



# **Risk-Based Supply Chain Due Diligence**

**Presentation to FRUCOM Working Group on Sustainability  
10 February 2021**



# Organisation for Economic Co-operation and Development (OECD)

- Founded in 1961
- 37 member countries
- Better policies for better lives  
– policies that foster prosperity, equality, opportunity and well-being for all
- Evidence-based international standards, including for **Responsible Business Conduct**





# What does OECD work on Responsible Business Conduct (RBC) consist of?

- A comprehensive international instrument on responsible business conduct endorsed by governments– **the OECD Guidelines for Multinational Enterprises**
- **National Contact Points:** The only international RBC instrument incorporating an implementation mechanism
- **Due Diligence Guidance:** The leading global standard setter for due diligence guidance in specific sectors (extractive, garment, agriculture, and financial sector) & generally
- **Outreach** (e.g. regional programmes) for a level playing field & **convening** governments & stakeholders

# The OECD Guidelines cover all major business ethics



General policies



Disclosure



Human Rights



Employment and Industrial Relations



Environment



Combatting Bribery, Bribe Solicitations and Extortions



Consumer interests



Science and Technology



Competition



Taxation

# Due diligence: the key mechanism of responsible business conduct



*“Enterprises should:*

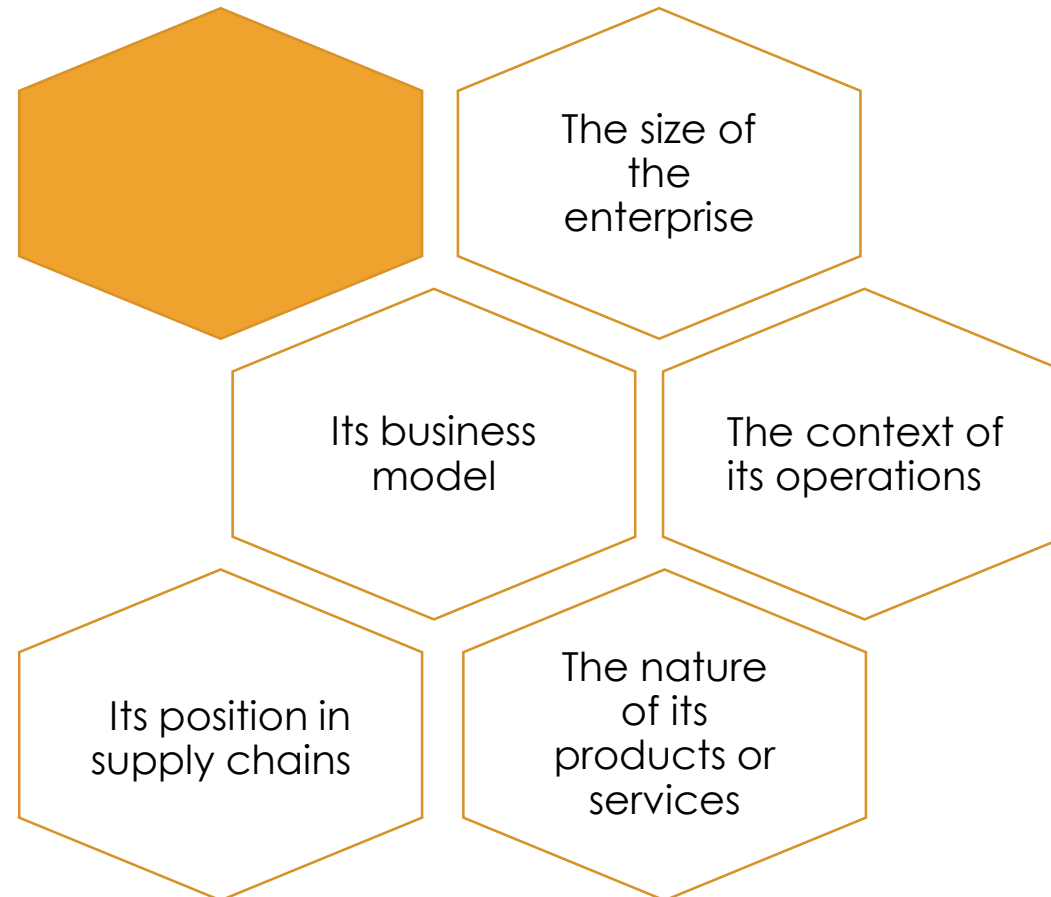
- Carry out risk-based due diligence , (...), to identify, prevent and mitigate actual and potential adverse impacts (...), and account for how these impacts are addressed.*
- Avoid causing or contributing to adverse impacts on matters covered by the Guidelines, through their own activities, and address such impacts when they occur.*
- Seek to prevent or mitigate an adverse impact where they have not contributed to that impact, when the impact is nevertheless directly linked to their operations, products or services by a business relationship.”*



