



Corporate sustainability due diligence

Fostering sustainability in corporate governance and management systems.



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Freeman Westend61

On 23 February 2022, the Commission adopted a proposal for a Directive on corporate sustainability due diligence. The aim of this Directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance. The new rules will ensure that businesses address adverse impacts of their actions, including in their value chains inside and outside Europe.

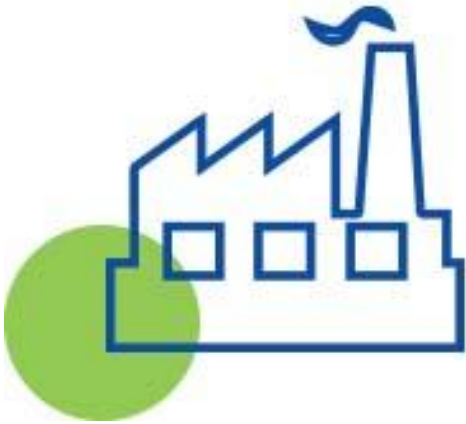
What are the benefits of these new rules?

For citizens



- Better protection of human rights, including labour rights.
- Healthier environment for present and future generations.
- Increased trust in businesses.
- More transparency enabling informed choices.
- Better access to justice for victims.

For companies



- Harmonised legal framework in the EU, creating legal certainty and level playing field.
- Greater customer trust and employees' commitment.
- Better awareness of companies' negative environmental and human rights impacts.
- Better risk management and adaptability.
- Increased attractiveness for talent, sustainability-oriented investors and public procurers.
- Higher attention to innovation.
- Better access to finance.

For developing countries



- Better protection of human rights and the environment.
- Increased stakeholder awareness on key sustainability issues.
- Sustainable investment.
- Improved sustainability-related practices.
- Increased take-up of international standards.
- Improved living conditions for people.

What are the obligations for companies and their directors?



This Directive establishes a **corporate due diligence duty**. The core elements of this duty are identifying, bringing to an end, preventing, mitigating and accounting for negative human rights and environmental impacts in the company's own operations, their subsidiaries and their value chains. In addition, certain large companies need to have a plan to ensure that their business strategy is compatible with limiting global warming to 1.5 °C in line with the Paris Agreement. Directors are incentivised to contribute to sustainability and climate change mitigation goals.

The Directive also introduces **duties for the directors** of the EU companies covered. These duties include setting up and overseeing the implementation of the due diligence processes and integrating due diligence into the corporate strategy. In addition, when fulfilling their duty to act in the best interest of the company, directors must take into account the human rights, climate change and environmental consequences of their decisions.

Which companies will the new EU rules apply to?

Companies

Large EU limited liability companies:

- **Group 1: +/- 9,400 companies** - 500+ employees and net EUR 150 million+ turnover worldwide.
- **Group 2: +/- 3,400 companies in high-impact sectors.** - 250+ employees and net EUR 40+ million turnover worldwide, and operating in defined high impact sectors, e.g. textiles, agriculture, extraction of minerals. For this group, the rules start to apply two years later than for group 1.



Non-EU companies: +/- 2,600 companies in Group 1 and +/- 1,400 in Group 2

Third country companies active in the EU with turnover threshold aligned with Group 1 and 2, generated in the EU.

SMEs

Micro companies and SMEs are not concerned by the proposed rules. However, the proposal provides supporting measures for SMEs, which could be indirectly affected.

What are the estimated costs of the new rules for companies?

Businesses will have to bear:

- The costs of establishing and operating the due diligence procedures.
- Transition costs, including the expenditure and investments to change a company's own operations and value chains to comply with the due diligence obligation, if needed.

How will the new rules be enforced?

The rules on **corporate sustainability due diligence** will be enforced through:

- **Administrative supervision:** Member States will designate an authority to supervise and impose effective, proportionate and dissuasive sanctions, including fines and compliance orders. At European level, the Commission will set up a European Network of Supervisory Authorities that will bring together representatives of the national bodies to ensure a coordinated approach.
- **Civil liability:** Member States will ensure that victims get compensation for damages resulting from the failure to comply with the obligations of the new proposals.

