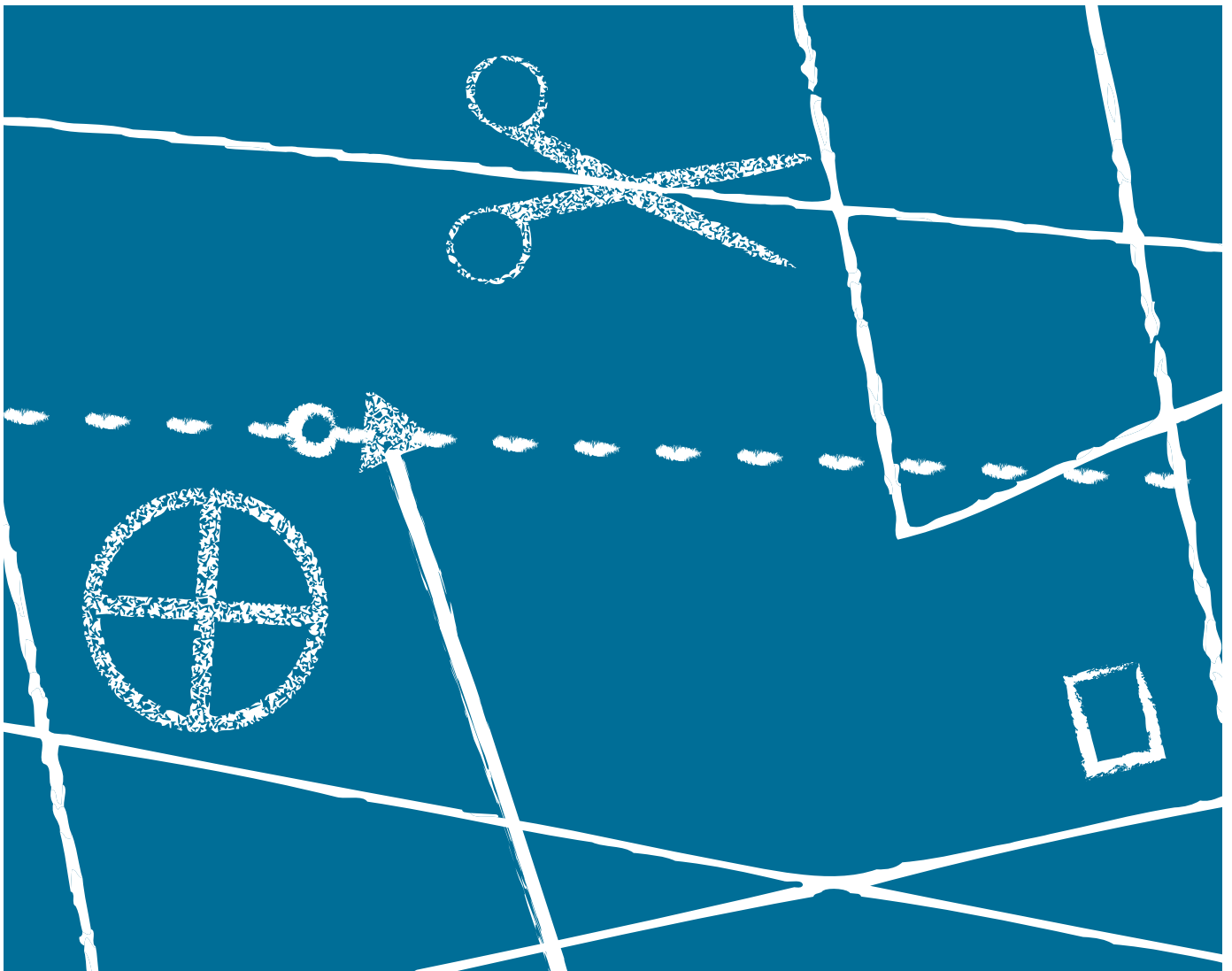


# Identifying and prioritising risks

Basis for the Review Process  
in the Textiles Partnership



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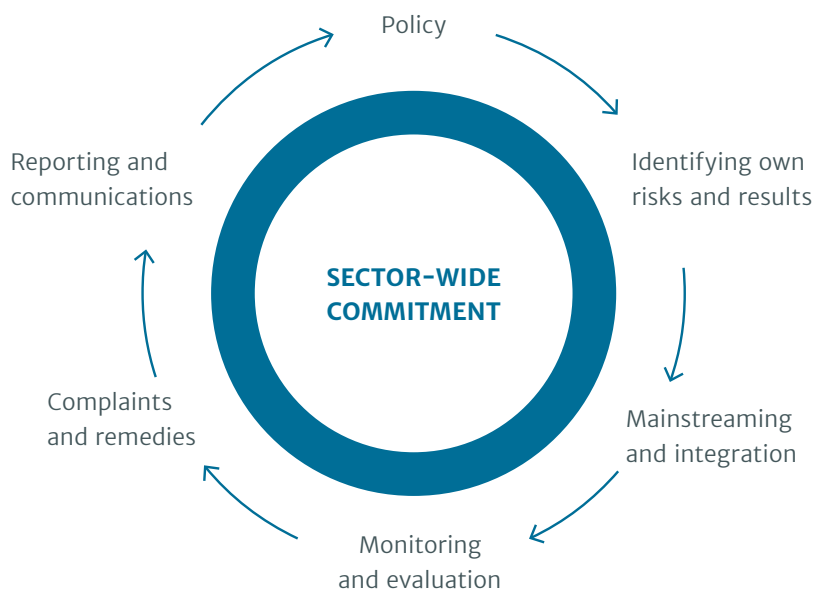
## **Disclaimer**

The procedure described in this guidance is based on the specifications for the Review Process in the Partnership for Sustainable Textiles and the basic content of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector. The examples presented here are fictitious and are meant to serve as illustrations.

# Introduction

Awareness of potential risks and adverse impacts for people and the environment existing in your supply chain is the first step and precondition for meeting your company's own due diligence obligations. **Careful and ongoing processes for identifying and prioritising risks are the basis required for effective and targeted measures to prevent and mitigate adverse impacts and compensate for them as needed.** This guidance will show you, step by step, how to identify social, environmental and compliance risks in your company's supply chain and subsequently prioritise them. In addition to meeting basic requirements for due diligence, this process – referred to as 'Risk Analysis' – also serves as the basis for reporting in the Partnership for Sustainable Textiles.

