

The Accountability Framework

Operational Guidance on Supply Chain Management

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The Accountability Framework initiative (AFi) is developing a common framework to guide the setting, implementation, and monitoring of supply chain commitments. As part of the Accountability Framework, this draft document represents a working consensus of the AFi partners as well as input from prior consultations involving stakeholders from the private sector, civil society, and government. The partners are sharing this draft publicly and inviting feedback from all interested parties to further build and refine the Framework in a way that reflects the needs and perspectives of those working to bring about responsible supply chains and positive outcomes for people and nature. Based on this consultative process, version 1.0 of the Accountability Framework will be published in early 2019.

For more information, or to provide input during the present workshoping process, please visit <https://accountability-framework.org> or send an email to contact@accountability-framework.org

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 Operational Guidance elaborates on the Accountability Framework's Core Principles 1, 2, and 3 to provide more detail on effective supply chain management approaches to help fulfill company commitments related to deforestation, ecosystem conservation, and human rights. Companies are responsible for ensuring that their entire supply base complies with company commitments; this includes supplies from the company's own production base as well as those purchased from other entities. This Operational Guidance focuses on the latter, addressing the processes by which buyers can identify the origins of the materials they buy, assess risk, identify instances of supplier non-compliance with company commitments, and constructively engage suppliers in improvement processes toward full adherence to commitments. This guidance applies to all buyers in the value chain, including processors and traders that purchase directly from producers, as well as traders and downstream companies that purchase raw or processed commodities or derived products (including finished consumer products) at different stages of the value chain. Companies managing their own supply base may also find certain sections of this Operational Guidance useful in implementing company commitments.

The following topics are included:

1. Development of **supplier management systems** that define policies, procedures, supplier expectations, and supplier engagement strategies at the level of the company or commodity supply chain.
2. **Traceability and supply chain mapping** to identify supply origins.
3. **Assessment of environmental, social, and legal risks** in supply origins – including risk that company commitments are not being met – and prioritizing supplier engagement activities in areas that are not identified as low risk.
4. Guidelines for **engaging non-compliant suppliers** that are initiated when environmental and social risks, negative impacts and/or non-compliance with company commitments are detected – this includes the development of **supplier implementation plans** to address these issues.
5. The buyers' role in fostering **responsible practices in site establishment**
6. **Opportunities for collective action** by building partnership with other companies, government actors and other stakeholders in order to maximize impact

This Operational Guidance also outlines how these processes relate to one another and to the monitoring and verification functions as part of a progressive and sometimes iterative approach to progress, learning, and improvement.

1. Supplier management systems

Following [Core Principle 1](#), buyers are expected to have supplier management system(s)¹ for all supply chains that are covered by ethical supply chain commitments or otherwise subject to environmental and social risks. This pertains to all buyers – processors, traders, and downstream buyers – whether purchasing from primary producers, intermediaries, or downstream companies. The systems define the company's own policies and procedures as well as expectations and engagement strategies for suppliers throughout the supply chain. The goal of the system(s) is to proactively minimize the occurrence of non-compliance and to address non-compliance in a systematic, efficient, and prioritized manner.

¹ 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. They may be developed at the company-wide level or for specific commodity supply chains, sourcing origins, or business units.

Key characteristics of supplier management systems include:

- Stated commitment from the company's senior management level to honor and advance its sustainable sourcing policies.
- Sustainable sourcing policies that serve to implement the company's commitments. These policies should adequately address the social and environmental risks in the company's supply chain and should reflect the company's degree of influence over its suppliers and other issues relevant to sourcing characteristics and behavior. Such policies should also consider applicable law as well as expectations related to sectoral or geographical initiatives in which they are involved.
 - Companies should clearly communicate to their suppliers that only material produced in accordance with the company's sourcing policies will be accepted. Where purchasing is governed by contracts, it is generally recommended to incorporate requirements of the sourcing policies into contract clauses.
- Targets for fulfilling each commitment that are specific to each commodity and geography, are quantitative, and can be objectively monitored and verified. These should be derived from the company's overall time-bound targets (see [Core Principle C2](#)), and may include interim time-bound milestones for specific geographies and supply chains to facilitate progress monitoring.
- Strategies for assessing supply chain risks (environmental, social, and legal) in order to identify and prioritize interventions in areas that are not low-risk (see Section 3 below).
- Strategies and procedures for ensuring that direct suppliers comply with commitments. This might include providing incentives for suppliers, such as financing linked to improved performance, sharing costs for certain activities, market access, increasing volume purchased, longer term contracts, and reduced monitoring and verification (M&V) requirements based on performance.
- Strategies and procedures for ensuring that indirect suppliers comply with company commitments.
- Strategies for ensuring that when direct or indirect suppliers take action to acquire, develop, or expand production or processing operations, such new activities do not proceed without effective due diligence, planning, and stakeholder consultation processes, and that the resulting plans and activities fully adhere to the buyer's commitments. This will help minimize any future need to address non-compliances incurred at the time of site establishment. (See Section 6 below).
- Procedures for engaging suppliers in situations where environmental and social risks, negative impacts, and/or non-compliance need to be addressed. These include protocols for managing supplier non-compliance (see Section 4 below), and protocols for supplier implementation plans (see Section 5 below) for resolving non-compliances expeditiously.
- Grievance procedures that including mechanisms for providing remediation when warranted.
- Requirements for suppliers to report on their fulfillment of responsible sourcing policies. These may be conveyed through company communication to suppliers, contract and subcontract terms, training, or other means.
- Activities that build and strengthen supplier capacity to effectively implement supply chain commitments, such as training programs, peer exchanges, and support when remedial actions are

