

Modern Slavery in Global Supply Chains:

The state of evidence for key government and private approaches.

Executive Summary

The globalisation of supply chains, facilitated by technological developments and spurred by firm's attempts to maximise profits through lower labour costs, shorter lead times and weaker labour protections in developing countries, has contributed to a deterioration of labour standards and work practices. The inherent difficulties involved in monitoring extremely fragmented production processes also render workers – mostly in and from developing countries - vulnerable to exploitation. The COVID-19 pandemic has exacerbated concerns for vulnerable supply chain workers, exposing the enormous risks to human and labour rights in a highly interconnected global economy.

Governments, firms, civil society organisations, academics, investors, shareholders, workers and trade unions have become increasingly aware of the risks of serious human rights abuses occurring within global supply chains, and have proposed or implemented a wide array of approaches aimed at tackling this issue.

However, we know relatively little about the effectiveness of these various "solutions". Despite a large body of work examining modern slavery in supply chains, many of the policies and strategies aimed at fighting modern slavery in supply chains are quite novel and still at a "developmental stage". Therefore, the available evidence is scarce and scattered, with most studies focusing on specific approaches and providing at best anecdotal evidence on their impact.

This report reviews the breadth of approaches to combatting modern slavery in supply chains with the goal of understanding their key characteristics and assumptions,

assessing their effectiveness, identifying the most promising tools and strategies, and discussing further considerations aimed at enhancing collective efforts to tackle this phenomenon.

Methodology

We conducted an extensive review of the literature on existing approaches to combat modern slavery in supply chains, in order to synthesise the main findings and summarise the available evidence on their effectiveness. Our assessment of effectiveness was made according to whether these approaches improved the identification, remediation and reduction in prevalence of modern slavery in supply chains; in practice, these different dimensions are typically bundled together in extant empirical studies. Our online desk-based review examined more than 150 journal articles, books, reports and policy-briefs, and was complemented with more than 15 interviews with practitioners, NGOs and coalitions focused on this area.

Based on this assessment of extant research, we identified three broad approaches: i) government-led strategies, comprising (disclosure and human rights due diligence) legislative interventions, the use of public procurement schemes and public funding bodies, and import bans on goods suspected of being produced with forced labour; and ii) corporate and investor-led schemes (e.g., corporate social responsibility initiatives, responsible purchasing practices, ESG investing, direct investor engagement); and iii) worker-centred initiatives such as worker voice technologies, worker-driven social responsibility initiatives and ethical recruitment practices.

Key Findings

Government-led approaches

- **Our review reveals that while disclosure legislation has contributed to increased transparency and greater corporate and public awareness of modern slavery in supply chains, its effectiveness - in terms of changing the behaviour of firms or suppliers and actually bolstering labour conditions - has been quite limited.**
 - The key assumption underlying this legislative framework - that consumers, investors, shareholders and civil society as a whole will use information disclosed by companies to hold them accountable – finds little support in the data.
 - This, coupled with the absence of a clear role for the state in the monitoring and enforcement of reporting requirements, contributes to the limited impact of this type of legislative initiative.
- **By contrast, available evidence suggests that mandatory human rights due diligence (mHRDD) legislation holds greater promise of catalysing comprehensive and effective change in corporate practices.**
 - The data shows that the costs of adopting due diligence procedures in businesses' daily operations are quite small on average, and the benefits – e.g. reducing worker turnover, increasing the sustainability and minimizing the disruption of supply chains - are potentially high, especially if government-led strategies succeed at creating a level playing field in which firms that engage in exploitative labour practices face civil liability.
 - It is important to recognise, however, that the most advanced mHRDD laws have only been recently adopted, and that there are large variations both in the scope, enforcement and legal consequences of the HRDD laws in place in different countries.
 - Moreover, this type of legislative framework is not immune to some of the implementation and legal compliance challenges faced by disclosure legislation.
 - If due diligence legislation is to have the desired effect, it must be accompanied by mechanisms for the engagement of stakeholders and backed by a strong oversight and enforcement framework.
- **Our review found evidence that import bans may help change corporate behaviour and improve working conditions in supply chains over the short run - particularly in industries that rely on just- in-time supply, for whom the loss of market access as a result of the bans has immediate and far reaching economic consequences. There is however considerable uncertainty about the broad, long-term impact of import bans.**
 - Particular attention must be devoted to the design and implementation of these instruments in view of their potentially devastating effects on workers and communities tied to companies losing market access due to the bans.
 - In order to enhance their effectiveness, import bans

should not only seek to stop goods on entry, but also emphasise the remediation of victims and take a more transparent and coordinated approach to maximise effectiveness and reduce costs and resources associated with implementation.

