



Good Practice Handbook

Assessing and Managing Environmental and Social Risks in an Agro-Commodity Supply Chain

Executive Summary

EXECUTIVE SUMMARY

Supply chain¹ risk has become a major area of concern for agribusiness companies and for their customers, financiers, and stakeholders. The threats that environmental and social (E&S) risks pose to brand values and product quality make those risks more material, often reaching thresholds of major importance to the core business of agriculture and food companies. As a result, many companies seek to identify and manage E&S risks as part of doing responsible business.

Through its Performance Standards on Environmental and Social Sustainability, IFC requires its clients to identify, avoid, mitigate, and manage E&S risks and impacts as a way of conducting sustainable business. The 2012 Performance Standards outline client responsibilities with respect to the primary supply chain² and primary production in the supply chain—specifically, where the IFC client can reasonably exercise management control and/or leverage, risks and impacts associated with primary supply chains should be considered.³ The Handbook provides good practice on how to identify and manage the following high risks in primary supply chains:

- hazardous/harmful child labor,
- forced labor,
- significant safety issues leading to life-threatening situations related to supply chain workers (Performance Standard 2), and
- significant conversion of natural and/or critical habitats from primary suppliers (Performance Standard 6).

The Handbook focuses on five major agro-commodity supply chains—palm oil, soybean, sugarcane, coffee,

The business case for managing E&S risk in agro-commodity supply chains includes value gained through:

- Reputational risk management and value protection;
- access to capital and associated financial services;
- enhanced brand reputation and better market advantage;
- security of supply, supplier competence, and loyalty;
- improving compliance with legislation and “soft” law; and
- cost savings from gains in efficiency and productivity.

¹ A supply chain is a network of sites, facilities, and distribution channels that includes the procurement of materials, production and assembly, and delivery of a product or service to a customer.

² IFC defines the “primary supply chain” as those suppliers who, on an ongoing basis, provide goods or materials essential for the core business processes of the IFC client’s project, and “supply chain workers” as those workers engaged by a primary supplier.

³ This is defined in supply chain related sections of *Performance Standard 2: Working and Labor Conditions* and *Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources*.

Box 1. IFC Performance Standards: Supply Chains

There are eight IFC Performance Standards on Environmental and Social Sustainability. In three of them, certain sections detail the primary supply-chain specific requirements relevant to IFC clients:

Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts.

Where the client can reasonably exercise control, the client's risks and impacts identification process—the environmental and social management system (ESMS)—will include, as relevant, a supply chain component that considers the risks and impacts associated with its primary suppliers, as defined in Performance Standard 2 and Performance Standard 6. This component will incorporate the elements of policy and procedures, supply chain mapping, risk assessment and management, corrective measures, training, monitoring, and reporting. Where the client does not have control or influence over the management of certain environmental risks and impacts in its supply chain, an effective ESMS should identify the entities involved in the value chain and the roles they play, the corresponding risks they present to the client, and any opportunities to collaborate with these entities in order to help achieve environmental and social outcomes that are consistent with the Performance Standards.

Performance Standard 2: Labor and Working Conditions.

The objective of Performance Standard 2 is “to protect workers, including vulnerable categories of workers such as children, migrant workers, workers engaged by third parties, and workers in the client's supply chain.” As part of an ESMS and subject to the client's level of management control or leverage over its supply chain, the client will assess and document risks and impacts in its primary supply chain when there is the potential for child/forced labor or significant safety issues. The requirements set out in Performance Standard 2 are in part guided by a number of international conventions and instruments, including those of the International Labour Organization (ILO) and the United Nations (UN).^a

Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources. Performance Standard 6 covers direct and indirect project-related impacts on biodiversity and ecosystem services, and is based on the Convention on Biological Diversity. As part of an ESMS, the client must adopt a verification process to evaluate its suppliers of primary production, in order to demonstrate that raw materials are not being purchased from sources where there is significant adverse impact on natural and/or critical habitats. Again, the required actions depend upon the level of management control or influence over suppliers.

