

## 1. Introduction

Modern slavery and its manifestations (including forced labour, debt bondage, money laundering and human trafficking) are illegal practices in all BII investment geographies. However, such practices remain present, are often intentionally well hidden, and still present significant social and human rights impacts and risks to many emerging market investors. Proactive and thoughtful due diligence is an important aspect in helping Financial Institutions (FIs) understand modern slavery risks evident in supply chains or via intermediated contracts, and which require innovative approaches to resolve.

COVID-19 has exacerbated and accelerated modern slavery and other labour practice risks. At the same time, travel restrictions and challenges with appointing appropriately qualified and experienced E&S consultants has reduced the ability of FIs to identify these risks. This has increased the need for FIs to assess the risks of modern slavery in their transactions, operations, and supply chains proactively, and take the necessary steps to tackle modern slavery.

This briefing note aims to help FIs quickly familiarise themselves with the concept of modern slavery, and provides a practical approach to integrating a modern slavery lens into credit assessments, including identifying and managing modern slavery risks, and how to respond to incidents of modern slavery when identified.

Since modern slavery is more prevalent in some sectors and contexts, FIs should carefully consider specific characteristics and contextual circumstances to focus their due diligence and portfolio management.

For example, modern slavery risks are generally higher during the construction phase of projects and when there is a sub-contracted workforce (especially if there is a need to use migrant labour), or when recruitment agencies or labour brokers are involved. In such cases, it is paramount to have a good understanding of what the companies are doing to manage modern slavery risk. Section 3 provides more information on considerations by region and sector.

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International Labour Organisation (2017)

This guidance is not intended as comprehensive technical guidance. More detailed guidance and toolkits can be found in the 'Further Resources' section of this note, and we draw special attention to:

- [Managing Risks Associated with Modern Slavery](#) guidance developed in 2019 by BII, European Bank of Research and Development (EBRD), UK Department for International Development (DFID), now Foreign, Commonwealth & Development Office (FCDO), and the International Finance Corporation (IFC);
- [The work of the Finance Against Slavery and Trafficking \(FAST\) initiative](#), which focuses on the role the finance and investment sector plays in enabling modern slavery; and
- [IFC Performance Standard 2: Labour and Working Conditions \(2012\)](#).

The term 'company' used in this E&S Briefing Note refers to FIs' corporate clients.

The term 'investors' used in this E&S Briefing Note, includes lenders.

## **2. Why financial institutions and their clients should address this topic**

Modern slavery is a pernicious and widespread problem globally. It represents an illegal industry worth an estimated \$150 billion a year and affects at least 40 million people annually, of which 71 percent are women and girls. Among those affected, approximately 16 million people work in the private sector.

Modern slavery is profitable and the illegal revenue it generates is channelled through the formal global financial system. Because of the ways in which traffickers and slavers launder and transfer the proceeds of slavery, the financial sector plays an unwitting but disproportionately influential role in both enabling modern slavery and also fighting it.

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Important considerations in due diligence therefore include integrating business integrity and E&S factors. For example, during transaction appraisal, due diligence should ensure clear and strong business integrity as well as anti-money laundering (AML) procedures and

appropriate processes to flag suspicious financial activities.

Increased scrutiny from civil society, legislative action from governments, and a global recognition among private sector actors, all point to the fact that FIs have a clear responsibility for addressing modern slavery risks during transaction diligence.

As a result, many countries (including the UK, US, France and Australia) are introducing legislation that requires companies to disclose efforts made to identify and reduce modern slavery. In the UK, [the Modern Slavery Act of 2015](#) is currently under review, with plans to toughen modern slavery reporting rules.

Business practices that enable modern slavery include the use of complex supply chains, imposing tight deadlines to produce goods and services, and financial incentives to keep labour costs low and competitive. This ‘race to the bottom’ on labour costs is a common practice in global value chains, where businesses may encounter, knowingly or unknowingly, competitive advantages and an unsustainable and unfair reduced cost of capital founded on labour exploitation.