Example: Targets and milestones for fulfilling commitments

Time-bound target to achieve each commitment (per commodity and sourcing geography): By 2020 100% of palm oil sourced from Malaysia will be deforestation-free; grievance mechanisms and remedy plans will be in place for 100% of timber sourced from the Democratic Republic of the Congo (DRC).

Interim milestone (progress) to be achieved relative to each target: By 2019 100% of palm oil sourced from Malaysia will be traceable to the plantation, with maps of the production areas, and 70% of this palm oil will be verified as deforestation-free; grievance mechanisms will be in place for 80% of timber sourced from DRC.

needed. This is particularly important for companies that maintain long-term and recurring buying relationships with suppliers. Support should prioritize engagement with smallholders and others who may require more assistance (See *Operational Guidance on Smallholder Inclusion in Ethical Supply Chains* for further elaboration).

- Systems and practices for monitoring and verification assess supplier control measures, management systems, and overall performance (including how non-compliance is addressed). Supplier contract clauses should be used to help ensure that M&V is implemented appropriately by upstream suppliers – ultimately reaching 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.

At a minimum, companies should publicly disclose their responsible sourcing policies, targets for fulfilling commitments, risk assessment methodologies, supplier management strategies (including supplier implementation plans to address non-compliance, where relevant), and M&V roles and responsibilities. See the *Operational Guidance on Reporting & Disclosure* for further discussion of disclosure requirements.

Invitation for input

Successful implementation of ethical supply chain commitments is rooted in having an effective and credible supplier management system. The preceding section aims to provide guidance and expectations around such a system. AFI partners recognize that many companies already have these systems in place, and that they vary based on the nature of the company's business, the company's position in the supply chain, and other factors. To strengthen or refine this guidance based on existing experience and good practices, the AFI invites input from companies and service providers who develop and manage Supplier Management Systems on:

- the applicability of the above characteristics for different companies operating in different parts of the value chain;
- additional guidance, examples, or good practices that should be included in this section; and
- effective strategies for ensuring that third-party suppliers comply with commitments.

2. Supply chain mapping and traceability

As stated in [Core Principle 2](#), the origins of materials in supply chains are expected to be known or controlled to a sufficient extent to ascertain that the production and processing units of origin comply with commitments, or to determine the extent and nature of issues that must be resolved. To meet this requirement, buyers at any stage of the value chain must institute a sufficient level of traceability through one or more of the following methods:

- a) tracing materials back to the production or processing units of origin;
- b) tracing materials back to an intermediate supplier that itself has effective 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 buyer;
- 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;

- 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.²

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

The company should document its traceability procedures so that these can be verified and reported. This includes:

- *the approach or methodology* (e.g., one or more of the four preceding methods) utilized for traceability;
- *the present status of traceability* (e.g., the overall proportion of the supply chain that is adequately traced through one of these four methods and, for the remaining supply chain segments, the supply chain stage to which the supply has been traced). This should be disaggregated by relevant factors such as sourcing origin; and
- *an analysis of challenges to reaching adequate traceability* (as outlined above) for the full supply chain and measures being taken or planned to overcome these challenges).

3. Risk assessment

Reflecting [Core Principle 2.1](#), the origins of materials in supply chain are expected to be assessed for risk of non-compliance, following good practices for credibility and accurate risk designations.³ Risk assessment should generally be conducted across a company's entire supply base as management systems related to company commitments are being put in place. Risk assessment should also be conducted when new operations are being established or new sourcing origins or suppliers are being considered. Risk assessments should be updated as necessary to ensure that risk characterizations are kept up-to-date.

