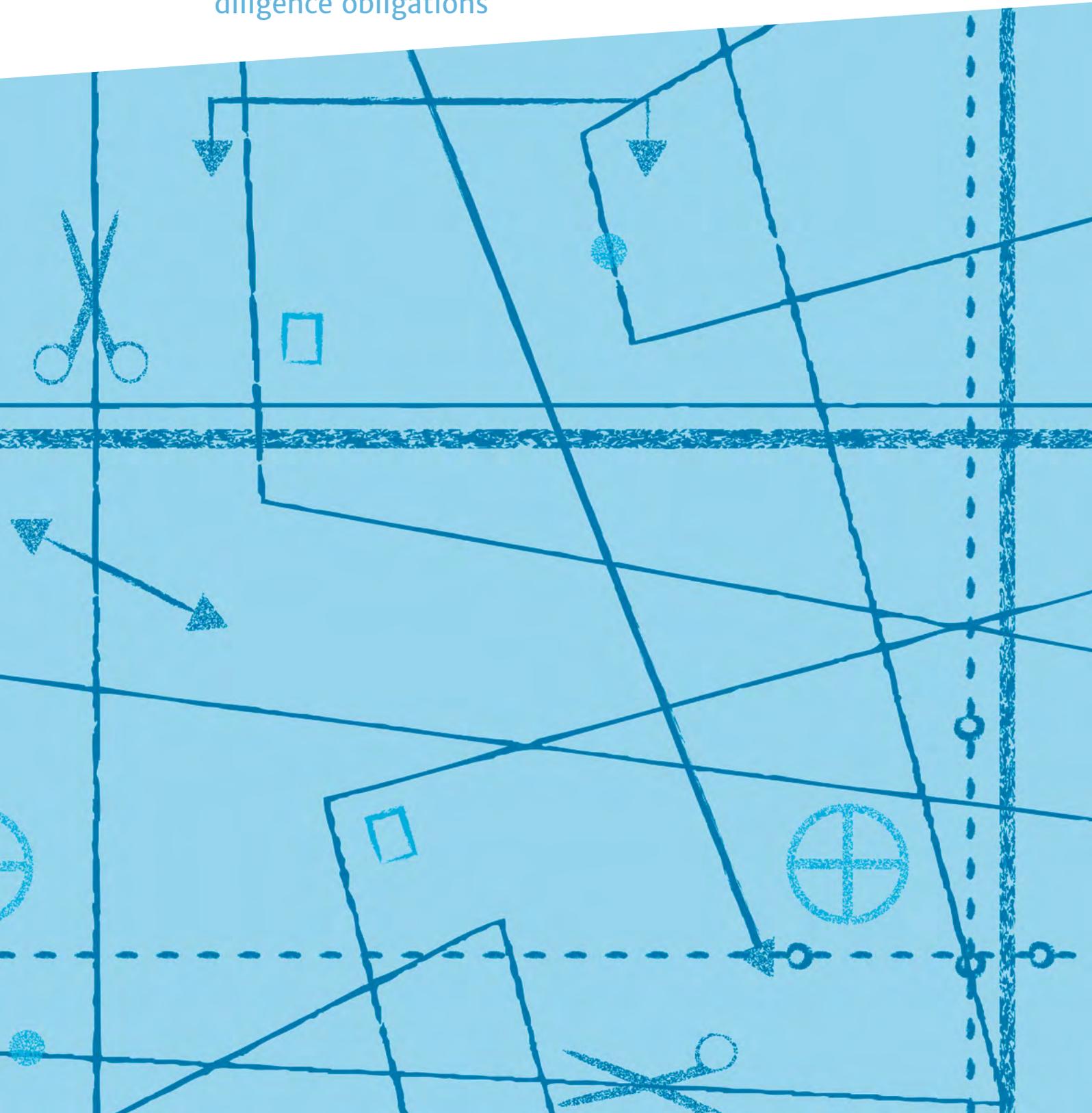




Partnership for
Sustainable Textiles

Identifying social and environmental risks

Understanding and meeting due
diligence obligations

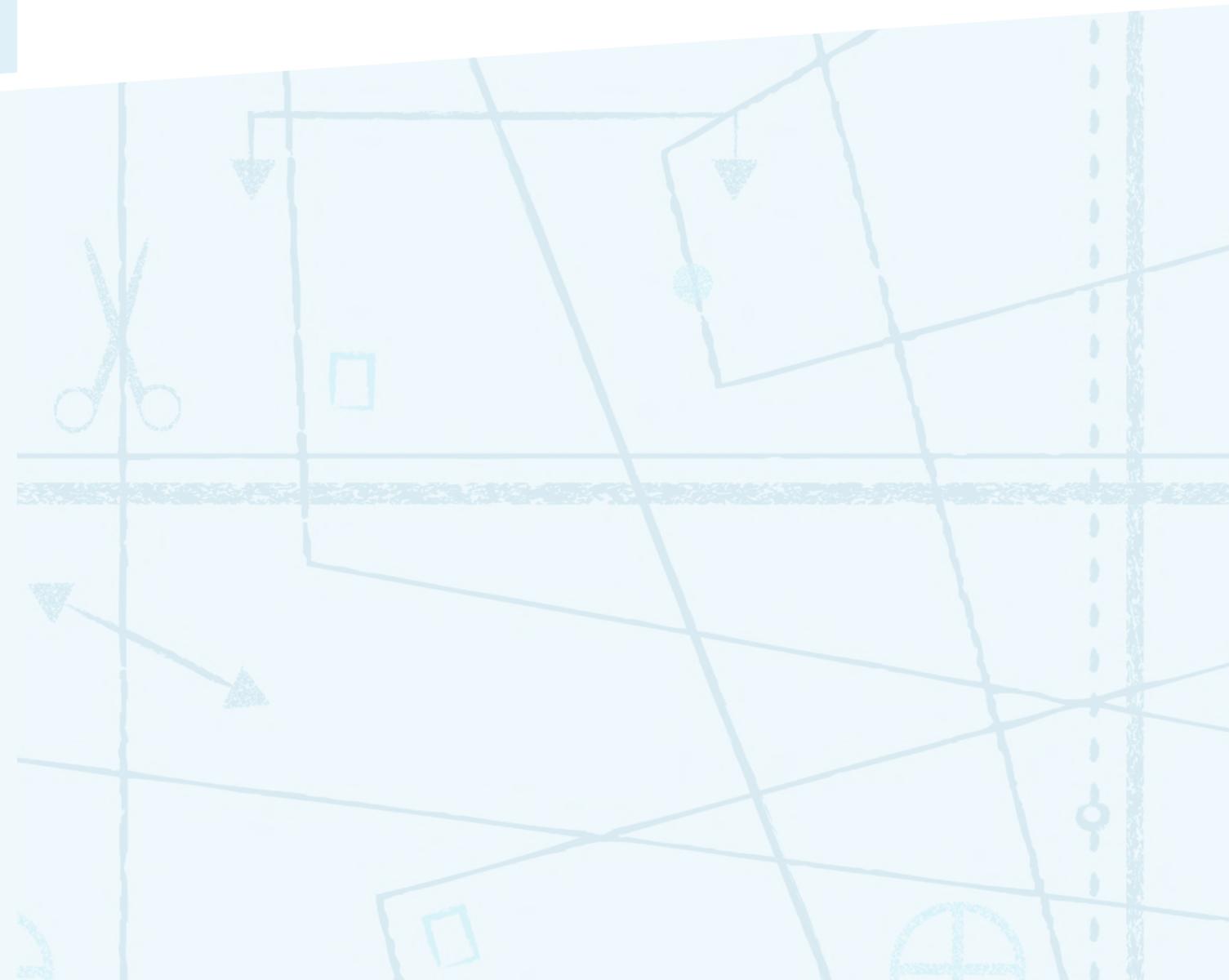


Preface

Knowing what risks and negative impacts your business activities pose for humans and the environment is the first step and crucial for meeting your own due diligence obligations. These guidelines provide step-by-step guidance on how you can identify the social and environmental risks of your business.

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1 Introduction

From 2018 on, brands, retail companies, producers and the German Federal Government are called upon to identify the social and environmental risks and impacts of their business activities. On the basis of this risk assessment, they should then identify the most important fields of activity for their business.

1.1 Why is the goal important?

Identifying risks is the first step and crucial for meeting your corporate due diligence obligations. Only when you know what (potential) adverse impacts your activities and the actions of your business partners have on humans and the environment you can initiate corresponding countermeasures. This will ultimately enable you to prevent damage to affected parties, mitigate impacts or remedy the situation.

