may face when carrying out risk-based due diligence.

Section IV provides a conclusion of the findings of the pilot project.

Section V summarises the key recommendations for companies and policy makers, in particular countries who have adhered ("Adherents") to the OECD-FAO Guidance.

Section VI proposes next steps following the pilot project.

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Foreword

Companies operating in the agricultural sector are increasingly under pressure to address social and environmental harms in their supply chains while also finding ways to meet the critical targets that are set under the Sustainable Development Goals (SDGs). At the same time, the context within which companies operate includes the increasing challenges of resource scarcity, soil and water degradation, climate change, and a world population projected to reach 11 billion by the end of the century. The [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#) ('OECD-FAO Guidance') helps companies meet such challenges by providing a framework for risk-based due diligence to identify and address risks in global agricultural supply chains. The recommendations of the OECD-FAO Guidance are recognized by 39 countries as well as civil society, workers and businesses. The OECD-FAO Guidance draws on existing standards such as the CFS-RAI Principles and the OECD Guidelines for Multinational Enterprises to help companies meet international responsible business conduct expectations in agricultural value chains.

To promote the uptake of the OECD-FAO Guidance, the OECD and FAO launched a pilot in 2018 with volunteer companies and industry initiatives operating in agricultural supply chains. Participants included enterprises operating at different parts of the value chain, responsible for producing, transporting and transforming a wide range of agricultural food and non-food commodities such as bananas, beef, cocoa, cotton, dairy products, palm oil, soy, sugar and tobacco, amongst others. A list of pilot participants who have agreed to disclose their participation in the pilot can be found on page 23 of this report.

In addition to assessing how companies interpret and implement responsible business conduct and due diligence principles, the pilot aimed to support companies in better understanding the five-step due diligence framework recommended by the OECD-FAO Guidance for systematically and comprehensively managing risks prevalent in agricultural supply chains. The pilot also allowed companies to openly share their learnings and good practices in implementing due diligence, raise questions and share solutions for addressing gaps and inconsistencies.

This final report presents the key findings of the pilot. It summarises the lessons learned, good practices and challenges in implementing supply chain due diligence identified by pilot participants, and sets out recommendations and next steps for companies and policymakers to promote the uptake of the OECD-FAO Guidance recommendations in the agricultural sector.

Definitions

Adjusted baseline

Data gathered through the Baseline Survey adjusted to exclude three companies that did not respond to the Progress Survey. This adjustment ensures comparability across the same group of companies that have responded to both the Baseline and Progress Surveys.

Agricultural supply chains

System encompassing all the activities, organisations, actors, technology, information, resources and services involved in producing agriculture-based products for consumer markets. They cover agricultural upstream and downstream sectors from the supply of agricultural inputs (such as seeds, fertilisers, feeds, medicines, or equipment) to production, post-harvest handling, processing, transportation, marketing, distribution, and retailing. They also include support services such as extension services, research and development, and market information.

Business partner

Entities with which an enterprise has a business relationship are referred to as 'business partners'.

Business relationship

The term business relationship includes an enterprise's relationships with business partners, entities in the supply chain and any other non-state or state entities directly linked to its business operations, products or services.

Downstream enterprises

Enterprises involved in the aggregation, processing, distribution and marketing of agriculture-based products. This may include wholesalers, traders, transportation companies, manufacturers, textile and biofuel producers, or retailers and supermarkets.

Due diligence

The process through which enterprises can identify, assess, mitigate, prevent and account for how they address the actual and potential adverse impacts of their activities as an integral part of business decision-making and risk management systems. Due diligence concerns adverse impacts caused or contributed to by enterprises as well as those adverse impacts that are directly linked to their operations, products or services through a business relationship.

Enhanced due diligence

Higher-risk areas such as "red flag" locations, products or business partners should be subject to enhanced due diligence. Enhanced due diligence may include on-the-ground verification of qualitative circumstances for "red flag" locations, products, or business partners.

Mitigation

'Mitigation' refers to actions taken to diminish or eliminate harm if a negative event occurs. Mitigation measures may be taken before, during, or after an event with the aim of reducing the degree of harm.

Prevention

'Prevention' refers to actions taken to prevent harm from occurring or re-occurring. In other words, prevention measures are taken before harm occurs.

Red flags

Situations that may warrant an enhanced due diligence process. This can include on-the-ground verification of qualitative circumstances for red flag locations, products, or business partners.

Remediation

The provision of remedy for adverse impacts.

Risk

Likelihood of adverse impacts on people, the environment and society that enterprises cause, contribute to, or to which they are directly linked.

Risk-based due diligence

When the nature and extent of due diligence corresponds to the type and level of risk of adverse impacts. The severity of actual and potential adverse impacts should determine the scale and complexity of the necessary due diligence.

Risk management

Prevention, mitigation, remediation of potential and actual adverse impacts.

Stakeholders

Stakeholders include persons or groups who are or could be directly or indirectly affected by the actions of the enterprise and its interlocutors.

Supplier

All business relationships that provide a product or service to an enterprise, either directly or indirectly.

Upstream/on-farm enterprises

Enterprises involved in agricultural production and near-farm basic processing. This may include farmers (including small to large family farms, as well as farmers' organisations, co-operatives and private enterprises), and companies that invest in land and directly manage farms.

Acronyms and abbreviations

CSO

Civil Society Organisation

DLT

Distributed ledger technologies

ESG

Environmental, social and governance

FAO

Food and Agriculture Organization of the United Nations

FMCG

Fast-moving consumer goods

FPIC

Free and Prior Informed Consent

GIS

Geographic Information System

ILO

International Labour Organization

KPI

Key performance indicator

OECD

Organisation for Economic Cooperation and Development

RBC

Responsible business conduct

SDGs

Sustainable Development Goals

UNGP

United Nations Guiding Principles on Business and Human Rights

Executive summary

The OECD-FAO Guidance was launched in 2016 following a two-year multi-stakeholder consultative process led by the OECD and FAO Secretariats. The OECD-FAO Guidance provides a common framework and globally applicable benchmark to help enterprises operating along agricultural supply chains to identify and mitigate adverse impacts and contribute to sustainable development.

In February 2018 the OECD and FAO launched an implementation pilot to test the practical application of the OECD-FAO Guidance and provide companies and industry initiatives with an understanding of how companies are implementing the recommendations set out in the OECD-FAO Guidance. The project started with a Baseline Survey in Spring 2018 of participating companies and supply chain initiatives that evaluated the extent to which the recommendations of the OECD-FAO Guidance had already been addressed by participants. The findings of the [Baseline Report](#)¹, together with subsequent analysis and discussion with participants informed the scope of other activities which were undertaken during the pilot. These included a series of peer-learning webinars, and in-person meetings that enabled participants and a wider community of stakeholders to share experiences and discuss solutions to address challenges identified. A second Progress Survey was carried out in Spring 2019 to understand the progress made by companies in implementing the recommendations of the OECD-FAO Guidance.

This report discusses current approaches to responsible business conduct (RBC) within global agricultural supply chains. It provides lessons learned from this implementation project, including examples of good practices. The report also sets out some of the key challenges that face companies and their stakeholders in implementing risk-based due diligence and addressing potential risks and impacts in their own operations and wider business relationships.

Many companies in agricultural supply chains have a sophisticated approach to RBC, but due diligence strategies are often driven by external pressures

Many companies participating in the pilot have developed a sophisticated understanding of how issues of sustainable development are relevant to their business operations and have taken steps to commit to RBC through the development of strong policy commitments. They have established robust management systems and processes to implement these commitments and ensure senior management accountability. This was clearly identified from the Baseline Survey and, since then, companies participating in the pilot continued to strengthen their commitments to RBC. This included strengthening approaches to issues such as animal welfare and the need to integrate a gender perspective into due diligence. Companies participating in the pilot project that sourced or produced selected core commodities (cocoa, palm oil, soy, sugar, and tobacco) demonstrated particularly strong commitments to the RBC-related policies recommended in the OECD-FAO Guidance.

Companies highlighted that their participation in the pilot supported their commitments to ongoing improvement of due diligence practices. Specific actions undertaken by participants over the course of the pilot included initiating internal dialogues within their organisations on challenges that had been identified during their participation in the pilot, or developing and implementing new formalised processes and policies. Several companies stated that the pilot project provided an opportunity for them to both benchmark against and draw from other companies' experiences, tools and good practices to support ongoing improvements in how they address supply chain due diligence.

¹ Pilot Project on the Implementation of the OECD-FAO Guidance for Responsible Agricultural Supply Chains, Baseline Report <http://mneguidelines.oecd.org/Baseline-Report-on-OECD-FAO-Guidance-For-Responsible-Agricultural-Supply-Chains.pdf>

Nevertheless, most changes implemented by companies over the timeframe of this pilot project have been influenced and driven by other factors beyond their participation in this project. This included external factors such as the introduction of new legal requirements and increasing pressure from civil society organisations (CSOs), and internal factors such as changes in business strategy.

Participating companies, in particular fast-moving consumer goods (FMCG) and consumer-facing companies, highlighted how frequently actions are taken in response to external pressure from CSOs and the media raising concerns over cases of adverse environmental, social and human rights impacts. Such stakeholders have a key role in motivating companies to address gaps in their RBC practices. However, they can also drive companies to prioritise single issues in a reactive fashion rather than promote a holistic approach to due diligence that is ongoing and focused on addressing those issues where there are the greatest risks of harm to people or the environment.

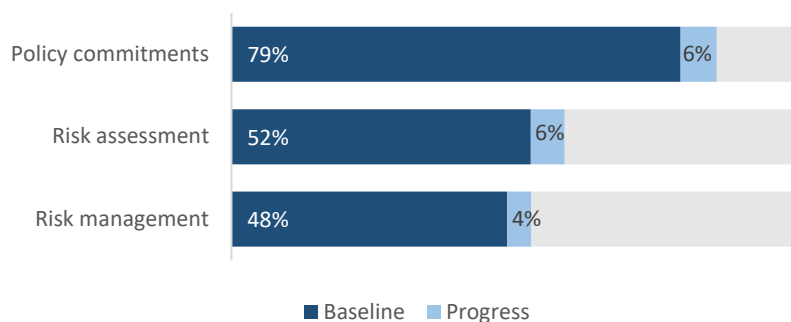
Gaps remain in how companies translate policy commitments into implementation actions

The Baseline Survey found that many companies have large and highly complex supply chains, utilise a range of different purchasing practices and have differing levels of management influence or control over parts of the supply chain. Many FMCG and consumer-facing companies, for example, operate within multiple commodity supply chains and source from suppliers globally. Inevitably, the range of issues they face is wide and complex. For companies operating further upstream, engaging with hundreds or thousands of smallholder farmers to ensure risks are adequately identified and addressed requires significant resources or innovation. Of the companies participating in the pilot, 75% reported sourcing agricultural products from smallholder farmers to some extent. Financial enterprises investing in land and providing capital to companies along the supply chain may not have the capacity to assess all risks within their portfolios. Therefore, prioritisation of risk assessments and risk management actions, as recommended by the OECD-FAO Guidance, is key.

Throughout the pilot project companies have shared good practices and examples of how they are translating their commitments into risk assessment and risk management actions. This includes, for example, establishing internal systems for collecting risk-related data and information, using technology, partnering with external stakeholders and utilising field-based staff to monitor risks and inform engagement with suppliers.

Nevertheless, significant gaps remain between companies' policy commitments and the translation of these commitments into practical due diligence actions such as risk assessment and risk management strategies. These gaps are illustrated by Figure 1, which shows the extent to which participants addressed the cross-cutting standards and risk-specific areas covered under the OECD-FAO Guidance in their policies, risks assessment and risk management activities. Many companies introduced new policy commitments in line with the OECD-FAO Guidance recommendations during the course of the pilot. However, the implementation of companies' policy commitments is often heavily dependent upon not just internal buy-in and support within their own organisations, but also the actions of suppliers and business partners along the value chain chain.

Figure 1. Percentage of companies that addressed the cross-cutting standards and risk-specific areas covered under the OECD-FAO Guidance in their policies, risks assessment and risk management activities in the Baseline Survey, and the percentage improvement in the Progress Survey.



The gaps between companies' commitments and actions and the recommendations set out in the OECD-FAO Guidance are particularly significant for issues such as food security and nutrition, tenure rights over and access to natural resources, and benefit sharing around company operations. These are all issues that are central many of the SDGs and have been raised by stakeholders as very important to RBC in agricultural supply chains. They are also some of the most complex and difficult issues to address, requiring a consideration of potential trade-offs (for example between land use by communities and government development priorities), clarity of land tenure, and the engagement of local communities and workers. The lack of effective due diligence approaches for these issues may therefore elevate the potential risks to communities in agricultural production areas and companies operating or sourcing from such areas. It also highlights the need for wider engagement from stakeholders to support the implementation of effective risk assessment and risk mitigation for such issues.

Systemic challenges require closer collaboration with key stakeholders

Certain challenges faced by companies, such as those associated with tenure rights over and access to natural resources, informal labour, child labour, and discrimination against vulnerable groups such as women and migrant workers, are widespread in the agricultural sector. For many companies, managing these challenges is central to maintaining a long-term 'social license' to operate in the countries they source from and protecting the company from operational and reputation risks. However, many companies also recognise that their ability to effectively mitigate the risks associated with these issues on their own is limited given wider systemic and contextual challenges. Pre-competitive collaboration along and across the supply chain is an approach recommended by the OECD-FAO Guidance.

Whilst the primary responsibility for protecting tenure and resource rights is held by governments, companies often operate in or source from countries where the legal frameworks do not adequately address tenure and resource rights. In such cases, the OECD-FAO Guidance recommends that companies focus on managing risks directly and promoting good practices even where national standards and guidelines are lacking. This may require companies to be willing to engage and collaborate with various stakeholder groups and to consider establishing innovative partnerships with these groups.

Some companies have established relationships with partners on the ground, such as local CSOs (e.g. non-governmental organisations, workers' organisations), bilateral and multilateral donors, and have implemented multi-stakeholder programmes to seek solutions to challenging, systemic issues that they face in their supply chains. Several companies have found that by working with such partners they are able to ensure that the risk management approach they develop is suitable for the level and complexity of the risks identified given the local context. Companies also highlighted that close collaboration with local government actors can often be a source of support.

The widespread reliance by companies on industry schemes or third party platforms may impact effective due diligence

There is a widespread reliance by companies on industry-wide schemes, such as audit and certification frameworks, providers of risk information or supplier monitoring platforms to support due diligence in their supply chains. Many companies use industry-wide schemes to identify risks or provide confidence that potential risks have been mitigated. Certification programmes and industry initiatives are envisaged under the OECD-FAO Guidance as resources which companies can use to support their due diligence efforts. Indeed, industry collaboration can be instrumental in promoting efficiencies in gathering risk information and implementing a plan to address and mitigate risks. However, the OECD-FAO Guidance is also clear that companies remain responsible for ensuring effective due diligence and risk mitigation in their supply chains and that this responsibility cannot be outsourced to other entities. The pilot identified three particular challenges relating to reliance on industry schemes.

- Firstly, the standardised frameworks that industry schemes utilise are not always designed to address the wide range of issues companies can encounter in their supply chains and reflected in the OECD-FAO Guidance. The 'one-size-fits-all' methodological approach adopted by many schemes (for example, in relation to assurance mechanisms) creates challenges for companies seeking to address issues that are particular to a specific region or context.
- Secondly, most third party schemes do not provide much detail about which risks are present in the supply chain and how these are being managed on the ground. Many schemes focus on determining whether certain standards are being met (for example, a certification standard) rather than on communicating risk-related information to companies. This creates challenges for companies downstream seeking to gain an in-depth understanding of how suppliers are addressing key risks, thereby also limiting the ability for companies to share such information with stakeholders such as governments, investors, and customers, and exert leverage over suppliers to change or implement actions.
- Lastly, companies can choose from a wide range of industry-wide schemes to support their due diligence process. However, different schemes address different sets of issues and some are more appropriate for certain commodities or certain specific risks rather than others. This can create significant costs for companies, both upstream and downstream, but particularly for smaller businesses and producers such as smallholder farmers.

Nevertheless, it should be recognised that these challenges are not unique to the agricultural sector and several comparisons can be drawn to other industries. The work the OECD has carried out in the minerals and in the garment and footwear sectors has focused on working with industry schemes, companies and other stakeholders to support the alignment of schemes in these sectors with the respective sector Guidance for due diligence. There are opportunities for the OECD to apply lessons learned from this work to the agricultural sector.

Companies do not yet provide enough relevant information about risks and due diligence practices in their public reporting

Whilst most participating companies have sophisticated external reporting processes, public reporting remains limited on actual and potential impacts within their supply chains and how the due diligence steps recommended by the OECD-FAO Guidance are being implemented. Companies are often concerned with the effect that the disclosure of such information may have on their business, particularly in relation to commercial confidentiality and brand reputation. Nonetheless, relevant, timely and accurate public reporting is very important to external stakeholders, including businesses themselves, governments, investors, CSOs and affected communities. Reporting publicly on the actual and potential impacts identified and the steps taken to identify, assess and manage these not only aligns with the recommendations of the OECD-FAO Guidance, but also helps companies to build trust and confidence in their supply chain due diligence and with affected communities. External stakeholders have a role in supporting improvements to company reporting by providing clarity and greater consistency in their expectations on what information they wish companies to provide, with due regard taken of business confidentiality, security and other competitive concerns.

Recommendations for improvement priorities

This final report highlights the steps taken by companies in implementing an effective due diligence process at all stages of the supply chain. Whilst challenges remain, there are also practical actions that can be taken to address identified gaps and strengthen the implementation of RBC principles in agricultural supply chains.

Recommendations for companies

- Companies that own or manage the production process should strengthen their approach to addressing key risks found upstream of the supply chain. Companies should also seek to establish effective partnerships with key stakeholders on the ground, including CSOs, donors, government agencies, international organisations and experts with an in-depth knowledge of local cultural and social dynamics, where possible. Collaboration, consultation and partnerships with third parties are an important component of the due diligence approach recommended by the OECD-FAO Guidance and should be a continued area of work and research as stakeholders continue to promote the uptake of due diligence recommendations. Companies may also want to explore home countries' trade, investment and development strategies to see how these could be linked to wider uptake of due diligence in host countries.

- Stronger attention should be paid to the perspectives of potentially affected communities throughout the due diligence process to inform the identification, prioritisation and assessment of risks, as well as the development of risk management plans and implementation of remediation actions where required. In addition, companies should support access to existing grievance and dispute resolution mechanisms such as the National Contact Points system, courts and International Accountability Mechanisms. Companies could also work with CSOs to establish a list of due diligence indicators to track how companies are progressing in the management of risks on the ground.
- Explore ways to encourage uptake of the OECD-FAO Guidance recommendations within the supply chain. This could include, for example, encouraging industry groups of which companies are members to align their standards and frameworks with the OECD-FAO Guidance and support ongoing engagement with the OECD and FAO. Companies downstream should leverage their position as buyers to engage more closely with suppliers (both direct and indirect) to ensure due diligence recommendations are effectively implemented by their suppliers and business partners, including through the integration of the OECD-FAO recommendations into supplier contracts. Companies should recognise that some suppliers may not have the necessary resources or capacity to implement all the due diligence requirements on their own and should therefore support them, including through training and capacity building.
- Engage strategically with ‘choke points’ or ‘control points’ in supply chains, such as traders, exporters, aggregators, commodity exchanges and processors of product. This could also be done in collaboration with industry peers and other stakeholders such as policy makers, to drive greater visibility and improvements in conditions upstream.
- Continue to explore and leverage new technologies (such as satellite technology and distributed ledger technology, including blockchain) for mapping supply chains and identifying, assessing, managing and monitoring risks and impacts. The OECD Blockchain Policy Centre² as well as the OECD Principles of Artificial Intelligence³ can be useful resources for companies.
- As only one year elapsed between the Baseline and Progress surveys, pilot participants could volunteer to participate in a follow-up assessment in early 2021 to examine the full progress made over three years. This would allow the OECD and FAO to collect additional useful recommendations and good practices to be shared with all stakeholder groups.

Recommendations for policy makers

- Support strategies to address challenging and systemic issues and scale-up implementation of due diligence in the sector. Activities should connect, where relevant, with existing platforms and initiatives to reduce duplication.

² “Is there a role for blockchain in responsible supply chains?”, OECD (September 2019) <https://mneguidelines.oecd.org/is-there-a-role-for-blockchain-in-responsible-supply-chains.htm>. For more information about the OECD Blockchain Policy Centre, please visit: <http://www.oecd.org/daf/blockchain/>

³ The OECD Principles on Artificial Intelligence <https://www.oecd.org/going-digital/ai/principles/>

- Leverage the lessons learned from this pilot and the OECD's work in promoting Responsible Supply Chains in Asia and Responsible Business Conduct in Latin America and the Caribbean⁴ and FAO's work on responsible agricultural investment, including its Umbrella Programme, promoting responsible investment in agriculture and food systems⁵ to explore synergies and opportunities to address shared challenges in agricultural value chains. Efforts should link to relevant OECD and FAO work in global food systems, as well as continued coordination and collaboration with other international organisations and initiatives.
- Consider supporting an alignment assessment of agricultural industry schemes with the recommendations of the OECD-FAO Guidance building on the learnings of the OECD experience in other sectors. Governments could reinforce global alignment by encouraging industry schemes to participate in OECD-led alignment assessments, or rely on findings of OECD-led alignment assessments for use in their public procurement and state-backed financing activities, or for monitoring the environmental and labour provisions of trade agreements.
- Support the collection, dissemination and reporting of quality and comparable data on supply chain risks and due diligence to effectively inform decision-making by companies and investors.
- Develop training and capacity building for CSOs to raise awareness about due diligence expectations for companies and the role that CSOs can play in supporting better company engagement with local communities and governments.

Suggested activities to further promote the implementation of the OECD-FAO Guidance

Drawing from the findings and lessons learned during this pilot, there are several opportunities to promote the uptake of the OECD-FAO Guidance. These include:

- i. An alignment assessment for industry initiatives to identify ways to strengthen global convergence and effectiveness for schemes implementing the recommendations of the OECD-FAO Guidance.
- ii. Knowledge-sharing and the development of practical tools for the implementation of the OECD-FAO Guidance and due diligence, including through training and capacity building initiatives.
- iii. Research and analysis on key issues in agricultural supply chains and how the OECD-FAO Guidance can contribute to addressing these. Topics may include: climate change; the impacts of the implementation of RBC standards on smallholder farmers; emerging risks in the use of technology in agricultural supply chains; remaining challenges associated with food security and nutrition and research on uptake and impact of due diligence amongst others.

