

The Accountability Framework

Operational Guidance on Monitoring and Verification

Preliminary Draft

DRAFT FOR WORKSHOPPING
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The Accountability Framework initiative (AFi) aims to develop a common Framework to guide the setting, implementation, and monitoring of supply chain commitments. This draft document represents a working consensus of the AFi partners as well as input from prior consultations involving more than 200 companies, NGOs, governments, and other stakeholders to date. The partners are sharing this draft publicly – and actively consulting a range of key stakeholders – to further build and refine the Framework in a way that reflects the views of interested stakeholders. Based on this consultative process, a revised version of this document will be available later in 2018. For more information, please visit <https://accountability-framework.org/process>.

DISCLAIMER: This work product is intended to be advisory only and is not intended to serve as a legal opinion or legal advice on the matters treated. The reader is encouraged to engage counsel to the extent required.

PURPOSE & SUMMARY

This document provides preliminary guidance on monitoring and verification (M&V) related to company commitments on topics within the Accountability Framework scope. With a focus on environmental and social outcomes associated with raw material production and primary processing, the Operational Guidance includes the following five topics:

1. Supply chain assessment and management to support commodity-buying companies in identifying supply origins, analyzing environmental and social risks, and prioritizing action in areas that are not identified as low risk.
2. Supplier engagement plans (conducted by commodity or product buyers) and supplier action plans (conducted by their suppliers) that define specific activities to address issues related to noncompliance with commitments or other adverse environmental and social impacts.
3. Monitoring methodologies for assessing compliance with and progress toward company commitments as well as the effectiveness of corrective actions where needed.
4. Guidelines for credible verification of compliance and progress that provides the necessary level of assurance both for internal management and for external stakeholders.
5. Opportunities for improving the effectiveness and efficiency of M&V through collaboration.

This preliminary draft provides mainly generalized and global M&V guidance. During the present workshopping period, the AFI partners invite stakeholders to provide input as to: i) the applicability of this guidance to the contexts where they work; ii) the availability of suitable M&V guidance and tools, as well as any key gaps, in the contexts where they work; and iii) how this generalized guidance can best be localized to particular geographies, commodities and social and environmental circumstances where needed. To help guide this workshopping process, several questions are embedded within the document. Readers are encouraged to provide input on these questions and to share any other comments on this draft.

Overview

The purpose of this Operational Guidance is to provide a set of clear and consistent guidelines and best practices for monitoring and verifying the fulfillment of company supply chain commitments on topics within the Accountability Framework scope. This document elaborates upon several of the Framework's Core Principles, particularly Principles 2, 3 and 8. As with the Accountability Framework overall, the commitments being monitored and verified refer to:

- Halting deforestation
- Avoiding conversion of other natural ecosystems
- Respecting human rights (including rights of indigenous peoples, local communities and workers)

The M&V Operational Guidance builds from existing credible and accepted practices for monitoring and assurance of environmental and social performance. It also incorporates emerging innovations in M&V made possible by new technology and necessitated by the imperative for M&V to become more effective, cost-efficient, and scalable if it is to enable fulfilment of supply chain commitments at a sector-wide level.

Scope and applicability

The Operational Guidance addresses M&V of social and environmental outcomes associated with raw material production and primary processing, and at the *supply-base level*.¹ Companies conduct or contribute to such M&V in different ways depending on where they sit along the supply chain:

- Producers and primary processors of raw materials – and in some cases companies such as traders that buy from these producers and have visibility to the supply base level – are in the position to conduct monitoring of on-the-ground conditions and furnish M&V data on these operations.
- Companies that purchase commodities or derived products (i.e., those that manage a portfolio of suppliers) are expected to ensure robust M&V of the progress of their suppliers toward fulfilling commitments. They are also expected to aggregate M&V data across their sourcing portfolios to provide composite information about fulfillment of commitments. Additionally, in some circumstances, these companies may need to be involved in conducting or supporting M&V at the supply base level.

This Operational Guidance is applicable to both suppliers and buyers. Many companies – such as traders and some manufacturers – are both suppliers and buyers of raw, processed, or manufactured materials, and therefore play multiple roles in support of M&V. Ultimately, the company making environmental and social commitments (whether it is a buyer, a supplier, or both) is responsible for monitoring progress and demonstrating fulfillment of its commitments.

Because M&V is closely linked to – and overlaps with – risk management, supplier and supply chain management, continuous improvement, and other elements associated with implementation of company commitments, this version of the Operational Guidance touches on these related topics. As these topics are

¹ This includes farms, plantations, farmer groups, mills, primary processing facilities and their associated supplysheds, slaughterhouses, and groups of these in close geographic proximity (e.g., within a municipality or the supply-shed of a primary processing mill) under common management.

What is meant by monitoring and verification (M&V)?

M&V is an iterative, ongoing process that companies use to assess and demonstrate compliance and performance with respect to their supply chain commitments.

Monitoring is the collection of data on actions and performance based on indicators that correspond to supply chain commitments and/or action plans for fulfilling those commitments.

Verification is an assessment and validation of progress and compliance relative to the stated commitments. It utilizes monitoring data, as well as other information sources, as input to the verification process.

Given the integrated nature of M&V, the methodologies, tools and approaches used for monitoring may be similar to those used for verification.

further elaborated in other sections of the Accountability Framework's Operational Guidance, some of the information currently found in this M&V Operational Guidance may be moved to those other documents.

What is being monitored: compliance and progress

While all companies making commitments are ultimately accountable for full compliance with their respective commitments, this may take time to achieve. M&V systems play a critical role in monitoring and reporting on incremental progress so that companies can effectively manage for and demonstrate systematic improvement toward full compliance. Moreover, while outcomes (e.g., no deforestation, no conversion, and full respect for human rights) are considered the ultimate measures of success, the long-term sustainability of these outcomes may hinge on the actions and systems that buyers and their suppliers have in place to achieve and maintain them. Based on these factors, M&V should consider on two types of results:

- **Compliance:** measures of whether a commitment is being fulfilled. This may include the realization of specific outcomes (e.g., there is no deforestation in the company's supply chain; there are no adverse human rights impacts) as well as the fulfillment of specific actions or processes to which the company has committed – for instance, following the High Carbon Stock Approach methodology.
- **Progress:** measures of whether quantitative or qualitative progress is being made toward full compliance. Progress may be measured in terms of progressive realization of a specific outcome (e.g., 70% of a manufacturer's beef supply is deforestation-free) and/or actions taken toward full compliance (for instance, as specified in supplier action plans – see Section 2).

Monitoring systems that track stepwise progress toward full compliance should be used to incentivize and manage rapid progress toward this end by both suppliers and buyers. As discussed in Section 1, buyers should have policies and processes in their Supplier Management Systems to address stagnating progress or repeated or systemic non-compliance.² These may include the suspension, cancellation, or non-renewal of purchases or contracts.