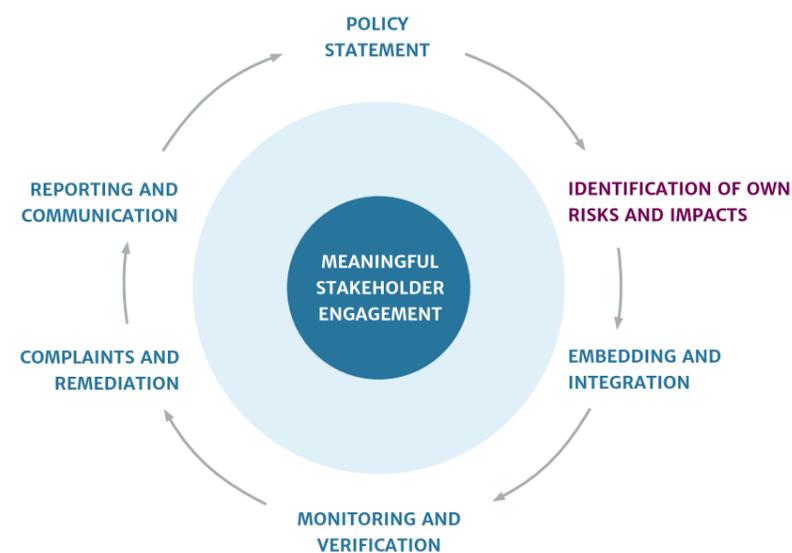


FIGURE 1: ELEMENTS OF THE DUE DILIGENCE PROCESS

Identifying risks, therefore, is relevant not just from the perspective of the affected parties. Over the past years, the number of legal regulations requiring businesses to meet their corporate due diligence obligations has grown significantly.¹

This development shows: companies are being increasingly expected to know the risks in their supply chains and address them appropriately. At the same time, damages to people and the environment that are caused by activities undertaken by your organisation or business partners may also become a direct risk to your business, for example in the form of:

- reputational risk, e.g. through damage to public image and loss of trust
- legal risks that entail e.g. legal disputes and claims for damages
- operational risks, e.g. through delivery uncertainty and quality defects
- falling levels of employee satisfaction and increased staff turnover
- higher costs for crisis management and compensation payments

Ultimately, however, new opportunities will also open up for your organisation: for example, you will be able to attract new investors who demand accountability for how you manage social and environmental risks, and you will be able to tap into new sources of funds. Likewise, your new awareness can make you more attractive as an employer.

1.2 What needs to be observed when identifying risks?

Identifying social and environmental risks initially means changing your perspective: The focus is not on identifying your own business risks, that is reputational, financial or legal risks. Rather, it is about determining how your own business activity and all processes involved affect the rights of stakeholders. It is therefore always important for your risk assessment that you take the perspective of (potentially) affected parties.²

The general distinction is between (1) risks that have potentially adverse effects and (2) adverse effects on people and the environment that are real and have already occurred. A common risk in the textile sector, for example, is inadequate building and workplace safety in production facilities. When fire protection systems in a factory are inadequate, this can adversely affect the safety and well-being of workers in the event of an emergency. Damages to people and the environment that have already occurred are referred to as real adverse effects. These should be redressed. The purpose of identifying risks is to detect risks as well as damages that have actually occurred.

Internal stakeholders as well as, in particular, local stakeholders and potentially affected parties should be involved in identifying risks. Internal stakeholders contribute necessary internal knowledge and ultimately help anchor the approach in your organisation. Local stakeholders help identify relevant risks and understand them in their context. The main focus should be on marginalised and particularly vulnerable groups who are exposed to particular risks. This requires cultural sensitivity and a close relationship with the stakeholders. It may also be crucial to involve independent experts who support the process with knowledge and experience.

As your business activity and the context in which it is embedded are subject to dynamic change, a risk assessment should be performed on a regular basis. It is a mandatory target of the Partnership, that companies should assess their own risks at least every three years or reassess them when relevant changes take place in the company. The latter applies in particular to acquisitions, mergers and further acquisitions. Significant structural changes in procurement, the development of new procurement countries and sales markets or the launch of new product lines, however, also require a renewed risk assessment.

What particular risks exist along the textile supply chain?

The OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector provides various examples of risks that occur especially in the textile and garment sector³:

In addition to these social and environmental risks, you may detect further risks that are also associated with your business activity. These include integrity risks such as bribery and corruption, for example.