⁴ A partnership between the European Union (EU), the International Labour Organization (ILO) and the OECD, with funding by the EU, the Responsible Supply Chains in Asia programme works with partners in Asia to promote respect for human rights, including labour rights, and responsible business standards in global supply chains. The Responsible business conduct in Latin America and the Caribbean project, implemented together with the ILO, the United Nations Office of the High Commissioner for Human Rights (OHCHR) and the EU, aims to promote smart, sustainable and inclusive growth in the EU and Latin America and Caribbean by supporting responsible business conduct practices in line with the OECD, UN, and ILO instruments. For more information, please visit <https://mneguidelines.oecd.org/globalpartnerships/>

⁵ Overview of the FAO Umbrella Programme: Supporting Responsible Investments in Agriculture and Food Systems (RAI) <http://www.fao.org/in-action/responsible-agricultural-investments/umbrella-programme/en/>

- iv. An OECD-FAO hosted programme that focuses on areas where the OECD and FAO can leverage knowledge and capacity to address gaps in due diligence practices. This programme could support ongoing working groups and collective action between various platforms/programmes to address challenges in due diligence and promote responsible agricultural supply chains.

I. Background

The OECD-FAO Guidance for Responsible Agricultural Supply Chains

The OECD and FAO, with the support of a multi-stakeholder Agricultural Advisory Group, developed the [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#) (the OECD-FAO Guidance) to help enterprises observe existing standards of responsible business conduct (RBC) along agricultural supply chains. The OECD-FAO Guidance, which was launched in 2016, provides a common framework and globally applicable benchmark to help enterprises operating along agricultural value chains, including domestic and foreign, private and public, small, medium and large-scale enterprises, to mitigate their adverse impacts and contribute to sustainable development.

The OECD-FAO Guidance was developed to respond to a critical need for guidance on RBC in the agricultural sector. It was identified as being particularly salient as the sector continues to grow and investments into agricultural production increase. The OECD-FAO Guidance is based on and incorporates long-standing standards for RBC, such as the OECD Guidelines for Multi-national Enterprises, the UN Guiding Principles on Business and Human Rights (UNGPs); the International Labour Organisation Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (ILO MNE Declaration); and the UN Committee on World Food Security's Principles for Responsible Investment in Agriculture and Food Systems (CFS-RAI Principles). The FAO's Umbrella Programme⁶ also supports the application of the CFS-RAI and OECD-FAO Guidance by enhancing awareness and capacities for responsible investments in agriculture and food systems. Adherent countries to the OECD Council Recommendation on the OECD-FAO Guidance have committed to promote the uptake and widespread implementation of the OECD-FAO Guidance framework in their own countries and beyond. At the time of publication of this report, 39 countries⁷ have made this commitment.

When implemented effectively, businesses can use due diligence processes to manage risks associated with their operations, as well as mitigate their own reputational, operational and financial risks. By adopting the five-step due diligence framework recommended by the OECD-FAO Guidance companies can also proactively contribute to the achievement of the Sustainable Development Goals (SDGs).

II. The pilot project

In early 2018 the OECD and FAO launched a pilot with volunteer companies and industry initiatives to test the practical application of the OECD-FAO Guidance and understand how companies are implementing the recommendations set out in the Guidance.

⁶ Overview of the FAO Umbrella Programme: Supporting Responsible Investments in Agriculture and Food Systems (RAI) <http://www.fao.org/in-action/responsible-agricultural-investments/umbrella-programme/en/>

⁷ Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Kazakhstan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States as of 29 October 2019 <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0428>

A multi-stakeholder Agricultural Advisory Group, led by USAID and supported by vice chairs from business, investors and civil society provided advice and feedback via the OECD and FAO Secretariat to help shape pilot activities and engage with participants via the peer-learning webinars. The learnings from the pilot were communicated to the AG regularly through the course of the pilot.

Throughout the duration of the pilot participants had the opportunity to share their experiences and help define good practice in addressing recommendations of the OECD-FAO Guidance through a collaborative and interactive approach. The pilot provided an opportunity for companies to hold in-depth conversations with their peers within a safe and confidential space to discuss successes and challenges in supply chain due diligence, and learn from others.

This report presents the activities and key lessons learned throughout the pilot. It summarises what changes have been adopted by companies since the start of the project and showcases good practices for conducting effective supply chain due diligence. It also highlights remaining gaps and challenges in companies' approach to responsible business conduct and provides recommendations for how to address these.

Pilot activities

The Baseline Survey

Participating companies and industry initiatives completed a Baseline Survey in the Spring of 2018, which assessed how companies and industry initiatives were implementing the OECD-FAO Guidance and other related international standards. Questions were structured around the five-step framework of the OECD-FAO Guidance. The survey also aimed to identify potential gaps and opportunities for improvement in the implementation of due diligence in agricultural supply chains.

Findings of the Baseline Survey were presented in the Baseline Report,⁸ published in October 2018. These findings informed subsequent pilot activities, including seven peer-learning sessions held between Autumn 2018 and Summer 2019 and two in-person meetings organised with pilot participants and other stakeholders in June 2018 and March 2019.

Peer-learning sessions and webinars

Over the course of the pilot, seven online peer-learning sessions were held with pilot participants. These addressed challenges and gaps identified by companies in the Baseline Survey.

Some of the most significant challenges identified relate to gaps between companies policy commitments and how such commitments translate into risk assessment and risk management actions. Two peer-learning sessions were organised in relation to this topic to discuss how companies can embed the five-step due diligence framework into management systems, processes and verification. Topics addressed by other peer-learning sessions focused on other key challenges, such as those relating to supply chain mapping and traceability, and understanding risks and good practice management approaches for informal, seasonal, and family labour. Other sessions discussed opportunities to support effective due diligence, for example by exploring companies' experience in strengthening collaboration with third parties, the role of financial institutions in supporting responsible agricultural practices, and how the OECD-FAO Guidance can help achieve broader development objectives such as the SDGs.

⁸ Pilot Project on the Implementation of the OECD-FAO Guidance for Responsible Agricultural Supply Chains, Baseline Report <http://mneguidelines.oecd.org/Baseline-Report-on-OECD-FAO-Guidance-For-Responsible-Agricultural-Supply-Chains.pdf>

For each session, a list of existing tools and resources available to support the implementation of due diligence actions was compiled. Opportunities were also identified to develop new tools that can support companies. For example, a working group comprised of four companies and one industry initiative formed during the pilot project and, together with the OECD and FAO, developed a brochure that highlights links between the OECD-FAO Guidance and the SDGs, such as Life on Land (Goal 15), Decent Work (Goal 8) and Responsible Consumption and Production (Goal 12).⁹

A complete list of the topics covered in the peer-learning sessions is included in Annex I. A list of the available tools and resources to support due diligence identified through the peer-learning sessions can be found in Annex II.

Three additional webinars were also organised to discuss the initial findings of the surveys conducted during the pilot and identify potential next steps to build on the outcomes of the pilot project. This included a webinar organised together with the teams leading the work in the minerals and garment and footwear sector at the OECD to discuss with participants the opportunity to develop an alignment assessment of industry initiatives against the recommendations of the OECD-FAO Guidance. More information about the alignment assessment can be found in this report in Step 4 (p. 65) and in the section 'V Recommendations' (p. 73) and 'VI Beyond the pilot project: follow up activities to promote the implementation of the OECD-FAO Guidance recommendations' (p. 76).

In-person meetings

Six in-person meetings were undertaken during the pilot, including two which were open to all stakeholders:

- **Launch of the pilot project (February 2018):** A kick-off meeting was organised to discuss the objectives of the pilot and identify priority areas (e.g. specific issues, risks and challenges) to be addressed through the project.
- **Pilot participant in-person meeting (June 2018):** This meeting discussed findings from the Baseline Survey, provided feedback into the Baseline Report, and discussed priority topics for the peer learning sessions.
- **OECD-FAO Roundtable on Responsible Agricultural Supply Chains (June 2018):** A multi-stakeholder roundtable included presentations and interventions by members of Agricultural Advisory Group (AG), policy makers, the ILO, civil society, researchers, companies and industry initiatives. The roundtable facilitated a dynamic discussion around specific themes on supply chain due diligence in the agricultural sector and for participants to share their views on specific topics to be prioritised for further learning as part of the pilot project.

⁹ Brochure "The OECD-FAO Guidance for Responsible Agricultural Supply Chains: How it can help achieve the Sustainable Development Goals" <https://mneguidelines.oecd.org/Brochure-How-the-OECD-FAO-Guidance-can-help-achieve-the-Sustainable-Development-Goals.pdf>

- **Pilot participant in-person meeting (March 2019):** A meeting was organised for pilot participants, to discuss the Progress survey structure and obtain feedback on the pilot process and approach.
- **Pilot participant in-person meeting (October 2019):** A final meeting was organised for pilot participants to share feedback on the pilot and discuss potential follow-up activities.
- **OECD-FAO Roundtable on Responsible Agricultural Supply Chains (October 2019):** A roundtable was held at the end of the pilot to discuss findings and possible next steps for advancing the OECD-FAO Guidance recommendations with OECD country delegates, civil society, trade unions, researchers and businesses.

The Progress Survey

In the Spring of 2019, twenty-four of the twenty-seven participating companies completed a Progress Survey. The aim of the Progress Survey was to understand what changes companies had made with respect to the implementation of the OECD-FAO Guidance recommendations since the Baseline Survey in 2018 and evaluate how the pilot had contributed to understanding and addressing potential gaps and challenges within participants' due diligence and responsible business practices.

For this survey, progress was defined as the steps taken by participants towards strengthening their due diligence practices in line with the OECD-FAO Guidance. Participants were not expected to have fully adopted the five-step due diligence framework, in line with the recognition within the OECD-FAO Guidance that due diligence requires progressive improvement over time.

As with the Baseline Survey, the Progress Survey was structured around the five-step framework of the OECD-FAO Guidance, and built upon the questions that had been asked in the Baseline Survey. In some cases, the Progress Survey included additional questions that were previously not included in the Baseline Survey to yield a more nuanced understanding of companies' engagement with the issues and recommendations set out in the OECD-FAO Guidance.

Survey methodologies

The analysis and findings presented in this report draw from the results of the Baseline and Progress Surveys, as well as content from the follow-up conversations held with individual participants and the seven peer-learning sessions that were held throughout the duration of the pilot project. All information provided by participants has been anonymised and analysed in aggregate form. Survey results presented in this report are therefore not attributed to any individual respondent.

The responses provided to each question in the Baseline and Progress Surveys were analysed across all participating companies, though not all survey questions were necessarily applicable to all respondents. Some survey questions are specific to only certain types of companies or commodities or may not be applicable to the scope selected by certain participants. These considerations were integrated in the analysis presented in this report, therefore the aggregate results summarise only answers that are 'applicable'.

The Baseline and Progress Surveys included both quantitative and qualitative responses from participants. Quantitative results were used to analyse key trends, issue areas and present data on companies' approach to supply chain due diligence. Qualitative answers provided a descriptive overview of how companies are carrying out due diligence within their supply chains, as well as, for the Progress Survey, the context and reasons for why change has or has not occurred since the Baseline Survey.

Limitations of this report

The pilot activities aimed to gather information about how companies participating in the pilot are adopting responsible business conduct and due diligence practices in line with the recommendations of the OECD-FAO Guidance. The Baseline Survey and the Progress Survey were key in gathering quantitative and qualitative data about companies' practices to inform pilot activities as well as potential follow-up actions following the pilot. It should be noted, however, that there are some limitations to the information captured and presented in this report.

Firstly, the time elapsed between the Baseline Survey and the Progress Survey was short. Whilst many companies had taken significant steps to strengthen their approach to responsible business conduct, several have also highlighted that many changes take significantly longer to implement. Most companies participating in the pilot are multinational enterprises operating across multiple geographies and, in some cases, multiple commodity supply chains. Developing new policies, processes and frameworks for due diligence requires time and, in most cases, lengthy internal consultations and final senior management approval. Nevertheless, the Progress Survey was structured to capture both instances in which change took place through the implementation of specific actions, as well as initial considerations that will likely lead to change in the future, beyond the duration of the pilot project.

Secondly, participation in the pilot project was open to companies of all sizes, from on-farm enterprises to global fast-moving consumer goods (FMCG) brands, and operating along food and non-food supply chains. This allows for activities to capture and present valuable information regarding companies across different sectors and supply chains. Nevertheless, a diverse pool of participant organisations inevitably limits the comparability of data and information. Similarly, some companies elected to maintain a selected scope throughout their participation in the pilot project, selecting a specific issue, commodity or region to focus on when responding to the survey questions. Whilst this has allowed companies to explore priority challenges in further depth, rather than focusing on all company operations, it has also created further limits to the comparability of data across project participants.

Lastly, comparability between the results of the Baseline Survey and the Progress Survey is reduced by the different sample size of companies that were participating in the analysis. Twenty-seven companies took part in the Baseline Survey and twenty-four responded to the Progress Survey. All comparisons between the data captured in the baseline and the Progress Survey have therefore been adjusted to exclude the three companies that did not respond to the Progress Survey and ensure comparability across the same group of companies that have responded to both the Baseline and Progress Surveys.

Pilot participants

Twenty-seven companies and seven industry initiatives volunteered their participation in the pilot project and completed the Baseline Survey in 2018. Twenty-four companies completed the Progress Survey as part of their participation.

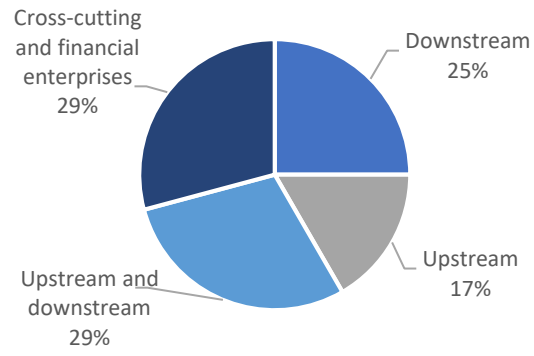
Pilot participants include companies in food and non-food commodities such as global consumer brands, retailers, producers, financial enterprises investing in land and agricultural projects, input suppliers, as well as industry programmes, associations and cooperatives seeking to support their membership base in strengthening their responsible sourcing practices. Most companies in this pilot project were large multinational enterprises. Medium-sized enterprises and cooperatives also participated in the pilot project.

Below is a list of participating companies and industry initiatives that agreed to disclose their name as participants in the OECD-FAO pilot.

Companies	Industry initiatives
AB Sugar	Better Cotton Initiative
AgDevCo	Bonsucro
Ahold Delhaize	Commodity Club Switzerland
Ajinomoto Co., Inc.	Roundtable on Sustainable Palm Oil
Aquila Capital	Round Table on Responsible Soy Association
Arla Foods	Swiss Platform for Sustainable Cocoa
Bananos Ecológicos de la Línea Noroeste (BANELINO)	Swiss Trading and Shipping Association
Bayer	
British American Tobacco PLC	
Caldenes Agropecuaria	
CEMOI	
Crédit Agricole du Maroc	
Danone	
European Bank for Reconstruction and Development (EBRD)	
Fyffes	
Japan Tobacco International	
Mars Wrigley Confectionery	
Nestlé	
Philip Morris International	
Rabobank	
Saudi Agricultural and Livestock Investment Co (SALIC)	
Sime Darby Plantation Berhad	
Syngenta	

Figure 2 illustrates the position of pilot companies along the supply chain. Companies operating upstream are either on-farm enterprises, farmers' organisations and cooperatives or companies that invest in land with direct operational control over the production of the commodity(ies) they source. Downstream companies include processors, wholesalers, manufacturers of food, feed and beverages, and retailers. There are also some companies that operate at both upstream and downstream stages of the supply chain. These are indicated in Figure 2 as "upstream and downstream". "Cross-cutting" companies participating in the pilot include, for example, input suppliers. Several financial enterprises investing in land and agriculture projects also participated in the pilot.

Figure 2. Participating companies by position in the supply chain (Progress Survey participants only)



III. Pilot findings and lessons learned

Step 1. Establish strong enterprise management systems for responsible supply chains

Key findings and lessons learned

- Companies continue to take steps to strengthen their policy commitments to responsible business conduct (RBC) and improve actions to meet these commitments. However, gaps remain in how companies address commitments to specific issue areas, such as food security and nutrition, tenure rights over and access to natural resources, and technology and innovation.
- Communication of policies and capacity building through training and incentives to comply with policy requirements within their companies has been increasing. Half of participating companies also reported an increase in engagement by senior management on RBC during the course of the pilot.
- Challenges remain for companies to ensure policy requirements are effectively communicated to and adopted by their suppliers, investees, and business partners.
- Technology can play an important role in supporting due diligence and several companies in the pilot are investigating the use of technology in their risk management systems. Almost all participating companies have adopted or are considering the adoption of new technologies to support traceability and the assessment, management and monitoring of risks in their supply chains.

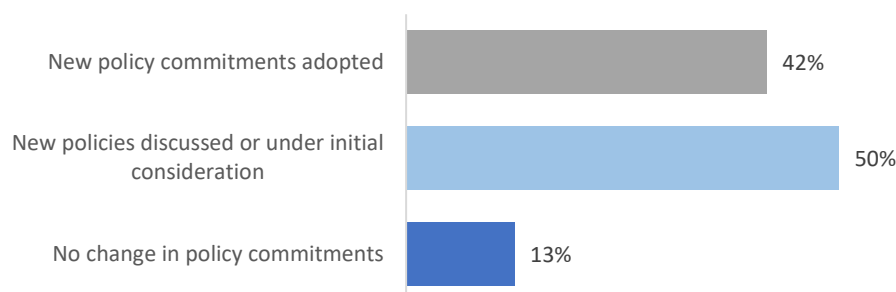
Progress in policy commitments to responsible business conduct

The OECD-FAO Guidance recommends that companies adopt responsible business conduct (RBC) policies that set out a company's commitments to identifying, addressing, and mitigating potential and actual social and environmental risks in supply chain operations. The OECD-FAO Guidance also defines specific issues that are recommended to be included within companies' policy commitments.¹⁰ The Baseline Survey found that all participating companies had made policy commitments to RBC, but also that there was variability in the scope of these commitments and the extent to which specific recommendations for policy content set out in the OECD-FAO Guidance had been addressed.

Most companies participating in the pilot project reported progress in strengthening their RBC policy commitments since the Baseline Survey. Almost all (88%) of participating companies had either adopted or taken steps towards adopting new formalised commitments, despite the short time elapsed since the Baseline Survey and the Progress Survey. Figure 3 provides a breakdown of the steps taken by companies to strengthen their RBC policy commitments throughout the duration of the pilot.

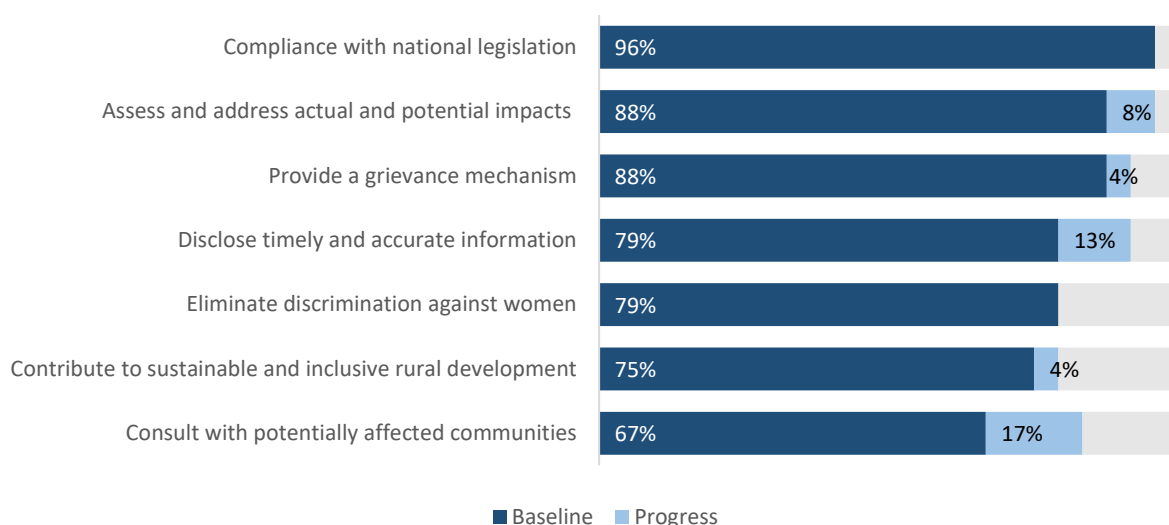
¹⁰ Model enterprise for responsible agricultural supply chains, pp.25-29, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

Figure 3. Percentage of companies that reported progress in relation to RBC policy commitments in the Progress Survey



During the course of the pilot 75% of companies strengthened their commitments to the six cross-cutting standards recommended by the OECD-FAO Guidance¹¹ and the commitment to comply with all applicable national laws. This includes companies that strengthened existing commitments to RBC, as well as companies that took steps to address issues that were previously not addressed by RBC policies at the start of the pilot project.

Figure 4. Percentage of companies that have adopted cross-cutting commitments for RBC, showing the percentage of companies that had addressed each area in the Baseline and the percentage improvement of adoption of these commitments amongst participants in the Progress Survey



The most significant progress made by companies was in relation to policy commitments for i) consultation with local communities, ii) disclosing timely and accurate information related to environmental, social and human rights risks and impacts, and iii) assessing and addressing the impacts of company operations. All these areas had been identified as common gaps in the Baseline Survey.