The rules of **directors' duties** are enforced through existing Member States' laws. The directive does not include an additional enforcement regime in case directors do not comply with their obligations under this directive.

Why does the EU need to foster sustainable corporate behaviour and responsible corporate

governance?



A broad range of stakeholder groups, including civil society representatives, EU citizens, businesses as well as business associations, have been calling for mandatory due diligence rules. 70% of the businesses who responded to the public consultation sent a clear message: **EU action on corporate sustainability due diligence is needed.**

Businesses play a key role in creating a sustainable and fair economy and society. A third of companies recognise the need to act and take measures to address adverse effects of their actions on human rights or the environment, but progress is slow and uneven. The increasing complexity and global nature of supply chains makes it challenging for companies to get reliable information on suppliers' operations. The fragmentation of national rules on corporate, sustainability-related due diligence obligations further slows down the take-up of good practices. Stand-alone measures by some Member States are not enough to help companies exploit their full potential and act sustainably.

What are the next steps?

The proposal will go to the European Parliament and the Council for approval. Once adopted, Member States will have two years to transpose the Directive into national law and communicate the relevant texts to the Commission

Documents

Proposal for a decision | 23 February 2022 |

Directorate-General for Justice and Consumers

Proposal for a Directive on corporate sustainability due diligence and annex ([/publications/proposal-directive-corporate-](/publications/proposal-directive-corporate-sustainability-due-diligence-and-annex_en)

[sustainability-due-diligence-and-annex_en](/publications/proposal-directive-corporate-sustainability-due-diligence-and-annex_en)).

Proposal for a Directive on corporate sustainability due diligence and annex

23 FEBRUARY 2022

Press release - Just and sustainable economy: Companies to respect human rights and environment in global value chains

English

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Questions and Answers - Just and sustainable economy: Companies to respect human rights and environment in global value chains

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Factsheet - Just and sustainable economy: Companies to respect human rights and environment in global value chains

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Register of Commission Documents

English

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Related links

Sustainable corporate governance

consultation (<https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance/public-consultation>).

Study on directors' duties and sustainable corporate governance (<https://op.europa.eu/en/publication-detail/-/publication/e47928a2-d20b-11ea-adf7-01aa75ed71a1/language-en>).

Study on due diligence requirements through the supply chain (<https://op.europa.eu/en/publication-detail/-/publication/8ba0a8fd-4c83-11ea-b8b7-01aa75ed71a1/language-en>).

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Corporate sustainability due diligence: Council gives its final approval

The Council has today formally adopted the corporate sustainability due diligence directive. This is the last step in the decision-making procedure.

The directive adopted today introduces obligations for large companies regarding adverse impacts of their activities on human rights and environmental protection. It also lays down the liabilities linked to these obligations. The rules concern not only the companies' operations, but also the activities of their subsidiaries, and those of their business partners along the companies' chain of activities.

Large companies must take their responsibilities in the transition towards a greener economy and more social justice. The Corporate Sustainability Due Diligence directive will give us the possibility to sanction those actors that violate their obligations. It is a concrete and significant step towards a better place to live for everyone.

Pierre-Yves Dermagne, Belgian Deputy Prime Minister and Minister of the Economy and Employment

Scope, activities, and civil liability

The directive will affect companies of more than 1 000 employees with a turnover of more than €450 million, and their activities ranging from the upstream production of goods or the provision of services, to the downstream distribution, transport, or storage of products. Companies affected by the legislation adopted today will have to take and implement a risk-based system to monitor, prevent or remedy human rights or environmental damages identified by the directive.

The directive requires companies to ensure that human rights and environmental obligations are respected along their chain of activities. If a violation of these obligations is identified, companies will have to take the appropriate measures to prevent, mitigate, bring to an end or minimise the adverse impacts arising for their own operations, those of their subsidiaries and those of their business partners in their chain of activities. Companies can be held liable for the damage caused and will have to provide full compensation.