^a These Conventions are; ILO Convention 29 on Forced Labour; ILO Convention 105 on the Abolition of Forced Labor; ILO Convention 138 on Minimum Age (of Employment); ILO Convention 182 on the Worst Forms of Child Labor; UN Convention on the Rights of the Child, Article 32.1; UN Convention on the Protection of the Rights of all Migrant Workers and Members of their Families.

and cocoa—however, many of the tools, resources, and case studies can be used as guidance for other agro-commodities.

Refer to the Handbook Annex for key points relating to supply chain structure and governance of palm oil, soybean, sugarcane, coffee, and cocoa, as well as applicable sustainability and certification initiatives.

E&S Risks in the Supply Chain

Child Labor

Child labor is defined by the International Labour Organization (ILO) as “work that deprives children of their childhood, their potential and their dignity, and that is harmful to their physical and mental development.”⁴ Long working hours, extenuating jobs, harmful activities (e.g., working with machines and machetes), exposure to hazardous materials such as pesticides, absence of adequate adult supervision, and impediments to engaging in formal education are all examples of hazardous child labor. In the worst cases, children may be enslaved, separated from their families, or exposed to serious dangers and illnesses.

However, not all work done by children is harmful. Situations where children work with their parents or participate in work that does not affect their health and personal development are generally tolerated, provided no hazardous work is involved and children are laboring on family or small-scale holdings that produce for local consumption. Child labor on large farms producing for commercial purposes is not allowed by ILO Conventions, nor is the employment of children as regular hired laborers. Therefore, the concern regarding the use of child labor in agro-commodity production falls within the realm of hazardous labor in commercial agriculture, as does the work of children who are engaged in any form of hazardous activity.

Laws may also permit light work for children age 13–15 (not harming their health or school work). The minimum age of 18 years is specified for work that is likely to jeopardize the health, safety or morals of young persons.

Forced and Bonded Labor

The ILO Forced Labour Convention 1930 (No. 29) prohibits all forms of forced or compulsory labor, defined as “all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily.” Information on which countries have ratified this Convention is on the [ILO website](http://www.ilo.org/ipec/facts/lang--en/index.htm). It is important to note, however, that ratification by the country is not an indication of enforcement.

Risks of forced and bonded labor usually result from certain company recruitment practices and can involve debt repayments, a sense of desperation

⁴ ILO, <http://www.ilo.org/ipec/facts/lang--en/index.htm>, accessed on February 29, 2012.

about finding work and shelter, and a lack of leverage to negotiate better working conditions.

Cases of forced and bonded labor are most commonly connected with the illegal migrant workforce; however, this is not always the case. Bonded labor can occur when contracts are formed between agents and companies rather than with individuals. Risks arise when companies pay upfront for agents and legal fees, with the costs to be deducted from workers' salaries, with little to no clarity about when and how these loans are to be repaid. Movements of bonded workers will often be restricted, with companies withholding workers' passports and identifying documents. Most contracts will not have early "breakout" clauses.

Significant Safety Issues Related to Supply Chain Workers

Risks to worker safety can arise through agricultural practices, including work place incidents or fatalities. The principal causes of work-related incidents or fatalities in agro-commodity production are exposure to hazardous agrochemicals, crushing and use of unsafe equipment, noise, heavy loads, extreme temperatures, road incidents, and limited access to personal protective equipment (PPE). Workers across a variety of agricultural production models are often exposed to chemicals, particularly those associated with higher-risk jobs, such as pesticide and herbicide sprayers, fertilizer applicators, and harvesters. Health risks associated with these jobs can arise for the following reasons:

- Use of chemicals that are internationally banned according to the World Health Organization;
- limited or no access to PPE, which increases the exposure risks; and
- lack of awareness and/or understanding of the risks related to the work (in cases such as this, workers who have access to PPE may choose not to wear it, particularly if it gets in the way of their work performance and/or is uncomfortable to wear).

There are also risks that safety procedures and incident prevention measures are either not developed or not effectively enforced. Storage and disposal of chemical containers, especially on family farms, also represents a risk to child and community health.

Environmental and Social Management Systems

Critical to the success of environmental and social (E&S) risk management in primary supply chains, and a requirement for IFC clients under IFC Performance Standard 1 is an environmental and social management system (ESMS). An ESMS enables companies to manage E&S risks and impacts in a structured way, can link a company's suppliers and, in turn, contractors with their own suppliers. The ESMS approach draws on elements of the established business management process of "plan, do, check, act" and applies to business activities with environmental and/or social risks and/or impacts.