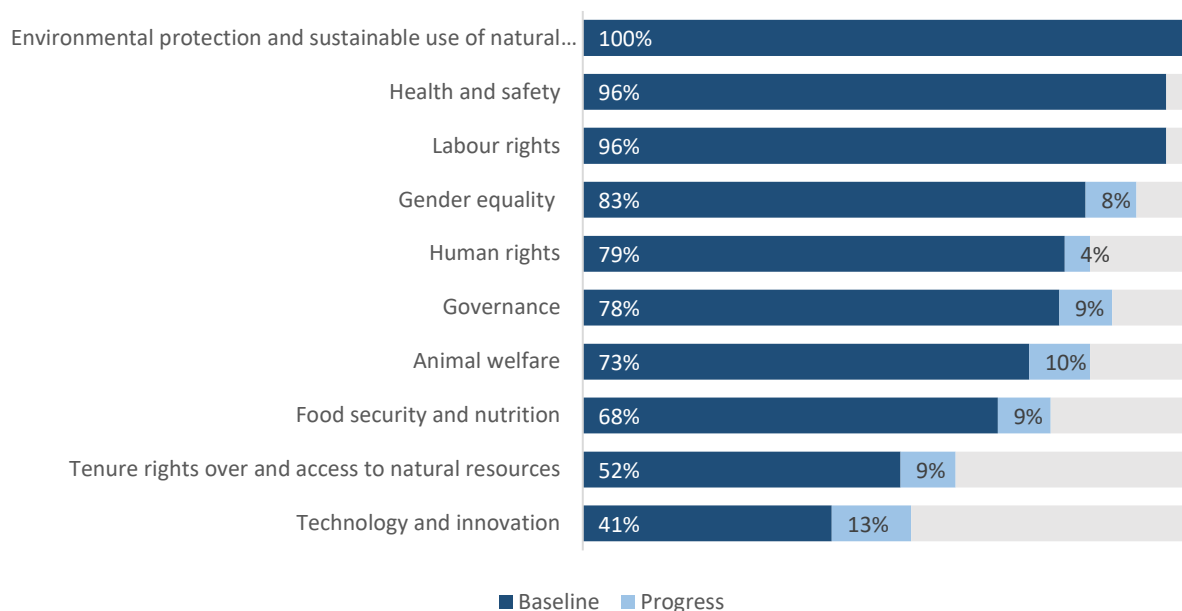
¹¹ The cross-cutting RBC standards recommended by the OECD-FAO Guidance are: i) Impact assessment, ii) Disclosure, iii) Consultations, iv) Benefit sharing, v) Grievance mechanisms, and vi) Gender. The OECD-FAO Guidance also recommends a policy commitment to comply with all applicable national laws.

Consultation with local communities, in particular, was one of the cross cutting commitments that was recognised by companies as an important step for due diligence. During the peer-learning sessions, companies discussed how engaging with local communities potentially affected by company operations, whether directly or indirectly, can be key to maintaining a 'social license' to operate. It was recognised that there is a need to ensure policies are well defined and communicated to stakeholders, as well as translated into effective operational procedures for risk assessment and risk management. Companies also recognised that when operating across differing sectors and geographies, overarching corporate policies may need to be adapted to the specific context of different operations.

During the course of the pilot, companies also made progress in how they address the issue-specific standards for RBC recommended by the OECD-FAO Guidance. In particular, a comparison with the results of the Baseline Survey shows that significant progress was made in how companies address i) animal welfare, ii) gender equality, and iii) governance within their policy commitments. This is shown in Figure 5. Over 80% of participating companies have now included or have taken steps to include these issues within their policies. In particular, it is worth noting that gender equality is a core principle of the CFS-RAI Principles and recognised by the Guidance as a one the most significant contributors to sustainable development. The commitment of almost all (91%) participating companies to this issue is important in working towards the achievement of global development objectives.

Many companies in agricultural supply chains have established commitments in relation to environmental protection and sustainable use of natural resources, health and safety, and labour rights. However, the adoption of policies addressing some other key issues highlighted by the OECD-FAO Guidance remains comparatively weak. Examples of such issues include food security and nutrition; tenure rights over and access to natural resources; and technology and innovation.

Figure 5. Percentage of companies that had adopted issue-specific standards for RBC in the Baseline and the percentage improvement of adoption of these standards in the Progress Survey



At the start of the pilot just over half of participants had made commitments to the UN Guiding Principles for Business and Human Rights. Many had also committed to the UN Global Compact and the OECD Guidelines for Multinational Enterprises. Fewer companies had made commitments to the CFS-RAI Principles, the International Labour Organisation (ILO) Tripartite Declaration, the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT), and the IFC Performance Standards. Since then, some companies (29%) reported introducing commitments across most international standards included in the Guidance, with the exception of the IFC Performance Standards and the CFS-RAI Principles.

The OECD-FAO Guidance considers all of these established international frameworks, particularly the CFS-RAI Principles.¹² However, many participants admitted that they were unfamiliar with the CFS-RAI Principles before participating in the pilot project. Others stated that whilst they had previously heard about the CFS-RAI Principles, their understanding of how these Principles can be practically implemented within the due diligence process was limited.

Defining the links between due diligence and the Sustainable Development Goals

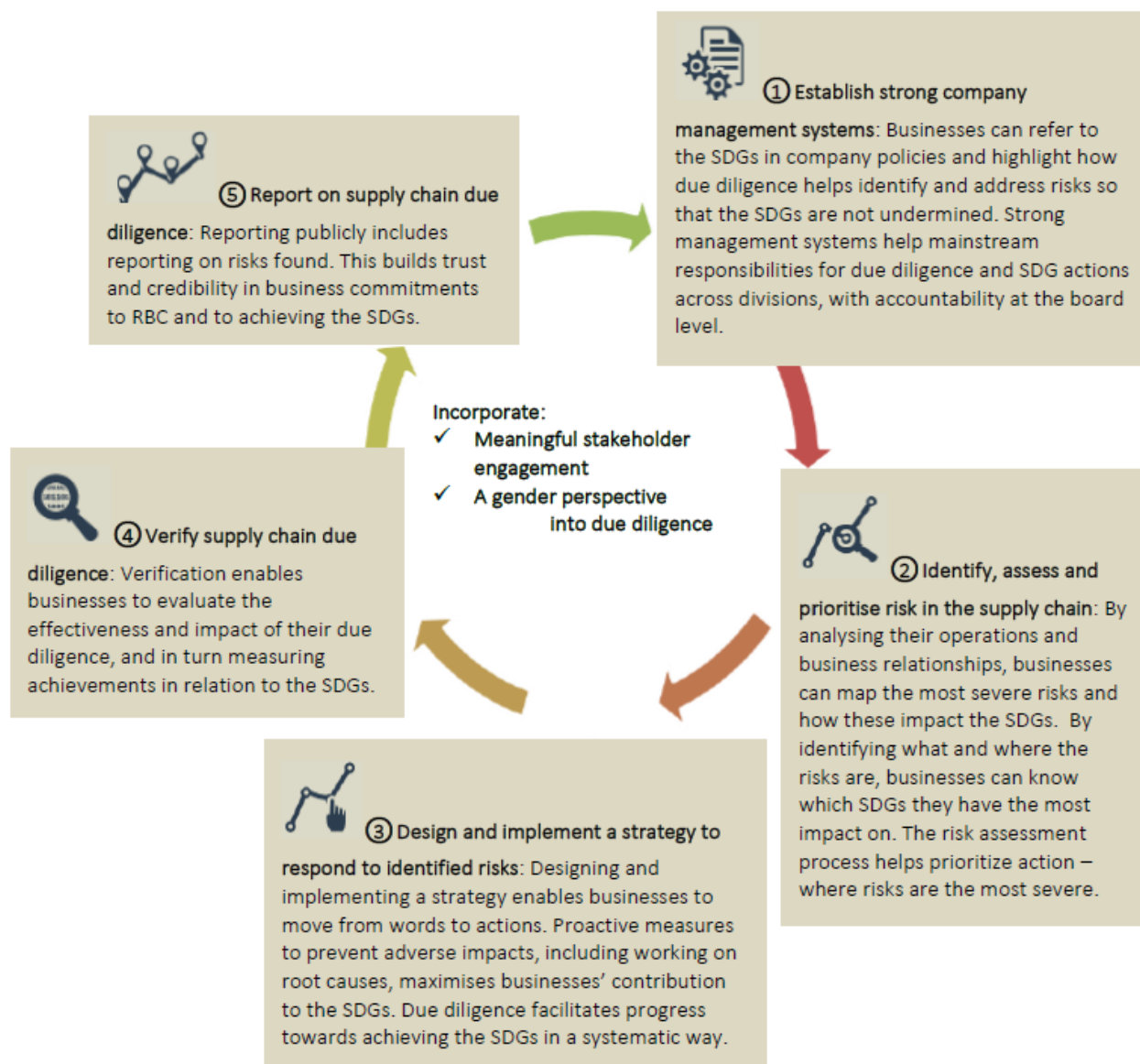
The SDGs play a key role in how companies think about RBC. By implementing the five-step due diligence framework recommended by the OECD-FAO Guidance companies can also proactively contribute to the achievement of the Sustainable Development Goals (SDGs). The pilot project provided an opportunity for companies to identify the existing links between the implementation of the OECD-FAO Guidance recommendations and the targets included under the SDGs.

Following the first peer-learning session on “Addressing the gaps between policy commitments and implementation actions”, a working group comprised of four companies and one industry initiative formed during the pilot project and, together with the OECD and FAO, developed a practical tool that highlights links between the OECD-FAO Guidance and the SDGs, such as Life on Land (Goal 15), Decent Work (Goal 8) and Responsible Consumption and Production (Goal 12).¹³

¹² Introduction, Scope, pp. 16-18, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

¹³ Brochure “The OECD-FAO Guidance for Responsible Agricultural Supply Chains: How it can help achieve the Sustainable Development Goals” <https://mneguidelines.oecd.org/Brochure-How-the-OECD-FAO-Guidance-can-help-achieve-the-Sustainable-Development-Goals.pdf>

Figure 6. The five-step due diligence framework to meet the SDGs



Policy commitments by commodity

Table 1 shows the extent to which, by the end of the pilot, companies that produce or source selected agricultural commodity crops had made policy commitments to address specific risk factors that are often associated with these crops. The responses in the table include answers from a selected group of pilot participants, the majority of which are downstream or fast-moving consumer goods (FMCG) companies.

The data was developed by combining the data reported by the same selected group of companies in the Baseline Survey with the changes reported in the Progress Survey in areas that were previously not addressed in the Baseline Survey.

The analysis is based on a breakdown of the analysis by selected commodities that were identified as core commodities by participating companies (defined by companies themselves either in follow-up conversations or by reviewing publicly available information). The table does not provide a complete list of all commodities in participating companies' supply chains.

Table 1. Percentage of participating companies sourcing or producing (selected) core commodities that had established policy commitments to address specific risks by the end of the pilot project

			● >70%	◐ 40-70%	○ <40%
Policy Commitments	Cocoa	Palm oil	Soy	Sugar	Tobacco
Compliance with national legislation	●	●	●	●	●
Assess and address actual and potential impacts	●	●	●	●	●
Disclose timely and accurate information	●	●	●	●	●
Consult with potentially affected communities	◐	●	●	●	●
Contribute to sustainable and inclusive rural development	◐	◐	◐	◐	●
Provide a grievance mechanism	●	●	●	●	●
Eliminate discrimination against women	●	●	●	◐	●
Human Rights	●	●	●	●	●
Labour Rights	●	●	●	●	●
Health and Safety	●	●	●	●	●
Food Security and Nutrition	●	●	●	●	◐
Tenure Rights	◐	◐	◐	◐	◐
Environment	●	●	●	●	●
Governance	●	●	●	●	●
Technology and Innovation	○	○	◐	○	◐
Gender Equality	●	●	●	◐	●

Note: The responses in the table include answers from a selected group of pilot participants, the majority of which are downstream or FMCG companies. The data used in Table 1 to show progress made used adjusted baseline data to include only the companies that have responded to both the Baseline and Progress Surveys.

The number of companies analysed for each commodity is as follows:

Cocoa 5 **Palm Oil** 8 **Soy** 4 **Sugar** 5 **Tobacco** 3

As shown by Table 1, companies across all five commodity supply chains made some progress to address the standards for RBC recommended by the OECD-FAO Guidance to be included in companies' policy commitments. However, gaps remain in relation to:

- i. **Tenure rights over and access to natural resources:** Some companies reported progress in addressing this topic in their policies, however gaps remain across all five commodities. Policy gaps were particularly noted among companies in the cocoa and palm oil supply chains, with only one company and just over a third addressing the issue in their policies respectively.
- ii. **Contribution to sustainable and inclusive rural development:** Around half (between 40-60%) of companies operating in the sugar, soy, cocoa, palm oil, soy and sugar supply chains have made policy commitments in relation to sustainable and inclusive rural development.
- iii. **Technology and innovation:** This remains the least addressed issue by companies. Only 39% of companies include reference to the issue in their policies.

Reasons why companies made changes to their policy commitments

Companies reported that their participation in the pilot project contributed positively to improving their RBC policies. However, many companies noted that not all policy changes can be attributed solely to their participation in the pilot project. Other factors played a significant role. These include:

- **Introduction of new legal requirements:** Legal requirements related to supply chain issues are gradually becoming more stringent and companies are increasingly expected to strengthen their commitments to RBC and supply chain due diligence. The French Anti-Bribery (Sapin II) and Duty of Vigilance laws are two examples noted by companies. Whilst not explicitly mentioned in the progress analysis, the Dutch Child Labour Due Diligence came into force in May 2019 and represents another example of regulation that will impact how companies address RBC within their operations.
- **Civil society organisations and media pressure:** Some companies implemented policy changes as a result of pressure from campaigning groups and consultations with civil society actors, who have highlighted gaps in existing policies and management systems.
- **Internal reviews of existing policies:** Many companies had pre-existing commitments to ongoing improvement of their RBC policies and responsible sourcing practices. Moreover, some companies stated that they were already revising their RBC policies as part of their sustainability strategy.
- **Changes in business strategy:** Other companies reported that a shift in business needs and priorities has prompted a revision of existing policies. This includes, for example, the expansion of activities to new markets or geographies, as well as mergers with and acquisitions of other businesses.

Challenges and opportunities identified in relation to policy commitments:

- Several companies continue to lack explicit commitments to address risks associated with tenure rights over and access to natural resources, food security and nutrition, and technology and innovation. For companies downstream, the link between company operations and issues that take place further upstream is not so direct compared to the production stages of the supply chain and the leverage they can exert to manage associated risks is limited.
- For companies with direct oversight over the production process, making the link between company operations and the actual impacts of some of the issues highlighted by the OECD-FAO Guidance can also be challenging. This may be particularly true when the severity of the risk also depends on contextual factors, such as national or local land tenure legislation, or when a significant length of time may elapse between the implementation of a project and the realisation of a negative impact, such as the long-term impacts on food security on local communities.
- Companies recognised the positive contributions the pilot made in supporting improvements to policies and management systems within their organisations. However, a majority of the changes to RBC policies reported by participants were driven by other factors beyond their participation in the pilot project. In particular, many companies can be reactive to external pressure, particularly from civil society organisations (CSOs) and governments. Whilst such stakeholders can play an important role in driving companies to adopt stronger responsible business practices, it can also mean that prioritisation is given to those issues where companies are facing the most pressure, rather than those issues where the risks of harm are greatest (which is how the OECD-FAO Guidance recommends companies prioritise their efforts). Often campaigning organisations target companies with ‘single issue’ campaigns; this can result in companies adopting a similarly narrow focus in risk prioritisation.
- There remain gaps in the extent to which companies sourcing certain commodity crops known to be associated with certain risks (such as cocoa, palm oil, soy, sugar and tobacco) have addressed these risks in their policy commitments. These policy commitment gaps are primarily in consumer-facing enterprises and FMCG companies. Although several tiers removed from the production stage of the supply chain, the lack of policies that address such issues can create challenges in the way downstream companies implement processes for assessing and managing associated risks. For example, it can limit how due diligence expectations are communicated to and integrated into contracts with suppliers. It might also signal to some stakeholders that a company’s commitment to address such issues is weak and therefore addressing the issue in question need not be a priority.
- Companies demonstrated strong commitments to environmental protection and the sustainable use of natural resources both in the baseline and progress analyses. Several companies highlighted that their commitments to these topics and their link to social issues is strongly driven by how climate change considerations are increasingly prevalent in agricultural supply chains. However, companies noted that the OECD-FAO Guidance does not provide an opportunity to explicitly highlight such links, including in how they are addressed in company policies, and the depth in which the Guidance addresses environmental risks is limited. In future implementation activities there is an opportunity for the OECD and FAO to highlight how the adoption of RBC practices in agricultural supply chains supports companies’ actions on climate change risk mitigation and resilience.

Box 1: Addressing the interrelated environmental, social and economic challenges through a holistic corporate policy

One participating company selected a limited issue scope for its participation in the pilot project, choosing to focus on labour and working conditions in its supply chain. During the course of the pilot project the company adopted a new set of principles for advancing sustainable and responsible agriculture. The new policy commitments aim to accelerate innovation and support farmers in its supply chain to manage challenges associated with environmental impacts, biodiversity loss, and climate change.

In its new set of commitments, the company recognises that environmental, social, and economic challenges faced by farmers upstream are interconnected and therefore require a policy framework that addresses associated risks more holistically. The company aims to achieve this by supporting farmers directly to improve the way crops are grown and protected. This new approach also focuses on a multistakeholder strategy that involves not only working directly with farmers, but also with academia and environmental groups to support this objective.

Internal management systems to support due diligence

Establishing a strong internal management structure is essential for the effective implementation of policy commitments within a company. Ensuring that adequate financial and human resources are available and strong engagement from senior management to achieve due diligence objectives is critical, whilst the development of clear internal reporting structures that facilitate alignment and communications across departments and teams can ensure that due diligence activities are adequately supported.

The translation of policy commitments into implementation actions was identified as one of the most significant gaps in the Baseline Report. Two out of the seven peer-learning sessions were held on this topic (“Addressing the gaps between policy commitments and implementation actions” Part I and Part II) with the aim of identifying good practice examples and ongoing challenges faced by companies. The sessions focused on practical examples of how companies are addressing specific risks, such as deforestation, food security and nutrition, land tenure, and animal welfare. Companies and industry initiatives participating in these sessions recognised that developing strong management frameworks for implementing due diligence is a necessary first step for ensuring that corporate policies can be effectively implemented in practice.

Box 2: Developing a practical management framework to address policy gaps

One participating company described how attention drawn from CSOs on risks and impacts in the supply chain prompted the company to revise its policies and internal management framework to ensure that policy commitments were being translated into practical procedures that internal teams could use to manage risks when identified.

The aim was to develop a comprehensive framework that would enable the company to not only respond more effectively to allegations of adverse impacts, but ultimately take more proactive measures to drive change and compliance across different supply chains. To support the implementation of the management framework, internal guidelines were developed to clarify the company’s ‘universal’ expectations and support sourcing teams responsible for individual supply chains within the business to translate these into different tactics and practical actions to address risks.

Throughout the duration of the pilot project, companies overall strengthened their internal management systems for due diligence. In particular, companies reported the following changes since the Baseline Survey:

- **Increased availability of financial resources to support due diligence:** In the baseline analysis, some companies indicated that the budget allocated for conducting due diligence was not always sufficient and often lacked consistency from year to year. Many companies' budgets did not change since the Baseline Survey, however one quarter of participating companies stated that additional resources had been made available.
- **Implementation of training and capacity building for employees and suppliers to support compliance with policy requirements:** The Baseline Survey found that RBC-related training were not always prioritised within companies, however the Progress Survey found that 71% of companies reported that new training had been implemented or considered. The focus of the training varied across the companies, but they were commonly focused on labour and human rights.
- **Strengthened communications and reporting structures within companies:** The Progress Survey found that over half of participants reported an increase in the way that participants communicated their policies to internal stakeholders.
- **Increased engagement of senior management:** Half of participants reported that senior management within their companies was perceived to be increasingly engaged in issues associated with supply chain due diligence.

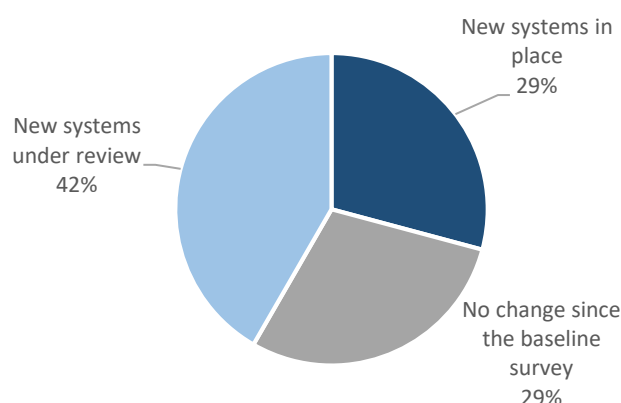
Box 3: Establishing clear responsibilities and reporting structures can more effectively support the implementation of policy commitments within a business

As part of one company's corporate strategy, sustainability is firmly established at the board level. Responsibility for the company's sustainable orientation lies with the Board of Management member responsible for Human Resources and Technology and Sustainability, and with the Corporate Health, Safety and Sustainability function. Operational implementation takes place with the support of non-financial targets and performance indicators throughout the supply chain, based on a clear definition of responsibilities in the corporate structure and the identification of key areas of activity using materiality analysis. Corporate policies ensure their sustainability principles are firmly established in business operations and are implemented through management systems, committees, and processes.

Systems of controls and transparency and engagement with business partners

As shown by Figure 7, during the course of the pilot project 29% of companies adopted new systems for tracking and documenting information related to their due diligence processes and almost half of the companies were considering the implementation of new systems for managing supply chain due diligence information. This highlights the growing awareness amongst participants of a need to strengthen the management of due diligence information.

Figure 7. Percentage of companies that adopted new internal systems for tracking and documenting due diligence information during the course of the pilot project



Companies that introduced new policy commitments also took steps to communicate such commitments to key business stakeholders. Figure 8 shows that 36% of participants included new policy requirements in contractual agreements with suppliers, investees and business partners. As illustrated in Figure 9, the same number of participants also introduced requirements for suppliers, investees and business partners to include the same expectations in their own commercial agreements since the Baseline Survey.

Figure 8. Percentage of companies that, during the course of the pilot, included new policy requirements in contracts with suppliers, investees or business partners

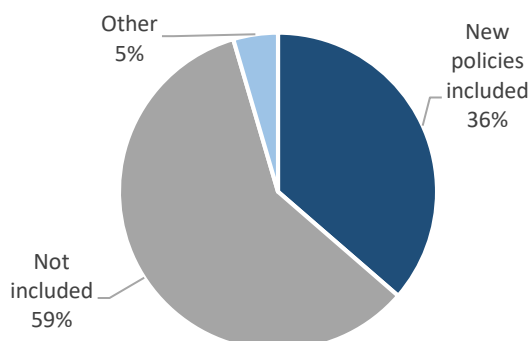
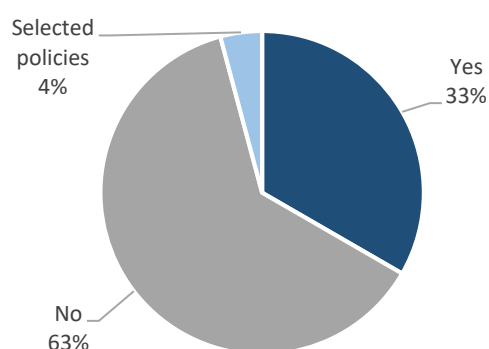


Figure 9. Percentage of companies that reported requiring suppliers, investees or business partners to apply the same standards to their contracting



One peer-learning session focused on “The role of financial institutions (FIs) in supporting responsible agricultural practices” and explored the approach of financial institutions to establishing internal management systems to support supply chain due diligence. This includes, for example, developing a strong environmental and social management system to support the management of environmental and social impacts of the activities financed, as well as to monitor and evaluate impacts and inform capacity building in areas relevant to the agricultural sector, such as climate change, gender, natural resource management. Financial institutions reported developing more specific procedures and guidelines that can support their clients in the implementation of risk management measures. These can include specific guidelines to improve, for example, energy efficiency, water usage in irrigation, and waste management. This, in turn, can support clients in addressing challenges that are typical of certain environments and can impact local agricultural production, such as droughts and other adverse climate events.