- Transparency and consistent application of the conditions that trigger an import ban, and the criteria that must be met in order for goods to be released would enhance the efficacy of this approach.
- More research is needed to better assess the efficacy of import bans as a policy tool.
- **As for the other stated-led initiatives, public procurement remains largely under-utilised as an instrument to promote corporate human rights awareness and prevent abuse, and thus its effectiveness is still difficult to gauge.**
 - In many cases, failure to use public procurement procedures to combat modern slavery takes place despite governments already having the necessary legal tools at their disposal.
 - Similarly, while public finance institutions like sovereign wealth investors, public pension funds, export credit agencies and development agencies could potentially leverage their position to actively support the enforcement of anti-slavery and anti-trafficking norms, efforts in this direction remain rather limited.

Private mechanisms

- **Our research reveals that modern slavery presents distinct characteristics that set it apart from other aspects of supply chain ethics.**
 - As a result, monitoring and identifying forced labour requires a level of alertness and engagement that is at odds with the bureaucratised administration of conventional assurance and certification schemes.
 - Standard CSR tools like social audits and ethical certification are found, by themselves, to be incapable of tackling modern slavery in supply chains.
- **Responsible purchasing practices, as a voluntary mechanism, are also likely to be ineffective in improving working conditions in supply chains.**
 - The adoption of such practices depends entirely on lead firms' commitment to improving working conditions or reputational concerns.
 - Additionally, the short-term costs that lead firms would face in order to adopt such practices are bound to be rather high, while the benefits are uncertain and long-term at best.
 - The extent to which responsible purchasing practices are likely to be effectively adopted is thus likely to vary across buyers and industries.
 - Nonetheless, recent legislative initiatives - e.g., the EU's Unfair Trading Practices Directive 2019 and the UK's Agriculture Act 2020 - show that governments are increasingly attempting to encourage the adoption of responsible purchasing practices - or at least to ban unfair practices - in supply chains.

- While these legislative efforts have so far focused on “high-risk” supply chains (e.g., in the agri-food sector), they can be valuable tools to promote the adoption of responsible purchasing practices and contribute to their generalisation in other economic sectors.
- **The evidence on investor-led initiatives is less conclusive. On the one hand, socially responsible investment strategies do not seem to bring about significant, measurable improvements in firms’ conduct.**
- This is partly due to the methodological flaws underlying ESG ratings institutional investors rely on: these indices aggregate performance indicators along a wide array of dimensions and their scores vary markedly across different rating agencies, so that their value as an instrument to measure modern slavery risks is limited.
- However, as the market for ESG investments evolves and consolidates, it is reasonable to expect that these methodological shortcomings can be overcome, and that ESG scores are eventually going to be capable of conveying useful information to guide socially responsible investors’ decisions. This in turn should encourage firms to adopt measures to prevent and/or address business-related human rights risks, as these measures will be accurately reflected in their share prices and affect their ability to access funding.
- **Anecdotal evidence, however, indicates that investor engagement initiatives may have contributed to raise awareness about the social impact of business activities and helped firms incorporate social concerns - including those related to labour conditions - in corporate decision-making.**
- Nonetheless, the success of these initiatives is highly contingent on firm-specific characteristics - including their motivation to address these risks - and are thus not necessarily generalisable.

Worker-centred approaches

- **Worker Voice approaches offer in principle a cost-effective and scalable way for lead firms to reach workers, and a mechanism for anonymously raising concerns and disclosing sensitive information.**
- While these approaches are relatively novel and thus still evolving, in order for them to succeed careful attention must be given to: how questions are framed; inclusion of the most vulnerable workers; the integrity, privacy and security of data collected; ownership and compensation for the data; and access to remediation.
- Unless worker voice approaches are designed to address the inherent power imbalances that prevail in supply chains, they may face many of the problems that undermine the effectiveness of CSR approaches.
- **By involving workers in the creation, monitoring and enforcement of human rights standards, Worker-driven Social Responsibility (WSR) initiatives show more promise**

as a tool to fight modern slavery in supply chains.