Figure 1: Identifying risks as part of the due diligence process



## Why is a risk analysis important?

Careful and ongoing risk analysis processes form the **basis required for effective measures** for preventing harm to people and the environment, mitigating impacts and creating remedies. Identifying risks therefore starts with **shifting perspectives**: The focus is therefore not on identifying one's own business risks, i.e. risks to one's reputation or financial or legal risks, but rather on determining how one's own business operations and all associated processes impact human rights and the environment. For the risk analysis it is therefore important to always take the perspective of (potentially) affected individuals.

However, identifying risks and defining effective measures is not only relevant from the perspective of affected individuals. Increasingly, **legal requirements**<sup>2</sup> are defining that companies must not only be aware of the risks in their supply chain, but must also take these into account and proactively counteract them. Harm to people and the environment that is – directly or indirectly – associated with your business activities can **also constitute a direct risk to your business**, for example, in the following forms:

- risks to your reputation, for example, through damage to your image and loss of trust
- legal risks, for example, associated with legal disputes and claims for compensation
- operational risks, for example, due to delivery uncertainty and quality defects
- falling levels of employee satisfaction and increased staff turnover
- costs for crisis management and
- compensation payments

You can counteract these risks by implementing effective risk-reduction measures.

In addition, **new opportunities** arise. For example, you can win investors who require accountability for dealing with social and environmental risks and thus open up access to new sources of funding. A company can also strengthen its appeal as an employer if it clearly positions itself against violations of human rights and environmental legislation in its own supply chain.

## What role does the risk analysis play in the Review Process?

To set relevant and effective targets in the Review Process, you start by analysing whether and to what extent social, environmental or compliance risks exist in your company's supply chain. You then prioritise the most severe risks and analyse where they occur. With respect to these topics and parts of the supply chain, you can achieve the greatest effect in terms of risk mitigation and prevention of adverse impacts through good targets and measures.

**Figure 2: Reporting in the Textiles Partnership in accordance with the risk-based due diligence approach**



<sup>1</sup> For example, the CSR reporting obligation (2017), the UK Modern Slavery Act (2015), the French Corporate Duty of Vigilance Law (2017) and the Dutch Child Labour Due Diligence Act (2019).

## What topics is the Textiles Partnership focusing on?

In terms of content, the risk analysis for the Review Process must consider all 11 sector risks<sup>2</sup> specified by the Textiles Partnership. These include<sup>3</sup>

1. Freedom of association and collective bargaining
2. Discrimination, sexual harassment and gender-based violence
3. Health and safety
4. Wages and social security benefits, living wages
5. Working hours
6. Child and forced labour
7. Corruption
8. Use of chemicals, wastewater
9. Environmental protection, use of resources
10. Greenhouse gas emissions
11. Animal welfare (including sheep-breeding, mulesing)



Please note that this list of sector risks is not meant to be exhaustive or universally applicable. Companies are generally required to take all social, ecological and compliance risks in the supply chain into account in their risk analysis. The list presented here should therefore **be individually extended depending on the particular company risk profile.**

The sector risks are derived from problem situations that commonly occur in the supply chain of the textile and garment sector. In your individual risk analysis, you check whether and in what form violations may occur or may have already occurred with respect to the above-listed sector risks and possibly other topics.

## What do I have to consider in my risk analysis (scope)?

In the risk analysis, **potential impacts** on people and the environment are identified. Potential adverse impacts (risks) describe possible harm or grievances, regardless of whether they have already occurred. A commonly occurring risk in the textile sector is inadequate building safety and occupational safety in production sites, for example. If the fire protection systems in a factory are deficient, a potential negative impact on the safety and health of the workers exists, even if the workers have not yet experienced any harm.

In contrast to potential adverse impacts, **actual adverse impacts** describe verified actual incidents. Actual adverse impacts can often only be determined via direct contact with affected individuals or their legitimate representatives (for example, by way of interviews with workers or through effective grievance mechanisms). In many cases, risk analyses are used to determine where specific information and dialogue with affected individuals would be necessary to develop targeted solutions for dealing with problem situations.

<sup>2</sup> Certain materials, sourcing countries or products can be associated with specific risks that are not explicitly listed here, such as illegal deforestation linked to the manufacturing of viscose. Other topics apply only to individual materials, product types or countries, for example, animal welfare in association with wool.

<sup>3</sup> If you do not use animal materials, the topic of animal welfare does not apply to you.

In the risk analysis, generally the entire supply chain should be examined. In the Textiles Partnership the **focus is on the upstream supply chain**, thus the part of the supply chain comprising agriculture or fibre cultivation through to manufacturing. In the case of indirect sourcing, importers and agents are also included. Here, a uniform, simplified description of the supply chain tiers is used:

**Figure 3: Simplified definition of the supply chain tiers in the upstream supply chain**

Supply chain tier	Process steps
Importers and agents (without own production)	Trading business partners
Tier 1: Final product manufacturing (manufacturing of the end product)	Manufacturing (business partners or producers)
Tier 2: Production of materials (manufacturing of the finished material)	Wet processes (finishing); fabric production
Tier 3: Raw materials processing	Yarn production (incl. synthetic fibres), spinning mills, ginning operations/cotton ginning company, wool scouring/wool-carding shop
Tier 4: Agriculture and cultivation	Cotton traders/fibre traders; cooperatives/farmers' societies; farmers/farms; forestry

The Textiles Partnership focuses on the textile supply chain in the narrow sense. This means that non-textile product components such as zippers or buttons do not have to be considered in the risk analysis of the Textiles Partnership.

**Transparency throughout your entire supply chain** is a fundamental prerequisite for conducting the risk analysis. After all, you can only implement specific measures if you know where your products are manufactured and who is manufacturing them. While the scope of the Textiles Partnership entails examining the entire upstream supply chain in the risk analysis, you obviously cannot make any statements about parts of the chain that you are not (yet) aware of. However, to bring about continuous improvement, we expect **Textiles Partnership members to successively create more transparency in the deeper supply chain.**

Figure 9 of the annex presents a template that you can use to obtain an initial overview of possible risks and (groups of) people affected by them along the upstream supply chain.



Please note that severe risks can obviously also occur outside the scope of the Textiles Partnership, i.e. in the production of non-textile products or in the downstream supply chain. International requirements demand that you examine your **entire sourcing and value chain**. In order to meet all aspects of your due diligence obligations, we recommend that you extend the risk analysis to include these areas.