Social and human rights risks	Environmental risks
Child labour	Use of hazardous chemicals
Discrimination	Water consumption
Health and safety in the workplace	Water contamination
Violation of the right of workers to join/establish a trade union and of their right to collective bargaining	Greenhouse gas emissions
Failure to pay minimum wages	Soil contamination
Wages do not cover the basic needs of workers and their families	

2 Identifying social and environmental risks step-by-step

Below you will find the most important starting points to help you successfully achieve the mandatory target. The first part shows what a risk assessment should detect on the basis of three key questions. The second part presents methods you can apply to identify risks. The last part explains how you can prioritise the identified risks and subsequently take action.

2.1 What does a risk assessment involve?

Risk assessment should cover your business as a whole, that is, all processes, products and business relations as well as the environment in which they are embedded. The following three key questions are designed to help you identify risks and draw conclusions as to the areas in which you have the greatest leverage for preventing, mitigating and remedying damage.

Where is the production located?

Recording your own supply chain is an important prerequisite for a thorough risk assessment. Knowing your procurement and production countries enables you to better take into account country-specific risk factors. For example, a high number of migrant labourers in a country means a higher risk that factories employ child labourers and/or forced labourers or that they fail to pay minimum wages.

B.1.
Is your organisation working towards increasing the level of transparency in its supply chain?

B.1.1.

How does your organisation systematically record producers, business partners and the deeper supply chain?

B.1.1.1.

Up to what stage does your organisation systematically record data on the supply chain?

B.1.1.2.

For what percentage of the products you procure do you have complete supply chain information?

B.1.1.3.

For what percentage of the products you procure are you aware of the use of home-working arrangements?

FIGURE 2: RELEVANT KEY QUESTION FROM THE PARTNERSHIP'S QUESTION GRID

In order to clarify whether a country-specific risk is relevant for your individual assessment, however, knowing the production country is not sufficient. Conditions often vary from one factory to another. It is therefore indispensable to take a look at the production facilities themselves. The more comprehensive your knowledge and the transparency of your supply chain is, the more likely it is that your risk assessment yields a realistic picture.⁴

This also means recording not just partners with whom you have a direct contractual relationship but also the deeper supply chain. Chemical-intensive process steps, for example, usually take place in the deeper supply chain – particularly in wet finishing, pre-treatment and dyeing, as well as in printing and textile finishing (e.g. with flame retardants, water-repellent and anti-bacterial properties). The use of chemicals often poses a major health risk to humans and is very harmful to the environment. You should also record whether homeworkers are employed in the supply chain as this involves an enhanced risk of labour law infringements, for example.

Key elements:

- Acquire deeper knowledge of procurement and production countries
- Focus on individual production facilities, as within on country conditions can differ widely from one factory to another
- Increase transparency all along the supply chain – including partners with whom you have an indirect contractual relationship – and record homeworking

What is being produced?

Another pillar is knowing what products your company procures or produces and what (raw) materials are used to produce them. Depending on the production and manufacturing process, products and materials often allow conclusions to be drawn about specific risks. Products from conventionally grown cotton, for example, harbour the risk that the cotton is grown with the aid of dangerous insecticides. Garments from polyester, in turn, may involve the risk of adding to greenhouse gas emissions.⁵ This shows that risks are already influenced by the choice of materials used for your products. In order to perform a comprehensive risk assessment, you should know what products and materials you use and procure. The quantity of materials procured is also relevant in order to assess how material the risks are to your business (see Chapter 2.3 – Prioritising risks).

Key elements:

- Gain an overview of the (raw) materials being used for your production
- Record in what quantities these (raw) materials are being used

How are products being procured and/or produced?

Depending on the business and procurement model, different kinds of social and environmental risks may occur and they may have different levels of relevance. This has to do, for example, with how many product lines you carry and how often you change them, or with the design of your product range. Heavily diversified product lines often pose more risks because of the broader range of materials and production processes involved.

Frequent changes in product lines often take place under great time pressure from design to fabrication. Where preparation and production times are short, the risk of excessive or forced overtime and inadmissible subcontracting is often significantly higher. On the other hand, for companies that procure their products indirectly, that is, through agents or importers, it is usually more difficult to obtain information about production conditions, especially in preliminary stages.

Key elements:

Examine your business/procurement model:

- What different products does your product range comprise?
- How often do you change product lines?
- How and through what parties do you place orders?

