Sedex

Recognising forced labour risks in global supply chains

Sedex findings from 100,000 social audits





Recognising forced labour risks in global supply chains

Forced labour is the most prevalent form of modern slavery. It can occur anywhere in the world and in any part of a supply chain.

Although forced labour is illegal in most countries, it remains a widespread practice and regularly occurs in sectors of the legal global economy such as food production, construction and apparel manufacturing.

Forced labour is a critical issue for companies aiming to manage risk, safeguard their business, and protect workers throughout their supply chain. However, confirmed cases of forced labour are notoriously difficult to detect and conclusively evidence in global supply chains.







Source: International Labour Organizationⁱ



Foreword

Forced labour is a global problem, hidden in farms, factories, mines and construction sites around the world. No sector is immune from exploitation and no business can afford to be complacent.

Over the last two years, the COVID-19 pandemic has magnified many of the weaknesses of international supply chains. It has highlighted how commercial decisions can impact vulnerable workers thousands of miles away, putting already fragile communities at risk.

For years, businesses have been relying on social audits to fulfil their corporate social responsibility (CSR) requirements. Audits can help unearth the indicators of forced labour as defined by the International Labour Organization (ILO). Tracking these indicators is important for building a nuanced picture of risks in the workplace.

However, audits alone are not sufficient for addressing forced labour risk or finding modern slavery. They should be part of a wider portfolio of engagement, including worker voice tools, to deepen understanding of the complex commercial ecosystems in which businesses operate.

As the British Academy's reports on the Future of the Corporation* point out, businesses have a responsibility to protect not only their shareholders, but other stakeholders, including suppliers, outsourced workers, communities, and the environment. It is therefore important that commercial world embraces a new mindset: that of looking for problems, rather than deriving a false sense of security from the systems and processes that have continually failed the most vulnerable.

*Future of the Corporation | The British Academy

Admitting that all businesses are at risk is an important development as this sector matures. The next steps should be the identification and remediation of victims. Ultimately all stakeholders - businesses, government, investors, NGOs and society - should work collaboratively to prevent forced labour from entering supply chains in the first place.

These are not easy steps for any organisation, but those businesses that show leadership will be rewarded by more resilient business models and competitive advantage as scrutiny from investors, consumers, legislators and NGOs intensifies in this space.

Dame Sara Thornton DBE QPM

UK Independent Anti-Slavery Commissione October 2021



The role of social audits to understand forced labour risks

Social audits play a significant role in many companies' efforts to identify and address forced labour risks in their operations and supply chains.

Drawing on data from the Sedex platform from over 100,000 social audits, this report investigates and highlights the indicators of forced labour those audits are detecting, and their prevalence in global supply chains.

Our analysis shows that social audits identify many signs of forced labour. It is vital that organisations recognise that their presence means there may be an increased likelihood of forced labour occurring. We recommend that organisations review indicators identified in audits to understand the level of risk for workers, and the appropriate next steps to take.

Our report data:





The role of social audits

A social audit is an assessment of a work site, the conditions that workers operate in, and the employment terms they are under. An auditor physically attends a work site – anywhere from a farm or factory to an office – to assess the conditions on the ground.

A social audit is one of the best ways to understand working conditions at work sites all over the world. They allow organisations to gather an initial understanding of the social, ethical and environmental risks and issues in their supply chains.

Given the limited amount of time allocated for audits - typically one to two days - further investigation is usually required to confirm and evidence criminal activity such as forced labour. However, our analysis finds that audits do regularly pick up the indicators of forced labour.

Audits highlight these indicators as areas of concern. Sedex recommends organisations review these indicators and decide whether further investigation or action is needed.

Go to Sedex's recommended actions.

Organisations can use this data to target their resources and take action to reduce forced labour risks within their supply chains.

What is an "indicator" of forced labour?

"Indicators" of forced labour are sub-standard working conditions or employment practices that signal a potential risk of forced labour.

The International Labour Organization (ILO) has identified 11 indicators that they recognise as connected with forced labour.

Learn more about using indicators to identify forced labour risks.