Management commitment and accountability are critical for an effective ESMS. Strong leadership can drive an integrated sustainable sourcing policy with goals shared among key departments. This will involve collaboration across divisions and changes to incentive systems. Generally it is the procurement officers (buyers) in a company who need to implement the sustainable sourcing policy, but they respond to different signals than the marketing or external affairs divisions. Leadership at the senior levels of a company is therefore crucial to ensure unified actions across the business.

The Handbook provides guidance for companies to develop or strengthen their ESMS, especially as it relates to supply chain management. In addition, there is an example of an E&S Action Plan's management system procedure for supply chain at the end of this Executive Summary.

Significant Conversion of Natural and/or Critical Natural Habitats

As pressure to secure and increase agricultural yield grows, the agriculture sector has become a major player in the destruction of natural ecosystems and species extinctions. Risks are particularly high for large-scale industrial agriculture, where methods to maximize agricultural productivity can conflict directly with efforts to maintain biodiversity. Such methods include expansion into previously marginal areas and conversion of remaining natural habitats, removal of remnant semi-natural vegetation corridors and other "islands" of managed non-crop vegetation, intensive chemical management, and reduction of "rest periods" and crop rotations.

Deforestation and habitat conversion for agricultural activities is overwhelmingly the most significant driver of biodiversity and ecosystem loss associated with agro-commodity production. This risk is becoming more extreme as agricultural demand increases under pressure to find more land suitable for farming. Habitat fragmentation of natural landscapes decreases the area of habitat available, increases disturbance within remaining habitats, and makes species more vulnerable to local extinction. Land use intensification within traditionally managed farming landscapes relies on the continuation of low-intensity agricultural practices to maintain a great number of species and semi-natural habitat types.

Agricultural pollution (e.g., pesticides, nutrient discharge, and erosion) as an impact of agro-commodity production can result in damage to biodiversity and habitat quality.

Further, increased access to remaining natural habitats, such as clearing natural land for cultivation and access roads, may dramatically intensify hunting and wild plant collection, as is commonly seen in tropical settings.

Traceability

The more information that is available about the origin of primary production, the easier it becomes to make informed decisions about which supply chains to work with and when to remove non-conforming products and suppliers. For instance, when the origin of an agro-commodity is known at a country or regional level, this knowledge can be used to identify and manage E&S risks. Companies can cross-reference agro-commodity production risk with a region/country risk assessment, even if they do not know the precise location of production or specifics about the field practices.

Traceability systems vary not only in terms of strict traceability, but also in costs of implementation and maintenance. Companies use a number of traceability and control systems, which can be used to make risk-based decisions or to provide direct assurance of performance. Companies can use existing traceability systems developed for quality or safety as inputs into E&S risk management. Refer to the Handbook's Traceability chapter for an illustration of these systems on a continuum of high to low traceability capacity.

Supply chain mapping, discussed in more detail in the Toolkit section of the Handbook, is a key prerequisite for supply chain E&S risk assessment, although the level of traceability in a typical agro-commodity supply chain may be relatively low.

Certification

Certification with a voluntary agro-commodity standard is an important consideration for companies managing E&S risk in primary supply chains. Certification is a voluntary process by which an independent organization verifies that an operation or procedure—such as management of a forest or farm—is being carried out in accordance with a specified principle or set of criteria. It provides assurances that production, processing, and trade have been conducted

in accordance with the standards. For these reasons, certification is often promoted as an effective way to manage risks in supply chains. There are many sustainability certification standards applicable to agricultural commodities, working on a voluntary, not-for-profit basis, and with the involvement of a range of stakeholders.

Using an internationally agreed certification standard provides a market communication tool that allows each stage in the supply chain to request and provide consistent and mutually understood information about E&S performance. A production standard can be generic or crop-specific, and sets out the performance requirements at the level of the plantation or farm. It typically consists of principles and criteria, with measurable and/or verifiable indicators.

Chain of Custody (CoC) standards define a verifiable system of traceability and/or supply chain control for raw materials at each stage of the supply chain from initial production to the final product. CoC certification provides assurance at each stage that the material being sold conforms to the specific requirements.

