Guidance on effective supply chain management to help ensure compliance with commitments, including through risk assessment, traceability, identification of supplier non-compliance, and implementation of plans to bring suppliers into compliance.
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.

The Accountability Framework was created through a consultative process with a wide range of stakeholders including companies, NGOs, and government, and following applicable good practices for multi-stakeholder initiatives.

The Accountability Framework initiative (AFI) Steering Group includes a diverse group of civil society partners including representatives from the following organizations:

The AFI Backbone Team (secretariat) is co-led by the Rainforest Alliance and the Meridian Institute.

The AFI is funded by:

For more information on the AFI and the Framework development process, please visit www.accountability-framework.org
Contents

Purpose & summary 01

1. Supplier management systems 03

2. Supply chain mapping and traceability 08

3. Risk assessment 11

4. Managing supplier non-compliance 15
   4.1 Identifying supplier non-compliance 16
   4.2 Addressing supplier non-compliance 17

5. Engaging with non-compliant suppliers 26
   5.1 Supplier implementation plans 27
   5.2 Buyers’ supplier engagement plan 28

6. Buyers’ role in fostering responsible practices in site establishment 29
Purpose & summary

This Operational Guidance elaborates on the Accountability Framework Core Principles 4, 5, and 6 to provide buyers (at any stage of the supply chain) with guidance on effective supply chain management approaches to help fulfil company commitments related to deforestation, ecosystem conversion, 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 operations 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 towards full adherence to commitments.

This guidance is intended for use by all buyers in the supply chain, including processors and traders that purchase directly from producers, as well as traders and downstream companies that purchase raw, processed or finished products at different stages of the supply chain. Companies that are working to fulfil commitments related to materials that they produce themselves may also find certain sections of this Operational Guidance useful.

The following topics are addressed:

1) Development of supplier management systems that define policies, procedures, supplier expectations, and supplier engagement strategies at the level of the commodity-buying company or its supply chains

2) Supply chain mapping and traceability to identify supply chain actors and supply origins
3) Assessment of environmental, social, and legal risks in supply origins—including the risk that company commitments are not being met—and prioritising supplier engagement activities in areas that are not identified as low-risk.

4) Engagement of non-compliant suppliers 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) Actions of buyers to foster responsible practices in site establishment.

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 assessment, implementation, improvement, and learning.

Effective supply chain management can benefit considerably from pre-competitive collaboration among companies sourcing from the same areas or groups of suppliers, for example, by sharing information related to risk assessments and supplier non-compliance and by working together on capacity-building activities that support supplier compliance. More detail on these collaborative approaches is provided in the *Operational Guidance on Achieving Commitments Through Collaboration.*
1. Supplier management systems

Following **Core Principle 4**, buyers are expected to have a supplier management system(s)\(^1\) for all supply chains that are covered by ethical supply chain commitments or otherwise subject to environmental or social risks. This pertains to all buyers—processors, traders, and downstream buyers—whether purchasing from primary producers, intermediaries, or downstream companies.

Supplier management systems specify the company’s own operational policies and procedures as well as its expectations and engagement strategies for suppliers throughout the supply chain. The goal of the system(s) is to align sourcing strategies with supply chain commitments, to proactively minimise the occurrence of non-compliance, and to address non-compliance in a systematic, efficient, and prioritised manner. Key features and characteristics of a buyer’s supplier management system(s) should include:

- Sourcing and procurement policies that serve to operationalise the company’s ethical supply chain commitments. At their core, these policies should specify requirements or parameters regarding the suppliers with whom the company will do business and the considerations that determine when the company may or must add, suspend, exclude, or adjust purchasing terms with a current or prospective supplier. The 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 the company’s supply chain and business context. 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.

  + Companies are encouraged to use their influence to incentivise and support upstream suppliers to develop comparable and robust implementation systems that apply to the scope of their entire business.

\(^1\) 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.
• Targets related to supply chain compliance with company commitments 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 3.2) and may include interim time-bound milestones for specific geographies and supply chains to facilitate progress monitoring (see Box 1 for examples of targets and milestones).

• A strategy and methodology for assessing supply chain risks, if the company uses risk assessments to identify and prioritise interventions. Risk assessments should follow good practice for credibility, transparency, and accurate risk characterisations (see Section 3 below).

• Strategies and procedures for ensuring that direct suppliers comply with commitments.

