

Overview of BCI Supply Chain Monitoring

2018

1. Introduction

BCI carries out supply chain monitoring and audit activities to help ensure that companies sourcing cotton as Better Cotton comply with the relevant Chain of Custody requirements, as set out in the *Better Cotton Chain of Custody Guidelines v1.3*.

BCI's monitoring approach is designed to complement the use of the Better Cotton Platform (BCP). The BCP is an online platform which tracks the volumes of cotton-containing products sold as Better Cotton and records the associated Better Cotton Claim Units (BCCUs) transferred from suppliers to customers. The use of the BCP is a critical component of BCI's mass-balance chain of custody model, which applies to all supply chain companies after ginners up to brands and retailers. From the farm to gin, BCI requires that Better Cotton is kept separated from conventional cotton and is ginned and baled separately. Please refer to the [Better Cotton website](#) for further information on BCI's Chain of Custody model and supply chain requirements.

BCI's supply chain monitoring includes the following activities:

1. **Second-party monitoring of gins** – BCI regional supply chain teams carry out onsite gin monitoring visits to assess compliance with the relevant Chain of Custody requirements, including product segregation, record-keeping and traceability back to licensed BCI farmers
2. **Third-party supply chain audits** – approved third-party auditors carry out audits to a sample of participating gins, spinning mills, fabric mills, traders, and end-product manufacturers to verify compliance with the relevant Chain of Custody requirements. Auditors are selected through a competitive tender process based on relevant expertise, quality of proposals submitted, and cost efficiency.
3. **Remote monitoring of transactions in the BCP** – this is carried out by BCI supply chain teams to verify documentation associated with purchases/ sales of Better Cotton. Supply chain companies may be contacted by BCI with a request to submit purchase/ sale documentation corresponding to a specified set of transactions in the BCP. Transactions and associated records may also be cross-checked between suppliers and customers to ensure credible transfers of Better Cotton Claim Units (BCCUs) across the supply chain.
4. **Ad-hoc follow-up and investigation of risk areas:** When potential supply chain compliance concerns are raised (either through proactive risk assessment, auditing/ monitoring activities, or information received from stakeholders), BCI may carry out follow-up investigations. These can include requesting additional information or records from supply chain companies, or commissioning onsite or remote audits, as appropriate.

Additional detail on second-party monitoring of gins and third-party audits are provided in the sections below.

2. Second-party gin monitoring

Sample selection:

Gin monitoring visits are carried out in selected countries where BCI has high concentrations of gins procuring Better Cotton: China, Turkey, Pakistan, Tajikistan, Kazakhstan, and Mozambique.¹

For the 2018/19 season, gin monitoring visits will cover a minimum sample of 30% of participating gins in each of these countries.

Gins are selected for monitoring based on the following priority factors:

1. New gins: gins who have not participated with BCI previously are prioritised for monitoring, ideally within their first year of participation. If several gins are owned or managed by the same company, a sample of gins under each company's ownership will be visited
2. High-volume gins: the top 20% of gins by volume sourced are prioritised; unless they have been visited in the previous two years with a satisfactory result.
3. Previous record of non-compliance: gins with non-conformities detected during previous audits/ monitoring visits
4. Gins not monitored in previous two years: gins not covered by monitoring activities in the previous two years will be prioritised. If several gins are owned or managed by the same company, a sample of gins under each company's ownership will be selected.
5. Other considerations: The remaining sample will be determined based on other risk factors (such as complicated procurement structures, i.e. buying from markets/ middlemen), as well as logistics/travel considerations

BCI may add additional gins to the monitoring sample at any time, for example due to new information received about potential compliance concerns.

Approach and scope of visits

Gins are generally notified in writing between 5-7 days ahead of the monitoring visit². At these visits, BCI staff assess gins against requirements in section 4.0 of the *Better Cotton Chain of Custody Guidelines v1.3*. The visits include an opening meeting, management interview/ document review, site visit/ worker interviews, and closing meeting. Assessors will check to ensure that gins can trace purchases of Better Cotton back to licensed BCI farmers, and that there are systems in place to segregate and identify Better Cotton at all stages of handling. Assessors will also check a sample of transactions in the BCP to ensure they can be verified against associated purchase and sale documentation.

