

# Managing social and environmental risks in supply chains for IDB-financed projects

Steve Gibbons  
Sam Kelly

Environmental and Social  
Solutions Unit (VPS/ESG)

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Steve Gibbons  
Sam Kelly

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# 1. Introduction

## 1.1 Background

In September 2020, the Board of Executive Directors of the Inter-American Development Bank (IDB) approved a new Environmental and Social Policy Framework (ESPF), which became effective on the 1<sup>st</sup> of November 2021. The new Framework was developed to respond to the changing environmental and social context of the Latin America and the Caribbean region (LAC) since the development of the IDB's existing safeguards policies more than 15 years ago.

The new Framework harmonizes IDB policies and guidelines with international standards, reinforces standing commitments, and sets ambitious new standards for Borrowers through specific Environmental and Social Performance Standards (ESPS). The ESPF applies to investment loans, investment grants, and investment guarantees, including financial intermediation, co-financed operations, and associated facilities, as well as some policy-based loans and technical cooperation. The Framework includes specific provisions related to the management of social and environmental issues in supply chains, including, forced labor, child labor, occupational safety and health (OSH), and biodiversity.

The purpose of this document is to provide practical guidance to support IDB clients (Borrowers), other implementing agencies, and third parties in applying the ESPF's specific requirements related to project supply chain management. This includes, primarily, requirements set out under ESPS 1 (Assessment and Management of Environmental and Social Risks and Impacts), ESPS 2 (Labor and Working Conditions), and ESPS 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources). Although some of the principles and guidance contained in this Note may be of wider relevance, there is a specific focus on supply chains for public infrastructure projects.

## 1.2 How to use this guidance note

This Technical Note addresses some of the following issues:

- What standards are expected of purchasers of goods and materials in relation to IDB-supported projects? How and which ESPF requirements apply to project supply chains and to which suppliers?
- What steps can a designated purchaser or procurer of goods take to identify and address labor issues and biodiversity risks in supply chains?
- What steps can be taken to mitigate those risks in practice?

The guidance also includes several practical tools and further details within the Annexes and provides links to additional IDB and external resources that can be used for more information or guidance. Although this Technical Note is primarily intended for Borrowers and other implementing parties on IDB-supported projects, it is also valuable for IDB personnel and external consultants as an overview of good supply chain management practices in relation to environmental and social risks.

Terminology: In this Note, we refer to those are responsible for supply chain decisions as 'purchasers'. The purchaser may be part of the Borrower's organization, in a separate delivery organization, or in a contractor.

## 2. Understanding supply chain management

### 2.1 What is supply chain management?

Environmental and social supply chain management (SCM) covers the management of relevant environmental and social impacts and risks linked to a project's supply chain of goods and materials. Environmental SCM focuses on the use of resources and the impacts on the physical environment, while social SCM focuses on the labor and human rights, social development, health and well-being of people involved in or affected by supply chain activities.

For the purposes of IDB projects, environmental SCM covers the project's purchasing of *living natural resources, goods, and materials* (such as cement, metals, fuel, wood and wood-based products, food, or fiber commodities) and any risk of *conversion of natural and/or critical habitats* related to their production or management.

Social SCM for IDB projects covers the risks of *child labor, forced labor, and the serious health and safety issues* in the project's primary supply chain (that is, workers engaged by 'primary suppliers').<sup>1</sup>

In many cases, some of the most significant environmental and social impacts and risks of a project can occur in and as a result of the project's supply chain. Effective SCM is therefore integral to the broader environmental and social risk management for IDB projects.

Good supply chain management:

- ✓ means greater visibility of goods, products, and workers in the supply chain and a clearer understanding of project-related environmental and social risks.
- ✓ enables early appropriate actions to address risks through project management systems and processes, such as the project Environmental and Social Management System (ESMS).
- ✓ includes both predictive (risk identification) and responsive (risk mitigation or remedy) elements.
- ✓ requires close engagement with suppliers and other stakeholders throughout the project cycle.

