ASSURANCE CODE SYSTEM REPORT

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Introduction

To fully understand BCI’s Assurance Program, it is important to first engage with the broader ambitions of the Better Cotton Standard System and recognise how Assurance fits into their achievement. BCI was formed by stakeholders from across the cotton sector with a specific intention: to offer an accessible, efficient approach to more sustainable cotton production with the potential to reach a large number of farmers globally and enable transformational change. The fundamental goal was to maximise impact through scale, creating a mainstream solution to the cotton sector’s enduring sustainability challenges. Therefore, from its inception, BCI’s standard system has differed from traditional systems focusing on compliance and certification, providing an alternative and complementary model to existing schemes.

How does BCI’s approach as a standard system differ?

- **No Product Certification**: BCI’s market demand is driven primarily by the sustainable sourcing strategies of brand and retailer members, rather than by product claims and consumer purchasing decisions. Claims (CSR or consumer facing) made by members are related to a combination of companies commitments and volume sourcing (BCI tracking tool) and overall BCI results (as monitored through data collection and complemented by longer-term impact evaluation studies), as opposed to product compliance and product content.

- **Capacity Building focus**: BCI puts more emphasis on upfront investment in capacity building, working through local partners to ensure farmers are supported to continuously improve. This means farmers benefit from ongoing training regardless of baseline performance level or their compliance status.

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1 A comprehensive review of the Assurance Code System Report is planned for Q2 2017, following finalisation of updates to the Better Cotton Assurance Program document, and the completion of the BCI Standard Review.
Systematic Results monitoring: From the first harvest, BCI has ensured overall progress in sustainability improvements through systematic measurement of results indicators on BCI farms versus comparison groups. This annual data helps BCI and its stakeholders understand the effectiveness of the Better Cotton Standard in achieving its expected environmental, economic, and social outcomes.

National embedding strategy: BCI’s long term vision is that Better Cotton production becomes embedded in national cotton governance structures. This approach to expansion is reflected by BCI’s existing strategic partnerships in Turkey, West Africa, or Mozambique. BCI is working with these national and regional partners, either governmental institutions or industry or producer associations, to build their capacity to take full ownership of Better Cotton implementation, eventually operating entirely independently of BCI.

BCI’s unique ambition and desired scale, impact, and operational efficiency inevitably require an innovative approach to Assurance. In the cotton sector, the Assurance models accompanying traditional certification have typically carried high costs for smallholder producers and created blockages in the supply chain, resulting in very low levels of market penetration. BCI has therefore designed an Assurance Program with a level of rigour that aligns with BCI’s objectives and claims framework, emphasising accessibility and efficiency as well as relevance within the standard system as a whole.

How does BCI’s Assurance Program differ from more traditional models?

- Emphasises continuous improvement through a defined set minimum and improvement requirements and ongoing farmer training.
- Utilises multiple types of internal and external assessment, engaging diverse stakeholders in the assessment process rather than only relying on 3rd party auditing.
- Seeks to leverage the diverse benefits that each type of assessment offers by combining them through a risk based and standardised sampling approach.
- Seeks to mitigate the various limitations of each type of assessment by combining them and cross-referencing them through a clearly defined, impartial decision making protocol.
- Fully integrates internal management system requirements to allow for group level assurance
- Fully integrates Results Indicator data collection as a minimum requirement to allow for results based claims
- Decentralises licence decision making to country level actors, building country capacity and enabling scale by reducing dependence on a centralised body

These features ensure the Assurance Program safeguards the credibility of Better Cotton and BCI while also supporting the achievement of BCI’s organisational objectives. The details of the Program are explained in the following sections.

1. Assurance System Structure

1.1 Overall structure

The Better Cotton Assurance Program is the central mechanism for assessing whether or not Producer Units and Large Farms can receive licences, and for measuring continuous improvement in the field.

The Assurance process differs by farmer category. Farms are differentiated by three categories in recognition of the differences in production methods and workforces they use:

<table>
<thead>
<tr>
<th>Farm category</th>
<th>Labour</th>
<th>Farm Size</th>
<th>Licensing level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smallholder</td>
<td>Farmers are not structurally</td>
<td>&lt;20 ha of</td>
<td>Producer Unit</td>
</tr>
</tbody>
</table>
Smallholders and medium farms are grouped into Producer Units (PUs) and are managed by a PU Manager appointed by the Implementing Partner, which is the organisation responsible for training and supporting farmers throughout the season. Large Farms (LFs) go through the assurance process on an individual basis. Smallholders are further organised into Learning Groups (LGs).

