

Modern Slavery Risk in Private Sector Investments

What is modern slavery?

- 40.3** million victims of modern slavery worldwide
- 24.9** million people in conditions of forced labour
- 71%** are women
- 16** million people working in the private sector

(ILO, 2017)



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Modern slavery is a serious issue in a number of geographies and industry sectors. No business can be sure its activities and supply chains are free of forced labour or trafficking.

Modern slavery is an umbrella term used to cover slavery, forced or compulsory labour and human trafficking. Forced labour is often the key element for the private sector.

It is important to understand that modern slavery lies at one extreme of a scale of exploitation and there is often no clear boundary between modern slavery and other serious labour abuses. Poor labour practices can push workers into conditions of modern slavery if combined with other factors. For instance, delayed payment of wages, excessive working hours or verbal threats may not lead to modern slavery on their own, but these abuses together may reach the level of modern slavery, and these practices affect women and children disproportionately. When assessing these underlying risks and issues it is crucial to understand how they interact and whether they can amount to a – sometimes temporary – situation of modern slavery.

Why this is important?

Compelling business reasons to prevent, mitigate and manage modern slavery risks and remediate occurrences of modern slavery when it happens include:



Companies giving priority to social and labour rights tend to be more successful and have greater levels of productivity and innovation, more predictable supply of goods and services, better retention and worker motivation, and more robust due diligence and monitoring systems.

How to identify modern slavery?

Modern slavery indicators

There are two main indicators to assess the risk of modern slavery:

penalty and **involuntariness**.

(1) Is the worker under any form of threat or menace of **penalty**?

(2) Did the worker freely and **voluntarily** start to work and are they free to leave?

These questions can help determine if there is a risk of forced labour, which may develop at different stages of an employment relationship – from recruitment to termination.

Modern slavery risks factors

As modern slavery is found in many industry sectors and geographies (especially in emerging markets), including via supply chains and third-party contractors, companies and investors must undertake risk assessments to identify where risks of modern slavery are greatest. When assessing the risk of modern slavery, think about:

type of company ◦ geography ◦ sector

nature of contracted workforce ◦ complexity of supply chain

strength of management systems ◦ legal framework

To identify an instance of forced labour at least one indicator of involuntariness and one of penalty must exist at the same time, and at least one of these must be 'strong'.

Example of indicators

- Tradition, birth (descent into 'slave' or bonded status)
- Coercive recruitment (abduction, confinement during recruitment)
- Sale of the worker
- Recruitment linked to debt
- Deception about the nature of the work

Eg promise of work in a hotel, only to end up as a sex worker

Strong

involuntariness

- Deceptive recruitment (eg around working conditions, employment contract, living conditions, migrant status, job location, wage)
- Deceptive recruitment through promise of marriage

Eg promise of much better working conditions than materialise

Medium

- Denunciation to authorities
- Threats against family members
Confiscation of identity papers or travel documents
- Withholding of assets (cash or other)
- Sexual or physical violence
- Religious or political retribution

Eg withholding workers passports

Strong

penalty or menace

- Exclusion from future employment
- Exclusion from community and social life
- Financial penalties
- Informing family, community or public about worker's current situation (blackmail)

Eg threats that workers will be blacklisted from future work

Medium



Exploitative recruitment practices

This covers forced and deceptive recruitment practices, for example a significant and deliberate failure to deliver on the terms and conditions of employment promised to the worker.



Work and life under duress

This covers adverse working or living situations imposed on a person by the use of force, penalty or threat of penalty.

NO EXIT

Restrictions of freedom to leave employment

This addresses situations where leaving an employer means an excessive penalty or risk. *These can also include the retention of document or professional certificates.*



Where to start?

Companies

Robust policy on modern slavery endorsed by management

Framework to assess modern slavery risk and identify mitigation or remediation (mapping of supply chain)

Roles, responsibilities and resources to support implementation

Management system in place to ensure ongoing risk management and monitoring

Supply chain mapping

Risks of modern slavery are higher in supply chains and via contractors. Most companies know their immediate or first-tier suppliers, but risks of modern slavery are often further down a supply chain since there is less formality and visibility over working practices. To conduct due diligence effectively and understand where modern slavery risks are, companies should improve their understanding and oversight of all tiers of their supply chains. First, companies should assess their supply chains. Based on this, companies may be able to identify areas where risks exist, where they have higher leverage and what capacity exists to influence practices.

Investors

Assess modern slavery risk at screening phase

Undertake robust due diligence where modern slavery risk is identified

Include legal provisions into agreements to address modern slavery risk mitigation (e.g. E&S Action Plan)

Ongoing monitoring and due diligence on modern slavery risk management

Financial sector leverage

DFIs and a growing range of financial sector organisations have requirements and internal safeguarding policies relating to modern slavery that are in line with international conventions, including those of the International Labour Organization (ILO). For example, IFC Performance Standard 2 (used by many DFIs and investors including CDC) establishes labour standards around private sector lending and requires companies to assess the risk of forced labour and trafficking in their businesses and supply chains. The UN Financial Sector Commission on Modern Slavery and Human Trafficking is a public-private partnership that aims to put the financial sector at the heart of efforts to end modern slavery and trafficking.

Responding to modern slavery

Where companies identify **risks of modern slavery**, whether in their own or business partners' operations, mitigation measures to reduce these risks should be put in place. It is important to address issues as early as possible, using robust management systems to ensure relevant safeguards and controls are adhered to and implemented.

Where an **instance of modern slavery** is identified, understanding who is responsible for remediation and how to provide remedy may be a challenge. Each case depends on the context and must take account of who to involve (regulators, law enforcement etc) as well as consequences for victims of the remediation approach (eg is there a risk that victims will be put at further risk as a result of remediation – could they be deported, placed under further risk by those people controlling their liberty or deprived of future jobs or income?).

The challenges related to modern slavery cannot be easily fixed and it is important to understand that no party can solve modern slavery alone and multiple stakeholders must take nuanced approaches and collaborate to beat it.

Managing Risks Associated with Modern Slavery: A Good Practice Note for the Private Sector

In 2018, CDC alongside the International Finance Corporation, the European Bank of Reconstruction and Development and the UK Department for International Development launched a good practice note to help companies and investors manage risks of modern slavery. This contains information, guidance, tools and resources for companies and investors on identifying and addressing modern slavery risks including:

- real-life examples to support the **business case** for managing modern slavery;
- **indicators** which can be used to identify modern slavery risks at different points in the employment relationship;
- **root causes** and drivers of modern slavery, as well as challenges associated with state-imposed forced labour and modern slavery in fragile and conflict affected states;
- **contextual factors** which may indicate a higher risk of modern slavery;
- checklists to use when undertaking a **policy review** supported by examples of relevant policies and standards;
- checklists to use when conducting **workplace assessments**, as well as guidance on what to look for on-site; and
- overarching **risk mitigation** principles, as well as specific risk mitigation measures for investors and companies.

Managing Risks Associated with Modern Slavery

A Good Practice Note
for the Private Sector



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The note is available online in the CDC ESG Toolkit for Fund Managers (under Reference Materials / CDC guidance) <https://assets.cdcgroup.com/wp-content/uploads/2018/12/04113649/CDC-DFID-EBRD-IFC-Managing-Risks-Associated-with-Modern-Slavery-December-2018.pdf>

The purpose of this brochure is to share information and provide a practical summary of guidance about identifying modern slavery risk in investments and should be taken as only a source of information and analysis. This brochure is not a substitute for professional or legal advice and CDC Group Plc will not be held liable for any direct or consequential loss arising from reliance on the information contained herein. March 2019