In this regard, the private sector has an opportunity to investigate the origins of low labour costs. Good labour practices – and proactively tackling modern slavery – will allow companies and FIs not only to ensure compliance with international conventions and national laws, but also mean reducing business risk, securing better access to markets, increasing security of supply and business productivity, as well as achieving and maintaining a social licence to operate. Furthermore, companies that prioritise social and labour rights tend to be more successful, have greater levels of productivity and innovation, better retention and worker motivation, and more robust due diligence and monitoring systems.

### **3. Understanding Modern Slavery**

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

It is important to understand that modern slavery lies at one extreme on the scale of exploitation and often affect women and children disproportionately. 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 combined can impose a risk of modern slavery. When assessing the underlying risks and issues of modern slavery, it is crucial to understand how issues interact, and whether they can amount to a (sometimes temporarily) situation of modern slavery.

There are two main overarching indicators of modern slavery: penalty and involuntariness. This involves the lack of freedom for people to take and leave jobs, and their willingness to undertake work. There are two key questions that should be explored here to assess the risk of modern slavery.

1. ***Is the worker under any form of threat or menace (financial, physical, verbal) to undertake his or her work?***
2. ***Did the worker freely and voluntarily start to work, and are they free to leave?***

The risk of forced labour may develop at different stages of an employment relationship – ranging from recruitment to termination. Withholding wages and document retention are two frequently encountered indicators of modern slavery, because they prevent workers from leaving employment freely. At least one indicator of both involuntariness and penalty are necessary to identify an instance of forced labour.

- [Forced labour indicators as described by the ILO](#)

The indicators include:

- Abuse of vulnerability
- Deception in terms of employment conditions
- Restriction of movement
- Isolation
- Physical and sexual violence
- Intimidation and threats
- Retention of identity documents
- Withholding of wages

- Debt bondage
- Abusive working and living conditions
- Excessive overtime

More details of each can be found in the [ILO Forced Labour Indicators report](#).

The presence of these practices needs to be assessed to understand the implications on worker freedom and their willingness to undertake or leave their work. For example, tight manufacturing deadlines may trigger excessive overtime, abusive working conditions, and abuse of vulnerability in a point in time, leading to a temporary incident of modern slavery.

Evidence of modern slavery is often nuanced and requires experience and perspective to interpret (including third-party specialist labour consultants who may be needed to redress and resolve incidents). The table below provides examples of circumstances where modern slavery may or may not be evident, and further examples are provided in the [guidance](#) we (and others) published in 2019.

### Modern slavery examples

Modern slavery	Yes	No
<b>Debt bondage</b>	A worker gets into debt to pay fees to secure a job AND they are forced to sign contracts they do not understand, are paid very low sums by the employer - who claims wages are needed to pay off debts, food and accommodation provided by the employer.	A migrant worker borrows a small sum from a money lender to secure a job and the loan terms are reasonable (e.g. it can be paid off by the worker within a few months). The worker's family has not incurred long-term debt because of this loan.
<b>Excessive overtime</b>	Factory workers are given no choice on whether they work overtime and are threatened with dismissal or violence if they refuse. AND the hours worked are in excess of those allowed by national law.	Workers in a factory are contractually required to work overtime up to the legal monthly limit to meet production targets.

**Modern slavery**

**Yes**

**No**

**Retention of identity documents**

An employer confiscates important 'permission to work' documents belonging to migrant workers when they start work AND these workers are told documents will only be returned after they complete the assigned work.

All company employees are asked to give their passports to their manager when they start work. However, the worker freely provides consent to this, as the passport is held for safekeeping by the employer and the worker is able to access their own documents at any time.

