# RESPONSIBLE BUSINESS CONDUCT

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

**BASELINE REPORT** 







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#### About the OECD-FAO Guidance

The OECD-FAO Guidance for Responsible Agricultural Supply Chains (the OECD-FAO Guidance) provides a common framework and globally applicable benchmark 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 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). The OECD-FAO Guidance targets domestic and international, small, medium and large enterprises across the entire agricultural value chain, from the farm to the consumer. To find out more about our work please visit: <a href="mailto:mneguidelines.oecd.org/rbc-agriculture-supply-chains.htm">mneguidelines.oecd.org/rbc-agriculture-supply-chains.htm</a>.

#### About this 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. The first stage of the pilot was a baseline survey to assess how companies and industry initiatives are implementing the OECD-FAO Guidance and other related international standards. This report presents the findings of the baseline assessment.

**Section I** provides background information on the OECD-FAO Guidance for Responsible Agricultural Supply Chains (hereafter OECD-FAO Guidance) and the pilot project for testing the practical application of the OECD-FAO Guidance. This section also includes details about the companies and industry initiatives participating in the pilot.

**Section II** describes the baseline analysis that was carried out. It includes information about the structure of the baseline survey completed by pilot participants and the methodology through which the data and information were analysed.

**Section III** presents the findings from the baseline analysis following the structure of the five-step due diligence framework presented in the OECD-FAO Guidance. This section includes the overarching findings and the detailed findings on how participants are implementing the recommendations of the OECD-FAO Guidance. It lays out the main challenges and opportunities companies may face when carrying out risk-based due diligence.

**Section IV** summarises the key recommendations stemming from the baseline analysis for both participants and the OECD and FAO.

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# Foreword

The OECD and FAO, with the support of a multi-stakeholder advisory group, developed the *OECD-FAO Guidance for Responsible Agricultural Supply Chains* (the OECD-FAO Guidance) to help enterprises observe international standards of responsible business conduct along agricultural supply chains.

Adopted in 2016, the OECD-FAO Guidance provides a common framework and globally applicable benchmark for the application of responsible business practices in agricultural supply chains. It is based on and incorporates long-standing standards for responsible business conduct (RBC), such as: 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). The FAO's umbrella programme 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.

To support the practical application of the OECD-FAO Guidance, in early 2018 the OECD and FAO launched an implementation pilot. Over thirty companies and industry initiatives volunteered their participation including global consumer brands, retailers, producers, financial enterprises investing in land and agricultural projects, input suppliers, as well as industry programmes, roundtables, associations and cooperatives. Most participant companies in the pilot are multinational enterprises with a global reach and participants include entities active in both food and non-food commodity chains.

The first stage of the pilot was a baseline survey to assess how companies and industry initiatives are implementing the OECD-FAO Guidance and other related international standards. The survey also aimed to identify potential gaps and opportunities for improvement in the implementation of due diligence in agricultural supply chains. This report presents the findings of the baseline assessment.

This baseline report was prepared by Kumi Consulting, consultants to the OECD and FAO Secretariats. All data provided by participating organisations to develop this report will be kept confidential by the OECD and FAO Secretariats and Kumi Consulting. Data is not attributed to any of the respondents and is presented in aggregate form.

# **Table of Contents**

Foreword	3
Executive summary	5
I. Background	9
The OECD-FAO Guidance for Responsible Agricultural Supply Chains	9
The pilot project	10
Project approach	10
Pilot participants	11
II. The baseline analysis	15
Structure of the baseline survey	15
Methodology	15
Data limitations	16
III. Baseline findings	17
Step 1. Establish strong enterprise management systems for responsible supply chains	17
Step 2. Identify, assess and prioritise risks in the supply chain	27
Step 3. Design and implement a strategy to respond to identified risks in the supply chain	36
Step 4. Verify supply chain due diligence	40
Step 5. Report on supply chain due diligence	43
IV. Conclusions and recommendations	45
Annex I. Baseline survey for companies	48
Annex II. Baseline survey for industry initiatives	64
Definitions	77
Acronyms and abbreviations	78

# **Executive summary**

# Strong commitments to responsible business conduct (RBC)

Across all participating organisations there was a strong organisational awareness of the importance of RBC and many of the thematic risks and recommended approaches to supply chain due diligence that are addressed by the OECD-FAO Guidance. Many companies in the agricultural sector have developed a sophisticated understanding of how issues of sustainable development are relevant to their business and have long-standing programmes to address specific risks that they have identified as priorities.

This is reflected in the steps companies have taken to commit to RBC at a corporate level, through policy commitments and the establishment of management systems and processes to implement these commitments. All participating companies have made policy commitments to RBC and most have made their policies publicly available. Many participants reported a high level of senior management engagement with the implementation of their commitments to RBC and sustainable development, often to Board or Executive Committee level.

Nonetheless, there were some differences between the scope of participants' corporate commitments to RBC and the recommendations set out in the OECD-FAO Guidance for policy-level corporate commitments. Areas where these differences were notable relate to consultation with communities affected by business activities, and engagement with holders of tenure or access rights over natural resources.

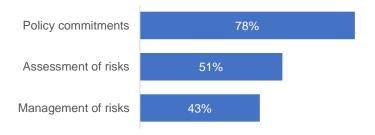
# Multifaceted supply chains can create challenges in implementing RBC standards

Many participating 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. This has impacted the approaches taken by companies to implement RBC standards and this baseline survey has identified examples of good practices and some common challenges.

Some participant companies that were either producers or had direct commercial relationships with producers have integrated the management of RBC risks and processes into their day-to-day interactions between field-based staff (such as agronomists or buyers) and producers. An example would be field technicians who visit smallholder farmers to advise on crop production and assess the quality of a farmer's production also assessing whether human rights abuses were occurring at the farm.

On the other hand, where companies lack the direct commercial relationship with producers, many have not identified and engaged with suppliers further down the supply chain than immediate (Tier 1) suppliers or with only selected priority suppliers beyond Tier 1. This directly impacts the implementation of due diligence and responsible sourcing practices in agricultural supply chains. Figure 1 below illustrates the extent to which, on average, pilot companies have addressed the OECD-FAO Guidance recommendations for policy commitments, risk assessment and risk management activities. Whilst many companies are committed, at a policy level, to address issues covered under the OECD-FAO Guidance, fewer companies are translating these policy commitments into practical risk assessment and risk mitigation actions.

Figure 1. Extent to which participant companies address the cross-cutting standards and specific risk areas covered under the OECD-FAO Guidance in their policies, risk assessment and risk management activities (on average)



# A heavy reliance on third parties to identify and manage supply chain risks

A key tenet of the OECD-FAO Guidance is that companies retain individual responsibility for their due diligence. The findings of this baseline survey suggest this is a concept that industry stakeholders could further improve.

Most participant companies use industry-wide schemes, such as certification schemes, providers of risk information or supplier monitoring platforms to identify risks or provide confidence that potential risks have been mitigated. This is understandable given the complexity of many companies' supply chains in the sector and how this impacts companies' relative leverage in the supply chain. It is also foreseen under the OECD-FAO Guidance.<sup>1</sup> However, in many cases, companies rely on third party initiatives without having access to relevant information on supply chain risks or risk mitigation actions. Challenges include:

- 'Red flag' risks being determined by the objectives and scope of an industry initiative, as opposed
  to the specific circumstances of a producer or supplier's operations.
- Risk-related information being limited to whether a producer or supplier has passed or failed an
  assessment or certification, as opposed to why they may have failed or what risks were observed
  that require monitoring.
- Limited verification (or attempts by companies to verify) if the third-party initiative is resulting in effective due diligence and management of risks relevant to the company's activities.

There is scope to strengthen how initiatives such as certification schemes provide risk-related information to their members and how companies understand the delineation of their responsibilities and accountabilities for due diligence and risk management under the OECD-FAO Guidance.

# **Strengthening reporting and communications**

Many participant companies have sophisticated reporting and communications processes and have been reporting on sustainability performance for many years. However, a significant number of companies provide limited information about their supply chain due diligence activities. Those that do report often focus their reporting on metrics such as the number of suppliers certified against a certain standard. These are important elements of reporting but insufficient to demonstrate that relevant risks have been identified

<sup>&</sup>lt;sup>1</sup> Step 2, Section 2.2, OECD-FAO Guidance for Responsible Agricultural Supply Chains

and appropriately managed. The OECD-FAO Guidance recommends that companies report on actual and potential adverse impacts identified in their supply chains, what steps are being taken to prevent and mitigate those risks and how effective the risk mitigation steps are.<sup>2</sup>

# **Recommendations for improvement priorities**

The baseline analysis highlights the significant 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 gaps between OECD-FAO Guidance recommendations and current practices and strengthen the implementation of RBC principles in agricultural supply chains.

Companies should take steps to assess whether corporate commitments are adequately reflected in the procedures and guidelines adopted at an operational level. Where there are significant differences, companies should work with relevant teams responsible for implementing due diligence processes (including procurement) to develop corresponding risk assessment and risk management measures.

Companies should also strengthen their approach to disclosing timely and accurate information about risks associated with their operations and establish ongoing engagement strategies with potentially affected stakeholders. In addition, engaging with affected stakeholders on an ongoing basis can also enable companies to monitor the effectiveness of risk identification and risk management measures.

Many companies in the agricultural sector have highly complex supply chains. The OECD-FAO Guidance recommends that companies should work towards a due diligence process that allows them to gain full visibility within their supply chains. Good practices promoted by the OECD, the FAO and other stakeholders, such as governments and civil society organisations, provide an important reference for companies aiming to strengthen supply chain mapping and traceability. However, all parties could benefit from participating in more constructive conversations around what can realistically be achieved and how existing traceability and chain of custody approaches can be strengthened. This may include leveraging contractual controls to enhance visibility over how a company's suppliers pass the company's responsible sourcing standards down the supply chain or focusing increased due diligence efforts on 'choke points' in the supply chain where a relatively small number of actors may control a significant proportion of a supply chain.

Despite the challenges identified in this baseline survey, collaboration with industry initiatives can bring unique value to companies both in the identification and assessment of risks, the verification of risk mitigation and the communication of relevant information along the supply chain. However, companies should ensure they maintain individual responsibility for overseeing the due diligence process. Without negating this responsibility, there are opportunities for companies to further leverage the knowledge of third parties to obtain more detailed information about types of risks identified in their supply chains and how these are being addressed, beyond whether a supplier 'passes' or 'fails' an initiative's assessment or audit. Improved collaboration between companies and industry initiatives could also strengthen due diligence reporting to include more timely and detailed information to stakeholders on how risks in agricultural supply chains are identified and managed.

<sup>&</sup>lt;sup>2</sup> Step 5, OECD-FAO Guidance for Responsible Agricultural Supply Chains

# Next steps for the pilot project

Following on from this baseline survey, the OECD and FAO, in collaboration with other experts, will run a series of peer learning sessions with pilot participants to explore the key challenges that participants have identified in identifying and addressing RBC risks in agricultural supply chains.

A progress survey will be undertaken in spring 2019 to evaluate progress over the course of pilot project. The results of this second survey and the lessons learned from the pilot will be published in a final report in mid to late 2019.

# I. Background

# The OECD-FAO Guidance for Responsible Agricultural Supply Chains

The OECD and FAO, with the support of a multi-stakeholder advisory group, developed the *OECD-FAO Guidance for Responsible Agricultural Supply Chains* (the OECD-FAO Guidance) to help enterprises observe international standards of responsible business conduct (RBC) along agricultural supply chains. The OECD-FAO Guidance, which was launched in 2016, is intended to provide a common framework and globally applicable benchmark for the implementation of responsible business practices in agricultural supply chains.

The guidance is based on and incorporates various long-standing standards for RBC, such as 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). The FAO has also launched a global Umbrella Programme to support the application of the CFS-RAI and OECD-FAO Guidance by enhancing awareness and capacities for responsible investments in agriculture and food systems.

The OECD-FAO Guidance has received widespread government endorsement, including by the G7 Agriculture Ministers. It provides a due diligence and risk management framework to help companies identify, prevent and mitigate adverse environmental and social impacts, enhance responsible investments, and manage potential reputational, operational and financial risks. The risk-based approach presented in the OECD-FAO Guidance recommends that companies adopt a due diligence process that is based on the type and level of risk of adverse impacts and determined by the severity of actual and potential adverse impacts.

The OECD-FAO Guidance covers a wide range of RBC risk areas relevant to agricultural supply chains. These include human rights, labour rights, health and safety, food security and nutrition, tenure rights over and access to natural resources, animal welfare, environmental protection and sustainable use of natural resources, governance, and technology and innovation.

It is structured around the following sections:

- A model enterprise policy providing specific recommendations on the major standards for responsible business conduct that enterprises should observe to build responsible agricultural supply chains.
- 2. A five-step framework for risk-based due diligence comprised of the following steps:
  - Step 1: Establish strong enterprise management systems for responsible supply chains
  - Step 2: Identify, assess and prioritise risks in the supply chain
  - Step 3: Design and implement a strategy to respond to identified risks
  - Step 4: Verify supply chain due diligence
  - Step 5: Report on supply chain due diligence

 Annexes that set out recommended measures for risk mitigation and prevention along agricultural supply chains and guidance for engaging with indigenous peoples to obtain their free prior and informed consent (FPIC).

# The pilot project

To support the implementation of the OECD-FAO Guidance, in early 2018 the OECD and FAO launched an implementation pilot with volunteer companies and industry initiatives. The purpose of the pilot is 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 pilot project is not an evaluation or audit of participants' existing due diligence practices. Rather, it aims to support participants in identifying potential gaps and opportunities to strengthen their approach to risk-based due diligence and identify good practices for implementing the OECD-FAO Guidance and related international standards for responsible business conduct in agricultural supply chains.

Companies and industry initiatives participating in the pilot project have the opportunity to share their experiences and leadership in implementing the OECD-FAO Guidance recommendations, providing input that will inform policy-making and definitions of good industry practice at the OECD and FAO. Participants can also better address uncertainty related to potential upcoming regulation for the agricultural sector.