Organization of this Operational Guidance

This document is organized into the following five sections:

1. Supply chain assessment and management
2. Supplier engagement plans and supplier action plans
3. Monitoring methodologies
4. Guidelines for credible verification
5. Opportunities for improving effectiveness and efficiency of M&V through collaboration

This initial draft of the M&V Operational Guidance provides generalized global expectations for effective and credible M&V systems. As the Accountability Framework is further developed in the coming months, this global guidance will be linked to localized norms, guidelines, and best practices associated with particular geographies, commodities, or social and environmental topics. It will also reference additional tools, monitoring systems, and initiatives that companies can utilize to fulfill some or all of the M&V good practices specified in this Operational Guidance. This further elaboration is being accomplished through consultations with stakeholders in different commodity sectors and regions as well as analysis of how various existing M&V tools and systems can help fulfill company M&V requirements in line with the Accountability Framework.

² As clarified in the Definitions and Core Principles, the term "non-compliance" is used throughout the Accountability Framework to include non-compliance with company commitments or applicable law related to the Accountability Framework scope, as well as adverse impacts to internationally recognized human rights.

Invitation for input

As noted above, this document is preliminary in nature. The AFi partners aim to elaborate it further based on the interests, needs, and recommendations of companies, NGOs, governments, and others involved in responsible supply chains. As part of the present workshoping process, readers are encouraged to identify those topics where they believe it would be most valuable to provide additional guidance, offer more localized information, or identify suitable tools and best practices. In doing so, readers are invited to consider the challenges listed in the box below as well as any others they identify from their experience.

Where additional guidelines or tools are needed, readers are encouraged to share specific examples, resources, or technical details that could be incorporated into the next version of this Operational Guidance.

Some key challenges related to supply chain monitoring and verification

M&V of supply chain commitments has proven to be challenging for many of the companies that have issued such commitments and are working to honor them. Key challenges and barriers include, among others:

- **Traceability:** downstream companies (or their assurance providers) often are not able to gain access to key information about suppliers and producers. This is particularly challenging when sourcing from smallholders or independent suppliers, or through spot markets.
- **Monitoring indicators and metrics:** clarity on what to monitor at the supply-base level is often lacking. Companies may also receive divergent expectations or advice as to the indicators and metrics they should use.
- **Local capacity:** suppliers may lack the capacity or resources to conduct M&V that meets the requirements or expectations of their customers (downstream companies). This often reflects the constraints within which suppliers operate as well as limited support from buyers to suppliers to fulfill, monitor and verify commitments. In many contexts, there is also a dearth of qualified professionals or organizations to provide effective M&V services.
- **Detection of non-compliant performance and actions:** traditional M&V tools and approaches are often not able to detect non-compliant behavior and conditions, particularly regarding human rights issues, for which geospatial monitoring tools are generally not suitable.

1. Supply chain assessment and management (for buyers)

For buyers³ managing a portfolio of suppliers, effective M&V is dependent on implementation of a robust supplier management system.⁴ This system specifies the policies, practices and actions for assuring that buyers and their suppliers fulfill the buying company's commitments. It also defines how the buying company will engage with its suppliers to support such fulfillment. See Annex 1 on page 20 for additional guidance on supplier management systems.

As part of this system, companies are expected to implement and have documented procedures for risk management and quality assurance, including for:

1. **traceability and supply chain mapping** to identify supply origins (including of third-party suppliers) (see further detail in 1.1, below);

³ Buyers are companies that purchase raw materials, processed materials, or finished products from supplier(s). See the Definitions for further explanation.

⁴ Supplier management systems are also known as (or can incorporate) Quality Management Systems, Quality Assurance Systems, Risk Management Systems, Sustainable Sourcing Plans, Purchase Control Systems, and other similar terms.

2. **assessment of environmental and social risks** in their supply origins – including risk that company commitments are not being met – and prioritizing action in areas that are not identified as low risk (see further detail in 1.2, below);
3. **supplier engagement plans** (for specific suppliers or groups of suppliers) that are initiated when environmental and social weaknesses, negative impacts and/or non-compliance with company commitments are detected, and are implemented to address these issues. Complementing supplier engagement plans are **supplier action plans**, which are typically developed and owned by suppliers, although buyers may inform the plans by communicating their commitments and expectations and committing support to help suppliers implement the plans (see further detail in Section 2); and
4. **credible and effective M&V** for tracking, documenting, and communicating progress and compliance, and for supporting supply chain transparency (see further detail in Sections 3 and 4).

The assessment processes, and resulting plans, may follow an iterative approach to progress, learning and improvement. For example, initial coarse-grained risk assessments and supply chain mapping may progress toward full traceability as described below. Similarly, supplier engagement plans and supplier action plans may evolve in response to information gathered during the M&V process.

1.1 Traceability

As stated in Core Principle 2, the origins of materials in supply chains should be known or controlled to a sufficient extent to ascertain compliance with commitments or to determine the extent and nature of non-compliance. To meet this requirement, buyers must institute a sufficient level of traceability by either:

- a) tracing raw materials to the production or processing units of origin; and/or
- b) tracing raw materials to an intermediate supplier that itself has robust control mechanisms in place to ensure that its supplies are traced to the production or processing units of origin, and can provide sufficient evidence of this to the purchasing company; and/or
- c) utilizing credible assurance systems (e.g., credible certification systems) capable of linking raw material supplies with production units having specific compliance or performance attributes; and/or
- d) tracing materials to jurisdictions that have achieved adequate levels of social and environmental performance (i.e., are low risk), and provide adequate monitoring, to demonstrate compliance of raw materials from these origins with company commitments.⁵

In the case of (b), third-party verification may be required to validate the veracity of traceability data and the robustness of the supplier's control mechanisms.

The company should document its traceability procedures so that these can be verified. This includes: i) the methodology and approach utilized for supply chain traceability; ii) the present status of traceability (i.e., the overall proportion of the supply chain that is traceable to different supply stages, disaggregated by relevant factors such as sourcing origin); and iii) an analysis of challenges to reaching adequate traceability (as outlined above) for the full supply chain and measures to being taken or planned to overcome these challenges). The next version of this Operational Guidance will provide additional guidelines regarding the information that suppliers should provide to buyers for traceability purposes.

1.2 Risk assessment

Companies should assess their supply origins for compliance with company commitments. These assessments may be conducted by the company itself or by a contractor, and may utilize a range of risk assessment tools,

⁵ Further guidance on the utilization of jurisdictional systems to fulfill supply chain traceability and M&V requirements is provided in the Operational Guidance on Applying Voluntary Commitments in Context, which addresses how companies can use jurisdictional approaches to manage responsible supply chains.

including, for example: risk profiles at national and sub-national levels; geospatial data about sourcing areas; and sub-national risk assessments that are jointly developed by companies or trade associations sourcing from the given region.

Assessments may follow an iterative process – from coarse-grained to fine-grained – combined with increasingly detailed levels of traceability.