Companies affected by the directive will also have to adopt and put into effect a climate transition plan in line with the Paris agreement on climate change.

Next steps

Following the Council's approval today of the European Parliament's position, the legislative act has been adopted.

After being signed by the President of the European Parliament and the President of the Council, the directive will be published in the Official Journal of the European Union and will enter into force on the twentieth day following its publication.

Member states will have two years to implement the regulations and administrative procedures to comply with this legal text.

The directive will apply depending on the size of the companies following this timeline:

- 3 years from the entry into force of the directive for companies with more than 5 000 employees and €1 500 million turnover
- 4 years from the entry into force for companies with more than 3 000 employees and €900 million turnover
- 5 years from the entry into force of the directive for companies with more than 1 000 employees and €450 million turnover

Background

On 23 February 2022, the Commission submitted to the European Parliament and to the Council a proposal for a directive on corporate sustainability due diligence. The Council adopted its general approach on 1 December 2022. Council and Parliament reached a provisional agreement on 14 December 2023.

- [Council negotiating mandate](#)
- [Commission's original proposal](#)
- [Corporate sustainability \(background information\)](#)

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Improvement of Labour, Social and Environmental Standards in Pakistan's Textile Industry (TextILES II)

The modernisation of Pakistan's textile and fashion industry in line with the sustainability requirements of the EU Green Deal has been initiated by private and public actors.

The Challenge

Pakistan is one of the fifteen largest textile exporters in the world. The EU is an important export market for Pakistan's textile and fashion industry, with a share of around 35%. The sector accounts for 60% of total exports and 8.5% of gross domestic product. At the same time, the textile and fashion value chain provide jobs for 15 million people. Due to its economic and social significance, the sector receives a significant political attention. The Textiles and Apparel Policy 2020–25 defines the sustainable modernisation as a priority for further export growth. The Labour and Human Resource Department (LHRD) and the Environmental Protection Department (EPD) Punjab are focusing on the textile and fashion industry implementing their strategies. The Punjab Prevention Strategy and the Punjab Green Development Programme align with the objectives of the Agenda 2030.

Despite recent improvements, working conditions in the Pakistani textile and fashion industry remain precarious, marked by a lack of attention to human rights, social and environmental standards. The country is lagging behind in the implementation of labour standards, including freedom of association, collective bargaining, and occupational health and safety, with additional challenges like low wages, discrimination against women, and inadequate protection from sexual harassment and violence in the textile and fashion industry. In the environmental sector, the emission of greenhouse gases, air pollution, and the uncontrolled disposal of hazardous waste pose risks to ecosystems and the population. The consequences are declining international competitiveness, weak growth forecasts, and stagnating employment figures.

Project name	Improvement of Labour, Social and Environmental Standards in Pakistan Textile Industry (TextILES II)
Commissioned by	German Federal Ministry for Economic Cooperation and Development (BMZ)
Project region	Pakistan
Lead executing agency	Ministry of Commerce, Government of Pakistan
Duration	01.01.2024 – 31.12.2026

Our Approach

The project supports the development and implementation of legal and political framework for aligning the textile and fashion industry with the EU's sustainability requirements. It employs public-private dialogue and exchange formats to enhance collaboration among actors in shaping and implementing policies. Likewise, experts' advice state and private actors on how to increase their organisational performance.

State inspection authorities aim to efficiently operationalise specific components of government strategies. Local service companies receive assistance in developing strategies to enhance the positioning of their consultancy services in sustainability management within the market. Additionally, textile and fashion producers are provided with process consultation to establish innovation management systems. The technical skills of public decision-makers, specialists from local service companies, and managers from textile and fashion producers are



Pg. 1, Left: GIZ fosters collaborative dialogue among diverse stakeholders, paving the way for sustainable textile practices in Pakistan.

Right: Various service providers are empowered through technical and organizational consulting to develop and implement new services within the textile and fashion industry.