# **Project approach**

The pilot project was officially launched in February 2018 and will run until mid/end of 2019. The first component of the pilot project was the completion of a baseline survey by participants to assess where their existing practices stand against the recommendations of the OECD-FAO Guidance. Participants were given the option to select the scope of their participation in the pilot based on their interests and priorities. They could elect to participate at an enterprise-wide level (i.e. considering application of the OECD-FAO Guidance to all products and services), or focus on specific issues, risks, products and/or regions. The anonymized and aggregated analysis of the information gathered through the baseline survey is presented in this report.

Throughout the pilot project, participants will have the opportunity to take steps to address any gaps identified through the baseline analysis and identify opportunities to implement the recommendations of the OECD-FAO Guidance. Participants may also engage in a series of peer-learning sessions on key challenges identified through this baseline survey and through consultation within the participant group. During the peer-learning sessions participants will have the opportunity to engage with subject-matter experts, discuss successes and challenges with peers, share learnings, test their approach to addressing critical social and environmental impacts with others and incorporate feedback to strengthen their management systems, approaches and decisions.

A progress survey to be launched in the spring of 2019 will evaluate participants' progress towards the implementation of the OECD-FAO Guidance recommendations, develop further areas of analysis building on this baseline survey and highlight lessons learned from this pilot project.

The findings and recommendations drawn from the baseline and progress analysis will be presented and discussed during multi-stakeholder forums led jointly by the OECD and the FAO. The first of these forums took place on 20 June 2018 during the OECD-FAO Roundtable on Responsible Agricultural Supply Chains within the OECD's 2018 Global Forum on Responsible Business Conduct. High-level findings from the baseline survey were shared with stakeholders, including pilot participants, during the roundtable. Participants were provided with the opportunity to discuss their experiences and engage with other industry, civil society and government stakeholders on emerging good practices for implementing the recommendations of the OECD-FAO Guidance.

The pilot will conclude with the publication of a progress report at the end of the pilot project in mid to late 2019.

# **Pilot participants**

Twenty-seven companies and seven industry initiatives volunteered their participation in the pilot project. 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 that volunteered to participate were multinational enterprises. Below is a list of participant companies and industry initiatives that agreed to disclose their names in the baseline report.

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

Figure 2 illustrates the position of participant companies along the supply chain. Companies operating upstream are either on-farm enterprises, farmers' organisation and cooperatives or companies that invest in land have direct operational control over the production of the commodity(s) 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. There are also several financial enterprises investing in land and agriculture projects participating in the pilot.

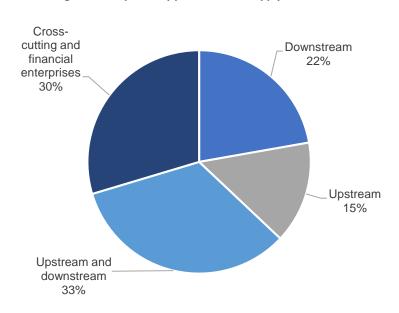
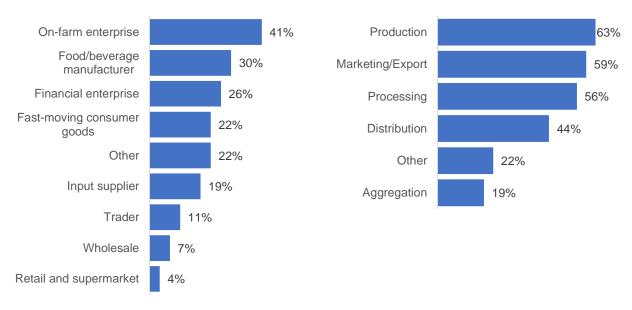


Figure 2. Companies by position in the supply chain

Figures 3 and 4 provide a more detailed breakdown of companies by their position in the supply chain and the operational activities they undertake.

Figure 3. Participants' position in the supply chain

Figure 4. Operational activities undertaken by participants



Note: 'Financial enterprise' includes retail, wholesale, private and commercial banks, asset management companies, financial advisory firms, international financial institutions and impact investors. 'Other' includes cooperatives and food ingredients manufacturers, among others.

The majority of participant companies are headquartered in Europe, however the regions in which companies operate range from Europe to Africa, Asia, Middle East and North Africa, Australasia and the Americas (see Figures 5 and 6). Some companies operate in specific regions, others operate globally.

Figure 5. Participants by HQ location

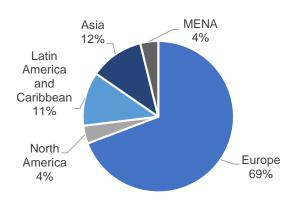
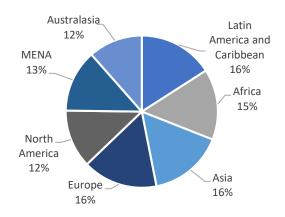
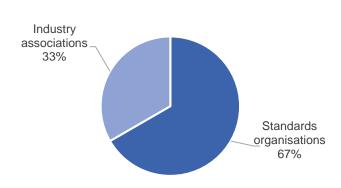


Figure 6. Participants by regions of operation



Amongst the seven participating industry initiatives, there are four standards organisations participating in the pilot.<sup>3</sup> Other industry initiatives participating include organisations (industry associations) that have developed or are in the process of developing frameworks to support member companies in strengthening their responsible sourcing practices. Figure 7 shows the distribution of industry initiatives between standards organisations and industry associations.





<sup>&</sup>lt;sup>3</sup> For the purposes of this report, the term 'standards organisations' refers to multi-stakeholder associations that set standards for companies operating in the agricultural sector.

# II. The baseline analysis

# Structure of the baseline survey

The aim of the baseline survey was to assess how companies and industry initiatives are implementing the recommendations set out in the OECD-FAO Guidance and support the identification of potential gaps and opportunities for improvement in participants' approach to supply chain due diligence. Two separate surveys were developed and tailored to the two groups of participants in the pilot: companies and industry initiatives.

For both categories of participants, the baseline survey comprised of three sections:

- General section: this section summarised general information about each participant, such as name, type of company or industry initiative and activities managed, as well as the selected scope of participation (i.e. enterprise level, by issue, by region or by commodity).
- Core section: 30 multiple-choice questions structured around the five-step due diligence
  framework of the OECD-FAO Guidance and integrating the recommendations provided with
  regards to the model enterprise policy and the Annexes contained in the OECD-FAO Guidance. This
  section also gave respondents the option to provide comments and descriptive details to clarify or
  support the answer provided to each multiple-choice question. Participants answered this section
  based solely on the scope selected.
- Optional section: this section gathered additional information regarding existing or upcoming
  projects, case studies and examples related to participants' practical implementation of due
  diligence practices.

The data gathered was both quantitative and qualitative. Quantitative information provided by participants was used to analyse key trends, issue areas and present data on participants' approach to supply chain due diligence. Qualitative answers have been included to provide a descriptive overview of how companies are carrying out due diligence within their supply chains as well as additional details and examples of existing practices and approaches adopted by participants.

The information provided by participants is held in confidence by Kumi Consulting and the FAO and OECD Secretariats, unless otherwise indicated in this report and as agreed upon with participants.

# Methodology

The analysis and findings presented in this report draw from the results of the baseline survey and follow-up conversations held with individual participants. 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 of the 30 questions in the baseline survey 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'.

## **Data limitations**

Whilst the baseline survey was developed with the aim to capture as much relevant information as possible, there are nevertheless limitations on the way in which the information captured could be analysed and presented.

Firstly, 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 value chains. Whilst this allows for the analysis to capture and present valuable information regarding companies across different sectors and value chains, it inevitably limits the comparability of data that would be possible if multiple companies of similar size (e.g. small and medium size enterprises) or operating in similar sectors (e.g. consumer goods manufacturers) or at the same stages of the supply chain (e.g. producers) were participating.

Secondly, with 27 companies and 7 industry initiatives participating in the pilot project, the sample size is small. The aim of the pilot project is to engage a large enough, but not too high, number of participants to ensure that ideas, good practices and experiences can be discussed in a 'safe' and constructive environment, and that a peer network can be built over the pilot project. One of the limitations of the relatively small sample size, particularly when the diversity of the participant group is taken into account, is that quantitative data is not always statistically significant.

Lastly, the baseline analysis allowed for participants to select the scope of their responses. This was to provide companies with the opportunity to focus on certain areas that have been identified as a priority for their businesses or that companies wish to explore in more detail than others. Several participant companies selected a specific issue, commodity or region to focus on when responding to the survey. For many, this has been a useful exercise that allowed them to identify specific challenges and opportunities within a specific topic, commodity or region. Whilst the analysis for this report accounts for the limited scope selected by these companies, it may not always provide a complete picture of how companies are implementing the specific recommendations provided by the OECD-FAO Guidance as companies have only reported within their selected scope.

# III. Baseline findings

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

#### **Key findings**

- All participating companies have made policy commitments to responsible business conduct (RBC) and most have made their policies publicly available.
- Most (82%) participating companies reported a high level of senior management support for their RBC policy commitments.
- There is variability in the scope of companies' policy commitments and some gaps with
  the recommendations for policy commitments set out in the OECD-FAO Guidance, in
  particular relating to companies' commitments to assess the potential and actual impacts
  of company operations and engage and consult with affected stakeholders.
- Companies sourcing or producing commodities known to be commonly associated with specific risks do not always have formal policy commitments to address these risks.
- There is scope for improvement in the verification of whether suppliers and business partners comply with policy commitments.

# Adoption of a policy for responsible business conduct

The OECD-FAO Guidance considers the adoption of a policy for responsible agricultural supply chains the first step in the risk-based due-diligence process. The role of the policy is to set out the commitments a company makes with regards to the identification, assessment and management of risks associated with its operations and investments and to guide a company's internal processes and procedures for supply chain due diligence.

All participating companies reported that they have adopted a policy or policies for responsible business conduct (RBC). These ranged from a consolidated company-wide policy to a set of stand-alone policies, each covering areas relevant to business operations (e.g. Code of Conduct, Code of Ethics), sustainability topics (e.g. environmental sustainability, human rights), or specific commodities (e.g. palm oil, cocoa, sugar). As Figure 8 shows, most companies (78%) have made their policies publicly available.

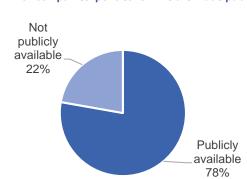


Figure 8. Extent to which companies' policies for RBC are made publicly available

Note: Companies that have reported to have publicly available policies may also have some internal policies that are communicated to selected stakeholders. This includes, for example, supplier expectations and code of conduct.

A small number (7%) of participant companies that do not have publicly available policies made references to the existence of their policies and commitments in other public forums, for example on the company website. These companies instead reported that they provided general information about their approach to environmental and social practices, such as participation in an industry initiative or membership or commitment to international certification schemes.

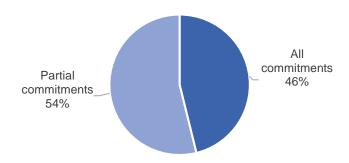
#### **Policy commitments**

Figure 9 shows that over 40% of companies currently make policy commitments in line with *all* six the crosscutting standards that OECD-FAO Guidance recommends for inclusion within an RBC policy plus a commitment to comply with all applicable national laws. Nonetheless, more than half of companies have only partially addressed the recommendations for cross-cutting commitments that are set out in the OECD-FAO Guidance.

It should also be noted that companies that indicated that they do not have a formal and public policy in place, they do have internal commitments that align with those recommended by the OECD-FAO Guidance and other international standards.

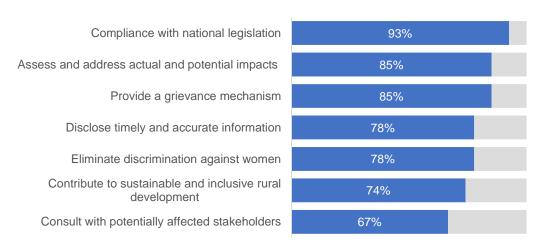
<sup>&</sup>lt;sup>4</sup> The cross-cutting RBC standards recommended by the OECD-FAO Guidance are: i) Impact assessment, ii) Disclosure, iii) Consultations, iv) Benefit sharing, v) Grievance mechanisms, and vi) Gender. The OECD-FAO Guidance also recommends a policy commitment to comply with all applicable national laws.

Figure 9. Extent to which companies adopted all the cross-cutting commitments of the OECD-FAO model enterprise policy (including a commitment to comply with applicable national laws)



The extent to which companies' policies addressed applicable cross-cutting standards and compliance with national legislation is illustrated by Figure 10. Nearly all companies committed to comply with national legislation and most also committed to assess and address the potential adverse impacts of their business operations.

Figure 10. Companies' policy commitments to comply with national law and cross-cutting standards within the model enterprise policy



The most common gap between companies' policy commitments and the cross-cutting policy standards recommended for inclusion by the OECD-FAO Guidance was in relation to companies' commitments to consult with stakeholders affected by their business activities. Approximately a third of companies indicated they do not have a commitment in their policies to undertake this activity.

It is worth noting that companies that indicated they do not commit to assessing and addressing actual and potential impacts of their operations indicated they have processes in place for assessing and managing risks identified in their supply chain (the risk assessment and risk management process is explored in further detail in Step 2 and Step 3). This suggests that gaps in companies' official policy commitments may not always reflect a lack of commitment in practice.

Companies also reported a commitment to international standards and frameworks recognised and integrated in the OECD-FAO Guidance, such as the UN Guiding Principles on Business and Human Rights, the UN Global Compact, CFS-RAI Principles, and the OECD Guidelines for Multinational Enterprises.

Some also stated that they commit to certifications or industry schemes, such as ISO certification standards for health, safety, and environment, the Round Table on Responsible Soy (RTRS), Roundtable on Responsible Palm Oil (RSPO), Bonsucro, Fairtrade, and the Global Good Agricultural Practices (GAP).