Most relevant certification schemes are oriented to both production and process (to verify that products are being produced according to a set of sustainability standards), and to the end-product (for instance, requiring a CoC certification), to certify that the product fulfills a certain claim. Bonsucro, Roundtable on Responsible Soy Association, Roundtable on Responsible Palm Oil, Rainforest Alliance, Fairtrade, and UTZ are some leading international examples of relevant certification schemes.

Production standards are applicable to growers, and the CoC standard is applicable at every stage in the manufacture of a product, which may include mills, processors, traders, and wholesalers, depending on the structure of the supply chain. In some cases, E&S requirements may also be implemented at each stage. Key sources of information for companies wishing to engage in certification are the certification schemes or commodity roundtables themselves, as well as research programs; more information on these can be found in the Handbook.

There are a few limitations to certification schemes worth noting. Historically, certification of good practices has been considered a proxy for positive impacts on the ground; however standards systems and certification schemes are increasingly

seeking ways to undertake a more systematic, rigorous analysis of their impact on sustainable development. Additionally, while there is a growing market for certified production, there are instances where supply outstrips demand, and this lack of demand potentially undermines the economic case for producer involvement, particularly if they sell certified products at a price that does not cover their costs of compliance. Certification costs money, in terms of both an audit of operations and compliance—including, for example, staff time to manage the process, staff training, updating of procedures, additional tasks of maintaining a supplier database, increased wages (e.g., ensuring a “living wage” for workers), and, in some cases, changing business practices to be more ethical. Many standards systems and certification schemes seek to include smallholders through the development of bespoke requirements and group certification to achieve economies of scale. However, the limited capacity of smallholders and the challenges associated with organizing hundreds or thousands of smallholders makes it difficult for smallholders to obtain certification.

Even in situations where companies have high leverage with their primary suppliers, buyers need to consider that demanding compliance with third-party certification may not always be possible—supplier might lack the capacity to achieve certification or the incentives to make the necessary investments. Communicating the future intention to require third-party certification in advance of implementation and working in collaboration with suppliers to meet the necessary requirements may be more effective, particularly when done in combination with rewards for interim progress.

Toolkits: Practical Approaches for IFC Clients

The Handbook includes two Toolkits—Toolkit 1 focuses on the assessment of E&S risk and leverage in a supply chain, and Toolkit 2 on managing E&S risk. These Toolkits contain practical “how to” information, including sample questionnaires; sample risk frameworks; tips on how to rate commodity and country risk factors; sample communications from the CEO to Suppliers, and from Sourcing Teams to Existing and New Suppliers; as well as tips on how to develop and use supplier scorecards.

Toolkit 1: Assessing E&S Risk and Leverage in a Supply Chain

To determine an IFC client’s leverage and ability to influence the primary suppliers, its supply chain mapping and risk assessment must describe the supply

chain structure and characteristics, identifying all intermediary steps, all players, and the nature of the transactions between primary producers and the client. This will enable determination of:

- The E&S risks and impacts associated with primary production;
- the supply chain structure, size, and types of coordination mechanisms (e.g., market transactions, contract integration, vertical integration);
- the client's leverage to eliminate or minimize these issues in its area of management control or influence;
- the client's ability to source from alternative suppliers to eliminate or minimize issues; and
- remaining risks that are difficult for the client to eliminate.

A step-wise process for assessing E&S risk and assessing leverage is:

Step 1. Organizing and Collecting Information

Step 2. Assessing Risk in a Supply Chain

Step 3. Mapping Institutions in a Supply Chain

Step 4. Assessing Company Leverage in a Supply Chain

A **supplier database** is important for capturing, storing, and tracking information about suppliers. Companies will already have some form of this to manage day-to-day procurement, purchasing, or trading. Adapting this database to include E&S information about suppliers can be an important part of a company's approach to managing these risks.

A **rapid diagnostic**, where information about the commodities used is compiled from internal information, can help identify where to focus resources and prioritize which supply chains to focus on first. Sources of information for undertaking this rapid diagnostic may include contracts, shipping documentation, and shipping information held by trading operators and their systems (who handle the legal, financial, and logistics aspects of deals). Direct relationships with suppliers in producing countries will likely indicate origin. At the rapid diagnostic phase, companies do not need to contact suppliers for any additional information.