## How often does the risk analysis have to be conducted?

Since your own business activities and the context in which they are embedded change dynamically, a risk analysis should be conducted at regular intervals and on a case-by-case basis as needed. In the Textiles Partnership, the members are called on to **re-examine their own risks every two years in the Review Process.**

Relevant changes in your own company or in the environment of your company may cause the risk analysis to have to be updated sooner than that. Examples of such changes are business takeovers, mergers and acquisitions, as well as major structural changes in purchasing, the establishment of new sourcing countries and sales markets or the assumption of new product lines. Changes in the environment occur for example as a result of legal or political changes, technical innovations or acute situations that require you to reassess groups of people who need to be protected (e.g. Syrian refugees in the Turkish textile industry).

You should also feed in the whole of your experiences with implementing risk- and impact-mitigating measures into the subsequent analysis and update your assessment accordingly. In addition, **transparency throughout your entire supply chain** should be increasingly expanded in order to be able to better identify and address risks in the deeper supply chain.

## What does 'prioritising risks' mean?

Prioritising risks is the key step for translating knowledge into action. The goal of the risk analysis is not just for you to be familiar with the specific risks along your supply chain. Ultimately, the analysis should **enable you to use your available resources as wisely as possible and related to the most severe risks in your supply chain.** While companies are generally responsible for addressing all of their risks and impacts, it is obvious that they should use their limited resources in a manner that is as targeted and purposeful as possible. When determining targets and measures, **companies should therefore focus on their most severe risks and prioritise them when taking action to address them.**

According to the OECD Due Diligence *Guidance*,<sup>4</sup> the key factors in prioritising risks are severity and likelihood. The severity is determined by three factors:

- **Scale:** How severe is the (potential) adverse impact?
- **Scope:** How many people are affected by the (potential) impacts?
- **Irremediable character:** How easily can the damage that has been sustained be eliminated or remedied? In practice, this is closely connected to scope. Obviously, offering compensation for excessive overtime is easier than compensating for child labour.

In the risk analysis it is important to compile information that you can use to determine the severity and likelihood of possible risks in your company's supply chain. In many cases, the limited available data makes it difficult to assess this. In Figure 11 in the annex, you will find specific indicators that you can use to measure scale, scope and the irremediable character.

<sup>4</sup> [https://www.oecd-ilibrary.org/governance/oecd-due-diligence-guidance-for-responsible-supply-chains-in-the-garment-and-footwear-sector\\_9789264290587-en](https://www.oecd-ilibrary.org/governance/oecd-due-diligence-guidance-for-responsible-supply-chains-in-the-garment-and-footwear-sector_9789264290587-en)

In the following sections, we will show you how you can identify (Step 1) and prioritise (Step 2) social, environmental and compliance risks in the textile supply chain. We will then relate this to reporting in the Textiles Partnership and explain how you can develop specific targets and measures (Step 3) for dealing with the prioritised risks.

**Figure 4: Determining the most severe risks based on their severity and likelihood**





# Step 1: Understand your own risk profile

## Your supply chain profile

The risk analysis is a process of gathering and systematically preparing and evaluating data. You should begin by compiling basic information on your company's supply chain and relevant processes. This will help you to choose the right method for conducting the risk analysis and will facilitate the later data entry and evaluation. It includes the following information:

- Overview of the special features of your business model and your company's sourcing and purchasing process (average length of business relations or capacity utilisation of suppliers, supplier assessment, direct or indirect sourcing, etc.)
- Current or possibly planned sourcing countries (focus on Tier 1 and beyond, if known)
- List of the direct suppliers and – if known – producers in the deeper supply chain (including order and sourcing volumes and capacity utilisation per supplier, if available)
- Fibres and volumes used – as well as information on certifications, if applicable <sup>5</sup>

## Define the approach used for the risk analysis

As soon as you have obtained an initial overview, you should decide which **approach makes most sense for evaluating and documenting the risk analysis for your company**. The documentation can be undertaken either by countries/regions, suppliers, materials or supply chain tiers.

- The **analysis of individual suppliers**, taking the respective local context into account, offers an especially high level of accuracy for defining risk-mitigating measures. However, this is usually only feasible for smaller companies with a fairly small-scale supply chain.
- For many companies with more complex supply chains, it is a good idea to start by conducting an **analysis at the level of the sourcing country or the sourcing countries**. In the case of similar conditions or very small countries, they can also be taken together as regions (for example, the Balkans).
- In the analysis of the supply chain beyond Tier 2, it is a good idea to evaluate the risks according to **fibres or the material used**. In particular when suppliers in the deeper supply chain are not yet known, it is very common to classify Tier 1 and 2 by countries and consider the additional tiers along fibre-specific risks. This approach is also constructive if your company offers highly specialised products that exhibit special features during manufacturing that are associated with very specific risks. Risks may be highly diverse depending on the fibre and material (cellulose-based, synthetic, animal-based, etc.). This is especially true for the risks in Tiers 3 and 4. For example, risks occur during cotton-growing as a result of increased water consumption or the use of child labour. In the case of viscose fibres, the focus is more on deforestation and non-compliance with land rights. In contrast, in industrial processing (Tiers 1 and 2), risks are generally independent of the material. For example, heavy environmental pollution resulting from the use of chemicals or low wages for seamstresses is not connected only with certain fibres.

<sup>5</sup> For determining fibres and fibre quantities, the Partnership specifies a structure to be used (Figure 10 in the annex). In the Review Process, at least the names and relative shares of all fibres used must be listed. In addition, documenting the absolute figures for the volumes of cotton is binding.

Of course, you can also choose a combination of the above-mentioned approaches. For example, you can examine the main suppliers with a large share of the total sourcing volume, taking the local context into consideration and beyond this, conduct an analysis at country level.

### Scope of the analysis: What is a healthy level?

The more systematically and comprehensively you proceed when identifying the risks of your company, the more reliably people and the environment can be protected and the better you can prevent harm from impacting your company. For this reason, the following fundamental principle applies to the risk analysis: the more detailed, the better. In principle, the amount of resources used – both in view of the depth of the analysis and with respect to possible risk-mitigating measures – **should also be geared towards the design of your business and sourcing model and thus the associated risks.**

A company with **highly diversified product lines**, for example, is often confronted with more risks than a company with a smaller product range, due to the wide range of materials or production processes. In the supply chain of a company that is strongly geared towards trends and that frequently changes its collection, there is often a higher risk of excessive or forced overtime and illegal subcontracting due to short **lead and production times**. Risks also tend to be elevated **when there is frequent fluctuation among business partners**, since in this case there is very little time to establish a business relationship characterised by trust and to clearly articulate the expectations as a commissioning party. In some cases, problem situations may not even be discovered in the first place due to the short duration of the business relationship, which can lead to unpleasant surprises. Information deficits also often occur in companies that procure their **products indirectly via agents or importers**. It is more difficult for these companies to obtain a realistic picture of the production conditions, especially in upstream tiers.