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Pg. 2, Left: Occupational health and safety initiatives have played a key role in promoting a culture of safety within textile factories

Right: Launch of Punjab Prevention Strategy on Safety, Health and Wellbeing

reinforced. The technical skills of public decision-makers, specialists from local service companies, and specialists and managers from textile and fashion producers are strengthened.

Foster cooperation between public and private actors for a sustainable textile and fashion industry

The project aims to create exchange and dialogue formats to strengthen cooperation between public and private actors, fostering the development of regulatory instruments to modernise the Pakistani textile and fashion industry. The stakeholders receive support to develop implementation plans, to strengthen regulatory frameworks and to development concrete policy recommendations that improve gender equality. Complementary competence development aims to empower responsible authorities, encourage investment in a socially, ecologically, and economically sustainable way to modernise the textile and fashion industry. These measures primarily address topics aligned with the EU Green Deal, its associated strategy documents like the Supply Chain Sustainability Act (SCSA), and gender equality issues. Additionally, relevant state actors at federal and provincial levels receive technical advice on implementing policy instruments.

Promotion of local service providers

The project strives to enhance the market competitiveness of local service providers in the textile and fashion industry by promoting sustainable production. The focus here is particularly on strengthening methodological expertise in advising on change management processes. The dialogue for sustainability (DfS) change management method will be utilised to initiate change processes at company level. DfS uses a participatory process to establish cross-hierarchical change management teams. The project also supports local service companies in developing business development and marketing strategies for

their sustainability management consulting services. In addition to the dissemination effects (scaling up), the focus is on the sustainable anchoring of the DfS method in the local business ecosystem.

Empowering textile producers practicing circular economy

An important factor to sustainable production practices is the involvement of the management. Knowledge transfer to textile and fashion producers is key to circular economy solutions. The goal here is to empower management and foster innovation processes of selected textile and fashion producers that ultimately lead to sustainable production, technologies, and product designs. On instrument is the method of Design Thinking, a process to develop new ideas, local innovation competitions, and the promotion of applied research. Based on analyses of current production processes of product designs, the identified processes and technologies of product innovations are then checked for their technical and financial feasibility and presented to management. If the management decides to implement a measure, the project supports with the operation with specific technical advice. Lastly, the partner companies will be supported to market their sustainable products on the European market, proving that the return of investments made in circular production or products is worthwhile.

Gender and Diversity

The project aims to promote gender equality in the workplace, ensure that women are given higher consideration in training and further education, and reduce the income gap between men and women. The project addresses these issues through constructive dialogue measures and the involvement of all relevant stakeholders

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Division 2800 Pakistan, Afghanistan

Responsible Business Helpdesks

Building a network of support and common understanding of Human Rights and Environmental Due Diligence in partner countries of global supply chains

The Responsible Business Helpdesks are a gateway for local businesses that want to step up their sustainability performance and comply with provisions deriving from Corporate Sustainability Due Diligence legislation. The helpdesks inform, sensitize, and advise companies about procedures and requirements and connect them with relevant service providers.

Background

There is growing momentum in many European countries to introduce mandatory human rights and environmental due diligence (HREDD). These laws oblige companies to analyse risks in their supply chains and take appropriate action to prevent and potentially remediate negative effects of their operations on people or the environment. After France and Germany, the European Union is putting forward a landmark legislative directive on mandatory HREDD.

While the direct legal effect of mandatory HREDD is limited to the companies within the respective jurisdiction, global supply chains go beyond borders and legal space. An effective implementation of HREDD therefore depends on the cooperation and contribution of all supply chain partners and their stakeholders. For this to be a success, a good and joint understanding of what Due Diligence means is equally important as access to advisory, tools and support for the implementation of HREDD in practice.

With international companies adapting their strategies to the Due Diligence approach, awareness and capacities among producers and stakeholders in the supply chains need to be strengthened. Furthermore, for collaboration to happen, organisations need to be connected.