The basic steps and procedures for gin monitoring are set out in the *BCI Gin Monitoring Guidance 2018* document. Findings are shared with the gin management team during the closing meeting and a final report is prepared and shared back with the gin within 2 weeks, using the *BCI Gin Reporting Template*.

¹ In 2018, BCI will pilot gin visits being carried out by approved third party auditors for gins in India. The sampling approach and *BCI Gin Monitoring Guidance* still apply

² BCI reserves the right to commission short-notice audits with a minimum of 24 hours' notice, in cases of potential concerns about compliance

If any non-conformities are detected during the audit, the gin is required to develop a corrective action plan and submit evidence that these non-conformities have been corrected within the specified timeframes (refer to section 4.7 of the *Better Cotton Chain of Custody Guidelines v1.3* section).

3. Third-party supply chain audits

Sample selection:

Third-party audits for 2018/19 are carried out in selected countries with a high number of suppliers/manufacturers sourcing Better Cotton: China, India, Bangladesh, Turkey, and Pakistan. Together these countries account for 85% of all end-product manufacturers, traders, brands/retailers, and spinners/vertical mills sourcing Better Cotton products.³

Third-party audits are expected to cover approximately 5% of each of the following supplier categories in each country:⁴

- Fabric mills
- Spinning mills/vertical mills
- Traders
- End-product manufacturers

Additional audits may be commissioned on an ad-hoc basis, for example in response to compliance concerns raised through other channels.

The sample selection for each supplier category/country is determined based on the following factors:⁵

1. 50% of the sample is randomly selected from the top 20% of companies by volume of Better Cotton products sourced
 - Exclude companies that have been audited with a satisfactory outcome in the previous 2 years
1. Include a sample of companies with a previous record of non-compliance or suspected compliance concerns
2. Remaining balance is selected based on the following factors:
 - Prioritise new companies or those who have not been audited within the previous 2 years
 - Account for geographic and logistic factors (i.e. focusing on specific regions to enable more efficient travel). Regional focus will be rotated year over year to ensure broad geographic coverage.
 - Exclude companies that have been audited in the last 2 years with satisfactory outcome (unless identified through another criteria for sampling)
 - Exclude linked companies or companies under the same ownership or management as those already included in the sample, unless they fall within the second criterion.

Approach and scope of visits

Third-party audits for gins cover the same components and approach as outlined in the second-party gin monitoring section above. Third-party audits for spinners, traders, fabric mills, and end-product manufacturers include an opening meeting, management interview/

³ Based on total volumes sourced by these categories of suppliers during 2017; includes BCI Members and BCP system users.

⁴ For China in 2018, supply chain audits will cover 4% of suppliers in these categories due to rapid growth in participating supplier/ manufacturers

⁵ Additional notes: Exclude supplier category if less than 5 companies in country; Sample is rounded up if 5% is less than 1

document review, and closing meeting. They will generally not include a site inspection component, as these companies are not expected to implement a product segregation system to keep Better Cotton separate from conventional cotton (unlike gins). Assessors will select a sample of transactions entered into the BCP to verify against associated purchase and sale documentation.

The basic steps and procedures for third-party audits of spinners, traders, fabric mills, and end-product manufacturers are set out in the *BCI Supply Chain Audit Guidance* document. Findings (including potential minor or major non-conformities) are discussed with the company during the closing meeting, and a final report is shared with the company within 2 weeks, following the *BCI Supply Chain Audit Reporting Template*.

If any non-conformities are detected during the audit, the company will be required to develop a corrective action plan and submit evidence that these non-conformities have been corrected within the specified timeframes (refer to the *Better Cotton Chain of Custody Guidelines v1.3* section 5.8.2).

4. Reference documents and further information

The following documents, along with additional information on the Better Cotton chain of custody system, are available on the BCI website at: <https://bettercotton.org/about-better-cotton/better-cotton-standard-system/chain-of-custody/>

- Better Cotton Chain of Custody Guidelines v1.3
- BCI Gin Monitoring Guidance 2018
- BCI Gin Reporting Template 2018
- BCI Supply Chain Audit Guidance 2018
- BCI Supply Chain Audit Reporting Template 2018