- **Coarse-grained risk assessment:** an initial screening whereby risk of non-compliance is assessed at national or sub-national scales based on the nature of the commitment and general information about the sourcing areas. Coarse-grained risk assessment serves to help prioritize further traceability efforts, determine the need for fine-grained risk assessment, and prioritize company action for various elements of the supplier management system, such as supplier requirements, documentation, M&V, and supplier support.
Risk assessment at this level can be conducted based on initial supply chain mapping that identifies raw material origins to the national or sub-national levels.⁶ These assessments often rely on a desk-based methodology. Results of these assessments determine the need for finer-scale traceability and monitoring, which should be prioritized according to level of risk.
- **Fine-grained risk assessment:** a more detailed screening that utilizes additional data sources, is based on more precise location data for suppliers, and/or considers other supplier characteristics that may affect risk levels. Additional data sources may include finer-resolution satellite imagery, more customized risk-profiling tools, interviews with stakeholders and other subject matter experts, and on-the-ground techniques (see box below). Risk assessment at this level may necessitate going beyond a desk-based review.

To facilitate accurate risk characterizations (e.g., low, medium, or high risk) resulting from the assessment process, and to support comparability of results across companies sourcing from the same region, the risk assessment methodology should observe the following guidance:

- **Risk assessment indicators** should align with company commitments and be consistent with the Accountability Framework Definitions and requirements of the Core Principles.
- **Risk assessment tools** should be credible, current, and provide the necessary environmental and social data for characterizing risk.
- **Risk attributes** considered in the assessment should include at least those related to the commodity, location and supplier.
- Risk assessments should be **specific to commodity, commitment and geography**: for instance, risk levels for deforestation or vulnerability of High Conservation Values may differ from risk levels for forced labor or other human rights violations.
- Risk should be characterized relative to **comparable units of analysis**: for instance, deforestation risk in a given jurisdiction should be characterized relative to other jurisdictions. Risk at a site level should not be compared to risk at a jurisdiction or national level, nor vice versa.
- Companies are encouraged to engage in **collaborative pre-competitive activities** with other companies in their sector (that is, companies producing in or sourcing from the same landscape or jurisdiction) with the aim to increase efficiencies, strengthen impact, and reduce leakage. This may include sharing supply chain and risk assessment information to develop robust risk profiles for supply areas. See Section 5 for more details.

⁶ For companies purchasing materials that are one or more supply chain links removed from their origin (e.g., manufactured products or raw materials that have undergone secondary or tertiary processing, such as palm oil derivatives), even this coarse level of information on raw material origins is not always readily available. In this case, course-grained risk assessment should be based on available sources of information about raw material origins, including information furnished by suppliers. If raw material origins cannot be determined from this information, further investigation is required by the company itself or via its suppliers.

- **Peer review** (by independent entities) of the chosen risk assessment methodology and results should be considered when sourcing from regions not generally perceived as low-risk.

Invitation for input

This section aims to support risk assessment processes that are credible, rigorous, and standardized so that these result in comparable and meaningful risk designations that are appropriate for guiding supply chain actions and M&V. Toward this goal, would it be helpful to provide additional guidance such as:

- an indicative set of risk assessment indicators related to companies' environmental and social commitments; or
- guidance on how companies, NGOs, and other stakeholders might work together to develop pre-competitive collaborative risk assessments?

Input is also invited from companies that conduct or commission risk assessments, including: 1) What challenges do you currently face in conducting or utilizing such assessments? 2) What risk assessment tools do you use? 3) What risk assessment indicators do you use? Readers are also encouraged to share any relevant examples or resources to guide further development of this section.

A note on risk characterization within the context of the Accountability Framework:

The types of supply chain commitments addressed by the Accountability Framework typically focus on commodities and regions that are mainly not low-risk for environmental impacts (e.g., deforestation) or adverse human rights impacts (e.g., forced labor or workplace rights violations). These include palm oil, soy, beef, pulp and timber, cocoa, rubber, and other commodities produced in tropical or sub-tropical areas. Thus, while risk assessments can be a helpful tool to enable companies to prioritize and sequence their investments in responsible supply chains – including investments in M&V – they do not provide a long-term substitute for securing a high degree of visibility and control over a company's supply base to be able to demonstrate fulfillment of commitments with a high degree of confidence. Over time, if jurisdictional approaches fulfill their promise, then a greater number of tropical and sub-tropical jurisdictions areas may emerge as lower-risk sourcing areas. See the Operational Guidance on Applying Voluntary Commitments in Context for more information on how jurisdictional systems may complement supply chain controls to help companies fulfill and demonstrate achievement of their commitments.

2. Supplier engagement plans and supplier action plans

As indicated in the Overview, in addition to assessing compliance, M&V processes also aim to assess progress and the implementation of actions needed to maintain, achieve, or otherwise demonstrate such compliance. For this reason, the development of action plans – and the monitoring and verification of their implementation – is an important component of M&V systems. This section describes when action plans are needed, and what they should contain, to facilitate effective M&V of progress toward fulfilling commitments.

Where risk assessments identify sourcing areas that are not low-risk, gap assessments (or baseline assessments) of actual performance should be conducted to identify gaps in compliance and the degree and specific nature of any non-compliance. These gap assessments are conducted at the supply-base level. They are generally carried out by producers or primary processors, or in some cases by traders that buy directly from these entities, or by these companies' technical assistance providers. In some cases, buyers further downstream may need to support such efforts.

Action is needed when gap assessments indicate actual non-compliances, a high potential for non-compliances (e.g., conditions that pose significant risk for child labor), and/or weaknesses in supplier performance (e.g., low-

level capacity for implementing certain management measures). Appropriate actions should be specified through supplier action plans and supplier engagement plans, as outlined below.

2.1 Supplier action plans

When indicated by the findings of risk assessment, gap assessment, or M&V processes, suppliers are expected to develop and implement action plans that define the specific, on-the-ground activities that will be implemented to avoid, correct, mitigate, compensate, and otherwise address the actual or potential non-compliances. Buyers may provide input and support to the development of these plans to ensure that they adequately reflect company commitments and expectations. The next version of the Operational Guidance will provide further guidelines, examples, and best practices on the following elements, which should typically be included in these action plans:

- **Time-bound corrective actions** needed to effectively address each issue, including targets and milestones;
- Use of technically **sound and credible assessment approaches** to identify appropriate actions, including Environmental and Social Impact Assessments (ESIAs), Human Rights Impact Assessments (HRIAs), High Conversation Value (HCV) assessments, High Carbon Stock Approach (HCSA) assessments, and GIS-based assessments for monitoring of deforestation through remote sensing;
- Analysis of the relationship between **environmental and social impacts**, as one might positively or adversely affect the other;
- **Clearly defined consequences** for not meeting targets, such as sanctioning producers;
- **Roles and responsibilities** for implementing each of the corrective actions;
- **Stakeholder engagement** process, including in the development of the action plan and for monitoring outcomes; and
- **Means for monitoring, verifying, and reporting** on improvements (see further detail in Section 3).

2.2 Supplier engagement plans

Commodity-buying companies are expected to have plans in place for how they will engage non-compliant suppliers to ensure implementation of the corrective actions and ultimate fulfillment of company commitments. These plans typically should include:

- Clear definitions of non-compliance, with evidence that supports how non-compliance is determined;
- Time-bound actions that the buyer will take to support, incentivize, oversee, monitor, or otherwise engage the supplier to address the non-compliances;
- Consequences of enduring non-compliance such as cancellation or suspension of contracts or purchasing arrangements, or other sanctions; and
- Monitoring, verification, and reporting of actions and performance, including procedures for stakeholder engagement and grievance processes (see further details in Section 3).