# Tailoring due diligence to enterprises' circumstances

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The nature and extent of due diligence can be affected by factors such as:



# Tailoring to company size

*“The size or resource capacity of an enterprise does not change its responsibility to conduct due diligence commensurate with risk but may affect how an enterprise carries it out” – OECD Due Diligence Guidance*

## **Small and Medium-sized Enterprises (SMEs)**

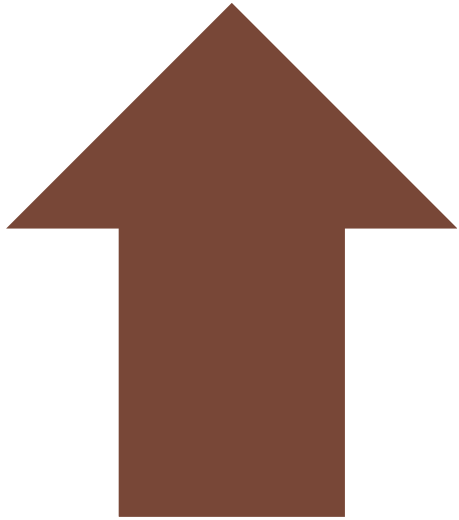
- SMEs with limited leverage over suppliers may consider joining industry associations to apply leverage collectively
- With new suppliers SMEs may consider establishing robust prequalification processes to engage with only high-quality partners

## Large enterprises

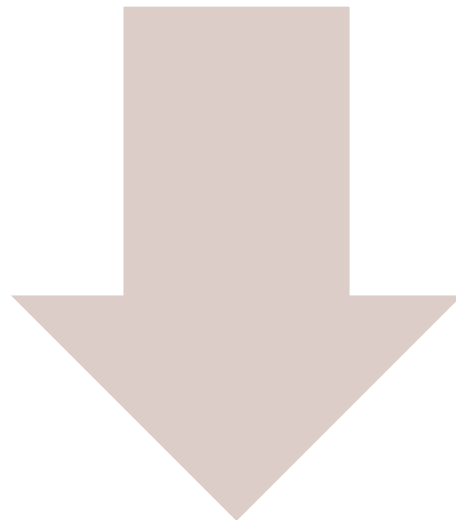
- Engage directly through in-region country offices who may have a more nuanced approach to issues on the ground.
- Help build capacity of suppliers to meet RBC expectations, or engage with the government to help address and/or mitigate risks.



# Tailoring to context of operations



**High risk areas:** As part of its stakeholder engagement an enterprise sourcing from conflict-affected or unsafe regions may engage with bilateral aid agencies (e.g. donor agencies) who have means, access and expertise over these areas or civil society within the region.