### 2.2 Global and regional context

In recent decades, there has been an increasing focus on potential adverse environmental and social impacts in global supply chains. This has included greater attention on the more obvious environmental and climate impacts linked to the sourcing of particular goods or materials (such as metals, cement, timber or extracted materials), as well as social risks, such as the use of trafficked or forced labor, which may be present in lower tiers of more

<sup>1</sup> The ESPF defines 'primary suppliers' as those suppliers who, on an ongoing basis, provide directly to the project goods or materials essential to its core functions. See section 3.

complex supply chains where end users' visibility is often limited. Much of the international attention has focused on supply chains to international companies and allegations of poor environmental or social standards at supplier factories and facilities. However, there has also been growing scrutiny of a wider range of supply chain contexts, including supply chains to infrastructure projects and in relation to projects financed by international development financial institutions, like the IDB.

There is also a growing trend towards legislation, building on the UN Guiding Principles on Business and Human Rights, and other international frameworks, that requires some degree of due diligence on either specific or general environmental and social matters. For example:

- Legislation targeting forced labor, including: 'modern slavery' and trafficking legislation in countries such as the UK and Australia, which encourages due diligence on supply chains in relation to forced labor; or legislation in the USA and the EU that aims to prohibit the import of products, materials, or goods suspected of being produced with forced labor.
- Broader supply chain due diligence legislation, such as that introduced in France and Germany and proposed for the EU in general, which requires assessment of potential adverse environmental and social impacts through supply chains and the development of action plans to address impacts.

Although no countries in Latin America and the Caribbean have introduced similar legislation to date, several countries – including Chile and Colombia – have national action plans to implement the UN Guiding Principles on Business and Human Rights (UNGPs), of which supply chain due diligence is a component. Similarly, many international organizations and companies operating in the region carry out their own supply chain due diligence, including companies operating in the infrastructure sector. In addition, strong legislation on forced labor has been in effect in Brazil for nearly 20 years which places potential criminal law sanctions on companies who knowingly are involved in forced labor directly or through their supply chain.

This is not to say that carrying out due diligence on these difficult issues is always straightforward. There may be a deficit of data or information on specific products or regions and there may also be a distinct lack of leverage. There are some useful governmental and non-governmental resources that can help due diligence, however, which are set out below.

## 2.3 The importance of supply chain management for IDB infrastructure projects

The IDB aims to promote positive environmental and social outcomes not only through its infrastructure projects directly, but also through the primary supply chains to those projects. In many cases, the positive development potential of project supply chains is significant and strategic supply chain choices can enhance the project's overall community and social impact. For example, procurement criteria that privilege local, women- or minority-led businesses for supply contracts create new economic opportunities for underserved and marginalized groups. Similarly, choosing to contract multiple local firms to deliver smaller unit price inputs, instead of contracting a single international firm to carry out the works, significantly enhances employment and skills development impacts for local communities.

Conversely, it is often in project supply chains – rather than direct project activities – where the most significant risk of adverse environmental and social impact exists. In particular, the risks of child or forced labor are likely to be significantly greater outside the scope of direct project activities, where labor management practices are more tightly controlled. Similarly, although some infrastructure projects may have direct adverse impacts on natural habitats (for example, road construction through or quarries and borrow pits for road or dam construction in a biodiverse area), many projects will not engage in primary production directly but rather source living natural resources from third-party suppliers (for example, procurement of timber for a housing project). Adverse environmental and social impacts linked to project supply chain activities may undermine any positive direct impacts of the project.

Good environmental and social supply chain management is critical both for optimizing positive development impacts of IDB-supported projects, as well as for managing and addressing environmental and social risks linked to the supply of goods and materials for major public infrastructure projects.

### 2.3.1 A focus on infrastructure

This Note focuses on supply chains to public infrastructure projects. Public infrastructure is a core product of the IDB's sovereign guaranteed financing. Moreover, although there is much guidance available on supply chains in other sectors – such as agriculture or manufacturing – there is much less guidance available for infrastructure supply chains, which present some distinct supply chain management challenges. Specific challenges can include labor issues in relation to the quarrying of materials for an infrastructure supply chain or biodiversity questions related to the sourcing of wood on such projects. There are also emerging questions around the provenance and human rights and labor conditions related to the production of some technical equipment in energy projects, such as solar panels.

Notwithstanding this Note's focus on infrastructure, many of the principles and approaches set out here may be equally applicable to other kinds of supply chains.



