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Introduction

Proforest has been helping companies to implement their responsible sourcing commitments in agricultural and forestry commodity supply chains for nearly two decades. As more companies make commitments to source responsibly produced agricultural commodities and forest products, there is an urgent need for resources to support people to implement these commitments.

For many this is a new area of work and there is little guidance available. We have produced this guide because we want to share an overview of what we have learnt during the last two decades. We hope to help accelerate the implementation of responsible sourcing commitments and ensure that the implementation is done in a way which genuinely transforms commodity supply chains with the greatest positive impacts on producers and production landscapes (see Box 1).

We welcome comments and feedback from users of this guide. Please email us at: info@proforest.net.

Transforming commodity supply chains

Proforest’s experience suggests that four steps are required to transform commodity supply chains into responsible supply chains, whether for an individual company or for a sector.

Firstly, there needs to be awareness that there is an issue: this is fundamental to initiating change. This awareness may develop gradually as a result of internal corporate responsibility activities, or may be the result of an external campaign.

Next comes commitment: once an issue has been identified, it is necessary to commit to change and to plan how that change can be made in practice.

The third step, implementation, is the main focus of this guide. This requires an understanding of where products come from and engagement with producers to develop and deploy better social and environmental practices, often in remote and difficult locations.

The final step is impact. Implementing better practices in individual supply chains may have limited benefits if there is a narrow focus on risk mitigation. To have real impact, responsible sourcing should emphasize measures that are targeted to achieve positive sustainability outcomes, such as collaborative or integrated initiatives at a larger scale.
Our approach to responsible sourcing

Responsible sourcing means buying agricultural and forest commodities that have been produced in a way that meets acceptable levels of environmental and social performance. If these levels of performance are not yet being achieved, it means working with producers who are committed to progressing towards them. To do this in practice, first you need to know where the products come from (traceability) and second, you need to ensure that the production in these places – farms, plantations or regions – is responsible.

Therefore, Proforest’s approach to responsible sourcing is based on two complementary and necessary components:

1. Robust and systematic management of **sustainability risk in the supply chain**

2. Challenging and proactive interventions to promote **better agricultural and forestry practices on the ground**.

A conventional approach to responsible sourcing focuses primarily on the first of these two components – risk management. That means identifying, mitigating and, if necessary, excluding sources from the supply chain if they have unacceptable sustainability risks or impacts. Risk management requires reliable traceability information, and a logical and robust approach to mitigation. Higher levels of risk should trigger clear actions, such as mill-level verification assessments to determine the actual situation on the ground. Best practices for each of these elements are detailed in this practical guide.

Proforest’s approach to responsible sourcing integrates the second component – taking a strategic view in order to achieve positive impacts. Our vision is to achieve ‘Sustainable Livelihoods in Sustainable Landscapes’, and our approach to responsible sourcing aims to contribute to this ‘transformation’ agenda.

Our approach to implementing responsible sourcing is made up of **six elements**. This guide describes how you can implement these in practice. Although it is easiest to show the elements as a sequence, in practice, several of the elements are usually happening in parallel and may be iterative. The six elements are shown in Figure 1.
The 6 key elements of our approach to responsible sourcing

**Strategic review**
- Analyse the current situation including performance, objectives, drivers, risks and stakeholders’ priorities
- Identify the potential for interventions to result in positive change

**Traceability and supply chain mapping**
- Map the supply chains of direct suppliers and validate whether purchased volumes are traceable
- Monitor and verify traceable volumes (desk based or site visits)
- Engage with actors along the supply chain to raise awareness and understanding of the responsible sourcing approach

**Engaging suppliers and producers**
- Engage with mills or aggregators through awareness raising and capacity building activities
- Carry out site verification visits to selected mills or aggregators
- Build local capacity to support implementation of improved production practices
- Assess the best ways to engage with producers

**Developing policy commitments**
- Develop policy commitments and implementation plans
- Communicate them to relevant stakeholders inside and outside the organisation

**Risk assessment and prioritisation**
- Determine initial risk ratings for all suppliers
- Carry out further analysis for high risk suppliers and their supply base

**Monitoring and reporting**
- Monitor and report on progress against targets internally and externally
- Take action where targets are not being met

Figure 1: Overview of the elements of Proforest’s approach to responsible sourcing.
Element 1: Strategic review

Most companies are continually working to improve their supply chains: this may focus on factors such as quality, safety or price, but many already consider social and environmental issues. A new commitment to responsible sourcing is more likely to be successful if it builds on these existing processes and initiatives. A strategic review of the current situation will help identify the most effective ways to implement a commitment to responsible sourcing.