The establishment of a grievance mechanism is recognised in the OECD-FAO Guidance as an integral component of a company's management system for RBC.<sup>5</sup> It is recommended that companies commit at a corporate policy-level to providing access to appropriate and effective operational-level grievance mechanisms. Grievance mechanisms can also support effective engagement and consultation with stakeholders; Figure 10 shows that most companies (85%) have a policy commitment to provide access to a grievance mechanism to affected stakeholders.

However, variances emerge in the implementation of this particular policy commitment. As illustrated in Figure 11, over half of participant 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).

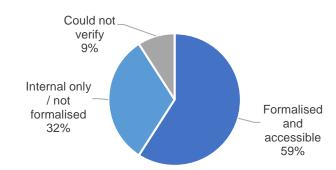


Figure 11. Establishment of an operational-level grievance mechanism among participant companies

Note: The availability of mechanisms for submitting a grievance was verified by conducting an internet search on companies' websites and by reviewing publicly available information and/or information provided by survey respondents.

With regards to specific environmental and social issues, the majority of those addressed in the OECD-FAO Guidance are also referred to in companies' policies. This can be seen in Figure 12 below, which shows that all companies addressed environmental issues in their policies and over 95% addressed labour rights and health and safety.

<sup>&</sup>lt;sup>5</sup> Step 1, Section 1.5, OECD-FAO Guidance for Responsible Agricultural Supply Chains

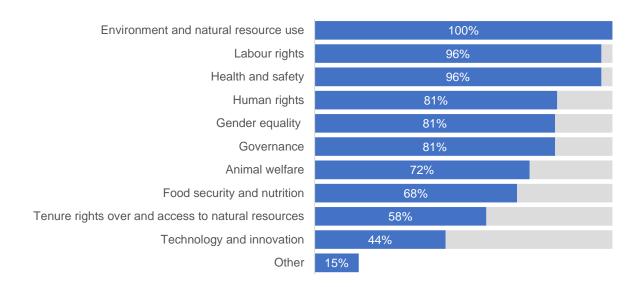


Figure 12. Companies' policy commitments to specific environmental and social issues

Note: results take into account the scope selected by certain companies that have focused their responses on a specific commodity or issue. 'Other' includes, for example, sector specific standards.

The most significant gap between company policy content and the OECD-FAO Guidance recommendations on specific risk issues was in relation to tenure rights over and access to natural resources, and commitments to supporting appropriate technology and innovation. Around a third of companies did not address food security and nutrition in their corporate policies.

# Policy commitments for selected commodities

Figure 13 provides an analysis of the policy commitments made by companies that produce or source selected agricultural commodities. This analysis shows that many of the risk areas covered by the OECD-FAO Guidance are addressed within companies' policy commitments.

Nevertheless, some issues that are recognised concerns around such commodities are not always addressed in the policies of companies for which the sourcing of such commodities represents a significant proportion of their primary supply chain.

Figure 13 focuses on the formal policy commitments companies have made with regards to both cross-cutting and specific environmental and social risks along selected core commodities. It does not include industry initiatives. The responses in this table include answers from a selected group of pilot participants, the majority of which are downstream or FMCG companies. The data was developed by breaking down the analysis by selected commodities that were identified as core commodities by participant companies (defined by companies themselves either in follow-up conversations as part of the baseline analysis or by reviewing publicly available information). This does not provide a complete list of all commodities in participant companies' supply chains. The number of companies analysed for each commodity is as follows:

Sugar: 7 companiesSoy: 5 companiesPalm oil: 8 companiesTobacco: 3 companies

Figure 13. Issue areas referenced in the policy commitments of companies sourcing (selected) core commodities

Issue (from the OECD-FAO Guidance)	Sugar	Soy	Cocoa	Palm oil	Tobacco
Compliance with national legislation	•	•	•	•	•
Assess and address actual and potential impacts			•	•	
Provide a grievance mechanism	•		•	•	•
Disclose timely and accurate information		•	0	0	•
Eliminate discrimination against women			•		•
Contribute to sustainable and inclusive rural development	•	•	•	•	•
Consult with potentially affected communities	•	•	•	•	•
Human rights	•		•	•	•
Labour rights		•	•	•	•
Health and safety	•	•	•	•	•
Food security and nutrition	•	•	•	•	
Tenure rights over and access to natural resources			0	0	
Environment and natural resources			•	•	•
Governance		•	•	•	•
Technology and innovation	0		0	0	
Gender equality	•	•	•	•	•

With regards to these five selected commodities, the biggest gaps were found in relation to:

i. The disclosure of timely and accurate information related to risks and impacts of company operations: the inclusion of policy commitments that address the disclosure of information to stakeholders is addressed by less than a third of companies operating along cocoa and palm oil value chains. Whilst companies operating in sugar and soy supply chains show a stronger commitment to the disclosure of information, this is true for less than half of the companies.

- ii. **Tenure rights over and access to natural resources:** this topic is more addressed in policies for companies operating along the sugar, soy and tobacco supply chains than for those in palm oil and cocoa, however there are gaps across all five commodities.
- iii. **Technology and innovation**: in line with the findings presented in Figure 13 above, only a small percentage (35%) of companies indicated they reference technology and innovation in their policies.

When analysing the responses provided by a selected group of industry initiatives providing certification standards to companies operating in some of the above core commodity supply chains, only one initiative reported that the inclusion of a policy-level commitment to disclosure of information was a requirement for certification. Equally, only one initiative stated that the commitment to provide a grievance mechanism for all stakeholders was a requirement for certification. The requirement for companies to make commitments relating to tenure rights over and access to natural resources is stronger, though only two standards organisations include it as a specific policy requirement.

#### Challenges and opportunities identified:

- Whilst nearly all companies reported a commitment to comply with applicable national laws, less than half of companies participating in the pilot indicated a commitment to all the cross-cutting standards recommended in the OECD-FAO Guidance (see Figure 9). These standards have a key role in guiding the process through which companies carry out due diligence in their supply chains. When company policies do not contain key commitments to RBC practices, the extent to which companies may be able to effectively develop and communicate their processes for carrying out due diligence in their supply chains may be constrained. The adoption of explicit commitments can also allow companies to effectively send a signal to all stakeholders that they are committed to managing risks associated with their operations.
- Despite an overall strong commitment to RBC practices by companies that source or produce selected
  commodities commonly, policy commitments to address key risks are mixed. This raises questions
  around how consistently certain risks are being identified and managed by companies operating in the
  value chains for such commodities.
- Certification schemes may support companies in addressing key issues that characterise the production
  and commercialisation of commodities. However, companies need to ensure that the requirements set
  by such standards are sufficiently stringent or comprehensive to be certain that relevant risks and
  impacts in their supply chain are being adequately addressed.
- Ensuring that adequate engagement and consultation with undertaken with stakeholders affected by a company's operations can support the identification of risks and impacts when they occur and facilitates communication with potentially impacted communities.<sup>6</sup> Not committing to such engagement and consultation across all operations and investments can undermine a company's ability to be transparent and accountable to its stakeholders. In some instances, failure to identify and engage with stakeholders on potential impacts can directly impact a company's social licence to operate with significant commercial repercussions.
- An important aspect of the ongoing stakeholder engagement and risk assessment and management process is a commitment to provide a grievance mechanism for stakeholders to raise grievances and

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<sup>&</sup>lt;sup>6</sup> Annex A, Section 1.2, <u>OECD-FAO Guidance for Responsible Agricultural Supply Chains</u>

concerns. Companies that are several tiers removed from production or on-the-ground operations, such as FMCG brands and investors or companies that rely on complex upstream structures, for example when sourcing from small-holder farmers or third-party suppliers, recognise that the establishment of a company-level grievance mechanism may not always effectively capture issues being raised by stakeholders on the ground. Some companies indicated that they have coupled their internal processes with other forms of monitoring, such as engaging with third-parties upstream who can more promptly provide information if concerns are raised (see Box 1).

#### Box 1: Engaging third-parties to monitor grievances

Most companies have established online complaint mechanisms that are accessible to anyone with an internet connection. However, this may not always be the most efficient or preferred channel by those looking to raise a complaint. Some companies reported that certain factors, such as gender, may play a role in whether affected stakeholders raise grievances through the channels provided by companies. Many have recognised the value of adopting additional measures to strengthen their ability to monitor and identify issues raised by potentially affected stakeholders. One FMCG brand for example, stated that it recognises the challenges and limitations of relying solely on one standardised redress channel. The company is therefore piloting more tailored approaches to monitoring issues on the ground.

Engaging with third parties to monitor potential risks and impacts may include establishing third-party managed whistleblowing and hotline services, engaging with civil society organisations reporting on potential environmental and social violations, as well as liaising with labour unions and national and local governments for local monitoring.

Another participant company indicated that for labour issues it has adopted measures required by the Fair Labour Association, of which the company is a member. The approach adopted varies depending on the country of operation, but it consists primarily of a local phone number that workers may call anonymously.

For its operations in Brazil, another FMCG company established a programme aimed at assisting farmers and workers in raising and addressing issues such as child labour, harassment and pesticide poisoning. The programme operates in partnership with local health authorities and workers' unions to monitor concerns raised around such risks.

# Internal management structure

The baseline analysis provides information on the extent to which companies perceive their management systems to be effective in supporting supply chain due diligence.

Responses provided by companies are overall positive, with the majority indicating that they perceive strong senior management involvement in implementing and ensuring compliance with the policy and designated staff with the adequate skills and experience to conduct due diligence.

The following were identified by companies as areas for improvement:

- The availability of **financial resources to support due diligence activities**: some companies indicated that the budget allocated for conducting due diligence may not always be sufficient to address the complexities of the company's supply chain. Budgets may also vary year to year, indicating that ensuring consistency in the activities carried out can be challenging.
- Training and incentives for employees and suppliers to comply with policy requirements: some
  companies reported mandatory training for all employees relating to their policies. This included
  induction training as well as refresher training carried out at regular intervals or when internal policies

are updated. However, some companies indicated that training in relation to RBC practices may not always be prioritised.

Clear communication and reporting structure at relevant company levels: whilst most companies
indicated that policies are clearly communicated to employees, some indicated that the extent to which
all policies related to RBC are communicated both internally and externally may vary. Others indicated
that there is good communication within the company, but communication to suppliers and business
partners could be improved.

#### Systems of controls and transparency and engagement with business partners

The OECD-FAO Guidance recommends that companies integrate RBC policy requirements into contracts with business partners and establish measures to verify and monitor policy implementation (e.g. traceability systems, internal records and documentation of due diligence processes, etc.). The majority (89%) of companies reported that they integrate contractual expectations in commercial agreements with suppliers. Figure 14 shows that nearly all (93%) reported that they have processes to verify whether their own business operations are implementing their RBC policy commitments. However, fewer companies have adopted similar processes to verify compliance among suppliers and business partners.

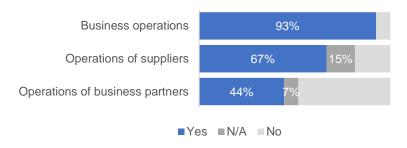


Figure 14. Extent to which companies verify policy compliance across their business activities

#### Challenges and opportunities identified

- Ensuring that RBC policy commitments are approved and actively supported by senior management and
  other internal stakeholders within the company is essential. Support within the company to conduct
  supply chain due diligence may come in different forms, including financial, technical and recognition.
  Equipping relevant staff with appropriate tools and resources can facilitate the achievement of the
  objectives set out in the company's policy.
- Limited or unclear communication of the company's RBC policy to all employees, suppliers and business
  partners can have an impact on a company's ability to leverage its position to identify and manage risks
  in its supply chain. The integration of contractual expectations can be a valuable means for exercising
  such leverage. Nevertheless, this should come supported by a set of processes that allow the company
  to verify compliance with such commitments and ensure that expectations are being met. Regular,

<sup>&</sup>lt;sup>7</sup> Step 1, Sections 1.3 and 1.4, <u>OECD-FAO Guidance for Responsible Agricultural Supply Chains</u>

independent and transparent reviews of compliance with the policy can help companies obtain, review and track information about potential issues in their supply chains.

• The extent to which companies can leverage their position to verify suppliers' compliance with policy expectations strongly depends on the nature and tenure of the business relationship. The agricultural sector is particularly sensitive to the cyclicality of commercial relationships. Certain commodities may be produced only at certain times of the year or in certain regions. The same farmers may rotate crops and supply multiple types of products. However, they may also be affected by external shocks, such as natural disasters, climate change impacts, market shifts affecting commodity prices or a fall in demand for certain products. Buyers may also decide to revisit their purchasing decisions at regular intervals. All such factors may play a role in whether companies can leverage their relationships with suppliers to ensure policy expectations are met along the supply chain.

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

#### **Key findings**

- Supply chain mapping beyond Tier 1 suppliers remains a challenge for most companies in the pilot – with leading companies mapping Tier 1, plus risk -prioritised suppliers, commodities or geographies. Nevertheless, most companies in the pilot have mapped suppliers beyond Tier 1 for environmental and social risks.
- All companies have some sort of risk assessment process in place, though more than half
  indicated their approach is driven by how third-party service providers or industry
  schemes (including certification standards) define and identify risks.
- There are substantial gaps between companies' policy commitments and the measures they have taken to assess and manage risks associated with their supply chains in practice.

#### Supply chain mapping

Supply chain mapping represents a key step that enables companies to establish where and from whom information should be gathered to feed into the due diligence process. As set out in the OECD-FAO Guidance, mapping the supply chain entails gathering relevant information on the various actors involved, including suppliers and business partners, from name and location, to their process for assessing and managing risks within their operations and, where applicable, their supply chain. As per the OECD-FAO Guidance, companies should systematically work towards a complete picture of their business relationships.<sup>8</sup>

Figure 15 shows the extent to which companies have mapped their supply chains. Whilst the largest group of companies (22%) have mapped their supply chains beyond Tier 1, the chart shows that significant gaps remain and that supply chain mapping is often focused on specific suppliers or commodities that a company deems to represent an elevated risk.