### 3. Understanding IDB policies and standards for supply chain management

The ESPF and its Performance Standards (ESPS) are principally aimed at the potential impacts and risks – on people and planet – of IDB supported projects directly. However, the IDB also understands that project supply chains can have significant environmental and social impacts and risks, and the ESPF and its standards therefore include specific provisions concerning supply chain management. These provisions are more focused in scope compared to standards related to direct project impacts and risks, recognizing that supply chain impacts and risks are inevitably indirect and are often more distant from the project and Borrowers’ and implementing partners’ ability to affect outcomes may be more limited.

The key ESPF provisions that refer expressly to supply chains are:

- ESPS 1 on assessment and management of environmental and social risks and impacts
- ESPS 2 on labor and working conditions
- ESPS 6 on biodiversity conservation and sustainable management of living natural resources

#### 3.1 ESPS 1: Assessment and Management of Environmental and Social Risks and Impacts

##### ESPS 1 – overview

Focus	Overarching standard. Sets out requirement to assess environmental and social risks of the project and develop an effective Environmental and Social Management System (ESMS).
Requirements for supply chains	<ul style="list-style-type: none"><li>➤ Supply chain risks should be assessed as part of the environmental and social assessment of the project.</li><li>➤ Measures to respond to supply chain risks should be included in the ESMS, any project relevant environmental and social documentation (such as an Environmental and Social Impact Assessment (ESIA)), and/or the Environmental and Social Action Plan (ESAP) where gaps with the requirements of the ESPF are identified.</li></ul>

The ESPS 1 is an important overarching standard for IDB-supported projects. It sets out the requirement to put in place an effective Environmental and Social Management System (ESMS) for the entire life cycle of a project. The ESPS 1 requires Borrowers (and their designated purchasers), in coordination with other government agencies and third parties, to carry out an environmental and social assessment to identify potential risks, including those related to supply chains, and to establish and then maintain an ESMS appropriate to the nature and scale of the project.

Where there are specific and likely risks related to project supply chains, these supply chain risks should be assessed as part of the project’s risk and impact assessment instruments under ESPS 1. The ESMS, including any environmental and social assessment , and/or the Environmental and Social Action Plan (ESAP) where gaps with the

requirements of the ESPF are identified, should include clear measures and actions to respond on any supply chain risks identified.

### 3.2 ESPS 2: Labor and Working Conditions

#### ESPS 2 – overview

Focus	Sets out specific requirements related to labor and working conditions for all 'project workers', including workers engaged by 'primary suppliers' ('primary supply workers').*
Requirements for supply chains	<ul style="list-style-type: none"><li>➤ identify risks of child labor or forced labor in relation to primary supply workers, take appropriate steps to remedy any cases, monitor primary suppliers (ESPS 2.36)</li><li>➤ introduce procedures and mitigation measures to ensure that primary suppliers take steps to prevent or correct serious health and safety issues (ESPS 2.37)</li><li>➤ shift the project primary suppliers in cases where remedy is not possible (ESPS 2.38)</li></ul>

\*For the purposes of ESPS 2, 'primary suppliers' are those suppliers who, on an ongoing basis, provide goods or materials essential to the core functions of the project. 'Primary supply workers' are all workers engaged by 'primary suppliers', including full-time, part-time, temporary, seasonal, and migrant workers (see ESPS 2 and ESPF, Annex II).

The ESPS 2 is a specific standard that covers labor and working conditions in relation to all 'project workers'. Project workers include workers involved in project activities directly – as direct employees of the Borrower or implementing agency, or employees of third parties (contractors) working on the project – as well as workers engaged by the project's primary suppliers ('primary supply workers'). Primary suppliers are those suppliers that provide goods and materials essential for the core functions of the project.

Although ESPS 2 considers all project workers, only specific requirements apply to workers in supply chains (primary supply workers). These requirements focus on the issues of child labor, forced labor, and worker health and safety.

Child labor and forced labor: The initial environmental and social risk assessment carried out under ESPS 1 will determine potential risks of child labor and forced labor. Where there is an identified risk of child labor or forced labor in relation to primary supply workers, ESPS 2 requires that purchasers *identify the nature of the risks and impacts* in line with the general ESPS 2 provisions on child labor and forced labor (see box). If cases are identified, purchasers should then *take appropriate steps to remedy* them. In some cases, potential steps to remedy may be set out in the project ESMS, ESIA, or ESAP. Finally, ESPS 2 requires that purchasers *monitor primary suppliers* with respect to child and forced labor risks on an ongoing basis throughout the project cycle.