• Strategies and procedures for ensuring that indirect suppliers comply with company commitments (see Box 2 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.

• 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, or stakeholder consultation processes, and that the resulting plans and activities fully adhere to the buyer’s commitments. This will help minimise any future need to address non-compliances incurred at the time of site establishment (see Section 6 below, as well as the Operational Guidance on Free, Prior and Informed Consent and the Operational Guidance on Respecting the Rights of Indigenous Peoples and Local Communities for further elaboration).

• Grievance mechanisms that enable lodging of grievances related to supply chain management and suppliers’ operations and that include procedures for remediation when warranted.

• Requirements for suppliers to report on their adherence to (or progress toward) the buyer’s ethical sourcing policies and supply chain commitments. 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 programmes, peer exchanges, and support when remedial actions are needed. This is particularly relevant for companies that maintain long-term and recurring buying relationships with suppliers. Support should prioritise 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 of supplier control measures, management systems, and performance relative to the buyer’s commitments (including how non-compliance is addressed).

  + Supplier contract clauses should be used to help ensure that monitoring and verification are 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.

• Establishment of senior management level responsibility to implement the company’s sourcing policies and other elements of the supplier management system to help achieve the company’s supply chain commitments.
BOX 1. Example of targets and milestones for fulfilling commitments

**Time-bound target to achieve each commitment (per commodity and sourcing geography)**

By December 2019:

- 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 December 2017:

- 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 the DRC

See [Operational Guidance on Cutoff Dates](#) for additional examples on targets and on how these relate to cutoff dates.

Information on the preceding elements of the supplier management system should be made available to help support compliance assessment and transparency. Specifically:

- Information on key elements of the system should be publicly disclosed following the [Operational Guidance on Reporting, Disclosure, and Claims](#).
- If the supplier is selling products to a buyer who relies on the supplier’s management and control systems to assess and assure compliance, then information on the supplier management systems should be made available to the buyer and to auditors to assess the adequacy of these systems for this purpose.
BOX 2. Supplier control mechanisms: A key tool for passing company commitments up the supply chain

Downstream companies—particularly those with supply chains that involve indirect suppliers and where visibility to the supply-base level is limited—face challenges in ascertaining that all sourcing complies with commitments. Fortunately, the importance of this problem has inspired the development of various tools and strategies, many of them specific to particular geographic and commodity contexts. At a globally-applicable level, a core strategy involves assessment of supplier management (or control) systems by each actor in the supply chain, whereby:

- The buyer assesses the control systems of its direct supplier to determine their adequacy to ensure compliance either at the supply-base level or at the level of the next upstream supplier (i.e., the buyer’s indirect suppliers). Section 2.3 of the Operational Guidance on Monitoring and Verification outlines the key characteristics of effective supplier control systems.

- The direct supplier either monitors environmental and social performance and outcomes at the supply-base level (see Section 1.1 of the Operational Guidance on Monitoring and Verification) or it assesses the control systems of its supplier. This process of cascading upstream continues until assessment at the supply-base level is possible.

- If a buyer’s direct and/or any indirect suppliers do not have effective control mechanisms or monitoring at the supply-base level, then the buyer cannot be assured that its supply chains comply with its commitments.

Using this approach, downstream companies work with their direct suppliers to push commitments, monitoring, and supplier engagement activities upstream to all indirect suppliers and spot markets.

When possible, companies should actively engage with their suppliers to support the fulfilment of commitments (or to set appropriate commitments for the supplier’s entire business, in line with the Accountability Framework, if the supplier has not yet done so). Such support might include technical assistance or incentives 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.

Companies are also encouraged to collaborate with other companies and/or in multi-stakeholder and sectoral efforts to accelerate the progress of suppliers (particularly indirect suppliers) to set rigorous commitments and take effective measures to fulfil them.
2. Supply chain mapping and traceability

As stated in Core Principle 5, the origins of the 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. Supply chain mapping and traceability activities can both help fulfil this requirement (see Box 3 below).

**Box 3. What is meant by supply chain mapping and traceability?**

Supply chain mapping and traceability are related terms that often lead to confusion in their interpretation and use. The Accountability Framework’s definitions reflect the most common meanings of these terms in the context of soft commodity supply chains and environmental and social compliance. Specifically:

- Supply chain mapping is the process of identifying the actors in a company’s supply chain and the relationships among them.
- Traceability is the ability to follow a product or its components through stages of the supply chain (e.g., production, processing, manufacturing, and distribution).