1.1 Understand the current situation

The starting point is an analysis of the current situation both within and outside your organisation. Consider the following key questions:

- **What commitments have already been made?** Many organisations have already made a range of environmental and social commitments. It is essential to use these as the baseline for a new policy. They may be global or specific to a particular country, driven by membership of an organisation such as the Consumer Goods Forum (CGF) or UN Global Compact, or individual to your organisation, widely publicised or relatively unknown.

- **What are the existing and emerging issues?** The issues you need to address tend to change over time and from place to place. Look at the range of environmental, social and economic issues that are already important in your sector or are likely to become important in the near future. Try to identify upcoming issues now so that your policy and implementation plans do not need constant changes (see Box 2).

- **What is your company currently doing?** Review what your company is already doing to implement existing commitments. Look at the results and consider whether the current activities are adequate or if there might be more effective approaches.
• **How does your company compare to your competitors?** It can be very useful to compare your company’s commitments, policies and plans to those of other companies in the same sector to benchmark your current performance and inform your plans. This can also be useful in identifying areas for pre-competitive collaboration.

• **What are your main stakeholders’ concerns?** Your responsible sourcing policy must address the issues that your stakeholders are concerned about. This is particularly important for issues that are the focus of public campaigns, as advocacy groups will look for strong policy commitments as evidence that you are prepared to improve your practice.

• **What is the current level of performance in your supply base?** It is very common that at the time a public commitment is made (e.g. to stopping child labour or eliminating deforestation) companies have relatively little understanding of the current level of performance within their supply chains. Review any information that is available at this point to see what you know and what you don’t know. This will inform the feasibility and practicality of planned commitments.

• **What is the current level of internal engagement?** While there may be genuine commitment to change and improvement in some parts of an organisation, even at the top, this does not mean that everyone is committed. In larger organisations, people in regional offices may not even know a commitment has been made – let alone agree that it should be implemented. There is also a common challenge in ensuring that buying teams are sufficiently aligned with responsible sourcing commitments.

### Box 2

**Identifying the issues**

Key issues for responsible sourcing span environmental and social concerns. Some of the most important currently are:

- Land rights and conflicts
- Deforestation and loss of natural habitat
- Workers’ rights, and child and forced labour
- Human rights
- Rural development and sustainable livelihoods
- Climate change and climate resilience
- Food and nutrition security
- Water resources
1.2 Identify the most promising potential interventions

Many different interventions can be made in the supply chain, so it is important to decide which ones are likely to be the most effective. A strategic analysis of the options should consider:

- **Risks across the supply chain**: focus on higher risk origins and the risk profile of specific suppliers. You will need to pay particular attention to origins where there is the highest risk of unacceptable impacts. You are also more likely to have a positive impact if you focus on origins or suppliers where improvements are needed than those that are likely to already meet your requirements.

- **Opportunities for maximising positive sustainability impact**: consider volumes, commercial relationships, vertical integration and leverage, and important supply sheds and origins, all of which give you more or less influence.

- **Your position in the supply chain**: if your company is involved in upstream activities, you have more opportunity to work directly with producers. If your company is further downstream in the supply chain, it will be most efficient if you can complement rather than duplicate your suppliers’ sustainability programmes. Your efforts may be better directed at supporting specific suppliers that do not yet have their own sustainability programmes.

- **Existing initiatives**: you can often have a greater impact if you link to existing programmes or initiatives which are promoting better practice in the origins you source from. These could be initiatives to support small farmers, jurisdictional or landscape approaches that bring together different actors to work towards a common goal or training programmes to build local capacity to implement better practice. This is discussed further in Section 5.

Decide your strategy based on the factors above, together with your knowledge of the current situation and analysis of potential interventions. You may for example seek collaborative partnerships with suppliers that have achieved little to date or have high risk origins, and where there is some leverage to achieve change.
Element 2: Developing policy commitments

A responsible sourcing policy sets out publicly the issues (environmental, social and economic) you will address, your commitments or the targets you aim to meet, and the timeframe for meeting them. Your responsible sourcing policy is a key tool for recognising and addressing your stakeholders’ concerns and tracking your progress against your commitments or key performance indicators (KPIs).

2.1 Develop the policy

Following the initial review and analysis of the current situation, you need to develop (or revise) your responsible sourcing policy. Aim to ensure that:

- **All current and emerging issues are included**: It can be confusing and inefficient for staff if the focus of your sustainability commitments and activities changes frequently so try to think ahead and address emerging issues as well as current ones.

- **Policy is consistent with your actual intentions and objectives**: Use clear and simple language to describe what you want to do and achieve, and ensure this is genuinely aligned with your company’s objectives.

- **Policy is realistic and achievable**: Policies should be ambitious but not impossible. Don’t make the mistake of committing to outcomes or timelines that are not possible to achieve.

- **Policy meets your stakeholders’ needs and expectations**: Policies are often developed, at least in part, in response to stakeholder requests or campaigns so it is important that it responds to their concerns.

