



People and planet in business

**A simple guide to how small and micro companies
can start or strengthen their due diligence**



Micro and small companies, this is for you!

Many micro and small companies* want to do business responsibly. But almost all due diligence guidance out there is technical or aimed at large companies.

It's no surprise that the rapidly expanding due diligence standards and regulations feel complex and intimidating to many small companies. So how do you do your best with limited resources and leverage? This guide offers some answers.

Due diligence is slowly becoming mainstream. We hope it will eventually be taken for granted, in the same way that food safety is today. Few people nowadays question the fact that each company is responsible for the safety of its food products, even if ingredients are sourced from suppliers in faraway countries.

* Micro and small companies are often defined as companies with less than 10 and 50 members of staff, respectively. We use these terms somewhat loosely. This guide would also be helpful for all companies and corporate experts at the beginning of their due diligence journey.



**JOIN THE MOVEMENT
– LET'S MAKE IT THE NEW
NORM FOR ALL COMPANIES
TO RESPECT HUMAN RIGHTS
AND THE PLANET.**

Small companies and the self-employed provide most jobs worldwide, so they are important drivers for change. Join the movement – let's make it the new norm for all companies to respect human rights and the planet.

First edition, June 2023

AUTHORS: Maija Lumme and Dr. Tytti Nahi / Fairtrade Centre of Excellence on HREDD and Bernard Gouw / B Lab

OTHER CONTRIBUTORS: Sibylle Baumgartner and Matthias Leisinger / focusright, Brigitta Nemes and Judy Rodrigues / B Lab, Andrew Bowring, Stijn Decoene, Wilbert Flinterman, Simone Hutter, Meri Hyske-Fischer, Heli Le and Lashinda Van den Ham / Fairtrade

DISCLAIMER: Some content covered by this guide may also be regulated by national law or international commitments.

*This guide can
be found online on:
[fairtrade.net/issue/
due-diligence](https://fairtrade.net/issue/due-diligence)*



Introduction

We are witnessing a paradigm shift in responsible business. It's becoming increasingly mandatory for large companies to know of and mitigate harms that their operations pose to people and planet.

Small companies also face rising sustainability expectations from business partners, investors and consumers.

They are expected to conduct human rights and environmental due diligence (HREDD), a process of reducing the most serious social and environmental risks and harms linked to their business.

In this guide, you'll find the tools to start or strengthen your due diligence process in line with international frameworks – [the United Nations Guiding Principles on Business and Human Rights \(UNGPs\)](#) and the [OECD Guidelines for Multinational Enterprises](#).



WE ARE WITNESSING A PARADIGM SHIFT IN RESPONSIBLE BUSINESS.

Due diligence is all about

- Learning and continuous progress.
- Understanding the potential positive and negative impacts of your business, strengthening the first, and preventing or mitigating the latter.
- Focusing your energy where it's most needed.
- Ongoing work that is impactful and not a tick-box exercise.
- Sincerity of actions – while perfection is neither expected nor possible.

The planet's decreasing capacity for the life it holds and the battle for democracy are challenging societies. Companies have a historic opportunity to be part of the solutions. Solving challenges is right – and can be good business.

Contents

Introduction	3
Human rights and environmental due diligence (HREDD) explained	5
Guide for all sectors	6
The good news	6
Dialogue is essential	7
Learn the lingo	8
Step 1: Commit	9
Bring your commitment to life	10
Step 2: Identify	11
Risk assessment	11
The steps	13
Grievance mechanisms	14
Step 3: Address and Remediate	16
Social dialogue	16
What if something goes wrong?	17
How to address the risks and harms?	18
Step 4: Track	20
Step 5: Communicate	21
Communication tips	21
Tools	22



Hi Fairtraders!

The paradigm of corporate sustainability work is shifting. The talk of today is how to manage the risks and harms that business may bring to people and planet. Risks to corporate reputation are an old angle.

The tools of corporate sustainability work are evolving as well. Social and environmental standards, audits and certifications are no longer the culmination of buyer-supplier relationships. But they can serve well as a base for trust, longer-term relationships and co-investment between value chain partners.

At Fairtrade, we are strengthening our work on HREDD, to support all our corporate partners in understanding, aligning with and thriving in this new paradigm, where due diligence work is becoming a global norm.

Corporate due diligence can be groundbreaking in advancing the rights of farmers and workers in global supply chains – when it is based on dialogue between companies and the affected people, collaboration and fair cost sharing between different types of companies, and continuous improvement.

Hello B Corps!



At the time of writing this guide, B Lab is drafting new standards for B Corp Certification, evolving what it means to be a B Corp, and ensuring that certification is relevant for the challenges of today and tomorrow. To evolve the standards, B Lab is aligning more closely with existing international standards and emerging regulations. The new standards for B Corp Certification will give organizations clarity to focus on what matters most, with a laser focus on the most important social and environmental issues facing people and the planet.

Most existing human rights and environmental due diligence guidance, standards, and legislation is aimed at larger companies in the Global North/ Global Minority. B Lab seeks to make these resources accessible to the whole B Corp community, which includes companies in almost 90 countries, with great representation from smaller companies.

Existing and aspiring B Corps – this document is for you. We hope it guides and inspires you ahead of the launch of the new B Corp standards and helps pave a path to continue being true leaders that aim to create positive impact for all people and the planet by honing the power of business as a force for good.



**WE HOPE THIS GUIDE HELPS
SMALL AND MICRO COMPANIES
TO ALIGN WITH AND THRIVE
IN THE NEW BUSINESS
ENVIRONMENT WHERE DUE
DILIGENCE IS INCREASINGLY
EXPECTED BY BUSINESS
PARTNERS, INVESTORS
AND REGULATORS.**



Human rights and environmental due diligence (HREDD) explained

Sorry, we promise this is the longest heading! But let's get the official terminology straight.

Due diligence can focus on any type of risks, such as business risks or financial risks. In this guide, we focus on risks to people and the environment. We can call it SEDD or HREDD – Social and Environmental or Human Rights and Environmental Due Diligence.

The idea that companies have a responsibility to perform due diligence was agreed at the United Nations Human Rights Council in 2008. This responsibility was clarified in the UN Guiding Principles on Business and Human Rights (UNGPs) in 2011.