When thinking about child labor, it is important to note that ESPS2 sets out that there should be a minimum working age of 15 or a higher age if this is provided for by local legislation. However, there may be exceptions for light work – for example on family farms – that does not interfere with education. In addition, no person under 18 should carry out hazardous work.

Where initial risk and impact assessments indicate a risk of child or forced labor in relation to primary supply workers, purchasers should identify those risks consistent with ESPS 2.23 (child labor) and 2.24 (forced labor).

ESPS 2.23 (child labor). Ensure that primary suppliers:

- do not in practice allow, and have labor management procedures that prohibit, the employment of children under the minimum age of legal employment
- identify and conduct appropriate occupational risk assessments for all minors (under 18) above the minimum legal age of employment, and do not permit minors to perform any dangerous or hazardous activities
- have procedures and practices in place to remedy any cases of child labor

ESPS 2.24 (forced labor). Ensure that primary suppliers:

- do not in practice allow any form of forced labor or trafficked labor (forced labor includes any form of labor that is not voluntarily performed without threat of force or penalty)
- have procedures and practices in place to remedy any cases of forced or trafficked labor

Worker health and safety: The ESPS 2 also includes specific requirements concerning occupational health and safety. Where there is a risk of significant health and safety issues related to primary supply workers, ESPS 2 requires that purchasers *introduce procedures and mitigation measures* to ensure that their primary suppliers are taking steps to prevent or to correct life-threatening situations.

Finally, ESPS 2 recognizes that the ability of purchasers (or Borrowers and other implementing agencies) to fully address risks will depend on the purchaser's level of management control or influence over the primary suppliers. Thus, where remedy is not possible, ESPS 2 requires that the purchaser *shift the project's primary suppliers* to suppliers that can demonstrate full compliance with ESPS 2.

### 3.3 ESPS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

#### ESPS 6 – overview

Focus	Sets out specific standards concerning the protection of biodiversity and sustainable management of living natural resources in relation to project activities.
Requirements for supply chains	<p>Adopt systems and verification practices to evaluate primary suppliers that source primary production (living natural resources, goods, and materials) for the project.* These systems and practices should be able to:</p> <ul style="list-style-type: none"> <li>➤ identify the origin of the supply and type of habitat(s) in the area</li> <li>➤ limit procurement to suppliers able to demonstrate that they do not contribute to the conversion of natural or critical habitats (e.g., delivery of independently certified product)</li> <li>➤ shift primary suppliers to suppliers that can demonstrate no adverse impacts on biodiversity and natural and/or critical habitats.</li> </ul> <p>This requirement is in addition to a requirement for the sourcing on non-living natural resources for a project must also be analyzed in terms of potential impacts on natural or critical habitats.</p>

\* For the purposes of ESPS 6, 'primary suppliers' are those suppliers who, on an ongoing basis, provide the majority of living natural resources, goods, and materials essential for the core functions of the project. 'Primary production' covers living natural resources, goods, and materials (especially food and fiber commodities) (ESPS 6).

The ESPS 6 is a specific standard focused on the protection of biodiversity, maintaining ecosystems functions, and the promotion of the sustainable management of living natural resources in relation to IDB supported projects. Similarly to ESPS 2, the standard includes a wide range of requirements related to direct project activities, as well as a more limited set of additional specific requirements concerning supply chains and, specifically, the activities of ‘primary suppliers’. These requirements focus principally on the issue of the conversion of natural and/or critical habitats. For the purposes of ESPS 6, primary suppliers are those who, on an ongoing basis, provide the majority of living natural resources, goods, and materials essential for the core functions of the project. However, the potential risks and impacts to natural or critical habitats must be taken into consideration when analyzing the supply chain of materials sourced from non-living natural resources such as rocks, aggregates, cement, metals, and hydrocarbons. Whenever a project’s supply chain involves actions with the potential to convert or degrade any natural habitat for the purpose of supplying the project, ESPS 6 requirements relating to natural and critical habitats apply.