While risk assessments are essential for prioritizing supply chain actions and for informing implementation and monitoring in areas that are not low-risk, there is currently wide variation in how such risk assessments are conducted and in the resulting risk characterizations. This section outlines good practices for risk assessment to help facilitate accurate risk characterizations (e.g., low, medium, or high risk) and to improve the comparability of assessment results across companies sourcing from the same region. Credible risk assessments should have the following attributes:

- **Risk assessment metrics** should reflect the company's commitments and be consistent with the Accountability Framework Definitions and Core Principles. For instance, metrics for assessing deforestation risk should follow the Framework's definition of deforestation, while metrics related to risk of land rights violations should consider the key elements required to ensure respect for such rights, as outlined in Core Principle B1 and other sections of the Framework. Risk assessment metrics may be similar to those used for monitoring company commitments (see Operational Guidance on Monitoring & Verification).
- **Risk assessment tools** should be credible, current, and provide the necessary environmental and social data for characterizing risk. There is a range of existing risk assessment tools, including, for example: risk profiles at national and sub-national levels; geospatial data about sourcing areas; and risk

² 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.

³ In the context of the Accountability Framework, the term "risk assessment" refers to the assessment of risk of non-compliance with the company commitments or applicable law related to the Accountability Framework scope, as well as adverse impacts to internationally recognized human rights. This is different from the use of the term in a general business context, where it refers to assessment of financial risks and the drivers of such risk (e.g., legal risk, credit risk, reputation risk, and others). Risk of adverse social and environmental impacts, including non-compliance with company commitments, can be an important element of broader business risk.

assessments of sourcing areas that are jointly developed by companies or trade associations sourcing from a given region.

- **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 may differ from risk levels for forced labor or other human rights violations. Similarly, risk levels for one region in a country may differ from those in another region and risk associated with soy production may differ from risk associated with timber harvest in a same region.
- 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.
- Risk assessments should be **conducted by individuals or organizations with expertise** in the topics and contexts that are the focus of the assessment.
- **Independent review** of the chosen risk assessment methodology and the risk assessment results should be considered when sourcing from regions not generally perceived as low-risk. Independent review should be conducted by technical expert(s) that have no affiliation with the company and no other conflicts of interest.

Where current and credible risk assessments already exist for the subject contexts and topics, companies are encouraged to use or reference them. Companies are also encouraged to share risk assessment data that they generate with other companies operating in the same sourcing area and/or collaborate with other companies on a pre-competitive basis to develop common risk assessments for those supply areas.

Risk assessments may be conducted in a successive manner, beginning with coarse-scale analysis and moving to more granular assessments where warranted based on the initial findings. In parallel, traceability processes should also move toward finer-scale information (i.e., tracing to smaller supply units, closer to origin) when risk assessments indicate that this may be necessary to identify the extent and nature of non-compliance. This successive approach typically follows two steps, which may be further sub-divided by scale:

- **Coarse-grained risk assessment:** an initial screening (generally conducted across all geographies and supply chains) 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 initiate further action that the company will need to take to determine whether its suppliers are in compliance with company commitments and to engage with them accordingly.
 - 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.⁴ These assessments often rely on a desk-based methodology that utilizes existing risk screening tools and other secondary data to assess sourcing origins that are identified through the initial supply chain mapping. If these assessments indicate the area is not low-risk, then finer-scale traceability and risk assessment should be conducted.
- **Fine-grained risk assessment:** a more detailed analysis that utilizes additional data sources on the sourcing area, is based on more precise location and boundary data for suppliers, and/or considers other supplier characteristics that may affect risk levels. Additional data on the sourcing area may include finer-resolution satellite imagery, more customized risk-profiling tools, interviews with

⁴ 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.

stakeholders and other subject matter experts, and on-the-ground techniques. Risk assessment at this level may necessitate going beyond a desk-based review.

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 management and M&V. Is additional guidance needed for companies to define risk designations that achieve these goals? If so, what should this guidance include?

Input is also invited from companies that conduct or commission risk assessments, including:

- What challenges do you currently face in conducting or utilizing such assessments?
- What risk assessment tools do you use?
- 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 in 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 indigenous peoples/local community rights violations). These contexts include palm oil, soy, cattle, pulp and timber, cocoa, rubber, and other production systems 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, 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 landscape and jurisdictional approaches fulfill their promise, then a greater number of tropical and sub-tropical contexts 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.

4. Managing supplier non-compliance

As stated in [Core Principle 3](#), companies are expected to manage non-compliance in their supply chains – including their own operations and supplies purchased from other parties – to resolve such issues expeditiously and effectively. Specific to buyer-supplier relationships, [Core Principle 3.3](#) calls for buyers to consider suspension or exclusion of suppliers when warranted. When non-compliant suppliers are retained, or when purchasing is suspended pending resolution of non-compliance, buyers are expected to engage them in the development and implementation of time-bound plans to achieve compliance. This section provides guidance on the appropriate response for supplier non-compliance.