Since then, several countries have designed due diligence laws, so some or all steps of HREDD are already compulsory for large companies operating in many European countries, Australia and Canada.

Commitment to HREDD is a commitment to a continuous process. It's about working step-by-step to understand and reduce potential harm to people and planet.

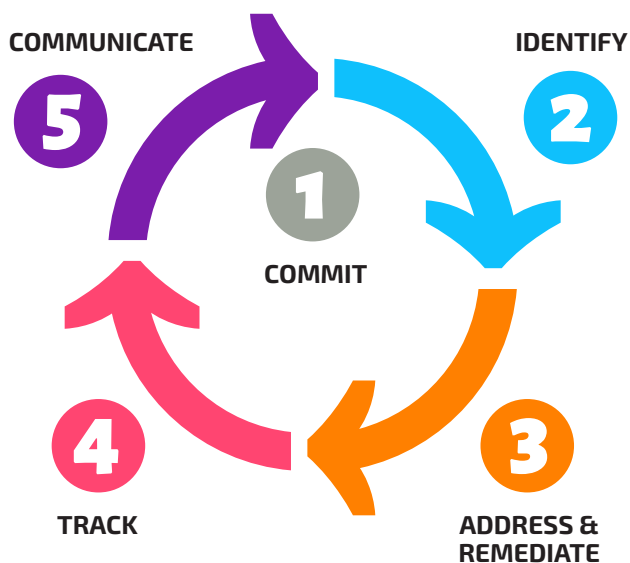


HREDD IS ABOUT WORKING STEP-BY-STEP TO UNDERSTAND AND REDUCE HARM TO PEOPLE AND PLANET.

It is a process with five steps* A company:

- 1. Commits** to respecting human rights and the environment.
- 2. Identifies** the biggest human rights and environmental problems linked to its operations and value chains.
- 3. Takes action** to address and remediate those problems.
- 4. Tracks** progress.
- 5. Communicates** about this work to its stakeholders.

Steps of the HREDD process



Human rights are the basic rights and freedoms of every human being. Some examples are:

- Decent working conditions, including living incomes and living wages.
- Rights of the child.
- Equal rights to men and women.
- The right to a clean, healthy and sustainable environment.

Planetary boundaries are the sustainability thresholds as defined by the latest science, for instance related to:

- Full recovery of biodiversity and ecosystems.
- Elimination of harmful air, soil, water and noise pollution.
- Mitigation of greenhouse gas (GHG) emissions to reach net zero emissions globally by 2050.
- Fair and proportionate water consumption.

Depending on your industry, it may be good to also consider other issues in your due diligence. These can include for example animal welfare, corruption and bribery, competition or taxation.

***You might have seen an HREDD process diagram featuring six steps.** This is exactly the same process, but we've just integrated the sixth step into the previous steps of the process; including the grievance mechanism and remediation into the second and third steps. This process is ongoing and highly iterative – so eventually, you'll be working on all these steps concurrently.



Guide for all sectors

Most B Corps are in the service sector, and some may be wondering if HREDD applies to them. **"I don't really have a big supply chain, so does HREDD still apply to me?"**

The answer is yes. All companies need to be mindful of their impacts. Even serious human rights violations such as child labour and forced labour happen everywhere, including the wealthiest countries (see the graph below).

There is global consensus that all companies need to carry out due diligence to respect human rights and the environment. However, the level of effort may vary depending on e.g. the size, sector and impact of the company.

"What if I'm a single-person enterprise with no employees?" Well, your due diligence measures can be very simple – but even you can take a moment and consider your potential impacts. For example, does your service contribute to overconsumption, any negative

health effects or discrimination? Are your purchases as ethical and sustainable as possible? What issues are your temp workers or subcontractors facing?

The challenges at the start of supply chains

In many global value chains, the production of raw materials like sugar, cotton or cobalt is related to complex human rights and environmental issues. This is fuelled by the unequal distribution of profits. Most value is captured downstream by retailers and brands while margins are the smallest in primary production.

When producer incomes are low, their investments in more sustainable and responsible production practices are also low. Furthermore, raw materials are often produced in low-income countries with gaps in environmental and labour laws and their enforcement.

Examples of child labour at different stages of value chains

Agricultural production	Processing	Transport and agents	Retail	Consumption	End of life
Picking vegetables and being exposed to pesticides	Excessive working hours in food-processing facilities	Loading and unloading vehicles	Cleaning and refilling shelves at night	Assisting in a restaurant kitchen late in the evenings	Collecting waste for informal recycling ('waste picking')

The good news

Is that you have likely already taken due diligence steps! Measures of occupational health and safety or working conditions, for example, are due diligence measures too. Risk and needs assessments, training and social or environmental audits are also part of due diligence.

Due diligence gives your sustainability work a direction. It can help you to:

- Take a pro-active and systematic approach to sustainability work.
- Set the right priorities by focusing on the most salient human rights and environmental issues.
- Reduce and remediate the negative impacts of your operations and value chains.

Due diligence can improve your stakeholder relations. It can help you to:

- Deepen your dialogue with your workers and local communities.
- Strengthen your supplier relations.
- Connect with customers and business partners who share the same values.
- Respond to investors' and business partners' increasing sustainability questions and requests.
- Respond to sustainability related criticism that may be put forward by civil society actors, journalists, researchers, workers or community members.

Makes sense, doesn't it?



Dialogue is essential

Meaningful dialogue with your stakeholders can be invaluable to identify and understand the risks, existing harms and their root causes. The most important stakeholder group are the people whose rights companies may impact. These (potentially) affected stakeholders can be referred to as 'rightsholders'.

This engagement aims to

- Bring meaningful opportunities for rightsholders to voice their views and influence the due diligence activities. In human rights related work, it's a fundamental principle that no-one can decide for other people how their concerns and grievances should be ranked and addressed.
- Bring companies information that supports an informed identification of the most serious harms, fitting measures for addressing those harms, and the effectiveness of those measures.

Meaningful engagement involves interaction back and forth over time, via meetings, workshops, calls and/or emails. Two-way communication and good faith between participants is crucial.

It's particularly important to hear affected stakeholders who may be in more vulnerable positions such as children, women, indigenous peoples, those belonging to minorities or people with disabilities.