These terms can be compared and applied as follows:

- Supply chain mapping pertains to supply chain actors (e.g., suppliers and intermediaries) whilst traceability pertains to batches of materials.
- Supply chain mapping and traceability can both be conducted to different extents and levels of granularity. For instance, supply chain mapping may be conducted initially to first-tier (direct) suppliers and subsequently to second- and third-tier suppliers to gain increasingly comprehensive information about the company’s supplier network. Similarly, products may be traced back to a given direct or indirect supplier (e.g., a refiner, trader, farmer group, or individual farm) or to an area (e.g., a country, province, or municipality).
Supply chain mapping and traceability can both play important roles in assessing and managing for compliance. Supply chain mapping can include attribute information about suppliers that is useful to assess risk and compliance, such as the supplier’s location, workforce characteristics, certifications held, dates and results of audits, and the status of improvement plans. Traceability links product volumes to specific suppliers and thus can help companies to attach these attribute data to product volumes.

Supply chain mapping and traceability can be complementary, and full traceability back to supply origins is not always necessary to adequately demonstrate compliance or manage for non-compliance. Therefore, companies are advised to define the objectives and scope of these activities that will be necessary to adequately demonstrate compliance for their given supply chain. Companies should also identify the tools and processes that will be used to map supply chains and achieve traceability (e.g., certification, commercial supply chain mapping services, blockchain, etc.).

Traceability should not be confused with transparency. Some companies use transparency as a synonym for supply chain mapping—to refer to information about the company’s supplier network. Transparency is also used to refer to the sharing or disclosure of information about a company’s business, policies,

To meet the above-stated requirement that origins of materials in supply chains are sufficiently known or controlled, buyers at any stage of the supply chain must institute a sufficient level of traceability through one or more of the following methods:

1) tracing materials back to the production or processing units of origin;
2) 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;
3) utilising credible assurance systems (e.g., credible certification systems) capable of linking raw material supplies with production units having specific compliance or performance attributes; or
4) tracing materials to jurisdictions or landscapes where it has been demonstrated that performance with regard to specific social or environmental issue(s) is adequate to fulfil the buyer’s commitments on the corresponding issue(s).

Achievement of sufficient traceability through one or more of these methods should be verified and reported as specified in the Operational Guidance on Monitoring and Verification and the Operational Guidance on Reporting, Disclosure, and Claims, respectively. To support such verification and reporting, the company should document the following aspects of its traceability system:

- **the approach or methodology** (e.g., one or more of the four preceding methods) utilised 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), 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.

Demonstration of adequate traceability through methods other than full traceability back to origin (option [a], above) may require third-party verification to validate the effectiveness of the chosen control mechanisms as well as the veracity of traceability data collected and managed within such control mechanisms (e.g., in the case of option [b], above).

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2 Further guidance on the utilisation of jurisdicational systems to fulfil supply chain traceability and M&V requirements is provided in the Operational Guidance on Achieving Commitments Through Collaboration, which addresses how companies can use jurisdicational approaches to manage responsible supply chains.
3. Risk assessment

Reflecting Core Principle 5.1, the origins of materials in supply chains are expected to be assessed for non-compliance or risk of non-compliance with company commitments. Many companies conduct risk assessment\(^3\) to identify risks of non-compliance with company commitments (or specific elements of them) across different segments of the supply-base. There is currently a wide variation in how such risk assessments are conducted and in the resulting risk characterisations. This section outlines good practices for risk assessment to help facilitate accurate risk characterisations (e.g., low, medium, or high risk) and to improve the comparability of assessment results across companies sourcing from the same region.

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 periodically to ensure that risk characterisations are kept up-to-date.

Credible risk assessments should have the following features and characteristics with regard to their scope, methodology, and other good practices:

**Scope and disaggregation of the risk assessment**

- **Scope:** The risk assessment should consider all relevant risk attributes related to the commodity/ies, location(s), and supplier(s) being assessed. For example, if a company is sourcing cocoa from Cote d’Ivoire, the risk assessment process should first identify all known environmental and social risks associated with sourcing that commodity in that region. The reputation and past actions of the supplier(s) may be indicative of present or future behaviour and therefore constitute an attribute of risk.

