

## Using social risk assessment in approaches to responsible sourcing of agricultural commodities



This document provides suggestions for how companies can use social risk assessment as part of their responsible sourcing strategies for agricultural commodities. It gives an overview of why social risk assessment is needed and the kinds of social issue that may need to be investigated.

Ideas are put forward for using the results of social risk assessment at various points in a company's programme of work on responsible sourcing, from strategy and communications, through various forms of supplier engagement, to investment in broader interventions at the sectoral or jurisdictional level.

The document is intended to serve as a guide for sustainability personnel and responsible procurement teams.

## 1. Overview – why social risk assessment?

A social risk assessment is an exercise to identify and evaluate the risk of negative social issues occurring. It is similar to how environmental risk assessment is used to assess environmental issues such as deforestation or water pollution. By assessing risk, we are asking: how likely is it that a problem is occurring or may occur in future? It is an indication, not a guarantee, that negative social issues are taking place.

Once an organisation understands the type and severity of social issue that it is likely to be involved in, or exposed to, it can start to develop measures to determine the actual occurrence of negative impacts and to remedy them or mitigate the risk.

**For companies involved in the sourcing of agricultural commodities, social risk assessment becomes a tool not only for assessing potential social issues in their supply chains but also for prioritising mitigation and remediation efforts.**

Many global companies need tools to support the cost-effective implementation of their commitments to social and environmental good practice in their raw material sourcing.

Most downstream companies – manufacturers and retailers – that source large volumes of agricultural commodities (such as palm oil, soy products, sugar, beef, cocoa and coffee) have an extensive global supply base of producers. Typically, they source indirectly via traders, processors or ingredient manufacturers. Even midstream companies such as traders and ingredient manufacturers may be several steps removed from the farmers or

plantation owners who are growing the crops and raising the livestock – and it is in the fields, as well as in the packing plants and processing mills, where most breaches happen and where action must ultimately be taken.

While downstream and midstream companies may aspire to carry out compliance monitoring on social and environmental performance at all production sites, in practice resources are limited, and staff need to allocate them efficiently.

Companies therefore rely on risk assessments as initial guidance to help them identify and understand hotspots for risk, and to guide the prioritization of their efforts to drive improvements in the social or environmental performance of their suppliers.

### Box 1. A question of scale

A typical global brand that manufactures food or consumer goods may source palm oil from over 1,200 mills, in over 10 countries. Most of these will be indirect suppliers.

Likewise, a brand that buys beef-derived ingredients from 10 direct suppliers, could have indirectly over 100 slaughterhouses in the supply chain, who buy from over 300,000 cattle ranchers.



## 2. Human rights and social issues in commodity sourcing

### 2.1. The motivation for making commitments

The term 'social issues' covers a range of labour, land, livelihoods and community aspects of commodity production. Often, the social problems that occur are negative human rights impacts.

Many retailers, brands, manufacturers and processors have made public commitments about social aspects of the production of the agricultural commodities they source. This may be motivated by consumer concern, their own corporate values, NGO pressure, investor pressure, emerging global good practice or a mixture of these.

The adoption of the United Nations Guiding Principles on Business and Human Rights in 2011 and a rise of national legislation requiring companies to report

on modern slavery have also prompted large multinational companies to commit to eliminate exploitation and remedy human rights impacts. These commitments can sometimes be slow to trickle down into the departments responsible for procurement of agricultural commodities. In some cases, delivering on commitments to eliminate deforestation has taken precedence. This is changing, however, as awareness grows about human rights impacts in agricultural production and human rights commitments become embedded within companies. Both are leading to companies being proactive in identifying and addressing human rights issues.

### 2.2. Typical commitments on social issues in responsible sourcing

As part of their approach to responsible sourcing, companies may make a commitment on a specific social issue (e.g. on modern slavery), a commodity-specific commitment (e.g. a policy specifically for palm oil, beef or cocoa sourcing), or a broad, or multi-issue commitment (e.g. to uphold the United Nations Guiding Principles on Business and Human Rights or an NDPE commitment on deforestation, peat and exploitation).