- **Policy applies to all relevant products**: Although the policy may respond to criticism or campaigns related to a particular issue and product (for example deforestation in palm oil production) consider whether it should also apply to other products or supply chains.

2.2 Develop an implementation plan

The implementation plan sets out how you will actually achieve the policy commitments in practice. It is very important that all those responsible for implementation, particularly buyers and traders, are involved in developing the plan. It should include:

- **Minimum performance requirements**, which clarify the level of supplier performance that will be considered acceptable to comply with each policy commitment. (see Example 1)

**EXAMPLE 1**: _If there are no critical findings or major non-compliances with policy commitments then the supplier may be considered to be adequate. If there are critical findings or major non-compliances, but an action plan has been agreed and action is being taken, then the supplier may also be considered adequate._
Building internal support

In many companies there can be a significant ‘disconnect’ between the decision-making in headquarters, which is where commitments are generally made, and the views of staff in the rest of the organisation. Getting support from staff throughout the whole organisation is crucial to success, because they are the people who will (or won’t) make the changes in practice. In particular, it is essential to integrate responsible sourcing objectives into wider business sourcing strategy, and into commercial relationships with suppliers; it is crucial that procurement teams see responsible sourcing as a core component of their role.

Building support should be a core part of everything you do at this stage of the process. Try the following:

- **Activities and responsibilities** that clarify who will do what. These may specify actions to be taken within your company or actions expected of suppliers and others.

- **Internal and external time-bound targets** and long-term goals for traceability and responsible sourcing. These should be based on some knowledge of the supply chain including complexity, and type and number of suppliers. Targets should be challenging but realistic. (see Example 2)

**EXAMPLE 2:**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time-bound Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traceability</td>
<td></td>
</tr>
<tr>
<td>70% 2015</td>
<td></td>
</tr>
<tr>
<td>90% 2016</td>
<td></td>
</tr>
<tr>
<td>100% 2018</td>
<td></td>
</tr>
<tr>
<td>Responsibly sourced</td>
<td></td>
</tr>
<tr>
<td>50% 2015</td>
<td></td>
</tr>
<tr>
<td>70% 2017</td>
<td></td>
</tr>
<tr>
<td>100% 2020</td>
<td></td>
</tr>
</tbody>
</table>

- **Monitoring and reporting** as discussed further in Section 6.
Element 3: Traceability and supply chain mapping

Most companies do not buy directly from producers. Rather products are bought and sold in complex supply chains as they are gradually processed into the final form that reaches consumers. Responsible sourcing commitments are related to the production of raw materials, which means that the commitments made by the manufacturer or retailer largely need to be implemented by farmers, plantation managers or other producers. To implement a responsible sourcing policy, you need to trace products back through the supply chain to the producers. Understanding your supply chain is therefore crucial. The degree of complexity this entails depends on where you are in the supply chain and what products you buy (see Box 4).

3.1 Engage with your direct suppliers

Direct suppliers to a company are often called Tier 1 suppliers. For companies at the beginning of the supply chain (upstream) Tier 1 suppliers may be the farmers, plantations or production companies that produce the raw material. For companies further along the supply chain (downstream) Tier 1 suppliers buy from their own network of Tier 2 suppliers as shown in Figure 2. This means there may be several layers of supplier between you and your producers.
A key part of understanding where products come from is to trace back to the point where products first enter the supply chain. For some products, such as palm oil fresh fruit bunches or sugarcane, this is usually a mill because it is important to process within 24 hours of harvest. For other products, such as soy, coffee or paper and board, this may be a trader, cooperative, aggregator or other first gathering point such as storage centres, as these products don’t need to be processed immediately.

Figure 2: Schematic representation of a manufacturer with Tier 1 and Tier 2 suppliers.
The first step in supply chain mapping is to contact all current direct Tier 1 suppliers to explain your sourcing commitments and the need for traceability. You may already be engaged in a conversation about responsible sourcing, or even have clauses in your direct suppliers’ contracts which require this, or this may be a new conversation. In either case, it is very important to include the buyers or traders from your own company in the initial engagement, as they have the buying relationship with your direct suppliers and will need to take company responsible sourcing commitments into account when sourcing product. There are a number of different ways that suppliers may be engaged:

- **Supplier workshops:** Invite significant Tier 1 suppliers to join a workshop where the company’s responsible sourcing approach is explained and questions can be answered.

- **Individual supplier meetings:** If there is concern about suppliers’ openness or engagement at a workshop or group meeting, then individual meetings may be more appropriate. Your buyer is likely to be able to advise on this.

- **Introductory letters:** An introductory letter may be sufficient to explain the process if the Tier 1 supplier is already familiar with responsible sourcing.

Some companies also have a suppliers group or council where representatives of different suppliers meet regularly to discuss any issues.

