STEP-BY-STEP GUIDE FOR IMPLEMENTING DUE DILIGENCE

This step-by-step guide provides a high-level outline of how principles of good due diligence can be turned into the steps required to conduct due diligence.

These steps represent a synthesis of recommendations provided by various bodies, including the Accountability Framework Initiative, Organisation for Economic Co-operation and Development (OECD), and Preferred by Nature. Other guidelines available to businesses include the Retail Soy Group principles for achieving deforestation- and conversion-free value chains for soy[169], the Consumer Goods Forum's roadmaps for transforming soy, beef and palm oil supply chains[170], WWF's principles for deforestation and conversion-free supply chains[171], and the WWF Basket Blueprint for Action[172].

The step-by-step guide below is not exhaustive and is intended to provide a starting point for businesses seeking to better understand what is necessary to align with due diligence best practices. Furthermore, due diligence requirements will differ across companies, as these are commensurate with the size of the business, its supply chain and the probability and severity of risk.[173] Specific considerations for compliance with the likely obligations of the upcoming UK legislation are outlined after the best practice steps.

SEE APPENDIX 2 FOR TOOLS TO HELP WITH IMPLEMENTING DUE DILIGENCE

1. DEFINE SCOPE OF ACTION

- Identify the specific legal obligations your company must comply with and any industry-wide standards for action.
- Establish your company's level of ambition and the objectives to be achieved with due diligence (i.e. Does your company intend to go beyond the legal requirements of due diligence?).
- Develop verifiable targets and key performance indicators, based on your company's ambition and/or legal requirements, to ensure your company is on track to meet any legal due diligence requirements and achieve your company's intended objectives.

2. DEVELOP A DUE DILIGENCE POLICY

The due diligence policy should include:

- The commitments, targets, and applicable timeframes for due diligence.
- A detailed plan, including actions and mechanisms, for implementing these due diligence procedures within the business.
- Any relevant responsibilities in the company and the competencies required to fulfil them, including a senior management position with accountability for implementation of due diligence.
- A framework for reporting, as well as monitoring and evaluation, that provides insight into how the company will continuously improve its due diligence process.
- A mechanism that allows for the company to update its policy to align with insights gained from implementing due diligence, including supply chain mapping and risk identification.

3. MAP THE SUPPLY CHAIN

- Detailed information should be collected from suppliers on their transactions, policies, commitments, traceability, transparency, and their relationship with their own suppliers. Companies should work with first-tier suppliers to compile information on tier 2 and 3 suppliers. Gaps in traceability should be mapped and addressed.
- Businesses will need to conduct an analysis of the information received from suppliers to assess the quality of documents provided. Companies should enter all information into a supply chain mapping tool/system.

4. IDENTIFY AND ASSESS RISK

- Identify key indicators of risk and use these with the supply chain mapping to identify which materials may be non-compliant with legal obligations and/or company policy.
- Undertake verification at supplier sites where risk level is identified to be high or cannot be determined. Third-party actors may be able to support this.
- Use credible certification, remote sensing and/or landscape/jurisdictional approaches as tools to continuously monitor risk.
- Continue to monitor and verify supplier performance to ensure continued compliance with the legislation and/or company policy.

5. MITIGATE AND REMEDIATE RISKS

- If non-compliance has occurred, assess the degree of non-compliance based on intensity, scale, and persistence. A company may then choose to:
  - **Avoid risk** by suspending all activity or replacing the supplier or the supply chain.
  - **Control risk** by changing procurement procedures and/or engaging with suppliers.
- Where non-compliance occurs, consult with stakeholders on risk remediation. Possible remediation strategies are:
  - Statutory mechanism run by state authorities/ombudsman.
  - Litigation in relevant legal system or arbitration/dispute resolution.
  - Local community led arbitration processes.
- Evaluate effectiveness of risk mitigation actions using monitoring and verification techniques, (i.e. audits) and adaptive management.

6. REPORT ON DUE DILIGENCE

Reporting should:

- Fulfil the reporting requirements stipulated by law, allowing enforcement agencies to ensure your company is in compliance with the relevant legislation.
- Use metrics that are quantifiable in absolute terms (i.e. tonnage of commodities used) and relative to total operations (i.e. percentage of supply chain volume at risk).
- Make information available publicly so that other companies in the supply chains, financial institutions, civil society, consumers, and other important external stakeholders can make informed investment, advocacy and purchasing decisions. Data should be fully transparent and interpretable and therefore verifiable.

7. EVALUATE AND ADAPT

- Recognise that deforestation and conversion risks in your supply chains are fluid, and the specific commodities and areas recognised to be at a higher risk of deforestation and conversion may change over time.
- Conduct continuous monitoring and evaluation of the due diligence system, processes and policies to ensure they continue to fulfil the requirements of the law and voluntary standards, and respond to changing conditions in your supply chain.