The next version of the Operational Guidance will provide further guidelines, examples and best practices on these elements.

2.3 Plans for new site acquisition, development, or major new activities

The above action plans pertain to the management of existing production and processing operations. In the case of new production or processing operations (or major expansions to existing ones), action plans should be developed as an output of an effective process of participatory assessment, planning, and negotiation that is outlined in Core Principle 4 and will be further elaborated in future sections of the Operational Guidance. Such processes use methods such as ESIA, HCV assessments, and free, prior, and informed consent (FPIC) to arrive at

mutually agreed plans that are likely to fulfill company commitments. These plans may specify various time-bound or ongoing actions – such as mechanisms for long-term protection of conservation set-asides or specific agreed benefits for indigenous peoples, local communities, or workers – which can be assessed as M&V indicators to determine whether the site is being developed and managed in accordance with social and environmental commitments.

Resources...Coming Soon!

Future versions of the M&V Operational Guidance will provide links to existing relevant resources to support the application of guidance on supplier assessment and management. This may include, for instance:

- A database (filterable by geography and topic) of risk assessment tools, matrices, indices and profiles
- 'How to' guides, examples, and best practices for supply chain mapping, risk assessments, risk-based approaches, and supplier engagement plans and action plans

The AFi invites input on what kinds of resources would be most helpful in clarifying expectations and highlighting suitable tools to apply this Guidance.

3. Monitoring Methodologies

3.1 Monitoring systems and processes

Monitoring and verification are closely related activities, and there can be a great deal of overlap in their methods, tools and approaches. This section focuses on monitoring methodologies and indicators, recognizing that much of this material is also germane to verification practices. Section 4 complements this material by providing guidelines specific to verification.

Relationship to existing initiatives and standards

During the present workshopping period, existing M&V systems and initiatives – for example, those associated with the Brazil Cattle Agreement, the Amazon Soy Moratorium, the Cocoa and Forests Initiative, and others – are being analyzed further to characterize and assess their alignment with this Operational Guidance. The next version of this Operational Guidance will provide additional detail on how existing initiatives and standards that include M&V functions can be utilized to help fulfill the Accountability Framework and credibly demonstrate progress toward fulfilling company commitments.

Monitoring of social and environmental outcomes and impacts associated with raw material production and primary processing requires methodologies that enable assessment of actual and potential adverse impacts of supplier activities, and the effectiveness of corrective actions aimed at fulfilling company commitments. Development of a supply base monitoring system generally follows the logical sequence of:

- a. Defining **what** to monitor: What are the desired outcomes (e.g., no conversion of natural forest to plantation; no land tenure conflicts) and what results-based indicators correspond with these outcomes? What indicators can be used to demonstrate progress towards meeting the desired outcomes?
- b. Defining **how** to monitor: What data collection methods and means of measure are suitable for evaluating the chosen indicators? How and by whom will the data be provided? What control measures are appropriate for downstream companies to use to ensure adequate monitoring when they do not have full visibility to the origins of their supply base?

- c. Gathering **baseline information**: What is the current condition with respect to the desired outcomes? If there has been recent deforestation or conversion, when did these changes take place relative to the cut-off date specified in the relevant commitment?
- d. Defining **frequency**: How often will data need to be collected and assessed?
- e. Planning for **use of the results**: How will the monitoring data be used to inform decision-making, guide supplier management systems, or change behavior within the company and its suppliers? What information related to progress and compliance will be reported externally?

3.1.1 Monitoring roles within the supply chain

For monitoring at the supply base level, the roles and responsibilities of buyers and suppliers will differ depending on the configuration of the supply chain, the degree of visibility and control that the buyer has over its supply chain, and the use of other control measures such as credible certification or other third-party verification for raw material supplies. In some situations, buyers themselves monitor supplier compliance or they contract service providers to support these efforts; in other situations, they rely upon their suppliers to report this monitoring information, in which case buyers will need to verify such information to assure compliance.

3.1.2 Identifying the areas to monitor

The scope of monitoring should be clearly defined by maps of the area impacted or potentially impacted by production, processing, or other related activities. The area being monitored should encompass the full extent of the production area as well as surrounding areas where impacts may occur as a result of the operations, such as off-site impacts on water courses flowing from a farm or adverse impacts to nearby communities.

3.1.3 Targets and Indicators

Monitoring should be conducted relative to clearly defined elements of the company's commitments and an associated set of time-bound targets and indicators (see also Core Principle 1: Company Systems). Targets and indicators should:

- be consistent with the Accountability Framework Definitions and requirements of the Core Principles;
- build off, and be benchmarked to, internationally recognized standards and applicable laws related to the company commitments;
- be consistent with SMART guidelines (i.e., specific, measurable, attainable, relevant, and time-bound) so that they can be objectively measured, including in quantitative terms whenever appropriate⁷;
- Include outcome-based indicators, that assess the impact of policies as well as their implementation, in addition to action or process based indicators; and
- be developed based on an appropriate level of input from relevant stakeholders to help ensure that indicators meaningfully address the relevant environmental and social issues (see box below on stakeholder engagement in the monitoring process).

The AFi is working to develop a suggested set of monitoring indicators associated with key elements of the Accountability Framework scope and associated definitions, such as deforestation. This information will be provided in future versions of the Operational Guidance.

⁷ The Accountability Framework also recognizes the value and use of qualitative indicators, which may be more suitable for monitoring certain aspects of performance and improvement.

Stakeholder engagement in the monitoring process

Stakeholders can play multiple roles in the monitoring process, including to:

- serve as a source of information, collected through interviews, surveys, grievance mechanisms, reports, and interactive platforms;
- participate in the development of the monitoring design and methodology; and
- conduct monitoring through community-based or participatory monitoring approaches.

An early step in developing a monitoring process should be to define which stakeholders will be engaged in what ways. The next version of the Operational Guidance will provide resources on stakeholder mapping and other tools to support the stakeholder engagement process.

3.2 Tools and approaches for monitoring environmental commitments

Compliance with and progress toward deforestation-free and conversion-free commitments should be monitored through assessment of land use and land cover change in the subject area. Monitoring should be able to address the questions: 1) Has there been recent deforestation or conversion within the area where the company's raw material is being produced or sourced? and 2) When did this deforestation or conversion take place relative to the cutoff dates specified in the relevant commitment?