As part of the initial environmental and social risk assessment carried out under ESPS 1, purchasers should identify risks of natural and/or critical habitat conversion associated with the production or harvesting of any living natural resources, goods, or materials to be sourced for the project. Where the project purchases such primary production that is known to be produced in regions with a risk of habitat conversion, ESPS 6 requires purchasers to adopt systems and verification practices to evaluate primary suppliers as part of the project’s ESMS.

These systems and verification practices should enable the purchaser to *identify the origin* of primary production and the *type of habitat(s)* in this area. In this way, purchasers should be able to *limit procurement* to suppliers that can demonstrate their practices do not contribute to the conversion of natural and/or critical habitats; for example, preferring suppliers that can deliver products certified under credible environmental or other relevant standards or assurance schemes (see Annex 4 for examples). The purchaser’s systems and verification practices should also provide for the *regular review* of primary suppliers with respect to their sourcing of primary production and, where necessary, require a *shift of supplier* to those that can better demonstrate no adverse impacts on natural or critical habitats.

### 3.4 Scope of application: key considerations

Requirements concerning environmental and social standards in supply chains do not currently apply to *all tiers* of project supply chains. In relation to both ESPS 2 (Labor and Working Conditions) and ESPS 6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources), supply chain provisions apply only to ‘primary suppliers’. In the case of ESPS 2, this includes coverage of ‘primary supply workers’; that is, workers engaged by primary suppliers.

#### Primary suppliers

Suppliers who, on an ongoing basis, provide directly to the project goods or materials **essential for its core functions** (ESPF, Annex II - Environmental and Social Policy Framework Glossary)

In practice, the distinction of ‘primary suppliers’ from other supply chain elements has several important implications for the scope of application of the ESPF to project supply chains.

### 3.4.1 Procurement by third parties

Primary suppliers are defined in terms of their relationship to the project, not to the Borrower or other implementing agency. Therefore, even in cases where procurement is conducted by a third party – such as an EPC contractor or agent – the suppliers contracted are still ‘primary suppliers’ if they provide the project with goods or materials essential for its core functions.

### 3.4.2 How far down the supply chain?

Primary suppliers provide goods or materials directly to the project; that is, they occupy a ‘tier 1’ position in the supply chain. Suppliers operating in lower ‘tiers’ of the supply chain – providing constituent goods or materials to a project’s ‘primary supplier’ – are likely to be beyond the scope of application of the ESPF’s supply chain management requirements.<sup>2</sup>

- Example for ESPS 2: electrical equipment or machinery. In this case, labor practices related to the manufacture or assembly of the equipment or machinery fall within the scope of the ESPS 2’s supply chain requirements (child labor, forced labor, health and safety). However, labor conditions in remote mining sites from which constituent raw materials (such as minerals) are sourced will likely fall outside the scope of ESPS 2.
- Example for ESPS 6: timber. In this case, the primary supplier may be a merchant or sawmill that prepare timber sourced from third parties for sale to end-users. Although the core business activities of the primary supply (e.g., operation of a sawmill) may not imply significant risk to natural and/or critical habitats, ESPS 6 requires purchasers to identify the origin of primary production (timber) and assess associated risks to natural and/or critical habitats. Thus, the purchaser may need to go beyond the primary supplier for the purpose of risk assessment, although risk mitigation and remedy measures are still focused on the primary supplier (e.g., verification procedures to evaluate the supplier and its ability to demonstrate no adverse habitat impacts related to its sourcing of primary production).

A regular example that may fall within the supply chain provisions for infrastructure would be a stone or aggregate provider who operate a nearby or accessible quarry and other facilities to produce the materials, but these are not characterized as associated facilities. These would fall within the supply chain provisions.

### 3.4.3 ‘Ongoing supply’ versus one-off purchases

The ESPF’s definition of ‘primary suppliers’ expressly refers to suppliers that provide goods and materials on ‘an ongoing basis’. This reference would seem to indicate that one-off purchases from third parties may not fall within the scope of the ESPF’s supply chain requirements. However, where such one-off purchases are significant (in terms of volume and/or value or in terms of significance of impacts to people (ESPS 2) or biodiversity (ESPS 6)), it is still good practice for purchasers to apply in practice the

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<sup>2</sup> The [Guidelines to ESPS 2](#) (GL13) clarify that second, third, and further levels of the supply chain are not subject to ESPS 2’s supply chain provisions.

principles of the ESPF and practical supply chain management approach set out in this Note.