Responses to supplier non-compliance: engage, retain, suspend, or exclude

The following terms describe courses of action that a company may take in response to supplier non-compliance:

- **Engage:** The buyer works with the retained or suspended supplier to help resolve the non-compliance(s)
- **Retain:** The buyer continues purchasing product while engaging the supplier to resolve the non-compliance(s)
- **Suspend:** The buyer temporarily pauses purchasing from a supplier but continues to engage the supplier to resolve the non-compliance(s)
- **Exclude:** The buyer ends a purchasing relationship with a supplier (in the case of a prior or ongoing relationship) or avoids purchasing from a supplier (in the case of spot markets or lack of ongoing purchasing relationship). This course of action implies lack of engagement with the supplier and no subsequent purchasing until primary non-compliances and systemic factors underlying them are substantially resolved.

4.1 Identifying supplier non-compliance

There are multiple ways in which companies may discover supplier non-compliance, including the below examples:

- The results of the risk assessment process described in the preceding section may indicate that a sourcing area is not low risk. In these situations, a gap assessment (or baseline assessment) of actual supplier performance should be conducted to identify gaps in compliance and the degree and specific nature of any non-compliance. Where the company has visibility to the production unit (e.g., the farm or forest management unit), high resolution geospatial data and ground-based approaches can be used for this assessment. Where companies lack this level of visibility, they should request and review compliance information from their supplier. This may include, for example, information on the supplier's assurance and control mechanisms, management systems, and any relevant production unit level data available. See the monitoring methodologies detailed in the *Operational Guidance on Monitoring & Verification*, which are also useful for the purposes of conducting gap assessments.
- The ongoing process used by the company to monitor and verify supplier performance may identify non-compliance (see the *Operational Guidance on Monitoring & Verification*).
- Grievance mechanisms, crowdsourcing platforms, media news, NGO or community reports, statements and observations of human rights bodies, and other public reporting outlets may provide substantial evidence of supplier non-compliance.
- Satellite-based early warning systems and alerts identify locations of forest change and produce regular updates for users of the systems.⁵ While these systems are not available in many commodity producing regions, their availability is growing, and companies should identify which sourcing regions provide this service.

Companies are expected to take appropriate action when non-compliance is identified.

Companies should also take an appropriate course of action when there is a medium or high potential for non-compliances, for example, due to conditions surrounding a supplier's operations that may pose a risk to performance, or as a result of supplier capacity to implement its management systems.

⁵ Examples of these include GLAD alerts, Forma, JJ Fast, Terra-i, and several national alert systems such as IDEAM in Colombia, PNCB in the Peruvian Amazon, and DETER-B in the Brazilian Amazon.

4.2 Addressing supplier non-compliance

An inclusive approach to supply chain management implies some tolerance of non-compliance, yet with limits and consequences depending on the severity, extent, and persistence of the non-compliance, as well as the supplier's degree of culpability for it and the supplier's commitment and capabilities to move towards compliance. In some cases, the appropriate response to non-compliance may be the suspension of purchasing from the supplier, termination or non-renewal of purchase contracts, or permanent exclusion of the supplier altogether. In most cases, an important part of the resolution is offering a pathway back to compliance that rewards good faith efforts by suppliers to reform and work towards fulfilling company commitments.

The company is expected to have clear policies and procedures for how supplier non-compliance is addressed, including criteria and thresholds for making determinations about the gravity of non-compliances and the corresponding course of action. This information should be documented in the company's supplier management system and made known to all suppliers.

In the case of companies sourcing from smallholder producers, more contextualized approaches to assessing and managing non-compliance may be warranted, and is provided in the *Operational Guidance on Smallholder Inclusion in Ethical Supply Chains*.

4.2.1 Assessing the gravity of non-compliances and appropriate course of action

Companies may encounter a range of different supplier non-compliance scenarios, and in each case must determine the appropriate course of action. In some cases, this decision may be obvious because the non-compliance is clearly minor (indicating that the supplier should be retained and engaged) or clearly grave (in which case suspension or exclusion would likely be warranted). However, in a variety of intermediate scenarios, the appropriate action might be less obvious, and a sound decision may benefit from considering multiple factors.