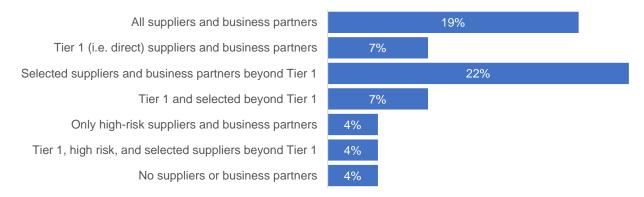


Figure 15. Extent to which companies map their supply chain

 $Note: Figure\ 15\ does\ not\ include\ financial\ enterprises\ given\ their\ particular\ cross-cutting\ position\ in\ the\ supply\ chain$ 

<sup>&</sup>lt;sup>8</sup> Step 2, Section 2.1, OECD-FAO Guidance for Responsible Agricultural Supply Chains

## Challenges and opportunities identified:

- Pilot companies reported that gathering information on their full supply chain is one of the biggest
  challenges they face. Whilst the OECD-FAO Guidance recommends that all companies, regardless of
  their position or role in the supply chain, should systematically work towards a complete picture of their
  business relationships, strategies and opportunities for facilitating this process could be explored.
- For downstream companies, the biggest challenges identified relate to traceability, gaining visibility over the full supply chain and accessing information from suppliers, as many suppliers are unwilling, unable or lack sufficient motivation to share information about their supply chains.
- Surprisingly, companies that operate closer to the production stage also face a similar challenge. Many
  commodities, such as sugar, tobacco, fruit, cocoa, 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. For stakeholders engaging with companies on the advancement of responsible
  practices in the agricultural sector, such as governments and civil society, it is worth focusing on defining
  the reasonable efforts companies should make in order to get a better understanding of the actors
  operating along its supply chain.
- Many companies both upstream and downstream indicated they may source raw materials directly
  from farmers as well as third-party suppliers that act as middle-men between small local producers and
  international buyers. Such third-parties can be local or international traders who may not have sufficient
  visibility or knowledge of where the product they sell originates and the associated risks or may not
  have an incentive to obtain and share such information. This has also been recognised as one of the key
  challenges among industry initiatives.

# Scope of the risk assessment: risk prioritisation and "red flags"

The OECD-FAO Guidance defines risk as the "actual and potential adverse impacts in the supply chain either caused or contributed to by the enterprise or directly linked to its operations, products or services by a business relationship." The OECD-FAO Guidance recommends a standard risk assessment of all suppliers and business partners and an enhanced risk due diligence on red flags defined as (i) red flag locations, (ii) red flag products, and (iii) red flag business partners.

Participant companies recognise red flags and the potential impact they may have on external stakeholders as a key factor guiding their approach to supply chain due diligence. Follow-up conversations with companies and a review of publicly available documents indicated that companies prioritise environmental, social and human rights topics within their business based on the severity and probability of risks, the impact on both the business, in terms of reputation, financial and operational impact, and its stakeholders, including investors, consumers, suppliers, civil society, the environment and communities. Information reported by civil society organisations (CSOs) also plays an important role in how companies prioritise the risks addressed throughout their due diligence process.

Whilst some industry initiatives interpret 'red flags' through the same lenses of the OECD-FAO Guidance, others indicated a different interpretation. Some indicated a 'red flag' to be an instance of noncompliance with the initiative's standards and requirements, which may in some cases also correspond to the OECD-FAO Guidance's definition of a red flag but in other cases relate to something else. Others also reported

that the definition of 'red flags' is reliant on information provided by producers upstream on the environmental and social impact assessments (ESIAs) carried out when establishing their operations.

## Assessment of risks and enhanced due diligence

The OECD-FAO Guidance states that risk assessment should be an ongoing process that helps maintain a true picture of the risks over time, taking into account changing circumstances.<sup>9</sup>

All companies indicated they have a process for assessing risks in their supply chain. The sources of information used by companies to assess risks are shown in Figure 16. These include internal assessments, information gathered by third-party service providers, on-site visits, CSO and media reports.

Most companies (85%) indicated that they have adopted internal processes for identifying and assessing risks, including red flags and approximately three companies out of four indicated that they carry out some form of enhanced due diligence to assess risks.

Companies also rely on external sources of information to make a determination on what risks affect their supply chains (some solely rely on such sources). More than half (56%) of companies indicated their approach is driven by how third-party services providers or industry schemes (including certification standards) define and identify risks. Over a third indicated they screen media and CSO information for indication of alleged or actual issues reported in relation to their suppliers, commodities and geographic regions of operations.

Formalised internal process

Dedicated service providers

Media/NGO screening

37%

15%

Figure 16. Sources of information used by companies to identify and assess risks

Whilst all these approaches are an important source of information for companies gathering evidence around potential and actual impacts, only a small group of companies (15%) indicated they rely on all three to carry out due diligence. Box 2 discusses how companies combine internal and external approaches for assessing risks.

All of the above

<sup>&</sup>lt;sup>9</sup> Step 2, Section 2.2, OECD-FAO Guidance for Responsible Agricultural Supply Chains

#### Box 2: Identify and assess risks by combining internal and external frameworks

Participant companies rely on various approaches and sources of information to carry out due diligence within their supply chains. Several companies reported that they have developed internal frameworks with defined processes and procedures for an ongoing assessment of supply chain risk. These frameworks are sometimes supported by insights provided by specialised third-parties. These include Maplecroft, a service provider that produces risk indices, that is widely used to gather information on geo-political risks, and Sedex, a platform for sharing responsible sourcing data on supply chains, which can be used to review information provided by suppliers through self-assessments and to verify such information through independent audits.

Some companies couple such tools with internal procedures that help determine whether risks have been adequately identified and assessed and, where gaps emerge, undertake a more in-depth analysis of supply chain risk. Many companies also engage external consultants to provide specialist support for certain categories of risks or commodity supply chains and help manage questions that internal teams may not be equipped to address.

Engaging external support is often critical for companies that cannot count on their internal capacity to effectively identify and assess risks. However, the OECD-FAO Guidance is clear that companies always retain individual responsibility for conducting due diligence.

The analysis shows that many companies operating at a global level and with complex supply chains rely strongly on information provided by third parties to assess risks and identify red flags in their supply chains. The most common tools used by companies are based on standardised approaches and databases developed to facilitate the sharing of information on environmental, social and governance risks. These are often used by multiple industries, not just the agricultural sector. The tools most commonly used by companies participating in the pilot include, Maplecroft, SEDEX and its SMETA audits, and RepRisk.

Some companies may also rely on industry-specific frameworks developed to support the identification and management of risks in specific supply chains. Companies both upstream and downstream recognised several advantages in making use of external frameworks to assess risks. However, some also highlighted their shortcomings. For example, not all issues may be addressed by these frameworks and therefore the information reported back to companies does not always yield a complete picture of the risks characterising the supply chain.

Furthermore, the presence and severity of certain issues often depends on the local context. This is the case, for example, for labour standards and working conditions which can be significantly impacted by how and to what extent legal frameworks are enforced, potential governance challenges, and local socioeconomic and cultural characteristics.

Recognising these limitations, as well as the complexities of the production phase described previously, some companies have adopted a combined approach that relies both on the information gathered by third party services provider to guide the identification of red flags and builds on a 'landscape approach' to assessing risk. This entails assessing certain risks by a region that is defined not by geographic boundaries, but by the extent to which environmental and social factors are interrelated and interdependent (Box 3).

#### Box 3: The landscape approach to due diligence

A 'landscape approach' means 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).

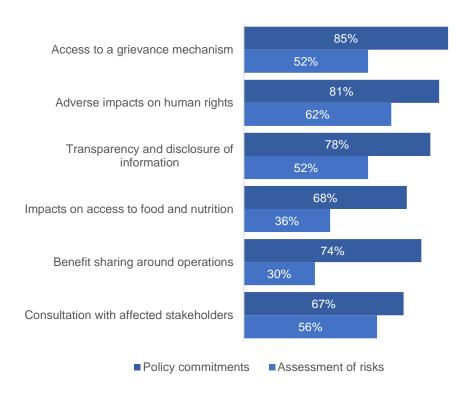
Applying the landscape approach to due diligence in agricultural supply chains can support the identification of environmental and social risks associated with a certain area or region by focusing the due diligence process on key 'landscape' areas without necessarily requiring site-by-site assessments. The need for a more detailed on-site assessment and the definition of risk management measures can then be determined based on the issues identified at a 'landscape level'. Such approach can be particularly valuable for companies operating within complex supply chains where production is managed by hundreds or thousands of smallholder producers and engagement with each farm/producer is not always feasible and requires a certain degree of prioritisation.

An analysis of the scope of risk assessments indicates that most companies in this pilot include the following risks in the scope of their risk assessment:

- · Labour rights
- Public health risks
- Impacts on human health and safety
- Impacts on environmental protection and the sustainable use of natural resources

Nonetheless, as Figure 17 illustrates, some substantial gaps were identified between the issues referenced by companies in their corporate policy commitments and the integration of these same issues within the assessment process.

Figure 17. Most significant gaps identified between companies' corporate policy commitments to key issues and the integration of the same issues in the scope of the risk assessment



## Risk assessment for selected commodities

Following on from the above, the same trend is evident when analysing the risk assessment scope of companies purchasing or producing selected commodities. This is shown in Figure 18 below.

Several companies stated that for certain commodity supply chains they rely primarily on certification schemes. For example, three out of four downstream companies indicated that they only source RSPO certified palm oil. However, the extent to which the same companies carry out an assessment of risks in their palm oil supply chain is limited.

Similarly to Figure 13 in the previous section, Figure 18 illustrates the extent to which companies producing or sourcing selected core commodities reported including specific issues referenced within the OECD-FAO Guidance within the scope of their risk assessment activities. The responses in this table include answers from the same selected group of pilot participants that were included in Figure 13, i.e. primarily downstream or FMCG companies.

Whilst accounting for variances in companies' scope of participation within the survey that limits the number of participant companies to which the data in the table applies, Figure 18 nonetheless illustrates that many companies, particularly those that source multiple commodities, do not consistently consider the same risk areas for each commodity.

Figure 18. Issues within the risk assessment scope of pilot companies sourcing (selected) core commodities

>70%	<b>1</b> 40-70%	<b>&lt;40%</b>

Issue	Sugar	Soy	Cocoa	Palm Oil	Tobacco
Transparency and disclosure of information	0	•	•	•	•
Consultation with affected stakeholders	0	•	•	0	•
FPIC of indigenous peoples	0	0	0	0	•
Impacts of operations, processes, goods and services	0	•	•	0	0
Benefit sharing around operations	0	0	0	0	•
Access to a grievance mechanism	0	•	0	0	•
Adverse impacts on human rights	0	•	•	•	•
Violations of labour rights and international conventions standards	•	•	•	•	•
Public health risks	•	•	•	•	•
Impacts on human health and safety	•	•	•	•	•
Impacts on access to food and nutrition	0	•	0	0	0
Impacts on tenure rights and access to natural resources	0	•	•	0	•
Impacts on environmental protection and sustainable use of natural resources	•	•			•
Governance issues	0	•	•	•	•
Impacts of technology and innovation transfer	0	0	0	0	0

Standards organisations reported that their certification standards require companies to address, to some extent, all of the issues listed in Figure 18. However, only two reported that they include requirements for information disclosure relating to these issues. Moreover, whilst all standards organisations require companies to consult with affected stakeholders, only two require free, prior and informed consent (FPIC) of indigenous peoples.

For companies operating at different stages of the supply chain, the OECD-FAO Guidance provides some specific recommendations: 10

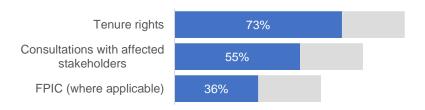
• On-farm enterprises: may establish on-the-ground assessment teams and would need to ensure that they respect legitimate land tenure right holders, including by holding good-faith, effective and

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<sup>&</sup>lt;sup>10</sup> Step 2, Section 2.2, OECD-FAO Guidance for Responsible Agricultural Supply Chains

meaningful consultations with local communities. Figure 19 shows the extent to which on-farm enterprises address such issues.

Figure 19. Extent to which on-farm enterprises address issues recommended by the OECD-FAO Guidance



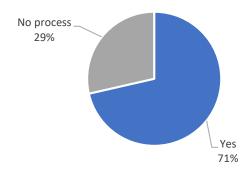
Producer companies or that have direct commercial relationships with producers often rely on the presence of staff on the ground to monitor and assess risks on an ongoing basis. For example, field technicians, such as agronomists or buyers, may liaise with smallholder farmers to advise on crop production and assess the quality of the output, as well as assess environmental and social risks, such as the presence of child labour.

• **Downstream enterprises:** should not only identify risks in their own operations but also, to the best of their efforts, assess the risks faced by their suppliers. They can assess the latter by assessing the due diligence carried out by their suppliers or by directly assessing the operations of their suppliers.

Downstream companies' approaches to due diligence, as discussed above, often rely on the information provided by third parties. The OECD-FAO Guidance recognises companies may participate in industry-wide schemes that assess the compliance of business partners with RBC standards and can provide relevant information to support the risk assessment process. However, for some pilot companies the scope of the risk assessment is mainly limited to Tier 1 suppliers and does not extend to production.

• **Financial enterprises:** the OECD-FAO Guidance recognises that financial enterprises, which may have hundreds to thousands of clients, may not always be able to conduct risk assessments for each of their clients. However, all enterprises are expected to identify general areas where the risk of adverse impacts is most significant and to prioritise due diligence accordingly. Figure 20 shows the percentage of financial enterprises that have adopted a process for identifying red flags.