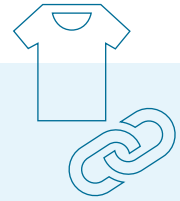
### Gather information on risks and assess these risks based on severity and likelihood

As soon as you have determined the starting situation of your company and have chosen an approach for preparing the risk analysis, you should start gathering **information on possible risks**. The 11 sector risks specified by the Partnership, on which you are required to report in the Review Process, offer guidance as to the risks that frequently occur in the textile supply chain.

The following section points out the best approach to gather and assess the information.

# 1

## DETERMINE ABSTRACT RISKS IN YOUR SUPPLY CHAIN



Start by determining possible fundamental social, environmental or compliance risks **based on independent external sources**. Possible external sources include publicly accessible reports by governments, international organisations, civil society organisations and trade unions or other media and expert reports.

Add detailed information on your supply chain to this information. This will allow you to perform an initial assessment of the most severe risks in your supply chain. At this point in time, you do not yet assess whether these risks actually occur at your suppliers. It is merely an abstract, so-called **'gross risk'**.

For the textile sector, the following external sources are especially relevant:

- **OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector:** Here you will find basic information on all sector-specific risks, on child and forced labour, on discrimination and sexual harassment, as well as on the use of hazardous chemicals, compiled in individual modules.
- **Business and Human Rights Resource Centre:** the platform is a good source of NGO and expert reports or information on actual incidents in the supply chain.
- When it comes to the environment or the use of chemicals, initiatives such as the **Zero Discharge of Hazardous Chemicals Programme**, or in the area of fibres, the **Textile Exchange**, offer information on specific topics that is accessible to the public.
- **Members' area of the Textiles Partnership:** under 'Tools and Assistance' you will find a comprehensive overview of publications on the different sector risks.

# 2

## COMPILE INFORMATION ON THE LIKELIHOOD OF RISKS OCCURRING



Then, look to see whether there are any processes that aim to keep these basic risks from occurring in your supply chain or at your suppliers or at least mitigate them (**mitigation processes**). These may include capacity-building training, participation in initiatives such as the Bangladesh Accord or functioning effective grievance mechanisms (see below for additional examples). Further examples are long-term collaboration with suppliers, regular contact among suppliers and trained staff as well as certifications. In addition, you should also include detailed information on the specific

local context, if it is available. In this way, **you can make an initial assessment of how high the actual likelihood is that the risks will occur in your supply chain**. In so doing, also take into account **information on actual impacts** – if available – meaning problems that have been proven to have occurred in your supply chain and that were communicated by affected parties by means of interviews with workers, complaints channels or feedback during a training course, for example. This information will help you to estimate how effective existing processes are in actual practice.

Examples of effective mitigation measures that can reduce the likelihood of risks occurring in your supply chain:

- In Bangladesh, there is a high risk with regard to **building safety and fire protection**. Your company is a member of the Bangladesh Accord and the factories of your suppliers are already subject to the Accord inspection programme and have good results in this area. Workers have the opportunity to use the Accord's complaints mechanism.
- In India, reports by local and international non-governmental organisations are increasingly confirming **cases of sexual harassment** both inside and outside the workplace. As a company, you are not aware of any cases of complaints about sexual harassment among your suppliers. Your company already works with an Indian NGO to conduct training courses among all 20 Tier 1 and Tier 2 suppliers and strengthen effective complaints channels on site.
- **Improper storage of hazardous chemicals** has been discovered at Tier 2 production sites in Pakistan. You are in close contact with top executives and plan a training course with the responsible management units and workers. The change is verified a few months later during an unannounced audit.
- In Viet Nam, **excessive overtime** has repeatedly been observed at three strategic suppliers. Your company is already supporting these suppliers with improving production planning and the wage management system. You have also changed to the approach of balancing out the extremes between the high and low season by pre-producing and storing standard products. Furthermore, at an internal workshop with purchasing and sourcing, approaches for paying higher wages in your own purchasing processes have been identified and these measures are already being implemented.

Please note that these measures address only certain countries or suppliers. If similar risks already occur in other places in your company's supply chain, they will not necessarily also be covered by them.

### 3

#### ASSESS AND DETERMINE THE SPECIFIC RISKS OF YOUR COMPANY



In the final step, you evaluate the information based on the following questions:

- What are the most severe risks that have not been covered (adequately) by means of effective mitigation measures to date? What do we currently know about whether these risks actually occur? Where are there information gaps?
- What can we do to prevent these risks from actually occurring? How can we mitigate their occurrence?
- What are possible causes of the actual impacts that occur in the supply chain? How can the (structural/systemic) causes of the specific impacts be addressed?

The result of this assessment process is a better understanding of the specific risks in the supply chain of your company, in other words, your **'net risks'**. During this step of the analysis, you also start gathering ideas for possible targets and measures that can help you deal with the identified risks.

The more specific the information, the better. Detailed information enables you to move from a more abstract level (for example, 'Excessive overtime is often a risk in China') and create a specific connection to your supply chain (for example, 'At supplier X, this risk was actually identified during

audits'). In addition, the information will help you to evaluate the maturity level of suppliers' management systems (of directly commissioned as well as of nominated or recommended suppliers) for dealing with risks (for example, 'Excessive overtime is often a risk in China, but extensive internal information indicates that the company we have commissioned is not affected by this').

If, after evaluating the available sources, information gaps continue to exist or the information does not appear reliable, you should specifically **consult relevant local stakeholders and experts.** With certain risk topics in particular, which are nearly impossible to 'measure' with audits, such as child and forced labour, gender-based violence or freedom of association and collective bargaining, direct communication with local stakeholders is often crucial for obtaining reliable information.

On the following pages, you will find **two model templates (Figures 5 and 6)** that you can use to collect information on the risks and the likelihood of their occurrence in your supply chain. In the templates, as described above, a distinction is made between Tier 1/2 and fibre-specific risks in the deeper supply chain. Please feel free to rearrange the way the information is presented and also to simplify it to make it as useful as possible for your supply chain and your current state of knowledge.<sup>6</sup>

<sup>6</sup> One basic option for simplifying the process is to start by grouping individual fibres that are manufactured and processed in similar countries or using similar processes (example: synthetic fibres, cellulose-based fibres, animal fibres). Another option is to first focus on your two to three most important fibres.