Figure 3: (A) For downstream companies such as manufacturers or retailers, Tier 1 suppliers will have their own set of suppliers making it complex to trace back to producer. (B) For upstream companies such as refiners or traders their suppliers are more likely buy directly from producers or from suppliers that buy from producers.
Potential tricky issues in mapping supply chains

Prioritising: Your objective should be to map your whole supply base. However, where the volumes sourced are large, it may be necessary to prioritise where to start. This should be based on aspects such as regions where most volume originates or where the potential risks are highest. Practical criteria may also have to be taken into account such as whether internal resources are already stretched in certain locations.

Managing a changing supply base: One of the challenges of supply chain mapping is that suppliers change. Buyers and traders like to have flexibility to buy where they can make the best deals. Having a clear list of direct suppliers or their suppliers can seem a very difficult task. One option for dealing with this is to decide on a start date and list the current suppliers. Agree a regular time interval for updating the supplier database, e.g. quarterly. Establish a system that keeps track of any significant emerging issues relating to specific companies (suppliers, mills etc.), which can be crosschecked with any current or new direct suppliers.

Confidentiality: Direct suppliers may be unwilling to give detailed information to their customers on who they buy from and how much they buy, as this is commercially sensitive. It may be necessary to involve a third party, bound by a confidentiality agreement, so that commercial information is not passed on.

Figure 4: Information on suppliers is usually with buyers or traders – this may include preferred suppliers but may not. This system should be able to provide an analysis of last 1–3 years, which can be used as basis for deciding who might be a supplier.
Gathering information using a questionnaire

A supplier questionnaire is a good way to gather initial information from your Tier 1 suppliers on traceability of a particular product entering your company supply stream. The format of this questionnaire will vary depending on the type of product. For a supplier of raw materials, for example, the questionnaire can be quite straightforward and simply collect information on their suppliers and volumes supplied. If you buy finished products which are likely to contain a range of different materials, it will require a more complex questionnaire as you will need suppliers to break down these products into their constituent parts, often in consultation with their own suppliers, and then provide information on the supply chains associated with each part.
Build on existing programmes

Tier 1 suppliers may already have their own responsible sourcing programme in place, such as certification, a third party programme or their own efforts to map their supply base and work with producers to ensure sustainability. It is important to assess how robust these programmes are and whether they meet your company’s requirements. If they are adequate, build on existing efforts rather than introducing new requirements, which will consume your and your suppliers’ time and resources.

For example: Many companies work with The Forest Trust or Proforest, Daemeter and Rainforest Alliance to implement their commitments to eliminate deforestation from their palm oil supply chains. Similarly, many companies already work closely with a range of different international and local NGOs to implement commitments related to the welfare of workers or smallholders.

2. **Categorise all product purchased by the Tier 1 supplier as known or unknown:** Any product that can be traced back to the producer – or the originating mill or aggregator if that is the interim approach you defined in your policy – is considered traceable volume and categorised as ‘known’. Any that can’t be traced back is categorised as ‘unknown’. If you are close to the beginning of the supply chain or buy from large integrated suppliers this categorisation should be straightforward to do. If you are further down the supply chain, and particularly if you are coordinating with the programmes being implemented by your suppliers, then it is likely to be more complex to decide what constitutes ‘known’. Some companies introduce a third category of ‘in a programme’. The most important thing is to decide how you will make your categorisation and to use the same approach consistently so that you can monitor trends and report clearly (see Section 6).

3. **Validate the information:** When information is provided by the Tier 1 supplier, it is important to validate it by discussing with them: how they get the information, what evidence they have and how much they can share it, how accurate it is, how frequently it will change (as they change their suppliers or the volume supplied by each supplier) and how they allocate volume to the ‘known’ category. If there are any questions about the validity of data, particularly if they relate to large volumes or very high risk origins, you may need to work with your supplier to improve the evidence base.

4. **Monitor traceable volumes:** Set up a system to update and review the volumes reported as ‘known’ at regular intervals because suppliers and volumes supplied change over time throughout supply chains.
Element 4: Risk assessment and prioritisation

The next step in implementing responsible sourcing is to identify the risks of unacceptable production practices across your whole supply base. You can then decide on your priorities for further assessment and action. Your products may be sourced from only a few mills or aggregators, or may be sourced from a large number. If there are very few, you may be able to work with all of them directly and can omit this step. However, for most supply chains, you will need to prioritise where to focus your resources.

4.1 Initial risk assessment of the whole supply base

Identifying potential risks

In order to decide where resources should be focused, you need to know where there is the greatest risk that producers do not meet your responsible sourcing policy. This can be done by determining an initial risk rating for each direct supplier based on information about known sustainability issues in that location, supply volumes and supplier performance (e.g. progress towards certification) (see Figure 5).