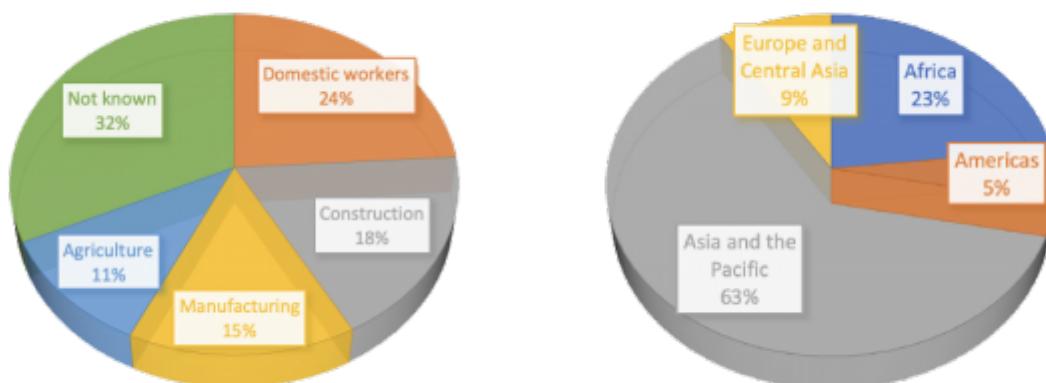
Source: BII, IFC, EBRD, DFID (2019)

**3.1 Assessing modern slavery risk**

- **Modern slavery contextual risk**

Understanding contextual factors is a useful starting point in the risk assessment process, since it is less resource-intensive than assessing all business partners. This can allow for resources to be prioritised appropriately. It is essential FIs and their clients undertake a contextual risk assessment to identify the risks of modern slavery, since certain sectors and regions are particularly prone to modern slavery. The most recent and reliable global estimates on modern slavery were produced by in 2017 by Alliance 8.7 - the global alliance to eradicate forced labour, modern slavery, human trafficking and child labour. Key findings of forced labour and prevalence by sector and region are presented below.

**Prevalence of modern slavery by sector and region**



Source: Alliance 8.7, Global Estimates of Modern Slavery (2017)

The assessment of risks should not be seen as static and should factor-in expansion plans, seasonality of the activity, different phases (including specifically construction) and changes to business scope and practices (including employment terms and conditions). Also, contextual risks should be reassessed with appropriate frequency, as circumstances of increased vulnerability to exploitation and abuse change over time. Such circumstances may be affected by changes in contract terms and conditions; government regulations and the capacity to oversee and implement laws and regulations; natural disasters (that increase labour vulnerability) and factors that accelerate migration (including internally displaced people).

A contextual assessment of modern slavery risks can be undertaken at several different levels:

