



# Assessing and mitigating forced labor risk in supply chains



## Understanding forced labor and how it can impact supply chains

Forced labor is a persistent and pervasive threat to businesses, individuals, and supply chains. While it often occurs in the private economy, it can impact any sector anywhere in the world due to interconnected supplier networks and business practices.

- G20 countries currently import more than [\\$468 billion worth of products](#) at risk of being produced with forced labor.
- Forced labor generates [\\$236 billion of illicit profits](#) every year.
- An estimated [28 million people are in forced labor](#) today.

Networks globally are required to understand the risks of forced labor in their counterparty network.

Of the [estimated 50 million people](#) enslaved worldwide today, [28 million](#) are in forced labor (with [22 million](#) in forced marriage). This number is estimated to have grown in recent years due to conflicts, climate change, and Covid-19 crises.

According to the [International Labor Organization](#), the definition of “forced labor” is all work exacted under the threat of penalty and not offered voluntarily. While the term “modern slavery” is increasingly prevalent – especially in Australia and the UK – forced labor remains a critical concept in business supply chain management.

Forced labor emphasizes forms of exploitation that can compromise an organization’s supply chains and operations, and requires targeted risk assessments and remediation. Although trafficking for sexual exploitation, forced marriage, and other forms of exploitation are significant concerns, a forced labor risk framework can help organizations understand the labor abuses they are most likely to encounter within their supply chains.

Forced labor risk is a live, evolving topic in both media headlines and legislative agendas. For example:

- In December 2024, major UK retailers responded to a [BBC investigation](#) into forced labor in tomato purée products.
- In March 2024, [a US court assessed](#) whether five of America's largest tech companies were liable for forced and child labor in mining for cobalt – used in laptop and electric vehicle batteries.
- On December 13, 2024, [the EU regulation](#) prohibiting products made with forced labor in the Union market entered into force.
- Since July 2024, the new [EU directive on corporate sustainability due diligence](#) has been in force.
- Legislation in Australia, the UK, France, Germany, Norway, and Switzerland requires large companies to report their actions against forced labor risk in supply chains.

## Four key factors driving a focus on forced labor

### 1) Global regulation:

Regulatory requirements on organizations to identify, manage, and address forced labor risks in their businesses and supply chains are growing. Businesses operating in markets representing over half of global GDP (North America, Europe, UK, Australia) must now identify, disclose, and address forced labor risks. New regulations, including the [United States-Mexico-Canada Agreement \(USMCA\) of 2020](#) and the [European regulation of 2024](#), focus on the presence of products made with forced labor in the North American and EU markets.

### 2) Risk of reputational harm:

According to [76% of CEOs](#) surveyed in a 2019 United Nations Global Compact / Accenture Strategy “CEO Study on Sustainability”, ethical business builds trust and reputation, which aligns with observed consumer behavior:

- [81% of consumers](#) try to prioritize sustainability in their decision-making.
- Consumers in multiple countries (UK, US, France, Belgium) are [willing to pay a premium](#) for child-labor-free products, and the [majority of US consumers](#) (67%) would switch brands or pay higher prices to avoid modern slavery in the products they buy.

Despite the alignment between CEOs and consumers, there continue to be controversies related to forced labor in supply chains across many sectors, from solar panels to medical supplies, clothing production to the fishing industry. This highlights the need for ongoing, additional, and effective ways to address forced labor in supply chains.

### 3) Operational disruption:

Controversies associated with forced labor have added to operational supply chain shocks from events such as Covid-19, Brexit, the Suez Canal blockage, global inflation, and the Russia-Ukraine war. Supply and demand tensions have [exacerbated workers' vulnerability to forced labor](#), with organizations facing bottlenecks and higher costs.

### 4) Economic damage:

There is also a wider business case for supply chains that are free from forced labor. Forced labor tarnishes industry reputations or can create unfair competition. [New research](#) shows how the effects of forced labor can ripple through entire economies: forced labor has the potential to reduce productivity, strain public finances, discourage innovation, weaken governance, and harm the environment.

## Challenges and complexities of forced labor in global supply chains

Navigating forced labor risks is challenging for both the public and private sector. One way governments are trying to tackle the issue beyond regulation is by leveraging their buying power.



The Canadian, US, Australian, and UK governments are including forced labor clauses in goods contracts and conducting risk analyses of their supply chains. And private sector organizations face multiple complexities in trying to understand exposure to forced labor risk:

- 1) Supplier networks and supply chains are global and diverse, combining materials from multiple entities and countries, which makes it costly and time-consuming to complete due diligence engagement beyond direct, Tier 1 suppliers.
- 2) Criminals deliberately obfuscate their beneficial ownership and business practices, making it difficult to understand the presence of risk. Criminals may make it hard for workers to register for legal rights and entitlements; keep workers isolated in remote locations that are beyond the reach of labor inspectorates and auditing firms.
- 3) Attempts to develop supply chain transparency solutions often have low levels of detail about specific geographies and commodities, which can inhibit their abilities to offer detailed, accurate, and sub-national risk understanding.

The complexity of forced labor and its connections to other types of criminal activity, as well as climate risks and sustainable development challenges, means that addressing it requires a nuanced, data-driven approach to refine procurement practices. Yet reliable data and analytical tools can be hard for businesses to come by.

### **A risk-based approach to forced labor**

Given these complications and challenges, the most effective, pragmatic way forward is for organizations to take a risk-based approach to addressing exposure to forced labor risk: to identify risk-relevant data that can be used to prioritize areas of a supplier network for more extensive investigation.