![Figure 5: Allocating an initial risk rating for mills or aggregators.](image)

**LOCATION**
- Known issues for country or region
  - Expansion and deforestation
  - Labour and working conditions
  - Land rights and conflict
  - Human rights
  - E.g. IFC/GMAP, staff and partners, public reports, networks and contacts.

**SUPPLY VOLUME**
- Relative volume supplied by each supplier
  - Low
  - Medium
  - High

**SUPPLIER**
- Key information on supplier including:
  - Involvement in a certification scheme
  - Level of traceability
  - Sustainability policies
  - Other relevant information (e.g. if part known initiative, any reported sustainability issues)
Assessing the potential sustainability risks of locations

There are various ways that the potential sustainability risks of a location can be determined.

**GMAP:** The International Finance Corporation (IFC) has produced a tool, which provides information on the risk associated with poor performance for several key sustainability issues for a range of product/country combinations.

**Jurisdictional or landscape approaches:** There is a growing focus on the development of jurisdictional or landscape approaches which bring together government, growers and civil society in a location to align efforts to address key issues such as child labour, improving yields for small producers or reducing deforestation. As they develop further they are likely to be very useful tools for reducing risk – particularly in locations where it would otherwise be very high.

**Internal approaches:** It is also possible to develop internal systems to assess risk levels based on analysis of publicly available information on key issues for a country or province. Information can be found in reports, on websites of NGOs, governments and development organisations and through discussions with colleagues with local expertise.

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1. **Location:** For key sustainability issues it is possible to determine a likely level of risk in the location (country, region or province). For example, if there is a high incidence of child labour in a country then, in the absence of further information, the risk that producers in that country use child labour is also considered high and should be designated high risk for that issue. Similarly, if there are high rates of deforestation nationally or locally then there is a high risk that your supply base will be affected (see Box 9).

2. **Supply volume:** The volume or value of product supplied is important because the larger the amount purchased from a supplier, the larger the potential impact is through that supplier’s performance. There is also increased brand/reputational risk associated with poor performance by high volume suppliers. One complication is that in practice, the amount purchased from a particular supplier may change over time so analyse purchases over the last 1–2 years and ask about plans for the coming 12 months.

3. **Supplier performance:** Other information about a supplier can be crucial for assessing the risk of non-compliance with your commitments. For example, if the supplier already has an effective responsible sourcing programme in place or is fully certified this will reduce risk. If they have a track record of making poor decisions on sustainability this will increase risk.

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**Box 9**

**Assessing the potential sustainability risks of locations**

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**Internal approaches:** It is also possible to develop internal systems to assess risk levels based on analysis of publicly available information on key issues for a country or province. Information can be found in reports, on websites of NGOs, governments and development organisations and through discussions with colleagues with local expertise.
Risk is related to the likelihood that a problem will occur, combined with the impact it will have if it occurs.

Risk rating or categorisation

Using the information gathered on location, supply volume and supplier performance, an initial risk rating or categorisation can be given to each supplier in order to rank the risk level (see Figure 5). There are various ways of turning information on potential risks into risk rankings (see Box 10). You’ll need to calibrate your own location, volume and supplier ratings for your supply chain.

Box 10

**Allocating a risk rating**

One approach to risk assessment is to use a scoring or weighting system to quantify the results from your investigation into location, supply volume and supplier performance to arrive at an overall risk score for each supplier. This approach gives you a systematic way to incorporate different aspects of sustainability risk and to identify and prioritise your highest risk suppliers. Deciding on thresholds will enable you to categorise the results, for example by grouping suppliers into high, medium or low risk. To help interpret and communicate the results, it can be useful to present the results using a traffic light rating system, with red, amber and green indicating high, medium and low risk, respectively. (see Figure 6)

4.2 Further investigation of high-risk origins

The second part of the risk assessment, which is still desk-based, is to consider in more detail the specific location of mills or aggregators. Usually further investigation covers both social and environmental issues.

Many environmental risks, including deforestation and land-use change, fires, proximity to protected areas and presence of water bodies or other important features, can now be monitored remotely via satellite. Several organisations provide information to help with the interpretation and use of this type of geospatial analysis (see Box 11).

Geospatial analysis can be used to identify areas where the production of commodities could have important environmental impacts. It will highlight, for example, the existence of extensive protected areas and forest cover, combined with a high level of fire or forest clearance. This information can be used to make decisions about which mills or aggregators to prioritise for a site verification visit and what to look at while there.

Increasingly the use of geospatial analysis is also being explored for identifying social issues. While it won’t help with all issues, it can be useful to map some aspects such as location of land conflicts, subsistence crops and communities.
To conduct a geospatial risk assessment you need to know the GPS coordinates of mills or other aggregators – information which your suppliers will need to provide. The exact supply base – all the producers that supply the mill or aggregator – is typically unknown at this point and so the spatial analysis is conducted on a hypothetical supply base, based on the likely distance producers would move their product. For mills this is often set at a 50 km radius around the mill. The analysis is mainly carried out offline using Geographic Information System (GIS) software, but also makes use of freely available online tools, primarily Global Forest Watch (http://data.globalforestwatch.org).