Geospatial data sets and data delivery mechanisms (both open source and customized services) are increasingly capable of detecting deforestation and other land use changes, in near-real time and compared to a baseline time period. Monitoring of compliance with or progress toward deforestation-free or conversion-free commitments should be conducted using recognized, credible, and technically sound tools and processes. This will ensure both comparability and external credibility of monitoring data within and across companies and other stakeholders. In selecting the appropriate tool, the following characteristics should be considered to determine whether the tool is fit-for-purpose:

- **Metrics:** Some tools may provide information on multiple metrics and indicators related to deforestation and conversion while others may concentrate on one specific indicator, such as forest cover.
- **Commodity:** Some tools are commodity-specific while others can be utilized for any commodity. Many tools are accurate for detecting changes from forest to pasture or row-crop agriculture but may not reliably detect changes from natural forest to forest plantations, tree crops, or agroforestry systems. Customized tools or other approaches may be needed where land use change associated with the given commodity production system requires greater spatial resolution, interpretation, or ground truthing.
- **Geography:** The tool should cover the area that is being monitored: some tools only have monitoring data and functionality for a specific region or country, while others can be utilized to monitor the entire globe.
- **Resolution:** Some tools utilize high resolution data that can detect small-footprint land use change events (e.g., clearing by smallholders), while others utilize coarser resolution data that is limited to detecting larger changes.
- **Frequency:** Some tools' data is updated as frequently as daily, while others is updated monthly, annually, or over longer time periods. The data and tools used for monitoring should include temporal coverage aligned with the relevant cutoff dates specified in the commitments, as well as annual coverage following that time.
- **Usability:** Some tools are designed to enable the overlay of, and interaction with, supply chain data within the tool itself. Where this functionality does not exist, environmental monitoring data will typically need to be extracted and analyzed using appropriate software, such as ArcGIS.

Where more precise data are needed, ground-based monitoring techniques may be used to triangulate information. The next version of the Operational Guidance will further elaborate which environmental commitments and which land-use change scenarios can be adequately monitored through remote sensing-based tools and which require supplemental on-the-ground investigation.

Invitation for input

For companies or organizations engaged in monitoring environmental commitments: what are the biggest challenges that you face? What additional guidance would be helpful to include in this section to guide how environmental commitments are monitored?

3.3 Monitoring of social commitments

To effectively assess compliance with and progress toward human rights commitments, on-the-ground approaches are generally required. The complexity of issues surrounding human rights (including land rights and workers' rights) further necessitates that stakeholder interviews, document review, and other monitoring techniques follow best practices specific to the social issues being monitored.

Community-based monitoring approaches, as well as use of information from affected parties (for instance, through a company's grievance mechanism), can be valuable and often necessary supplements to the work of monitoring professionals and the use of monitoring tools. These are increasingly used for monitoring both environmental and social performance, and are particularly valuable for assessing human rights issues. Companies are encouraged to utilize and/or support the development of community-based monitoring initiatives when such an approach is warranted. See Annex 2 on page 21 for more information on community-based monitoring and Annex 3 on page 24 for more information on grievance mechanisms.

Invitation for input

What additional guidance on monitoring of social commitments would be most useful to further elaborate in this section? Please consider different contexts (e.g., commodity, geography, risk level, human rights issue), experiences, and best practices.

For companies or organizations engaged in monitoring of social commitments: what are the biggest challenges you face? What tools and methodologies do you currently use?

3.4 Other monitoring considerations

Several other considerations are relevant to the monitoring of both environmental and social commitments. These include:

- **Monitoring Frequency:** The frequency and intensity of monitoring should depend on the topics being monitored and the level of risk of non-compliance. Different aspects of a company's commitments are likely to warrant different monitoring frequencies. For example, supply chain maps might only need to be assessed periodically while human rights compliance in a high-risk situation will need to be assessed more frequently to detect changing conditions and identify areas requiring immediate action.
- **Monitoring cumulative impacts:** Monitoring should include an assessment of the cumulative impacts.
- **Connection between environmental and social outcomes:** Monitoring activities should recognize and assess the connection between environmental and human rights impacts. For example, deforestation may lead to land tenure violations or harm community livelihoods, or compliance with deforestation-free commitments may jeopardize food security if appropriate actions are not taken. Therefore, monitoring activities should be scoped and designed to assess environmental and social

issues in relation to one another, thereby considering the 'big picture' rather than limiting themselves to narrow compliance assessments of each commitment in isolation.

- **Stakeholder engagement in design and methodology:** Up-front, meaningful and ongoing engagement with stakeholders will help ensure that the M&V system addresses key issues and potential stakeholder concerns. Engagement strategies should be commensurate with the nature of the operations being monitored; for example, higher risk and larger scale activities as well as monitoring of social issues will likely necessitate greater stakeholder engagement. Stakeholder engagement processes should be open to all interested stakeholders and clear and transparent.
- **Role of monitoring in driving positive change:** M&V results should be connected to buyer and supplier management systems and decision-making, triggering changes to procurement decisions, activities, and policies where necessary (see also Section 4.1, below).

On-the-ground monitoring techniques

Field-based monitoring techniques include field observations, document review, and various types of stakeholder interviews (e.g., one-on-one interviews, household surveys, focus groups, and consultations). Following are some elements of and considerations for these techniques.

Document review may include information sources such as:

- Company management systems, policies, and procedures
- Methodologies and results of internal M&V systems
- Records related to workers', characteristics (e.g., gender, worker type), pay, accidents, and other information
- Legal information, such as court records and decisions, licenses, titles, permits, concessions
- Results or documentation of assessment or planning processes, such as ESIA's, HCV or HCSA assessments, and outcomes of FPIC processes
- Media and crowdsourced information
- Information pertaining to grievance mechanisms, including details of outstanding and resolved grievances

Stakeholder interviews, surveys and consultation may include government representatives, potentially affected stakeholders, workers, CSOs/NGOs, subject matter experts, and community-based monitoring groups. Interview and consultation processes should ensure safety, gender sensitivity and participation of otherwise marginalized and vulnerable groups.

Sampling practices: Regardless of the monitoring technique(s) used, if monitoring is to be based on a sample of locations, production units (e.g., farms, forest management units, or processing facilities), or affected persons or groups, this sample should be selected according to good practices, such as:

- The sample should be sufficient in size to detect trends while not being cost- and time-prohibitive
- A stratified random sampling approach should be considered to help ensure that all key groups or land types are included within the sample
- Ensure that the sample includes unique, sensitive, or important features, such as HCVs, areas where conflict is known to occur, and communities where remediation is taking place
- A common rule-of-thumb is to use either the square root or the square root plus one of the total population (e.g., number of farms or number of workers) to determine sample size

3.5 Monitoring of suppliers

Buyers of commodities or their derived products are expected to have a monitoring system in place to: i) ensure that their suppliers are effectively monitoring fulfillment of and/or progress toward the buyer's commitments; ii) receive, manage, and analyze compliance and progress data from their suppliers to generate aggregate

assessments of compliance and progress across the buyer's entire supply base; and iii) assess the effectiveness of the systems, policies, and procedures in place to ensure adequate control over and monitoring of its supply base. The latter component would typically be fulfilled, at least in part, by assessing the company's supplier management system (see Annex 1 on page 20).

The specific details of how a company monitors its supply base will depend on the relationship, visibility, leverage, and other characteristics associated with the company and its suppliers. Further information will be provided in the next version of the Operational Guidance.

Resources...Coming Soon!

The M&V Operational Guidance will provide links to relevant resources to support monitoring and verification efforts, including:

- A database (filterable by geography and topic) of monitoring tools suitable to help assess social and environmental commitments within the scope of the Accountability Framework
- 'How to' guides and examples for developing monitoring plans, supporting community-based monitoring approaches, and others

4. Guidelines for credible verification

Companies (both suppliers and buyers) should establish verification mechanisms that document levels of progress and compliance with company commitments and provide the necessary level of assurance both for internal management and for external stakeholders.