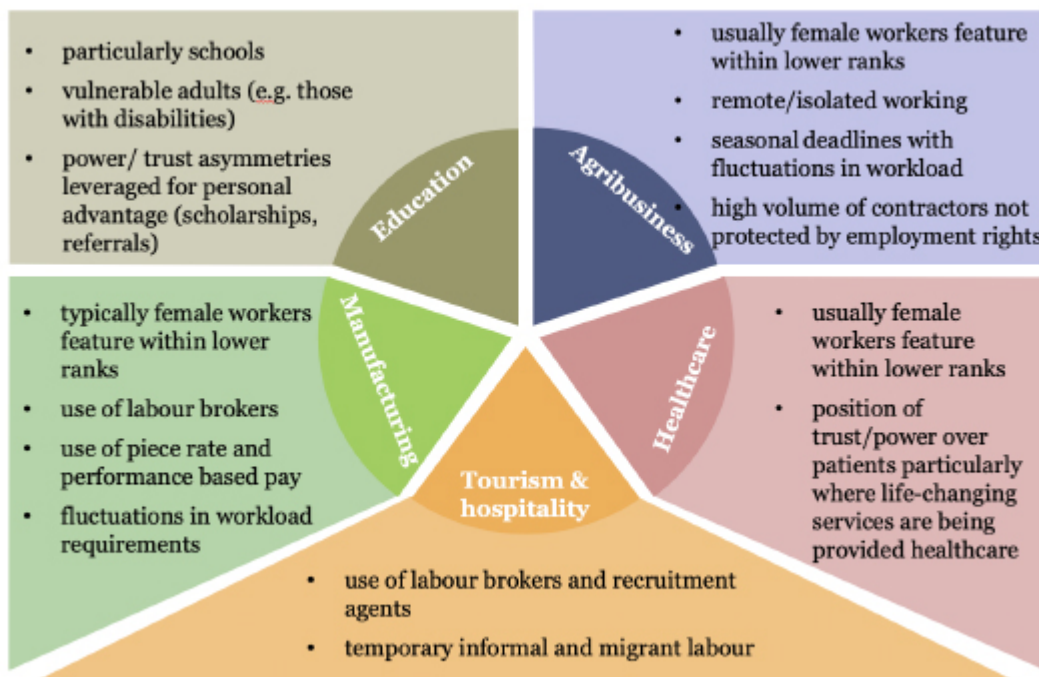
- **Country and sector:** How prevalent is modern slavery in the country and sector, and how does the country rank in terms of legal protection towards women? There are a number of tools that help to assess this. For example, the [Sweat & Toil app](#) created by the US Department of Labor can quickly navigate forced labour and trafficking risks by country and commodity.
- **Context of vulnerability:** Could the labour force be considered vulnerable to labour exploitation and abuse? (for example, by using casual labour, daily or seasonal workers, migrant workforce including internally displaced people, language barriers, and working in isolation). Are there any specific groups the company will directly or indirectly engage with that are lacking basic protections under law, or are likely to face discrimination or persecution? These can include workers, communities, contractors, suppliers. What are the country's legal protections for minority groups?
- **Supply chains:** The risk of modern slavery increases when there are complex supply chains, and therefore reduced visibility of working conditions – particularly beyond immediate or first-tier suppliers. How complex is the supply chain? Is such complexity necessary, and can it be simplified to increase visibility and leverage over labour and working conditions? What controls and monitoring measures are being undertaken to manage modern slavery risks in the supply chain?
- **Human rights records:** Has the country, sector or company been subject to any allegations of human rights violations (for example, discrimination against

vulnerable groups such as minorities or migrants, or against freedom of expression or thought)?

• Risk considerations by sector

Depending of the sector, there will be specific risk factors to consider which may relate to the project phase, or characteristics of the activity itself. Key safeguarding considerations that become modern slavery risk intensifiers by sector are provided below:

**Sectoral and contextual risk considerations**



• Workplace assessment

Where higher risks have been identified through an assessment of contextual factors,



it is important to follow up with a more detailed workplace-level assessment. Modern slavery is by nature well-hidden, so this needs to be recognised during any workplace assessment. Key considerations should include:

- **Protect workers:** A ‘do-no-harm’ approach and safeguards must be put in place to ensure actions by an assessor or investigator do not put vulnerable workers at greater risk. This should include confidentiality considerations.
  - **Agency to engage:** Ensure assessors have the rights to engage with workers directly and use assessors who can carry out the assessment in an appropriate and sensitive manner.
  - **Ensure inclusivity:** Include high risk sites and vulnerable groups or workers in the assessment (which may not be the more accessible or proposed in first place) and triangulate information and findings (confirm findings with additional sources).
- **Supply chain considerations**  
Risks of modern slavery are higher in supply chains and via contractors (both of which being beyond the specific and direct control of a company). The more complex the supply chain, the higher the risk. Most companies know their immediate or first-tier suppliers, but risks of modern slavery often prevail further down the supply chain, where there is less formality and visibility over working practices. To conduct due diligence effectively, and understand where modern slavery risks lie, 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, including through collaborative action by groups of buyers and supply chain stakeholders.

Companies should work systematically to receive a complete overview of their supply chain. Note that supply chain mapping can be a resource- and time-intensive process for individual companies, and may not be possible to complete in its entirety. However, in most sectors, companies will share common suppliers, which should incentivise them to map supply chains collaboratively.