Key findings

Our analysis finds that:

- Multiple indicators of forced labour are found in 36% of audits* on the Sedex platform. Sedex recommends that organisations review and, where necessary, address these indicators to reduce the risk of workers entering or becoming trapped in forced labour.
- More indicators are found in countries predicted to have greater risks of labour rights violations. This supports the view that taking a risk-based approach to human rights due diligence, in line with the United Nation Guiding Principles on Business and Human Rights (UNGPs), can help companies allocate their resources to tackle forced labour more effectively.
- More indicators are found on average in the lower tiers of the supply chain, where visibility and influence of the buying companies remains more limited. To identify forced labour risks, it's important that organisations understand working conditions beyond the first tier of their supply chains.
- is the most common forced labour indicator found in audits. Sedex recommends that organisations recognise this practice as increasing the risk of forced labour, even when it is common in a country or industry.

In their efforts to manage forced labour risks, organisations can assess the prevalence of forced labour indicators in their supply chains and recognise that the presence of these indicators signals an increased risk for workers. Companies should be prepared to investigate these indicators further, and take action if necessary.

'Two or more indicators found in 38,611 out of 107,634 audits uploaded to the Sedex platform from 2017-2021.



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About Sedex

Sedex is a leading responsible sourcing membership organisation that provides companies with technology, services and insights to implement practices that build a responsible business and supply chain.

Our solutions provide organisations with the practical tools and guidance needed to operate ethically, manage risk, and work with suppliers to ensure fair working conditions for the people who make their products and deliver their services. With Sedex, companies can map, assess, analyse and report on their supply chains to better manage and improve their ethical performance, and work with other businesses to drive responsible business practices throughout global supply chains.

Sedex is headquartered in the UK, with offices in Australia, Chile, China, India, and Japan. Our 60,000 members include some of the world's biggest brands, such as Nestlé, Walmart, Barclays, The John Lewis Partnership, The Body Shop, Dyson, and all the major UK supermarkets.





What is forced labour?

The International Labour Organization (ILO) defines forced labour as:

"All work or service which is exacted from any person under the menace of any penalty for which said person has not offered himself/ herself voluntarily."ⁱⁱⁱ

Simply put, forced labour is work that a worker hasn't agreed to and cannot leave with reasonable notice or without facing negative consequences.

Examples of forced labour include:

- Debt bondage resulting from a worker paying excessive recruitment fees, where they can't leave a job until their debt is considered paid
- When workers are forced to work overtime under the threat of a penalty such as losing their job.

Why should businesses address forced labour risks and issues?

No business is immune from the risk that forced labour may exist within their supply chain.

The ILO estimates that the majority of forced labour victims, some 16 million people, are exploited during private sector employment^{iv}. Sedex's risk assessment data indicates that this occurs in every global region, and in every business sector. The COVID-19 pandemic has further increased the risks of forced labour for vulnerable workers in global supply chains^v.

Forced labour can bring severe reputational, operational, and financial risks. Businesses also have a duty to the workers who help to produce their products and services. The prevalence and severity of forced labour, combined with the desire to protect both workers and a business itself, make it a priority issue for many organisations.

Recognising forced labour risks in global supply chains



Ensuring legal compliance

Forced labour is a serious crime in many countries including Australia, the UK, and the USA.

Protecting business reputation

Preventing forced labour in their operations and supply chain protects a business from reputational damage with investors, consumers, and government.

Protecting business operations

Managing forced labour risks helps protect a company from penalties such as fines, restrictions on operating or trading, and even prison sentences.

Protecting workers and supporting global development goals

Forced labour is against international labour and human rights laws. Businesses have a responsibility to uphold these rights and provide decent work with safer, humane conditions for workers. In doing this, they support the 8th Sustainable Development Goal: Decent work and economic growth.



Challenges to identifying forced labour in supply chains

Forced labour occurs on a scale of severity, and may be the result of a combination of factors

One severe situation, or several instances of less severe circumstances in combination, can both constitute forced labour. This is why organisations need to consider different elements of working conditions and worker demographics (such as gender or migrant status), and how these can intersect, when looking to identify forced labour risks.

Complex global supply chains and a lack of visibility

Long and complex global supply chains make it harder for businesses to have visibility of the people, places and operations that make up their supply networks. Among Sedex members, each buying company is linked to an average of 62 suppliers, who all have multiple work sites that could be anywhere in the world.

Instances of forced labour, and sometimes particular practices associated with higher risks of this issue, are driven underground or may occur several tiers down the supply chain.

There is no straightforward solution

No one tool or activity on its own can necessarily identify forced labour situations. Sedex recommends that organisations use a combination of activities – including effective policies, processes, and tools – to identify and address forced labour risks, and protect workers.

Go to Sedex's recommendations.