- Such initiatives can be especially successful when their design includes legally binding and enforceable contracts, financial incentives for compliance with labour standards, well specified complaints mechanisms, and regular audits run by independent and well trained monitoring bodies.
- However, the particular features of WSR initiatives vary across contexts, and questions remain about their replicability, transferability and generalisability.
- Extant research suggests that WSR initiatives can be a useful tool when used in combination with HRDD processes embedded in a state-mandated enforcement framework, rather than as a stand-alone approach.
- **Anecdotal evidence indicates that recruitment initiatives aimed at addressing unethical labour recruitment practices in supply chains can positively affect labour standards.**
- However, in a context in which most states have failed to limit or eliminate some of the most pernicious recruitment practices (above all, the charging of recruitment fees that throw workers into debt bondage and restrict their ability to challenge or leave exploitative jobs), such initiatives depend on the good will – or the reputational concerns – of businesses and recruitment agencies.
- As already mentioned in the discussion of transparency legislation, this reliance on businesses’ good will and/or reputational concerns mechanism does not seem to be particularly effective, particularly in terms of having a long-term effect on corporate practices.

Further considerations and policy recommendations

- Our review recognises that there is no silver bullet when responding to the inherent human rights challenges associated with our dynamic globalised economy. Instead, an approach that calls on governments, businesses, workers, consumers and investors to play their part in a mutually reinforcing way is needed.
- Our analysis suggests that the most effective strategy to combat modern slavery in supply chains would require governments to take a leading role in this fight - creating a level playing field for businesses genuinely attempting to do the right thing; setting clear standards for businesses, workers and investors that seek to address the root causes of this exploitation; but also - and equally important - enforcing those standards.
- Based on our reading of the literature and the evidence, the most promising government-led approach to achieve these goals would involve a combination of:
 - an - internationally harmonised- legislative framework imposing mandatory due diligence on firms (and investment portfolios) - accompanied by the imposition of legal liability on companies and company directors who

fail to prevent these abuses, as well as the engagement of workers and trade unions in designing and monitoring reporting and redress mechanisms;

- II. the application of such a legislative framework to public procurement and finance; and
 - III. transparent and coordinated imposition of import bans targeting specific companies and prioritising the remediation of victims rather than simply preventing goods from entering particular markets. As noted above, though, more research is needed to enhance the efficacy of import bans as a policy tool - paying attention to potential unintended consequences and their longer term impact.
- These government policies should be accompanied by industry - and sector-specific guidelines – jointly developed by government agencies, firms, industry experts and sector-specific government organisations - aimed at allowing businesses to clearly understand:
 - what modern slavery typically “looks like” in their particular area of activity, so they can better identify, prevent and/or address human rights risk in their particular operational context and
 - how government-led approaches should be practically implemented in such a context.
 - From investors’ perspective, the development of international reporting standards - providing consistency and clarity about company performance - is critical to effectively identifying, addressing and preventing modern slavery in global supply chains.
 - Such standards should be based on a set of high-quality, enforceable and globally accepted accounting and sustainability disclosure criteria which would inform a harmonised rating system.
 - An important step in this direction has in fact already been taken by the IFRS Foundation, which in November 2021 announced the formation of a new International Sustainability Standards Board (ISSB) aimed at developing a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs.
 - The development of the ISSB is expected to help bring internationally comparable reporting standards on sustainability matters to the financial markets, and should in due time inform ESG ratings.
 - ESG ratings would be further strengthened by the disaggregation of E, S and G ratings, so that transparency and value are given to each important but inherently

distinct sustainability criteria, and the establishment of global or internationally harmonised guidelines and terminology regulating ESG ratings.

- More research is also needed to address knowledge gaps about the effectiveness of alternative government, corporate, investor and worker-centred strategies and to identify complementarities between these approaches.
- Some of these gaps are likely to be filled thanks to ongoing evaluation studies on promising corporate-led and worker-centred studies. In particular, a series of rigorous evaluation studies on worker-voice technologies are expected to lead to relevant inferences that will allow researchers, practitioners and policy-makers better understand:
 - The conditions and context in which worker-voice technologies are more likely to work.
 - As well as test the limits of these approaches in terms of their ability to help identify, prevent, reduce and redress labour exploitation in global supply chains.
- Beyond these ongoing studies, possible avenues for future work include:
 - Designing new methodological approaches and implementing more systematic data collection efforts in order to identify and measure the prevalence of modern slavery in global supply chains and, more generally, to provide policy-makers, firms, investors, workers and consumers with better information about this phenomenon.
 - Conducting (and updating) systematic meta-analyses of existing evidence on the effectiveness of existing approaches, complementing and expanding on the work in this policy research in order to help better illustrate whether and under what conditions these different approaches are most/least effective, ultimately drawing more rigorous and generalisable policy recommendations.
 - Building a research network to periodically bring together key stakeholders - including governments, business, investors, workers, NGOs, academics and practitioners - in order to exchange ideas, data sources, and methodological insights, discuss future research projects, and share information that will enable these relevant actors to collaboratively design better policies aimed at combatting modern slavery in supply chains.

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