- [Collaboration to tackle modern slavery](#)

No single institution or private sector participant can tackle modern slavery on its own. Therefore, collaboration with multi-stakeholder initiatives, civil society or trade unions is paramount in assessing and mitigating risks.

When the risk of modern slavery is widespread in a particular sector or geographical jurisdiction, collaborative multi-stakeholder initiatives can work towards solving common problems, mitigate risk and improve practices in the longer term.

Some of the key broad-based initiatives and stakeholders working on addressing modern slavery - as well as actively looking to improve information sharing and collaboration across the private sector - are listed below:

- [Alliance 8.7](#)
- [Anti-Slavery International](#)
- [Finance Against Slavery and Trafficking \(FAST\)](#)
- [Ethical Trading Initiative \(ETI\)](#)
- [Fair Labor Association \(FLA\)](#)
- [Freedom Fund](#)
- [Stronger Together](#)
- [Stop the Traffik](#)

## 4. Modern slavery in the credit approval process

This section provides a summary of considerations aimed specifically at managing modern slavery risks throughout the credit cycle.

Assessing labour risks and compliance with statutory labour requirements and ILO

conventions is standard practice across the private sector. However, there is now an increased expectation to demonstrate efforts made to manage the risk of modern slavery. For example, a growing range of financial sector organisations have introduced internal safeguarding policies and requirements relating to modern slavery and require companies to assess the risk of forced labour and trafficking in their businesses and supply chains.

This section provides a summary of considerations aimed specifically at managing modern slavery risks throughout the investment cycle.

- [Modern slavery considerations at transaction screening](#)
  - Consider modern slavery risks for the country and sector.
  - Understand context of vulnerability (legal protections, human rights records, minority groups, women rights).
  - Scope your diligence based on risks and ensure appropriate advisors are appointed to assess modern slavery risks. Note: general E&S consultants may not be well-placed to advise on modern slavery, especially where there is an elevated risk of modern slavery.

### Useful links

- [Global Estimates of Modern Slavery](#)
- [Social Progress Imperative](#)
- [Seat & Toll App](#)
  
- [Modern slavery considerations during due diligence](#)
  - Explore sector-specific risks (e.g. use of migrant labour and labour brokers during construction).
  - Undertake workplace assessment (mindful of protecting the workforce).
  - Ask specific questions to assess modern slavery risks (including supply chains)

and understand whether workers are under any form of threat or menace to undertake their work and can freely and voluntarily leave.

- Ask specific questions to understand policies and processes in place aimed at managing risk of modern slavery (e.g. recruitment and human resources policies, labour monitoring, contractor management).
- Assess the adequacy and efficacy of governance and oversight functions (senior management and board) of grievance recourse mechanisms.
- Collaborate with business integrity and corporate governance representatives (e.g. on AML and know your customer (KYC) standards).
- Ensure contractual and legal leverage to monitor modern slavery, access information, and reporting rights, including labour indicators.
- Ensure serious incident reporting clearly includes reporting of serious grievances, modern slavery risks and labour incidents.

### Useful links

- [Managing Modern Slavery Risk](#)
- [FAST Initiative Implementation Toolkit](#)
- [Modern slavery considerations during monitoring and reporting](#)
  - Establish a functional workers and community grievance recourse mechanism to monitor risks.
  - Implement internal and external labour monitoring processes that are mindful of the hidden characteristics of modern slavery.
  - As appropriate ensure credible reporting and management of modern slavery risks in the business (essential for companies operating internationally or whose products are traded internationally).

- Engage in multi-stakeholder collaboration platforms, so as to use leverage and contribute to addressing and managing risks.
- Establish a clear policy and process for remediating modern slavery incidents.

## 5. Remediating events of modern slavery

- [Responsibility to provide remedy](#)

In an event of modern slavery, depending on the degree of connection to the harm, FIs and companies have a responsibility to either provide remedy (if they caused the harm), contribute to provide remedy (if they contributed to causing the harm), or use their leverage to seek to mitigate and address harms (if they are somehow connected to the harm caused, for example, through a business relationship).