#### 3.4.4 Goods and materials versus labor and services

Finally, in the application of ESPS 2, it is also important to distinguish between 'supply chains' and 'contractors'. Supply chains relate to the provision goods or materials, while contractors provide labor or services. Although requirements for supply chains are more limited under ESPS 2 (see above), the standard provides coverage of a much wider range of issues in relation to contractors (see ESPS 2.33-2.35)

##### **Going beyond the standard**

The ESPS 2's requirements are limited to specific labor issues (child labor, forced labor, and health and safety) and to primary suppliers only. However, this restricted scope of application should not preclude action on other labor issues and/or related to other segments of supply chains in cases where there are known and serious labor issues associated with goods or materials sourced for the project. Purchasers – and Borrowers or other implementing agency – should consider whether they can help mitigate or address labor issues and improve labor practices in supply chains by leveraging commercial terms or other influence. Where such leverage is weak, purchasers should consider seeking alternative sourcing options that are not associated with the same risks or adverse impacts.

## 4. Managing environmental and social impacts and risks in supply chains

### 4.1 Key elements of supply chain management

The ESPF establishes the Borrowers as responsible to identify and address specific environmental and social risks and impacts related to project supply chains. These responsibilities include the development of an environmental and social management system (ESMS) that includes consideration of supply chain risks (under ESPS 1), as well as specific requirements to identify and address risks related to child labor, forced labor, and occupational health and safety (ESPS 2) and biodiversity conservation and sustainable management of living natural resources (ESPS 6).

For the Borrower or other implementing agent to meet these broad environmental and social obligations, it is important for those with direct responsibility for purchasing goods and products for the project (the 'purchaser') to gain a clear and early picture of likely supply chain risks, as well as appropriate ways for Borrowers, other implementing agents, and the purchaser itself to respond to potential issues.<sup>3</sup>

Effective supply chain management in line with these ESPF requirements relies on different but related actions on the part of purchasers throughout the project cycle. These actions include:



The specific form of integrating supply chain risks into wider environmental and social management systems will vary according to the distinct characteristics of the project and its supply chain. For example, where a project has a series of high-risk supply chains, it may be useful to create dedicated measures and standards, including a supplier code of conduct, on supply chain management. If a project's supply chains are less complex, then relevant ESPS 2 and ESPS 6 requirements might be adequately covered through discrete

<sup>3</sup> Recall that in this Note we use the term 'purchaser' to refer to those entities responsible for supply chain and procurement decisions and management. The purchaser may be located in the Borrower, in another delivery organization, or in a third party (such as a contractor).

actions as part of the ESMS, specific actions described in the ESAP, regular reporting requirements with IDB, or in other project documentation.

## 4.2 Integrating supply chain risks into environmental and social due diligence

For projects that source a significant volume and/or value of goods or materials from third parties, purchasers are expected to assess specific environmental and social risks (child labor, forced labor, occupational safety and health, and biodiversity) in the project's primary supply chains. This supply chain assessment should be carried out as part of the Borrower's (or other implementing agent's) broader environmental and social due diligence for the IDB supported project, with findings feeding into the project's ESMS and,

Annex 1 provides an indicative template for mapping primary supply chain risks.

### Using certification as an indicator of risk

Certification might be a useful indicator for assessing supply chain risks. Annex 4 provides an overview of some certification schemes that might be of use for purchasers in assessing risks infrastructure supply chains.

if necessary, specific actions in the ESAP.

### 4.2.1 Supply chain mapping and risk assessment

As a starting point for environmental and social supply chain due diligence, purchasers should develop an initial supply chain risk map. The supplier risk map should enable the purchaser to understand the extent of its visibility over its most significant project suppliers, assess the level of risk in different supply chains, and help prioritize high-risk supply chains for targeted action. The initial mapping and risk assessment will also inform the development of a supply chain management plan (see 4.3).