<p>B.3 Does your organisation procure products that contain natural fibres?</p>	<p>B.3.1 What information does your organisation record, with regard to the natural fibres it uses?</p>
	<p>B.3.2 How does your organisation record the types and volume of the natural fibres used?</p>
	<p>B.3.3 What natural fibres and/or natural raw materials does your organisation use?</p>
<p>B.4 Does your organisation procure products that contain man-made fibres?</p>	<p>B.4.1 What information does your organisation record, with regard to the man-made fibres it uses?</p>
	<p>B.4.2 How does your organisation record the types and volume of the man-made fibres used?</p>
	<p>B.4.3 What man-made fibres does your organisation use?</p>

FIGURE 3: RELEVANT KEY QUESTION FROM THE PARTNERSHIP'S QUESTION GRID

2.2 What methods can be applied to identify risks and impacts?

Depending on the objective and needs, a risk assessment involves the use of various methods and instruments. They range from simple desk-based research to comprehensive analyses involving external stakeholders.

The most common methods include:

- compiling a schematic view of risks through risk mapping/scoping. This means recording and, depending on the context, visualising potential or existing risks based on a previously established template, for instance as a country profile in the form of a map or by product group, supply chain stages and supplier structure. This method enables you to systematically detect risks while also identifying especially relevant areas.
- further in-depth assessment of particular risks already identified. This is done, for example, in the context of an audit or supplier assessment or by an in-depth human rights impact assessment (HRIA). An HRIA is a method for specifically evaluating and estimating the human rights impacts of a company's actions. An HRIA may be performed in very different degrees of depth and quality and on the basis of a variety of methods and approaches. HRIAs can also be performed with a focus on specific regions, supply chains or products.
- early warning systems, grievance mechanisms or existing risk assessment procedures to record information on risks and actual negative impacts. Early warning systems generally make it possible to obtain information about risks in the supply chain at an early stage. One way of doing this is through a dedicated hotline that gives suppliers' workers the possibility to raise concerns about building safety and workplace safety. Grievance mechanisms, too, often act as an early warning system because they also provide channels through which information can be received at an early stage. Finally, recurring and increasing numbers of complaints often point to specific risk patterns.

In the Members Area you will find an overview of different tools and approaches to further assist you in obtaining information and performing a risk assessment.

2.3 How can identified risks be prioritised?

After all social and environmental risks and impacts have been recorded, they should be prioritised so that you can decide where in-depth measures are appropriate and necessary. Large businesses with complex value chains, in particular, need to prioritise risks first in order to focus on critical topics and take appropriate and effective measures. One way of setting priorities is to draw up a risk matrix. This matrix classifies and prioritises procurement countries, product groups or suppliers based on defined criteria.

Principle of materiality

The Global Reporting Initiative (GRI) emphasises the principle of materiality: Companies should focus on themes and activities that are important both to their business development and from the viewpoint of the company's stakeholders. The interests of internal and external stakeholders should therefore be taken into account when identifying key themes.

Possible criteria include:

- Number of persons affected: If the number of persons affected is particularly high, so is the damage in the event of an occurrence.
- Relevance to your own business/operations: If, for example, a particularly high share of your production takes place in the affected factory or region, the damage to your business in the event of an occurrence is severe.
- Extent of impacts: If the possible impacts would have severe, unpredictable or irreversible consequences, the risk is especially high.
- Unclear situation: If the extent of potential negative impacts cannot yet be clearly identified and further information or an in-depth assessment are necessary, the case should receive high priority in order to reach definitive clarification in a timely manner.

In the example shown on the right hand side the risk of negative social/human rights and environmental impacts in the respective supply chain is related to the relevance (of the procurement countries, product groups or suppliers) to a company's operations. On that basis, decisions can be made as to which additional measures (see proposals in the four quadrants) are suitable for which groups of suppliers, procurement countries or products.