It's also critical that workers can come together in trade unions and negotiate collectively about wages and other rights. Companies need to respect the human right to **Freedom of Association**.



IT CAN MAKE YOUR HREDD WORK MORE EFFECTIVE AND EFFICIENT WHEN YOU CONSULT THE PEOPLE AFFECTED BY YOUR OPERATIONS.

Different groups of stakeholders

1. Internal stakeholder – employees, contract workers, migrant workers etc.
2. External stakeholders – value chain workers, communities, consumers and end users of your product/ service.
3. Civil society groups who engage actively on human rights issues – and who can support your work through advisory services, advocacy work and general awareness raising.
4. Shareholders and business partners

It can be challenging to maintain dialogue with all key rights-holders – particularly for many small companies. So sincere intentions matter. When direct engagement with key affected stakeholders or rights-holders is not feasible, try to engage with their legitimate representatives or experts who work with them.

However, not all stakeholders are likely to open up if they worry that a better understanding of their risks and challenges could push you to discontinue the business relationship. To find out information from them, **you need to build trust**. This could include offering longer term contracts and engaging in a joint project or advocacy work to address the root causes of the salient issues.

Some multi-stakeholder initiatives also facilitate such engagement.



CHECKLIST

We promised this whole HREDD thing would not be a tick-box exercise, and it is not – but we love to-do lists... So, here's a checklist for you!

- ✓ You want to respect human rights
- ✓ You want to do business within planetary boundaries
- ✓ You are ready to put some effort in
- ✓ Let's go!



Learn the lingo

Animal welfare	Relates to the physical and mental state of an animal in relation to the conditions in which it lives and dies. The five freedoms of animal welfare are: 1. Freedom from hunger and thirst 2. Freedom from discomfort 3. Freedom from pain, injury, and disease 4. Freedom to express normal behaviour 5. Freedom from fear and distress.
CSDDD	Corporate Sustainability Due Diligence Directive is planned EU legislation. It establishes a duty for big companies to identify, prevent, end or mitigate negative impacts of their operations and whole value chains on people and the environment.
CSR	Corporate Social Responsibility is about acting ethically in relation to the surrounding society. It has no official framework or standard.
CSRD	Corporate Sustainability Reporting Directive is sometimes called mandatory ESG reporting. This new EU directive sets rules on the social and environmental information that big companies must report. The details are agreed in the European Sustainability Reporting Standards (ESRS)
Dependencies	To some degree, every company depends on and impacts natural resources, including land, raw materials, water and energy, and associated ecosystem and/or abiotic services, such as natural filtration of water, waste assimilation, and protection from floods and storm damage.
ESG	Environmental, Social and Governance is a generic term used in capital markets for assessing the sustainability of an investment in a company.
HRIA	Human Rights Impact Assessment is an in-depth process of assessing the human rights impacts, including environmental rights, of a business project or relationship.
Impact	Companies can affect the people and planet in both positive and negative ways. In this guide we focus on the prevention and mitigation of the negative impact.
Micro enterprises	Micro enterprises have fewer than 10 employees and small enterprises 10 to 49 employees.
Planetary boundaries	A concept that allows us to estimate the safe operating space for humanity with respect to the functioning of the Earth. The boundary levels for nine key Earth System processes, established by the scientific community, should not be transgressed, to keep the Earth habitable.
Rightsholders	People or groups whose human rights are or may be directly affected, sometimes referred to as 'affected stakeholders'.
Salient issues	Human rights or environmental issues that may be most severely impacted by company activities or business partners. There's a move to assess "salient" instead of 'material' issues because 'material' has often been understood to mean 'material to the company's financial performance'.
Stakeholders	People or groups who have interests that are or could be impacted by the company activities. Companies can also identify its non-human stakeholders.
Supply chain	The range of activities that provide products or services for your operations.
UNGPs	United Nations Guiding Principles on Business and Human Rights (2011) establish that all companies have a responsibility to respect human rights and conduct HREDD.
Value chains	Include supply chains as well as the range of activities that utilize products or services from your company.



Step 1 Commit

In this chapter we start guiding you through the due diligence process. The first step is to make a commitment to respect human rights and the planetary boundaries.

A written commitment helps your next due diligence steps: It clarifies your goal and gives a clear foundation for internal discussions. If you make the commitment public, it also shows your business partners and other stakeholders that you take sustainability seriously.

It does not have to be lengthy or complicated. Due diligence is a continuous process of learning, so this text just indicates your commitment to the process. There is no perfect timing for making it. You may want to have more training or more results to show, but it's rarely sensible to postpone.



YOUR COMMITMENT NEED NOT BE LENGTHY OR COMPLEX – BUT DO REFLECT WHETHER YOUR WAYS OF WORKING ALIGN WITH IT.

You find below a sample commitment that you can adapt to your company. Update your commitment after a couple of years as your due diligence work progresses!

Your commitment could look something like this:

COMMITMENT TO HUMAN RIGHTS AND PLANETARY BOUNDARIES

1. With this document, [name of the organisation] commits to respecting the planetary boundaries and the internationally recognised human rights, as expressed in: the International Bill of Human Rights; the ILO's Declaration on the Fundamental Principles and Rights at Work; the Paris Climate Agreement; the Kunming-Montreal Global Biodiversity Framework; and the United Nations Sustainable Development Goals. These include, among others:
 - [include a few examples of human rights and environmental issues that you expect to be relevant for your company]
2. We actively seek to avoid causing or contributing to negative human rights and environmental impacts, in line with the UN Guiding Principles on Business and Human Rights. If such impacts occur, we will seek to remediate them.

As a [Fairtrade certified / B Corp] organisation, we work to prevent, mitigate, cease and remediate several negative impacts. For example, we will work to maintain fair purchasing practices and favour long-term business relationships to enable living wages and living incomes in our value chains.
3. We will strengthen our due diligence process over time. We seek continuous development in identifying, addressing and remediating negative impacts on human rights and planetary boundaries, and tracking and communicating about our progress. This work is overseen by our [title of the assigned manager or director].
4. To advance our workers' and all people's rights, we call for concrete collaboration among value chain actors. We seek partnerships and collaboration with our suppliers, other business partners, trade unions and civil society experts, to strengthen our human rights and environmental work.
5. We will align our business model, policies and ways of working with this commitment. We look for business partners who also respect human rights and the environment.
6. We will raise awareness about human rights and planetary boundaries, and this commitment among our workers and seek to communicate this commitment to our business partners and other stakeholders.

