

Overview of BCI Supply Chain Monitoring

2021

1. Introduction

BCI carries out supply chain monitoring and audit activities to help ensure that companies sourcing cotton as Better Cotton or sourcing cotton-containing products as BCI orders comply with the relevant Chain of Custody requirements, as set out in the *Better Cotton Chain of Custody Guidelines v1.4*.

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 BCI orders 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 during storage, transportation, ginning processes and is kept segregated in form of bales. Please refer to the [BCI 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 ginners** – BCI regional supply chain teams carry out **onsite or remote** gin monitoring visits to assess compliance with the relevant Chain of Custody requirements, including traceability back to licensed BCI farmers, product segregation, use of BCP and responsibilities and record-keeping.
2. **Third-party audits of ginners** – BCI approved third-party auditors carry out **onsite or remote** audits to a sample of participating ginners to assess compliance with the relevant Chain of Custody requirements, including traceability back to licensed BCI farmers, product segregation, use of BCP and responsibilities and record-keeping. Auditors are selected through a competitive tender process based on relevant expertise, previous performance (if applicable) quality of proposals submitted, and cost efficiency.
3. **Third-party audits of other supply chain actors** – BCI approved third-party auditors carry out **onsite** audits to a sample of active spinning mills, fabric mills, traders, vertical integrated mills, non-lint traders, sourcing agents and end-product manufacturers to assess 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.
4. **Second-party remote monitoring of transactions in the BCP of other supply chain actors** – BCI global and regional supply chain teams to verify documentation associated with purchases/sales of BCI orders remotely. 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.

Additional sample selection and audit scope detail on above four activities are provided in Section 2, 3 and 4 below.

2. Sampling Selection and Audit Scope of Second-party ginner monitoring and Third-party ginner audits

2.1 Sample selection

Second-party ginner monitoring and/or Third-party audit visits are carried out in selected countries where BCI has high concentrations of gins procuring Better Cotton: India, China, Turkey, Pakistan, Tajikistan, Kazakhstan, Greece and Mozambique.¹

For every season, second party ginner monitoring and third-party audits should cover a minimum sample of 30% (2nd party) and 5% (3rd party) respectively of active and participating gins in each of these countries (where active would mean, gins who are actively purchasing and selling Better Cotton and adding these transactions to BCP).

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

1. New ginners: ginners who have not participated with BCI previously are prioritised for monitoring, ideally within their first year of active participation. If several ginners are owned or managed by the same company, a sample of ginners under each company's ownership will be visited
2. High-volume ginners: the top 20% of ginners 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: ginners with major non-conformities detected during previous audits/ monitoring visits
4. Ginners not monitored in previous two years: ginners not covered by monitoring activities in the previous two years will be prioritised. If several ginners 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, compliance concerns raised from stakeholders or through proactive risk assessment), as well as logistics/travel considerations

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

30% of total sample	New Ginners	High volume	Previously Non-Compliant	Ginners Not Monitored in last 2 years	Other Consideration
30 out of 100.	25%	15%	15%	40%	5%
Nos.	7-8	4-5	4-5	12	1-2
Bases for selection.	High risk, new to	High volumes gins are based in high	Such factories had already been	There is high risk if	Although percentage is quite small but

¹ In the future, BCI will also consider to conduct gin monitoring in other countries like Mali and Egypt when applicable.

	the system	BC producing areas/MF/LF.	audited and had been followed up in CAP.	noncompliance.	such factories may be included in special investigation cases.
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Disclaimer: Above given sampling methodology is only for reference, the exact composition may vary by countries.

2.2 Approach and scope of visits

Ginners are generally notified in writing between 3-5 working days ahead of the monitoring and audit visit². At these visits, BCI staff or designated third-party auditors assess ginners against requirements in section 2.0 of the *Better Cotton Chain of Custody Guidelines v1.4*. The visits include an opening meeting, management interview/ document review, site visit/ worker interviews, and closing meeting. Assessors will check to ensure that ginners 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 check a minimum 10-15 transactions including seed cotton purchase, lint production and lint sale from BCP gin transaction list during his/her visit to ginning facility and will check current Ginner Turnout Ratio (GoT%), ginners record and physical inventory (Seed Cotton and lint) to ensure they can be verified against associated purchase and sale documentation. The duration of the monitoring visits and audits depend on the complexity of ginners, it is estimated that on average, each audit will have a duration of a full day approximately **6-8 hours for ginners**.

Findings are shared with the ginner management team during the closing meeting and a final report will be prepared and shared back with each ginner being audited within 2 to 3 weeks, using the latest version of *BCI Gin Reporting Template*.

If any non-conformities (NCs) are detected during monitoring or audit, the ginner is required to develop a Corrective Action Plan (CAP) and submit evidence that these non-conformities will be corrected within the specified timeframes (refer to section 5.1.2 of the *Better Cotton Chain of Custody Guidelines v1.4* section).