This is established under the United Nations (UN) Guiding Principles of Business and Human Rights, more specifically under [Principle 22](#).

Where an instance of modern slavery is identified, understanding the degrees of responsibility for remediation - and how to provide remedy - may be a challenge. Each case depends on the context and must take into account which regulators and law enforcement agencies to involve in the resolution, while also ensuring protection of the victims.

Where modern slavery (or suspicion of modern slavery) is evident, consider appointing competent third-party advisors (including potentially non-government organisations or civil society organisations) to assist in investigations (and remedy as needed).

- [Ensuring a victim-centred response](#)

A crucial priority in a remediation process must be to protect the victims and ensure they do not face further harm or retribution because of the response. For example, FIs should ask whether there is a risk that victims will be put at further risk as a result of remediation. Could they be deported? Could they be placed under further risk by those people controlling their liberty or be deprived of future jobs or income?

Key considerations to protect the victims include the following:

- **Victims safety:** Safety and security of the victims should be prioritised, which may involve immediate actions.
- **Confidentiality:** Confidentiality of the victims must be protected during any data collection.
- **Reporting to authorities:** In situations where there is violence or criminal activity, and a report to authorities is deemed necessary, the risk to victims of referrals to authorities should be assessed.
- **Contract termination:** Impacts of contract termination should be assessed to avoid making workers even more vulnerable to exploitation.

For further reference, [BII 2019 Guidance](#) (Tool 5) provides specific guidance for good practices in the remediation process. Other reference guidance for providing access to remedy include:

- UN Human Rights Office of the High Commissioner Report: [Improving accountability and access to remedy for victims of business-related human rights abuse \(2016\)](#)
- Shift Project: [Remediation, Grievance Mechanisms and the Corporate Responsibility to Respect Human Rights \(2014\)](#).
- FAST Initiative: [Survivor Inclusion Initiative](#)

## 6. Tools for implementation:

- [Modern slavery risk management for the private sector](#)

The following tools and materials to support modern slavery risk management for the private sector are contained in our good practice guidance note:

- [Tool 1: Contextual risk assessment resources](#)

- [Tool 2: Modern slavery screening questionnaire](#)
- [Tool 3: Document request](#)
- [Tool 4: Forced labour indicators](#)

The [FAST Initiative Toolkit](#) is aimed at encouraging the financial sector to implement its Finance Against Slavery and Trafficking blueprint. Tools include:

- **Risk Mapping Starter Workflow:** to identify modern slavery and human trafficking risks in a firm's operations or business relationships.
- **Connection Diagnostic Tool:** to help financial sector participants to understand connections to modern slavery and human trafficking, and expectations of how to respond.
- **Financial Investigations Tool:** to offer guidance on good practice in conducting financial investigations into modern slavery and human trafficking.
- **Leverage Typology Matrix:** to help financial sector participants understand the creative use of leverage to put a stop to modern slavery practices.
- **Survivor Inclusion Initiative:** to connect survivors to safe and reliable access to basic financial products and services.
- **Vulnerable Populations Initiative:** to prevent modern slavery and human trafficking by increasing and improving access to financial products and services for highly vulnerable populations.

## 7. Further resources

- [Further information and guidance](#)
  - [Managing Risks Associated with Modern Slavery: A Good Practice Note for the Private Sector \(2018\)](#)

- [IFC Performance Standard 2: Labour and Working Conditions \(2012\)](#)
- [FAST Initiative: A Blueprint for Mobilizing Finance Against Slavery and Trafficking \(2019\)](#)
- [FAST Initiative Toolkit](#)
- [UN Guiding Principles for Business and Human Rights](#)
- [ILO: Global Estimates of Modern Slavery: Forced Labour and Forced Marriage \(2017\)](#)
- [US Department of Labor: Sweat & Toil app](#)
- [ILO: Indicators of Forced Labour \(2012\)](#)