Forced labour can be difficult to detect

Only a small fraction of forced labour victims are identified each year. As supply chains are complex and multi-tiered, the data available from one assessment may not always tell the full story.

Reasons for this include:

- Workers might be afraid to talk openly with auditors or employers
- Abuses are often hidden, characterised by deception
- There may be no paper trail or objective evidence to support suspicions of forced labour
- Auditors may not be able to raise sensitive issues without jeopardising workers' or their own safety.

A multi-faceted approach to detecting forced labour, using a suite of tools, is therefore recommended.



Using indicators of forced labour to identify increased risk

Forced labour is difficult to identify – but the signs are there, if you have the right tools and knowledge to highlight them.

To help organisations identify risks or actual instances of forced labour, the International Labour Organization (ILO) has identified 11 indicators to help recognise a person trapped in this form of exploitation.

The presence of these indicators may reflect an increased likelihood of forced labour, and helps to build evidence to support any claims about forced labour.

Just because an indicator is present, or a worker experiences poor conditions, this does not necessarily mean forced labour definitely exists at a site. Some indicators - such as debt bondage - are stronger evidence of forced labour than others (see next page). But every indicator is an alert sign that requires careful review to decide whether further investigation or action to protect workers is needed.

Even if forced labour is not occurring, each of these indicators is an opportunity for organisations to improve conditions for workers by addressing it.

Indicators of forced labour



Source: International Labour Organizationvii



Forced labour indicators in 100,000+ social audits

Our analysis looks at over 100,000 social audit reports shared on the Sedex platform in the past five years (since 2017). The majority of these are SMETA audits – Sedex's proprietary social audit format. SMETA includes several areas for assessment that relate to the ILO's indicators of forced labour. You can learn more about these assessment areas in the SMETA Measurement Criteria.

The Sedex platform categorises data from these reports to support forced labour risk identification and analysis.

Methodology:

- On the Sedex platform, auditors record their findings from audits using a predefined list of issue (non-compliance) titles*.
- Sedex categorises relevant issues by ILO forced labour indicator, with an additional Sedex category of "Management systems failures"**.

 These issues are also assigned a strength of "possible", "strong" or "definite" to help organisations decide what to do next.

Possible

If found alongside other possible indicators, the situation needs further investigation to understand the level of forced labour risk.

Strong

There is an increased likelihood of forced labour, but further investigation is needed to confirm whether there is a situation of forced labour. For example, are there other indicators present?

Definite

Employment is not freely chosen – **take action** to address the issue.



^{&#}x27;Issues deemed too sensitive to share via an audit report are not captured on the Sedex platform, and are therefore not able to be included in our data analysis.

^{**}Sedex recognises a 12th indicator of "Management systems failures" in addition to the ILO's list of 11. Management systems are critical to ensuring a business complies with laws relevant to forced labour and the ILO indicators, including laws on modern slavery, working hours and employment terms. A failure in management systems can indicate an increased risk of forced labour.



Examples:

Issue title (SMETA non-compliance)	Strength	ILO indicator	Recommended next steps
Workers cannot leave employment until they have worked to pay off debts owed to the employer	Definite	Debt bondage	Engage the employer to cancel workers' debts and remove debt-based employment.
Systemic instances of employees working without payment	Definite	Withholding of wages	Engage the employer to return lost wages to workers. Review the employer's payment processes to ensure workers are paid properly.
Some workers (e.g. foreign/migrant workers) have to pay their own costs to return to country of origin if they do not complete contract terms	Strong	Debt bondage	Talk to the employer to understand worker repatriation options. Review the audit report to check for other indicators of forced labour.
All workers are paid less than the legal minimum wage	Strong	Withholding of wages	Talk to the employer and workers to understand why wages are below the legal minimum. Work with the employer to develop a plan to increase wages. Review the audit report to check for other indicators of forced labour.
Isolated instances of workers paid less than the legal minimum wage	Possible	Withholding of wages	Review the audit report to check for other indicators of forced labour. Monitor progress of activities proposed in the audit Corrective Action Plan (CAP). Be prepared to engage the employer further if additional indicators are found, or if they don't make enough progress to correct issues.
Unsanitary and unhygienic conditions in sleeping areas/dormitories	Possible	Abusive living & working conditions	Review audit report to check for other indicators of forced labour. Monitor progress of activities proposed in the audit Corrective Action Plan (CAP). Be prepared to engage the employer further if additional indicators are found, or if they don't make enough progress to correct issues.