Approach

The *Initiative for Global Solidarity (IGS)*, implemented on behalf of the German Ministry for Economic Cooperation and Development (BMZ), supports selected local organisations to establish Responsible Business Helpdesks (RBH) in producer countries of global supply chains. The objective of the helpdesks is to serve as a gateway for local organizations

working on HREDD and strengthen the capacities of producers, associations, or service providers to perform corporate due diligence.

The helpdesks are physically present that are hosted by business organizations, for example, the Vietnam Chamber of Commerce and Industry (VCCI), EuroCham in Cambodia or the Bangladesh Garment Manufacturers and Exporters Association (BGMEA). These organizations have a strong network of local businesses and enjoy their trust. They understand the local regulatory framework and are familiar with providing services to their members.

Main function

Similar to the [German Helpdesk for Business and Human Rights](#), the staff of the RBH provide first line support to companies and foster awareness on the Due Diligence approach, existing and planned legislation and consequential obligations. They also link companies to relevant service providers and act as a platform to foster dialogue and cooperation among supply chain partners, including international buyers.

The RBH service portfolio is integrated into the host organization's business strategy to ensure its long-term sustainability. Thereby it contributes to strengthening the host organization as a leading voice in facilitating public-private dialogue and providing information, services and advice on responsible business practice.



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Visit our [Website](#) for more information

Services offered by the RBH

The service portfolio of RBH varies depending on local needs and circumstances in the respective country. The service range falls under the following categories:

- 1. Advice for companies and business associations on HREDD.** Based on existing frameworks such as the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidelines, companies and other stakeholders are advised about the core elements and logic of the HREDD approach and its implications as well as present and planned regulatory references.
- 2. Referral to training and consultancy of HREDD service providers.** Based on the specific questions and needs of businesses, the RBH links companies with relevant service providers. Depending on the respective organizational set-up and business strategy of the host organization, selected services and trainings are offered by the RBH itself.
- 3. Raising awareness and fostering dialogue between stakeholders,** through (online) seminars, events, or consultations. This includes engaging with business to identify needs and risks and to formulate and voice positions. In addition, the RBH foster dialogue among local producers, buyers, social partners, government and multi-stakeholder initiatives to promote shared responsibility with regards to HREDD.
- 4. Provision of information on HREDD** through learning materials, FAQs, briefs and updates on HREDD, relevant policies, regulation and tools.

Building a replicable model

IGS provides technical support to the organizational development and capacity building of the RBH hosts, for example by bringing in international experts.

In addition, each RBH is part of the *Responsible Business Helpdesk Network*, which seeks to build a common understanding of HREDD across countries and harmonize action. Information and training materials are shared and developed jointly by the host organizations. Furthermore, common learning and knowledge transfer is facilitated.

The RBH Network collaborates closely with the *German Helpdesk on Business and Human Rights* to build on its experience and broaden the network of the German Helpdesk to qualified organizations in producing countries. Further it liaises with other chambers and associations for joint advisory.

Exchanging not only material, but also strategies and learnings, a replicable model of the RBH is created that draws from experience along the entire supply chain and can be scaled to other partner countries.

Expansion of the network

So far, the RBH are set up in Bangladesh, Vietnam, Cambodia, and Serbia. Further countries are planned, as BMZ is committed to broadening the RBH network.

In light of the paradigm shift resulting from existing and planned regulation on HREDD, IGS invites further partners to join hands and stands ready to support additional local business organization to build their capacities to become frontrunners in preparing local industry to get ready for the new dynamics in Responsible Business Conduct.

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Directorate 120 – Sustainable transformation
of global supply chains,
Reinhard Junker, Berlin

Registration Form

Awareness session on Due diligence & EU CSDDD

Held on 3rd June 2024 at Lahore &
7th June 2024 at Karachi

Name of SME	
Exports to EU (Yes/NO)	
Location/city of SME	
Name of nominee / participant 1	
Designation	
Contact No.	
Email ID.	

Name of nominee / participant 2	
Designation	
Contact No.	
Email ID.	