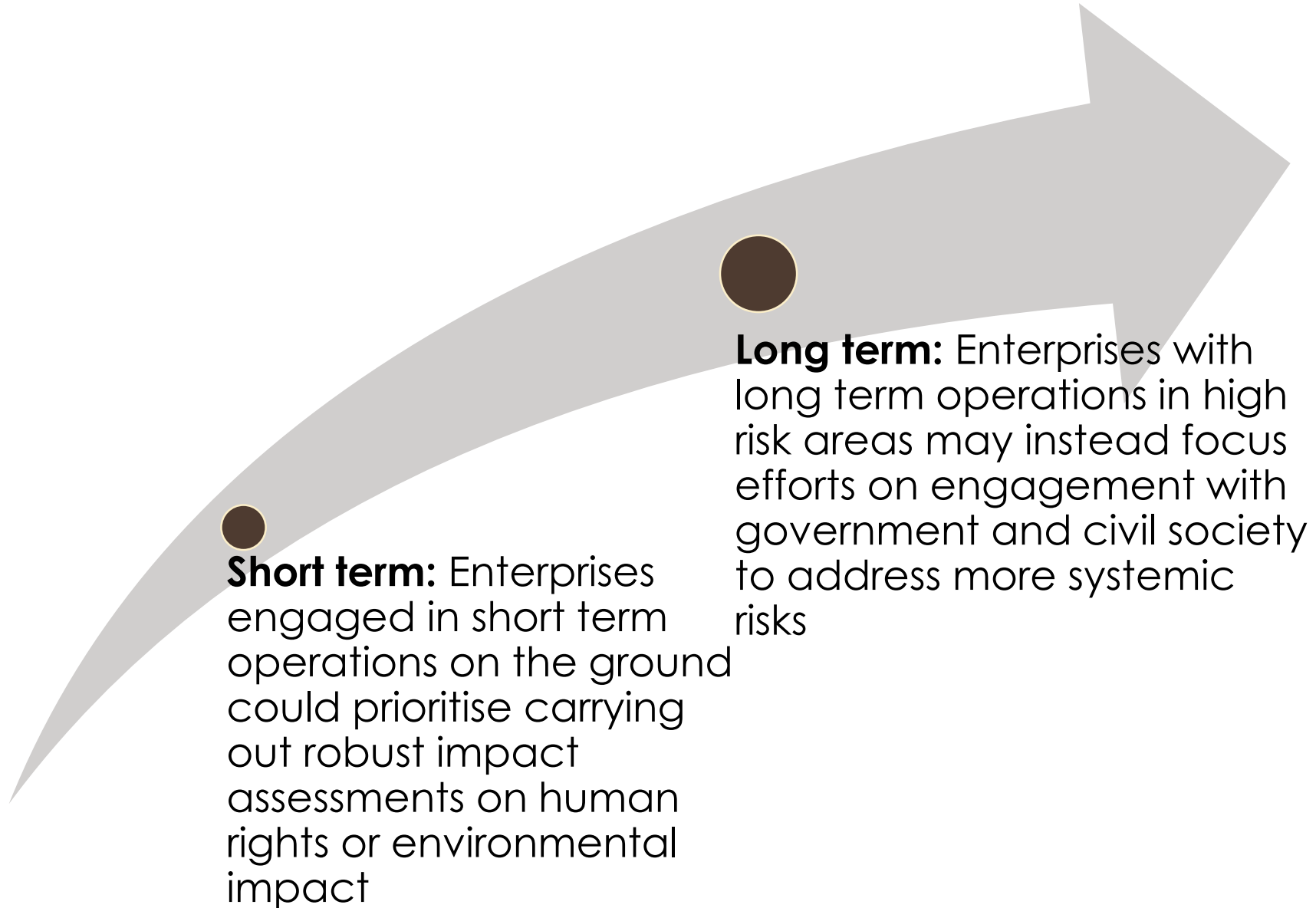
**Safer areas:** Engage directly with impacted or potentially impacted stakeholders and rights holders.

# Tailoring to position in the supply chain

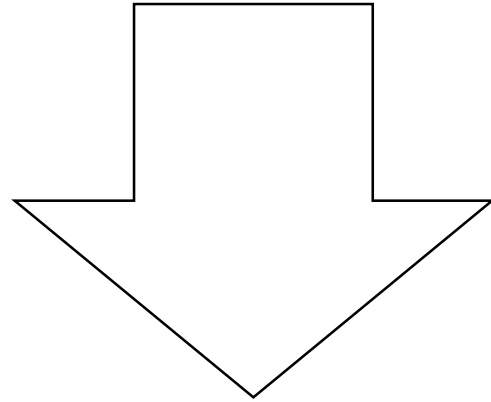
**Upstream:** Upstream enterprises (e.g. farms, raw material traders, refiners) would be expected to trace their supply chains to the point of origin of the raw material and work to directly address adverse impacts on the ground where they operate.