This Operational Guidance does not aim to replicate existing standards or guides on verification nor to introduce new requirements. Rather, the intent is to highlight key characteristics that are essential for effective verification of company supply chain commitments, including when third-party verification (either through or outside of an accredited certification scheme) will be expected.

Verification systems are classified based on the relationship between the company and the verifying party:

- **First-party verification** is conducted by the company itself, although it should be implemented by personnel not involved in the management of the operations being verified.⁸
- **Second-party verification** is conducted by a related entity with an interest in the company or operation being assessed, such as the business customer of a production/processing operation or a contractor that also provides services other than verification.
- **Third-party verification** is conducted by an independent entity that does not provide other services to the company.

First and second-party verification is sometimes referred to as an internal audit. The results of such audits are often used internally by the company to guide its decision-making. Third-party verification is also referred to as external assurance. The output of third-party verification usually includes some form of public reporting.

First, second, and third-party verification approaches are not mutually exclusive; companies may carry out self-assessments (first party) or contract with service providers (second party) to gauge compliance and identify gaps for improvement, and then add independent assurance through use of third-party auditors. Decision on

⁸ The concept of verification signifies that information is validated by persons other than those involved in the operation or entity being assessed. Thus, even in the case of first-party verification, a person or team separate from the operation or unit being assessed should be designated to carry out the verification. Data collection or assessment carried out by personnel involved in the operation or unit being assessed is generally considered to be monitoring but not verification.

when and where to use internal verification, external verification, or a combination thereof, depends on several factors (see Section 4.2, below).

4.1 Characteristics of a credible verification process

Common good practices for credible verification should be followed regardless of the type of verification used. Key characteristics of a credible verification process include:

- a. **Consistency** through documented procedures and decision-making protocols, including the methodology used for making determinations of compliance or non-compliance.
- b. **Rigorous methodologies**, including:
 - appropriate scope and scale of verification;
 - auditable indicators; and
 - appropriate methods (including justification of audit intensity, i.e., the number of auditors and audit days) for verifying compliance.

Rigorous verification methodologies may coincide or overlap with the monitoring methodologies described above, or they may focus at a broader level and entail greater emphasis on company systems and processes as opposed to detailed on-the-ground measurement. For instance, verification methodology may include verification of the adequacy of a company's monitoring plan, verification of satellite data, and verification of complaints and their resolution, as well as field sampling that is less extensive than sampling designed for monitoring.

- c. **Competent auditors**, with appropriate skills, knowledge and expertise for the area being verified. This includes, for example:
 - knowledge and expertise in the specific issues being verified;
 - 'soft skills' such as critical thinking, problem solving, and communications;
 - ability to understand documents and identify instances when documents may have been improperly manipulated;
 - ability to develop and implement stakeholder consultation methodologies; and
 - particularly for environmental issues, proficiency in the use of geospatial tools and GIS.
- d. **Impartiality and independence** through use of persons or organizations (whether internal employees or external auditors or auditing organizations) who are free of relationships that could impair objectivity. While internal auditors cannot be completely independent from the company, their payment arrangements and terms of reference should not be seen as exercising undue influence or prejudicing the verification process. Auditors should be independent of the company's main operational activities or commitment being evaluated, and should not report to the entity managing or responsible for business results from the operation being verified.
- e. **Transparency** to help foster external review or scrutiny of verification processes. This may be achieved through robust company policies and practices for:
 - stakeholder engagement;
 - managing grievances (see Annex 3 on page 24); and
 - public disclosure of information⁹, commensurate with assurance needs, including:
 - methodologies used for M&V, traceability, and risk assessments (including approaches, indicators and tools used); and

⁹ The Accountability Framework encourages and supports supply chain transparency as a means to help accelerate progress and improve accountability toward fulfilling company commitments. The next version of the Operational Guidance will provide additional information regarding expectations for data provision and disclosure related to production units and supply chains. See also Core Principle 9 for an *Invitation for Input* on supply chain transparency.

- information related to grievance systems including a summary of grievances received, how they were assessed, status, and outcome.
- f. **Linkage to improvement processes** by incorporating approaches that go beyond traditional 'tick the box' auditing but instead support continuous engagement, learning, and improvement of operations so that they can more effectively avoid and mitigate future adverse impacts and reach full compliance with commitments. This is particularly valuable for social non-compliances, which are often harder to detect and resolve than environmental ones. The next version of the Operational Guidance will provide additional details on:
 - use of root cause analyses to identify the underlying causes behind the verification findings so that the company is best positioned to use the verification process to improve its own practices and those of its suppliers;
 - collaborative assessments that engage communities, workers, and other stakeholders in developing the verification methodology and implementing the verification procedures; and
 - use of verification results to define capacity building needs and opportunities.

Best practices: Stakeholder consultation during verification audits

- The auditor should have expertise in processes for engaging stakeholders and others affected by the company's operations, including employees, contract workers, local communities, indigenous peoples, women and children, and other vulnerable groups. This engagement process should begin with a stakeholder mapping exercise to ensure that all key groups are included in a sensitive and appropriate manner.
- The audit plan should allocate sufficient time to interviews and the audit report should demonstrate that sufficient time was spent on interviews. A general guideline is that approximately 50% of the audit time should be spent on interviews.
- Interview formats and techniques should be tailored to maximize the likelihood of eliciting relevant information while protecting interviewed parties. This usually requires a combination of individual and group interviews.
- Interviewees should be selected through accepted sampling techniques (such as stratified random sampling) that ensure broad representation of all relevant stakeholder groups across parameters such as age, ethnicity, gender, employee status, location, and type of work performed.
- Female stakeholders should generally be interviewed by female auditors to the extent possible.
- Issues identified during interviews and stakeholder consultation should be thoroughly investigated.
- Interviews and consultation should be conducted in a culturally appropriate manner using languages, methods, and settings that facilitate open engagement and protect the wellbeing of participants.

Verification of Respect for Human Rights

The UN Guiding Principles on Business and Human Rights (UNGPs) includes guidance for effective verification of human rights issues. The UNGP Reporting Framework and UNGP Assurance Guidance identify the following nine factors as ones that should be given particular attention when conducting verification related to human rights topics:

1. Suitability of the scope of the assurance process;
2. Time to gather evidence;
3. Conflicts between local laws and international standards;
4. Professionalism, skepticism, and judgment;
5. Review of salient human rights issues;
6. Engagement with external stakeholders;
7. Limited versus reasonable assurance in the context of external assurance processes;
8. Retention of evidence; and
9. Subsequent events.

Invitation for input

The above characteristics of credible verification are based on requirements or guidelines from existing references such as the ISEAL Assurance Code, International Organization for Standardization (ISO), guidelines of the UNGPs), and other related sources. Should additional characteristics of credible verification be included here? Would it be helpful to provide further guidance or examples for any of these (and which ones)?

4.2 Third-party verification

Third-party verification serves a valuable function as part of an overall M&V system by providing a higher level of confidence and credibility that a given level of compliance or progress has been achieved. This confidence can help substantiate company claims and external reporting on progress toward fulfilling commitments. Expectations for the use of third-party verification of company commitments will differ by context depending on: i) the nature of the commitments being assessed; ii) the risk context of the operations or supply chains being assessed; and iii) the nature of the claims that the company wishes to make.