The use of technology to support due diligence

Almost all companies reported adopting, or evaluating the adoption of new technologies for due diligence with the aim of supporting traceability as well as the assessment, management and monitoring of environmental and social risks. One peer-learning session explored how companies are applying some of the technological tools that are available to support due diligence objectives. Those highlighted by companies during the peer-learning sessions and in the Progress Survey include:

- **Blockchain:** Seven companies have adopted or are in the process of adopting blockchain-based technology to support traceability of key commodities in their supply chains. Orange juice, dairy, eggs and tobacco are some examples of the commodities where blockchain-based traceability technology is being tested to provide traceability. Participants recognised that the use of blockchain technology, on its own, is not a substitute for due diligence. Nevertheless, companies found that the application of blockchain technology is helping them provide their customers, investors and other stakeholders with information about the provenance of their products. This, in turn, can add commercial value to the product. Traceability utilising blockchain technology can be integrated with existing company approaches that track a supplier's performance and that of its sub-suppliers. For companies operating along complex supply chains, there is an opportunity to establish vertically-integrated traceability systems. These can strengthen engagement with suppliers upstream to support due diligence activities, such as the identification of red flags and high risks in the supply chain.
- **Satellite monitoring:** Some companies are using satellite imagery and geographic information system (GIS) analysis to track key environmental risks in their supply chains and help achieve RBC commitments. One example is described in Box 5.
- **Mobile applications:** Mobile phone applications can be used for a variety of purposes, from gathering data about production, to establish mobile payment systems, to receiving and addressing grievances from workers within their supply chains. An example is described in Box 6.
- **Digital record-keeping:** Several companies operating at a global level have highlighted the need to support more timely communication of key information to support decision-making at the corporate level. Some companies reported an increased use of digital systems to shift from paper-based documentation to online or digital records to facilitate information-sharing across the organisation.

Box 4: How satellite monitoring can be used to strengthen commitments to responsible sourcing

One company discussed how it has partnered with third party service providers to use satellite technology and GIS analysis to track land cover changes and forest cover disturbances associated with palm oil production. Through the identification and monitoring of deforestation hotspots, satellite monitoring can yield key information about environmental changes and support the company in its approach to prioritising and assessing high-risk areas, as well as engage with suppliers to manage risks before they translate into significant adverse impacts.

The company recognises that such remote sensing technology has limitations, particularly when considering social issues associated with the production of palm oil, such as human rights abuses, poor labour and working conditions. However, when coupled with close on-the-ground monitoring, the company believes the use of this technology is providing an important means of achieving its commitment to sourcing 100% 'responsible' palm oil.

Box 5: The use of mobile applications to monitor on-farm risks

Piloted in Pakistan and then rolled out in other ten countries, one global company launched a mobile app to improve the way data about farmers is collected. The app monitors and measures sustainability indicators, and it substitutes traditional paperwork, consequently optimising the time field technicians spend on sustainability monitoring. The company found that the app and its captured data helps to better deliver their sustainability commitments and ensure that standards are being upheld on the farms they source from. As an example, the app helped identify several issues relating to deforestation and labour standards in the supply chains. As a result, the company was able to develop targeted mitigation actions to tackle the issues.

Grievance mechanisms

Grievance mechanisms alert enterprises about deviations from relevant standards and help to identify risks and adverse impacts. This, in turn, highlights key risks that have not been adequately addressed or considered. The OECD-FAO Guidance advises that grievance mechanisms should be easily accessible for workers and all those potentially affected by the adverse impacts of an enterprise's failure to uphold RBC standards.¹⁴

The Baseline Survey found that most companies (88%) had a policy commitment to provide access to a grievance mechanism to affected stakeholders. However, there were also variances in how companies implemented this particular policy commitment. Over half of participating companies reported that they have a formalised grievance process that is accessible to both internal and external stakeholders, but over a third recognised that they lacked a formal process to receive and address grievances from external stakeholders (as opposed to, for example, company employees for whom established processes were in place to resolve grievances). Since the Baseline Survey, 33% of companies have made changes to their grievance mechanisms. A number of those companies who have made changes to their mechanisms have been finding ways to expand their mechanism's reach so more stakeholders can have access to it and raise grievances if necessary.

¹⁴ Step 1, Section 1.5, p.33, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

Challenges and opportunities identified in relation to internal management systems and grievance mechanisms:

- Companies have made commitments to track and maintain information about their due diligence practices, and to communicate their expectations to key stakeholders such as suppliers, investees and business partners. However, the implementation of these commitments is often heavily dependent upon how suppliers adopt their own standards and systems to advance them within their own operations and those of their suppliers and business partners. As companies continue to strengthen their own commitments to RBC, it is critical that they ensure that their suppliers, investees and business partners are engaged and aligned to their expectations on what data to provide. Ensuring that clear requirements are integrated into contractual agreements is the first step companies can take to achieve this objective. Working with suppliers to strengthen their internal capacity, for example through training, is also an opportunity to advance RBC practices with actors along the supply chain.
- New technologies are providing companies with valuable support in gathering a diversity of data, often in real time, about risks in their supply chains. Investment in these technologies can be costly, however there are opportunities for collaboration across actors operating along the same supply chains as demonstrated in the peer learning webinars. For example, suppliers and their customers downstream can work together to establish shared digital platforms that support the identification and prioritisation of risks, as well as the development of risk management actions where required. Whilst technology alone cannot substitute a companies' responsibility to ensure that risks on the ground are adequately addressed, it can help create efficiencies in how companies collect and share risk-related information with key stakeholders.
- A number of positive changes have been made by companies to strengthen their grievance mechanisms since the Baseline Survey. In particular, there has been a focus on increasing accessibility of recourse mechanisms to a broader range of stakeholders with the aim of helping companies to more effectively identify and address risks associated with their operations. Different approaches have been taken by companies to strengthen their grievance mechanisms, including increasing the use of technology, such as mobile applications and hotlines to improve accessibility. However, challenges remain. For example, in some locations where companies operate, illiteracy levels are high or groups within the community (such as women or minority ethnic groups) do not feel empowered to use grievance mechanisms. More attention needs to be paid on the accessibility and inclusivity of grievance mechanisms, ensuring that they are effectively tailored to local contexts.

Step 2. Identify, assess and prioritise risks in the supply chain

Key findings and lessons learned

- Supply chain mapping and traceability remains a challenge for many companies, regardless of the company's position within the supply chain. This challenge is augmented by the percentage of small holder farmers in many supply chains (notably cocoa, fruit, sugar and tobacco). A majority of the companies participating in the pilot reported sourcing from smallholder farmers.
- Most companies have adopted an internal process for identifying and assessing supply chain risks and despite the limited duration of the pilot project, the Progress Survey found that approximately half of participating companies strengthened their approach to assessing supply chain risks since the Baseline Survey. Nevertheless, about a quarter of participating companies define 'high risks' and 'red flags' in line with the examples set out in the OECD-FAO Guidance.¹⁵
- Since the Baseline Survey, companies have expanded the scope of their risk assessment to some key issues previously not addressed. However, gaps remain in how companies translate their policy commitments into risk assessment actions for key issues.
- Collaboration with third parties, such as governments, CSOs and industry initiatives can be valuable during the risk identification, prioritisation and assessment process. However, some challenges remain in how companies rely on industry schemes when conducting due diligence.

Supply chain mapping

Supply chain mapping requires the identification of various actors involved in the supply chain in order to establish where and from whom information should be gathered to inform the due diligence process.¹⁶ This forms a key component of the due diligence process that the OECD-FAO Guidance recommends companies to adopt. Throughout the pilot project companies identified supply chain mapping as one of the biggest challenges when conducting due diligence. The biggest challenges companies identified relate to product traceability and accessing information from suppliers. Participants noted that many suppliers are unwilling, unable or lack sufficient motivation to share information about their supply chains.

One peer-learning session on "Addressing challenges on supply chain mapping and traceability" explored how companies are engaging beyond direct (Tier 1) suppliers to implement due diligence actions. Companies recognised that one of the key success factors for addressing risks is the degree of integration among suppliers and buyers within the supply chain. However, this is often challenging to do when companies operate across multiple supply chains. The leverage non-vertically integrated companies can exercise is weaker than for more vertically integrated companies. There are, nevertheless, actions that can be taken to strengthen links between suppliers upstream and companies downstream in order to increase visibility over supply chain risks. In this context, supply chain traceability can play a pivotal role.

¹⁵ The examples of 'high risk' and 'red flag' is included in p.35 Box 3.1, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

¹⁶ Step 2, Section 2.1, p.33, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

Full traceability may be time consuming and difficult to achieve. For some commodities, particularly those produced by smallholder farmers (for example in the cocoa, fruit, sugar or tobacco supply chain), tracing suppliers all the way back to individual farms can be a challenge. In such cases, it may be more appropriate to focus on getting traceability through to supply and production within a defined geographical area (“landscape level”), rather than to the individual farm level. There can be situations where particular risks are known to occur in a given area and traceability to an individual smallholder farmer would not enhance the understanding and management of such risks; therefore it is a better use of resources and effort for companies to focus on capacity building and risk management programmes to address the known risks rather than seek ever more detailed traceability.

Box 6: How strengthening engagement with suppliers can strengthen supply chain mapping and traceability

One company reported how it had been able to increase traceability in its cocoa supply chain by building on existing food safety and quality management processes and strengthening engagement with direct suppliers, in particular cooperatives, to gain more detailed information about producers. The lessons learned in establishing traceability in the cocoa supply chain are now helping inform the company’s approach to other commodities they source.

Whilst the OECD-FAO Guidance recognises that companies operating several tiers downstream, such as consumer-facing companies, may not be able to map all their suppliers and business partners initially, it recommends that companies systematically work towards a complete picture of their business relationships over time. Participating companies took steps to map new suppliers since the Baseline Survey, with five companies identifying new high-risk suppliers, and four companies identifying new high-risk suppliers.

As seen in Figure 10 below, the Progress Survey found that most (67%) of the nine downstream companies participating in the pilot project have mapped all direct (Tier 1) suppliers. Figure 11 shows that just under a quarter (22%) of downstream companies participating in the pilot project have mapped all suppliers beyond Tier 1. For a majority of downstream companies, supply chain mapping beyond Tier 1 is focused on selected and priority suppliers and high-risk and red-flag suppliers. This is consistent with the approach recommended by the OECD-FAO Guidance, though it also highlights the extent to which many downstream companies do not currently have a complete picture of business relationships in their supply chain.

Figure 10. Percentage of downstream companies that map direct (Tier 1) suppliers

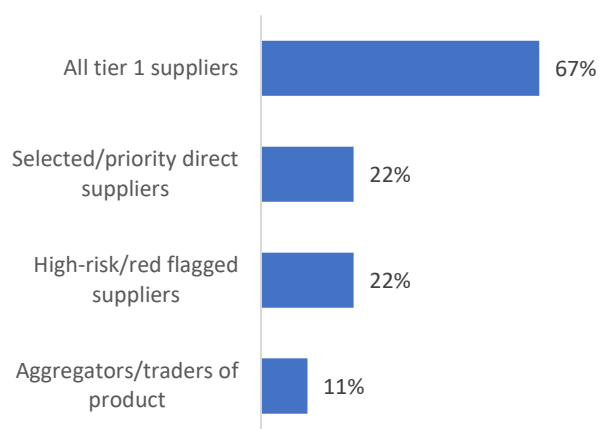
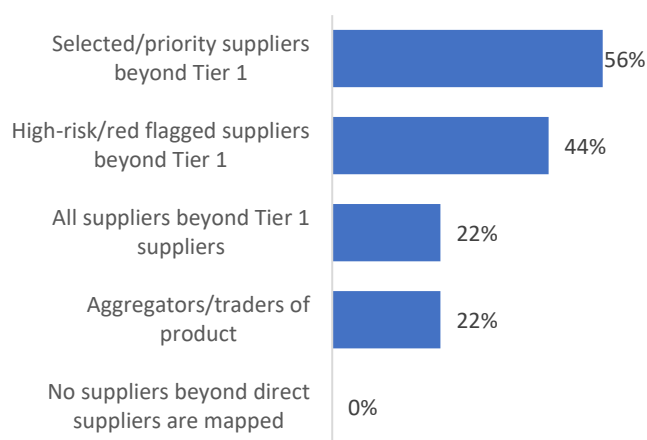


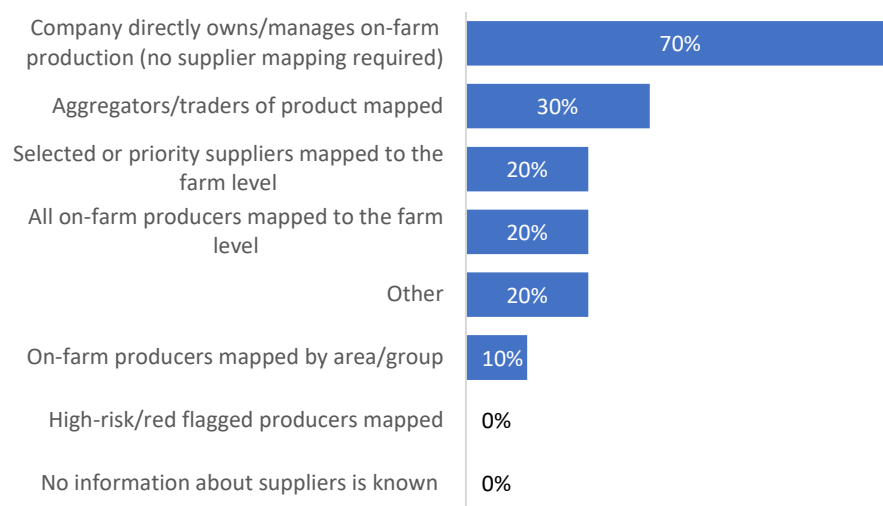
Figure 11. Percentage of downstream companies that map indirect (beyond Tier 1) suppliers



Note: Some participants that had not mapped all Tier 1 suppliers indicated that they do more than one of the alternative steps, for example mapping both red-flag suppliers and aggregators of product.

Figure 12 shows that of the 10 pilot participating companies that operate upstream in the supply chain, seven are on-farm enterprises (with direct ownership or management control of production) that therefore do not have suppliers. Of the companies who do not directly manage production but have some degree of management oversight over the production process, 20% have mapped all on-farm producers and 30% have mapped aggregators and traders of product.

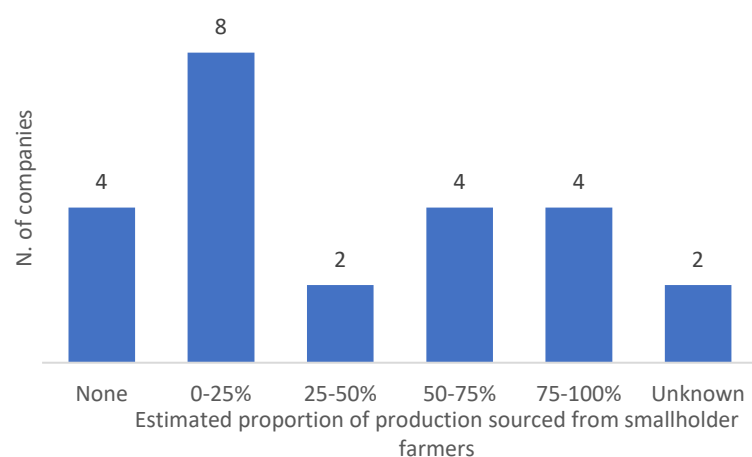
Figure 12. Percentage of upstream companies that map direct and indirect suppliers



Note: Some participants that do not directly own or manage production indicated that they undertook more than one of the alternative steps, for example mapping both aggregators of product and selected priority suppliers.

Many commodities, such as cocoa, fruit, sugar and tobacco, are produced by smallholder farmers. Sourcing from hundreds or even thousands of different farmers, each one with their own characteristics and geographies can make the process of fully mapping the supply chain a challenging task even for upstream companies. Smallholder farming is widespread in agricultural supply chains and this was also reflected by the pilot group. A majority (75%) of the companies participating in the pilot project reported sourcing from smallholder farmers. Figure 13 below shows the proportion of agricultural production sourced from smallholder farmers by those companies that had identified smallholder production in their supply chains. For 8 of 18 companies sourcing from smallholders, smallholders accounted for a majority of the company's production. This has important implications for how companies can identify and assess potential risks in such supply chains.

Figure 13. Estimated proportion of production sourced from smallholder farmers, showing the number of companies that reported the different proportions of smallholder production



As previously noted, when mapping the supply chain and identifying associated risks, some companies are using a landscape approach to assess risks by focusing on areas or region of production rather than conducting farm-by-farm visits, which inevitably requires more time and resources. Whilst regional or landscape approaches¹⁷ do not yield detailed information about individual on-farm operations, they can be equally effective in supporting the initial identification and prioritisation of risks in the supply chain.

Many companies, both upstream and downstream, source product from third party suppliers that act as intermediaries between producers and international buyers. These third parties can be local or international commodity traders, aggregators, wholesalers, and processors who manage, process, package, aggregate and/or trade a high volume of commodities at specific points in the supply chain. The points in the supply chain where only a narrow set of stakeholders are operating are defined by the OECD-FAO Guidance as 'choke points' or 'control points'.¹⁸

¹⁷ The landscape approach refers to taking "both a geographical and socio-economic approach to managing the land, water and forest resources" (World Bank). This approach aims to "provide tools and concepts for allocating and managing land to achieve social, economic, and environmental objectives in areas where agriculture, mining, and other productive land uses compete with environmental and biodiversity goals" (CIFOR). Applying the landscape approach to due diligence in agricultural supply chains can support the identification of environmental and social risks associated with a certain area or region by focusing the due diligence process on key 'landscape' areas without necessarily requiring site-by-site assessments. Pilot Project on the Implementation of the OECD-FAO Guidance for Responsible Agricultural Supply Chains, [Baseline Report](#)

¹⁸ Step 4, pp.37-38, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

Given their position in the supply chain, such operators can help assess key information on the due diligence practices of upstream companies and have greater visibility over the conditions and risks of agricultural production. They therefore can represent a significant point of leverage for downstream companies seeking to map their entire supply chain, gather risk-related information, and develop a strategy to address these risks.

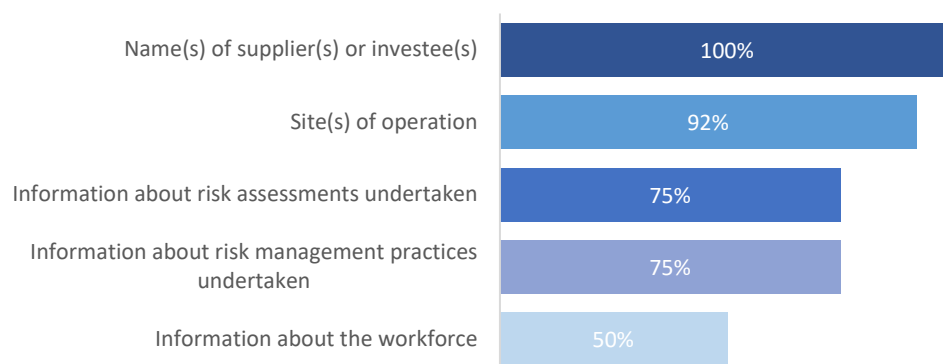
Intermediaries, such as traders and aggregators, can play an important role in supply chain mapping and risk assessment. However, several participating companies highlighted the challenges they experience when seeking to engage with traders and aggregators. The reasons are multifaceted. Many intermediaries are reluctant to allow their customers to access information about suppliers due to concerns about revealing commercially sensitive information and potentially enabling their customers to ‘cut them out’ of the supply chain. Others see due diligence as an obstacle for business, adding additional cost. Many intermediaries, particularly those operating at the local (national or sub-national) level, may not fully understand customers’ due diligence requirements or lack the capacity to implement these requirements. Moreover, whilst many multinational companies have taken steps to pressure their suppliers, overall pressure from the market has not been strong enough to drive change due to the scale of demand from buyers in emerging markets that do not have responsible sourcing requirements. Some intermediaries are willing to invest their own resources to comply with customer requirements, however others may simply opt to supply to clients whose responsible sourcing requirements are less stringent.

The OECD-FAO Guidance recommendations on building a complete picture of business relationships are not limited to companies that produce or source agricultural product; they also apply to financial enterprises investing in agricultural supply chains. This can support the identification of the most significant risks and the prioritisation of risk assessments across investment portfolios.

When mapping the supply chain, the OECD-FAO Guidance recommends that companies gather key information such as the names of immediate suppliers and business partners and the sites of operations. Companies can also gather information about how risks are assessed and managed at the production stages, as well as details about the workforce such as numbers of workers by gender.¹⁹ All five financial enterprises participating in the pilot project collect information about the names and sites of operation of their investees. Most also collect information about the workforce of the companies they invest in. However, fewer reported gathering information about their investees’ risk assessment and management practices. Figure 14 shows which information is collected by participating companies about their suppliers or investees as part of the mapping process.

¹⁹ Step 2, Section 2.1, p.33, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

Figure 14. Types of information collected by participants when mapping suppliers and business partners, showing the percentage of participants that collect each type of information



Examples of the means by which companies gather this information includes audits, on-site assessments, self-assessments, and spot-checks, as well as due diligence questionnaires, databases and online platforms. Other examples also include forms of correspondence such as meetings and emails, and identification documents, contracts, and routine reports.