3. Sampling Selection and Audit Scope of Third-party audits of other supply chain actors

3.1 Sample selection

Third-party onsite audits are likely to be carried out in select countries where a high number of Supplier and Manufacturers sourcing Better Cotton, namely China, India, Bangladesh, Pakistan and Turkey which account for 80% of uptake.

For every season, Third-party onsite audits should cover a minimum sample of 3%-5% of active companies for all supply chain actors using mass balance chain of custody model, covering each of the following supplier categories in each country if applicable:³

- Traders

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

³ For China, supply chain audits covers 2%-4% of suppliers in these categories due to rapid growth in participating supplier/manufacturers

- Spinning mills (spinner, integrated spinner, vertical integrated spinners)
- vertically integrated mills
- Fabric mills
- Non-lint Traders
- End-product manufacturers
- Sourcing agents

The sample selection for each supplier category/country is determined based on the following factors:⁴

1. High volume: 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 or second-party remotely monitored with a satisfactory outcome in the previous 2 years
2. High risk: to include companies whose potential supply chain compliance concerns are raised (either through proactive risk assessment, or information received from stakeholders) in previous 2 years. Suggested percentage is 20%
3. Not audited/monitoring in previous 5 years since they joined: Companies who have not been audited within the previous 5 years since they joined will be prioritised. Suggested percentage is 15%
 - 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.
4. Remaining balance is selected based on following factors (15%):
 - Previous record of non-compliance: to include a sample of companies with major non-conformities detected during previous audits/ monitoring visits.
 - Other considerations: The remaining sample will be determined based on 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.

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

Disclaimer: Above given sampling methodology is only for reference, the exact composition may vary by countries.

3.2 Approach and scope of visits

Third-party audits for spinners, traders, integrated spinners, vertical integrated spinners, fabric mills, non-lint traders, vertically integrated mills, end-product manufacturers and sourcing agents are generally notified in writing between 3-5 working days ahead of the audit visit. At these visits, designated third-party auditors assess companies against requirements in section 3.0 of the *Better Cotton Chain of Custody Guidelines v1.4*. The visits include an opening meeting, management interview/ document review, worker interviews, 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 ginners). Assessors will select 15-20 transactions including purchase and sale transactions from BCP in past 2 years to verify against associated purchase and sale documentation.

⁴ Additional notes: Exclude supplier category if less than 5 companies in country; Sample is rounded up if 5% is less than 1

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 3 weeks, following the latest *BCI Supply Chain Audit Reporting Template*.

If any non-conformities (NCs) are detected during the audit, the company will be required to develop a Corrective Action Plan (CAP) and submit evidence that these non-conformities have been corrected within the specified timeframes (refer to section 5.1.2 of the *Better Cotton Chain of Custody Guidelines v1.4* section).

4. Sampling Selection and Audit Scope of remote monitoring of BCP transactions of other supply chain actors

4.1 Sample selection

Second-party remote monitoring of BCP transactions can be carried out in all countries where supplier and manufacturers are actively sourcing Better Cotton products or BCI order as the remote nature of monitoring negates logistic barriers.

For every season, Second-party remote monitoring of BCP transactions target can be set up by countries based on capacity. Average 2-3 companies per month is suggested for all supply chain actors using mass balance chain of custody model, covering each of the following supplier categories in each country if applicable:

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

1. High volume: 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 or second-party remotely monitored with a satisfactory outcome in the previous 2 years
2. High risk: to include companies whose potential supply chain compliance concerns are raised (either through proactive risk assessment, or information received from stakeholders) in previous 2 years. Suggested percentage is 20%
3. Not audited/monitoring in previous 5 years since they joined: Companies who have not been audited within the previous 5 years since they joined will be prioritised. Suggested percentage is 25%
 - 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.
4. Previous record of non-compliance (5%): The remaining sample will be sample of companies with major non-conformities detected during previous audits/ monitoring visits.

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

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4.2 Approach and scope of monitoring

Documents requested remotely by BCI shall be provided within two weeks of the written request. BCI supply chain team assess companies against requirements in section 3.2 of the Better Cotton Chain of Custody Guidelines v1.4. The remote monitoring includes document

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

review and/or communication clarification with compliance responsible person. Assessors will select 5-10 transactions including purchase and sale transactions from BCP in past 2 years to verify against associated purchase and sale documentation.

The basic steps and procedures for remote monitoring of BCP transactions are set out in the BCI Remote monitoring of transactions procedure document. A final report is shared with the company within 2 weeks, following the *BCI Remote monitoring of transaction report template*.

If any non-conformities (NCs) are detected during the remote monitoring of BCP transactions, the company will be required to develop a Corrective Action Plan (CAP) and submit evidence that these non-conformities have been corrected within the specified timeframes (refer to section 5.1.2 of the *Better Cotton Chain of Custody Guidelines v1.4* section).

5. 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 v1.4
- BCI Gin Reporting Template 2020
- BCI Supply Chain Audit Reporting Template 2020
- BCI Remote Monitoring of Transaction Report Template 2020