First, purchasers should develop a basic supply chain map, considering:

- Which goods or materials are to be procured for the project.
- Who are the anticipated or likely primary suppliers for the project and where are they located.
- What are the likely countries (and regions) of origin for any living resources, materials, or goods to be purchased.

Second, purchasers should aim to assess the risk of child or forced labor, occupational health and safety, and - where relevant - adverse impacts on biodiversity in relation to all suppliers providing goods or material sourced from areas of natural or critical habitats. Purchasers can draw on information from multiple sources in developing supply chain risk maps. In particular, purchasers should consider:

- If any products and/or supplier countries of operation appear in the latest United States Department of Labor *List of Goods Produced by Child or Forced Labor* (see sources, below).
- If any living resources, goods, or materials are known or likely to be sourced from areas that contain critical habitats as defined by ESPS 6 (see sources, below).
- If there known risks based on other sources or information (e.g., media reports, previous experience) concerning child or forced labor, serious health and safety



issues, or adverse biodiversity impacts associated with any of the goods or materials to be sourced.

Additionally, purchasers can consult with Borrower government staff familiar with the country or area relevant to a particular supplier or supply chain, or engage with relevant civil society organizations, academics, and other specialists with relevant expertise. Purchasers might also consider requesting specific information from suppliers themselves, such as any relevant risk assessments, studies, or other initiatives that the supplier has carried out or can identify as useful sources (see also 4.2.2). Purchasers can also make use of certification or audit information from the (potential) suppliers on the project to understand existing or potential risks.

Other considerations for supply chain risk mapping:

- When developing the supply chain risk map, purchasers should not only map pre-identified or known 'high-risk' supply chains, but should seek to identify any broader risks across all supply chains of significance to the project.
- The approach and process of supply chain risk mapping process (including priority focus areas, sources of information, etc.) will vary according to the types of goods or products sourced, characteristics of primary suppliers, and location of the project and supply chains.
- If the project has significant and complex supply chains, or there are multiple supply chains to map, purchasers may wish start by screening those primary suppliers whose purchase costs or volumes for the project are highest. The degree of leverage that purchasers (and/or Borrowers) have over the primary suppliers can also be a factor in the prioritization of mapping; it may be appropriate to focus initially on regular, high-value primary suppliers (where leverage is high) before looking at other suppliers that account for smaller or ad hoc purchases.

In identifying supply chain labor risks, purchasers should use authoritative sources which provide credible and objective assessments of goods and their source countries which bear a high risk of forced labor, child labor, risks of workers' safety and health and risk to biodiversity. The table below provides some indicative lists of useful sources per risk issue.

### Sources of information on environmental and social risks in supply chains

#### Child labor and forced labor

In relation to labor standards, at a minimum, it is useful to look at the findings of the most recent US Department of Labor '[List of goods produced with child labor or forced labor](#)'. In addition, other sources to be used in establishing 'reported risk' should include:

- US Department of Labor [country-by-country assessments](#) of prevalence of child labor with sectoral distribution;
- ILO country-by-country resources on [child labor](#) and [forced labor](#) including sectoral reports; and
- US Department of State [country-by-country assessments](#) of human trafficking including sectoral descriptions.

## Occupational safety and health

In relation to standards related to workers' safety and health at the workplace, it is useful to have a look at the most recent US Department of State '[Country Reports on Human Rights Practices](#)'. Under the heading 'Acceptable conditions of work' these reports generally include a short subsection on occupational safety and health in the country in question, including information on specific sectors with higher risks. Additionally, useful sources of information on workers' safety and health at the workplace include:

- ILO profiles on occupational safety and health in [specific sectors and industries](#)
- ILO [country profiles on occupational safety and health](#)

## Biodiversity and living natural resources

There are a range of potential information sources what can help purchasers determine whether the product which they are seeking to source has a higher risk with regard to biodiversity and living natural resources. These include broad assessments of particular products likely biodiversity impacts through to tools which allow for the tracing of specific products to their origin.