Supply chain mapping can be a visual diagram, a written description, or both. The most common way of gathering this information is through a questionnaire and database approach, supplemented by interviews with key suppliers. This may be used to establish the country of origin of a commodity, the location of

producers, and, in some cases, the specific identity of producers at the primary production base of a supply chain. Coupled with information about E&S risks of the commodity's production in that location, this approach creates a tool through which the highest-level risks can be identified. The supply chain mapping process can be used to categorize product volumes according to parameters, such as current proportion of traceable product and current proportion from certified suppliers as well as the risk exposure this creates—a potential basis for risk management.

Supplier questionnaires provide information which can be used to map E&S risk of primary production. This includes spending time explaining to each supplier and managing the information received. The process of supply chain mapping is often and necessarily iterative, and a buyer may need to return for more data if the initial information is not sufficient or contradicts other evidence.

An E&S Supply Chain Risk Rating Matrix is a reference tool that companies can create or purchase, providing them with generic information about the E&S risks associated with a commodity in a particular geographic location. If actual information about a supplier's E&S performance is available, the generic country-commodity risk level will be moderated by this additional information. Examples of commodity and country-level risk factors, as well as additional risk factors, include:

- *Commodity-level risk factors*: Some commodities are more likely to carry negative E&S risks than others, because of the type of cultivation and harvesting or the type of land on which farms and plantations are typically established, for example. They may be associated with specific countries where known impacts occur. It may also be that the stakeholder profile (e.g., consumer demands, campaigns by non-governmental organizations (NGOs)) has drawn attention to these risks.
- *Country-level risk factors*: Some countries have a higher risk of negative E&S impacts, for reasons, such as weak E&S regulations and legislation and their respective enforcement, social incentives and risks in-country (e.g., deforestation, human rights, corruption), and the profile and structure of the supply base (large estates, smallholders, etc.).
- *Additional risk factors* that companies should consider are the volumes they purchase, complexity of the supply chain, degree of information sharing in the supply chain and the extent of E&S risk management in the supply chain.

The level of risk can be assessed according to the **probability** of certain impacts and the potential **severity** of those impacts. The process to assess each risk will generate a considerable dossier of data that informs the high, medium, and low

risk ratings. This approach can be applied to a company's portfolio of suppliers as part of a strategy to prioritize and manage existing supply chains, to new suppliers being considered, or when entering new and unknown markets. The scope of the countries and commodities included in the risk framework and rating exercise will depend on the company's suppliers.

The IFC tool, Global Map of Environmental and Social Risk in Agro-Commodity Production (GMAP), is an example of a tool setting out a risk assessment matrix that should be used by trade finance clients to manage E&S risks in their agro-commodity supply chains.

For companies with a small supply base, long-standing relationships, and existing in-depth knowledge about the E&S practices in their primary production, it may not be necessary to do a risk assessment framework and ratings. Such companies should instead focus on assessing and managing the known E&S impacts and record these in their supplier database.

Together with an institutional map and a leverage assessment, discussed below, assessing E&S risk is a prerequisite for managing E&S risks in supply chains.

Institutional mapping identifies key institutional actors affecting a supply chain, including partners, governments, and/or industry associations. Based on sector- and value chain-based knowledge, companies can identify the main formal and informal institutions affecting the functioning of the supply chain. As with the E&S risk assessment, both the commodity (e.g., global, regional, and local institutions) and the country should be considered.

Together, supply chain mapping and institutional mapping provide important information that forms the basis for **leverage assessments**. Leverage is the ability of the company to effect change in the practices of its supplier or subsequent upstream supply chain. Buyer influence makes it easier to incentivize changes in the practices of the supplier. Such influence is indicated by:

- Large volumes purchased;
- few dominant buyers and many producers; and
- the ability to source the same product elsewhere (high substitutability).

Supplier influence makes it more difficult to influence changes in the practices of a supplier. Such influence is indicated by:

- Large volumes supplied;
- few dominant suppliers and many buyers; and
- restricted ability to source the same product elsewhere (high product specificity).