Work sites with multiple "possible" forced labour indicators present require reviewing just as much as sites with single instances of "definite" indicators. The combination of several "possible" indicators together increases the risk of forced labour for workers. However, different situations require different responses depending on the "strength" of the issues found.

Read more about our methodology, and the key considerations if you suspect forced labour is occurring, in our Guidance on Operational Practice and Indicators of Forced Labour. You can also contact our Consulting team for more support with addressing forced labour risks.



Indicators of forced labour are commonly found in supply chains globally.

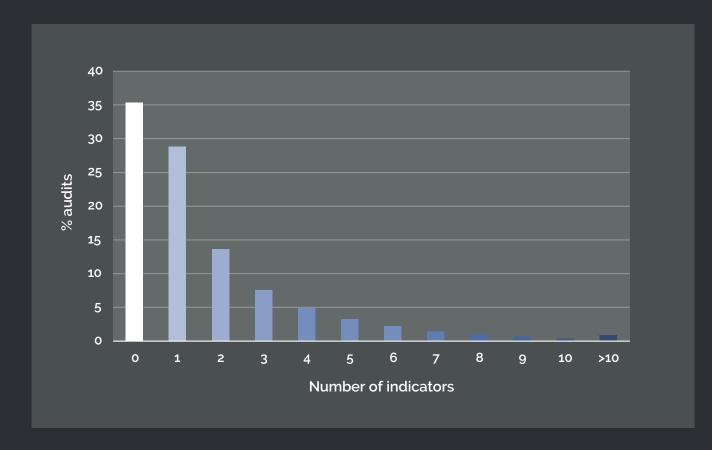
Our analysis found that 36% of audits identify multiple indicators of forced labour, and 64% of audits find at least one indicator.

Every indicator is a sub-standard working condition or employment practice that requires reviewing, representing an opportunity to improve conditions for workers.

Look at the "strength" of issues found (see p.14) to assess whether further investigation, or action such as targeted improvements, is needed to reduce the risk of forced labour occurring.

Where multiple indicators are found, organisations should pay particular attention and investigate the situation at a work site. Generally speaking, the higher the number of indicators found at an audit, the more important it is to investigate the situation.

Average number of indicators per audit

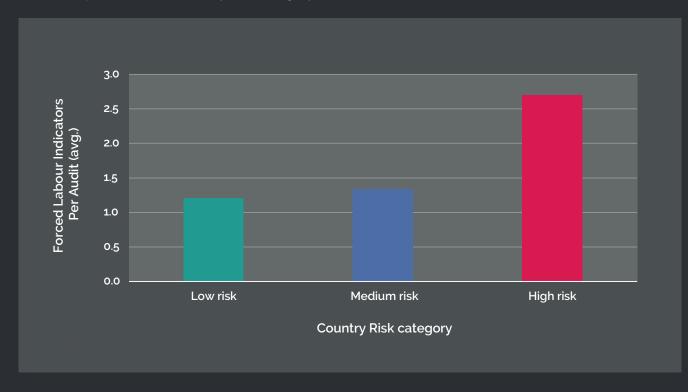




More indicators are found in countries predicted to have greater risks of labour rights violations.

On average, more forced labour indicators are identified in audits of work sites in countries defined as "high risk" in Sedex's risk assessment tool*. This is in comparison to audits of work sites in countries considered "medium" or "low" risk* in the tool.

Indicators per audit and country risk category



This shows that audit findings correlate with risk assessment data, supporting and reinforcing the insights from both. This finding also supports taking a risk-based approach to human rights due diligence, in line with the United Nation Guiding Principles on Business and Human Rights (UNGPs), Where resources are limited, we recommend companies focus their due diligence activities on countries considered to have a higher risk of forced labour.

This approach helps companies prioritise where to focus their resources to tackle forced labour.

Based on the Combined Overall Risk category score assigned to countries by Radar, Sedex's risk assessment tool



The countries with the most forced labour indicators found in audits.

Through analysing SMETA audits, we can highlight the countries with the greatest prevalence of forced labour indicators.

We recommend that companies pay particular attention to the findings from audit reports in these countries.

These tables show countries with the **greatest numbers of forced labour indicators found per audit**, on average. This data is based only on countries with at least 25 work sites that have audits uploaded to the Sedex platform.