Figure 5: Template for gathering and evaluating information on risks at the Tier 1 and 2 level

<b>1 SEVERITY OF THE RISKS BASED ON INDEPENDENT SOURCES AND DETAILED INFORMATION ON THE SUPPLY CHAIN 'GROSS RISK'</b>			
<b>Detailed information on human rights risks/sourcing countries</b>	<b>Basic information on country risks</b>		<b>Basic information on your own supply chain</b>
	<i>Based on independent indices<sup>7</sup></i>	<i>Based on external sources (media or NGO reports)</i>	
Bangladesh	High	<ul style="list-style-type: none"> <li>• Specific risks at Tier 1 level (safety of women at the workplace and on the way to work, excessive overtime during the high season, delayed wage payments, etc.)</li> <li>• Specific risks at Tier 2 level (improper disposal of chemicals and wastewater/water pollution and the associated impacts on workers and residents, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Total sourcing volume</li> <li>• Number of suppliers (total); of which <b>Tier 1 and 2</b></li> </ul> <p><i>Please note: The higher the number of suppliers' employees who could be affected by possible impacts, the higher the <b>scope</b> of the risk in your supply chain.</i></p>
Romania	Medium		• ...
Portugal	Low		• ...

*Please note: Please try to already mark here which of the risk topics could be particularly severe with regard to the criteria of **scope or irremediable character**.*

<sup>7</sup> Possible indices that depict information for each country on social, environmental and compliance risks include the ITUC Global Rights Index (fundamental workers' rights), the Corruption Perceptions Index of Transparency International (corruption risks and as indicator for the basic likelihood of human rights violations), the UN Human Development Index (implementation of economic and social rights), the World Economic Forum Gender Gap Index (gender inequality and resulting risks such as discrimination) and, for example, the Environmental Performance Index produced by Yale and Columbia University in cooperation with the World Economic Forum. The results of the index are updated annually.

## 2 LIKELIHOOD

## 3 SPECIFIC RISKS FOR YOUR COMPANY 'NET RISK'

### Mitigation processes, specific impacts on site, information on the local context

### Assessment

- Country-specific sourcing strategy
- Average capacity utilisation/duration of the business relationship
- Strategic suppliers (how many, who)

#### Tier 1

##### Mitigation processes

- Suppliers give feedback on purchasing practices that is forwarded to headquarters in order to undertake the necessary adjustments
- For sourcing via a company's own agency, primarily own social and environmental audits are carried out (total coverage of x per cent) that are regularly verified by external entities
- Factories are covered by the Bangladesh Accord and have access to the Accord complaints mechanism
- Training was conducted with two strategic suppliers in 2015 on the topic of social dialogue and conflict management
- Local staff (including quality teams) have been trained on risk topics
- Long-term collaboration with suppliers; local staff are in regular contact with production sites
- Local staff have good contacts to local NGOs and trade unions
- ...

##### Specific incidents/complaints (from interviews with workers, via complaints channels, training courses<sup>8</sup>)

- For example, excessive overtime during the high season at suppliers a, b, c,
- ...

#### Tier 2

##### Mitigation processes

- As a standard, own environmental audits for recommended Tier 2 suppliers over the sourcing limit of x

##### Information on specific incidents/complaints (from interviews with workers, via complaints channels, training courses)

- Audit reports conducted as random samples expose cases of deficient chemicals management and wastewater disposal among suppliers X, Y, Z in region y

- What are the most severe risk-related issues that have not been covered (adequately) by means of effective mitigation measures to date? What do we know about whether these risks actually occur? Where are there information gaps?
- What can we do to prevent these risks from actually occurring or to mitigate their occurrence?
- What are possible causes of the actual impacts that occur in the supply chain? How can the (structural/systemic) causes of the specific impacts be addressed?

...

...

...

...

<sup>8</sup> Note: The aim at this point is not for you to have detailed systematic knowledge about your specific actual impacts. However, if information about specific impacts should be available, it should be used to get a better idea of whether existing mitigation processes are actually effective.

**Figure 6: Template for gathering and evaluating information on fibre-specific risks (focus on the Tier 3 and 4 level)**

	TIER 4: AGRICULTURE AND CULTIVATION		TIER 3: RAW MATERIALS PROCESSING	
	1. Severity of the risks 'Gross risk'	2. Likelihood of occurrence	1. Severity of the risks 'Gross risk'	2. Likelihood of occurrence
	<i>Basic information on risks based on independent sources</i>	<i>Mitigation processes</i>	<i>Basic information on risks based on external sources</i>	<i>Mitigation processes</i>
Cotton (conventional farming)	<ul style="list-style-type: none"> <li>• Where is the cotton for my products grown?</li> <li>• What are the specific human rights topics for cotton growing (in these countries)?<sup>9</sup></li> </ul>	<ul style="list-style-type: none"> <li>• What do we know about the risk management processes of the farmers/cooperatives that grow cotton for our products?</li> <li>• What are relevant targets or strategies for mitigating risks (for example, increasing the share of sustainable cotton)?<sup>10</sup></li> </ul>	...	...
Silk	<ul style="list-style-type: none"> <li>• ...</li> <li>• ...</li> </ul>	<ul style="list-style-type: none"> <li>• ...</li> <li>• ...</li> </ul>	<ul style="list-style-type: none"> <li>• ...</li> <li>• ...</li> </ul>	<ul style="list-style-type: none"> <li>• ...</li> <li>• ...</li> </ul>

<sup>9</sup> Possible data sources: Media and NGO reports; reports and indices of international organisations and local initiatives. An important source for assessing basic environmental risk is the Higg Materials Sustainability Index (<https://msi.higg.org/page/msi-home>).

<sup>10</sup> Possible data sources: Certifications, information from local staff, life-cycle assessments, studies and reports on specific growing regions.



**TIER 2: MATERIAL PRODUCTION**

**1. Severity of the risks  
'Gross risk'**

**2. Likelihood of  
occurrence**

**3. Specific risks for your company  
'Net risks' Assessment and next steps**

*Basic information on risks  
based on external sources*

*Mitigation processes*

...  
...  
...  
...