**Downstream:** May only be able to map their supply chain up to a certain mid-stream point (control point). These companies could then work to build capacity of their mid-stream suppliers and check how those suppliers are conducting due diligence further upstream.

# Tailoring to business model



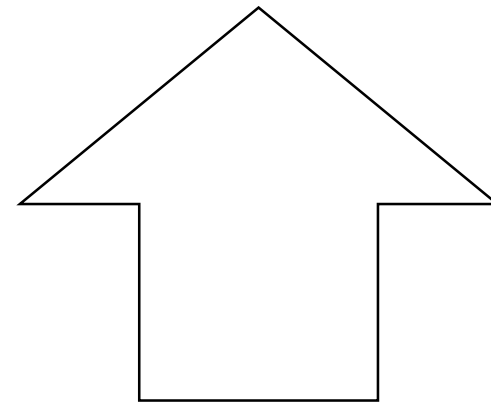
# Tailoring to nature of products and services



An enterprise that provides an online platform for peer-to-peer services may not carry out on-site assessments of its individual operators (e.g. those providing lodging)



Traditional enterprise may establish robust grievance mechanisms that are monitored to guard against any breaches to its code of conduct and operating policies





# Working with complex supply chains

# The complexity of global supply chains

Global supply chains:

- Are a key feature of the modern economy, with 80 % of international trade (gross export) associated with them.
- Common features are specialization, fragmentation and global dispersion of production.
- Often span a very large number of countries and involve a very large number of actors: large manufacturers, for example, may be working with, or through, 1000 first-tier suppliers, 8000 second-tier suppliers, and 30,000 third-tier suppliers.
- Business relationships (for example suppliers) may change on a regular basis, so GSCs are constantly “moving” and evolving.
- Their complexity implies challenges for visibility and traceability, meaning that RBC risks, including risky business relationships, may be difficult to identify.

# Identifying supply chain control points

Control points tend to be at:

- Key points of transformation in the supply chain
- Where there are relatively few companies that process or handle a majority of inputs
- The greatest points of leverage of companies down the supply chain; or
- The points where schemes and audit programmes exist

# Engaging with control points

Include requirements in contracts - that control points be identified (on a confidential basis)

Ask suppliers/business relationships to source from the control point companies that meet international expectations

Use confidential information-sharing systems on suppliers and/or through industry wide schemes to disclose actors further up the supply chain





# Prioritising risks

# Likelihood and severity

Prioritisation should be based on **likelihood** and **severity** of risk

- Severity is further understood in terms of scale, scope, irremediable character.