Examples of instances where third-party verification might typically be required include:

- to verify the systems of suppliers and/or of buyers (including their M&V methodologies and control measures) for ensuring that both are appropriate for effectively monitoring and verifying fulfillment of commitments;
- to verify assessments of compliance with deforestation- and conversion-related commitments based on satellite imagery;
- to verify the veracity of traceability information (i.e., the origin of supplies);
- to verify that site-level assessments and planning processes¹⁰ carried out by producers and primary processors have been duly conducted and that the resulting management prescriptions (including all measures to avoid and mitigate negative impacts) are being effectively implemented;
- to assess supplier compliance with social commitments through interviews with potentially affected parties in a manner that is conducive to detecting social impacts and harms and to protecting the safety and confidentiality of such parties; and
- to assess the status and outcomes of supplier and buyer grievance systems.

¹⁰ This may include processes and methods such as ESIA, HCV and HCSA assessments, land tenure and land use studies, community mapping, and FPIC processes.

The next version of the Operational Guidance will elaborate further guidelines for when third-party verification is necessary as well as the extent and frequency of such verification.

Invitation for input

Considering the above examples of instances where third-party verification might be required, please share your perspectives on when third-party verification should be expected, and to what extent these expectations should differ based on the topics or outcomes being verified, the nature of the operations being assessed, and other factors. Please include any relevant experiences, examples or best practices that you think may help support further development of this section of the Operational Guidance.

Third-party verification is generally more credible if it is subject to a governance or oversight mechanism that helps to ensure the quality and legitimacy of the verification process itself. While many third-party certification systems include an oversight mechanism (e.g., for accreditation of certification bodies to ensure their consistent and competent performance), there are presently few or no oversight mechanisms for third-party verification conducted outside the context of such certification systems.

The next version of the Operational Guidance will include guidelines on oversight and quality control mechanisms that can be used to increase the credibility of such verification, for example:

- selection of a verification organization that conforms to ISO/IEC 17021-1:2015, ISO/IEC 17065:2012, and the Institute of Internal Auditors Global (IIA Global);
- peer review of verification methodologies and assessments or results;
- support for the establishment of an independent verification coordination entity that receives funds from multiple companies and is responsible for drafting terms of reference, auditor selection, handling of payments, and other oversight functions;
- increased levels of information transparency (i.e., disclosure of audit results and their basis) when verification lacks an oversight function; and
- establishment of an external stakeholder oversight committee.

Invitation for input

How important is the issue of oversight and independent review of third-party verification, and what guidelines (and level of prescriptiveness) should be provided to ensure that the appropriate oversight mechanisms are in place for credible verification?

5. Opportunities for improving effectiveness and efficiency of M&V through collaboration

There is considerable interest in the development of jurisdictional and landscape approaches to help fulfill and demonstrate fulfillment of company commitments. Companies and other stakeholders see such approaches as a potential way to improve the cost-effectiveness and scalability of supply chain compliance and M&V as well as to reduce leakage (displaced impacts) and improve long-term outcomes for ecosystem conservation, land governance, and human rights. While the implementation of landscape approaches that effectively address supply chain impacts and risks is generally at an early stage, the Accountability Framework provides guidance on how and under what circumstances companies may utilize jurisdictional monitoring or control systems to help address monitoring and verification needs. Please see the Operational Guidance on Applying Voluntary Commitments in Context for more information on this topic.

In addition to efforts facilitated through jurisdictional approaches, groups of companies may be able to collaborate pre-competitively to improve M&V processes in ways that do not violate anti-collusion laws or practices. Specifically, buyers sourcing from the same origins are encouraged to pursue opportunities to work together on M&V activities and to support efforts such as:

- sharing traceability and risk assessment information for common suppliers or supply origins;
- populating national and sub-national risk assessment tools with risk-related information that they gather on their supply bases; and,
- developing joint monitoring plans.

The next version of the Operational Guidance will provide further details, examples and best practices on these and other opportunities for company collaboration on M&V.

Invitation for input

What are some examples of effective collaborative M&V approaches that should be further explored or promoted by the AFi?

Annex 1: Supplier Management Systems

Companies that buy raw materials or derived products should have a supplier management system at the company-wide level or for specific commodity supply chains (e.g., timber, palm oil, beef, soy), sourcing origins, or business units. This system should define the company's own policies and procedures as well as expectations and engagement strategies for third party suppliers throughout the supply chain. The goal of this system is to proactively minimize the occurrence of non-compliance and to address non-compliance in a systematic, efficient, and prioritized manner.

Key characteristics of Supplier Management Systems include:

- Sustainable sourcing policies that reflect supply chain risks, the company's degree of influence over suppliers, and other issues relevant to sourcing characteristics and behavior.
- Supply chain targets for fulfilling commitments. These should be derived from the company's overall time-bound targets (see Core Principle D2: Verifiable Actions and Time-Bound Targets) but may provide greater specificity and interim time-bound milestones for specific geographies and supply chains to enable monitoring of progress and compliance against targets.
- Strategies for assessing supply chain risks and for prioritizing actions in areas that are not low-risk (see M&V Operational Guidance Section 1).
- Supplier engagement strategies for specific suppliers or groups of suppliers, developed to address environmental and social weaknesses, negative impacts, and/or non-compliance (see M&V Operational Guidance Section 2).
- Supplier reporting requirements and purchasing policies aimed at holding suppliers accountable for fulfilling commitments. These may be conveyed through training, company communication to suppliers, contract and subcontract terms, or other means.
- Activities that build and strengthen supplier capacity to effectively implement supply chain commitments, such as training programs and peer exchanges.
- Incentives for suppliers and their employees and contractors to fulfill commitments. Examples of such incentives include financing linked to improved performance, sharing costs for certain activities, market access, and reduced M&V requirements based on performance.
- Roles and responsibilities for M&V, including the control mechanisms the company will implement to be able to assess supplier performance and address non-compliance. Supplier contract clauses should be used to help ensure that M&V is implemented appropriately at the supply base level and that the company has the right to verify compliance (either itself or through a contractor or third party) as necessary for assurance purposes. This includes access to information on the locations of production units (e.g., farm, plantation, or concession boundaries as well as processing facility coordinates) and may also include other data sources needed to make determinations of compliance.

The next version of the Operational Guidance will provide additional details and examples on these and other elements found in robust Supplier Management Systems.

Annex 2: Community-based monitoring

Community-based monitoring (CBM) is the general term for approaches that engage local people in M&V processes. Through CBM, local communities play an essential role in, for example, assessing forests (including granular details such as tree species and height), carbon stocks, community resources, and land tenure rights, and in detecting changes to them. With advancements in technology including drones, mobile devices, and increasingly affordable and capable remote sensing data, CBM is increasingly being relied upon for a range of monitoring applications (e.g., REDD+ monitoring) and its multiple benefits are increasingly being recognized.