Challenges and opportunities in supply chain mapping:

- Supply chain mapping remains one of the biggest challenges for companies operating at all stages of the supply chain. Downstream companies operating within multiple commodity supply chains and upstream companies that rely on hundreds or thousands of smallholder farmers have not mapped their entire supply chains. Many companies are making efforts to understand potential risks within their supply chains. However, this also requires significant resources. Alternative approaches to identifying individual suppliers, such as mapping suppliers by area of production or group, such as cooperatives of producers, have also proven effective in the identification of relevant actors in the supply.
- Third parties operating as intermediaries between producers and buyers of commodities play a key role in agricultural supply chains as traders and aggregators of product. However, the limited engagement in the due diligence process by many intermediaries can pose challenges for companies seeking to identify and assess supply chain risk. The extent to which downstream companies seek to apply leverage on supply chain intermediaries has been varied; whilst some companies may apply requirements on intermediaries, other companies sourcing from the same intermediary may not. Such inconsistencies weaken the leverage that individual companies can apply, unless they are a strategically important buyer for the intermediary. There is an opportunity for companies sourcing from the same suppliers of traded or aggregated product to collaborate to define a common set of expectations and exercise joint leverage to obtain information regarding suppliers upstream and associated risks.

Risk identification

Risk assessments allow companies to identify risks in their supply chain and better understand the potential adverse environmental, social, and human rights impacts of operations, processes, goods, and services. The OECD-FAO Guidance advises that certain high risks and red flags warrant enhanced due diligence.²⁰ Having a clear definition of what constitutes a high risk or red flag can more effectively guide companies in the identification, assessment and prioritisation of risks, as well as inform the development and implementation of targeted risk management actions.

The pilot found that companies prioritise environmental, social and human rights topics within their business based on the severity and probability of risks; the impact on the business, in terms of reputation, financial and operational impact; and the impact on stakeholders, including investors, consumers, suppliers, civil society, the environment and communities. It was also identified that information reported by CSOs plays an important role in how companies choose to prioritise the risks identified through their due diligence processes.

The Progress Survey built on the Baseline Survey to further analyse how companies use the risk factors recommended by the OECD-FAO Guidance and the OECD Due Diligence Guidance for Responsible Business Conduct to identify high risks and red flags in their supply chains and trigger enhanced due diligence.²¹ Four broad categories of risk are highlighted:

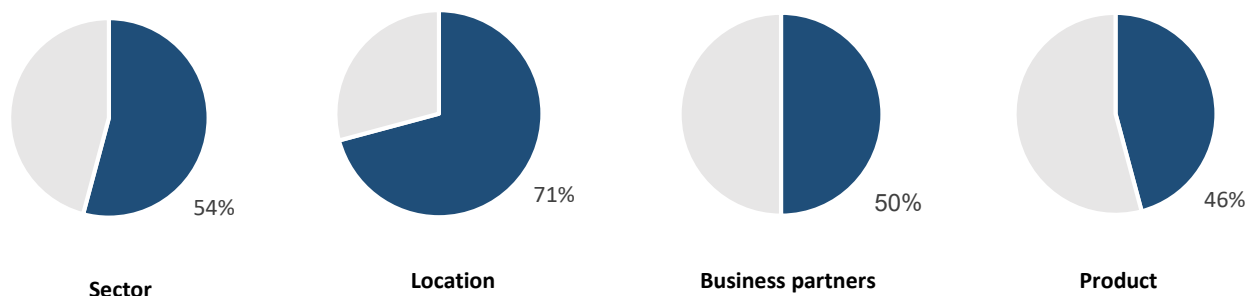
- **Sector:** Risks that are prevalent within a sector globally as a result of the characteristics of the sector, its activities, its products and production processes.
- **Location:** Operations are planned in or agricultural products originate from areas affected by conflicts or considered as high-risk areas; areas of weak governance; areas where violations of human rights or labour rights have been reported; areas where tenure rights are weakly defined or contested; areas where communities face food insecurity or water shortages; and areas affected by environmental degradation.
- **Business partners:** Business partners are known to have sourced products from a red-flag location in the last twelve months; have shareholder or other interests in enterprises that do not observe the standards contained in the OECD-FAO Guidance or that supply agricultural products from or operate in a red-flag location.
- **Product:** Production of the commodity is known to have adverse environmental or social impacts; the product does not conform to health and food safety standards.

As shown in Figure 15, the most common of these risk factors that companies use to identify high risks and red flags is the geographic location of their operations and those of their suppliers. A quarter of participating companies reported using all four of the risk factors. 8% reported not using any of these risk factors.

²⁰ Step 2, Section 2.2, pp.34-36, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

²¹ Step 2, Box 3.1, p.35, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#) and A.2, Q.20, pp.62-63, [OECD Due Diligence Guidance for Responsible Business Conduct](#)

Figure 15. Percentage of companies using each of the four risk factors defined in the OECD-FAO Guidance to define red flags and high risks in their supply chains



In addition to these four broad categories of risk, companies also highlighted that additional information can determine whether enhanced due diligence is required. In cases in which risks might initially be considered low at a macro level, such as when sourcing from or operating in low-risk countries, companies might face specific risks linked to contextual or systemic factors, for example an influx of migrants or informal workers or weak enforcement of national laws, that can have an impact on the overall level of risk exposure.

Box 7: Is there such thing as a no “red-flag country”?

Recent media reports have highlighted labour abuses taking place on tomato plantations in Italy, where two of Italy’s largest food companies source tomatoes.²² Migrant workers picking tomatoes were found to be subject to serious labour abuses, such as working long hours without breaks and for a minimal salary. Similarly, fruit pickers in Spain, made up primarily of migrant workers from northern Africa, raised concerns around exploitative working conditions and harassment.²³

Neither Spain nor Italy are typically considered high-risk or red-flag countries, and the circumstances in which agricultural production takes place normally do not trigger the need for an enhanced due diligence process. Nevertheless, the presence of significantly adverse risks and impacts associated with the sector and food supply chains highlights the need to take into consideration the factual circumstances in which products are being produced. Whilst low- and middle-income countries are traditionally considered higher risk, taking into consideration other factors, such as contextual challenges and weak enforcement and controls, can support companies in more effectively identifying key risks in their supply chains.

Outside of Europe, one pilot company working across multiple continents is committed to tackling child labour in their supply chain as part of a child-care initiative. The risks of child labour in their Latin American supply chains was low due to government-based monitoring and the use of mechanised processes in their operations. However, the company still undertook audits of their suppliers in these countries to ensure there were no risks and to sensitise their employees on the issue.

²² “Are your tinned tomatoes picked by slave labour?”, The Guardian (2019)

<https://www.theguardian.com/world/2019/jun/20/tomatoes-italy-mafia-migrant-labour-modern-slavery>

²³ “Fresh abuse claims from women picking strawberries in Spain for UK market”, The Guardian (2019)

<https://www.theguardian.com/global-development/2019/jun/29/fresh-abuse-claims-from-women-picking-spain-strawberries>

Some financial institutions have developed specific procedures to determine the level of risk of investments and decide whether enhanced due diligence is required in line with the OECD-FAO Guidance recommendations. One peer-learning session on “The role of Financial Institutions (FIs) in supporting responsible agricultural practices” discussed how companies screen, identify and prioritise risks within their portfolios. An ‘exclusion list’ that includes certain commodities, sectors or regions might be used, which means that the institution will not invest in certain projects on environmental and social grounds. This can include, for example, projects that are subject to international sanctions. For investments not on the exclusion list, the depth and breadth of the due diligence depends on the severity of environmental and social risk that investments can entail. Some financial institutions reported that enhanced due diligence can be required for projects that have a high risk of causing large scale logging and deforestation, land use change, as well as potential adverse impacts on local communities or animal welfare. For investments considered of a lower risk, due diligence can be more limited and investee due diligence requirements are less stringent.

Some key challenges in how financial institutions integrate due diligence considerations into their decision-making were identified during the pilot:

- The approach undertaken and the tools used by financial institutions to integrate environmental, social and governance (ESG) considerations into their investment practices are varied and, thus far, there has been little consistency between different financial institutions. This can create challenges for companies that seek to obtain financing from different sources and are required to comply with different, and at times conflicting, requirements.
- There is a general tendency to use exclusionary strategies, rather than mainstreaming ESG into the investment process and across the portfolio to prioritise risks. This can decrease the leverage financial institutions have in supporting strategies for managing risks and lead other investors with more lax requirements for ESG risk management to step in and ignore risks that could otherwise be mitigated.

Assessment of risks and enhanced due diligence

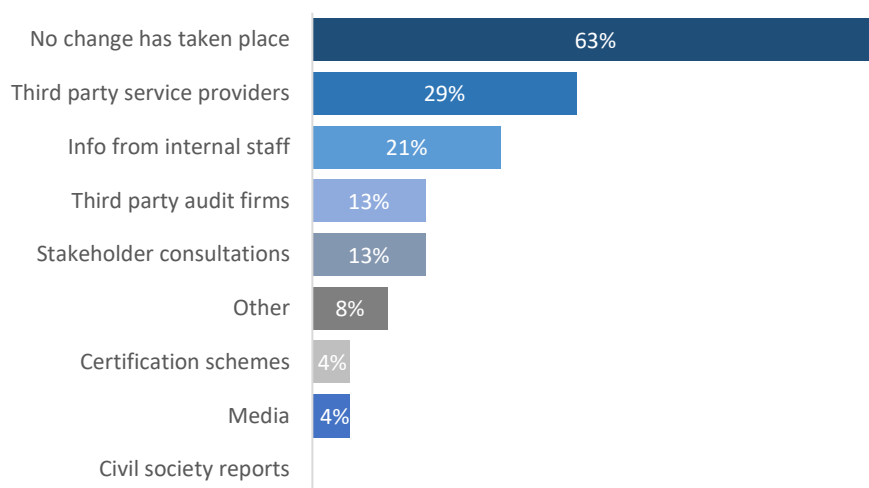
The Baseline Survey identified some substantial gaps between the issues listed by companies in their corporate policy commitments and the practical implementation of such commitments throughout the risk assessment process. As mentioned previously, two peer-learning sessions on “Addressing gaps between policies commitments and implementation actions” focused on understanding the main challenges faced by companies in translating their commitments into action, as well as identifying good practice examples of how companies can more effectively achieve this objective. The peer-learning sessions explored how companies aimed to take a more proactive approach to assessing risks and ensure that suppliers complied with their policy requirements, rather than responding to issues raised once impacts were identified. A wide range of issues were discussed, including land tenure right, animal welfare, deforestation, and food security and nutrition.

Despite the limited duration of the pilot project, the Progress Survey found that approximately half of participating companies strengthened their approach to assessing supply chain risks since the Baseline Survey. The Baseline Survey found that most companies have adopted an internal process for identifying and assessing supply chain risks. Seven companies reported using tools such as risk registers, historical data and risk assessments, or information provided in CSO reports, desk-top research, and satellite monitoring technology used via third party service providers. Many companies, particularly downstream companies, also rely on third party service providers, audit firms, certification schemes, media and civil society reports, as well as consultations with key stakeholders.

Box 8: Gathering risk-related information from internal staff

One company explained how it utilises field technicians to monitor and mitigate related issues on a farm-by-farm basis. This can be helpful when addressing serious issues, for example where the physical and mental well-being of workers may be at risk. In these cases, field technicians may implement prompt mitigation actions to address the issues. Simultaneously, data captured at the farm level is consolidated by the company at a global level, providing visibility and oversight across operations. Regularly monitoring the implementation of policies and procedures on the ground can yield important information and greater visibility on supply chain risks.

Figure 16. Percentage of companies that made an increased use of different sources of risk-related information during the course of the pilot project



Whilst 63% of companies reported that no change has been made in how risk information is gathered during the course of the pilot project, some companies took steps to strengthen their approaches. Figure 16 below provides a breakdown of which sources companies have made increased use of during the course of the pilot to gather risk-related information. It can be seen that the most common change was an increased use of third party service providers, followed by greater use of information obtained from internal staff. Indeed, many businesses across the agricultural sector have staff who are based in the field and are close to production activities on the ground. These may include agronomists, field technicians, or local buyers who engage on a regular basis with producers and are able to gather key information about risks and ensure the timely reporting of information to the company.

Many companies rely strongly on third parties to assess environmental, social and governance risks and identify red flags in their supply chains. The tools reported to be most commonly used by companies participating in the pilot included Maplecroft, SEDEX (and SMETA audits), and RepRisk. In many cases, proof of certification is a core requirement by companies when working with suppliers. Some companies recognise the limitations of external audit frameworks and have developed their own standards against which external auditors can evaluate suppliers' practices or follow up external audits with their own assessment actions. However, this approach is often used only for selected commodities, particularly those most relevant for the business in terms of volume sourced. Others are required to comply solely with certification requirements. For many companies, third party audit frameworks remain a mainstay of their risk assessment actions.

Box 9: How companies are using assessment and audit frameworks to prioritise and assess risks

One upstream company joined a third party supply chain database scheme and increased its communications about risk assessments to suppliers, requesting them to undertake self-assessments to support prioritisation of risks.

Another company used an industry scheme as part of their due diligence to conduct formal assessments and independent on-site reviews of all their Tier 1 suppliers over a period of three years. An external auditor undertakes independent reviews of all their site operation, which are made publicly available. These assessments have been completed for approximately 250,000 farmers, giving the company a good understanding of their Tier 1 suppliers. The same company also expects suppliers to undertake self-assessments. These self-assessments are used to ensure that suppliers comply with the company's policies. The information collected from the self-assessments and independent reviews is then used to drive corrective action and mitigate identified risks.

External frameworks, tools and service providers can play an important role in companies' due diligence processes, particularly for companies downstream that lack an in-depth or technical knowledge of the issues or contexts in which they operate, or simply lack internal capacity to assess risks. For producers upstream, industry-wide schemes are essential to supply buyers downstream and comply with market requirements. However, the OECD-FAO Guidance emphasises that companies retain individual responsibility for conducting due diligence within their supply chains.²⁴ It is therefore critical that companies are actively involved and maintain oversight throughout the risk assessment process.

Some companies have recognised that they previously had insufficient oversight and input into due diligence activities and have refocused their risk assessment approach. This has involved a shift from relying primarily on audits and certification schemes towards strengthening internal procedures, engaging more directly with suppliers, and collaborating with external consultants and CSOs with a more detailed knowledge of the issues and contexts of operation.

The peer-learning sessions on "Addressing gaps between policy commitments and implementation actions" and "Strengthening collaboration with third parties to improve risk management" explored how cooperating with third parties, including industry frameworks, national and international CSOs, and external consultants can bring value to the risk assessment process.

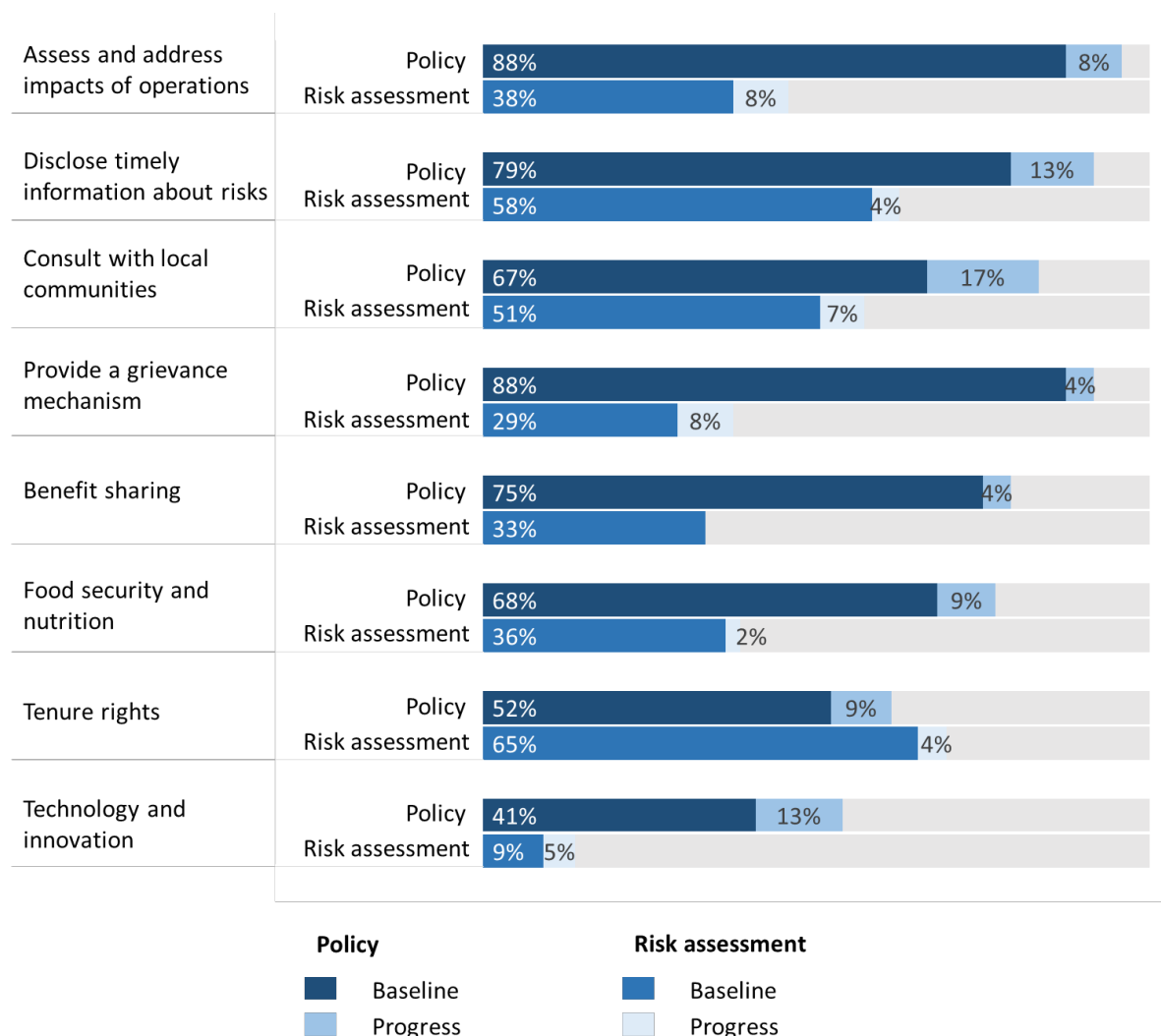
Box 10: Beyond audit and certification: strengthening internal processes for assessing risks

One FMCG company with multiple commodity supply chains is going beyond reliance on audits and certification schemes in their palm oil supply chain. Acknowledging that certification schemes and audits have an important role to play, the company also recognises that they must not substitute for due diligence. Instead, the company has committed to undertaking root-cause analysis and taking a direct role in finding effective solutions to issues identified in the supply chain.

To do so, the company is working with a CSO to track deforestation in the palm industry. The CSO provides monthly alerts to the company's Tier 1 suppliers and simultaneously informs the company. As a result, the company is able to engage directly with suppliers to monitor how they are addressing risks on the ground.

²⁴ Introduction, Due diligence, pp.21-23, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

Figure 17. Gaps between policy commitments and the scope of risk assessments



Note: Chart shows the percentage of companies that reported making policy commitments in relation to specific risk areas in the Baseline Survey, and the extent to which that had changed by the time of the Progress Survey; alongside the percentage of companies that undertook risk assessment activities against the same issues, and the extent to which that had changed by the time of the Progress Survey.

The Progress Survey found that significant progress was made to strengthen the assessment of risks associated with animal welfare and environmental protection, two issues previously addressed by the majority of companies. In particular, companies who strengthened their risk assessment processes for environmental protection focused on deforestation, water contamination, and water resource depletion. The Baseline Survey found that there were significant gaps between companies' corporate policy commitments to key issues and the integration of the same issues in the scope of the risk assessment.

Companies expanded the scope of their risk assessment to issues where previous gaps between policy commitments and risk assessment practices were identified. For example, several companies have strengthened their approach to assessing risks associated with the lack of consultation with potentially affected stakeholders, adverse impacts on human rights, and lack of transparency and disclosure of information. However, as shown in Figure 17 below, several gaps remain in relation to how companies address other key risks addressed by the OECD-FAO Guidance.

Most companies within the pilot reported including labour rights within the scope of their risk assessments. Whilst labour and working conditions are areas in which significant risks can be identified, it is also important to differentiate between different labour practices, in particular between formal labour and informal labour, temporary/seasonal labour, and family labour. The protections provided by legal frameworks in countries of operations can differ significantly across labour practices. For example, many countries have limited legislation addressing migrant or seasonal workers. Several companies participating in the pilot project highlighted that ensuring that such risks are evaluated is key to gain a complete picture of potential impacts in the supply chain. During one peer-learning session on “Understanding risks and good practice management approaches for informal, seasonal and family labour” participants had the opportunity to discuss some of the key challenges they have in this area. The peer-learning session also included interventions from the International Labour Organisation (ILO) and the Fair Labour Association (FLA), who provided an overview of how these different groups are defined and existing tools and strategies for addressing associated risks.

The OECD-FAO Guidance recommends that risk assessments are conducted on an ongoing basis in order to maintain a true picture of the risks over time, taking into account changing circumstances.²⁵ Some companies have adopted internal processes to ensure information about risks is gathered and assessed on an ongoing basis. For example, several participants described how ensuring local teams are able to gather information on the ground and share it with headquarters is central to the risk assessment process. Establishing internal systems for maintaining and updating risk information can help promptly share information collected across relevant teams and inform risk mitigation actions, where needed. Risk registers are a common tool that companies can use to record, track, and categorise (e.g. by low, medium, and high) risks.

Box 11: How companies use risk matrices and risk registers to maintain information about supply chain risks

One company with direct oversight of on-farm production consulted a human rights CSO to review their approach to assessing supply chain risks. This has informed improvements in how the company uses a risk matrix to determine the severity of the risks and impacts of company operations by tracking the severity of the impact, the scale of impact (approximate numbers of people affected), and level of irremediability.

Another company is part of an industry initiative that requires its members to maintain a risk register for social and environmental issues associated with production and processing of product. The company uses risk registers at a group, regional and end market level to identify, assess and monitor risks. All risks are assessed at three levels (high, medium or low) by reference to their impact and likelihood. The risk management function considers various sources, including emerging risk dashboards and global and country risk reports. Through this the company can identify who is affected, how they are affected, and what the mitigating actions are for the risks identified. The company typically involves affected stakeholders as part of the development of any mitigation actions and their measures. The risk register is reviewed on a regular basis by a risk management committee and by management across all countries of operations.