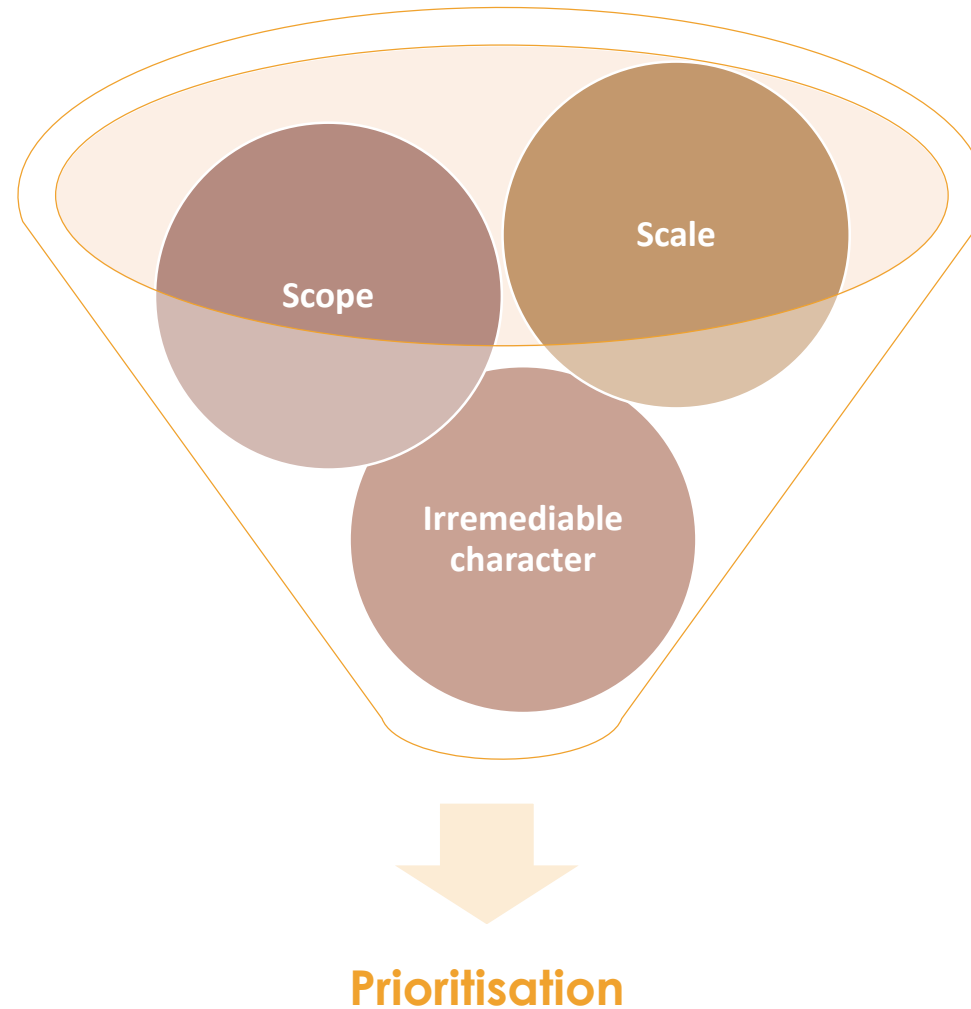


As well as:

- Legal obligations
- Most significant business relationships (e.g. % of products sourced)
- Informed by stakeholders

# Scale, scope, irremediable character

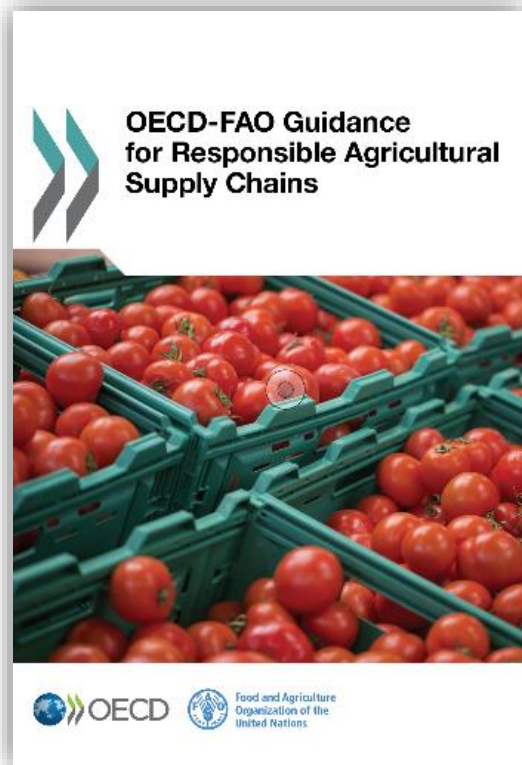
- **Scale** refers to the gravity of the adverse impact
- **Scope** concerns the reach of the impact, for example the number of individuals that are or will be affected or the extent of environmental damage
- **Irremediable character** means any limits on the ability to restore the individuals or environment affected to a situation equivalent to their situation before the adverse impact.