This commitment has been approved by XX [for example, the Board] in [city and country] on [day, month, year].



What's important in a commitment such as this? It should cover all potential impacts on people and the planet. Situations change, so all impacts should be the subject of periodic review. You should commit to ongoing or at least regular risk assessment.

A small company with high risks should implement more thorough due diligence measures than a company with low risks. We'll go over the risk assessment in step 2.

Bring your commitment to life

Check that your business model, other policies and ways of working are in line with your human rights and environmental commitment:

- Raise awareness with your staff.
- Agree who will coordinate the next steps of due diligence work.

To avoid duplication, try to integrate due diligence in your existing plans and processes. For example, if you have already agreed ways for handling constructive feedback from customers or suppliers, you can strengthen them



CHECK THAT YOUR BUSINESS MODEL, OTHER POLICIES AND WAYS OF WORKING ARE IN LINE WITH YOUR HUMAN RIGHTS AND ENVIRONMENTAL COMMITMENT.

to align with the expectations for grievance mechanism, rather than start something separate.

When planning your next steps, a quick gap analysis can help to see which due diligence steps are new for you and which ones are not. Maybe you already assess some risks or track your environmental impact, for example, or have been improving your working conditions.



CHECKLIST

✓ **Commitment**

You commit to due diligence and collaboration with your business partners and other stakeholders in addressing human rights and environmental impacts.

✓ **Alignment**

- Check whether your **business model**, existing policies and ways of working are aligned with the new commitment. If not, make a plan!

✓ **It's complete**

Your commitment covers all internationally recognised human rights and environmental issues. And the entire value chain.

✓ **Expertise**

Your commitment was informed by relevant internal and/or external expertise and approved at the most senior level.

✓ **Share**

Consider making your commitment public.



Step 2

Identify

The second step in the due diligence process is to identify and assess potential and actual negative impacts. We focus on risks and harms to people and the environment – not risks to your company.

This helps you to focus your sustainability work on the risks and harms that are biggest in your value chains. It's important because all issues cannot be tackled at once.

The risks and challenges in your value chains are often not caused by you – the root causes often include poverty, unfair division of value in global supply chains, limited public services, discrimination, and environmental calamities. But you can only manage the risks and harms if you first identify them.

So, when you discover big, structural problems, don't panic. You are not expected to fix all these issues alone, but just to use and develop the leverage you have available.

There are two key tools for identifying and tracking human rights and environmental risks and harms:

1. Risk assessment
2. Grievance mechanism

You may feel some reluctance to identify risks and welcome complaints! When you know about a problem, you need to take action to reduce it, which can be costly and arduous.

But it's much easier to address problems before they grow and are discovered by auditors, buyers or journalists. The costs rise if the problem fuels severe environmental damage, violence, reputational damage, loss of commercial relationships or a legal case against your company.

Publicly available information and statistics show that problems such as deforestation, child labour, forced labour and gender-based violence are widespread. If a problem is common in your value chain, you are increasingly expected to acknowledge it and explain how you are managing that problem.



IT'S MUCH EASIER TO ADDRESS PROBLEMS BEFORE THEY GROW, HARM MORE PEOPLE OR THE ENVIRONMENT, AND ARE DISCOVERED BY AUDITORS, BUYERS OR JOURNALISTS.

Risk assessment

This assessment is a systematic process of identifying and analysing the biggest risks and harms to people and the environment that are linked to your operations.

Risk assessment can be done at many levels, such as an individual project, commodity or sourcing country. But before getting into the details, due diligence expects each company to take a step back and look at the big picture: Your first assessment of human rights and environmental risks should cover your whole organisation, all operations and all value chains. Remember that value chain refers to all activities upstream and downstream from your company.

The idea is to map all the potential and actual negative impacts – the risks and existing harms – on people and the planet. Then you work on preventing and mitigating the greatest risks and remedying the harms.

It's often not very effective to put a whole lot of effort into separating harms from risks. In many industries and sourcing areas, low wages, child labour, gender discrimination, deforestation and several other human rights and environmental harms are very common and rooted in broader issues, such as poverty or inequality. It's best to take the risks seriously, even if you have no evidence of actual violations among your specific business partners.

Nobody can do a perfect risk assessment the first time. Just complete the steps best you can, note down the lessons learned and try to strengthen your risk assessment every time you do it.

You should try to revisit your risk assessment regularly and whenever you face big changes. The COVID-19 pandemic and Ukraine war, for example, have brought major changes in several industries. Introducing a new product or service can be another good opportunity to do this.

The risk assessment process should start with a mapping of your operations and value chains. What kind of activities do you have? Marketing, procurement or human resources? What goods and services does your company buy or trade? How many direct suppliers do you have? Where do the goods and components come from? Understanding risks requires an overview of what your company and your value chain partners do and where.



TRY TO INVOLVE A VARIETY OF PEOPLE WHO HAVE UNDERSTANDING OF DIFFERENT SOCIAL AND ENVIRONMENTAL ISSUES.

There may be a lot of information to gather and organise, so start with areas where you know or expect social and environmental risks to be severe.

Try to involve a variety of people who have an understanding, an interest and experience of different social and environmental issues. It can be particularly important to seek external expertise or information about the risks in your global value chains if you are not very familiar with the operating conditions throughout these chains.

EXAMPLES OF HOW BUSINESS CAN IMPACT HUMAN RIGHTS AND THE ENVIRONMENT

The risk of discrimination is present in all companies with employees and needs close attention in human rights risk assessments. Many people face poorer working conditions, lower pay or even harassment due to social barriers and societal inequities. You can be part of correcting historical wrongs by looking at the diversity in your company and supply chains and looking for ways to avoid exclusion and discrimination.

A workers' standard of living is much influenced by their wage level. In countries where social security systems are weak, low wages keep whole households in poverty.

Child labour takes place in many industries such as the agricultural sector, textile, and mining industries. It is estimated that 160 million children around the world are engaged in work that threatens their health and safety or interrupts schooling.