The process of supply chain mapping provides a useful basis for a leverage assessment, enabling companies to identify primary suppliers (including key characteristics such as geographic distance and the ability to influence purchasing) and the existence of certification in the supply chain (a key tool for managing E&S risks). Analyzing influence and institutional relationships is useful when considering management strategies and can act to reduce or increase leverage.

Additional operational information about stages in the supply chain may be collected, as well as information about E&S risks, institutions, and leverage. This information can be collected through meetings, questionnaires, desk-research, or field visits.

Toolkit 2: Managing E&S Risk in a Supply Chain

After developing a supply chain map, E&S risk assessment, institutional map, and leverage assessment, the next step is to define the scope of the management system procedure or program and draft a sustainability sourcing strategy or plan. The key to an effective plan is to allocate resources in a way that balances two elements: the minimization of risk and the improvement of E&S standards among suppliers.

The results of the assessment and analysis provide the necessary input for the development of strategy and tactics for managing E&S risks in supply chains. As components of a management strategy, appropriate actions can be identified by the level of risk and leverage assigned to a specific supply chain.

When developing an approach to managing E&S risk, the first step is to identify which supply chains are priorities, and how to manage the risk of those supply chains. The “high-risk” agro-commodity supply chains should be prioritized, and the ability to leverage change should be used to determine the approach to take.

Below is a step-by-step process for doing this, including some useful tools and resources:

Step 1. Prioritizing supply chains

Step 2. Determining appropriate sustainability sourcing and management strategies based on leverage

Step 3. Implementing, monitoring, and reviewing

The supply chain mapping and E&S risk assessment approach described in Toolkit 1 above enables companies to prioritize risks according to commodity sector and country, based on the likelihood and severity of the E&S risks associated with commodity production in the particular country.

Four time frames are recommended for planning:

- Status (now)
- Short-term priority (1–12 months)
- Mid-term expansion (2–5 years)
- Future vision (where the company wants to be in 10 years)

Different levels of risk lead to different management strategies. There is space for agribusiness companies to map the risks by region and try to reduce exposure to the most high-risk areas, and this should be articulated in their supply chain policies. There is a temporal aspect to the management of risk, and companies facing high levels of E&S risk may have to act more quickly to manage risks or mitigate impacts where the E&S issue occurs. By contrast, companies facing low-risk situations can opt to regularly monitor the situation while laying the foundations for improved E&S risk management if the risks were to increase. All options depend on the resources a company is willing to invest in the supplier or supply chain and the realities of what they already have in place to build upon. Options should be considered in light of a company's leverage assessment. The leverage assessment provides the basis for undertaking management strategies appropriate to the nature of the trading relationship (coordination) and the presence of a blocking institution.

Command and control, or top-down approaches manage risk by enforcing standards, systems and codes of E&S risk management. These approaches can be adopted in a limited number of cases where the supplier and buyer are vertically integrated, and these approaches are thus integrated within existing company systems and operations.

Collaborative risk management approaches aim to manage E&S risks by increasing information sharing on E&S risk assessment and management, and improving suppliers' capacity to assess and manage risks. Companies that have vertically coordinated supplier relations may look to tools in this area to manage their E&S risks, depending on the exact nature of the relationship and the institutions governing it.

Once a sustainability sourcing strategy outlining the E&S management approach in the supply chain is developed (with priorities and acceptable performance levels), the strategy needs to be implemented and monitored annually.

Box 2. Example of an IFC Client's E&S Action Plan (ESAP) Specifically Addressing Supply Chain Management Issues

Supply Chain Risk Assessment and Management

As part of the supply chain component of its corporate environmental and social management system (ESMS), Company X will develop and implement a sustainable sourcing policy (including a Supplier Code of Conduct) to ensure sustainable purchasing practices for its "high-risk" commodity Y. As per IFC's related supply chain requirements, this policy will specifically prohibit purchase of all these commodities known to be produced breaching national environmental and social (E&S) legislation and/or violation of IFC Performance Standards, namely produced through harmful child /forced labor and through conversion of natural/critical habitats leading to biodiversity loss.

- Company X will provide IFC a copy of the supply chain policy for review and will include Company X's Supplier Code of Conduct in all contractual agreements with high-risk commodity suppliers.