Figure 20. Extent to which financial enterprises have adopted a policy for assessing red flags



## Challenges and opportunities identified:

- As discussed above, the lack of assessment of key risks that are addressed in companies' corporate
  policies highlights a gap between corporate commitments and the corresponding implementation of
  due diligence measures in practice.
- Whilst external tools and frameworks, including certification schemes, can provide valuable insights, challenges identified relate to the following:
  - i. Certification schemes can provide valuable support in clarifying the chain of custody and addressing some of the specific issues that characterise certain commodity supply chains. However, the identification and evaluation of issues on the ground strongly depends on the depth and breadth of the assessments that are carried out to evaluate risks. As discussed above, the presence and severity of certain issues often depends on the local context. In addition, the effectiveness of an on-going due diligence process also 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.
  - ii. The use of a standardised scope may not capture all risks relevant for individual businesses.
  - iii. For companies operating at a global scale, a one-size-fits-all standard does not always work when dealing in different countries, regions, and contexts.
  - iv. Downstream companies indicated that audits carried out against standardised frameworks may not always yield sufficient information regarding risks in the supply chain. In these instances, it is important to establish internal processes that can complement the information received from external sources. In the case of certification schemes, companies only receive information on whether a supplier has passed the 'certification test'. However, drawing from the audits carried out and the information gathered from suppliers, most certification organisations could (but currently do not) provide companies with additional information on the underlying risks and issues associated with their supply chains.
- From the perspective of industry initiatives, there are discrepancies between producers that supply international markets and those who operate in local or regional markets. Complying with requirements set by companies downstream is effective only to the extent to which producers can access these customers at competitive prices. Frequently, only large commercial operators are the ones able to absorb the costs and capacity requirements of certification. Those producers who are not able to afford or demonstrate compliance will lose access to the 'sustainable' market or will turn to other markets where requirements are less stringent. This can have deep impacts both on the long-term promotion of responsible agricultural practices, as well as the development benefits to smaller producers in developing countries.

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

#### **Key findings**

- Most companies (89%) reported that senior management is informed and engaged in the
  due diligence process. However, the extent to which companies implement measures to
  manage risks even if these were previously within the scope of the assessment is limited.
- Several companies rely solely or primarily on certification and third-party frameworks to assure themselves that risks are effectively managed.

#### Reporting assessment findings to senior management

The OECD-FAO Guidance recommends reporting to senior management the information gathered on the actual and potential risks identified during the risk assessment process. <sup>11</sup>

Figure 21 shows that most companies report due diligence findings to senior management. This can take place at different levels, from immediate teams and departments, to the Board or Executive Committee level. Many companies that operate globally and have more complex internal structures indicated that they review the information at the operational level and prioritise reporting according to the level of risk identified. For the majority, reporting to senior management focuses on serious risks identified.

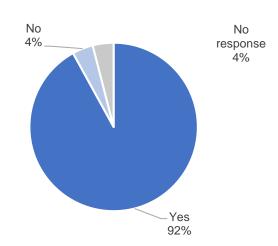


Figure 21. Reporting risk assessment findings to senior management

<sup>&</sup>lt;sup>11</sup> Step 3, Section 3.1, <u>OECD-FAO Guidance for Responsible Agricultural Supply Chains</u>

#### **Defining risk management measures**

The OECD-FAO Guidance recommends that companies develop a risk management plan that includes risk mitigation and prevention measures for adverse impacts caused, contributed by and directly linked to company operations. For companies causing and contributing to adverse impacts, remedy should be provided.<sup>12</sup>

Most companies reported that they have internal processes for developing risk management plans to address the gaps identified among their suppliers. In line with the scope of the risk assessment, risk management efforts are generally limited to direct suppliers and/or selected suppliers and business partners beyond Tier 1 that are associated with red flags that supply priority products to the business.

Most companies indicated that risk management efforts were mainly focused on the same risks that were most commonly addressed in companies' risk assessments, i.e. labour and working conditions, health and safety and environmental protection and sustainable use of natural resources. However, when comparing more broadly the risks assessed in Step 2 with corresponding risk management measures, several gaps are identified. Figure 22 provides a comparison between companies' policy commitments, risk assessment and risk management activities for selected issues that are recommended to be addressed under the OECD-FAO Guidance.

Whilst some companies indicated they address certain issues in their risk management plans even when such issues were not included in the scope of their risk assessment, the majority does not appear to implement measures to manage risks even if these were previously within the scope of the assessment.

The most significant gap is found in relation to cross-cutting actions that the OECD-FAO Guidance recommends as key steps within the risk management process, as described in Step 1. The biggest gaps among policy commitments, risk assessment and risk management relate to the disclosure of timely and accurate information to the public, identification of benefit-sharing opportunities, impacts on access to food and nutrition, and the establishment of a grievance mechanism.

<sup>&</sup>lt;sup>12</sup> The OECD-FAO Guidance states that a company "causes an adverse impact if there is causality between the operations, products or services of the enterprise and the adverse impact. Causation can occur through action as well as omissions." A company contributes to an impact when an activity "causes, facilitates or incentivises another entity to cause an adverse impact." A company may be directly linked to adverse impacts "associated with business relationships" (e.g. business partners).

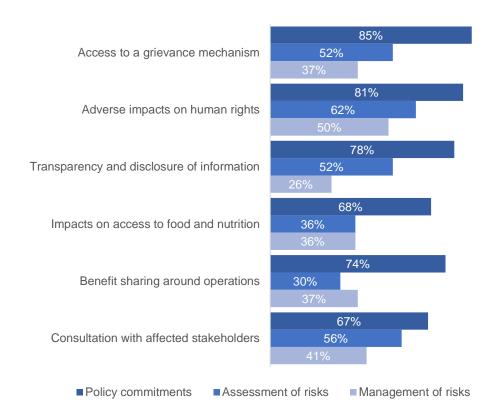


Figure 22. Comparison between policy commitments, risk assessment and risk management activities for selected issues

In designing and implementing a risk management plan, most companies (80%) stated that consultation with affected stakeholders is integrated in their approach. Amongst participants, the interpretation of the term 'affected stakeholders' is broadly interpreted beyond the affected community(s) and/or individual(s) that are directly affected.

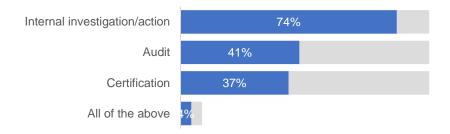
Certification schemes also provide some guidance on how producers should manage risks associated with their operations. The identification of risks upstream in the supply chain is carried out by producers themselves against indicators defined by the certifying organisation or through a standard environmental and social impact assessment at the outset of a project. Companies are required to close identified gaps to comply with certification requirements and report to the certification scheme annually on the progress made. On-site verifications by the certifying organisation take place when companies seek accreditation or renewal of the certificate, which remains valid for multiple years.

For companies that assess risks primarily by consulting third-party service providers, the selection of measures to manage risks identified and the subsequent approach to monitoring and tracking progress is often dependent upon decisions made by the third-party service provider.

#### Implementation, monitoring and performance tracking

Figure 23 shows the extent to which companies use different approaches to monitor and track the implementation of management measures in response to the risks identified.

Figure 23. Measures used by companies to monitor and track implementation of risk management measures



Companies stated that when gaps are identified, the preference is to monitor suppliers as they implement corrective measures. Companies reported that only if unacceptable risks are identified or gaps are not addressed over time, they may disengage which is line with the OECD-FAO Guidance. However, for companies that rely on certification and do not engage directly with suppliers, the decision to remain engaged depends on whether the supplier's product is certified and re-assessed according to standards defined by certification schemes. Such decisions are not under control of the downstream company relying on the certification standard.

#### Challenges and opportunities identified:

- Risk management frameworks developed around standardised approaches to supply chain due
  diligence can support companies in identifying the most common gaps associated with their supply
  chain, defining measures to address such gaps and evaluating how risks are mitigated over time.
  However, the challenges discussed regarding the depth, breadth and frequency of risk assessments (see
  Step 2) can reflect on the effectiveness of the risk management approach adopted. In particular, if risks
  are not identified at the outset during the assessment process, it becomes increasingly difficult to
  ensure potential impacts are prevented, mitigated or eliminated.
- Certification, whilst important, is only one step in the due diligence process insofar as it provides a
  framework for compliance with good practice standards. However, for companies relying on
  certification to assure themselves that risks are effectively managed is not a substitute for on-going due
  diligence and engagement along the supply chain. Certification is only as effective as the scope it focuses
  on and the quality of the verification frameworks used to evaluate risks falling within such scope.
  Companies who are members of certification schemes should be responsible for ensuring that they have
  confidence in the scope and rigour of the schemes they support.
- The lack of adequate engagement and consultation of affected stakeholders can undermine companies' ability to effectively mitigate risks and social contract to operate both in the short and long run. Stakeholder engagement should complement the information gathered through third parties and by companies throughout the due diligence process. Per the OECD-FAO Guidance, all companies operating along the supply chain should take steps to ensure that the views of those affected by adverse risks and impacts are integrated in the risk management process. However, stakeholders engaged in the advancement of responsible agricultural practices should recognise that companies that are several tiers removed from upstream operations may not be able to identify and consult with potentially affected stakeholders alone.

<sup>&</sup>lt;sup>13</sup> Step 3, Section 3.3, <u>OECD-FAO Guidance for Responsible Agricultural Supply Chains</u>

### Step 4. Verify supply chain due diligence

#### **Key findings**

- Most companies (85%) undertake audits to verify the management of social and environmental risks, to some extent, and many also carry out on-site investigations for prioritised suppliers, commodities or risks.
- However, companies often rely on the same mechanisms for the identification, assessment and management of risks as they do for verification that risks have been addressed.

The OECD-FAO Guidance recommends that companies take steps to verify that their due diligence practices are effective and therefore risks are adequately identified, mitigated or prevented. If risks have been mitigated, companies should continue to conduct ongoing due diligence proportionate to the risk. If risks remain, the verification process should identify the reasons why this is the case.

Most companies indicated they have adopted measures to verify the effectiveness of their due diligence within their supply chains. A breakdown of the measures adopted are illustrated in Figure 24 below.

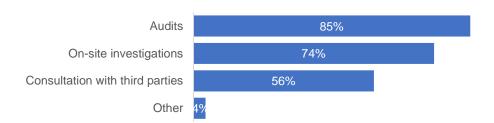


Figure 24. Measures adopted by companies to verify due diligence effectiveness

The majority of companies (85%) rely on audits to verify due diligence and risk management, particularly for issues that relate to human rights, labour rights, health and safety, environmental protection and governance. Many companies (74%) also indicated that on-site investigations are undertaken. Figure 25 illustrates the different measures used by participant companies to verify due diligence or management of specific risks.

Figure 25. Use of different verification mechanisms to verify due diligence and risk management for specific risks

External audit	CSO monitoring
•	•
•	•
•	•
0	0
•	•
•	0
•	•
•	0
0	0
• Used by f	• Used by few Almo

Most companies reported that the internal audits they undergo are carried out as part of a company-wide internal audit process. Such audits are primarily focused on the internal compliance of management systems and processes, rather than on the effectiveness of external due diligence processes and the mitigation of risks associated with companies' supply chains. External audits carried out in relation to the issues described in Figure 25 above are generally those carried out by the same standard-setting institutions that provide the frameworks for assessing and managing risks. Similarly, companies also rely on certification as a verification mechanism.

Certain issues are less addressed than others in the verification process, such as food security and nutrition. As previously discussed in Step 2 and 3, this raises the question of whether the reliance on standardised frameworks provides a complete picture of what risks characterise the supply chain and whether those risks are adequately addressed.

Civil society monitoring can also be a helpful means for gathering information on whether risks have been adequately addressed and mitigated. Though few companies also rely on civil society to provide information on whether their due diligence processes are working effectively, CSOs can support companies that may not have a strong or on-going presence on the ground to effectively monitor risks.

#### Challenges and opportunities identified:

Different processes may be used and combined to verify the due diligence approach in relation to
different issues. Companies should consider what information gaps they may face when undertaking
verification and ensure that they are able to obtain a complete picture of where their due diligence is
effective and where it may require improvement or further verification. This is particularly valid in the
case of companies that rely on third-party frameworks and certification mechanisms for identifying,
assessing and managing risks.

•	The independence, subject-matter expertise and rigour of auditors responsible for verifying companies'
	due diligence processes is key for maintaining an impartial judgement of whether a process for
	identifying, assessing and managing risks is effectively implemented. All companies, regardless of their
	size or position in the supply chain, should ensure the verification process is independent not only from
	the company's core operations but also from the rest of the due diligence process.

### Step 5. Report on supply chain due diligence

#### **Key findings**

- Most companies (63%) indicated that they report publicly on their due diligence, whilst 81% report to third parties, such as lenders or shareholders.
- Many companies rely on third party initiatives for due diligence and risk management.
   However, such programmes often do not report timely or sufficient information.
   Companies may therefore lack the information to report timely and accurately on supply chain risks or mitigation measures.

The OECD-FAO Guidance recommends that companies report publicly on their supply due diligence policies and practices. <sup>14</sup> Information should be provided to affected stakeholders and business partners on the actual and potential adverse impacts identified and the mitigation or preventive measures taken in response.

As Figure 26 shows, most companies (63%) indicated that they report publicly on their due diligence processes.

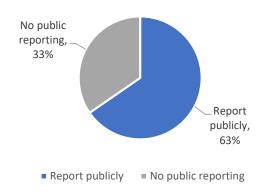


Figure 26. Extent to which companies report publicly on their due diligence

Many companies (81%) also indicated that they may report directly to external stakeholders, such as lenders and shareholders. Public reporting and disclosures to third parties, particularly to stakeholders affected by company operations, is essential in ensuring that relevant information regarding the due diligence process – from the management systems established and the risk assessment process, to risk and impact management and verification – is effectively and transparently shared. This in turn builds trust and plays a key role in supporting effective mitigation of potential risks. Approximately a third of companies indicated they report on all the steps of their due diligence process. However, a third of companies do not

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<sup>&</sup>lt;sup>14</sup> Step 5, OECD-FAO Guidance for Responsible Agricultural Supply Chains

report on any aspects related to their due diligence process. Figure 27 illustrates the scope of due diligence information reported.