Freshwater withdrawals for business purposes can strain local water resources and reduce the availability of clean water for people, animals and natural ecosystems.

Anti-trade union attitude among management and supervisors shows by them talking negatively to workers and others about unionization and may be combined with promises or threats. Creating and maintaining a negative workplace culture in reference to trade unions affects freedom of association.

Oppression can be fuelled by companies that produce surveillance equipment or services, if their products assist governments or other parties in (illegally) monitoring individuals.

Health impacts: a sweets manufacturer, even with the highest supply chain sustainability practices, should be mindful of its products' impacts on public health.

You can read more about the risks in commodities and countries where Fairtrade operates on the Fairtrade Risk Map.

Companies with limited time and expertise can rely on existing public resources that provide generic information instead of information specific to their value chains. Even without knowing exactly which factory or farm you have in your supply chain, you can use risk indices (for countries or commodities – see appendix) to get a generic view of the risks that likely exist. Reports from civil society or peer companies can also be useful.

The [Fairtrade Risk Map](#) is a good source of information about the common risks in your countries of operation and in many agricultural industries. Another resource is [B Lab's position statements on controversial issues and industries](#), which provide risk overviews and can be particularly useful for service companies with clients in controversial industries.

Your risk assessment can consist of three steps

<p>1. Map which human rights and environmental issues are commonly considered most serious in the value chain and countries where you operate</p>	<p>2. Zoom into your own operations and value chain to identify at least three salient issues and assess them further</p>	<p>3. Identify the most vulnerable groups of people and the environmental issues your company contributes to the most (or is most dependent on)</p>
<p>The information you can use include:</p> <ul style="list-style-type: none"> • External statistics and indices. • Risk maps and assessments from sustainability initiatives or industry peers. • Studies or articles by external experts, completed with or without your involvement. <p>Consider all internationally recognised human rights and environmental issues.</p>	<p>The information you can use include:</p> <ul style="list-style-type: none"> • Audit results. • Findings of any internal assessments you have previously made. • Observations from your supplier visits. • Interviews with your employees, business partners, civil society organisations, trade unions or other stakeholders and experts. • Environmental performance data. • External studies/research. 	<p>To complete, consider each key issue:</p> <p>How common is it in your case? Common refers to how many people are affected. For example, how many workers have no written contracts?</p> <p>How severely does it affect people or the environment? Seriousness refers to how deep, frequent or difficult to reverse the problem is. For example, children sometimes helping their parents on fields during school hours is less serious than children working with dangerous tools without supervision.</p>



COMPLAINTS ARE VALUABLE. THEY ALLOW YOU TO RESPOND TO CONCERNS AND INCIDENTS EARLY, BEFORE THE PROBLEM GROWS BIGGER.

Assessing your environmental impact starts with a baseline data collection. Common frameworks for an environmental risk assessment, which follows a similar logic to HREDD, include the [LEAP approach](#) by the

Taskforce on Nature-related Financial Disclosure (TNFD) and the [Guidance](#) by the Science-Based Targets for Nature (SBTN).

Here's one example of how environmental issues can be grouped:

1. Climate action and renewable energy
2. Water quality and quantity
3. Biodiversity and ecosystems
4. Pollution
5. Waste / circular economy
6. Animal Welfare

In Fairtrade's own risk assessment, which mainly covers agricultural supply chains, we group the internationally recognised human rights and environmental issues into these 13 areas:

1. Living income, living wage
2. Working conditions
3. Health
4. Freedom of association and collective bargaining
5. Forced labour
6. Child protection and child rights
7. Gender rights
8. Non-discrimination
9. Self-determination
10. Climate emissions and deforestation
11. Water and biodiversity
12. Freedom of speech, thought and public participation
13. Privacy

Typically, there are a multitude of potential and actual negative impacts on people and the environment. Give priority to issues where impact is severe in the sense that it is deep, difficult to correct and/or felt by a large group of people. In due diligence guides, these three criteria are usually discussed as the **scale, remediability and scope** of the impact.

Understanding severity

Dimensions	Definition	Examples	
		Potentially less severe	Potentially more severe
Scale	How grave or serious the impact would be	A 14-year-old helping out behind the counter in the family store	A 10-year-old child working in artisanal mining
Scope	How widespread the impact would be (i.e., how many people would be affected)	One or two individuals	A whole community
Remediability	How hard it would be to put right the resulting harm	A worker is fired on a discriminatory basis but can be promptly reinstated with appropriate compensation, apologies and guarantee of non-repetition	A worker contracts an incurable disease due to a lack of appropriate health and safety measures

Once you've finished this overall assessment of all your operations and value chains, you can deepen your understanding through commodity, sourcing area and/or project level risk assessment. The best-practice method is an in-depth **human rights impact assessment (HRIA)**, which can take up to a year.

Some sustainability initiatives, including Fairtrade, also offer risk assessment services that facilitate meaningful dialogue between the company and potentially affected people.

Grievance mechanisms

There is always room for improvement. If your company operates in a sector where risks to people and the environment are generally high, it's wise to accept that grievances will sometimes arise.

A grievance mechanism is a set process for receiving and responding to complaints from your stakeholders, which include your employees, suppliers, customers, community members around your facilities, and other individuals and groups.

It is important to see that complaints are valuable sources of information. They allow you to respond to concerns and incidents early, before the problem gets bigger.



IT CAN ACTUALLY BE MORE MEANINGFUL TO AIM FOR DIRECT DIALOGUE WITH THE RECOGNISED GROUPS IN VULNERABLE POSITIONS AND COOPERATE IN ADDRESSING THEIR KEY CONCERNS.

Grievances can be very diverse. For example, topics can include:

- gender discrimination or harassment among employees;
- discriminatory practices in advertising;
- problems in working conditions or wage/salary payments;
- unfair business practices, such as late changes in delivery schedules;
- noise or pollution causing problems for the local community.

The goal is not to have zero grievances. For example, in supply chain management, the old way of managing risks was to set strict supplier requirements and require suppliers to guarantee compliance. But this doesn't work with complex issues that individual companies can't eliminate. Zero tolerance just makes risks and root causes invisible, hinders dialogue and collaboration, and creates distrust between value chain actors. Grievances should be seen as part of the important dialogue with stakeholders.