The most common commitments on social issues within responsible sourcing of agricultural commodities are:

- **Respecting the rights of workers:** These commitments typically refer to the Core Conventions of the International Labour Organization (ILO) and/or the ILO's Fundamental Principles and Rights at Work.<sup>1</sup> Commitments frequently specify no child labour; no forced or bonded labour; freedom of association and collective bargaining; no discrimination; no abusive practices or undue disciplinary procedures; living wages and fair benefits; safe and healthy workplaces; and legal and decent working hours. Sometimes vulnerable workers – such as migrants, women, sub-contractors and seasonal workers – are given a special mention.
- **Respecting the rights of local communities and indigenous peoples:** Commitments in this area include but are not limited to land rights, a healthy environment and food security. Sometimes there are

specific references to the rights of local communities to give or withhold Free, Prior and Informed Consent (FPIC) for activities on lands they have rights to.

Less commonly, companies may also make commitments about:

- **Women's rights** and gender equality.
- **The livelihoods of farmers.** This is sometimes expressed as a commitment to decent living income or to the sharing of benefits, or to ensuring that smallholders are not excluded from supply chains.



Worker health and safety is often included in responsible sourcing commitments

### 3. Assessing social risk

#### 3.1. What to focus on

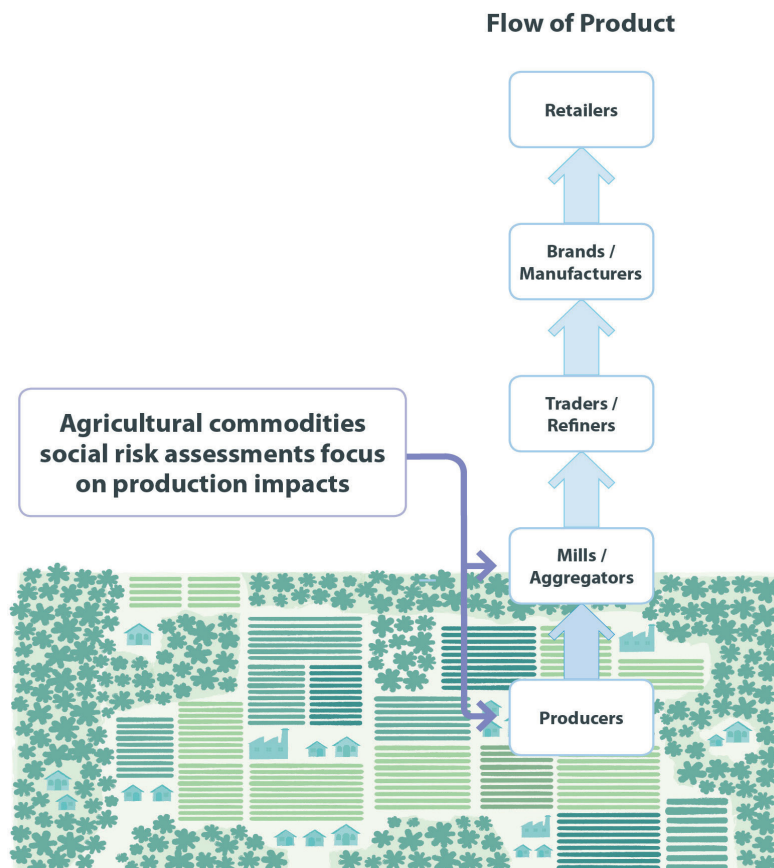
To comply with the United Nations Guiding Principles on Business and Human Rights, a company should focus on identifying and addressing the risk of adverse impacts on people, rather than on the business. There is often a degree of correlation between risk to people and risk to a business, but companies should be cautious when attempting to combine the two – for example, by overemphasizing sourcing volumes when taking decisions about where to focus efforts on addressing risk.

Social risk assessment, then, is about understanding issues that affect people. For agricultural commodities there is a focus on conditions that affect people at the sites of production: the farms, plantations, packing plants and processing mills, as well as the communities in which they are located (see Figure 1).

**Supply chain mapping** is important to enable companies to identify social risk in the production of the raw materials being sourced. Tracing back beyond Tier 1 suppliers to the producers in the countries and regions of origin of the commodities

allows companies to investigate social issues at the subnational level and for the results of risk assessments to be linked to the buying company’s markets and Tier 1 suppliers. Nonetheless, where supply chain information is incomplete, companies can still use risk assessment exercises based on informed assumptions about likely origins. Such results can be helpful to prioritize conversations with Tier 1 suppliers about why achieving greater traceability is needed, and to push for due diligence in identifying and mitigating possible negative human rights impacts in their upstream supply.

Another aspect to consider is whether the risk assessment will focus on an issue or issues that have been pre-identified, or if it will try to identify any and all social or human rights issues; and whether to focus on existing sourcing regions, or regions that could be sourced from in future. Deciding on the scope of the assessment will help to determine the most appropriate methodology, and whether some countries or supplier groups should be given priority in the assessment.