Following are five general parameters for helping to determine the appropriate course of action once supplier non-compliance is detected. The first three parameters (A through C) address the gravity of the non-compliance and relate to the effects of the non-compliance on people and the environment. The final two parameters (D and E) relate to whether the supplier was in a position to be able to control the occurrence of the non-compliance, and the likelihood that the supplier will be able to implement necessary corrective actions to halt and remediate the non-compliance while ensuring it does not happen again. Companies should apply and interpret these parameters in good faith to fit the contexts in which they operate. For consistency in understanding and communication, the manner in which companies address supplier non-compliance should be included in the company's supplier management system and related plans, and in any reporting and disclosure related to non-compliance and its resolution.

A. Severity

A starting point for assessing the gravity of non-compliances and determining the appropriate course of action is to characterize the severity of each given instance of the non-compliance. Severity signifies the intensity of damage and its impact on the environment or the affected persons. The following table provides some illustrative examples to guide companies in making this determination.

Level of severity	Examples
Less severe	<ul style="list-style-type: none"> • Inadequate monitoring of social or environmental outcomes • Inadequate documentation or record-keeping related to land use planning, FPIC processes, or grievance mechanisms if these are not also associated with inadequate implementation of such processes or other, more severe non-compliances • A small, isolated instance of deforestation or conversion that does not significantly affected the natural ecosystems where it occurs, or their conservation values, and is not part of a larger systemic or cumulative pattern of conversion⁶
Moderately severe or severe	<ul style="list-style-type: none"> • Medium-scale conversion of natural ecosystems (via a single event or cumulatively across space and time) • Initiation of activities affecting indigenous peoples and local communities without proper FPIC[*] • Inadequate FPIC processes or grievance mechanisms • Certain labour rights violations, such as those related to discrimination, freedom of association, or working hours[*]
Very severe	<ul style="list-style-type: none"> • Large-scale conversion of natural ecosystems (via a single event or cumulatively across space and time) • Forced labour • Acts of violence against environmental or human rights defenders • Appropriation of land or resources at a significant scale

^{*} However, these types of non-compliances could be very severe in particular scenarios, depending on the context and negative impacts to the affected indigenous peoples, local communities, or workers.

B. Extent

Particularly for moderate, severe, and very severe non-compliances, the decision on whether to exclude, suspend or retain a supplier should also consider the extent of the non-compliance. Extent may be a function of factors such as:

- the total cumulative area of land affected (e.g., for deforestation, conversion, or appropriation of land or resources without proper FPIC), both in absolute terms and relative to the size operation(s) assessed;
- the proportion of production units, smallholders, smallholder groups, mills, factories, or other operations at which the non-compliance occurs, relative to the entire scope of the given business or supply chain;⁷
- the total number of workers negatively affected;
- the irreparability of the impact; and
- the total number of indigenous peoples or local community members negatively affected.

C. Persistence

Likewise, decisions should consider whether the non-compliance(s) occur or have occurred as one-off episodes or are persistent, taking place repeatedly or continually over a significant period of time. Persistent non-compliances usually indicate that the supplier does not have the proper policies, management commitment, incentives, or control systems in place to prevent the non-compliance – or may indeed be sanctioning or

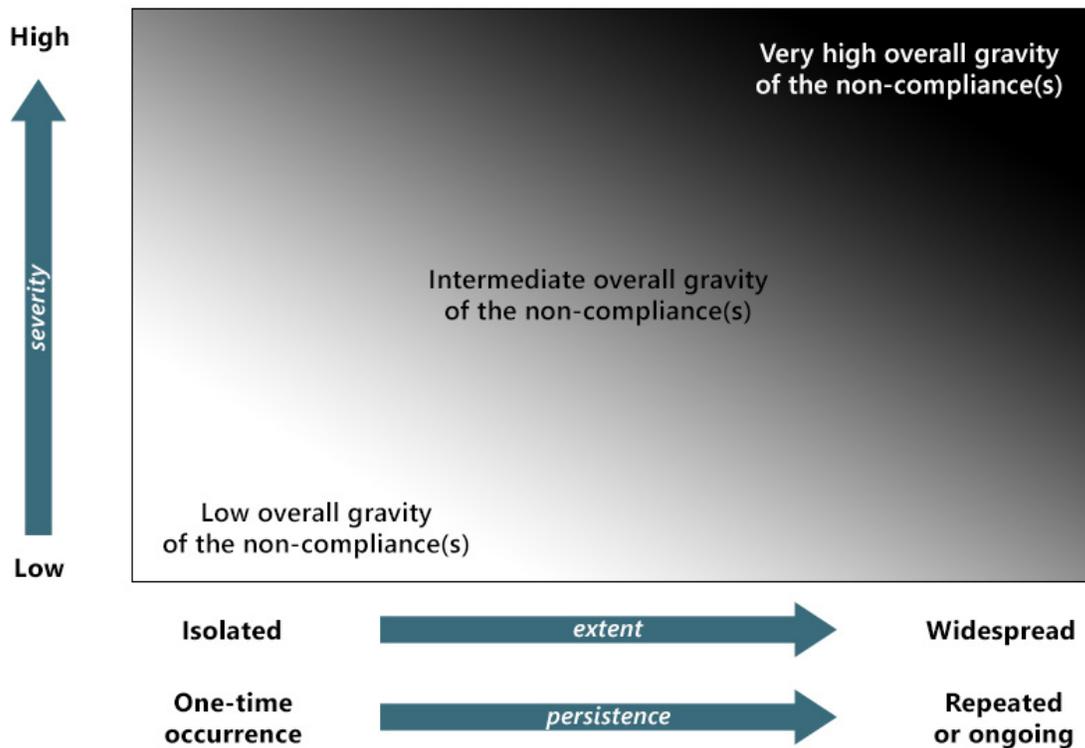
⁶ For instance, deforestation or conversion events might be considered less severe when all four of the following criteria are met: i) the event comprises no more than a few hectares of land and no more than a few percent of the total area of a given operation or group (whichever is less); ii) the event is not part of a broader pattern of deforestation or conversion across space or time, associated with the given site(s) or actor(s); iii) the event does not destroy or degrade high conservation values; and iv) the event is not associated with co-harms to human rights.