Countries ranked by number of forced labour indicators per audit

• Possible indicators:	Country ranking
Ecuador	1
South Africa	2
Cote D'Ivoire	3
Costa Rica	4
Chile	5
United Kingdom	6
Colombia	7
Nicaragua	8
Nigeria	9
Netherlands	10

Strong indicators: Country ranking		
Thailand	1	
Malaysia	2	
Costa Rica	3	
Cote D'Ivoire	4	
Philippines	5	
Nigeria	6	
South Africa	7	
Indonesia	8	
Singapore	9	
Zimbabwe	10	

Definite indicators:	Country ranking
Malaysia	1
United Arab Emirates	2
Mauritius	3
Singapore	4
Myanmar	5
Peru	6
Philippines	7
Taiwan	8
Tunisia	9
Nicaragua	10

All indicators: Country ranking			
South Africa	1		
Cote D'Ivoire	2		
Thailand	3		
Costa Rica	4		
Ecuador	5		
Nigeria	6		
Chile	7		
United Kingdom	8		
Singapore	9		
Nicaragua	10		



More indicators are found on average in the lower tiers of the supply chain.

In our analysis, the highest number of indicators per audit is found in crop and animal production supplier sites*. These suppliers typically exist in the lower tiers (the beginning) of a supply chain.

The proportion of raw material and agricultural supplier sites on the Sedex platform is growing, however businesses typically have less visibility of these lower tiers of their supply chains.

To better identify forced labour risks, it's important that companies have visibility of working conditions beyond the first tier of their supply chain.

Top 15 supplier industries and numbers of forced labour indicators per audit*

Economic division	Indicators per audit (avg.)
Crop and animal production, hunting and related service activities	2.2
Manufacture of electrical equipment	2.0
Manufacture of furniture	2.0
Manufacture of chemicals and chemical products	1.8
Manufacture of machinery and equipment	1.8
Manufacture of rubber and plastics products	1.8
Manufacture of food products	1.7
Manufacture of fabricated metal products, except machinery and equipment	1.7
Other manufacturing	1.6
Manufacture of other non-metallic mineral products	1.5
Manufacture of paper and paper products	1.5
Printing and reproduction of recorded media	1.5
Manufacture of leather and related products	1.5
Manufacture of textiles	1.3
Manufacture of wearing apparel	1.3

^{2.2} Indicators per audit compared to the average across all economic divisions of 1.7 per audit. Analysis covers the 15 most common economic divisions (ISIC Rev.4) on the Sedex platform, with an average of 1,815 sites per division.



Frequent use of excessive overtime is the most common forced labour indicator found in audits.

Our analysis shows that frequent use of excessive overtime, including overtime that exceeds legal limits, is the most common forced labour indicator found in audits.

While the use of overtime itself is not problematic, excessive and illegal overtime increases the risk of forced labour if it is accompanied by other forms of coercion and workers do not feel that overtime is voluntary.

Organisations need to recognise excessive overtime as a practice that can increase the risk of forced labour – even when it is common in a country or industry. To reduce the risks, buying companies should engage with their suppliers to understand and address the root causes of excessive overtime hours together.

Most common forced labour indicator issue findings*

Issue finding (SMETA non-compliance)	ILO indicator	Count
Overtime is not used responsibly i.e. extent, frequency and level of hours worked by individual workers and/or whole workforce are excessive	Excessive overtime	14,316
Inadequate training/communication of workers on ethical code/customer code as employees are not aware of the social and ethical standards the company upholds	Management systems	13,293
Systemic/regular overtime hours which exceed the local law daily/weekly/monthly over an extended period of time	Excessive overtime	10,621
No/inadequate management awareness of the social and ethical standards required/ETI base code	Management systems	9,482
Inadequate contracts in place (e.g. missing crucial elements e.g. remuneration/hours, working place, legislation applied, terms of employment or other ILO minimum requirements)	Deception	5,892
Total hours exceed 60 hours on a regular basis for a minority of the workforce	Excessive overtime	4.135
Total hours exceed 60 hours per week on a regular basis for a majority of the workforce	Excessive overtime	3,462

Based on an analysis of 179,096 audit findings from 69,630 audits with forced labour indicator issue findings in 145 countries shared on the Sedex platform (2017 – 2021).

Conclusion

Our analysis shows that social audits identify many signs of forced labour. It is vital that organisations recognise the significance of these and that their presence means there may be an increased likelihood of forced labour occurring.

Sedex recommends that businesses always consider that their own operations or supply chains may contain forced labour.

Forced labour is complex. Workers can drift in and out of forced labour situations over time, they may not feel comfortable sharing the reality of their situation with auditors, and may not realise that their experience constitutes forced labour. All of these factors contribute to forced labour being under-identified in global supply chains.