*Please note: It is only constructive to supplement the detailed information for Tier 2 if specific material-dependent risks exist in addition to the information in Step 1, such as for leather dyeing or tanning enterprises in the leather supply chain.*

- What are the most severe risk topics? Where in the supply chain are they most likely to occur? Where are there information gaps?
- What can we do to prevent these risks from actually occurring or to mitigate their occurrence? How can we enable our suppliers to assume these risks?
- How can the (structural/systemic) causes of the specific impacts be addressed (to the extent they are known)?

*Please note: To this end, cooperation with partners is often required, especially beyond Tier 2.*

...  
...

# Step 2: Prioritise the most severe risks

You should now have an overview

- of where and in what form the 11 sector risks and possible other risk-related issues occur in your supply chain
- the measures your company already uses to address these issues
- the specific risks for your company that you have not yet addressed.

Ideally, this overview will already automatically deliver insights about the most severe problems or topics in your supply chain; in other words, **your priorities for developing the next steps**. These priorities are fundamentally relevant for reporting in the Partnership. You must be able to show, in a plausible manner, that your targets and measures actually prevent or mitigate your most severe risks or at least aim to do so.<sup>11</sup>

In practical terms, this means, for example, that you should offer training courses to improve occupational health and safety (OHS) systems where the largest deficits are discovered at suppliers. Or you should start by promoting and strengthening access to external grievance mechanisms where workers have no hope of taking advantage of functioning legal systems or local grievance mechanisms if they do not receive wages.

**Reminder:** Risks must be prioritised by their severity and likelihood. The severity is determined based on three factors:

- **Scale:** How severe is the (potential) impact?
- **Scope:** How many people are affected by the (potential) impacts?
- **Irremediable character:** How easily can the damage that has been sustained be eliminated or remedied? (In practice, this is closely connected to scope. Obviously, offering compensation for excessive overtime is easier than compensating for child labour.)

The **severity of the risks** and, in turn, of the possible impacts on people or the environment is the most important criterion for the prioritisation process. Accordingly, the first priority should be assigned to impacts or risks that could result in the death of the parties concerned. In the annex you will find an overview that lists additional indicators for assessing the scale, scope and irremediable character (see Figure 11). These examples offer good guidance for assessing the severity of a risk.

The **likelihood that risks will occur** is determined based on the assessment of existing effective mitigation or preventive measures that you compiled and assessed in Step 1.

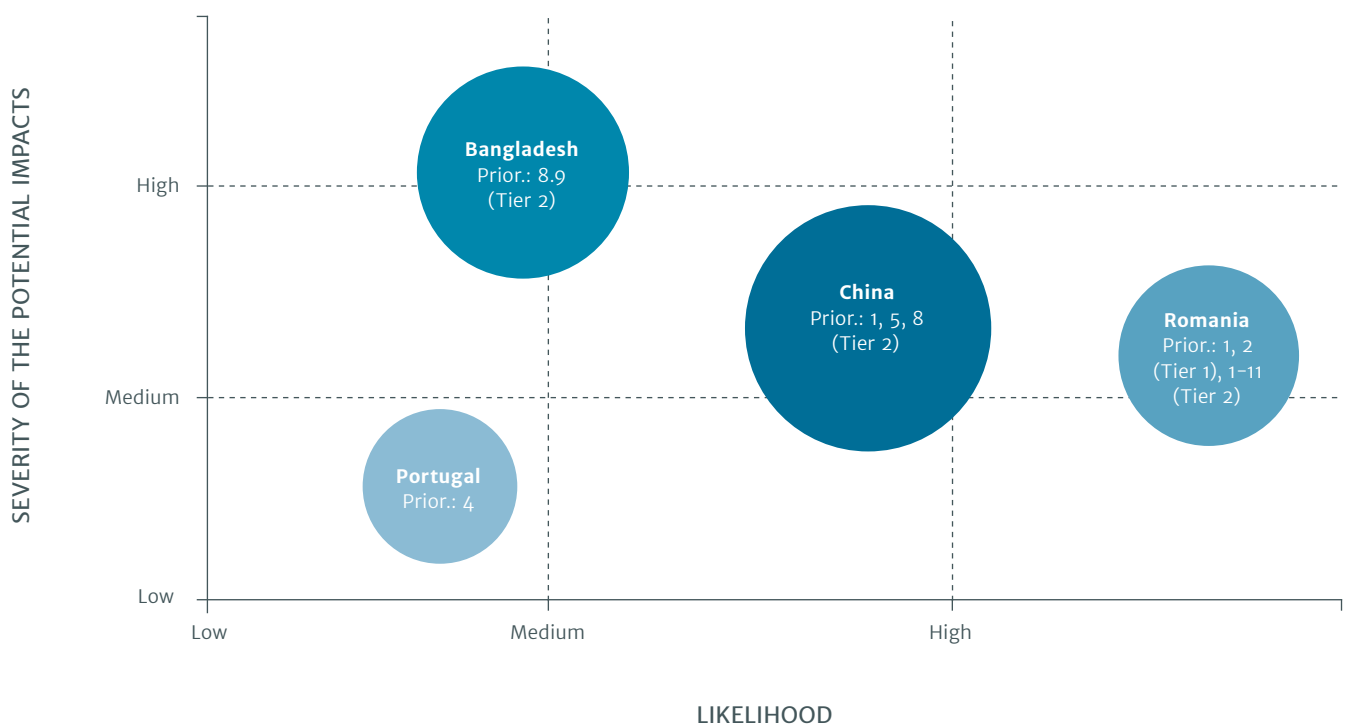
<sup>11</sup> The Textiles Partnership can grant an exception to this only if you can justify that you have too little influence on suppliers or the situation on site and have no possibility to change your business relationship with the supplier. Example: The topic of excessive overtime is a severe risk at supplier X. However, your company uses less than 5% of the production capacity there. Repeated discussions with the supplier have shown that your company cannot effectively influence the supplier. Discuss your options for dealing with the situation: Is there a possibility to increase your influence by increasing the capacity you utilise there? Could it help to shift the order to a different supplier and in so doing deepen the strategic relationship to this supplier? What could other incentives or arguments for the supplier entail that would make the supplier take measures to improve the situation?

### Simplify internal decision-making processes

In practical terms, you will be faced with the challenge of deciding, based on a wealth of information, how you can use your available resources as effectively as possible, keeping in mind that you as an individual company will often not be in a position to address all risks simultaneously.

**Creating a matrix** that consolidates your preliminary work in Step 1 can be very helpful for prioritising your risks and in turn for determining your focus in the supply chain. Below you will find an example of an **assessment by sourcing countries**. The size of the circles represents the sourcing volume for each country.