To receive a licence, farmers must reach a set of **Minimum Requirements**. These include:

- Minimum Production Criteria
- Management Criteria
- Reporting on Results Indicators

At the same time, farmers are encouraged to develop further through **Improvement Requirements**. The performance level achieved on Improvement Requirements determines the duration of the licence. The set of Minimum and Improvement Requirements differ for each farmer category, allowing one global standard to be relevant in a wide range of contexts.

The status of PUs and Large Farms against the Minimum and Improvement requirements is determined through complementary assessment mechanisms, which together inform the licensing decision: self-assessment, 2nd party credibility checks, and 3rd party verification.

<table>
<thead>
<tr>
<th>Assessment Type</th>
<th>Smallholder PUs</th>
<th>Medium Farm PUs</th>
<th>Large Farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self Assessment (conducted by PU Manager or LF)</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>2nd party credibility checks (conducted by BCI or Strategic Partner, and by Implementing Partner)</td>
<td>Risk based sampling</td>
<td>Risk based sampling</td>
<td>Not applicable</td>
</tr>
<tr>
<td>3rd party verification (conducted by independent verifier)</td>
<td>Standardised sampling</td>
<td>Standardised sampling</td>
<td>100%</td>
</tr>
</tbody>
</table>

BCI Country Managers or Strategic Partners make the licensing decision for Producer Units, while independent verifiers make the licensing decision for Large Farms. The BCI Secretariat retains authority for all licensing decisions.

**1.2 Standards assessed through the assurance system**


**1.3 Compliance with ISO 17065**
While many aspects of BCI’s Assurance Program align with ISO 17065 requirements, BCI does not seek to conform to all clauses in the ISO standard. ISO 17065 is an international standard concerned with third parties providing product, process or service certification. BCI is both a Standard System Owner and an Assurance Provider, and does not function as a 3rd party providing certification. BCI operates a 2nd party assurance model, which operates as a continuous cycle of learning and improvement rather than exclusively focusing on compliance through ex-post certification. Instead of seeking ISO accreditation, BCI has defined a clear management system for Assurance to ensure consistency in licence decision making.

1.4 Assurance Provider

The BCI Secretariat is the assurance provider in the Better Cotton Assurance Program and arranges all the 2nd party check visits and 3rd party verification visits for Producer Units. The licensing decision for Large Farms is made by 3rd party verifiers, but BCI retains authority for all decisions. The BCI Secretariat is identified as the assurance provider on the BCI website: http://bettercotton.org/about-better-cotton/better-cotton-standard-system/assurance-program/

1.5 Stakeholder engagement in the assurance process

A diverse range of stakeholders are directly involved in the assurance process. Assurance activities are performed by the following stakeholders:

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Assurance mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>PU Manager</td>
<td>Internal assessment</td>
</tr>
<tr>
<td>Farmer (LF)</td>
<td>Self assessment</td>
</tr>
<tr>
<td>Implementing Partner (PU only)</td>
<td>2nd party credibility check</td>
</tr>
<tr>
<td>Country Manager/ Strategic Partner (PU only)</td>
<td>2nd party credibility check</td>
</tr>
<tr>
<td>Independent verifier</td>
<td>3rd party verification</td>
</tr>
</tbody>
</table>

External assessment visits themselves incorporate local stakeholder engagement as an important information source for identifying site specific sustainability issues and compliance risks. This is an optional step for 2nd party credibility checks, as Country Managers/ Strategic Partners and Implementing Partners are locally embedded and expected to engage with regional stakeholders on an ongoing basis. For 3rd party verification, gathering information from local sources is the mandatory first step in all visits. A minimum of 3 local sources must be consulted; these may include local NGOs, public officials, civil society organisations, schools, and hospitals. The purpose of stakeholder engagement is to gain insight into agronomic issues and working conditions from reliable sources (e.g. use of banned chemicals in cotton cultivation, source of water for irrigating the cotton crop, conversion of protected forest for cotton cultivation, peak labour requirements and migrant labour, prevailing health and safety problems among farmers and workers, etc.) It is also an opportunity to gather information about the most effective and appropriate means of communicating with workers and farmers locally. Further information about this process is available on pages 7-10 in the External Assessment Guidance document: http://bettercotton.org/wp-content/uploads/2014/02/External-Assessment-Guidance-Document_final_eng_ext.pdf