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\(^3\) 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’s scope, as well as adverse impacts to internationally recognised human rights. This is different from the use of the term in a general business context, where it refers to the 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.
• **Disaggregation**: The assessment of risk must be specific to each commitment (i.e., social or environmental risk area), each commodity, and each geography. Risk characterisations should also be disaggregated by other contextual factors that may significantly affect risk (e.g., smallholder vs. estate production). For instance, risk levels for deforestation in a given context may differ from risk levels for forced labour or other human rights violations in the same context. Similarly, deforestation risk levels for one region in a country may differ from those in another region and deforestation risk associated with soy production may differ from risk associated with timber harvest in the same region.

**Risk assessment methodologies and tools**

• **Metrics**: Risk assessments should evaluate risk objectively based on clearly defined metrics that pertain to each of the above-mentioned risk attributes, 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 2.2 and other sections of the Framework. Risk assessment metrics may be similar to those used for area-level monitoring of company commitments (see Section 2.2 of the Operational Guidance on Monitoring and Verification).

• **Risk assessment tools and processes**: Risk assessment methods should be credible, current, and provide the necessary environmental and social data for characterising risk. A range of risk assessment approaches may be used, including, for example:

  + Where current and credible risk assessments or risk profiles already exist for the subject contexts and topics, companies are encouraged to use or reference them.
  + Where risk profiles for a given sourcing area are not available, companies sourcing from the same jurisdiction are encouraged to work together pre-competitively or in conjunction with industry groups or other collectives to develop and share risk profiles and the data upon which they are based.
  + Where new risk assessments or risk profiles must be created, these may draw on pre-existing data sources as well as new data collection — for instance, remote sensing or other geospatial data about the sourcing areas, information gathered through consultation with rights holders and other stakeholders, and information furnished through grievance mechanisms regarding the type, amount, and status of grievances.
Other good practices

- **Comparability and scale of risk characterisation**: Risk should be characterised relative to comparable units of analysis; for instance, deforestation risk in a given jurisdiction should be characterised relative to other jurisdictions. Risk at a site level should not be compared to risk at a jurisdictional or national level, nor vice versa.

- **Qualifications of assessors**: Risk assessments should be conducted by individuals or organisations who have expertise in the topics and contexts that are the focus of the assessment and experience conducting risk assessment on these topics.

- **Independent review**: 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 experts that have no affiliation with the company and no other conflicts of interest.

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 towards 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 prioritise 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. These assessments often rely on a desk-based methodology that uses 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.

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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, coarse-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.
- **Fine-grained risk assessment**: a more detailed analysis that utilises additional data about 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 customised risk-profiling tools, interviews with stakeholders and other subject matter experts, and on-the-ground techniques. Risk assessment at this level may necessitate going beyond a desk-based review.

**A note on risk characterisation 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 labour 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 prioritise 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 fulfilment of commitments with a high degree of confidence. Over time, if landscape and jurisdictional approaches fulfil their promise, then a greater number of tropical and sub-tropical contexts may emerge as areas that are lower-risk for one or more aspects of social or environmental commitments. See the *Operational Guidance on Achieving Commitments Through Collaboration* for more information on how jurisdictional systems may complement supply chain controls to help companies fulfil and demonstrate the achievement of their commitments.
4. Managing supplier non-compliance

As stated in Core Principle 6, 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 6.3 calls for buyers to suspend or exclude suppliers when this is warranted by the severity of the non-compliance and other factors (as elaborated below). 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.

**Box 4. 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 an ongoing purchasing relationship). This course of action implies no subsequent purchasing until the substantive non-compliances and any systemic factors underlying them are fully or largely resolved. As good practice, the buyer should notify the supplier of the exclusion and the reasons for it and encourage the supplier to take steps to resolve the non-compliances and institute any necessary remediation.
4.1 Identifying supplier non-compliance

There are multiple ways in which companies may discover supplier non-compliance, including but not limited to the following 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 techniques 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 data available at the supply-base level. See the monitoring methodologies detailed in the Operational Guidance on Monitoring and 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 and Verification).

- Grievance mechanisms can provide evidence of supplier non-compliance, as can crowdsourcing platforms, media news, NGO or community reports, statements and observations of human rights bodies, and other public reporting outlets.

- Satellite-based early warning systems and alerts identify locations of potential land use change and produce regular updates for users of the systems. These systems are already available in many commodity producing regions and their availability is growing. Companies are strongly encouraged to use these systems where available.

Companies are expected to take appropriate action when non-compliance is identified, as detailed in the next sub-section. 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.