Figure 7: Prioritising sourcing countries and risk-related issues – Template 1



#### Sample assessment:

##### Sourcing countries (focus on Tier 1 and Tier 2)

- Bangladesh
- China
- Romania
- Portugal

##### Risk-related issues

1. Freedom of association and collective bargaining
2. Discrimination, sexual harassment and gender-based violence
3. Health and safety
4. Salaries and social security benefits (including living wages)
5. Working hours
6. Child and forced labour
7. Corruption
8. Use of chemicals, wastewater
9. Environmental protection, use of resources
10. Greenhouse gas emissions
11. Animal welfare (including sheep-breeding, mulesing)
12. ...

In the case of our fictitious example, the results – summarised – could be as follows:

According to independent sources, **Bangladesh** is a sourcing country associated with high social, environmental and compliance risks.

- At the **Tier 1 level**, very good mitigation processes are in place in the specific supply chain of your company. Your company works with a stable base of suppliers with strong management processes. Functioning grievance systems are in place and your local quality staff have undergone training in sustainability risks and is regularly in the factories on site. They have good contacts to local NGOs.
- At the **Tier 2 level**, the situation is more diverse. Your staff occasionally conduct audits at strategically important Tier 2 suppliers, and these audits are externally verified through random samples. You recommend these suppliers to your Tier 1 suppliers, although your recommendation is not binding. There is good contact to all strategically important suppliers. However, you are aware that smaller Tier 2 suppliers also supply materials that are not covered by your processes. Random visits to the production sites have shown that high deficits in environmental and chemicals management exist there.

**Assessment:** The most important current risk topics in Bangladesh are use of chemicals, wastewater (8) and environmental protection and use of resources (9) at the Tier 2 level.

According to independent sources, **Romania** is not a high-risk country for social, environmental or compliance risks, but rather is at average level.

- You have limited mitigation processes at both Tier 1 and Tier 2 levels. **Tier 1 suppliers** must present valid audit certificates and you accept both BSCI and SA8000 audits for this purpose. Your quality staff in Romania do not have direct contact to the local suppliers. It is unclear to what extent and whether the audit results are comparable and whether the results actually represent the situation on site.
- At **Tier 2 level**, you do not have direct contact with possible suppliers and no mitigation processes at all. Recently, you received a complaint from an international NGO that indicated cases of discrimination and sexual harassment and systematic discrimination against trade union members among several of your Tier 1 suppliers and presented statements by employees as evidence.

**Assessment:** The most important risk-related issues at Tier 1 level in Romania are freedom of association and collective bargaining (1), discrimination, sexual harassment and gender-based violence (2). In addition, an approach for dealing with Tier 2 suppliers must be developed because to date no mitigation processes exist and theoretically all risks can occur in practice.

An alternative approach entails **visualisation of your company's 'net risks' by country/supplier/fibre and topics**. Based on your preliminary work in Table 1, you assess your most severe risk-related topics that have not yet been dealt with by means of effective mitigation measures, classifying them by country/fibre or, if applicable, by supplier.

**Figure 8: Prioritising sourcing countries and risk-related issues – Template 2**

RISK-RELATED ISSUES				
Sourcing country	Freedom of association and collective bargaining	Discrimination, sexual harassment and gender-based violence	Wages and social security benefits (including living wages)	...
Bangladesh	High	Medium	Low	...
Romania	Medium	Low	Medium	...
Portugal	Low	Medium	Low	...

SAMPLE ASSESSMENT

- High
- Medium
- Low

Based on these assessment aids, you can **define specific targets for improving the way you deal with the risk-related topics in your company's supply chain, step by step**. As you do so, it may be a good idea to bundle your approaches to different topics for countries with similar risk-related issues or join up certain topics that tend to be closely interrelated. This often concerns the topics of excessive overtime and wages and social security benefits, which are directly or indirectly associated with the purchasing practices of the brand-holders and retail companies.

# Step 3: Derive and define targets and measures

You have now identified which risks occur in your company's supply chain and, in addition, have prioritised the most severe risks. Now you need to formulate appropriate targets and measures in order to prevent these risks from occurring in your supply chain.

Based on your preliminary work in Step 1, you must now **define targets and formulate appropriate measures** for your company that you will use to achieve the targets. In this process, you should seek answers to two questions:

1. What are **possible causes of the risks** that occur in my supply chain?  
How can the (structural/systemic) causes of my risks as well as specific impacts be addressed?
2. **What can we do to prevent these risks from actually occurring or to mitigate their occurrence?**  
The focus here is not just on measures that aim to get suppliers to change their management processes or their communication with their employees, but also to potentially adapt your own purchasing and sourcing processes or possibly your own business model.

## What period must the targets be set for?

If your company does not have sufficient capacities to counteract all identified risks immediately, it may define **time horizons** in the individual targets that extend beyond the two-year reporting period. In this case, you set a target and related measures for yourself that do not

lead to complete achievement of the target. Then, more measures can be added in the subsequent reporting phase. This option is intended to support companies in making effective use of their limited capacities and resources and enables them to pursue ambitious long-term targets.<sup>12</sup>

To illustrate the determination and definition of targets and measures, two sample formulations of targets and measures are presented for you below. These are meant to be fictitious and serve as guidance only.

**Example 1:** Your company has determined during the risk analysis (in particular through the assessment of external reports of local and international NGOs) that discrimination, sexual harassment and gender-based violence present a high risk in its main sourcing country. In response, your company sets the target to analyse the current situation at all Tier 1 and Tier 2 suppliers in this country with respect to this sector risk and to introduce improvement measures. Due to the limited capacities, your company will first focus on all Tier 1 suppliers and on one strategic Tier 2 supplier in the first two years. In the next reporting period, your company then will aim to devote itself to all remaining suppliers in this country.

<sup>12</sup> This does not apply to the sector risks, for which you must set binding targets.

You also underpin your target with the following measures:

- conducting supplier assessments (especially with respect to anti-harassment committees)
- checking the complaints channels at local level for anonymity and confidentiality
- cooperating with local experts and, if applicable, civil society organisations; support with conducting focus group discussions with workers
- conducting capacity-building workshops with workers and management

**Example 2:** Your company regularly determines at a strategic Tier 2 supplier that environmentally hazardous substances are not properly stored and workers are not sufficiently protected while processing the substances or do not properly use the existing opportunities for protection. You find this very frustrating, because you have already been aiming to achieve ZDHC conformity for some time and have conducted a training course on handling chemicals with parts of the workforce. However, the factory management currently does not show the desired understanding or does not acknowledge the advantages of ZDHC conformity. Breaking off your business relationship is currently not an option for you. In your reporting to the Textiles Partnership, you set the goal to continue to raise your strategic Tier 2 supplier's awareness of the topic and to develop a joint phased plan that you plan to implement on a step-by-step basis.