²⁵ Step 2, Section 2.2, pp.34-36, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

As discussed in Step 1, many companies reported that participation in the pilot project helped identify where changes in supply chain management practices should be implemented. Most companies commented that the pilot provided an opportunity to benchmark their practices against the OECD-FAO Guidance, as well as to learn from other participants about how similar challenges are being addressed within the scope of their own due diligence processes. Some companies reviewed their risk assessment practices as part of their commitment to ongoing improvement. In many cases, the same external factors that drove companies to strengthen their policy commitments also influenced the changes made in the risk assessment process. As with the factors that influenced companies' changes in policy commitments, these include the introduction of new legal requirements, pressure from CSOs and media, and changes in business strategy.

Demands from customers and downstream buyers also impact which issues are prioritised by companies and how risk assessments are conducted. As previously discussed, downstream companies often set requirements for their suppliers to undergo certification or audits in order to gain confidence that suppliers are addressing key risks. This is particularly common for specific commodities such as soy, sugar, and palm oil when downstream companies are several tiers removed from the production process. Producers' assessment of risks is therefore often defined solely on the basis of the standards and issues addressed by these industry-wide schemes.

Risk assessment for selected commodities

Roughly half (47%) of companies with multiple commodity supply chains use different approaches for assessing high-risk commodities such as palm, soy, cocoa, tobacco and vanilla compared to other commodities deemed to represent a lower level of risk. Some of the approaches used for assessing high-risk commodities include enhancing supply chain mapping and traceability, and using certification schemes and industry initiatives.

Following on from the analysis presented in Step 1 (Table 1), the Progress Survey explored how companies operating within, or sourcing from, selected commodity supply chains included key issues highlighted by the OECD-FAO Guidance within their risk assessment process.

Table 2 combines the issues included within the scope of companies' risk assessment reported in the Baseline Survey and the Progress Survey to show the cumulative progress made by companies in the risk assessment process across selected commodities known to be commonly associated with certain risks. The responses in the table include answers from a selected group of pilot participants, the majority of which are primarily downstream or FMCG companies (see the explanation of the scope of Table 1 on page 28).

Table 2. Percentage of participating companies sourcing or producing (selected) core commodities that undertook risk assessments against specific risks known to be relevant to these commodities by the end of the pilot project

● >70% ◐ 40-70% ○ <40%

Risk Assessments	Cocoa	Palm oil	Soy	Sugar	Tobacco
Transparency and disclosure of information	◐	◐	●	◐	●
Consultation with affected stakeholders	◐	◐	●	◐	●
FPIC of indigenous peoples	◐	◐	◐	◐	◐
Impacts of operations, processes, goods and services	◐	○	◐	○	○
Benefit sharing around operations	○	○	○	○	◐
Access to a grievance mechanism	◐	◐	●	◐	●
Adverse impacts on human rights	●	●	●	◐	●
Violations of labour rights	●	●	●	◐	●
Health risks related to working conditions	●	●	●	◐	●
Impacts on human health and safety	●	●	●	◐	●
Impacts on access to food and nutrition	○	○	◐	○	○
Impacts on tenure rights and access to natural resources	◐	○	◐	◐	●
Impacts on environmental protection	●	◐	●	◐	●
Governance issues	◐	◐	●	○	●
Impacts of technology and innovation transfer	○	○	○	○	◐

Note: The responses in the table include answers from a selected group of pilot participants, the majority of which are downstream or FMCG companies. The data used in Table 2 to show progress made used adjusted baseline data to include only the companies that have responded to both the Baseline and Progress Surveys.

Some progress was reported by companies across all five commodity supply chains. In particular, companies operating along the sugar supply chain reported making changes to expand the scope of the risk assessment process to issues that were previously not addressed. However, as shown in Table 2 above, significant gaps remain in the extent to which companies assess i) benefit sharing around company operations, ii) impacts on tenure rights over and access to natural resources, and iii) impacts of technology and innovation transfer across all five commodities. Most companies that did not previously include these issues in their risk assessment did not make any change over the course of the pilot.

Box 12: How can companies assess land and tenure risks?

LEGEND (Land: Enhancing Governance for Economic Development) is a DFID-funded programme designed to investigate responsible land and agricultural investment. The programme aimed to mobilise knowledge and capacity to support country level programming to support improve land governance, and strengthened land rights. The programme has piloted a set of innovative partnerships between NGOs and the private sector to develop practical approaches and tools for responsible investment projects in Africa. In addition:

- Legend partners TMP Systems developed **Landscape**, an on-line, data-based tool for assessing tenure risk (www.landscape.info) that helps companies identify best locations for new investment and reduce the ESG risk burden. A tenure risk tool also enables companies to input data to quantify risk levels for specific projects, which can help to justify additional due diligence measures and other actions to mitigate tenure risk, preparing the ground for sustainable and responsible relationships with local communities.
- With IIED, the Land Portal (www.landportal.org) has developed a **Responsible land-based investment Navigator** (www.landinvestments.org), an on-line tool that helps companies identify and access the most relevant practical tools for their work, from a wide range of resources on land investment topics, suited to their roles and positions within specific value chains and the requirements of particular investment projects.

Challenges and opportunities identified in the identification, assessment, and prioritisation of risks:

- At present, there is no commonly accepted definition of ‘high risks’ and ‘red flags’ by companies operating along agricultural supply chains to define what circumstances might warrant enhanced due diligence. Some companies define ‘high risks’ and ‘red flags’ in line with the OECD and FAO’s recommended definitions. Many also undertake an enhanced due diligence process in response to concerns from key stakeholders, particularly media and civil society (CSOs), about single issues rather than adopt a holistic approach to due diligence that is ongoing and focused on addressing those issues where there are the greatest risks of harm to people or the environment. There is an opportunity for the OECD and FAO to promote the consistent use of the approach to identify ‘high risks’ and ‘red flags’ set out in the OECD-FAO Guidance. This can facilitate information-sharing among companies and ensure consistency in the identification of risks among companies operating in similar contexts or along the same supply chain.
- At present the scope of most companies’ risk assessment activities does not consider potential risks relating to food security and nutrition, benefit sharing around company operations, and the impacts of technology and innovation; all of which are risk areas that are specifically highlighted in the OECD-FAO Guidance. There is a need to increase awareness and understanding of how these issues relate to relevant risks in companies’ supply chains and what steps companies should take to identify and mitigate these risks.
- Some companies have taken significant steps towards strengthening their internal processes for conducting due diligence. However, many continue to rely on industry schemes and initiatives to obtain information about risks in their supply chains. Whilst these initiatives can provide valuable support to address some of the specific issues that characterise certain commodity supply chains, there are limitations to how they can be effectively used to support the risk assessment process. As previously highlighted in the Baseline Report and re-emphasised in this report, there are some key challenges with companies relying on industry initiatives:

- i. The effectiveness of an on-going due diligence process depends on the frequency of the risk assessments and whether such assessments are sufficient to gather timely and accurate information to inform decision-making. The reliance of companies on certification as a means for ensuring that risks are adequately being identified and assessed may increasingly lead to such schemes being used for purposes beyond what they were originally designed to fulfil. This presents a challenge both for certification schemes and for companies that rely on them. It is important for companies to establish their own internal processes that can complement the information received from external sources.
- ii. For downstream companies, the use of industry-wide frameworks such as audit and certification schemes is widespread and often the only tool used to provide assurance that risks in the supply chain are being addressed by suppliers. However, companies might not take steps to verify whether the standards and requirements set by such schemes are aligned with their own expectations for how RBC principles should be adopted by suppliers upstream. Downstream companies recognise that audits carried out against standardised frameworks may not always yield sufficient information regarding risks in the supply chain. In the case of certification schemes, companies only receive information on whether a supplier has passed the certification or audit 'test'. There is an opportunity for downstream companies to work with suppliers upstream and industry-wide schemes to define what type of risk-related information is expected to be provided and ensure that the schemes are set out to address downstream requirements, particularly as pressure from internal and external stakeholders to address key risks increases.
- iii. For on-farm enterprises, complying with customer demands to be evaluated against an industry-wide scheme is often critical for ensuring access to key markets. However, compliance with a standardised set of requirements can often be costly, time-consuming and not always focused on the priority issues observed on the ground. Contributing to these challenges is the fact that companies supplying to different markets and geographies and working with a multitude of customers often face different sets of requirements. This is particularly challenging for smallholder farmers, who may have limited capacity and resources and therefore risk being excluded from accessing certain markets.
- iv. The use of a standardised scope may not capture all risks relevant for individual businesses. Some frameworks for example might be effective in assessing social risks, but not address in adequate depth environmental issues, or vice versa. For companies both upstream and downstream operating at a global scale or across geographic regions, a one-size-fits-all standard does not always work when dealing in different contexts. Companies seeking a more nuanced understanding of systemic issues, including land tenure or discrimination of women and migrant workers in certain countries, or challenges associated with specific operations, such as impacts on food security and nutrition, a standardised approach cannot be tailored to such needs.

Step 3. Design and implement a strategy to respond to identified risks in the supply chain

Key findings and lessons learned

- Companies' risk management practices are most established in relation to human rights impacts, public health and safety and environmental management.
- Significant gaps remain in how companies operating along selected commodity supply chains manage risks associated with food security and nutrition, stakeholder engagement and consultation with potentially affected communities, including indigenous peoples, and the evaluation of activities against science and technology legislation.
- Companies, particularly those operating downstream, continue to rely strongly on industry-wide schemes to assure themselves that risks in their supply chains are being managed.
- Measuring the impact of company operations was identified as a challenge by companies. However, opportunities to collaborate with peers and other stakeholders to develop indicators and frameworks to inform decision-making were identified.

Reporting assessment findings to senior management

The OECD-FAO Guidance advises companies to report to senior management on their risk assessment findings.²⁶ The Baseline Survey found that the majority of participating companies report due diligence findings to senior management. The Progress Survey found that of the companies who previously had processes in place for reporting due diligence findings to senior management, 25% had introduced changes to further strengthen internal reporting over the course of the pilot.

Develop a risk management plan

When risks are identified and assessed, companies must decide whether to maintain a commercial relationship with a supplier whilst risk mitigation takes place, or to disengage. Depending on the position of a company in the supply chain, the OECD-FAO Guidance recommends companies to take steps to remedy, mitigate and prevent impacts from occurring.²⁷ Companies that are not contributing to the adverse impacts but are nevertheless directly linked through a business relationship should use their leverage to mitigate or prevent impacts. When risk mitigation fails or is deemed not feasible, companies should disengage with the supplier or business partner.²⁸

Companies generally expressed a willingness to engage with suppliers and business partners when risks are identified. The OECD-FAO Guidance recommends that this engagement includes strengthening the business relationship, for example by investing in long-term relationships and using leverage to drive the implementation of risk management measures. However, remaining engaged with suppliers that have been associated with risks can be challenging for companies, particularly when business reputation is at risk and disengagement is perceived as the only feasible response (and is often the response that stakeholders, such as campaign organisations, may be demanding).

²⁶ Step 3, Section 3.1, pp.36-37, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

²⁷ Step 3, Box 1.2, p.21, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

²⁸ Step 3, Box 1.2, p.21, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

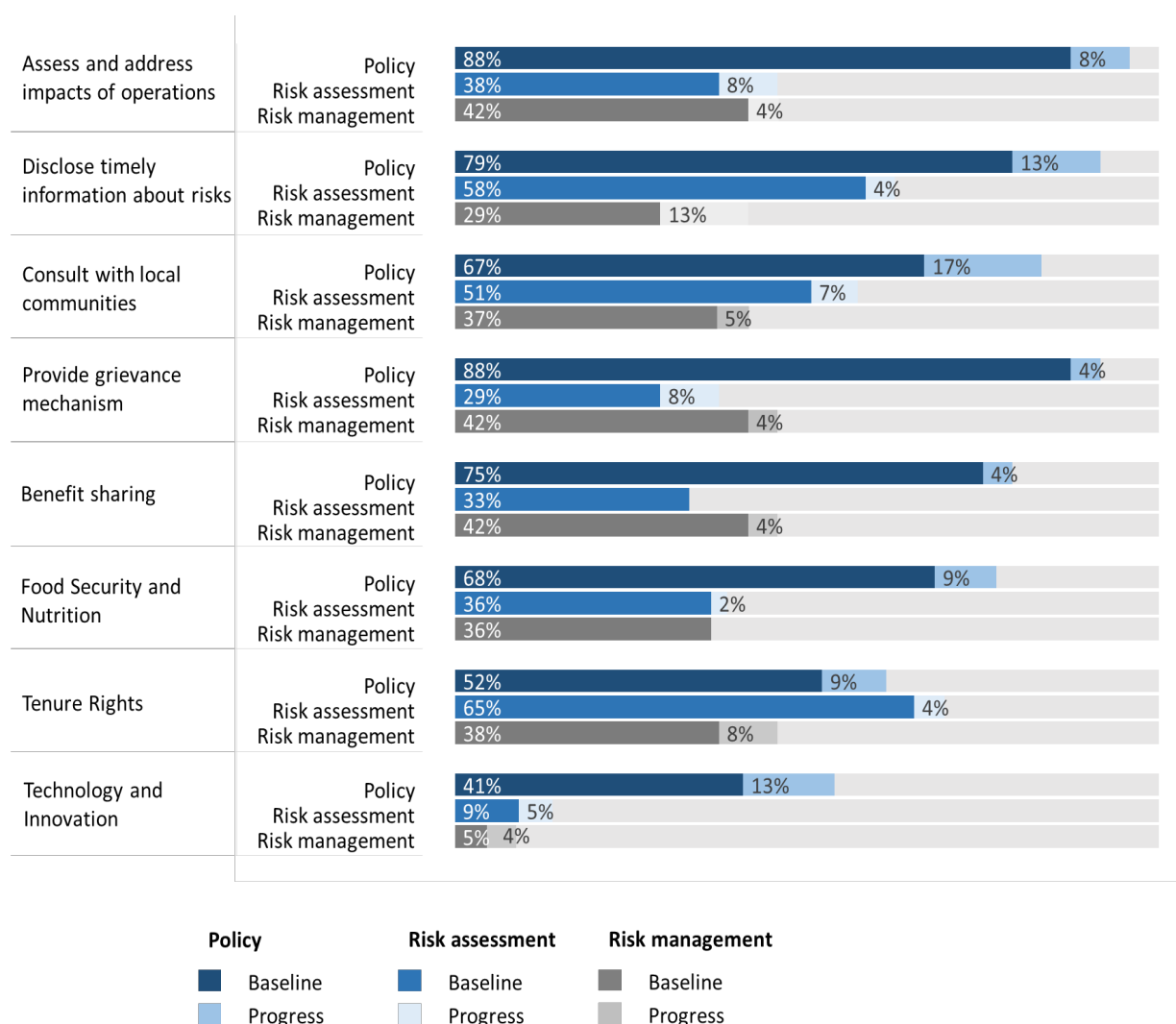
Box 13: Adverse impacts: should companies engage or disengage?

A CSO focused on improving animal welfare released a video to raise awareness of one of the pilot companies' suppliers. The company had not initially identified any 'red flags' relating to this supplier and generally prefers to work with suppliers to drive compliance with its sourcing expectations. However, when the CSO provided evidence of serious adverse impacts on animal welfare the company took direct action by disengaging with the supplier. When discussing this case with other pilot project participants the company recognised that deciding whether to disengage with a supplier is not always clear-cut. There are many instances in which companies will seek to engage with their suppliers to manage supply chain risks, however it is ultimately a company's decision whether such approach should be pursued.

During the course of the pilot project some companies strengthened existing risk management practices with regards to health and safety, environmental management and human rights impacts. The most progress made by companies was in the dissemination of information, with a particular focus on social and environmental impact assessments and management plans. However, as shown in Figure 18, for many companies there are significant gaps in the scope of issues included within companies' risk management activities when compared to the issues that the OECD-FAO Guidance recommends companies address. These gaps particularly relate to:

- i. Identification of development benefit opportunities
- ii. Strategies to mitigate impacts on foods security and nutrition
- iii. Development of an engagement strategy for indigenous peoples
- iv. Evaluation of activities against science and technology national policies and local contribution

Figure 18. Gaps between policy commitments and the scope of risk assessments.



Note: Chart shows the percentage of companies that reported making policy commitments in relation to specific risk areas in the Baseline Survey, and the extent to which that had changed by the time of the Progress Survey; the percentage of companies that undertook risk assessment activities against the same issues, and the extent to which that had changed by the time of the Progress Survey; and the percentage of companies that undertook risk management activities for the same issues and the extent to which this had changed by the time of the Progress Survey.

Whilst companies reported implementing measures to address risks identified in relation to labour rights, it should be noted that the challenges identified in Step 2 with regards to assessing risks related to labour and working conditions when these relate to informal labour, family labour and seasonal/temporary labour translate into challenges for companies seeking to address these in their risk management process. This is particularly true when root causes can be traced back to broader systemic issues in the countries of operation.

As discussed previously in Step 1, challenges associated with tenure rights over and access to natural resources also pose limits to the extent to which companies can address related risks. A tailored approach and close collaboration with third parties, including local CSOs, government agencies, and specialised third party advisors, is often required to effectively mitigate associated risks and impacts.

Financial institutions also play an important role in supporting the management of significant risks in challenging contexts. During the peer-learning session on “The role of Financial Institutions (FIs) in supporting responsible agricultural practices” companies highlighted that by providing investment guarantees, for example, financial institutions can help establish risk-sharing mechanisms and incentivise enterprises to engage in contexts viewed as too risky for companies to operate.

Box 14: Managing risks in complex contexts

Precarious and vulnerable forms of labour within a company’s supply chain cannot be adequately addressed unless broader holistic solutions are developed. Child labourers working with their families, for instance, often contribute to their families’ income by working. This is particularly more common in areas where there are little educational opportunities available and salaries received by the parents are very low.

One pilot company worked closely with suppliers and CSOs to identify the labour risks associated with their supply chains in the hazelnut sector in Turkey, a country where informal seasonal and temporary labourers are often found working in the agricultural sector. Risk assessments (which involved visiting the farms and interviewing almost 400 workers) identified illegal foreign workers, a lack of employment records, compensation discrimination, harassment, under-age workers, and a lack of supply chain traceability. By collaborating with the CSO, who provided an in-depth understanding and implementation of international standards, the company was able to take significant action towards addressing the labour risks that were identified. This was done also by taking into consideration the other sectors in which workers were operating when not involved in the hazelnut sector. In this case, approaching the issue from a cross-commodity perspective was helpful to understand and address risks on the ground. Recommendations were also made to other stakeholders, including the Turkish government and international buyers, to ensure that a more holistic approach was taken to tackle systemic labour challenges.

Risk management for selected commodities

A similar analysis conducted in Tables 1 in Step 1 and Table 2 in Step 2 (see pages 28 and 52) of companies operating along selected commodity supply chains was conducted for Step 3. Table 3 combines the issues included within the scope of companies’ risk management reported in the Baseline Survey and the Progress Survey to show the cumulative progress made by companies in the implementation of risk management actions across selected commodities known to be associated with certain risks. The responses in the table include answers from a selected group of pilot participants, the majority of which are downstream or FMCG companies (see the explanation of the scope of Table 1 on page 28).

Table 3. Percentage of participating companies sourcing or producing (selected) core commodities that undertook risk management activities against specific risks known to be relevant to these commodities by the end of the pilot project

	● >70% ◐ 40-70% ○ <40%				
Risk Management	Cocoa	Palm oil	Soy	Sugar	Tobacco
Dissemination of information	◐	◐	◐	◐	●
Stakeholder engagement plan and consultation with potentially affected	○	○	○	○	●
Engagement strategy for indigenous peoples	○	○	○	○	○
Adoption of an impact assessment process	◐	◐	◐	○	●
Identification of development benefit opportunities	◐	○	●	○	◐
Establishment of a grievance mechanism	○	◐	◐	◐	◐
Ongoing evaluation of impacts on human rights	●	●	●	◐	●
Establishment of workers' protection and monitoring measures	●	●	●	◐	●
Adoption of decent working conditions standards	●	●	●	◐	●
Establishment of preventive and control measures for health and safety	●	●	●	◐	●
Strategies to mitigate impacts on food security and nutrition	○	○	○	○	○
Steps to manage tenure rights and access to natural resources	◐	○	○	◐	●
Establishment of environmental management systems	◐	●	◐	◐	●
Adoption of internal controls, ethics and compliance programmes	●	●	●	◐	●
Provision of tax information to authorities	◐	○	◐	◐	●
Exit or refrainment from entering anti-competitive agreements	◐	◐	◐	◐	●
Evaluation of activities against science and technology national policies and	○	○	○	○	○

Note: The responses in the table include answers from a selected group of pilot participants, the majority of which are downstream or FMCG companies. The data used in Table 3 used adjusted baseline data to include only the companies that have responded to both the Baseline and Progress Surveys.

The analysis in Table 3 shows that there are significant gaps in the approach of these companies to managing risks mentioned above. In particular, the most significant gaps found across all five commodity supply chains relate to:

- i. Strategies to mitigate the impacts on food security and nutrition
- ii. Development of a stakeholder engagement plan and consultation with potentially affected communities, including indigenous peoples
- iii. Evaluation of activities against science and technology national policies and local contribution.

Box 15: How can food security considerations be integrated into the risk management process?

Food security is closely linked to Goal 2 ‘Zero Hunger’ of the Sustainable Development Goals and some companies have recognised the impact their operations can have on food security, even when they are several tiers removed from the production stages in their supply chains. However, taking action on this risk area can be challenging for companies. Depending on context, risks relating to food security may be particularly pertinent when land is used to produce commodities for non-food uses. This is the case, for example, in sugarcane for biofuels and bioplastics production. Whilst farmers may use sugarcane as a cash crop, the purchase and consumption of agricultural products for nutrition purposes depends on whether food products are locally available and land is available to produce commodities for food consumption.

One pilot participant stated that they require the consideration of food security impacts as part of environmental and social impact assessments at the inception phase of projects that are creating or expanding greenfield sites. The participant found that the solution to food insecurity was dedicating some land in the area of farming operations. Each household were given a plot of land between 0.5 and 1 hectare. Crops grown can then be sold to the market or used by the household for their own consumption.

Implementation, monitoring and performance tracking

Once a risk management plan has been adopted, the OECD-FAO Guidance recommends that companies monitor and track the performance of the risk mitigation efforts. The effectiveness of the risk management measures implemented by companies will also depend on the extent to which companies engage with suppliers and business partners to ensure that risk management expectations are met. In addition to including specific requirements into contractual agreements, companies can also work together with suppliers to agree on a risk management action plan, build their capacity to manage risks, and maintain close oversight of how due diligence is implemented within their operations.