**Figure 1.** The focus of social risk assessments for agricultural commodity production

### 3.2. How to assess risk

There is no single way to carry out a social risk assessment. A range of methods can be used to identify and evaluate the risk of social issues occurring with one or more commodities in one or more countries. For example, interviewing practitioners in the region, gathering supplier intelligence and conducting site assessment visits are all approaches that can be used to build evidence and understanding. There may be country- or commodity-specific sources of information that can be used. For example, the Soy Toolkit includes a guide to assessing social (and environmental) risks associated with soy production, highlighting data available for countries such as Brazil.<sup>2</sup> Discussions with companies from a range of sectors suggest that the most effective risk approaches often use a combination of data and methods.<sup>3</sup>

The methodology that a company uses is likely to reflect the scale of the supply chain in question. In order to respond to the needs of downstream and midstream companies who have made commitments about large global supply chains, in this briefing we focus on the use

of risk assessment tools that:

- Can be used at a **global scale**.
- Are **desk-based** while drawing on information from site visits or field research.
- Can **give results with more granularity than just country-level scores**, to allow decision-makers to look at smaller jurisdictions (counties, municipalities, etc), or individual processing sites or groups of companies.
- Give **results relevant to the type of commitments** typically made in responsible sourcing policies (see section 2.2).

In such scenarios, it may not be possible to gather detailed information about such large numbers of individual growers and processors, but it is possible to assess social conditions in local production areas.

See Box 2 for an example of this approach developed by Proforest.

### 3.3. Risk-based methods and information sources

The following methods can be valuable in generating desk-based risk assessments:

- **Literature reviews** on known social issues associated with particular geographies, commodities or production systems. This can include news articles and reports from NGOs.
- **Structured interviews with experts** to gather intelligence about common issues in a region. These can be auditors, researchers, civil society representatives or human rights defenders, and are sometimes referred to as 'credible proxies' who can be consulted when a deeper consultation with affected stakeholders is not possible.
- **National-level datasets and indices** provided as part of global initiatives by organizations that specialize in a social issue or are able to access a data from multiple sources. Typically, entire countries are given a score in relation to an issue. Examples include Verité's Vizualize Risk tool for forced and child labour, IFC's GMAP tool or OECD information on gender or corruption.<sup>4</sup>
- **Using data from questionnaires to suppliers** to ask about production methods, profiles of workers and communities, issues experienced, mitigation activities, etc.

- **Using information from site assessment visits** such as human rights risk assessments, mill-level verification assessments or gap assessments against responsible production criteria.



## Box 2. Proforest's desk-based social risk assessment

Proforest developed a desk-based methodology that could be used to assess social risk for commodities that are sourced by multinational companies from multiple countries via complex supply chains. The methodology focuses on four issues highly relevant to human rights risks:

- Child labour
- Forced labour
- Inadequate health and safety
- Land rights abuses and disputes

The selection of issues was based on knowledge that these four issues are of concern in palm oil and sugarcane production, the two commodities that we have used the methodology for so far, and that they are priorities in the responsible sourcing commitments of buyers and voluntary standards.

We began by reviewing the common causes of the four issues, gleaned from documents and discussions with experts. We then compiled two types of data:

- Information on known occurrences of labour and land rights issues (e.g. those reported by NGOs, media or academics or during site visits)
- Data on known risk factors that increase risk of labour and land rights issues (such as remoteness, use of migrant labour), based on the findings from our review

A combination of data sources are used to generate risk scores for sub-national jurisdictions (i.e. states, provinces, municipalities, etc), and for individual processing mills. Results can be presented as maps, or lists, and linked to company databases and planning tools. They are accompanied by commodity and country-specific briefings, to help companies to interpret the results.



## 4. Using social risk assessment findings

The main purpose of an assessment of social risk is to help companies to target their responsible sourcing strategies and actions effectively. This supports their delivery of commitments made on social responsibility and respect for human rights in their supply chains. Our experience suggests there may be scope to use the

results of social risk assessments at three main points in a company's responsible sourcing work.

- **Understanding and strategy**
- **Engaging through the supply chain**
- **Broader interventions to address complex challenges**

### Understanding and strategy

**Knowledge:** The assessment results will help a company to understand their exposure to social risks in specific supply chains – including the type of issues present and how site-specific or widespread they are. This can help staff in sustainability departments and procurement teams to understand root causes, why grievances may emerge and the best strategy to mitigate the risk.