You also underpin your target with the following measures:

- introducing an internal discussion process with the respective purchasing teams on possible incentives for the suppliers who introduce the desired improvement processes
- a joint meeting of your management team and the factory management; possible mediation by an external party
- If mediation is successful:
  - developing a joint phased plan that defines the period in which activities are to be implemented
  - financial and technical support with changing over to ZDHC conformity
  - conducting training courses with workers and middle management on occupational safety as well as on handling and storing environmentally hazardous substances

# Annex

Figure 9: Template for devising an overview of possible risks and the (groups of) people affected by them along the upstream supply chain.

SUPPLY CHAIN TIERS	Fibre-specific risks			Tier 1 / Tier
	TIER 4: AGRICULTURE AND CULTIVATION	TIER 3: PROCESSING OF RAW MATERIALS	TIER 2: PRODUCTION OF MATERIALS (MANUFACTURING OF THE FINISHED MATERIAL), TEXTILE FINISHING	
Possibly impacted groups*	<ul style="list-style-type: none"> <li>Workers and their families; workers such as itinerant workers, young workers, home workers are particularly at risk...</li> <li>Local communities</li> <li>Vulnerable groups depending on local context, such as ethnic or religious minorities, refugees</li> <li>...</li> </ul>			
Possible risk-related issues*	<ul style="list-style-type: none"> <li>Breaches of basic labour standards</li> <li>High water consumption (e.g. cotton-growing)</li> <li>Soil contamination (e.g. synthetic materials)</li> <li>Deforestation and non-compliance with land rights (e.g. viscose)</li> <li>Violation of animal welfare (e.g. animal materials)</li> <li>...</li> </ul>	<ul style="list-style-type: none"> <li>Breaches of basic labour standards, especially with respect to health and safety in the workplace and the prohibition of forced and child labour</li> <li>Use of chemicals, emissions in the air and water</li> <li>...</li> </ul>	<ul style="list-style-type: none"> <li>Breaches of basic labour standards, especially regarding health and safety in the workplace</li> <li>High water consumption and use of hazardous chemicals</li> <li>Emissions in air, water and energy consumption</li> <li>...</li> </ul>	

\* List not complete



2 risks		Currently not the focus of the Textiles Partnership; however, these tiers may also be affected by severe risks			
TIER 1: FINAL PRODUCT MANUFACTURING (MANUFACTURING OF THE END PRODUCT)	IMPORTERS AND AGENTS (WITHOUT OWN PRODUCTION)	COMPANY HEADQUARTERS/ SUBSIDIARIES	SHOPS OR ONLINE COMMERCE/ DISTRIBUTION PARTNERS	END CUSTOMERS	RECYCLING
	<ul style="list-style-type: none"> <li>• Importers' staff</li> <li>• ...</li> </ul>	...	...	...	...
<ul style="list-style-type: none"> <li>• Breaches of basic labour standards</li> <li>• Sexual harassment and discrimination</li> <li>• Corruption</li> <li>• ...</li> </ul>	<ul style="list-style-type: none"> <li>• Possibly, fair working conditions</li> <li>• ...</li> </ul>	...	...	...	...

**Figure 10: Specified Partnership structure for recording fibres and fibre volumes with sample entries<sup>13</sup>**

Material/ Fibres	Mengen- angabe (absolut in t)	Relative share of total fibre quantity In %, estimated value permissible)	Quantity of organic-certi- fied fibres (absolute in t) Relative calcula- tion automatic	Quantity of otherwise sustainably certified fibres (absolute in t, according to standard) Relative calculation automatic	Quantity recycled (absolute in t) Relative calculation automatic
Cotton	50,000t	50%	5,000 t 10%	7,500 t 15%	0 t 0%
Viscose	2,500t	5%		–	–
Polyester	15,000t	30%		–	750 t 5%
...	...	...	...	...	...

**Figure 11: Determine the severity of a risk – examples of indicators of scale, scope and irremediable character<sup>14</sup>**

Negative effect	Examples of scale	Examples of scope	Examples of irremediable character
Human rights	<ul style="list-style-type: none"> <li>Extent of infringement of access to basic life necessities or freedoms (e.g. livelihood, freedom of association, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Number of people impacted</li> <li>% of identifiable groups of people impacted</li> </ul>	<ul style="list-style-type: none"> <li>The extent to which the impact can be rectified (e.g. through compensation or restitution)</li> <li>Whether people affected can be restored to their exercise of the right in question</li> </ul>
Chemicals and environmental management	<ul style="list-style-type: none"> <li>Scale of effect on human health</li> <li>Intensity of water use</li> <li>Scale of waste and chemicals produced</li> </ul>	<ul style="list-style-type: none"> <li>Geographical scope of the effect</li> <li>Number of individuals affected</li> </ul>	<ul style="list-style-type: none"> <li>Cost of compensation in terms of time</li> </ul>
Korruption	<ul style="list-style-type: none"> <li>Amount of money for bribe</li> <li>Criminal character of the bribe</li> <li>Extent of the effect on markets, people, the environment and society</li> </ul>	<ul style="list-style-type: none"> <li>Frequency of bribery payments</li> <li>Geographic distribution</li> <li>Number and/or ranking of the individuals involved in the bribery</li> <li>Extent of activities connected with the bribery</li> <li>Number of individuals affected by it</li> </ul>	<ul style="list-style-type: none"> <li>Extent of damage for society</li> </ul>

<sup>13</sup> The numbers entered here as an example were derived from the inventory taken in TexPerT in 2018 and primarily represent average values of the companies represented in the Partnership.

<sup>14</sup> This table presents a slightly modified and shortened version from the OECD Due Diligence Guidance for Responsible Business Conduct, 2018 <https://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm>

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Internationale Zusammenarbeit (GIZ) GmbH  
Friedrich-Ebert-Allee 32 + 36  
53113 Bonn  
E mail@textilbuendnis.com  
I www.textilbuendnis.com

## **Concept and editorial team**

Larissa Dietrich, Madeleine Koalick (twentyfifty Ltd.)  
Anneke Bremer (Secretariat Partnership for Sustainable Textiles)

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