1.6 Improvement mechanisms

BCI has a number of mechanisms in place to ensure improvements are made to the Assurance Program:

» The Standards and Assurance team (S&A) collects feedback on the Assurance Program from field level implementers on an ongoing basis, and maintains a log of areas for improvement.
The S&A team also conducts annual internal reviews on each assurance mechanism, which may include survey feedback from 3rd party verifiers, Implementing Partners, and Country Managers.

» The S&A team coordinates Global Operations Team calls and meetings on a bimonthly basis. These provide a forum for the community of BCI Country Managers to exchange knowledge, learning, best practices, and challenges related to field level assurance activities.

» BCI uses the results of the independent oversight mechanism to improve its Assurance Program, and conducts follow up internal assessment to ensure an in-depth understanding of any gaps or challenges indicated. In response to the findings of oversight activities and internal assessment, BCI is committed to:

  o Taking Corrective Actions to manage any non-conformities in the operation of the Better Cotton Assurance Program
  o Reinforce or improve its internal and external training activities as required.
  o Undertaking a review and potential revision of the risk assessment and management plan to assess its continued applicability and to update both the prioritisation of risks and the strategies used to mitigate those risks.
  o Taking preventive actions to minimize non-conformities in the operation of the Better Cotton Assurance Program.


2. Personnel Competence

BCI Country Managers, Strategic Partners, and Implementing Partners, undergo globally consistent training on the Better Cotton Assurance Program. To further safeguard the quality and consistency of independent verification activities, BCI has an additional layer of approval procedures and on-going scrutiny for 3rd party verifiers. The Approval Procedure outlines 4 steps to becoming a BCI Approved Verifier:

» Sending the verifier application form
» Participate in an interview with BCI
» If recommended after the interview, participate in the BCI training program for verifiers
» Successfully pass the verifier examination at the end of the training program

3rd party verifiers are reviewed each year and are subject to shadow verification by BCI. Re-approval is required every 3 years. Further details on the Approval Process are available here: [http://bettercotton.org/wp-content/uploads/2014/02/Approval-procedures-for-verifiers_Final_eng_ext.pdf](http://bettercotton.org/wp-content/uploads/2014/02/Approval-procedures-for-verifiers_Final_eng_ext.pdf)

The competence of BCI staff, Implementing Partners, and 3rd party verifiers in conducting assurance activities is evaluated on an ongoing basis through internal oversight activities. All actors in the Assurance Program are also evaluated by an external body as part of periodic Assurance System Reviews— see Section 4 below.

3. Assessment

3.1 Assessment Process
The Assurance Program utilises multiple types of assessment performed by a range of stakeholders:

**Key Stakeholders and type of assessment**

For each assessment type, applicability and sampling depend upon the farmer category:

