

COVID-19 ANALYSIS

6 May 2020

COVID-19 is escalating modern slavery risk for business & people



When global shocks occur, the most vulnerable are often disproportionately affected. COVID-19 is no exception: reports are suggesting hundreds of millions will be pushed below the poverty line, making them more vulnerable to entrapment in situations of trafficking or slavery. Many of these people are involved in supply chains linked to Australian investments, business, and consumption.

Recognising this, the Australian Government extended the deadline for reporting against its Commonwealth Modern Slavery Act (MSA) so that organisations can “assess changing modern slavery risks linked to COVID-19” and include those in their first annual statement.¹

This added MSA criteria may strain already-limited resourcing within organisations. Recognising this, Cardno has prepared this short analysis to help organisations frame how COVID-19 affects modern slavery and what to do about it.

OVERVIEW OF COVID-19 IMPACT

Modern slavery is an umbrella term used for situations where someone cannot voluntarily stop working should they want or need. It often includes child labour, forced labour, people trafficking, sexual exploitation, indentured labour, and other forms of exploitation.

Even before the current health crisis, slavery was a prevalent and serious problem, with the Global Slavery Index (GSI) estimating 40 million people were trapped in slavery conditions in 2018, including an estimated 10,000 in Australia.

These numbers are getting worse as this health crisis breeds a dangerous economic and humanitarian crisis. We see three main factors contributing to increased risk of modern slavery to people and organisations: increased supply of vulnerable people; increased demand for cheap or unpaid labour; and decreased slavery detection and disruption around the world.

SUPPLY SPIKE

COVID-19 and the methods used to control it have already caused rapid increases to the supply of people seeking income.

The International Labour Organisation (ILO) warned on 29 April that some 1.6 billion people employed in the informal economy (roughly half of the global workforce) could see their livelihoods destroyed.²

Some 500 million people are expected to be pushed below the poverty line, according to Australian National

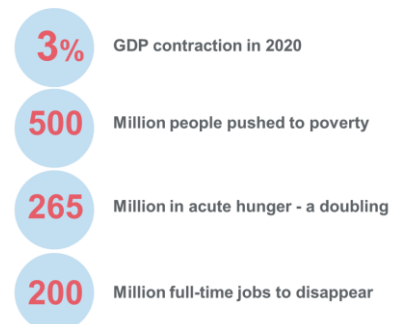
University research. And the UN World Food Program expects people living in acute hunger to double to 265 million by 2021.³

Unemployment, poverty, and hunger are known indicators of an individual's vulnerability to exploitation and slavery. The startling increases we are seeing now will result in more people trapped in conditions of slavery.

DEMAND SPIKE

Demand for cheap or unpaid labour is rising as businesses face existential risks. Purchasing and consumption are dropping rapidly, causing order cancellations and supply disruptions in many industries. Many businesses are cutting costs, including through workforce reductions (and increased hours for those that remain), wage cuts, or use of cheaper labour.

Conversely, some parts of supply chains face demand spikes, such as manufacturers of personal protective equipment (PPE) in Thailand, Malaysia, and India. Speed to market is essential for winning these purchase orders, causing some suppliers to cut corners during rapid-onboarding or turn to riskier labour sources, including prison labour and use of informal workers without protections. And many global supply chains,



¹ <https://www.homeaffairs.gov.au/criminal-justice/Pages/modern-slavery.aspx>

² <https://www.un.org/sustainabledevelopment/blog/2020/04/nearly-half-of-global-workforce-at-risk-as-job-losses-increase-due-to-covid-19-un-labour-agency/>

³ <https://www.nytimes.com/2020/04/22/world/africa/coronavirus-hunger-crisis.html>

including those for “essential” products, rely on markets lacking transparency, particularly in times of crisis.

During crises, demand for informal labour increases, according to the ILO. And many informal or low-paid formal workers in sectors classified as essential are pressured to accept unsafe working conditions, according to FLEX surveys. And many essential sectors are already vulnerable to labour exploitation in normal circumstances, such as food production, processing and delivery.