A holistic, risk-based approach goes beyond the strategy of using information about a number of known instances that might be highlighted via supplier whistleblowing, audit results, civil society case data, or adverse news. Cases of forced labor, as an illegal practice, are hard to identify, and prosecution rates remain low worldwide. However, forced labor risk can be understood through carefully selected economic, legislative, social, political, and environmental indicators.

A truly useful risk-based approach needs to solve the common problems of existing risk assessment solutions: a reliance on generic or “coarse-grained” data (e.g., a country's placement in the US government's Trafficking in Persons tiers); an emphasis on manual data entry; an inability to respond quickly and ingest new data; and methodological updates that make it extremely difficult to compare results over time.

The key is developing a forced labor risk assessment framework that allows for emerging, evolving risks while maintaining categories and metrics over time to enable year-on-year analysis, action planning, and evaluation of progress.

By building a rigorous, scalable risk model, organizations can screen suppliers based on risk exposure, manage supplier relationships to reduce risk, and achieve stronger, more cost-effective reporting under a range of statutory regimes.

### **Characteristics of a best practice approach for assessing forced labor risks**

The most rigorous approach to assessing forced labor risk combines country-specific metrics with industry or sector metrics, and indicators of business culture and practice.

Data can be selected and weighted as important proxies for forced labor. These three areas of risk – geography, sector, and organization – can be broken down into multiple categories and metrics, and aligned to existing frameworks e.g., the UN Guiding Principles and the Sustainable Development Goals.

Risk profiles can be established for an organization's headquarters, subsidiaries, and supplier base, with careful weighting across these three components. New datasets can then be ingested as they become available, without changing the underlying methodology.

As [new research](#) shows a strong connections between climate risk and forced labor (including the [heightened vulnerability of people](#) displaced by climate change and the disproportionately high levels of environmental destruction caused by forced labor practices), multiple metrics should be considered to connect labor and environmental risk.

A rigorous risk assessment offers fuller details across potentially thousands of risk sub-scores, for those who want this level of detail, while clearly prioritizing which suppliers are higher risk and merit enhanced due diligence. A detailed view can support cross-portfolio assessments of where to focus risk mitigation. And the risk data can be validated against multiple sets of case data and surveys for prevalence. Where user inputs are required, a risk score can help indicate data completeness or a confidence level in the overall score.

Changes to “business practice” scores may result in overall changes to an organization's risk profile, even where country and sector risks remain relatively constant over time.

A best practice approach should connect specific risk metrics to recommended next steps that support an action. Forced labor risk assessment involves multi-factor data and analytics that can be interpreted to gain meaningful insights, which help direct the actions an organization can take to mitigate those risks.

With this kind of forced labor risk assessment framework, organizations can take the same granular, scientific approach to the data-driven insights as to a risk itself. The combination of risk analysis and actionable output can empower organizations to undertake more detailed due diligence and develop greater transparency across their supply chains over time.



## **Outcomes of efforts to address the risk of forced labor**

By better understanding their exposure to forced labor risk in their supply chains, organizations can enhance transparency and strengthen compliance with laws.

A best-practice, risk-based forced labor assessment, combining economic, social, environmental, and other forms of data within a designed framework, can flag key intersecting risks and help spotlight high-risk scenarios that may warrant further investigation or mitigating actions.

Addressing the risk of forced labor in supply chains requires a nuanced, data-driven approach that incorporates a comprehensive understanding of global regulatory requirements and the multiple factors that can be connected to this area of risk.

By leveraging a rigorous, scalable risk model, organizations can enhance their due diligence, transparency, and compliance efforts. A holistic framework enables businesses to prioritize high-risk areas, take informed mitigating actions, and ultimately foster a more sustainable supply chain.

As forced labor continues to be a significant global issue, adopting best practices and robust risk assessment tools is imperative to combating this pervasive problem. By approaching forced labor from a deep understanding of its root causes and impacts, organizations are able to gain an intersectional view of global risk factors that may impact their businesses, supplier networks, and reputations.

## **About Moody's Forced Labor Risk Assessment**

Moody's and the world's leading modern slavery research center, the Rights Lab at the University of Nottingham (UK), have formed an alliance to create the Forced Labor Risk Assessment. This provides a structured framework to help businesses manage and mitigate risks associated with forced labor and human trafficking. With robust datasets, analytics, and insights, this solution can help detect and address potential risks while supporting businesses to meet their regulatory requirements and limit reputational harm.

Moody's and the Rights Lab are working with organizations around the world to adopt best practices to help them meet and support regulatory compliance, providing them with the tools and solutions for managing forced labor risks. This means organizations can create a more comprehensive approach to supply chain risk management and compliance with evolving legal requirements.

**About the author**

Professor Zoe Trodd is Director of the Rights Lab at the University of Nottingham, the world's largest, leading group of researchers focused on all forms of modern slavery, forced labor and human trafficking. The author of multiple books and articles on the topic of modern slavery, she has been part of the Rights Lab team that has worked with Moody's to develop and launch the Forced Labor Risk Assessment.

The Rights Lab at the University of Nottingham is the largest, leading modern slavery research center in the world. It delivers research to help end all forms of forced labor, human trafficking and modern slavery, including flagship programs that map slavery from space using satellite data, analyze forced labor in supply chains, and develop model anti-slavery legislation.

**Get in touch**

If you need to understand and manage the risk of forced labor in your supply chain and third-party network, please get in touch to discuss Moody's Forced Labor Risk Assessment – we would love to hear from you.

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