Management processes

Risk management measures adopted

Findings of risk assessments

Verification process

48%

48%

48%

37%

Figure 27. Scope of due diligence reporting

The amount and detail of information reported often depends on what is made accessible to companies, particularly from external sources. It is therefore important that such information is transparent, complete and verifiable.

Industry initiatives and audit frameworks that support companies in conducting supply chain due diligence are important sources of information. The standards they set for their members and users operating along the supply chain often requires them to obtain potentially very informative details on how risks have been identified and risk management measures implemented. However, such information is useful only if it is communicated to relevant stakeholders in sufficient detail that it can help inform decision-making.

Many initiatives and standards indicated they publish the findings of audits that assess whether auditee companies are addressing relevant risks associated with their operations. However, companies and other stakeholders that rely on initiatives or standards for such information are often unable to access additional details (e.g. beyond audit conclusions) that may be relevant to the stakeholders they report to.

#### Challenges and opportunities identified:

- The disclosure of information to stakeholders is key to ensure informed decision-making both by internal and external stakeholders. Companies must be able to verify that the information they receive is accurate and, where needed, take additional steps to ensure the timely disclosure of such information to relevant stakeholders.
- Transparent, timely and accurate disclosure of information informs both internal and external stakeholders on the measures adopted to address adverse risks and impacts. In particular, it represents an important means for engaging with affected communities and can support the ongoing identification and assessment of risks in the supply chain and the management of companies' operational, financial and reputation risk.
- Many companies have a significant reliance on industry initiatives, such as certification schemes, to manage and mitigate impacts in commodity supply chains known to be commonly associated with specific risks. However, such schemes seldom provide detailed information to downstream member companies regarding the risks that have been identified and whether and how such risks are managed. Consequently, many companies may lack the necessary information to be able to report on due diligence in line with the recommendations of the OECD-FAO Guidance.

## IV. Conclusions and recommendations

The baseline assessment carried out as part of the pilot project on the OECD-FAO Guidance for Responsible Agricultural Supply Chains provides an overview of how participant companies and industry initiatives are implementing the recommendations of the OECD-FAO Guidance.

Overall, all participant companies have adopted sophisticated processes for carrying out due diligence in their supply chains. All companies have also made commitments to responsible business conduct (RBC) and have taken significant steps to implement such commitments. Despite facing challenges with regards to traceability and supply chain mapping, particularly within complex supply chains, most companies reported having a process in place for identifying and assessing risks and for developing risk management plans to address adverse impacts.

The analysis has also yielded valuable insights into what are the most common challenges faced by companies and initiatives in advancing the principles for RBC recommended by the OECD-FAO Guidance. The following recommendations are aimed at addressing the challenges presented in this report and leveraging opportunities to strengthen companies' due diligence practices.

#### Address gaps between corporate commitments and implementation actions

One the most significant gaps identified in the baseline analysis is between companies' corporate commitments to address key risks and issues associated with their supply chains and the extent to which such commitments translate into the implementation of risk assessment and risk management measures in practice. Companies should evaluate whether corporate commitments stated in their policies are adequately reflected in the procedures and guidelines it adopted at the operational level.

A first step may entail engaging with the teams and individuals responsible for overseeing due diligence, whether internal or external to the company, and benchmark existing frameworks and approaches against the expectations defined in corporate commitments. Where significant gaps in corporate commitments are identified, companies may also work to strengthen these and develop corresponding risk assessment and risk management measures.

For some companies there is a need to strengthen their approach to consulting with stakeholders affected by business activities and ensuring timely and accurate disclosure of information about potential impacts, addressing risks related to food security and nutrition, as well as more specific environmental and social challenges such as tenure rights over and access to natural resources. This is particularly relevant for those supply chains that are known to be commonly associated with specific risks, such as sugar, palm oil, cocoa, soy and tobacco for example, that were analysed in further detail in this report.

# Engage with stakeholders to define feasible expectations around supply chain mapping and traceability

The recommendations of the OECD-FAO Guidance suggest that companies should work towards a due diligence process that allows them to eventually gain full visibility of their supply chains and implement systems of controls and transparency, such as traceability systems, to verify compliance with policy expectations for RBC. Companies recognise this as a major challenge, particularly when operating in complex supply chains where visibility beyond Tier 1 suppliers is limited or where commodities are purchased from hundreds or thousands of small producers.

Good practices promoted by the OECD, the FAO and other stakeholders, such as the ILO, governments, international development agencies and civil society organisations, provide an important reference for companies aiming to strengthen their due diligence practices. However, recognising the complexities that characterise agricultural supply chains, it is important that all stakeholders have realistic expectations for what companies can achieve.

Industry actors and other stakeholders should engage to identify opportunities to strengthen existing practices and support progressive improvement. Some areas that should be explored are:

- How systems for control and verification can be strengthened to provide traceability along the supply chain and contractual requirements leveraged to obtain more information from suppliers on their compliance with policy requirements and ensure that such information is timely and accurate.
- Opportunities to leverage 'choke points' in the supply chain, where the volume of commodities
  managed is high but concentrated in the hands of few actors, to obtain information regarding the
  sourcing of such commodities and their associated risks.

# Strengthen company involvement in the due diligence process while working with third parties to maximise opportunities for collaboration

There is a heavy reliance by companies on third parties to identify and manage risks. In this context, companies may lose their ability to ensure that risks are assessed on an ongoing basis and maintain ownership over such process. In addition, the quality and quantity of information companies receive may not always capture the presence or severity of risks associated with specific contexts in which commodities are produced and commercialised. On the other hand, third parties are often the ones proactively taking steps to assess and manage risks in agricultural supply chains on behalf of companies.

Maintaining individual responsibility for overseeing the due diligence process, as recommended by the OECD-FAO Guidance, does not mean that companies need to rely solely on their own capacity to conduct due diligence. Collaboration with industry initiatives, such as industry-led organisations, other companies and stakeholders, platforms and certification schemes can provide valuable support. However, companies and third parties should explore a more optimal and mutually beneficial combination of how their respective resources can be leveraged.

Opportunities identified through the baseline analysis include the following:

- Companies should leverage the knowledge third parties obtain about the types of risks identified
  and how these are being addressed, not just whether a supplier 'passes' or 'fails' an audit or
  assessment.
- Companies should engage collaboratively with third party initiatives to inform ongoing improvements. Some initiatives, such as certification schemes, regularly review their standards and frameworks. This is an opportunity for companies to provide input to provide feedback on what information is required to best inform and complement their due diligence process.
- Companies should explore opportunities to adopt industry-wide frameworks that can provide complementary guidance throughout the due diligence process.

- For companies operating within supply chains with complex production stages that rely on smallholder operations, a broader approach such as the 'landscape approach' to identify and assess risks can be adopted. Specific guidance could be developed in collaboration with stakeholders and provided to companies to test it within their operations.
- Effective two-way engagement with stakeholders impacted by company operations should be an integral component of the due diligence process. This includes consulting with stakeholders not only to disclose information about the risks associated with company operations, but also as a means for monitoring the effectiveness of risk identification and risk management measures.

### **Expand the scope of reporting to stakeholders**

The scope of companies' reporting could be expanded to include more timely and transparent information on how the due diligence process is carried out, what the potential and actual risks are, how risks are assessed and managed and whether the measures adopted are effectively preventing and mitigating the impacts of company operations. Such information is key not only to investors, customers and internal company stakeholders, but also to those affected by company operations.

Given that the level of detail companies disclose is often limited by the extent of the information they receive from external sources, opportunities should be explored to expand the scope of disclosure by third parties. Companies can support this by engaging in ongoing conversations with third parties that provide due diligence support, as well as communities affected by company operations to capture key information on the risk assessment and management process and other stakeholders to understand what information is required to inform their own decision-making process.

# Annex I. Baseline survey for companies

# General questions

Question	Answer
Company name	
Company type:	☐ On-farm enterprise
Select multiple, if applicable.	☐ Wholesale
	☐ Trader
	☐ Transportation provider
	☐ Food/Beverage manufacturer
	☐ Fast-moving consumer goods producer
	☐ Textile producer
	☐ Biofuel producer
	☐ Retail and supermarket
	☐ Input supplier
	□ R&D institution
	☐ Market information provider
	☐ Education institution and extension services
	☐ Financial enterprise
	☐ Other:
Activities directly managed by the company:	☐ Production
Select multiple, if applicable.	☐ Aggregation
	☐ Processing
	☐ Marketing/export
	☐ Distribution
	□ Other:
Do you wish that the company remain anonymous in the baseline report?	□ Yes
Anonymity will ensure that the company's name does not appear in the baseline report and is not referenced in any communications, including media, articles and briefs published in relation to the baseline survey.	□ No

Please indicate whether you would like the scope of the pilot project to be applied at an enterprise level (i.e. considering application of the OECD-FAO Guidance to all your products and services), or focus on specific issues, risks, products and/or regions.	Comments:
If you would like to focus on a specific issue, risk, product or region, please provide details here.	
Note: If your pilot participation is limited to a specific scope (i.e. a particular issue, product or region) please relate all of your answers in this questionnaire from Question 1 onwards to the selected scope. For example, questions about management systems should be answered with reference to how the selected issue is addressed by company management systems.	
What do you perceive to be the biggest challenge(s) for conducting due diligence and managing risks in your supply chain?	Comments:
Please describe (optional):	

Step 1. Management systems for responsible supply chains

Question	Answer	
Corporate policy for responsible business conduct		
1.1 Does your company have a corporate policy(s) for responsible business conduct?  This can consist of a single policy or multiple standalone policies (e.g. company policy on human rights).	□ Yes □ No	
Comments:		
1.2 Does the company's policy(s) include the following commitments:  Select all that apply.	□ To comply with the national legislation in the countries of operation □ To continuously assess and address the actual and potential impacts of operations, processes, goods and services to avoid/mitigate adverse impacts on people and the environment □ To disclose timely and accurate information related to risks and the response to environmental, social and human rights impacts at all stages of the investment cycle □ To consult with communities potentially affected by company operations, including with indigenous communities to obtain their free, prior and informed consent □ To contribute to sustainable and inclusive rural development through the promotion of monetary and non-monetary benefit sharing with affected communities □ To provide a grievance mechanism for workers and other affected stakeholders	
	☐ To help eliminate discrimination against women	
Comments:		
1.3 Does the company commit to complying with any international standards or guidelines for responsible business conduct?  The company may commit to comply with international standards or guidelines for responsible business conduct partially or in their entirety. If the company commits to partially comply with international standards or guidelines for responsible business conduct, please indicate so in the	☐ OECD Guidelines for Multinational Enterprises ☐ Principles for Responsible Investment in Agriculture and Food Systems (CFS-RAI Principles) ☐ Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT)	

<ul> <li>□ Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources (PRAI)</li> <li>□ Guiding Principles on Business and Human Rights (UN Guiding Principles)</li> <li>□ ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy</li> <li>□ IFC Performance Standards on Environmental and Social Sustainability</li> <li>□ UN Global Compact</li> <li>□ Other:</li> </ul>
☐ Human rights         ☐ Labour rights         ☐ Health and safety         ☐ Food security and nutrition         ☐ Tenure rights over and access to natural resources         ☐ Animal welfare         ☐ Environmental protection and sustainable use of natural resources         ☐ Governance         ☐ Technology and innovation         ☐ Gender equality         ☐ Other:
☐ Yes (please specify how):

Internal management to support supply chain due diligence		
Indicate to which degree you agree with the following statements:		
1.6 Senior management is involved in the implementation of and compliance with the policy(s) for responsible business conduct:	☐ Strongly disagree ☐ Disagree	
Senior management has approved the company	☐ Neither agree nor disagree	
policy and senior level responsibility has been assigned to support the implementation of and	☐ Agree	
compliance with the policy.	☐ Strongly agree	
	At what level is approval required? (e.g. CEO, Executive Committee, CSR Department, other)	
Comments:		
1.7 Employees and business partners are trained and	☐ Strongly disagree	
are incentivised to comply with the standards and requirements set out in the policy(s):	☐ Disagree	
If you wish, you may provide information regarding	☐ Neither agree nor disagree	
the types of trainings available for employees and business partners.	☐ Agree	
	☐ Strongly agree	
Comments:		
1.8 There is an individual or team with well-defined	☐ Strongly disagree	
responsibilities for overseeing the implementation of the policy(s):	☐ Disagree	
	☐ Neither agree nor disagree	
	□ Agree	
	☐ Strongly agree	
	Describe briefly the role(s)/function(s) of those responsible for overseeing the implementation of the policy(s) (e.g. are roles CSR-focused or is there a multidisciplinary team comprised of individuals from across the business?):	
Comments:		

1.9 The individual(s) responsible for conducting supply chain due diligence have the adequate skills and qualifications:	☐ Strongly disagree	
	☐ Disagree	
•	☐ Neither agree nor disagree	
	☐ Agree	
	☐ Strongly agree	
Comments:		
1.10 Adequate financial resources are available to	☐ Strongly disagree	
support due diligence and responsible sourcing:	☐ Disagree	
	☐ Neither agree nor disagree	
	□ Agree	
	☐ Strongly agree	
Comments:		
1.11 The policy is clearly communicated at relevant	☐ Strongly disagree	
levels of the organisation:	☐ Disagree	
Company expectations in terms of responsible business conduct are communicated to all employees, business partners and to other parties directly linked to company operations, products or services.	☐ Neither agree nor disagree	
	☐ Agree	
	☐ Strongly agree	
Comments:		
System of controls and transparency along the supply chain		
1.12 Do you have internal processes to verify	☐ Company operations	
compliance with your policy within the following operations:	☐ Operations of company suppliers	
Internal processes for verifying compliance with the policy may consist in the establishment of a traceability system, i.e. creating internal documentation of due diligence processes, findings and resulting decisions, maintaining an internal inventory and transaction documentation, making and receiving payments through official banking and supporting cash purchases with verifiable documentation, etc.	☐ Operations of company partners	
Comments:		