Statistics are calculated for the supply base for each environmental risk indicator under consideration. For example, you can calculate the percentage natural forest remaining in the supply base, the percentage of natural forest lost in the supply base in the past 10 years or the number of fires occurring since a particular year.

By mapping important values (e.g. remaining forests) and threats to these values (e.g. fires and deforestation) and calculating figures over different time periods, this analysis answers the following questions: 1) What changes have occurred recently? 2) What is the trajectory of change? 3) What does this tell us about potential future changes? This will provide an indication of the risk that production practices, either currently or in the future, may cause deforestation or other negative environmental impacts.

The results are used to compare and rank mills in term of their performance for each indicator and to produce an overall risk score. Ranking can be weighted if certain indicators are especially important to a company. These quantitative data are used alongside qualitative research findings to prioritise the highest risk locations for site visits and further engagement.

This type of information is rapidly becoming more widely and easily available through data sources that can be used on a GIS programme, or through ready-made tools.
Qualitative research

As part of the assessment of supplier performance, qualitative research should provide information on social issues. This is likely to be available from a variety of qualitative sources including websites, reports and discussions with colleagues, partners and networks.

Look for information on issues such as land conflicts and forced displacement, unfair relations between small producers and companies or dealers, poor treatment of workers and strike action or abuse of human rights related to specific companies, locations or mills or issues related to food security.

You can also gather information on environmental aspects such as water shortages, river pollution and sedimentation, biodiversity loss and human–wildlife conflict.

4.3 Planning next steps

Based on the risk analysis above, you should now have a good idea of where the highest risks are in the supply base. Using the risk analysis, prioritise where you will focus resources to investigate further and, if needed, take action. In some cases you can address all high risk locations immediately, but for companies with a large supply base it may take some time and you may need to prioritise further to decide where to start. This will be based on considerations such as the volume or value of product you buy, commercial relationships that you have with suppliers, vertical integration, leverage and risk levels at specific origins.

In addition to risk, consider the potential for interventions to result in positive change (transformation opportunities) when making this decision. As noted in the previous section, take into account existing programmes that your direct suppliers have and build on those wherever possible. If they already have an effective programme of their own, you may be able to work with them to follow up high risk mills or aggregators, or even rely on their programme to address any issues.
Element 5: Engaging suppliers and producers

All the work up to this point has aimed to understand the supply chain from end product back to the point where the raw material entered the supply chain, including the sustainability risks associated with the origin. However, responsible sourcing commitments relate to the actual impacts of production, so it is now crucial to engage with your suppliers and their own supply base of producers. You’ll need to explain what your responsible sourcing commitments mean in practice and why they are important for them and you; and work with them to deliver these requirements in a way that also brings benefits for them.

In practice this means working with mills or aggregators, either directly or through your suppliers, to build their awareness of your responsible sourcing commitments, support capacity development, encourage engagement with producers and build your own understanding of the current situation. One specific aspect of this is to assess a selection of mills or aggregators and their supply bases in practice to see how they are performing relative to the commitments in your responsible sourcing policy. This involves making visits to the mills and the producers that supply them to verify what actually happens in the field. Site verification is an opportunity to build your relationships with suppliers, identify capacity gaps, develop action plans for continuous improvement and ultimately help you to meet your responsible sourcing commitments.

5.1 Engaging mills or aggregators

It is important to identify strategic opportunities for engaging mills or aggregators through workshops, training and capacity building activities. For example, these activities can be designed to reach the majority of mills supplying a specific refinery or secondary processing facility, or may be targeted at specific higher risk locations.

Such workshops can be an effective means to communicate policy commitments to suppliers, the practical implications for operations, and mechanisms for implementation. They can also focus on implementing key elements of sustainability standards and safeguards.

Engagement at this level is complementary to a more targeted programme of site assessments, in order to achieve positive impacts across a broader supply base. In fact, this type of engagement may be a necessary precursor to planned site verification activities, in order to build confidence and understanding in the process.
5.2 Building local capacity

One of the biggest barriers to change in many places is a chronic lack of local capacity both in the mill or aggregator and among producers. Understanding and implementing responsible practices is a long-term process and needs constant input from competent field personnel. You will almost certainly need to consider how to encourage or support local capacity development to implement improved production practices that meet your responsible sourcing commitments. There are various ways this can be done, for example:

- **Working in collaboration with staff** of the mill or aggregator to develop a plan for continuous improvement of production practices, which could include regular awareness raising, training and mentoring for producers.

- **Building capacity among local partners** such as consultants, NGOs, cooperatives or researchers to provide long-term support for the implementation of responsible production practices.