Supply Chain Database and Monitoring

Company X will develop an ESMS procedure for monitoring key E&S requirements on its supply chain at the local/country level. Suppliers will be classified in categories (e.g., Certified, Traceable Not Certified, Traceable within a Region, Non-Traceable) according to identified E&S risks and knowledge of suppliers' practices as these relate to the IFC Performance Standards supply chain requirements; the reliability of Company X's information regarding E&S standards at origins under which "high-risk" commodity Y has been produced, and; if Company X is able to demonstrate management control and/or leverage over primary suppliers. The scope of the E&S risks to be considered for primary suppliers includes: harmful child/forced labor, significant safety issues related to supply chain workers, and conversion of natural/critical habitats. The supply chain database will be the means to monitor the dynamics of certified and traceable categories of suppliers, and will be expanded to incorporate broader country supply chain data and allow for aggregation. Specific steps for Company X to undertake include:

- Company X will provide a copy of its ESMS procedure, detailing supplier category definitions and the basis for the risk ratings that will feed into the supply chain database;
- company X will provide IFC with confirmation that the ESMS procedure is disseminated to its operations in country of origin where Company X can demonstrate management control and/or leverage over its "high-risk" primary suppliers;
- company X will provide documentary evidence of the development of the supply chain database;
- company X will provide IFC with the implementation schedule for its supply chain database in countries of origin where Company X has management control and/or leverage over "high-risk" primary suppliers; and
- company X will provide an annual monitoring report to IFC detailing its supplier classification per origin and its sustainability initiatives to proactively move suppliers to a higher sustainability classification.

E&S Training

Company X will implement a training program for its field staff to:

- Ensure knowledge of Company X's enhanced supply chain policy as outlined above;

(continued on next page)

Box 2. (continued)

- build in-house capacity to collect accurate E&S information on suppliers at origin/buying station (supply chain database);
- reliably input data into the supply chain component of the ESMS to allow senior management to assess the nature, scale, and importance of environmental and social issues in any given location;
- ensure training of suppliers on sustainable agricultural practices to help farmers improve yields, quality, and achieve third party certification of “high-risk” commodity from widely accepted bodies or from manufacturing clients;
- provide IFC with an overview of the top level work plan and materials for the implementation of this E&S training program; and
- provide IFC with evidence for the implementation of the E&S training for suppliers, as appropriate.

Senior Management Monitoring and Guidance

Company X will implement a procedure for periodic reporting and monitoring of its supply chain E&S risks and sustainability initiatives to Company X’s senior management. This will allow for progress monitoring regarding supplier classification in the database; help to keep track of emerging E&S issues; help to determine E&S capacity building needs of field staff and suppliers; and to facilitate a proactive response and periodic realignment of Company X’s sustainability priorities, as well as to mitigate exposure of Company X to commodity business risks in the short and long term.

Company X’s senior management will identify any needed changes in its ESMS for the management of suppliers to reduce risks in the supply chain.

- Company X will present to IFC the planned system for monitoring and reporting E&S issues to senior management; and
- company X will include in its annual monitoring report to IFC the decisions taken by senior management to proactively improve supply chain E&S performance in Commodity Y.

Strategic Plan for Certified High-Risk Commodity Y

Company X will present an annual plan to IFC with a tentative schedule to gradually increase the procurement of certified commodity Y as a percentage of the total volume traded or processed in a given year, either through shifting suppliers or influencing existing suppliers. The plan can include: training programs for farmers to boost productivity; activities to promote compliance with the supply chain requirements of the IFC Performance Standards, and; activities to increase the procurement of third party certified commodity Y, as detailed below:

- The plan will include tentative targets for the procurement of certified commodity Y each year within a three-year horizon in countries of origin, and throughout the life of the project. The plan will indicate suitable partnerships to address productivity intensification and E&S monitoring. The plan will be implemented by other stakeholders (such as certification bodies, NGOs, manufacturing clients, etc.) in the country of origin.

Company X will include all activities performed by Company X to promote certified commodity Y in its annual monitoring report to IFC.

Company X will review its yearly sustainability sourcing performance, and realign plans for procurement of third party certified commodity Y for the next year.



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