Engagement with business partners		
1.13 Are policy requirements integrated into contracts and agreements with business partners?	□ Yes	
Į.	□ No	
Comments:		
Operational-level grievance mechanism		
1.14 Does the company have a formal grievance mechanism?	□ Yes	
The grievance mechanism should be a formal process easily accessible by workers and all those actually or potentially affected by adverse impacts deriving from company activities. The existence and modalities of access of the grievance mechanism should be made public and a record of all complaints should be maintained.	□ No	
Comments:		

Step 2. Identification, assessment and prioritisation of risks in the supply chain

Question	Answer	
Supply chain mapping		
2.1 The company identifies the following suppliers and business partners in the supply chain as part of the due diligence process:  'Red flagged' suppliers are those that have been determined to present an increased risk of noncompliance with social, environmental or ethical standards. See also question 2.c.	<ul> <li>☐ No suppliers or business partners</li> <li>☐ Only red flag and high-risk suppliers and business partners</li> <li>☐ Tier 1 (i.e. direct) suppliers and business partners</li> <li>☐ Selected suppliers and business partners beyond Tier 1</li> </ul>	
	☐ All suppliers and business partners	
Comments:		
Risk assessment of adverse environmental, social ar	nd human rights impacts	
2.2 Are risk assessments conducted for the following (select all that are applicable):	☐ Transparency and disclosure of information related to the business and business operations	
In general, under the OECD Guidelines, companies	☐ Consultation with stakeholders likely to be affected by operations	
are expected to identify general areas where the risk of adverse impacts is most significant and to prioritise due diligence accordingly. The following	☐ Free, prior and informed consent of indigenous peoples	
topic areas cover cross-cutting standards for responsible business conduct that should be taken	☐ Impacts of business operations processes, goods and services over their full life-cycle	
into account across all business operations.	☐ Benefit sharing around company operations	
	☐ Access to a grievance mechanism to resolve disputes	
	☐ Adverse impacts on human rights	
	☐ Violations of core labour rights and standards set in international conventions (particularly with respect to child labour, women, youth, indigenous and migrant, seasonal, casual and informal workers)	
	☐ Health risks related to working conditions E.g. exposure to adverse weather conditions, exposure to dangerous animals or plants, use of chemical products, use of hazardous tools and machinery, etc.	
	☐ Impacts on human health and safety E.g. land use changes, impacts on buffer areas, degradation of natural resources,	

	biological/chemical/physical hazards in food, infectious diseases of animal origin
	☐ Impacts of business operations and investments on access to food and nutrition
	☐ Impacts on tenure rights and access to natural resources  E.g. due to weak national legislation and processes, land acquisition and displacement, expropriation
	☐ Threats to animal welfare  E.g. disease transmission, space limitations, inadequate diets, breeding that causes anatomical or metabolic disorders
	☐ Impacts of agricultural investments on environmental protection and sustainable use of natural resources e.g. deforestation, air and water contamination, water quality and quantity, GHG emissions, use of toxic substances, impacts on biodiversity
	☐ Effects of governance issues over business reputation and benefits of agricultural investments  Including: corruption, non-compliance with taxation requirements, anti-competitive practices
	☐ Impacts of technology and innovation transfer in host countries
2.3 Please describe the risk assessment process and its key steps:	Comments:
2.4 Is there a process for identifying red flags? If so, please describe:	□ Yes
Examples of red flags include:	□ No
Red flag locations: e.g. operations are planned in or products originate from high- risk or conflict affected 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/or areas affected by environmental degradation.	Describe:
<ul> <li>Red flag products: e.g. production of the commodity is known to have adverse environmental, social or human rights impacts; and/or the product does not conform to health and food safety standards.</li> </ul>	

0	Red flag business partners: e.g. business partners are known to have sourced products from a red flag location in the last 12 months; and/or operate in a red flag location.	
The pro	ocess for identifying red flags may include the ng:	
0	Context risk assessments to categorise sourcing regions and countries as low, medium or high risk	
0	Site-level risk assessments to understand the factual circumstances of the operations of business partners to assess the scope, severity and likelihood of risks at the site level	
0	Stakeholder consultations and third-party monitoring	
	en red flags are identified, is an enhanced due ce processes adopted?	Comments:
Enhanced due diligence may include on-the-ground verification of the circumstances for red flag locations, products or business partners.		

Step 3. Risk management strategy to respond to identified risks in the supply chain

Question	Answer		
Reporting to senior management			
3.1 Is there a designated senior manager to whom risk assessment findings are reported? Are the findings of the risk assessments reported to designated senior management?	□ Yes □ No		
Describe how risk assessment findings may be reported to senior management.			
Comments:			
Risk management plan			
3.2 Are any of the following mitigation measures adopted in response to the risks and impacts identified?  Indicate all that apply.  If you wish, you may provide further details regarding specific measures and actions taken to mitigate risks and impacts identified (e.g. when engaging with stakeholders, what steps does the stakeholder engagement process entail? How are stakeholders' views incorporated into the decision-making process? When establishing a grievance mechanism, what are the key procedures adopted to ensure a fair and transparent treatment of grievances?).	□ Dissemination of timely and adequate information to the public and affected communities (with respect of business confidentiality and competitive concerns) on:  - Business operations  - Agreements, contracts and their terms  - Financial performance of the enterprise  - Responsible business policies  - Environmental, social and human rights impact assessments and management plans  □ Design and implementation of a stakeholder engagement plan and consultation process with potentially affected communities  □ Design and implementation of an engagement strategy with indigenous peoples to seek their free, prior and informed consent (FPIC) prior to the approval of any project affecting their land, territories or resources.  □ Adoption of an impact assessment process that includes:  - Impact screening  - Scoping  - Impact analysis for actual and potential adverse impacts  □ Identification of mitigation measures  □ Identification of opportunities for development benefits (e.g. local job creation, local procurement, technology transfer, etc.)  □ Establishment of a grievance mechanism in consultation with affected stakeholders  □ Ongoing evaluation of the impacts of business operations on human rights against human rights standards to ensure fair treatment of stakeholders		

	☐ Establishment of workers' protection and monitoring measures against discrimination, child labour, forced labour
	☐ Adoption of decent working conditions standards (e.g. standards of employment equal to comparable employers in the country or, where comparison is not possible, in compliance with national law) and recognition of workers' rights to organise and bargain collectively
	☐ Establishment of preventive and control measures for health and safety consistent with good international industry practice
	☐ Evaluation of strategies to mitigate impacts on food security and nutrition (e.g. alternative investments, reclaiming degraded land, choosing land not previously used for agriculture, etc.)
	☐ Consultation with relevant stakeholders (local communities, indigenous peoples, government, etc.) to support: - Impact assessments on tenure rights and access to natural resources - Evaluation of feasible alternative investments to avoid displacement - Ensure fair, prompt and appropriate compensation
	☐ Establishment of measures to ensure adequate handling, nutrition and a safe physical environment for animals
	☐ Establishment of an environmental management system to evaluate, address and monitor the environmental, health and safety impacts of activities (including impacts on biodiversity and ecosystem services, resource and energy use, waste, emissions, etc.)
	☐ Adoption of internal controls, ethics and compliance programs for preventing and detecting bribery
	☐ Provision of timely information to authorities to determine taxes
	☐ Exit or refrainment from entering anti- competitive agreements in countries of operation
	☐ Evaluation of activities against science and technology policies of host countries and contribution to local innovative capacity, employment and training
Comments:	

Monitoring and tracking performance	
3.3 As the risk management plan is implemented, does the company have a process to monitor and track performance of mitigation measures?	□ Yes □ No
Comments:	
3.4 Does the company consult with affected stakeholders in the development of a risk management plan and implementation of mitigation measures?	□ Yes □ No
Comments:	

Step 4. Verify supply chain due diligence

Question	ruestion				Answer					
Supply of	chain due	diligence	verificatio	on process						
4.1 Do you take steps to verify whether risk assessments and risk management processes work effectively?  Verification of risk assessment and risk management processes will evaluate whether risks have been adequately identified and mitigated or prevented. Where risks have not been mitigated or prevented, verification will also identify why this is the case.					☐ Yes ☐ No ☐ Other:					
Commer										
4.2 Does	the verifi	cation pro	cess includ	le the follow	ing:	☐ Audits				
						☐ On-site	e investigations			
						□ Consul	ltation with thire	d parties		
						☐ None of the above				
						☐ Other:				
Commer	nts:									
4.3 Are a	auditors in	dependent	?			□Yes				
Independent auditors are third parties who are independent of the company's operations and business partners. Auditors must also not have provided any related service to the company, for example services related to supply chain due diligence and assessment and management of risks, within a reasonable time period.			□No							
4.4 Which		nisms does	the compa	any use for		Select from	m the table belo	w:		
	Huma n rights	Labour rights	Health and safety	Food security and nutrition	Tenure rights over and access to natural resources		Environmental protection and sustainable use of natural resources		Technol and inno	~
ıstry ification										
rnal audit										
ernal audit										
) nitoring										1
er										]
Commer	nts:									

Step 5. Report on supply chain due diligence

Question	Answer
Public reporting	
5.1 Does the company publicly report on its supply	□ Yes
chain due diligence policies and practices?	□ No
Comments:	
5.2 Does the company report on its supply chain due diligence policies and practices to third parties, such	□ Yes
as government agencies, business partners, investors?	□ No
Comments:	
5.3 Does the company publicly report on the	☐ Management processes
following:  Indicate all that apply.	☐ Findings of risk assessments
marcare an mar appry.	☐ Risk management measures adopted
	☐ Verification process
Comments:	
5.4 In addition to public and formal reporting, does	☐ In-person meetings
the company engage in any of the following to report on the findings of its risk assessments:	☐ Online dialogues
Indicate all that apply.	☐ Consultations with affected stakeholders
	☐ Other:
Comments:	

### Optional survey section

Question	Answer
Do you wish that the company remain anonymous for the purposes of the information provided in this section?	□ Yes □ No
If you have indicated in the 'General' section of the survey that you <u>do not</u> wish that the company remain anonymous but would like the information you provide in this "Optional" section to be treated anonymously, please indicate so here.	

Please share below any examples of your company's experience in conducting risk-based due diligence and implementing measures for assessing and mitigating risks in your supply chain. Please feel free to include experiences on the use of international standards, certification programmes and participation in multistakeholder initiatives to support supply chain due diligence.

# Annex II. Baseline survey for industry initiatives

# General questions

Question	Answer
Industry initiative name	
What position(s) in the agricultural value chain do companies that are members of your initiative occupy?  Indicate all that apply  Note: The use of the term 'members' within this survey should be understood as meaning those companies that are subject to requirements under the initiative. Requirements may be set out in mechanisms such as certification or audit requirements, or in other standards that companies participating in the initiative are expected to apply within their business.	☐ On-farm enterprise ☐ Wholesale ☐ Trader ☐ Transportation provider ☐ Food/Beverage manufacturer ☐ Fast-moving consumer goods producer ☐ Textile producer ☐ Biofuel producer ☐ Retail and supermarket ☐ Input supplier ☐ R&D institution ☐ Market information provider ☐ Education institution and extension services ☐ Financial enterprise ☐ Other:
Number of member companies:	
Activities directly managed by your members:  Indicate all that apply.	<ul> <li>□ Production</li> <li>□ Aggregation</li> <li>□ Processing</li> <li>□ Marketing/export</li> <li>□ Distribution</li> <li>□ Other:</li> </ul>
Do you wish that your initiative remains anonymous in the baseline report?  Anonymity will ensure that the organisation's name does not appear in the baseline report and is not referenced in any communications, including media, articles and briefs published in relation to the baseline survey.	□ Yes □ No

Please indicate whether you would like the scope of the pilot project to be applied at an organisation level (i.e. considering application of the OECD-FAO Guidance across your initiative) or focus only on the initiative's activities in specific regions.	Comments:
If you would like to focus on a specific region please provide details here.	
Note: If your pilot participation is limited to a specific scope (i.e. a particular region) please relate all of your answers in this questionnaire from Question 1 onwards to the selected scope. For example, questions about management systems should be answered with reference to how the selected issue is addressed by requirements on company management systems set for companies operating in the designated region.	
What do you perceive to be the biggest challenge(s) faced by your members in conducting due diligence and managing risks in their supply chain?	Comments:
Please describe (optional):	

# Step 1. Management systems for responsible supply chains

Question	Answer
Corporate policy for responsible business conduct	
1.1 Do you require your members to have a corporate policy(s) for responsible business conduct in place?  This can consist of a single policy or multiple standalone policies (e.g. company policy on human rights).	□ Yes □ No
Comments:	
1.2 Members' policy(s) are required to include the following commitments:  Indicate all that apply.	☐ To comply with the national legislation in the countries of operation ☐ To continuously assess and address the actual and potential impacts of operations, processes, goods and services to avoid/mitigate adverse impacts on people and the environment
	☐ To disclose timely and accurate information related to risks and the response to environmental, social and human rights impacts at all stages of the investment cycle  ☐ To consult with communities potentially affected by company operations, including with

	indigenous communities to obtain their free, prior and informed consent
	☐ To contribute to sustainable and inclusive rural development through the promotion of monetary and non-monetary benefit sharing with affected communities
	☐ To provide a grievance mechanism for workers and other affected stakeholders
	☐ To help eliminate discrimination against women
Comments:	
1.3 Are members required to commit to complying with any international standards or guidelines for	☐ OECD Guidelines for Multinational Enterprises
responsible business conduct?  If yes, select applicable.	☐ Principles for Responsible Investment in
Members may be required to commit to complying	Agriculture and Food Systems (CFS-RAI Principles)
with international standards or guidelines for responsible business conduct partially or in their entirety. If members are required to commit to partially comply with certain standards that are contained within international standards or guidelines for responsible business conduct, please indicate so in the 'Comments' section and, if you wish, provide further details.	☐ Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT)
	☐ Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources (PRAI)
The following are examples of standards and guidelines that have been considered in the OECD-	☐ Guiding Principles on Business and Human Rights (UN Guiding Principles)
FAO Guidance.  Indicate all that apply.	☐ ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
	☐ IFC Performance Standards on Environmental and Social Sustainability
	☐ UN Global Compact
	☐ Other:
Comments:	
1.4 Members are required to cover the following	☐ Human rights
issue areas in their policy(s):	☐ Labour rights
Indicate all that apply.	☐ Health and safety
	☐ Food security and nutrition
	☐ Tenure rights over and access to natural resources
	☐ Animal welfare