CBM typologies

There are different types of CBM approaches, with different levels of local engagement. Whether utilizing existing CBM processes or initiating new ones for M&V purposes, it is important to understand the characteristics of different CBM approaches to ensure that a given process will be fit-for-purpose. Key aspects to consider include:

- **Who is involved?** This could range from participatory approaches whereby local community members jointly develop and implement monitoring activities with the company (or its designated M&V partner) and/or with other parties (e.g., civil society) to situations where CBM is exclusively implemented by local community members.
- **How are they involved?** The role of local community members can include one or a combination of:
 - provision of monitoring services according to externally-defined certification standards, legality agreements, regional principles, or other established protocols
 - community-driven processes, whereby local stakeholders have a leading role in developing the monitoring scope, indicators and methodology, collecting and analyzing the data, and managing the overall process
 - participatory (between companies and communities) processes based on shared goals and objectives
- **What are they monitoring?** This may include:
 - Quantitative or other objective data points such as quantifying carbon stocks or identifying areas where tenure rights have been adversely impacted
 - Qualitative information that is more contextual in nature, such as the underlying reasons behind land conversion or tenure rights violations

Benefits of CBM

CBM on its own or in combination with other monitoring tools can bring a diversity of benefits, including:

- Cost-efficiencies, particularly for ground-based data collection and ongoing (continuous or time series) data collection
- Incorporation of local knowledge, expertise, experiences, and skills
- Development of locally relevant M&V systems and mitigation measures that are more likely to speak to the particular issues, risks and impacts in a given context
- Provision of data that may not be available through other approaches, as the community may be best positioned to collect that data. Examples include: community-based mapping to determine land tenure and where rights or resources overlap with production areas; and non-compliances or adverse impacts to human rights that are challenging to detect through other mechanisms.
- Triangulation of remote sensing-based monitoring data to confirm, improve or refine the interpretation of such data

Moreover, the benefits extend beyond M&V purposes to include:

- Capacity-building of local communities so that they can play an active and informed role in resource management. CBM is a mechanism for engaging communities and reinforcing other community-based management systems and has been demonstrated as helping to strengthen local knowledge for improved forest management, secure access to rights and resources, and improve governance and decision-making processes.
- Increased transparency of company operations and as a mechanism for building trust and constructive dialogue between companies, communities, and civil society, which is critical for creating positive change.

When to use CBM

The decision to use CBM for supply chain M&V depends on the existence of (or ability to initiate) CBM processes, as well as the relative importance of community perspectives in monitoring and verifying the subject issues in the given context. Importance may be greater under the following circumstances:

- **For environmental issues:** CBM should be considered especially when remote sensing-based assessment of land cover change (e.g., deforestation) or ecosystem quality (e.g., forest degradation or protection of High Conservation Value areas) is not able to adequately assess compliance and therefore requires further investigation or triangulation.
- **For social issues:** CBM is particularly useful for detecting potential human rights violations, risks and harms, and should be considered for all areas that are not designated as low-risk for such issues.

Key characteristics for effective and robust CBM

Credible CBM should generally follow the same best practices used for other types of monitoring, while also incorporating elements that will enhance the additional benefits of incorporating local people into M&V processes. Depending on the type of CBM being utilized, there are a range of good practices that will contribute to the effectiveness of the CBM effort. These will be further detailed in the next version of the Operational Guidance, and include:

1. Independence (from the company) and impartiality
2. Selection of locally-relevant and meaningful indicators and verifiers
3. Clear methodology for data collection and a shared understanding and agreement with the community on the methodology being deployed
4. Clear objectives and terms of use for the data that are collected
5. Participation of women (participation should be encouraged; however, setting minimum quotas on gender equity is not always practical)
6. Access to technology and use of data collection methods that are feasible for the community to implement
7. For participatory approaches, inclusion of community members at all stages in the process, including defining the monitoring scope, indicators and methodology; data collection; and interpretation and communication of results
8. Investment in capacity building of CBM participants, such as trainings and peer exchanges
9. Where applicable alignment between supply chain CBM and CBM processes supporting M&V of other activities, such as national REDD+ monitoring.

Invitation for input

Would it be beneficial to work toward increased standardization in methodologies and practices of CBM to help support the wider and more effective use of such systems? How else can AFi help advance community-based monitoring of company commitments?

Resources

As CBM grows in importance and popularity, the tools, templates, examples, and other resources available for engaging in CBM continues to expand. Organizations and initiatives such as Forest Compass¹¹, Forest Peoples Programme¹², and Rights and Resources Initiative¹³ have libraries of information on their websites to support companies in integrating CBM into their M&V processes.

Data collection tools – such as Open Data Kit, GeoODK, Sapelli, Indigenous Navigator, and Frontline SMS – are available to help communities collect and manage information from CBM. Moreover, initiatives such as the Africa Practitioners Network and Kumakaya have been established to help build capacity of local communities and experts to conduct or support CBM and link it to supply chain accountability processes. Further information on the use of these kinds of tools as part of company M&V systems will be provided in the next version of this Operational Guidance.

¹¹ www.forestcompass.org

¹² www.forestpeoples.org

¹³ www.rightsandresources.org

Annex 3: Use of grievance mechanisms for monitoring and verifying company commitments

A credible and robust company grievance mechanism is an important component of an assurance and oversight system for monitoring fulfillment of company commitments. As a quality assurance tool, it allows stakeholders to play a meaningful role in the M&V process by serving as an additional information source on the company's environmental and social performance. The management and resolution of complaints also provides important information for assurance purposes.

This information on grievance mechanisms is provided here because of its important relationship to M&V systems. Later in 2018, the AFi will publish draft Operational Guidance on remedy and remediation, which will include further information on grievance mechanisms.

While grievance mechanisms are not a substitute for proactive and constructive stakeholder engagement, they bring tangible and multiple benefits for the management of agricultural and forestry supply chains by:

- providing a channel for stakeholders to raise complaints and thereby identify potential non-compliances and adverse social and environmental impacts
- serving as a risk management tool that can provide early warning to prevent and mitigate problems
- promoting stakeholder participation and enhancing relations between companies and their stakeholders
- helping companies analyze trends and patterns to identify systemic problems and then adapt practices accordingly
- allowing for grievances to be addressed and harms to be remedied.

It is now standard practice for companies to have grievance mechanisms in place, and key global normative frameworks (e.g., the UN Guiding Principles on Business and Human Rights), certification standards, and supply chain implementation tools (e.g., the High Carbon Stock Approach) expect companies to implement them.

There are different types of grievance mechanisms, ranging from an anonymous hotline (phone or text) for lodging complaints to more comprehensive multi-stakeholder complaints committees. The company should be able to demonstrate that their selected approach(es) are effective and fit for their intended purpose.

Use of grievance mechanisms for M&V purposes

Companies at all stages of the value chain (from producers and primary processors to downstream buyers) are expected to have functioning grievance mechanisms and to use these as an input to M&V processes. Buyers are further expected to have a system in place for tracking grievances lodged against their suppliers. The following should be considered in the context of supply chain M&V:

- What grievance-related information should the supplier provide to the buyer so that the buyer is able to understand if there are problems and, if so, how they are being handled?
- What should a buyer do if it receives a complaint pertaining to one of its sourcing sites?
- How should grievance information be used in triangulating or supplementing other monitoring data to assess compliance or progress?