However, we know that the sub-standard working and living conditions highlighted in the ILO's indicators are more commonly detected – and that these increase the likelihood of forced labour for workers.

Reviewing audit reports through this lens, or using automated methods such as Sedex's Forced Labour Indicators Tool, can help companies identify the overlap between substandard working conditions and forced labour indicators.





Organisations need to understand the forced labour risks in their supply chains so that they can prioritise and allocate their resources effectively.

Any company's resources to detect forced labour are finite. Focusing efforts on high-risk countries, sectors and commodities will be more effective than a "one-size-fits-all" approach. Conducting risk assessments helps organisations to prioritise where they focus.

Sedex recommends that organisations identify the indicators that occur most regularly in their supply chain, and take steps to understand the drivers of these issues.

If an issue such as excessive overtime is a common occurrence within a supply chain, taking action to address this can help to reduce the risk of forced labour.

This requires working with suppliers to understand why an issue occurs – such as what is driving the use of excessive overtime. Buying businesses may need to review their own sourcing practices and operational decisions, to ensure all teams support efforts to resolve an issue.



Practical recommendations for organisations

Strategic actions

- responsible sourcing due diligence programme, ensuring that a senior member of staff is accountable for meeting targets agreed by the Board and that progress towards these targets is an agenda item at every Board meeting.
- Participate in industry or multistakeholder initiatives that help to develop you and your teams' skills for recognising and addressing forced labour in supply chains.
- Map your supply chain, including the lower tiers, to identify the most vulnerable workers and places of greatest risk to target detection, prevention and remediation efforts.

 Conduct risk assessments to understand the level of forced labour risks present in different countries and sectors within your supply chain. Review whether your current reporting processes include measuring the effectiveness of the actions your business is undertaking, rather than simply listing the measures being taken. Develop contractual requirements for suppliers that prohibit forced labour.



On-the-ground actions

- Finsure that assessments such as social audits gather feedback directly from workers about their experiences and working conditions. This feedback should include testimonies from the most vulnerable workers, such as migrants, women, informal workers and any groups that face cultural or legal discrimination within the country.
- Collaborate with suppliers to understand and address the root causes of issues that are indicators of forced labour, such as excessive overtime hours.
- Set up effective channels for workers anywhere in your supply chain to report complaints and concerns ("grievance mechanisms"), with procedures for investigating and resolving anything received through these channels, alongside protection for whistle-blowers.

- Engage workers directly, through
 worker organisations and by using
 worker voice tools to gather anonymous
 feedback, to identify forced labour
 risks and evaluate the effectiveness of
 preventative measures.
- Take steps to prevent recruitment fees and associated costs being charged to migrant workers by implementing robust and ethical recruitment systems. Screen and select labour providers from both sending and destination countries, looking for compliance with legal and social responsibilities. Monitor and manage the performance of these providers.
- Ensure workers are reimbursed in a timely manner if you find that they have paid illegal or excessive recruitment fees or associated costs. Make sure that the repayments reach and remain with workers.

 Invest in reputable local organisations and institutions that provide support for victims of forced labour and engage public policy actors in support of laws, regulations and enforcement that effectively protect workers.





Identifying forced labour in your supply chain with Sedex

Sedex offers a number of tools and services to support organisations in identifying forced labour risks in their operations and supply chains.

- Sedex Consulting our consulting services can help organisations create their responsible sourcing programmes, comply with legislation, or target specific areas of concern
- Work site Self-Assessment
 Questionnaire (SAQ) gather crucial information about workers, operations and working conditions to inform risk assessment and decision-making
- Risk assessment assess inherent risks in countries and sectors, then apply site-specific information to develop individual risk scores for work sites across your supply chain

- SMETA social audit understand working conditions and practices on-the-ground. Findings from SMETA audits feed into the Radar risk tool and our Forced Labour Indicators Tool
- Worker voice gather feedback anonymously and directly from workers in your supply chain to understand their experiences
- Data storing, sharing, analysis and reporting – our platform holds data from all the above activities and tools in one place, enabling analysis and reporting. Draw insights and make informed business decisions

Our work to increase the detection of forced labour

Sedex is currently working with a range of stakeholders and piloting new solutions to better detect forced labour in supply chains, and support businesses in addressing this critical issue.

If you have questions about this, please email us at communications@sedex.com.



For any questions about this report, please contact Sedex at

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