- **Partnering with local organisations** that can run long-term capacity building programmes.

- **Encouraging your staff** and consultants to work with local organisations to pass on their understanding and experience.

5.3 Engagement with producers

The relationship between a mill or aggregator and the producers who supply it can vary enormously. Producers themselves have extremely varied resources, scale and capacities. These variations will affect the best way to engage with them:

- **Production by the same company**: In some cases, mills or aggregators are supplied by their own plantations or farms. In this case it should be relatively straightforward to implement responsible production practices, provided there is a commitment to do so within the supply company. Focus on building internal commitment for change.

- **Producers in a company programme**: Many mills or aggregators have some type of programme to support production. This ranges from smallholder schemes such as the ‘plasma schemes’ in Indonesian oil palm (where the company establishes and manages the plantation on community land and shares profits) to pre-financing of inputs by mills, which happens for many annual crops. In this case, it may be possible to link the support for producers to their implementation of good practices.

- **Purchase from large producers**: Where the mill or aggregator buys from large producers that are not part of the same company, the producer should have internal resources to understand what is needed and implement good practices, if they are committed to improvement. Focus on building awareness and commitment within the producer organisation.
Some issues are difficult or even impossible for a company to address in isolation. For example, if child labour is an issue, producers can be told not to use young workers but if there is no opportunity for education this may make children’s lives worse not better. Similarly, a concessionaire can make a decision not to convert forest to agriculture but if the government then takes back the forested area and reallocates it to another producer then there is no net gain.

Therefore, there is a growing movement to develop initiatives at the scale of landscapes or jurisdictions (municipalities, states, provinces or even countries) where all the different actors (government, producers, buyers, communities, civil society) can work together to define shared goals, identify and implement best practice, formulate incentives, build capacity and monitor progress. Where such initiatives exist and are effective, engagement with producers is probably most effectively achieved by joining and supporting the initiative.

**Jurisdictional and landscape approaches**

**Box 12**

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The Responsible Sourcing from Smallholders (RSS) framework has been developed by the SHARP Partnership to respond to the challenges that smallholders face when meeting the requirements of their buyers’ responsible sourcing commitments. The RSS focuses on implementation by the aggregator or first gathering point for smallholder products, for example a mill, crusher, trader or producer cooperative.

The RSS framework sets out:

- minimum core sustainability issues for responsible production by smallholders, consistent with those in responsible sourcing policies (pillar 1);
- active support from companies (buyers) to smallholders to help them with further development and improvement of production practices and livelihoods (pillar 2);

The figure on the right presents an overview of these two pillars of the RSS.

The RSS provides companies with a transparent and systematic pathway for engagement with their smallholder supply base and results in increased traceability.

For more information, visit the SHARP Partnership website (www.sharp-partnership.org)
5.4 Site verification

Agreeing the visit

Identify the mills or aggregators that you want to visit using the risk levels and transformation opportunities that you identified through risk assessment (see Section 4) and strategic review (see Section 1).

Once you have identified which mills or aggregators to visit, you need to communicate this to them. Sometimes this is straightforward; in other situations the mills or aggregators may have little experience of this type of activity and may be hesitant to engage. It may require several initial discussions and meetings to gain the trust and cooperation needed to proceed with the visit. Factor this into your planning with regard to both resources and timing. Box 14 summarises some ways to encourage a mill or aggregator to agree to a visit.

Before the visit, it is useful to collect preliminary information on mill capacity, plantation area, number of affiliated and/or independent farmers or smallholders in the supply base, maps of locations, extent of the supply base, etc. This information (often collected using a questionnaire) will allow you to determine the size of the task in hand including the number of days and team members the verification team will require.

Agreeing site visits

To encourage the mill or aggregator to agree to a visit you should:

- Build trust by reaching out to them through their immediate customer (e.g. a trader) if you do not source from them directly.
- Explain the objectives of the visit clearly. It should not be framed as an audit that will have a ‘pass or fail’ outcome; rather as an opportunity to work together to identify how to improve practices to meet demand throughout the industry. It is important to be honest, however, about any consequences of the outcomes.
- Explain the benefits that the verification and subsequent discussions and planning will have for their business. This will help them to meet not only your policy but also other companies’ policies; it can help them move towards certification; and will help them stay ahead of changes that make national legislation and regulations more stringent.
Planning the site verification visit

Before starting clarify the purpose of the site verification. First-time site visits can be used to capture baseline performance information, while follow-up visits are useful for monitoring your suppliers’ progress. Site verification can target a particular sustainability risk, such as deforestation or working conditions, or assess compliance against the range of issues that you have identified through your policy.

To guide the verification process you will need to draw up an assessment checklist and verification protocol. The time-bound commitments of your policy can be translated into specific criteria of an assessment checklist. A detailed site verification protocol will ensure that the site verification is carried out consistently by different assessors and in different locations.