	☐ Environmental protection and sustainable use of natural resources
	☐ Technology and innovation
	☐ Gender equality
	☐ Other:
Comments:	
1.5 Are members required to make their company policy(s) partially or entirely publicly available?	☐ Yes (please specify how):
Indicate in the comments section whether the policy is required to be partially published (e.g. only to certain stakeholders, such as suppliers) or publicly available and accessible.	□ No
Comments:	
Internal management to support supply chain due	diligence
1.6 Members are required to receive senior management approval of the company policy and assign senior level responsibility to support the implementation of and compliance with the policy:	☐ Yes  If applicable, at what level is approval required? (e.g. CEO, Executive Committee, CSR Department, other)
Comments:	
1.7 Members are required to provide training to employees and business partners and provide incentives to comply with the standards and requirements set out in the policy(s):	☐ Yes  If applicable, briefly describe any training requirements:
	□ No
Comments:	
1.8 Members are required to assign an individual or team with well-defined responsibilities for overseeing the implementation of the policy(s):	☐ Yes ☐ No Describe briefly any specific requirements for assigning responsibility (e.g. composition of the team) for overseeing the implementation of the policy(s)?
Comments:	

1.9 Members are required to ensure that individual(s) responsible for conducting supply chain due diligence have the adequate skills and qualifications:	□ Yes □ No
Comments:	
1.10 Members are required to assign adequate financial resources to support due diligence and responsible sourcing:	□ Yes
Comments:	
1.11 Members are required to communicate company expectations in terms of responsible business conduct to all employees, business partners and to other parties directly linked to company operations, products or services.	□ Yes □ No
Comments:	
System of controls and transparency along the supp	ly chain
1.12 Members are required to have internal processes to verify compliance with the policy within the following operations:  Internal processes for verifying compliance with the policy may consist in the establishment of a traceability system, i.e. creating internal documentation of due diligence processes, findings and resulting decisions, maintaining an internal inventory and transaction documentation, making and receiving payments through official banking and supporting cash purchases with verifiable documentation, etc.	☐ Company operations ☐ Operations of company suppliers ☐ Operations of company partners
Comments:	
Engagement with business partners	
1.13 Members are required to integrate policy requirements into contracts and agreements with business partners:	□ Yes □ No
Comments:	
Operational-level grievance mechanism	
1.14 Members are required to ensure stakeholders have access to a formal grievance mechanism:	□ Yes

The grievance mechanism should be a formal process easily accessible by workers and all those actually or potentially affected by adverse impacts deriving from company activities. The existence and modalities of access of the grievance mechanism should be made public and a record of all complaints should be maintained.	
The mechanism may be provided by the member company itself or could be a mechanism provided by the initiative and promoted by the member company to its stakeholders.	
Comments:	

Step 2. Identification, assessment and prioritisation of risks in the supply chain

Question	Answer
Supply chain mapping	
2.1 Members are required to identify the following suppliers and business partners in the supply chain as part of the due diligence process:  'Red flagged' suppliers are those that have been determined to present an increased risk of noncompliance with social, environmental or ethical standards. See also question 2.c.	<ul> <li>□ No suppliers or business partners</li> <li>□ Only red flag and high-risk suppliers and business partners</li> <li>□ Tier 1 (i.e. direct) suppliers and business partners</li> <li>□ Selected suppliers and business partners beyond Tier 1</li> <li>□ All suppliers and business partners</li> </ul>
Comments:	
Risk assessment of adverse environmental, social ar	nd human rights impacts
2.2 Members are required to conduct risk assessments for the following (select all that are applicable):	☐ Transparency and disclosure of information related to the business and business operations ☐ Consultation with stakeholders likely to be affected by operations
In general, under the OECD Guidelines, companies are expected to identify general areas where the risk of adverse impacts is most significant and to prioritise due diligence accordingly. The following topic areas cover cross-cutting standards for responsible business conduct that should be taken into account across all business operations.	<ul> <li>□ Free, prior and informed consent of indigenous peoples</li> <li>□ Impacts of business operations processes, goods and services over their full life-cycle</li> <li>□ Benefit sharing around company operations</li> <li>□ Access to a grievance mechanism to resolve disputes</li> <li>□ Adverse impacts on human rights</li> </ul>
	□ Violations of core labour rights and standards set in international conventions (particularly with respect to child labour, women, youth, indigenous and migrant, seasonal, casual and informal workers)  □ Health risks related to working conditions E.g. exposure to adverse weather conditions, exposure to dangerous animals or plants, use of chemical products, use of hazardous tools and machinery, etc.

	☐ Impacts on human health and safety E.g. land use changes, impacts on buffer areas, degradation of natural resources, biological/chemical/physical hazards in food, infectious diseases of animal origin
	☐ Impacts of business operations and investments on access to food and nutrition
	☐ Impacts on tenure rights and access to natural resources  E.g. due to weak national legislation and processes, land acquisition and displacement, expropriation
	☐ Threats to animal welfare  E.g. disease transmission, space limitations, inadequate diets, breeding that causes anatomical or metabolic disorders
	☐ Impacts of agricultural investments on environmental protection and sustainable use of natural resources e.g. deforestation, air and water contamination, water quality and quantity, GHG emissions, use of toxic substances, impacts on biodiversity
	☐ Effects of governance issues over business reputation and benefits of agricultural investments <i>Including: corruption, non-compliance with taxation requirements, anti-competitive practices</i>
	☐ Impacts of technology and innovation transfer in host countries
2.3 Is the risk assessment process required to follow certain key steps? If so, please describe:	Comments:
2.4 Are members required to establish a process for identifying red flags? If so, please describe:	⊠ Yes
Examples of red flags include:	□ No  Describe:
O Red flag locations: e.g. operations are planned in or products originate from highrisk or conflict affected 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/or areas affected by environmental degradation.	

0	Red flag products: e.g. production of the commodity is known to have adverse environmental, social or human rights impacts; and/or the product does not conform to health and food safety standards.  Red flag business partners: e.g. business partners are known to have sourced products from a red flag location in the last 12 months; and/or operate in a red flag location.	
The pro followir	cess for identifying red flags may include the	
0	Context risk assessments to categorise sourcing regions and countries as low, medium or high risk	
0	Site-level risk assessments to understand the factual circumstances of the operations of business partners to assess the scope, severity and likelihood of risks at the site level	
0	Stakeholder consultations and third-party monitoring	
2.5 Are members required to adopt an enhanced due diligence process when red flags are identified?		□ Yes
Enhanced due diligence may include on-the-ground verification of the circumstances for red flag locations, products or business partners.		Describe:

Step 3. Risk management strategy to respond to identified risks in the supply chain

Question	Answer					
Reporting to senior management						
3.1 Are members required to designate a	□Yes					
senior manager to whom risk assessment findings are to be reported?	□No					
Comments:						
Risk management plan						
3.2 Members are required to adopt the following mitigation measures in response to the risks and impacts identified:  Indicate all that apply.  If you wish, you may provide further details regarding specific measures and actions required by members to mitigate risks and impacts identified (e.g. when engaging with stakeholders, what steps should the stakeholder engagement process entail? When establishing a grievance mechanism, what are the key procedures that should be in place to ensure a fair and transparent treatment of grievances?).	□ Dissemination of timely and adequate information to the public and affected communities (with respect of business confidentiality and competitive concerns) on:  - Business operations  - Agreements, contracts and their terms  - Financial performance of the enterprise  - Responsible business policies  - Environmental, social and human rights impact assessments and management plans  □ Design and implementation of a stakeholder engagement plan and consultation process with potentially affected communities  □ Design and implementation of an engagement strategy with indigenous peoples to seek their free, prior and informed consent (FPIC) prior to the approval of any project affecting their land, territories or resources.  □ Adoption of an impact assessment process that includes:  - Impact screening  - Scoping  - Impact analysis for actual and potential adverse impacts  - Identification of mitigation measures  □ Identification of opportunities for development benefits (e.g. local job creation, local procurement, technology transfer, etc.)  □ Establishment of a grievance mechanism in consultation with affected stakeholders  □ Ongoing evaluation of the impacts of business operations on human rights against human rights standards to ensure fair treatment of stakeholders					
	measures against discrimination, child labour, forced labour  Adoption of decent working conditions standards (e.g. standards of employment equal to comparable employers in the country or, where comparison is not possible, in compliance with national law) and recognition of workers' rights to organise and bargain collectively					

	☐ Establishment of preventive and control measures for health and safety consistent with good international industry practice				
	☐ Evaluation of strategies to mitigate impacts on food security and nutrition (e.g. alternative investments, reclaiming degraded land, choosing land not previously used for agriculture, etc.)				
	☐ Consultation with relevant stakeholders (local communities, indigenous peoples, government, etc.) to support: - Impact assessments on tenure rights and access to natural resources - Evaluation of feasible alternative investments to avoid displacement - Ensure fair, prompt and appropriate compensation				
	☐ Establishment of measures to ensure adequate handling, nutrition and a safe physical environment for animals				
	☐ Establishment of an environmental management system to evaluate, address and monitor the environmental, health and safety impacts of activities (including impacts on biodiversity and ecosystem services, resource and energy use, waste, emissions, etc.)				
	☐ Adoption of internal controls, ethics and compliance programs for preventing and detecting bribery				
	☐ Provision of timely information to authorities to determine taxes				
	☐ Exit or refrainment from entering anti-competitive agreements in countries of operation				
	☐ Evaluation of activities against science and technology policies of host countries and contribution to local innovative capacity, employment and training				
Comments:					
Monitoring and tracking performance					
3.3 Are members required to establish a	□Yes				
process to monitor and track performance of the implementation of the risk management plan?	□ No				
Comments:					
3.4 Are members required to consult with	□ Yes				
affected stakeholders in the development of a risk management plan and implementation of mitigation measures?	□ No				
Comments:					

Step 4. Verify supply chain due diligence

Question					Answer					
Supply	chain du	e diligence	verificati	on process						
4.1 Does the initiative take steps to verify whether risk assessments and risk management processes work effectively?				□ Yes						
Verification of risk assessment and risk management processes will evaluate whether risks have been adequately identified and mitigated or prevented. Where risks have not been mitigated or prevented, verification will also identify why this is the case.										
Comme	ents:									
				nbers' supply	y chain due		□А	udits		
diligeno	ce include	the followi	ng:					n-site investiga	tions	
Indicat	e all that a	nnlv						onsultation witl		s
пинсин	e an mai a	рріу.					□N	one of the above	re	
							ПΟ	ther:		
Comme	ents:									
4.3 Does the initiative specify that verification involves					□ Yes					
indepen	ndent audit	?					□No			
compan not hav services	ny's operai e providea s related to	ions and b l any relate o supply ch	usiness pa d service t ain due dit	rtners. Audii to the compa	ependent of th tors must also ny, for examp assessment an iod.	ole				
4.4 Whi		nisms are u	sed for ve	rification wi	thin the		Sele	ct from the table	e below:	
	Human rights	Labour rights	Health and safety	Food security and nutrition	Tenure rights over and access to natural resources		mal fare	Environmental protection and sustainable use of natural resources	Governance	Technology an innovation
ry cation										
al audit						+				
ai audit										
						İ				
nal audit oring										

Step 5. Report on supply chain due diligence

Question	Answer			
Public reporting				
5.1 Are members required to publicly report on their	□ Yes			
supply chain due diligence policies and practices?	□ No			
Comments:				
5.2 Are members required to report to third parties, such	□ Yes			
as government agencies, business partners, investors?	□ No			
Comments:				
5.3 Members are required to report on the following:	☐ Management processes			
Indicate all that apply.	☐ Findings of risk assessments			
	$\square$ Risk management measures adopted			
	☐ Verification process			
Comments:				
5.4 In addition to public and formal reporting, the company is required to engage in the following activities	☐ In-person meetings			
to report on the findings of its risk assessments:	☐ Online dialogues			
Indicate all that apply.	☐ Consultations with affected stakeholders			
	☐ Other:			
Comments:				

# Optional survey section

Question	Answer			
Do you wish that the organisation remain anonymous for the purposes of the information provided in this section? If you have indicated in the 'General' section of the survey that you do not wish that the organisation remain anonymous but would like the information you provide in this "Optional" section to be treated anonymously, please indicate so here.	□ Yes □ No			
Please share below any examples of your company's experience in promoting risk-based due diligence and implementing measures for your members to assess and mitigate risks in their supply chain. Please feel free to include experiences on the use of international standards and participation in multi-stakeholder initiatives to support supply chain due diligence.				

#### **Definitions**

#### **Agricultural supply chains**

System encompassing all the activities, organisations, actors, technology, information, resources and services involved in producing agri-food products for consumer markets

#### **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.

#### **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.

#### 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.

# Acronyms and abbreviations

#### RBC

Responsible business conduct

#### **FMCG**

Fast-moving consumer goods

#### **CIFOR**

Center for International Forestry Research

#### **OECD**

Organisation for Economic Cooperation and Development

#### FAO

Food and Agriculture Organization of the United Nations

#### **ILO**

International Labour Organization

#### LINGE

United Nations Guiding Principles on Business and Human Rights

#### CSO

**Civil Society Organisation** 

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

#### **BASELINE 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. The first stage of the pilot was a baseline survey to assess how companies and industry initiatives are implementing the OECD-FAO Guidance and other related international standards. This report presents the findings of the baseline assessment.

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