⁷ See the *Operational Guidance on Smallholder Inclusion in Ethical Supply Chains* for further discussion of how this guidance applies in the context of smallholders and smallholder groups.

promoting the non-compliant behavior for business reasons, and hence there is a systemic characteristic of the non-compliance. Under these circumstances, it is reasonable to expect that the non-compliance will continue to occur or even worsen if action is not taken to address it.

Severity, extent, and persistence together determine the gravity of a given non-compliance or related set of non-compliances, which provides a general indication of the likely appropriate course of action (Figure 1).

Figure 1. Schematic indicating how factors of severity, extent, and persistence can be considered together to assess the overall gravity of a given non-compliance or related set of non-compliances. Severity is indicated on the vertical axis while extent and persistence are depicted on the horizontal axis. The overall degree of gravity helps to determine the appropriate course of action for a buyer (i.e., whether to retain, suspend, or exclude a supplier), as described in the narrative text.



In addition to the overall gravity of the non-compliance(s), as discussed above, two additional factors may be appropriate to consider in determining the appropriate course of action, particularly in cases where the gravity is on the upper end of the spectrum and a decision needs to be made on whether to suspend or exclude the supplier. These two factors are: i) degree of control or culpability of the supplier for the given non-compliance(s); and ii) supplier commitment and capabilities.

D. Degree of control or culpability

Buyers should also consider the degree to which the given non-compliant supplier caused or contributed to the non-compliance and is in a position to bring about its resolution. Generally, absent clear evidence to the contrary, it should be assumed that the supplier has partial or full responsibility for the non-compliance and therefore is responsible for its resolution. However, in certain situations, the supplier may have little control over the non-compliance, or the non-compliance may have occurred despite the supplier’s reasonable good faith efforts. In these cases, such circumstances may weigh in favor of retaining and engaging non-compliant

suppliers that are making good faith efforts to address non-compliances despite certain challenging contextual factors. Following are a few examples of how these considerations may be applied:

- Producers and primary processors are presumed to be responsible for non-compliances within their operations. However, in some situations, the cause of non-compliance may be legitimately beyond their control. For instance, if migrant settlers encroach into the High Conservation Value forest areas that are set aside on a plantation company's estate without the company's permission or encouragement, and the state does not take appropriate actions to resolve the situation despite the company's good faith requests, the company may be considered to have limited control and responsibility for the non-compliance.
- Culpability for the non-compliance of producers and primary processors may also extend to their buyers or financiers (e.g., mills and traders) to the extent that these actors support, mandate, encourage, or facilitate their suppliers' non-compliant actions, such as deforestation.
- When land owners/managers purchase or otherwise acquire interests in land or natural resources from other parties, they are generally presumed to take on the responsibility to address any existing non-compliances and remediate past harms associated with these areas and operations (Core Principle 6.4).