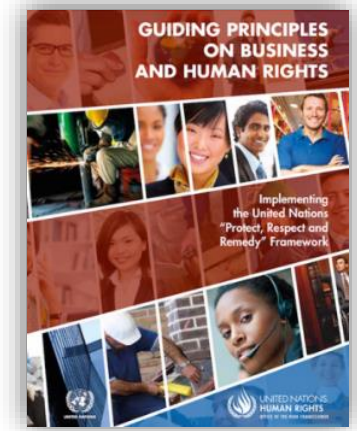
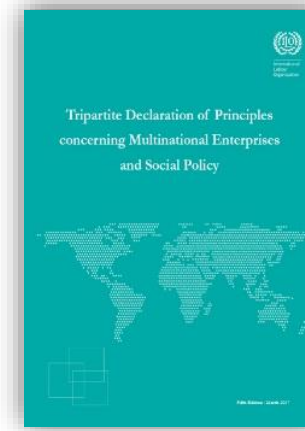
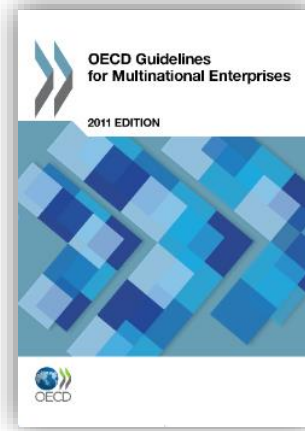
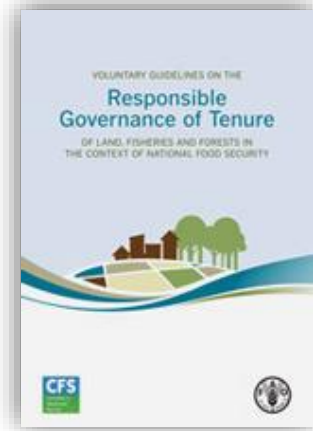
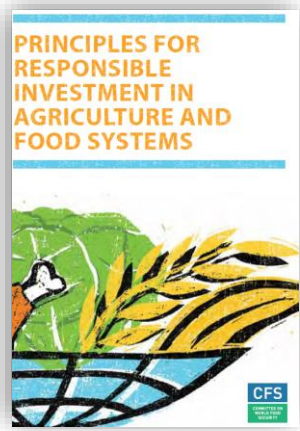
# Agricultural sector

# OECD-FAO Guidance for Responsible Agricultural Supply Chains



- Provides a step by step framework on due diligence to identify and address risks in agricultural supply chains
- Developed by OECD and FAO with a multi-stakeholder advisory group – including business
- Recommendations not regulation

# Builds on international standards



- OECD Guidelines for Multinational Enterprises
- Principles for Responsible Investment in Agriculture and Food Systems (CFS-RAI)
- Voluntary Guidelines on the Responsible Governance of Tenure (VGGT)
- UN Guiding Principles on Business and Human Rights (UNGPs)
- ILO MNE Declaration, among other long-standing international standards

**Helps companies meet the Sustainable Development Goals**

# Common sector risks included in the OECD-FAO Guidance

- **people** (human rights, labour rights, public health and safety, food security and nutrition, tenure rights)
- **the environment** (environmental protection, sustainable use of natural resources)
- **society** (governance, technology & innovation)
- animal welfare
- Engaging with **indigenous peoples**, incorporating a **gender** perspective



# OECD-FAO Guidance 5-step framework for risk-based due diligence

Identify, assess, mitigate, prevent and address actual and potential adverse impacts







## Step 1: Embed RBC in enterprise policies and management systems

**Adopt or integrate into existing processes, an enterprise policy for RBC along the supply chain**

With an approval at the most senior level of the enterprise

**Structure internal management systems to support supply chain due diligence**

With a system of controls and transparency along the supply chain

**Strengthen engagement with business partners**

With an operational level grievance mechanism (in consultation with relevant stakeholders)



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

### Map the supply chain

Who are the actors involved?  
Who are our immediate suppliers and business partners?  
Where do they operate?

### Assess the risks

What are our actual and potential risks?  
Covers environmental, social and human rights impacts

### Identify red flags

Situations that warrant enhanced due diligence



## Assessing and prioritizing risks: Likelihood and severity

Prioritisation should be based on **likelihood** and **severity** of risk

- Severity is further understood in terms of scale, scope, irremediable character

In addition:

- Legal obligations
- Most significant business relationships (e.g.% of products sourced)
- Informed by stakeholders





## Step 3: Design and implement a strategy to respond to identified risks

**Report findings of risk assessment**

Who is the designated senior manager?