**Policy:** Social risk assessment can help with the development, or revision, of a company's responsible sourcing policy and commitments. A company may decide that the risk of a certain social issue in a certain part of the supply base is so severe that a dedicated strategy needs to be developed.

**Communications:** Having systematically gathered information on social risks in the supply base can also help companies when communicating with buyers or external stakeholders about their implementation of responsible

sourcing commitments. Downstream companies can share both the methodology and the top-level findings of their social risk assessment as part of their commitment to transparency, and to explain the process they used to identify priorities when implementing their engagement and assessment strategies. In many cases it may be appropriate to invite civil society groups to suggest enhancements to the methodology or to contribute data sources to enhance and update the outputs of the risk assessment, and to contribute to the further identification of actual negative impacts in regions or sites of highest risk. Experience suggests that some stakeholders are unfamiliar with the complexities and scale of agricultural commodity sourcing; it can be helpful to give a sense of the number of countries and individual producers involved, to emphasize the need for prioritization.



## Engaging through the supply chain

Using existing relationships with Tier 1 suppliers is central to most approaches to promoting and monitoring compliance by producers with a company's commitments on responsible sourcing. Through engaging with suppliers, commitments, codes of conduct and contract clauses are passed up the supply chain, and information on the implementation of policies and levels of compliance and associated volumes are passed down. A company should consider the following possibilities for using findings from a social risk assessment in their supplier engagement:

### 1. Include individual suppliers' exposure to social risk when categorising and prioritising suppliers

By linking a social risk assessment to the location of sourced volumes and to individual suppliers, results can help understand relative risk between suppliers, whether Tier 1 or upstream. This information can be included when companies categorize their suppliers and set priorities for supplier engagement.

### 2. Inform and drive requests for action by suppliers

Companies may use results to target requests for risk mitigation actions by suppliers (e.g. policies, monitoring or independent verification).

### 3. Consider risk-based approaches to monitoring

There is potential to use risk assessment results to develop risk-based monitoring and reporting of volumes and suppliers. For example, monitoring could be targeted at regions, groups or issues of higher risk.

**A company can use social risk hotspots to target supply chain due diligence efforts or to trigger a closer investigation of actual impacts.**

### 4. Trigger deeper investigation

If a risk assessment suggests that there may be geographical or company-group hotspots of risk the downstream company can decide to conduct a more focused investigation of actual negative impacts.

The company could carry out consultation with local stakeholders, human rights impact assessments of supply sheds or jurisdictions, or verification visits to specific production sites. There is potential to do these in collaboration with upstream actors (suppliers and producers), or peers (see Section 4.3).

### 5. Organise awareness-raising measures for the procurement team and suppliers

Results can help highlight social issues to the company's procurement team and provide them with information to use in dialogue with suppliers and external stakeholders, or to plan their strategy (see Box 4). It can also be helpful to create a shared understanding with suppliers (e.g. via webinars), and inform their own supplier engagement, or provide context for responding to grievances.

### Box 3. Tips for communicating with suppliers

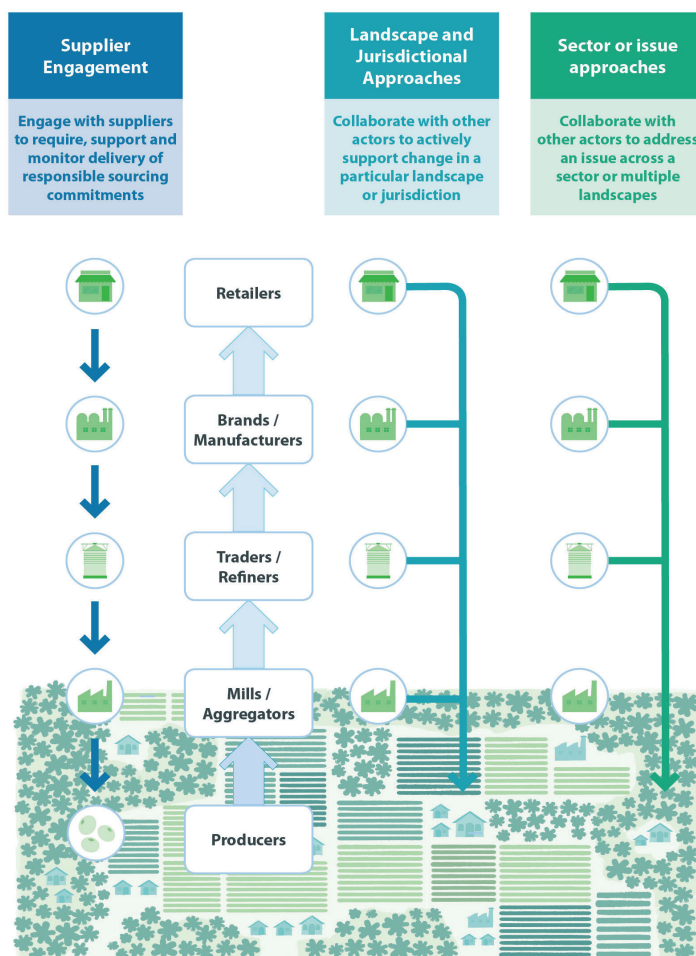
Having information from a social risk assessment gives a company more evidence and insight when discussing possible social issues with suppliers, but discussions should be done carefully.