E. Supplier commitment and capabilities

Finally, buyers should consider the supplier's track record as well as its current commitments, practices, and capabilities relative to responsible sourcing requirements. These factors can be important in predicting the likelihood that the supplier will take the necessary actions to correct or remedy the non-compliance(s) and avoid future recurrences. Such information is helpful to the buyer not only to help ensure compliance with its commitments but also to mitigate risks associated with suppliers that have acted or are acting in bad faith or without a sufficient level of commitment or resources to meet the buyer's commitments. Key factors to consider include:

- Demonstration of good faith that the supplier will make the changes necessary to achieve compliance and to address any needed remedy within a reasonable timeframe. Companies should look for evidence, such as:
 - A clear public statement of willingness to reform practices and remediate harms within a reasonable timeframe
 - Willingness to cooperate with government regulators and treat claims made by civil society with seriousness
 - A clear and publicly available implementation plan with a timetable and process for returning to compliance and for remediation when necessary. Buyers may need to work with their suppliers in developing and implementing this plan.
- The supplier's track record, including whether there is a history of similar non-compliances or a history of disregarding or evading requirements of government regulators or legitimate grievances or claims made by civil society. If there is a history of such problems, then it is useful to know whether the individuals associated with previous offences, especially those in leadership or management positions, are still in their posts. If so, then the supplier's history weighs more heavily toward suspending or excluding the supplier.
- The capacity of the supplier to address the non-compliance(s), including any necessary remediation, within the timeframe defined in the implementation plan.

4.2.2 Defining the scope of suspension or exclusion for non-compliant suppliers

If a buyer identifies non-compliance(s) associated with a given business unit of a processor, trader, or multi-national supplier (e.g., for a given commodity, product, or product origin offered by the supplier) and determines that the situation warrants suspension or exclusion, the buyer must determine whether this suspension or exclusion extends to all or only a subset of the entities and operations associated with that supplier. Options generally include:

- Suspension/exclusion is limited only to the business unit in which the actionable non-compliance(s) occurred
- Suspension/exclusion is extended beyond business unit in which the actionable non-compliance(s) occurred to include other segments of the supplier's business that are related by fiscal or managerial association, geography, occurrence of shared risk factors, or other relevant factors
- Suspension/exclusion is extended to the entire supplier company

When suspension is warranted, the buyer should typically begin by applying this action to the business unit in which the non-compliances occurred. The company should make it clear that suspension may be extended to other business units of the supplier if, for example:

- The supplier is not progressing on its time-bound plan to correct the non-compliance and there is not legitimate justification for the absence of progress
- The conditions that caused non-compliance in one business unit are likely to cause non-compliance in other business units from which the buyer sources, if not addressed
- There is indication of deliberate 'greenwashing' on the part of the supplier – for instance, if the supplier is profiting from severely non-compliant behavior in one segment of its business while selling into responsible supply chains in others

5. Engaging with non-compliant suppliers

When a buyer decides to remain engaged with a non-compliant supplier (after the decision is made to either continue or suspend product purchasing), the buyer should document the rationale for the decision and the steps being taken for the supplier to achieve compliance. Such steps generally include actions taken by the supplier to resolve or remedy the non-compliances as well as actions taken by the buyer to support, monitor, and oversee the enactment of the necessary corrective actions of the supplier to come into compliance. These actions should be clearly detailed in the supplier's **supplier implementation plan** and in the buyer's **supplier engagement plan** that describes how the company will monitor and engage the supplier, as necessary, toward compliance with the implementation plan. Elements of both plans are elaborated below.

To foster effective supply chain management and accountability, companies are expected to share information on non-compliant suppliers, the nature of the non-compliance, and the course of action taken to bring suppliers into compliance with entities involved in the verification process (e.g., independent auditors). Additionally, certain information on non-compliances and their resolution are expected to be publicly disclosed. For more information on how companies should monitor, verify, and report on non-compliant suppliers and improvement trajectories, see the *Operational Guidance on Monitoring & Verification* and *Operational Guidance on Reporting & Disclosure*.

Companies who purchase (or have suspended contracts) from the same supplier are encouraged to work together on a pre-competitive basis, to establish common norms and practices for addressing the non-compliance and for engaging the supplier to bring them into compliance.

5.1 Supplier implementation plans

Reflecting [Core Principle 3.2](#), non-compliant suppliers are expected to develop, implement, and monitor plans that define the specific actions that will be taken to correct and remedy non-compliances. Buyers may provide input and support to the development of these plans to ensure that they adequately reflect the buyer's commitments and expectations.

These plans should be developed using technically **sound and credible assessment approaches**, where necessary, to identify the nature of the incurred environmental or human rights harms and the appropriate course of remediation. Examples of such approaches include Human Rights Impact Assessments (HRIAs), processes of Free, Prior and Informed Content (FPIC), RSPO's Land Use Change Analysis, and GIS-based assessments to assess past deforestation or conversion through remote sensing. If High Conservation Value (HCV) or High Carbon Stock Approach (HCSA) assessments were previously conducted, then they should be used as baselines to help define the non-compliance and necessary remediation.

Stakeholder engagement should also be conducted to determine the nature and gravity of the non-compliance, the supplier's culpability and commitment and capabilities.