**Adopt a risk management plan**

Are we causing, contributing or directly linked to adverse impact?

**Implement the risk management plan – monitor & track performance**

Have we consulted with affected stakeholders to clarify concerns and agree on a strategy?

Who is the designated senior manager we need to keep informed?



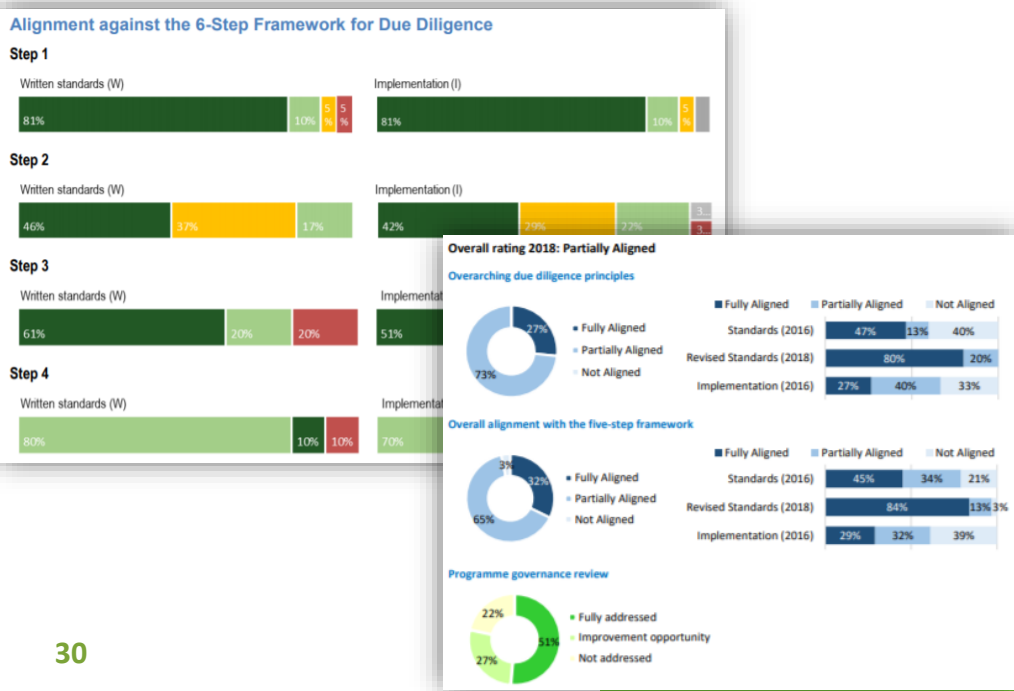
# Step 4: Verify supply chain due diligence

## Making sure due diligence is working

Evaluation should draw on all known information from on-going monitoring, assessments, issues raised through grievance mechanisms.

BSCI		Name of Company	Audit Date	DBD number	
Social Audit Report		Rosita Knitwear (Pvt) Ltd.	April 21, 2011 (BSCI Initial Audit)	24824	Page 4 of 12
B. Audit Assessment Part B BSCI Mandatory Social Requirements					
		Results			
		2	1	0	NA
B.1	Management Practice	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.2	Documentation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.3	Working Time	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.4	Compensation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.5	Child Labour / Young Employees	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.6	Forced Labour / Prisoner Labour / Disciplinary Measures	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.7	Freedom of Association / Collective Bargaining	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.8	Discrimination	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.9	Working Conditions	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.10	Health and Social Facilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.11	Occupational Health and Safety	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
B.12	Dormitories	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
B.13	Environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Total Result:		Good <input checked="" type="checkbox"/>	Improvements Needed <input type="checkbox"/>	Non-compliant <input type="checkbox"/>	

BSCI Audit Form used by SGS (Source: NY Times)



Verification may include audits, on-site investigations and consultation with various stakeholders (government authorities, civil society, affected communities, voice of women is adequately represented)



## Step 4: Verify supply chain due diligence

**Verify, monitor and validate progress** on due diligence and its effectiveness in the company's **own operations**

**Verify, monitor and validate progress** on due diligence and its effectiveness in the company's **supply chain**

Are we doing what we said we would do? Is it working?