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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 that uses the buyers’ leverage to help address challenges on the ground implies some tolerance of non-compliance, yet with limits and consequences depending on the severity 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 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 and effective 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 severity 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 contextualised approaches to assessing and managing non-compliance may be warranted and are provided in the Operational Guidance on Smallholder Inclusion in Ethical Supply Chains.

**Box 5. Prioritising action to bring suppliers into compliance**

The AFi recognises that the journey towards fulfilment of supply chain commitments may take time, particularly for long and complex supply chains. No matter where a company is on this journey, it is critical that companies take action on supplier non-compliance, prioritising efforts and working towards continuous improvement. As companies develop targets, milestones, strategies, and engagement plans to help ensure that their suppliers are able to fulfil the buyer’s commitments, prioritisation of action should consider:
• Where risks in the supply chain are greatest and adverse impacts are likely to be the most significant. In these cases, buyers should prioritise immediate action to work with the supplier to halt the non-compliance and provide for necessary remediation.

• Where the company has the greatest leverage or influence over relevant actors and outcomes. This may be due to the volume of the materials purchased or due to other aspects of the business relationship.

• Where the potential for positive impact is highest. This may be due to the ability of the buyer to help improve social and environmental conditions through specific investments, support, or other interventions, or by participating in effective sectoral, jurisdictional, or other multi-stakeholder initiatives that can help drive broader positive change through collaborative efforts.

4.2.1 Assessing the severity 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 very severe (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.

The 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 severity 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 formalised and included in the company’s supplier management system and related plans, and in any reporting and disclosure related to non-compliance and its resolution. This should include the considerations for determining what course of action to take in the case of different types of non-compliances as well as processes used for decision-making, such as internal and external bodies for reviewing and acting upon grievances and other internal decision-making processes.

Companies involved in sectoral or other initiatives that include rules for assessing and addressing supplier non-compliance (e.g., the Federal and voluntary cattle agreements in the Brazilian Amazon⁶), should at a minimum adhere to those rules.

A. Intensity

A starting point for assessing the severity of the non-compliance and determining the appropriate course of action is to characterise the intensity of each given instance of non-compliance, including both the level 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.

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⁶ See [http://www.zerodeforestationcattle.org/](http://www.zerodeforestationcattle.org/) for more information on these agreements
### TABLE 1. Examples of levels of intensity

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<th>Level of intensity</th>
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| Less intense       | • 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 the inadequate implementation of such processes or other, more severe non-compliances  
                     • An instance of deforestation or conversion that does not significantly affect the natural ecosystems where it occurs, their conservation values, or the people who use or benefit from the natural ecosystems (note, however, that instances of deforestation or conversion may still be considered severe based on their scale and persistence, as outlined in B and C in determining overall severity) |
| Moderately intense or intense | • 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*  
                     • An instance of deforestation or conversion that negatively affects natural ecosystems, their conservation values, or the people who use or benefit from the natural ecosystems |
| Very intense       | • Forced labour  
                     • Acts of violence against environmental or human rights defenders  
                     • Appropriation of land or resources at a significant scale  
                     • An instance of deforestation or conversion that very negatively affects natural ecosystems (e.g., incursion into Intact Forest Landscapes, conversion of peatland, or major fragmentation), their conservation values (e.g., local extirpation of an endangered species), or the people who use or benefit from the natural ecosystems (e.g., elimination of a local natural resource that is critical for local livelihoods) |

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

Particularly for moderate, intense, and very intense non-compliances, the decision on whether to exclude, suspend, or retain a supplier should also consider the scale, or extent, of the non-compliance. This 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
- the total number of workers negatively affected
- the irreversibility or irreparability of the impact (this factor may also be part of the assessment of intensity and persistence)
- 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, incentives, or control systems in place to prevent the non-compliance—or may indeed be sanctioning or promoting the non-compliant behaviour for business reasons, and hence the non-compliance is a systemic characteristic. 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.

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

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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.
**FIGURE 1.** Schematic indicating how factors of intensity, scale, and persistence can be considered together to assess the overall severity of a given non-compliance or related set of non-compliances

Intensity is indicated on the vertical axis while scale and persistence are depicted on the horizontal axis. The overall degree of severity 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 severity of the non-compliance(s), as discussed above, two additional factors should be considered when determining the appropriate course of action, particularly in cases where the severity 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 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 favour of retaining and engaging non-compliant suppliers that are making good faith efforts to address non-compliances despite certain challenging contextual factors. The 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 local authorities do 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, traders, or financial institutions) to the extent that these actors fund, support, mandate, encourage, or facilitate their suppliers’ or clients’ non-compliant actions, such as new conversion or excessive overtime working hours that contribute to labour rights non-compliances.