In recent years, it has become increasingly common for corporate websites to contain a grievance form.

It can actually be more meaningful to aim for direct dialogue with the recognised groups in vulnerable positions and cooperate in addressing their key concerns. Groups that may be vulnerable include women, migrant workers and trade union representatives.

Anyway, no grievance mechanism is perfect from the beginning. It takes time for your stakeholders to hear about it and learn how to make complaints. It also takes time to build trust. You can start simple and improve the mechanism over time. The UN Guiding Principles on Business and Human Rights propose that top-grade grievance mechanisms meet these quality criteria:

- a. **Legitimate:** trusted by stakeholders
- b. **Accessible:** known and available to all stakeholder groups
- c. **Predictable:** transparent procedure, time frames and possible outcomes
- d. **Equitable:** supports aggrieved parties' access to information, advice and expertise
- e. **Transparent:** keeps parties informed, shares public information about its overall effectiveness
- f. **Rights-compatible:** outcomes accord with internationally recognized human rights
- g. **Source of learning:** findings used to prevent future grievances and improve the mechanism
- h. **Based on dialogue:** dialogue used to resolve grievances and improve the mechanism



CHECKLIST

- ✓ You include human rights and environmental issues in your risk assessment.
- ✓ Your assessment considers the **entire value chain** and all potentially **affected people**.
- ✓ **You prioritise the risks.**
- ✓ The risk assessment will be repeated.
- ✓ You are developing channels to hear and address grievances.



Step 3

Address and Remediate

So, you found risks in your risk assessment?
Congratulations, it was a successful assessment!

Now it's time to brainstorm how you can do your part in tackling those risks. **Step three in the due diligence process is taking action to prevent, cease, mitigate and remediate the risks and harms.**

Here are the terms:

- **Prevention** means taking action so that a potential issue doesn't become an actual issue.
- **Ceasing** is about stopping your contribution to the issue.
- **Mitigation** means reducing the frequency of a problem, e.g., the number of people suffering from it, or the scale of environmental harm.
- **Remediation** is about correcting a harm that a person or group has experienced.

This is the most challenging step of the due diligence cycle. It might mean changing your business practices or even your business model. But this is the step that gives your due diligence work integrity and sincerity.

In case the risk is in the value chain, small companies can find it challenging to muster the leverage, economic incentives and support for business partners to change their practices. One solution is to partner with other companies and organisations by participating in multi-stakeholder or civil society initiatives such as Fairtrade or the B Corp movement and use collective action to help transform the change needed.

It can be helpful to consult internal or external expert resources and where possible engage in dialogue with (potentially) impacted people.

What you need is a simple list of options answering the question: What can we do about it? See below for examples of approaches you can take.

Social dialogue

Social dialogue¹ can include all types of negotiation, consultation or simply the exchange of information between workers and employers on economic and social issues of common interest. Government representatives can also participate.

It can help you to identify risks and conflicts at an early stage and eliminate their root causes. This builds trust, improves relations and prevents expensive and lengthy disputes.

When done right, social dialogue through trade unions can be a large part of each due diligence step within a workplace. Collective representation in social dialogue is essential for workers in a disadvantage position to find the leverage to highlight their concerns and needs.

How do you promote social dialogue in your supply chains?



SOCIAL DIALOGUE THROUGH TRADE UNIONS CAN BE A LARGE PART OF EACH DUE DILIGENCE STEP.

During contract talks you could ask your suppliers these questions:

- Do you have regular discussions with worker representatives? How often do they happen?
- What topics have you recently discussed?
- Do the worker representatives belong to a union?
- Do you engage in collective bargaining as a company or with a group of companies? Can we have a copy of the collective bargaining agreement?
- Is it possible for us to speak with worker representatives, if we wanted to?

You can make it clear that for you as a customer, social dialogue, union representation and a collective bargaining agreement are important assurances that workplace issues are regularly identified and addressed. You can recommend that your supplier collaborates with local unions to organise regular workplace training on workers' rights.

¹ ILO Social Dialogue



What if something goes wrong?

Human rights and environmental risks are often deeply rooted in broader issues. In some sectors it is almost impossible to avoid human rights violations due to lack of transparency and systemic inequality. Many industries thrive on cheap labour, excessive work hours and overconsumption.

What is your responsibility to remediate harms? **If you learn of an actual negative human rights or environmental impact in your organisation, you don't only need to prevent it from happening again, but you also need to provide a remedy.** In a case where you have contributed to a negative impact outside your direct operations, you need to cooperate in remediation.

The aims of remediation are to

- end the negative impact,
- restore the person, people or environment to the situation that prevailed before the violation,
- enable compensation or other remediation that corresponds to the significance and scale of the impact,
- ensure that the affected person stays safe, and
- prevent further cases.



DISENGAGEMENT SHOULD ALWAYS BE A MEASURE OF LAST RESORT, ONLY CONSIDERED WHERE A BUSINESS PARTNER IS REFUSING TO REMEDIATE.

Remedy may include withdrawal of the person from the situation, restitution, rehabilitation, financial or non-financial compensation, apologies, punitive actions towards wrong-doers and projects to prevent future violations.

If the negative impact is outside your direct operation, for example in your supply chain, it's best to start a dialogue with your related business partner. Local stakeholders are typically in a better position to remediate the impact and it's most effective to support them.

Disengagement should always be a last resort, only considered when a business partner is refusing to remediate. And when you do disengage, make sure you honour your contractual agreements and consider further potential negative impacts. This is often called 'responsible exit'.



CHECKLIST

- ✓ You define your **goals and measures** to address and remediate your salient issues.
- ✓ You promote social dialogue.
- ✓ You seek support from multistakeholder initiatives or external sustainability expert.



How to address the risks and harms?

Here are ten important measures for your company to consider – from less to more demanding:



1. STUDY ROOT CAUSE

It's good to analyse the issue and possible solutions before plunging into action. That way you can direct your efforts at the root causes, not mere consequences, and get to join forces with multistakeholder initiatives, rightsholder groups, companies or other actors who are already addressing the issue.



2. STRENGTHEN POLICIES

Brainstorm possible improvements in your ways of working and partnerships, and capture them in policies or new procedures. You could, for example, develop a procedure for anonymous recruitment or a policy on sustainable purchasing practices, diversity and inclusion, or plastic waste. One useful policy is a mutual code of conduct where both you and your suppliers commit to responsible practices. Check the Tools for more information.