The measurement and quantification of impacts was identified by companies as one of the most significant challenges faced. As previously discussed in Step 2, many companies, particularly those operating downstream, rely primarily on industry-wide schemes to ensure that risks in the supply chain are being addressed. In such cases, companies often rely solely on the information provided by the schemes and their third party auditors about whether suppliers have passed an audit or are certified in line with the criteria set out by the scheme. This is common amongst companies sourcing certain commodities and when visibility over issues in the supply chain is limited because they are several tiers removed from the production stages.

Companies also use their own monitoring and evaluation frameworks to collect qualitative and quantitative information either through internal staff or third parties. Those operating upstream often rely on the support of locally based staff and other stakeholders, such as field technicians, CSOs, and external consultants who can support the ongoing collection of data on the ground. In the peer-learning session on “Strengthening collaboration with third parties to improve risk management”, participating companies noted that collaboration with civil society organisations (CSOs) can at times be challenging, particularly with advocacy CSOs. It was nonetheless noted that such organisations can play an important role in driving responsible business practices and that agreeing on the development of common indicators for measuring impact is necessary to ensure objectives are aligned.

The peer-learning session on “Tools and techniques for quantifying social, environmental and economic impacts” provided an opportunity for companies to share their experience in measuring impact through practical tools and impact measurement strategies.

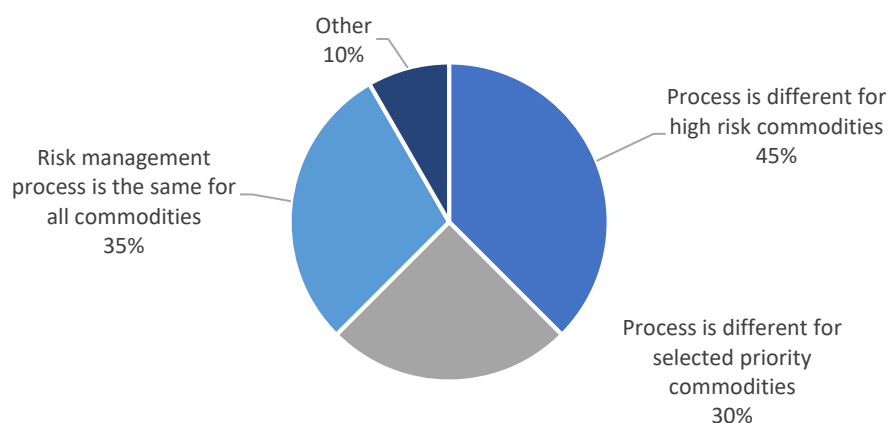
It was noted that when seeking to measure impacts associated with their operations, companies need to focus not only on the short-term results, but also on long-term change. In this context, some companies highlighted the need to establish a strong baseline against which change can be measured and impacts evaluated through a step-by-step approach. Companies who shared their experience in measuring impact highlighted the following:

- The use of well-defined direct and indirect (proxy) key performance indicators (KPIs) at each stage is essential to measure impacts. It is also important to measure impacts both on external stakeholders (e.g. suppliers, communities), as well on the business itself. KPIs can be direct indicators, for example the number of farmers trained on health and safety topics, as well as indirect or proxy indicators, for example the reduction in water-borne disease in areas where measures have been implemented to improve access to clean water. Participants noted the importance of such KPIs for informing internal decision-making regarding current and future operations and the company’s responsible sourcing strategy.
- The collection of data and information from the field is used by companies not only to measure the impacts of their operations and investments, but also to feed back into internal decision-making and draw lessons for strengthening future activities.

Collaboration among key stakeholders can support companies’ capacity to gather relevant data and information and measure impacts and strengthen their identification and management of risks. The majority of companies adapt their risk management approaches for different commodities. Most companies (45%) reported having a different process for managing risks for commodities categorised as high-risk by the company, and 30% of companies have a different process for selected priority commodities. Examples of commodities that companies considered high risk are palm oil, soy, cocoa and sugar as well as other products such as seafood.

Figure 19 illustrates the extent to which companies utilise different processes for managing risks in different commodity supply chains.

Figure 19. Percentage of companies that vary their processes for managing risks in different commodity supply chains



Note: The sample of companies in this chart only includes participants whose supply chains includes multiple commodities.

Box 16: Using KPIs to track social, economic and environmental performance

One FMCG company described the programmes it has implemented to support smallholder farmers in its milk and fruit supply chain. To measure the social, economic and environmental impacts of these programmes, it was important for the company to find KPIs that could effectively reflect the results achieved and that could be linked back to the activities implemented. To evaluate social impacts, for example, KPIs include proxy indicators that measure the number of:

- People with an increased or secured revenue
- People trained
- People with access to social benefits
- People who benefit from micro-credit
- People with better working conditions

To ensure that the programmes could be linked to business objectives, the FMCG company also evaluated the turnover of activities associated with the programmes and the additional volume sourced from suppliers.

One investor described how it has adopted two frameworks for measuring the impact of its investments. Through an annual monitoring framework, investment teams collect quantitative data on local operations (e.g. number of employees and smallholder farmers engaged, the estimated income uplift, as well as qualitative information on gender equality, challenges, and unintended consequences) to measure outputs and outcomes. This information is then compiled at the portfolio level. The evaluation framework allows the investment teams to then analyse in more detail the outcomes and impacts of activities, by collecting data from employees of the investee companies, as well as stakeholders interacting with the investee company. This includes an evaluation of the transformational change that investments generate, such as the impacts that the investment in one company can have on other companies' productivity. The lessons learned then inform how investments are screened and opportunities for future investments are identified.

Challenges and opportunities identified in the risk management process:

- The general lack of effective approaches for managing risks associated with stakeholder engagement (including the adoption of a process for obtaining free prior and informed consent of indigenous peoples) and with food security and nutrition by companies sourcing sugar, soy, cocoa, palm oil, and tobacco represents a key limitation to the implementation of effective due diligence in these supply chains. The selected commodities used in this analysis are among those commonly known to be associated with such risks. Ensuring that concrete risk management actions are adopted by companies operating along these supply chains is critical, particularly when these companies are some of the largest global FMCG and consumer-facing companies that are driving the sourcing of globally substantial volumes of these commodities.
- Companies that operate across different geographies and along complex commodity supply chains can find it challenging to identify what risk mitigation measures may be appropriate for a particular context or issue. There are opportunities for companies to strengthen their collaboration with stakeholders, such as CSOs, that can provide in-depth local knowledge and support companies in monitoring the effectiveness of their risk management plans. This does, of course, require such organisations to be willing to constructively engage with companies.
- The same challenges highlighted in Step 2 with regards to the use of industry-wide schemes also influence how companies address the management of risks in their supply chains. In particular:
 - i. For companies relying primarily on industry-wide frameworks, there are several limitations to how companies maintain individual responsibility for conducting ongoing due diligence. The information received by companies about how risks in the supply chain are being managed depends upon the scope of the issues being evaluated by the scheme and the level of detail disclosed by the scheme itself. As companies often only receive information on whether a supplier has passed the certification or audit 'test', companies are not able to understand what the specific risks identified in the supply chain are and how and whether suppliers are taking steps to manage these.
 - ii. For companies operating across geographic regions or in specific contexts, a standardised approach to managing risks does not always yield the desired objectives. It is important that companies both upstream and downstream ensure that issues that are often closely linked to contextual challenges, for example those associated with land tenure and labour rights, are being managed through an approach that is tailored to the local context.
- Companies use different frameworks for monitoring the implementation of risk mitigation measures. For those who have not yet established a framework, there is an opportunity to develop a system for tracking outputs, outcomes and impacts of operations. This can help companies not only monitor the management of key risks, but also quantify and measure the positive impacts of business activities. This, in turn, can support how companies report to key stakeholders on both short-term and long-term impacts of business activities, a topic which is discussed in Step 5.

Step 4. Verify supply chain due diligence

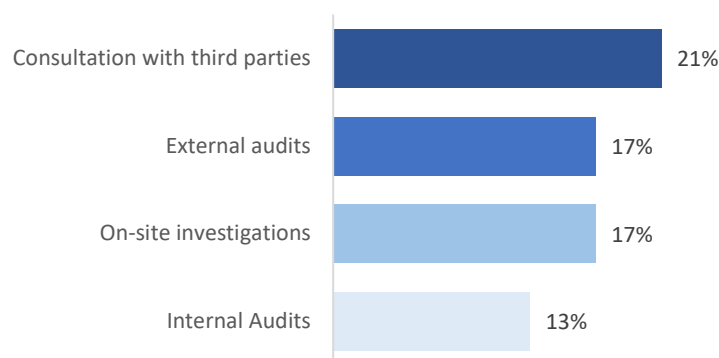
Key findings and lessons learned

- There remains a heavy reliance on audits and certification to verify that some risks are being assessed and managed. This is particularly true for risks associated with health and safety, environment, governance and labour and working conditions. However, little verification is undertaken for other key risks associated with food security and nutrition, tenure rights over and access to natural resources.
- Audit and certification schemes used by companies do not offer a consistent approach to verifying due diligence. Ensuring these schemes are aligned to the recommendations of the OECD-FAO Guidance can support companies who use them in implementing RBC standards.

The OECD-FAO Guidance recommends companies to verify that their due diligence practices are effective and adequately addressing, mitigating, and preventing identified risks.²⁹ The Baseline Survey found that most companies had adopted measures to verify the effectiveness of their due diligence. This included internal and external audits, on-site investigations, and consultation with third parties, including CSOs.

During the course of the pilot project most companies (67%) did not make any changes to their verification processes, though some companies increased their use of internal or external verification processes, as shown in Figure 20.

Figure 20. Percentage increases in companies' use of verification processes over the course of the pilot



Opportunities to engage with third parties as means of verifying due diligence progress were also explored during the seven peer-learning sessions held throughout the duration of the pilot project. However, most companies continue to rely primarily on internal audits, external audits and certification mechanisms for verification. Companies frequently use the same verification mechanisms to verify that risks have been addressed as they do to identify, assess, and manage the risks. Whilst audit and certification schemes bring significant value to the verification process, there is a risk that companies overly rely on these to conduct due diligence. However, as previously mentioned in Step 2 and 3, companies should ensure that they maintain individual responsibility for conducting due diligence and avoid using such schemes for purposes beyond what they were originally designed to fulfil.

²⁹ Step 4, pp.37-38, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

Most verification mechanisms used by companies focused primarily on issues related to health and safety, environmental protection, governance, labour rights and human rights. Other issues such as food security and nutrition, tenure rights over and access to natural resources, and technology and innovation were not as widely addressed. Some progress was made by companies over the duration of the pilot to verify due diligence in relation to food security and nutrition and tenure rights over and access to natural resources. However, significant gaps remain in verifying due diligence on these issues compared to other issues. As highlighted in Step 2 and 3, this reinforces the question of whether verification frameworks can provide companies with sufficient information regarding what risks characterise the supply chain and whether those risks are adequately addressed.

The OECD-FAO Guidance states that the independence and quality of audits is critical to their effectiveness and that auditors should be independent, competent and accountable.³⁰ However, 14% of companies reported that the auditors employed in their verification process were not independent in the Baseline Survey and for new audit mechanisms introduced by companies since the Baseline Survey, 53% reported that auditors were not independent.

Challenges and opportunities identified in the verification process:

- Industry-wide frameworks may be used and combined by companies to verify the effectiveness of their due diligence process in relation to different issues. Companies should consider what information gaps they may face when undertaking verification and ensure that risks are being adequately identified, assessed, and managed throughout the due diligence process. The widespread use of industry frameworks (particularly audit and certification schemes) for the assessment and management of risks, as well as throughout the verification process, can pose challenges to how companies can gain confidence that key issues in the supply chain are being adequately addressed.
- Companies both upstream and downstream can choose from a wide range of verification mechanisms for evaluating the effectiveness of their due diligence process. However, multiple verification efforts to address different sets of challenges or demands by downstream customers can be costly and time-consuming. The OECD-FAO Guidance highlights that complementary and mutually-reinforcing verification processes based on common standards, undertaken at appropriate points in the supply chain, can help avoid assessment fatigue and increase efficiency. Auditors may recognise the conclusions of audits carried out by other independent third parties.³¹ To do so, however, alignment across relevant standards would be required. There is an opportunity for the OECD and FAO to consider conducting alignment assessments of the industry frameworks most commonly used by companies to support supply chain due diligence against the standards that are defined in the OECD-FAO Guidance. Pilot participants, including both companies and industry initiatives, have expressed interest in such Alignment Assessments being undertaken on key schemes used in agricultural supply chains. Opportunities to conduct an Alignment Assessment were discussed during a webinar led by the OECD and with the participation of industry initiatives and companies.

³⁰ Step 4, pp.37-38, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

³¹ Step 4, pp.37-38, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

- Some companies carry out consultations with CSOs. Nevertheless, more could be done to strengthen stakeholder engagement within the verification process. CSOs can support companies that may not have sufficient capacity or on-going presence on the ground or knowledge of local contexts, issues and dynamics to effectively verify how due diligence is carried out on supply risks. The support of CSOs can also bring independence to the verification process, while supporting trust and balance between company and local stakeholders' interests, particularly local communities. However, as previously noted, this also requires CSOs to be willing to work constructively with companies.
- As previously highlighted in the Baseline Report, the independence of auditors responsible for verifying companies' due diligence processes is key for maintaining objectivity throughout the verification process. Companies should ensure that auditors, whether internal or external, are sufficiently independent from both the company's own operations, as well as the rest of the due diligence process.

Box 17: OECD Alignment Assessment of industry initiatives in the minerals and garment sectors

It should be noted that challenges highlighted in this report with over-reliance on certification and audit schemes for due diligence purposes are not unique to the agricultural sector. The same issues are faced by companies operating in the minerals and garment supply chains.

To address these challenges, the OECD has led an alignment assessment in each sector to assess how industry initiatives aligned to the OECD Due Diligence Guidance for Responsible Mineral Supply Chains and the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector. As for the OECD-FAO Guidance, the sector guidelines for the minerals and garment sectors have been developed through a multi-stakeholder consultation process involving governments of OECD member countries, private sector, and civil society. The alignment assessment exercise therefore helped establish a benchmark against which initiatives can assess their own criteria to align to those in the due diligence guidance.³²

³² Alignment assessment of industry programmes with the OECD minerals guidance <https://mneguidelines.oecd.org/industry-initiatives-alignment-assessment.htm> and Alignment assessment of industry and multi-stakeholder programmes with the OECD Garment and Footwear Guidance <http://www.oecd.org/daf/inv/mne/alignment-assessment-garment-footwear-sac.htm>

Step 5. Report on supply chain due diligence

Key findings and lessons learned

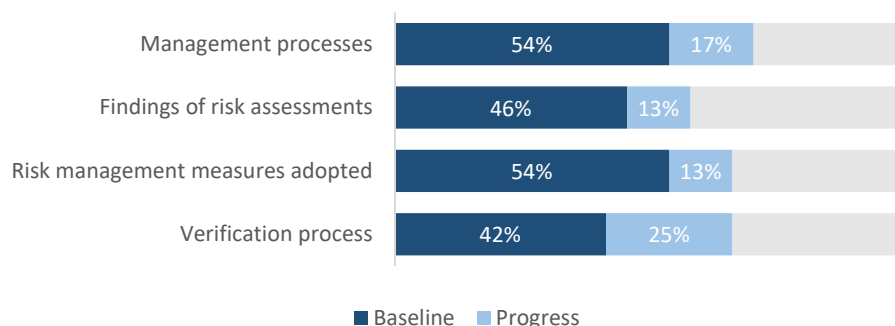
- Just over a third of companies implemented changes to their reporting practices over the course of the pilot project. However, gaps still remain in how companies publicly report on all steps of their due diligence practices.
- Many companies rely on industry-wide frameworks for gathering information about risks in their supply chains and how these are being managed. However, the information that industry-wide schemes share with companies is not always timely or sufficiently detailed for companies to be able to use this when reporting publicly about their due diligence practices.

The OECD-FAO Guidance advises enterprises to publicly report on their due diligence practices, providing affected stakeholders and business partners with clear and accurate information on potential adverse impacts in the company's supply chain and the steps taken to mitigate or prevent them.³³ The Baseline Survey found that whilst two thirds of companies reported publicly, approximately only one third reported on their management processes for due diligence, risk assessment, risk management, and verification processes. One third did not report on any aspects related to due diligence activities.

During the peer-learning sessions and in-person meetings held throughout the pilot, companies noted that reporting remains a challenge, particularly when it relates to deciding internally on what information can be disclosed. Companies recognise that there is room for improvement in reporting on identified risks.

The Progress Survey found that 38% of companies had made changes to their reporting practices since the start of the pilot project. Some companies strengthened their reporting to specific groups of stakeholders, including customers, government agencies, investors, and business partners. Several companies expanded the scope of reporting on due diligence practices compared to the Baseline Survey, as shown in Figure 21 below. The majority of participants that implemented changes in their reporting practices were downstream companies.

Figure 21. Percentage of companies whose reporting practices met the OECD-FAO Guidance recommendations for report content, showing the results of this analysis in the Baseline Survey and progress made during the course of the pilot.



³³ Step 5, pp.38-39, [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)

Most companies recognise the importance of public reporting and report annually to the public on how they advance responsible business practices. However, the information disclosed on the risks identified, assessed and managed in their supply chains is limited and significant gaps remain, as highlighted in Figure 21 above.

There can be various reasons for this. Some companies are reluctant to disclose detailed information about their supply chains for concerns over commercial confidentiality, for example many may be sensitive about disclosing the details of the names and locations of suppliers' operations. Others, particularly those operating downstream, may lack information about how suppliers address due diligence requirements within their own supply chains. As highlighted in the previous chapters of this report, many companies continue to rely on audit and certification schemes to provide confidence that supply chain risks are being addressed. However, the information that is provided to companies by such schemes is often limited to a summary of audit or certification results. At present little detail is provided by most industry schemes on the priority risks identified in the supply chain to which the scheme applies and the extent to which these risks are being addressed.

Companies also report against the requirements of key stakeholders, such as investors, customers, and regulators. However, the scope of reporting is usually focused on the priorities and expectations set out by each stakeholder, each of which might be focused on different issues or requirements. Reporting standards can also differ. For example, investors often rely on ESG reporting frameworks, whilst customers might have specific reporting requirements for their suppliers. It was noted in the peer-learning session on "The role of Financial Institutions (FIs) in supporting responsible agricultural practices" that it is often the case that reporting requirements are driven by perceived priorities and common 'buzzwords' at a given point in time, rather than by the actual risks and issues faced by companies.

Conversely, for investors, one of the challenges identified is the lack of quality data available to effectively inform decision-making. Reporting requirements are increasing and there are several reporting frameworks companies can use, however there is often not sufficiently detailed or comparable data provided in companies' reports for investors to use to inform their investment decisions.

Reporting practices against the SDGs and the CFS-RAI Principles

Over half (67%) of companies report or are planning on reporting against the SDGs in the future. The 17 SDGs of the 2030 Agenda for Sustainable Development are the globally-recognised blueprint for ending poverty, protecting the planet, and ensuring that all people enjoy peace and prosperity. The OECD-FAO Guidance recommends that businesses with agricultural supply chains consider the full range of risks in their supply chains. Implementing the recommendations of the OECD-FAO Guidance can support companies in meeting the targets set by the SDGs, as well as report publicly on how RBC practices are contributing to the goals.

As part of the pilot project, four companies and one industry initiative participated in an informal working group to develop a communications tool that highlights the links between the SDGs and the OECD-FAO Guidance. The tool developed was published in June 2019 and is publicly available for companies to use for both internal and external purposes.³⁴ The Progress Survey also explored the extent to which companies report against the CFS-RAI Principles. Whilst some companies have made commitments to the principles, as highlighted in Step 1, none of the participating companies include information on how they address the CFS-RAI Principles in their reporting practices.

³⁴ Brochure "The OECD-FAO Guidance for Responsible Agricultural Supply Chains: How it can help achieve the Sustainable Development Goals" <https://mneguidelines.oecd.org/Brochure-How-the-OECD-FAO-Guidance-can-help-achieve-the-Sustainable-Development-Goals.pdf>

Challenges and opportunities identified in companies' reporting practices:

- Public reporting by companies on their due diligence practices remains limited. The disclosure of how companies undertake due diligence within their supply chains and, in particular, how risks are identified and managed, has been identified during the development of the OECD-FAO Guidance as being of critical importance to stakeholders impacted by a company's operations, including governments, investors, CSOs and communities.
- Many companies face requests for information about supply chain risks and impacts from different stakeholders, in different formats. The number of such requests can lead to 'reporting fatigue' for many companies. There is an opportunity for stakeholders to agree on an accepted reporting practices that are aligned to the five-step due diligence framework recommended by the OECD-FAO Guidance and establish collaborative platforms that support more efficient reporting based on the identification of key risks within the agricultural sector. This could both ease the reporting burden on companies and help investors receive more standardised data and information from their investees.
- Such an accepted reporting framework could contribute to bringing consistency across companies' reporting practices and information-sharing that allow for comparability in how companies operating within the same commodity supply chains or geographies are conducting due diligence. It could also streamline the reporting process for companies and reduce the burden by addressing different reporting requirements with one consistent approach.
- As mentioned in Step 3, companies use different frameworks for monitoring the implementation of risk mitigation measures. Tracking and quantifying outputs, outcomes and impacts of operations can support companies in reporting information to key stakeholders about the short-term and long-term risks and impacts in their supply chains and how these are being managed over time.

IV. Conclusions

This report presents the lessons learned, challenges and opportunities identified throughout the pilot on current approaches to responsible business conduct (RBC) within agricultural supply chains and the progress made by participating companies in addressing the recommendations of the OECD-FAO Guidance since the start of the project. The heterogeneous nature of the pilot group (encompassing a diversity of commodity chains, located in different parts of the value chain, as well as reflecting different levels of due diligence maturity) makes it challenging to make overall conclusions. Nevertheless, some key observations can be drawn.

Companies recognise the importance of aligning due diligence practices with the recommendations in the OECD-FAO Guidance. Throughout their participation in the pilot and building on their existing practices, many companies have taken steps to strengthen their policy commitments and due diligence actions to implement such commitments. Whilst several challenges and gaps remain in how companies address key risks, particularly in how commitments translate into effective risk assessment and risk management actions, several opportunities and good practices for addressing some of the remaining gaps were identified through the various meetings, peer-learning sessions and conversations held with participants and other stakeholders.