- When landowners/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 (see Core Principle 9.4).

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 stakeholders or 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 towards 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:

• Limit the suspension/exclusion to only the business unit in which the actionable non-compliance(s) occurred
• Suspension/exclusion is extended beyond the 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 a 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 an indication of deliberate ‘greenwashing’ on the part of the supplier — for instance, if the supplier is profiting from severely non-compliant behaviour in one segment of its business while selling into ethical 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, towards compliance with the implementation plan. The elements of both plans are elaborated below.

The retention and engagement of non-compliant suppliers can carry risks for the company and for the people and ecosystems negatively affected by the non-compliance in the event that non-compliances are not expeditiously addressed. To reduce such risks and avoid greenwashing, transparency is essential. Companies should share relevant information on the nature of the non-compliances and steps and progress towards resolving them, as follows:

- **For monitoring and verification purposes:** Non-compliant suppliers should share information on their implementation plans, actions taken, and progress achieved with their buyer(s) so that the buyer(s) can track and if needed, audit this information. Buyers, in turn, may need to share similar information with their downstream buyers for the same purposes to enable these downstream buyers to monitor progress towards resolving non-compliance and take informed action about retention, suspension, or exclusion. See the Operational Guidance on Monitoring and Verification for more information.

- **For reporting and disclosure purposes:** Certain information on non-compliances and their resolution is expected to be publicly disclosed; see the Operational Guidance on Reporting, Disclosure, and Claims.

In the case where multiple companies purchase from the same non-compliant supplier, they are encouraged to work together, on a pre-competitive basis, to engage the supplier and establish a single agreed set of corrective actions and progress milestones to bring the supplier into compliance.
5.1 Supplier implementation plans

Reflecting Core Principles 6.2 and 6.3, 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. Where non-compliance is associated with indirect suppliers over which the company lacks control or influence, the company should engage its direct suppliers to support the development and implementation of these plans by and with the company’s indirect suppliers.

These plans should be developed in consultation with stakeholders and 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 Consent (FPIC), RSPO’s Land Use Change Analysis, and GIS-based assessments to identify 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. Social impacts (e.g., displaced workers, threats to community livelihoods) should also be assessed with an aim towards mitigating any negative impacts.

Root Cause Analysis, which focuses on identifying the underlying causes of a problem in order to effectively correct it and prevent reoccurrence, can be a useful tool for developing effective implementation plans.

Implementation plans should typically include:

- **Description of the non-compliance** including the nature of the non-compliance, whether it was isolated or systemic, and what information or data was used to identify and substantiate the non-compliance
- Analysis of the relationship between environmental and social impacts and non-compliances, as one might positively or adversely affect the other
- **Corrective actions** for addressing each issue effectively and expeditiously
- **Roles and responsibilities** within the supplier’s own organisation and/or through contractors or upstream suppliers, for implementing each of the corrective actions
• **Time-bound targets and milestones** for each corrective action. Timeframes should be especially expeditious when it is likely that harm will occur again absent a timely response or when the severity or irreversibility of the non-compliance dictates that correction and remediation should be immediate (e.g., if a supplier engages in forced labour or is poised to carry out new deforestation or conversion)

• **Means for monitoring, verifying, and reporting** on improvements (see *Operational Guidance on Monitoring and 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 the implementation of the necessary corrective actions and ultimate fulfilment 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, incentivise, 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**, for example, once certain corrective actions have been completed or not until the supplier has reached full compliance. Consideration should be given to how this will incentivise suppliers to progress on their implementation plans

• **Monitoring, verification, and reporting** of actions and performance, including the use of grievance mechanisms or other stakeholder engagement processes for verifying actions and performance (see *Operational Guidance on Monitoring and 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 7**, which describes overall requirements for responsible land acquisition, land use planning, and site development
- **Operational Guidance on Free, Prior and Informed Consent**
- **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 the establishment of a company grievance mechanism
- **Operational Guidance on Achieving Commitments Through Collaboration**
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 intending to conduct the activities 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 the 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 — they are much more likely to be substantively compliant with buyers’ supply chain commitments.