These plans typically include:

- **Time-bound targets, milestones, and corrective actions** to effectively and expeditiously address each issue. Timeframes should be especially expeditious when it is likely that harm will occur again absent a timely response or when the severity of the non-compliance dictates that correction and remediation should be immediate (e.g., if a supplier engages in forced labor)
- Analysis of the relationship between **environmental and social impacts and non-compliances**, as one might positively or adversely affect the other
- **Roles and responsibilities** within the supplier's own organization and/or through contractors or upstream suppliers, for implementing each of the corrective actions
- **Means for monitoring, verifying, and reporting** on improvements (see *Operational Guidance on Monitoring & Verification*)

5.2 Buyers' supplier engagement plan

Buyers should also have an internal plan in place that covers the specific non-compliant supplier (or a group of suppliers when addressing similar non-compliances). This plan should specify how the buyer will monitor, verify and ensure implementation of the above corrective actions and ultimate fulfillment of commitments. These plans typically should include:

- **Clear definitions and parameters for determining non-compliance**
- **Time-bound actions** that the buyer will take to support, incentivize, oversee, monitor, or otherwise engage the supplier to address the non-compliances
- Courses of action that will be followed in the event of **enduring non-compliance**, such as providing increased levels of support to the supplier, cancelling or suspending contracts or purchasing arrangements, or enacting other sanctions
- In the event that the buyer is suspending purchasing from any non-compliant supplier(s), elaboration of the criteria for determining **when the suspension may be lifted**. Consideration should be given to how this will incentivize suppliers to progress on their implementation plans.
- **Monitoring, verification, and reporting** of actions and performance, including use of grievance mechanisms or other stakeholder engagement processes for verifying actions and performance (see *Operational Guidance on Monitoring & Verification*)

6. Buyers' role in fostering responsible practices in site establishment

The preceding section pertains to non-compliances in a buyer's existing supply base. However, a proactive approach to fulfilling company commitments also necessitates that buyers engage with direct or indirect suppliers that own or manage land, natural resources, and primary processing facilities to ensure that commitments are fulfilled at the time that new operations are established or expanded. This may be done

contractually (e.g., through contract terms or supplier performance criteria) or through other means (e.g., through regular communication, training, and monitoring practices carried out according to the supplier management plan). Through such engagement mechanisms, buyers can help ensure that the supplier's future product is likely to adhere to the buyer's commitments. The term "site establishment" in this section refers to a supplier's acquisition of interests in land or natural resources, the subsequent development of these areas for production or processing operations, or the major expansion of any existing production or processing operations.

To avoid the potential for future non-compliances incurred at the time of site establishment, companies should make sure that suppliers follow good practice in due diligence, planning, and stakeholder consultation as these activities are planned and subsequently implemented. Such good practices are outlined in other sections of the Accountability Framework, including:

- Core Principle 4, which describes overall requirements for responsible land acquisition, land use planning, and site development
- *Operational Guidance on Free, Prior, and Informed Consent (FPIC)*
- *Operational Guidance on Respecting the Rights of Indigenous Peoples and Local Communities*, which specifies additional steps and requirements for site establishment to ensure respect for these rights
- *Operational Guidance on Remediation and Access to Remedy*, which requires establishment of a company grievance mechanism
- *Operational Guidance on the Relationship Between Voluntary Commitments and Applicable Law*

When the good practices for planning and consultation described in the above-referenced sections result in a decision to proceed with the proposed activities, these activities should be documented in a plan for site establishment, management, and monitoring that is duly agreed by the company and other relevant parties, such as the government and Indigenous Peoples or Local Communities (IP/LC), if applicable. This plan should specify the agreed time-bound or ongoing actions – such as mechanisms for long-term protection of conservation set-asides or specific agreed benefits for IP/LC or workers – which can be assessed through monitoring to determine whether the site is being developed and managed in accordance with social and environmental commitments. When suppliers effectively follow this planning, implementation, and monitoring approach – with buyers' support, encouragement, or mandates – the resulting product suppliers are much more likely to be substantively compliant with buyers' supply chain commitments.

7. Opportunities for collective action

There is considerable interest in the development of jurisdictional and landscape approaches to help fulfill and demonstrate fulfillment of company commitments. Many companies and other stakeholders see such approaches as a potential way to improve the cost-effectiveness and scalability of responsible sourcing and 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 systems to help address supply chain management 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 supplier management 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 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
- Sharing information on supplier non-compliance so that other buyers are aware of possible breaches to their supply chain commitments
- Capacity-building activities to support producer and supplier compliance
- Engaging with governments, NGOs and CSOs, and other stakeholders to develop landscape-level strategies towards fulfillment of supply chain commitments

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