Clarify the roles of all those who will be involved in the verification. Depending on your priorities, you may choose to focus on a mill or processing facility, or with smallholder suppliers in the surrounding area.

The site visit may be carried out by a contracted third party organisation with expertise in environmental and social assessments, or by different people within your own organisation. Your assessment team should be multidisciplinary and able to cover the various aspects of your policy. It is also vital to have knowledge of local geography, laws and customs etc., so be sure to include at least one local team member.

Conducting the verification

Site visits, whether conducted by your organisation or a third-party representative, are an important part of supplier relationship-building, as well as policy compliance, so it is important that you develop effective approaches for gathering accurate information, encouraging participation and ensuring confidentiality. Typically, a site verification will include interviews with company management, workers, supplying farmers, members of local communities and stakeholders from local government and NGOs. Site inspections and a review of documentation are also part of the process.

During the verification process, it is important that a representative from the company being reviewed accompanies the verification team. The verification team should discuss findings, concerns and issues as they arise, to make sure both sides fully understand the situation.

Agreeing on follow-up action

Perhaps the most important part of site verification is to act on the findings by agreeing an improvement plan and monitoring its implementation. As systemic changes may be required for some areas, it will be useful for the plan to include the root causes of aspects that don’t comply with your policy and to incorporate measures to address gaps in capacity identified by the assessment team. Smallholders may require special support.
Element 6. Monitoring and reporting

The implementation of responsible sourcing commitments is a process that will occur over months and years. In order to make sure that you are moving towards the commitments made in your policy, it’s essential to monitor and report on progress, both internally and externally. As well as tracking progress, you also need to react to problems and adapt to changing circumstances in your supply base and externally so regular review and, if necessary, revision of your approach is also very important.

You will need to establish on-going collaboration with key internal functions, especially in departments that manage purchasing, trading and sustainability issues, in order to set up:

- Regular internal monitoring of implementation and identification of new priorities.
- An agreed programme of internal progress reporting (e.g. quarterly) together with regular review and, if necessary, revision of your approach.
- An agreed programme of external progress reporting (e.g. annually as part of the CSR reporting and/or as a standalone report).

6.1 Monitoring of progress and new priorities

It is important to be clear internally about what you will monitor. This should address the two key components of responsible sourcing: traceability (e.g. percentage of each key product traceable back to mill or farm) and responsible production (e.g. percentage certified or percentage of producers meeting your production requirements). When you are setting up your monitoring programme you should think about:

- What information you want and how it should be collected including frequency.
- Where the information will come from (can you collect it yourself or do you have to ask your suppliers).
- How you will use the information (remember that you should only collect information you plan to use).
- What the information will tell you (and what it won’t).

6.2 Internal reporting and review

Many companies set themselves goals or KPIs and internal reporting is based on monitoring progress towards those goals. Ensure that you provide information in the right format for different people within the company. Top management probably need a short and consistent summary of progress with any issues highlighted. Colleagues involved with implementation may want more detail about what is going well and what isn’t.
It is very important that there is an internal system for ensuring that where there are issues or progress is not adequate, action is taken to review your approach and, if necessary, make changes or provide additional resources.

There needs to be a procedure in place for cases where a supplier does not want to accept any part in the responsible sourcing programme or where, upon having an assessment, does not want to make changes or improve. These cases tend to be rare and the result may be that you have to stop buying from that supplier.

6.3 External reporting and transparency

It is not always easy to communicate externally about progress towards your responsible sourcing commitments. It can be a tricky concept to communicate, and progress is not always clear-cut or simple to describe. Departments within your own company and your suppliers may need help with their external communication, to help them share the progress that you make. However, it is increasingly important to be able to communicate with a wide range of stakeholders including customers, financers, shareholders, governments, civil society and campaigners.

It’s important to be open and transparent about any issues that have been identified in your supply chains, even those that may invoke a strong response, such as child labour. Acknowledging that these exist and then playing your part in the process of remediation is crucial.

It is equally important to be clear about the progress that has been made and how this relates to commitments. Increasingly, companies are providing more detailed information to increase transparency as a way of building trust with both customers and campaign groups. Some companies use external platforms or programmes to communicate while others chose to do their own communication (see Box 15).

Sourcing transparency in practice: The example of Musim Mas

The Singapore-based palm oil company Musim Mas has recently launched a portal on their website which provides information on their supply base.

The company has an operational network across different islands on the Indonesian archipelago. An interactive supply chain map provides easy reference to the locations of refining and kernel crushing facilities.

Further information on the mills supplying each facility is then provided in individual reports, which summarise the current traceability of the supply chain.

Further information from www.musimmas.com

Figure 7: It is important to find clear ways to communicate progress in meeting your targets both internally and externally.