- **Avoid implicit accusations.** Risk assessment scores are indicative only. They show the relative likelihood of risk; not actual occurrence.
- **Provide context.** Use the contextual information that should come with your risk assessment: explain why the approach indicates that a higher risk is present.
- **Provide reassurance** about the way the company will be using risk scores. They should not be used for de-selection of suppliers.

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## Broader interventions to address complex challenges



**Figure 2.** Possibilities for intervention to mitigate social risks

Increasingly retailers and manufacturers are widening their responsible sourcing strategies to go 'beyond compliance'. They are recognizing that exclusively pushing for responsible production practices via their supply chains may not, on its own, be enough to achieve changes needed to meet their commitments and standards. Companies are therefore engaging more proactively in processes, programmes to support changes at production level (Figure 2).

Social risk assessment results provide a resource to inform strategy and decisions about whether, where and how to support change in the social conditions of commodity production via sectoral, jurisdictional, landscape or issue-based interventions.

In all cases further detailed due diligence would be recommended to understand the context, timescales and intended impacts of such initiatives.

To proceed, a company may wish to think through the two following steps.

### 1. Identify root causes to decide on appropriate engagement strategies

The scores and colour-coding typical of risk assessment results are only one part of their value: a risk assessment should also provide national or ideally sub-national level information about who may be affected and what are the local factors. Such contextual information should inform companies about the range of drivers of the negative human rights issues under review, and help them understand the opportunities for mitigating such risks, or being part of initiatives to address them.

For example, if forced labour is shown in the assessment to be a high risk issue across a whole country and/or commodity sector, and the analysis suggests that important root causes are related to government (e.g. migrant labour permit system, legislation for recruiting workers, etc), a company may wish to consider a strategy that goes beyond their direct supply chain engagement to include support for a sector or multi-stakeholder programme that addresses those issues of governance.

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A company can use a social risk assessment to answer the following questions. This will help the company to take decisions about broader strategies to drive change in their supply base:

- Is this risk widespread in our supply chain, or only present in some parts?
- Do the root causes suggest it can be addressed easily addressed via supply chain pressure?
- Are there opportunities for driving change via localized or jurisdictional initiatives in the regions where we source from?
- Can we drive change via leverage in the broader sector or industry?

### 2. Explore multi-stakeholder solutions

Engaging in a long-term sector or jurisdiction-wide initiative can be the most effective strategy to meaningfully contribute to improved practices in those production landscapes where human rights risks are high, but individual producer companies face systemic challenges to address them alone.

If social risk assessment suggests that the risk of an issue is widespread and common to many sourcing countries and/or commodities, a pre-competitive multi-actor initiative may provide the necessary leverage for

change. An example is the initiatives around responsible recruitment and the 'employer pays' principle promoted by the Consumer Goods Forum, Institute of Human Rights and Business and others to tackle root causes of forced labour.<sup>5</sup>

For risks which have geographical hotspots there may be opportunities to support focused landscape or jurisdictional programmes, such as those run by intergovernmental initiatives (e.g. UNICEF for child labour) or multi-stakeholder groups of civil society and government (e.g. on the working conditions for vulnerable workers in certain supply sheds).

#### Box 4. Example of a multi-actor response to social issues

Companies who have identified a severe and widespread risk to the health of sugarcane cutters due to Chronic Kidney Disease may decide to unite with peers to support research on effective mitigation and remediation, and/or to implement pilot programmes on the ground with suppliers and producers to trial and promote improvements across a region.





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