REDUCED ENFORCEMENT

Global efforts to detect and disrupt many types of slavery are reduced by COVID-19, meaning it is likely to spread less inhibited.

Businesses and governments have less capacity dedicated to this problem, focused instead on the colossal task of keeping health systems and economies afloat. Many government and multilateral services and initiatives are de-prioritised or slowed, leaving workers with less advice, services and support.

Company oversight, due diligence and auditing mechanisms are stretched as resources shift to supply- and demand-side changes. And to keep running during lockdown, some industries are moving underground making them harder to regulate.

RISK TO COMPANIES

Slavery is a serious human rights risk to vulnerable people and exposure to it is a material reputational risk to businesses. As COVID-19 increases the number of people falling victim to slavery, businesses will in turn face greater probability of direct or indirect exposure.

All of the usual points of risk are heightened by this crisis, including procurement and purchasing, recruitment, outsourcing and operations. Companies are facing less verifiable transparency into their supply chains, with reduced ability to audit and spot check.

And the stakes are higher: corporate resilience is lower now as companies strain against the pandemic, which means additional shocks from slavery revelations could be devastating.

Meanwhile, global anti-slavery legislation remains in place, and in some cases (such as Australia’s MSA) will include COVID-19 risk assessments as a compliance requirement. This is no small addition, as assessment and mitigation of risk by a business is made significantly more challenging by blurred indicators, lack of transparency, and severe shocks across supply chains.

WHAT TO DO

Considering the added slavery risk from the COVID-19 crisis, companies should consider the following:

- While evaluating or re-evaluating supply chains, consider increasing weighting of ‘desperation factors’ such as poverty, social protections, and proportion of informal workers. Look closely at markets and industries showing spikes in demand during COVID-19 and consider requiring additional self-assessments and disclosures to suppliers affected by these spikes.
- Increase communication, transparency and collaboration with all stakeholders, including suppliers, workers, investors, civil society, peak bodies, business peers, etc.⁴
- Ensure your governance processes are coordinated, particularly your COVID-19 task force and your company’s modern slavery working group.
- Considering many of your counter-slavery activities and programs may be disrupted, try to increasingly use technology innovations to provide resources and communication channels to your stakeholders, and emphasise remote counter-slavery training.
- Focus on remediation and collaboration with suppliers, rather than cutting out anyone deemed ‘high risk’. This includes contract fulfillment – unfulfilled contracts appear to have negative impact on exploited workers down the supply chain.

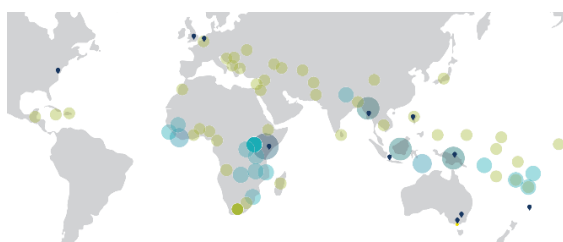
OUR SERVICES

If your company needs additional support to assess or re-assess your risk exposure due to COVID-19, Cardno can support you. We can determine your current-state and identify and rank your modern slavery risks, including those directly impacted by COVID-19.

Once risks are identified, we can provide guidance on responses and technical advice to support compliance with Australia’s Modern Slavery Act.

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Cardno’s Impact Advisory Practice works with clients and partners to enable organisational resilience, stakeholder return and business sustainability. We offer strategic advisory; design and implementation management; training; and analytical support.

⁴ <https://www.homeaffairs.gov.au/about-us/our-portfolios/criminal-justice/people-smuggling-human-trafficking/modern-slavery-act-coronavirus>

This analysis is part of a COVID-19 series delivered by Cardno, providing insights from our multi-disciplinary team of experts across the globe across key topics including health science; workplace health and safety; supply chain management; business strategy; stakeholder and community engagement; and ESG.

For information about business support or future webinars, please contact impactadvisory@cardno.com