3. USE CERTIFICATIONS

Well, we may be a bit biased, but Fairtrade and B Lab believe in the positive impacts created through certification.

Fairtrade works to address and monitor these salient issues. As such, partnerships with Fairtrade bring strong support for companies in the implementation of each step of their due diligence responsibilities, from risk identification to tracking and communication. In particular, Fairtrade can support companies with the prevention and mitigation of harms and risks in

those global supply chains with which Fairtrade works. This step is the gist of due diligence – it's about changing practices, improving people's lives and protecting the environment.



FAIRTRADE

B Corp certification is for companies at all stages of the value chain. So in addition to seeking your own certification, you can look for business partnerships

with other B Corps, both upstream and downstream. And if seeking certification isn't the right move for you, that's fine – the standards behind B Corp certification remain open and available to you and your business partners to use as an impact measuring tool.

Certified



Corporation

For small companies sourcing based on certifications can be a bigger part of due diligence efforts than for a large company. However, certification should always be part of a broader approach.



4. JOIN A SUSTAINABILITY INITIATIVE

Complex issues can't be solved alone. There are many sustainability initiatives, roundtables and working groups that companies can join to contribute to different sustainability causes, from strategic to very specific issues. You can start with active engagement in your existing networks, for example the B Corp community and Fairtrade events for commercial partners.



5. SUPPORT YOUR SUPPLIERS

When the problems are in supply chains, it's essential to assess why your suppliers are not addressing it better. Is it because of a lack of interest, incentives, knowhow or resources? In many global supply chains, very little value accrues for the first actors in the chain, which stifles their ability to invest in more responsible business practices. Many smallholder farmer cooperatives, for example, would need higher prices for their crop and longer business relationships.

When it's resources or know-how that is lacking, stronger requirements in supplier contracts are ineffective. They can even aggravate the problems if they cut suppliers' incomes. So it is good to understand and work with your suppliers to tackle the issues together.



6. LAUNCH OR JOIN A PROJECT

Targeted and tailored projects may be needed to support rightsholders and tackle deeply embedded issues such as climate change, migrant workers' vulnerability, or child labour, to name just a few examples. Micro and small companies can consider supporting projects planned and coordinated by non-governmental organisations.



7. BUILD INTERNAL EXPERTISE

Train and upskill staff whose responsibilities are linked to the salient issues or hire qualified professionals who can develop your sustainability work from within. Support organisations in your value chain to do the same.



8. AUDIT AND TAKE CORRECTIVE MEASURES

Auditing can be a useful tool that supports continuous improvement, if the audit criteria is aligned with due diligence expectations; the findings are significantly influenced by rightsholder perspectives; the audit is followed up with meaningful corrective actions; and you analyse audit results afterwards to develop your ways of working and supplier dialogue.

At the same time, auditing is not sufficient to tackle persistent issues like climate change or child labour. See audits as one of the many tools you need and keep focus on continuous improvement not just compliance. Alternative monitoring mechanisms include worker representation, including unions, worker voice technology (technology-enabled worker surveys), grievance mechanisms and dialogue with civil society.



9. RETHINKING YOUR BUSINESS MODEL

Due diligence thinking knows no 'blacklist' of industries – but some ways of doing business may be pretty difficult to align with the due diligence approach. This is the case, for example, if your business depends on extremely cheap labour or constantly revolving short-term business relationships. Or if it causes health hazards, fuels violence, oppression or overconsumption, or uses an excessive amount of natural resources. You may need to rethink your ways of doing business, product or service design, materials, type of clients or some other part of your business model.



10. ADVOCACY

Small businesses and the self-employed provide most jobs worldwide, so you have a lot of power and can provide vital contributions for change! Raise your voices for people and planet and tell the politicians, decision-makers and your business partners what kind of business relations, regulation and support you want.



Step 4 Track

Now you know how to be diligent! We want to be effective, of course, so the **fourth step of the process is tracking**. Tracking helps you to understand whether your due diligence activities are actually working.

Tracking will help you to

- Identify and continue best practices.
- Learn from mistakes.
- Achieve continuous improvement.

Ideally, you track both your own activities and the biggest changes in your salient issues, asking whether the issues are becoming more or less common and serious.

To assess your progress, it's important that when you plan your activities, you also decide what success looks like. What exactly do you want to achieve within a year or three years, by joining a new sustainability initiative, funding a risk mitigation project or reducing your number of suppliers? These decisions often shape the outcomes – you get what you measure!

Furthermore, if you need to respond to acute environmental or human rights issues, in addition to your planned activities, note those activities down so that you remember to communicate about them to your stakeholders.

If you have a grievance mechanism, track the number and type of grievances received, solved and still open for each year. It is a good sign when you are receiving grievances! It means that people are aware and trust your grievance mechanism. If you receive high numbers of particular type of grievance, check if your related policies, practices or resourcing should be updated.



YOU CAN BUILD TRUST THROUGH DIALOGUE, COLLABORATION, AND LONG-TERM BUSINESS RELATIONSHIPS.

Some indicators might be easier to check than others. Measuring work time and salaries, for example, is easier than calculating whether discrimination has decreased or increased. Where indicators are more subjective, seek inputs directly from affected stakeholders, for example through interviews or surveys. To understand the environmental footprint of your company, we recommend using publicly available and credible tools and methods.

As you build your dialogue and trust with your business partners, you will be able to gather more information. Trust is key. Your business partners may worry that you will disengage if they communicate about their risks, even where these risks are systemic and the same for all companies. You can build trust through dialogue, collaboration, and long-term business relationships.



CHECKLIST

- ✓ Choose indicators.
- ✓ Develop and implement a routine of collecting data.
- ✓ Analyse the data – and improve your activities accordingly!



Step 5 Communicate

Communication is the fifth and last step. This does not mean that you should have completed all the previous steps before you start communicating. On the contrary, we encourage you to communicate and disclose information proactively – don't wait for your sustainability work to be perfect!

Transparency and continuous improvement are key elements of due diligence. Communication about human rights and environmental issues raises awareness among all stakeholders, laying the foundation for further advances in responsible business.