<table>
<thead>
<tr>
<th></th>
<th>Smallholders/ Medium Farms</th>
<th>Large Farms</th>
<th>Intensity (when applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self-assessment</strong></td>
<td>Producer Unit level (based on Internal Management System)</td>
<td>Individual level</td>
<td>Annually</td>
</tr>
<tr>
<td><strong>Internal assessment</strong></td>
<td>10% of farms in the PU (Learning Groups for smallholders)</td>
<td>N/A</td>
<td>Annually</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Minimum Requirements</th>
<th>Smallholders/Medium Farms</th>
<th>Large farms</th>
<th>Intensity (when applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2\textsuperscript{nd} party checks by BCI Country Manager or Strategic Partner</td>
<td>50% of high risk PUs, 25% of average risk PUs, 10% of low risk PUs at a national level during the season. At a minimum one PU per project is checked.</td>
<td>None</td>
<td>When the licence first needs to be issued or renewal of licence is due</td>
</tr>
<tr>
<td>2\textsuperscript{nd} party checks by Implementing Partners</td>
<td>50% of PUs during the season selected at random</td>
<td>None</td>
<td>When the licence first needs to be issued or renewal of licence is due</td>
</tr>
<tr>
<td>Verification Type</td>
<td>Smallholders/Medium Farms</td>
<td>Large Farms</td>
<td>Intensity (when applicable)</td>
</tr>
<tr>
<td>------------------</td>
<td>---------------------------</td>
<td>-------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>3rd party verification conducted by BCI approved verifiers</td>
<td>Square root of the number of PU at country level, of which 50% are at random and 50% are based on a risk analysis conducted by the BCI secretariat.</td>
<td>All farms – 100% verification</td>
<td>When the licence first needs to be issued or renewal of licence is due</td>
</tr>
<tr>
<td>Improvement Requirements</td>
<td>At least 10% highest performers at a national level (on the basis of the national performance report from the previous season)</td>
<td>None</td>
<td>Annually (highest performers are checked only once during the duration of the licence period)</td>
</tr>
<tr>
<td>2nd Party Checks by BCI Country Manager or strategic Partner</td>
<td>None</td>
<td>All farms – 100% verification to validate duration</td>
<td>When the licence first needs to be issued or renewal of licence is due</td>
</tr>
</tbody>
</table>

Self-assessment is completed online annually using the same global tool for all PUs/LFs. The online tool generates an automatic indication of compliance or non-compliance through an embedded scoring system. For PUs, the self-assessment is completed on the basis of the Internal Management System (IMS) coordinated by the PU Manager.

All types of external assessment are site visits. The general objectives of the external assessments are to:

» Check in situ the status of farmers/Producer Unit against the Better Cotton Minimum and Improvement Requirements
» Support the farmers/Producer Unit in identifying both areas that are going well and areas for improvement
» Review the effectiveness of the Internal Management System and identify systemic/incidental non-compliance (in the context of Producer Unit licensing)
» Review the self assessment process
» Enable corrective action to take place as soon as possible
» Provide the BCI Country Managers with a sufficient level of confidence to decide whether to issue a licence (in the context of Producer Unit licensing)

An external assessment visit consists of the following components:

<table>
<thead>
<tr>
<th>STEP</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gathering information from local sources (for 3rd Party verification only)</td>
</tr>
<tr>
<td>2</td>
<td>Opening meeting/interview with PU management</td>
</tr>
<tr>
<td>3</td>
<td>Farmers interview</td>
</tr>
<tr>
<td>4</td>
<td>Visual inspection</td>
</tr>
<tr>
<td>5</td>
<td>Workers interview</td>
</tr>
<tr>
<td>6</td>
<td>Documentation review</td>
</tr>
<tr>
<td>7</td>
<td>Closing meeting with PU management</td>
</tr>
<tr>
<td>8</td>
<td>Analysis and reporting</td>
</tr>
</tbody>
</table>
3.2 Decision-making mechanism

For Producer Units, the licensing decision is made by Country Managers using a Licensing Scorecard to corroborate assessments and analyse any discrepancies in compliance. For Large Farms, the licensing decision is made by 3rd party verifiers and recorded in the verification report. All records related to licensing are filed according to a defined internal Licensing Protocol.

All assessment templates (self and external) contain the same yes/no questions to simplify corroboration and ensure non-conformities are easily identified. If non-compliance is observed on the Minimum Production Criteria, a determination as to whether the non-compliance is *systemic* or *incidental* is made. All assurance actors are trained on the methodology for differentiating *systemic* and *incidental* (see definition below). If corroborative evidence demonstrates that Minimum Production Criteria are not respected and the PU lacks evidence of a strong Internal Management System, the non-compliance is *systemic* and the PU is disqualified. If the non-conformity is observed as an isolated event, limited in temporal and spatial scale, and there is sufficient evidence of a strong Internal Management System, the non-compliance is *incidental* and the PU is given six-months to implement corrective actions.