Are our suppliers doing what they said they would do?  
How are we building supplier capacity to conduct due diligence?

**Evaluation should draw on all known information from on-going monitoring, assessments, issues raised through grievance mechanisms**



# Step 5: Report on supply chain due diligence

Publicly report on your supply chain due diligence policies and practices

- WHO is the audience?
- How can the audience ACCESS information?
- What BARRIERS in accessibility might exist for certain marginalized or vulnerable groups?
- What is the CAPACITY of the audience (language, literacy, location, time, availability, technical competency)?

## INTEGRATED VS ANNUAL + SUSTAINABILITY REPORTING

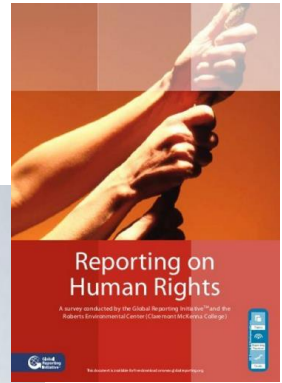
Integrated vs Stand-Alone Annual Reports/Corporate Social Responsibility Reports

2013 Fortune 500 Rank	Company	Filed Annual Report (2013)	Integrated AR/CSR	CSR Content in AR	CSR Report or Website	GRI Index
1	Walmart Stores	Y	Y	Y	Y	Y
2	Exxon Mobil	Y	Y	Y	Y	Y
3	General	Y	Y	Y	Y	Y
4	Phillips 66	Y	Y	Y	Y	Y
5	Bank of America	Y	Y	Y	Y	Y
6	Apple	Y	Y	Y	Y	Y
7	General Motors	Y	Y	Y	Y	Y
8	General Electric	Y	Y	Y	Y	Y
9	Valero Energy	Y	Y	Y	Y	Y
10	Facebook	Y	Y	Y	Y	Y
11	AT&T	Y	Y	Y	Y	Y
12	Farmax Inc	Y	Y	Y	Y	Y
13	W.P. Carey	Y	Y	Y	Y	Y
14	Walmart	Y	Y	Y	Y	Y
15	Wal-Mart Stores	Y	Y	Y	Y	Y
16	Walmart	Y	Y	Y	Y	Y
17	Wal-Mart Stores	Y	Y	Y	Y	Y
18	Wal-Mart Stores	Y	Y	Y	Y	Y
19	Wal-Mart Stores	Y	Y	Y	Y	Y
20	Wal-Mart Stores	Y	Y	Y	Y	Y
21	Wal-Mart Stores	Y	Y	Y	Y	Y
22	Wal-Mart Stores	Y	Y	Y	Y	Y
23	Wal-Mart Stores	Y	Y	Y	Y	Y
24	Wal-Mart Stores	Y	Y	Y	Y	Y
25	Wal-Mart Stores	Y	Y	Y	Y	Y

OUT OF THE TOP 25 FORTUNE 500 COMPANIES:

- 1 had a combined AR/CSR report
- 6 had summary CSR content in their AR
- 20 had stand-alone CSR reports
- 15 included a GRI Index

Many companies include some environmental, social and governance (ESG) content in their annual reports but that doesn't make them **integrated reports**



## Resources

Website: <https://mneguidelines.oecd.org/rbc-agriculture-supply-chains.htm>

OECD-FAO Guidance: <https://mneguidelines.oecd.org/rbc-agriculture-supply-chains.htm>

- Fact sheet: [https://mneguidelines.oecd.org/Brochure\\_OECD-FAO-Guidance.pdf](https://mneguidelines.oecd.org/Brochure_OECD-FAO-Guidance.pdf)
- Brochure – How the OECD-FAO Guidance can help achieve the SDGs: <http://mneguidelines.oecd.org/How-the-OECD-FAO-Guidance-can-help-achieve-the-Sustainable-Development-Goals.pdf>

OECD Due Diligence Guidance for Responsible Business Conduct: <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>