Practically speaking, you can share information about your due diligence work in any format that suits your brand – blogs, website articles and formal sustainability reports are a few ideas. We recommend that you start simple.

Stricter legislation, especially in the EU, and increased scrutiny by civil society actors and legal experts mean that companies face a real danger of legal action for misleading marketing or perceived 'greenwashing'. Transparent and accurate communication about your sustainability work – along with the challenges you face – increases your credibility and decreases reputational risks.

You may see increasing reporting requests from your large business partners. We recommend that you simply share you progress in implementing the steps outlined in this guide.



YOU CAN SHARE DUE DILIGENCE INFORMATION IN ANY FORMAT THAT SUITS YOUR BRAND.

Communication tips

1. Transparency brings credibility

- Communicate about each step of your due diligence work. Which salient issues have you identified? How did you do your risk assessment? What have you recently done to mitigate the salient issues? Was it effective and what do you plan to do next? What type of grievances have you handled?

2. Communicate about your challenges

- As investors, customers and governments are increasingly aware of sustainability problems in global supply chains, recognising and communicating about these issues builds your credibility.
- One obvious piece to share is a summary of your risk assessment findings. Explain the issues and what your company is doing to address them.

3. Sustainability is a journey

- There are no quick fixes. Most human rights and environmental issues in supply chains are rooted in poverty, inequality and systemic issues that no single company, sustainability scheme or organisation can change alone.

4. Avoid overselling

- Be specific. Vague and general statements such as 'conscious', 'eco-friendly' or 'sustainable' can convey the unsubstantiated impression that your product or service has zero negative impact.
- Provide some evidence to support the claims you make.

5. Be respectful and inclusive

- Are you treating your stakeholders or rightsholders with equity? Be mindful of describing your work and the people who you work with in a way that does not undermine their own agency or capability. Talk (and think) more in terms of partnership than aid.²



CHECKLIST

- ✓ Find a form and frequency for communicating about your work on people and planet.
- ✓ Ensure accessibility of key information to stakeholders.
- ✓ Strive for transparency.

²Check Fairtrade's guide *Five steps to better sustainability communications*

Tools

	Section	Tool (plus link)	How to use the tool
SOC/ ENV	Steps 1–5	<ul style="list-style-type: none"> • Practical guide for the implementation of human rights due diligence • Due Diligence Compass • Guidelines on Respecting Human Rights in Responsible Supply Chains • Doing business with respect for human rights • Due Diligence for SMEs 	Tools to help develop and implement due diligence.
SOC	Step 1: Commit	How to Develop a Human Rights Policy (UN Global Compact)	Use this as guidance to develop a human rights policy.
SOC	Step 2: Identifying risks	<ul style="list-style-type: none"> • Responsible Sourcing Tool • MVO Risk checker • Fairtrade Risk Map • Labor Rights Index • ITUC Global Rights Index • Global Slavery Index 	Use these as part of desk research to identify potential risks related to your commodities or countries of operation.
SOC	Step 2: Identifying risks	• Database of company reporting (UNGP Reporting Framework)	Use this database to look at how large companies are disclosing their salient human rights issues and reporting on human rights more broadly.
SOC	Step 2: Identifying risks	B Lab's position statements on controversial issues and industries	Use this to see what B Lab considers to be controversial issues and industries.
ENV	Step 2: Identifying risks	WWF Water risk Filter	Helps identify water risk in the company's value chain or operations.
ENV	Step 2: Identifying risks	WWF Biodiversity filter	Helps identify biodiversity risk in the company's value chain or operations.
ENV	Step 2: Identifying risks Step 3: Taking measures	SME Climate Hub	Public resources, carbon calculator training for SMEs on climate action.
ENV	Step 2: Identifying risks Step 3: Taking measures	Cool Farm Tool	Carbon calculator for agriculture with indication of measures to reduce emissions.

ENV	Step 2: Identifying risks	CSR Risk Check	Use this to start identifying potential social, environmental and business ethics risks related to your operations.
ENV	Step 2: Identifying risks Step 3: Taking measures	Circulytics (Ellen MacArthur Foundation) Circular Transition Indicators v3.0 – Metrics for business, by business (WBCSD)	Circular indicators to measure how circular a business is.
SOC	Step 3: Taking measures	<ul style="list-style-type: none"> • The Buyer Code • Social Accountability International: Mutual code of Conduct • Responsible Contracting Project • Questions to address freedom of association and social dialogue in the agrifood sector 	Use these guides for your contractual supplier relations, to create a more equitable relationship.
ENV	Step 3: Taking measures	Climate Transition Action Plans – We Mean Business Coalition	Guide for a climate transition plan considering also climate justice.
ENV	Step 3: Taking measures	Climate Justice Playbook for Business – B Lab	Practical examples of integrating climate justice.
ENV	Step 3: Taking measures	Practical guide on biodiversity for SMEs in the agri-food sector (2022)	Examples on managing biodiversity risks and integrating biodiversity into business strategies.
ENV	Step 3: Taking measures	International Standards on Animal Welfare – Terrestrial Animals and Farmed Fish (WOAH)	Standards on animal welfare that companies can follow.
ENV	Step 3: Taking measures	Food Waste and Loss Protocol (WRI)	Guidance on the hierarchy of action for food waste.
ENV	Step 3: Taking measures	Waste hierarchy – European Commission	Guidance on the hierarchy of action for waste.
SOC	Step 4: Track	Indicator Design Tool (Shift)	Use this to come up with social metrics.
SOC	Step 5: Communicate	Five steps to better sustainability communications	Use this to communicate your Fairtrade commitment credibly and transparently.
SOC	Step 5: Communicate	Inclusive Language Guide (Oxfam) Ethical Content Guidelines (Oxfam)	Use these to ensure any internal or external communications content, including use of specific terminology, is inclusive.

START OR STRENGTHEN HUMAN RIGHTS AND ENVIRONMENTAL DUE DILIGENCE (HREDD) IN SMALL AND MICRO COMPANY

Essentially, due diligence is a process where an organisation reduces human rights and environmental problems linked to all its operations and value chains. All actors are nowadays encouraged and expected to perform due diligence.

It's not a one-off exercise. Once you've taken the steps for the first time, it's time to start all over again. But next time will already be easier!