**Definition of systemic and incidental non-compliance**

<table>
<thead>
<tr>
<th>Incidental non-compliance is defined as:</th>
<th>Systemic non-compliance is defined as:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) non-compliance on the Minimum Production Criteria is observed as an isolated event, limited in temporal and spatial scale, and Producer Unit has provided sufficient evidence that the Internal Management System (IMS) should prevent such practices</td>
<td>(i) Corroborative evidence demonstrates that Minimum Production Criteria are not respected and (ii) Producer Unit cannot provide sufficient evidence that the Internal Management System (IMS) prevent such practices</td>
</tr>
</tbody>
</table>

3.3 Disqualification

The criteria to disqualify a Producer Unit are directly based on the Minimum Requirements and include the following:

» Criteria 1: Systemic non-compliance observed on the Minimum Production Criteria
» Criteria 2: Quality of the Internal Management System
» Criteria 3: Reporting on Results Indicators

The disqualification of Large Farms occurs if noncompliance is evident on any of the Minimum Production Criteria or Management Criteria, Results Indicators are not submitted on time, or self assessment is not submitted.

4. Oversight

BCI is committed to ensuring the continued effectiveness and integrity of its Assurance Program through both internal and external oversight.

4.1 Internal oversight

Internal oversight is conducted on an ongoing basis by the S&A team, who are responsible for monitoring the accurate implementation of Assurance protocols and the quality of licensing related documentation. Internal oversight activities include the following:
Monitoring the online project database to ensure PU/LF data is accurately maintained
» Monitoring self assessment process
» Monitoring sampling process for external assessment
» Reviewing quality of external assessment reports and licensing scorecards

Oversight on the field activities of 3rd party verifiers is conducted by BCI Country Teams, who perform shadow verification annually to assess the quality of approved verifiers.

4.2 External oversight

External oversight is conducted as the critical component of BCI’s periodic Assurance System Reviews. Assurance System Reviews occur at planned intervals at least every 3 years, or after significant changes have been made to the Assurance Program. An Assurance System Review consists of a comprehensive review of the entire Assurance Program, its implementation, and its role in the Better Cotton Standard System, based on feedback from an external body.

At the core of the Assurance System Review is external oversight on the Assurance Program. Oversight activities are conducted by an independent body contracted by BCI. The oversight mechanism serves to determine the consistency of assurance across the standard system, assess the competence of assurance providers, and identify challenges and areas for improvement in the Assurance Program at large. BCI responds to these findings by conducting further internal assessment, implementing corrective actions, and reviewing its risk assessment and management plan to facilitate improvements in its Assurance Program.

An overview of the key components of the oversight mechanism is presented below:

» **Desk Analysis**: The independent body conducts an analysis of the management system for licensing decisions, using information obtainable from licensing scorecards, self assessments, external assessments, and the BCI Project Database.

» **Assurance Provider and External Assessor interviews and Shadow Verification**: The independent body conducts interviews with Country Managers/Strategic Partners, 3rd party verifiers, Implementing Partners, and M&E Officers. The independent body conducts shadow verification of 3rd party verifiers and Country Managers/Strategic Partners. The findings of interviews and on-site appraisal are included in the report and written feedback and a corrective action plan for each assurance provider appraised is provided.

» **Higher level assessment**: The independent body analyses the linkages between different actors and processes comprising the BCI Assurance Program, in order to identify strengths and weaknesses in the effectiveness and functionality of the system as a whole, including the role of BCI secretariat.

5. On-going Scrutiny

On-going scrutiny occurs outside the scope of the Better Cotton Assurance Program, falling under the Chain of Custody and Claims components of the Better Cotton Standard System. Although these are not within the remit of the Assurance Program, information is provided below.

5.1 Chain of Custody

The following mechanisms are in place to support the implementation of mass-balance chain of custody:

» **Gin monitoring**: site visits to ensure physical separation of Better Cotton at gin level
Chain of Custody Guidelines laying out roles, responsibilities, and repercussions for all supply chain actors

Online traceability platform to track Better Cotton volume declarations at each stage of the supply chain

Annual data audit on the traceability platform conducted by an independent body

5.2 Claims

BCI’s Claims Framework procedure identifies the parameters for all claims, and manages the use and misuse of claims

5.3 Member monitoring

Code of Practice for members identifying commitments and responsibilities

Member monitoring framework defined and overseen by BCI Demand Team

Annual self assessment completed by members, measuring performance against the monitoring framework