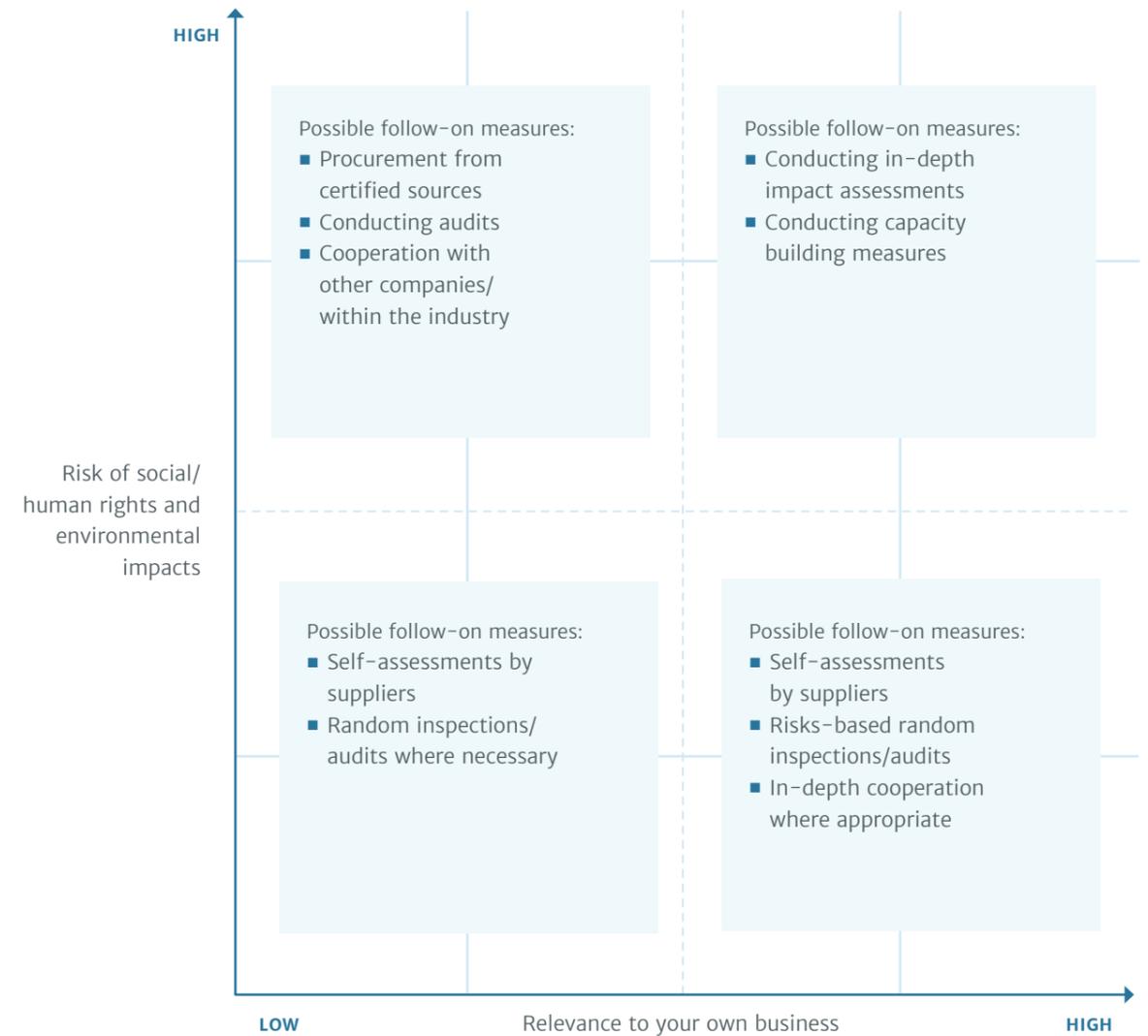


FIGURE 4: RISK MATRIX⁶

As already outlined in the risk matrix, the next step consists in implementing measures that address these risks. You can find starting points for such measures in further info papers and fact sheets provided to you by the Partnership.⁷

Footnotes

- 1 These include, for example, the new CSR reporting requirements (2017), the UK Modern Slavery Act (2015) and the new French law on corporate due diligence obligations (2017). In addition to these existing requirements, also a law on child labour in the supply chain is under preparation in the Netherlands. The German Federal Government's National Action Plan on Business and Human Rights (NAP) also calls upon companies based in Germany to take steps to meet their corporate due diligence obligations.
- 2 As described above, social and environmental risks can also become a direct risk to your business (see 1.1.). But these business risks are not the object of the risk assessment itself. However, the relevance for your business may be a parameter in the assessment and prioritisation of the identified risks.
- 3 OECD Guidance for Responsible Supply Chains in the Garment and Footwear Sector, p. 44.
- 4 Within the partnership, the systematic registration of all business partners and producers is mandatory in 2018. It is also recommended to publish the company's list of business partners and producers as well as to identify further actors in the lower supply chain.
- 5 OECD Guidance for Responsible Supply Chains in the Garment and Footwear Sector, p. 44 – 45.
- 6 Simplified description based on the prioritisation matrix of Twentyfifty Ltd.
- 7 All support services offered by the Partnership can be found in the folder 'Tools and aids' in the Members Area.



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