Supply chain mapping and engagement with suppliers upstream remains one of the most significant challenges for many participants, particularly for FMCG and consumer-facing companies, but also for companies further upstream that often source from hundreds, sometimes thousands, of smallholder farmers. Some companies have identified good opportunities for establishing strong systems for supply chain mapping and traceability and tested these across different commodity supply chains. This includes, for example, integrating traceability within existing approaches for food safety and quality management, using satellite imagery and GIS analysis to assess risks and inform engagement with suppliers, using a 'landscape approach' to identify groups of suppliers and associated risks within certain regions, and partnering with other companies and stakeholders to address issues upstream in the supply chain.

It is often the case that pressure from external stakeholders can be the main driver for companies to implement changes to their due diligence processes. The attention drawn by CSOs and media campaigns to certain issues in the agricultural sector can have significant impacts on companies' reputations or commercial brands and, as a result, companies can be led to prioritise certain issues over others throughout their due diligence process. It should also be recognised that not all risks and associated impacts can be fully assessed and addressed within the lifetime of a company's involvement in a project or operation. Challenges related to the impacts of agricultural activities on food security and nutrition or challenges associated with climate change are a case in point. Ensuring that adequate tools are available and that companies develop a strong understanding of the associated risks is critical to support the prevention of long-term negative impacts on issues such as food security or climate change resilience.

Some companies, in particular upstream producers, have taken steps to develop targeted programmes to address risks relating to issues such as land tenure over and access to natural resources, informal labour, family labour and seasonal labour. Such risks are widespread in the agricultural sector. Nevertheless, there is also a recognition that companies have limited capacity to address these issues alone. This is particularly true when the success of risk mitigation measures depends on the effectiveness of local institutions or the protections provided by a country's legal framework. Many participating companies have highlighted their experience in proactively engaging with stakeholders including local CSOs, national and regional governments, international organisations and affected communities to address such gaps.

The challenges associated with companies' reliance on industry schemes, such as audit and certification schemes, have been highlighted throughout this report. Reliance on industry schemes can limit companies' ability to gather and disclose important information about suppliers activities, effectively manage relevant supply chain risks, and implement a due diligence approach that adequately responds to the context and needs of different geographies, sectors and commodity value chains.

Whilst most participating companies report publicly to their stakeholders, reporting on actual and potential impacts in the supply chain remains limited. One challenge identified through the pilot is that the different reporting requests received by companies from their wide range of stakeholders can often lead to 'reporting fatigue' and does not always ensure effective disclosure of due diligence information in line with the recommendations of the OECD-FAO Guidance. This creates a burden on companies and can undermine the ability of key stakeholders, such as investors in gathering consistent and quality data and information to effectively inform decision-making.

V. Recommendations

The companies who voluntarily participated in the pilot recognise the value of the OECD-FAO Guidance and are taking steps to implement the recommendations within their own operations and along the supply chain. One of the main objectives for the next phase of this work is to scale up efforts to promote uptake of these recommendations by a wider group of companies in the sector. The following recommendations aim to support this goal.

Recommendations for companies

- Companies that own or manage the production process should strengthen their approach to addressing key risks found upstream in the supply chain. This pilot has found that there is a need for companies to further strengthen their due diligence efforts on risks associated with tenure rights over and access to natural resources, food security and nutrition, and benefit sharing around company operations. These issues are often complex, dependent on multiple factors beyond company's own operations and the associated impacts are not always direct or immediate. This might require building capacity and understanding of these issues within companies. Companies should also seek to establish effective partnerships with key stakeholders on the ground, including CSOs, donors, government agencies and third party consultants with an in-depth knowledge of local cultural and social dynamics, where possible. Collaboration, consultation and partnerships with third parties are an important component of the due diligence approach recommended by the OECD-FAO Guidance and should be a continued area of work and research as stakeholders continue to promote the uptake of due diligence recommendations. Companies may also want to explore home countries' trade, investment and development strategies to see how these could be linked to wider uptake of due diligence in host countries.
- Stronger attention should be paid to the perspectives of potentially affected communities throughout the due diligence process to inform the identification, prioritisation and assessment of risks, as well as the development of risk management plans and implementation of remediation actions where required. Companies should ensure that the recourse mechanisms they provide to communities potentially affected by their operations are tailored to the local context and challenges. This includes ensuring that tools and channels are accessible by all stakeholders, particularly the most vulnerable and marginalised groups and take into account factors such as illiteracy and language barriers. Companies should support access to existing grievance and dispute resolution mechanisms such as the National Contact Points system, courts and International Accountability Mechanisms. Companies could also work with CSOs to establish a list of due diligence indicators to track how companies are progressing in the management of risks on the ground.

- Explore ways to encourage uptake of the OECD-FAO Guidance recommendations within the supply chain. This could include, for example, encouraging industry groups of which companies are members to align their standards and frameworks with the OECD-FAO Guidance and support ongoing engagement with the OECD and FAO. Downstream companies should leverage their position as buyers to engage more closely with suppliers (both direct and indirect) to ensure due diligence recommendations are effectively implemented by their suppliers and business partners. This should entail communicating clear expectations about the type of information that suppliers provide to buyers downstream, including through the integration of the OECD-FAO recommendations into supplier contracts. Companies should recognise that some suppliers may not have the necessary resources or capacity to implement all the due diligence requirements on their own and should therefore provide them with relevant support, for example through training and capacity building, and incorporate these activities into their corporate policy and budget.
- Strengthen strategic engagement with ‘choke points’ or ‘control points’ in the supply chain, such as traders, exporters, aggregators, commodity exchanges and processors of product. Opportunities to maximise leverage should be explored by collaborating with industry peers to align requirements for upstream suppliers, as well as other stakeholders such as policy makers, and can drive greater visibility and improvement in conditions upstream. Given the significant challenges identified in selected commodity supply chains known to be associated with certain key risks, companies should consider focusing on supply chains where large volumes of product are traded and sourced and where significant gaps in the application of due diligence practices remain.
- Companies should continue to explore the application of new technologies for mapping supply chains and identifying, assessing, managing and monitoring risks and impacts. Satellite monitoring can be a helpful tool to support real-time monitoring of environmental changes and risks at the production stages of the supply chain. Blockchain-based technology is proving an effective tool for establishing traceability of agricultural products. Whilst the adoption of new technology can be costly and their use does not substitute companies’ responsibility to conduct due diligence, appropriately used technology can create significant efficiencies for companies seeking to obtain timely and accurate information about the origin of the commodities they source and associated risks. This can help companies in more proactively implementing mitigation actions. There is also an opportunity for financial enterprises that invest in agricultural supply chains to support companies through financing projects to test the adoption of new technology. The OECD Blockchain Policy Centre³⁵ as well as the OECD Principles on Artificial Intelligence³⁶ can be useful resources for companies in this regard.
- Given the limited elapsed time between the baseline and progress surveys, pilot companies could volunteer to participate in a follow-up assessment in early 2021 to examine the progress made over three years. This would allow the OECD and FAO to collect additional useful recommendations and good practices to be shared with all stakeholder groups.

Recommendations for policy makers

- Support strategies to address challenging and systemic issues (such as those identified in this report) and scale-up implementation of due diligence in the agricultural sector. This could include facilitating collaboration and engagement among companies, civil society organisations, donors, and governments. Activities should connect, where relevant, with existing platforms and initiatives to reduce duplication.
- Leverage the lessons learned from this pilot, the OECD's work in promoting Responsible Supply Chains in Asia and Responsible Business Conduct in Latin America and the Caribbean³⁷, and the FAO's work on responsible agricultural investment, including its Umbrella Programme, promoting responsible investment in agriculture and food systems³⁸ to explore synergies and opportunities to address shared challenges in agricultural value chains. Efforts should link to relevant OECD and FAO work in global food systems, as well as continued coordination and collaboration with other international organisations and initiatives.
- Consider supporting an alignment assessment of agricultural industry schemes with the recommendations of the OECD-FAO Guidance. Alignment assessments were successfully completed by the OECD with industry initiatives in the minerals and garment and footwear sectors to assess the alignment with the respective due diligence guidance in these sectors.³⁹ A similar exercise could be carried out for the agricultural sector and lessons learned from the alignment assessment conducted in other sectors should be integrated into this approach. Governments could reinforce global alignment by encouraging schemes to participate in OECD-led alignment assessments, or rely on the findings of OECD-led alignment assessments for use in their public procurement and state-backed financing activities, or for monitoring the environmental and labour provisions of trade agreements.
- Support the collection, dissemination and reporting of quality and comparable data on supply chain risks and due diligence to effectively inform decision-making by companies and investors.
- Develop training and capacity building for CSOs to raise awareness about due diligence expectations for companies and the role that CSOs can play in supporting better company engagement with local communities and governments.

³⁵ "Is there a role for blockchain in responsible supply chains?", OECD (September 2019) <https://mneguidelines.oecd.org/is-there-a-role-for-blockchain-in-responsible-supply-chains.htm>. For more information about the OECD Blockchain Policy Centre, please visit: <http://www.oecd.org/daf/blockchain/>

³⁶ The OECD Principles on Artificial Intelligence <https://www.oecd.org/going-digital/ai/principles/>

³⁷ A partnership between the European Union (EU), the International Labour Organization (ILO) and the OECD, with funding by the EU, the Responsible Supply Chains in Asia programme works with partners in Asia to promote respect for human rights, including labour rights, and responsible business standards in global supply chains. The Responsible business conduct in Latin America and the Caribbean project, implemented together with the ILO, the United Nations Office of the High Commissioner for Human Rights (OHCHR) and the EU, aims to promote smart, sustainable and inclusive growth in the EU and Latin America and Caribbean by supporting responsible business conduct practices in line with the OECD, UN, and ILO instruments. For more information, please visit <https://mneguidelines.oecd.org/globalpartnerships/>

³⁸ Overview of the FAO Umbrella Programme: Supporting Responsible Investments in Agriculture and Food Systems (RAI) <http://www.fao.org/in-action/responsible-agricultural-investments/umbrella-programme/en/>

³⁹ Alignment assessment of industry programmes with the OECD minerals guidance <https://mneguidelines.oecd.org/industry-initiatives-alignment-assessment.htm> and Alignment assessment of industry and multi-stakeholder programmes with the OECD Garment and Footwear Guidance <http://www.oecd.org/daf/inv/mne/alignment-assessment-garment-footwear-sac.htm>

VI. Beyond the pilot project: Suggested activities to further promote the implementation of the OECD-FAO Guidance

Feedback from pilot participants, as well as policy makers, civil society, researchers, business and public-sector bodies, demonstrate that there remains significant interest in building on the momentum and lessons learned throughout the pilot to advance the implementation of RBC practices and promote the uptake of the five-step due diligence framework in global agricultural value chains.

Building on the recommendations presented in this report, the following next steps are proposed to further support uptake and implementation of the OECD-FAO Guidance. These new activities should connect with existing platforms, initiatives and events where relevant in order to avoid duplication and make the best use of time and resources.

Develop and launch an alignment assessment for industry initiatives

As recommended in Section V, an alignment assessment of the common standards and frameworks used by industry initiatives can help overcome the key challenges identified throughout this report.

The benefits of conducting an alignment assessment include, but are not limited to:

- Overcoming the challenge of conflicting requirements faced by companies, as well as strengthen global convergence and effectiveness across different industry schemes, particularly for companies operating in different contexts and regions.
- Leveraging opportunities for collaboration through industry and multi-stakeholder initiatives to promote due diligence to identify, prevent and mitigate adverse impacts.
- Allowing for industry schemes to be recognised within the industry by key stakeholders, including companies and governments, and reduce the duplication and cost burden on suppliers.
- Facilitate dialogue and collaboration between industry initiatives and other stakeholders seeking to progressively improve the way such frameworks are used to mitigate the possible adverse impacts associated with agricultural production and trade.

Support knowledge-sharing and practical tools to implement due diligence

The pilot identified several existing tools that companies can use to support due diligence in their supply chains. Where gaps have been identified, new tools can be developed to more effectively respond to the wide range of company needs. The OECD and FAO, together with companies and other partners, can support the development of toolkits for training that are adapted to different countries, regions and commodity chains to support wider capacity building among key actors in the sector. Additional guidance could be developed to support small and medium-size enterprises and cooperatives of producers, particularly in low- and middle-income countries, in implementing the recommendations of the OECD-FAO Guidance. Similar tools can be developed for non-business stakeholders as well, such as civil society organisations and trade unions.

Conduct research and analysis on key challenges in agricultural supply chains

The limited duration of the pilot project did not always allow opportunities to explore in depth detailed aspects of the OECD-FAO Guidance and related topics. New research should be additive and build upon existing research. Further to the opportunities highlighted in this report, the following areas could be explored in further detail:

- **Links between the OECD- FAO Guidance recommendations and the mitigation of environmental and social risks linked to climate change:** Several companies participating in the pilot project referenced their commitments to addressing the multifaceted challenges posed by climate change. However, these companies noted that the pilot did not provide sufficient opportunities to explore how challenges related to climate change are being (or can be) addressed through the due diligence process. Exploring how the implementation of an effective due diligence framework in line with the OECD-FAO Guidance can support the identification, assessment and management of climate change risks could assist companies not only in the management of risks associated with their operations, but also strengthen engagement with stakeholders on these topics.
- **Impacts of the implementation of RBC standards on smallholder farmers:** Several companies noted that achieving the same standards for RBC adopted by large and multinational enterprises among small and medium businesses, and in particular smallholder farmers, can be challenging. Complying with the requirements of downstream buyers can be extremely resource-intensive for small-scale producers. The benefits of accessing international markets, for example by complying with certification requirements, are well recognised. However, there is currently limited evidence of how the implementation of RBC standards can positively impact income levels, reduce poverty, and have long-term benefits for producers and communities upstream in agricultural supply chains. Whilst some companies have initiated efforts in this area, for example by exploring the impacts of certification on living wages, additional research could be conducted and supported more broadly across the sector.
- **Emerging risks in the use of technology in agricultural supply chains:** Most companies reported testing new technologies to support their due diligence practices. However, there are also many potential challenges that are worth analysing in further depth. These include the use of artificial intelligence, challenges associated with data and privacy, and the role of technology solutions for traceability. Research can be carried out in these topics in coordination with the OECD Blockchain Policy Centre and the OECD Principles on Artificial Intelligence.
- **Remaining challenges in addressing risks associated with food security and nutrition** are not as widely addressed within companies' due diligence practices compared to other issues. Further research could be conducted to explore how the OECD-FAO Guidance can help promote actions to address these issues along global agricultural supply chains. This research would build on the work done by FAO on food security and nutrition.

Support an OECD-FAO hosted programme for promoting responsible agricultural supply chains globally

Turning commitments on due diligence into measureable, at-scale actions to address supply chain risks remains a challenge. Several companies and industry initiatives participating in the pilot have expressed interest in continuing to engage and promote responsible agricultural supply chains in line with the recommendations of the OECD-FAO Guidance. The OECD is currently undertaking work to promote responsible agricultural supply chains in Asia and Latin America. The FAO is preparing a project to promote responsible business conduct in value chains for tropical fruits. This momentum could be supported through a global programme, hosted by the OECD and FAO, to promote due diligence for responsible agricultural supply chains and address common challenges. Such a programme should focus on areas where the OECD and FAO can leverage their respective knowledge and capacity to address gaps in due diligence practices and connect to existing initiatives for promoting responsible agricultural supply chains to avoid duplication. This programme could convene a broad coalition of stakeholders including policy makers, industry representatives, service providers, development agencies, research institutes, trade unions and civil society, and could include activities such as those listed in this report.

Annex I. Peer-learning session topics and key takeaways

Peer-learning session 1

Addressing gaps between policy commitments and implementation actions (PART 1)

- Companies recognise that due diligence can support them in taking a pro-active, rather than reactive, approach to address supply chain risks. Reputation risk, customer pressures and media exposure are among the most significant factors driving companies to take due diligence actions.
- For upstream companies, ensuring commitments are translated into due diligence actions is critical to maintain a 'social license' to operate in the countries they source from.
- Collaboration with government actors, aid agencies and local CSOs can be a source of support in addressing complex challenges (e.g. land tenure rights) on the ground.
- Companies expressed interest in understanding the links between the OECD-FAO Guidance and the achievement of SDG targets. A communications tool was developed as a result.

Peer-learning session 2

Addressing challenges on supply chain mapping and traceability

- Traceability systems can be built on existing company approaches that track a company's performance and that of its suppliers. However, traceability does not necessarily yield detailed information about the risks and issues on the ground.
- Companies can leverage their position to engage with actors at 'choke points' or 'control points' in their supply chains. However, companies' capacity to actively engage with suppliers often depends on the length of contractual agreements and company size.
- Technology has become an important tool for companies to map and engage with suppliers to monitor issues in the supply chain.

Peer-learning session 3

Strengthening collaboration with third parties to improve risk management

- Collaboration between peer companies and through multi-stakeholder initiatives helps identify priorities and coordinate actions to address shared risks or objectives.
- Collaboration with national and local governments may start with companies relaying the issues to them and raising awareness on the importance of taking action to address them.
- Collaboration with CSOs can also provide companies with much needed knowledge and support, notably on the ground particularly in countries and supply chains with high numbers of small holder farmers.

Peer-learning session 4

Addressing gaps between policies commitments and implementation actions (PART 2)

- The peer-learning session focused on two issues: deforestation and food security and nutrition.
- With regards to deforestation, the OECD-FAO Guidance provides clear recommendations on the approach companies should take to assess their impact on issues such as deforestation. Certification can have an important role as well, however it can have unintended consequences on certain groups (e.g. exclusion of smallholder farmers).
- Risks relating to food security can be particularly pertinent when agricultural commodities are produced for non-food uses (e.g. biofuels production). Companies and industry initiatives can support smallholder farmers in producing alternative crops and invest in research to ensuring risks are adequately addressed.

Peer-learning session 5

Understanding risks and good practice management approaches for informal, seasonal and family labour

- Companies can integrate labour practice risk considerations into their due diligence approach by developing policies and procedures based on international standards (e.g. ILO conventions), and implementing these throughout operations in the supply chain.
- Companies can take several individual actions within their own sphere of influence. However, companies are not able to solve all challenges alone and require close collaboration with peers and other stakeholders, such as governments, to achieve wider impact.

Peer-learning session 6

The role of Financial Institutions (FIs) in supporting responsible agricultural practices

- Due diligence plays a key role in managing ESG risks for investors, including potential financial, operational, reputation and legal risks.
- Key challenges facing FIs include:
 - availability of quality data to inform decision making
 - perceived incompatibility between the legal duties and mainstream ESG considerations
 - limited knowledge and capacity for assessing ESG risks within investment teams
 - confidentiality laws often prevent FIs from disclosing information about business relationships
- From businesses' perspective, there is a lack of or insufficient coordination across investors on reporting requirements.

Peer-learning session 7

Tools and techniques for quantifying social (including gender), environmental and economic impacts

- When measuring the impacts associated with their operations, companies should focus not only on short-term results (outputs), but also long-term change (outcomes and impacts). The use of well-defined direct and indirect key performance indicators (KPIs) is important.
- Companies can work with partners on the ground to collect data and information to feed back into internal decision-making and strategy development.
- It is also important for companies to measure impacts both on external stakeholders (e.g. suppliers, communities), as well on the business itself to ensure alignment.

Annex II. Available tools and resources to support due diligence

The following tools and resources were identified and shared during the seven peer-learning sessions organised during the pilot project:

Tools and resources for financial institutions supporting responsible agricultural practices

- OECD paper “[Responsible Business Conduct for Institutional Investors](#)” (March 2017) and its [fact sheet](#)
- IFC handbook “[Working with Smallholders : A Handbook for Firms Building Sustainable Supply Chains](#)”

Tools and resources to understand the risks and good management approaches for informal labour:

- OECD website “[Child Well-Being Portal](#)” highlighting “[Policy Brief on Child Well-being: How can we help stop child labour?](#)” (February 2019)
- FAO website “[Child Labour in Agriculture](#)” highlighting “[Handbook for monitoring and evaluation of child labour in agriculture](#)” (2015) and “[E-learning Centre: Child Labour](#)”
- ILO Help Desk website “[Tools and resources](#)”, “[Training and events](#)” among others listed in the attached takeaways
- Fair Labor Association resources “[Hazelnut project in Turkey](#)” and [other projects, case studies](#)

Tools and resources to measure and assess the social and environmental impact of a company's operations:

- [B Assessment](#) and [B Analytics](#): Tools to measure and manage companies' impact on workers, community and the environment and to easily track companies' performance across time, toward goals and against similar businesses. For investors and supply chain managers.
- Cerise [MetODD-SDG](#): An assessment tool that lets mission-driven businesses measure their contribution to the Sustainable Development Goals
- FAO: [Guide for measuring carbon and water footprints in the banana industry](#)
- FAO: [Measuring soil carbon stocks and stock changes in livestock production systems](#)
- [MIX Markets](#): The industry-leading data and intelligence platform for socially responsible investors focused on inclusive finance in emerging markets
- OECD: [Measuring distance to the SDG Targets](#)
- [IRIS+](#): All in one easy-to-navigate system for investors to translate their impact intentions into real impact results. Managed by Global Impact Investing Network (GIIN)
- [So Pact](#): Software and resources to easily measure and manage the social and environmental impact. For investors, grant makers, public agencies, non-profits and businesses
- LandAssess (www.landesa.org/what-we-do/landassess-tool). This helps companies measure and monitor actions to demonstrate compliance with best practice in agricultural land investment, and can be applied to companies' existing operations, new investment proposals, and extended supply chains.

Tools and resources to support companies in meeting SDGs through due diligence:

- [The OECD-FAO Guidance on Responsible Agricultural Supply Chains - how it can help achieve the Sustainable Development Goals](#): a communications tool developed by a working group during the OECD-FAO Agricultural pilot project that illustrates how a company can use its due diligence process to contribute to the SDGs.
- [Global Survey on Sustainability and the SDGs](#): launched by the government of Germany to assess SDG awareness

Pilot project on the implementation of the OECD-FAO Guidance for Responsible Agricultural Supply Chains

FINAL REPORT

To support the practical application of the OECD-FAO Guidance, in early 2018 the OECD and FAO launched an implementation pilot with over thirty companies and industry initiatives. This final report presents the key findings of the pilot. It summarises the lessons learned, good practices and challenges in implementing supply chain due diligence identified by pilot participants, and sets out recommendations and next steps for companies and policymakers to promote the uptake of the OECD-FAO Guidance recommendations in the agricultural sector.

mneguidelines.oecd.org/rbc-agriculture-supply-chains.htm