A key source of information for biodiversity is the supplier themselves. It is important to ask where they are sourcing particular products from, whether there is an applicable certification for the product and, in relation to higher risk products, what steps they have taken to assess and reduce the risk. Additionally, other sources to be used should include:

- [Integrated Biodiversity Assessment Tool](#) – data on biodiversity and habitats. Includes country profiles listing threatened species, protected areas, and key biodiversity areas.
- [IUCN tools](#) – including green list (protected species) and red list (threatened species)
- [Biodiversity A-Z](#) – concise information about biodiversity per theme, including countries
- [The National Red List Project | A focal point for national red lists and species action plans](#) – database of national red lists for species and species action plans
- [Forest Monitoring, Land Use & Deforestation Trends | Global Forest Watch](#) – Global deforestation rates and statistics by country
- [Plantlife :: Important Plant Areas](#) – Free factsheets on all Important Plant Areas for wild plant and fungal diversity
- [Alliance for Zero Extinction](#) – Interactive map of sites that hold the last-remaining populations of the most threatened species
- [BirdLife International](#) – information on endangered bird species and habitats
- [Edge of Existence](#) – information on some of the most endangered species

### 4.2.2 Capacity of primary suppliers to manage labor and biodiversity risks

Based on information from the project's primary suppliers, purchasers should assess the adequacy and effectiveness of the supplier's labor management and environmental management systems and processes. This assessment should focus specifically on the

adequacy of systems and processes to identify and manage the risk of child labor, forced labor, and serious occupational health and safety issues. In the case of primary production, it should also focus on the adequacy of systems and processes to identify the origin of living resources, goods, and materials sourced for the project and any associated impacts on biodiversity and living natural resources in the area.

This assessment may include determining whether the supplier:

- Demonstrates knowledge and understanding of relevant labor and biodiversity risks in relation to its business activities.
- Has adequate internal management capacity to manage relevant labor and biodiversity risks (e.g., adequate expertise and resource).
- Has a clear policy and practical verification procedures to ensure no child labor (for example, verification of workers' age, hazardous work assessments for workers under 18 years). This may include a code of conduct for the supplier's own supply chain.
- Has a clear policy and practical verification procedures to ensure no forced labor (e.g., prohibits retention of workers' ID documents by managers, uses reputable recruitment agencies that do not charge excessive fees to workers).
- Has a clear policy, staff training program, and adequate management plan on occupational safety and health and keeps reliable data on workplace injuries and accidents.
- Has in place clear and reasonable procedures to identify and trace the origin of any living resources, goods, or materials that it produces (e.g., participation in third party traceability, multi-stakeholder and other certification schemes for specific commodities).

In carrying out the assessment, purchasers can draw on existing documentation provided by the supplier (policies and procedures, bidding documents), request specific additional information (in case of information gaps or specific risk concerns), or engaged with the supplier directly to assess capacity.

#### 4.2.3 Assessment of leverage

Where supply chain risks are identified, purchasers should look to use their leverage and control of project supply chains to address these risks. To this end, purchasers' initial supply chain risk mapping should include a self-assessment of their level of management control or influence over primary suppliers and, therefore, purchasers' ability to fully address any risks identified. Purchasers' leverage over suppliers may also be determined by the importance of the commercial relationship to the supplier, and the supplier's own market position (for example, whether there are viable alternative suppliers for the project).

Based on this self-assessment, purchasers may determine that they have different levels of leverage in relation to different primary suppliers. Typically, this will include cases of:

- High or medium leverage: the purchaser has some form of long-term partnership with the primary supplier, and/or procures a high proportion of the supplier's total production, and/or the purchaser is one of a small number of customers.

- Low leverage: the purchaser has no long-term relationship with the supplier, and/or procures only a small proportion of the supplier's total production, and/or the purchasers is one of a large number of customers.

Where the purchaser identifies potential supply chain risks to address, but assesses its leverage over relevant suppliers to be low, it may be useful to consider reasonable means to increase the purchaser's and/or Borrower's leverage (see 4.3.1). Increasing leverage may enable the purchaser to address relevant supply chain risks without requiring a change in primary supplier.

### 4.3 Developing a supply chain management plan

To address environmental and social risks and adverse impacts in project supply chains, purchasers are expected to develop an appropriate supply chain management plan. The plan should set out specific steps and measures to be taken by the purchaser (and/or other functions within the Borrower or relevant implementing agent) to address the risks identified during the initial supply chain risk mapping. In designing the plan, purchasers should consider the severity of the risks and impacts, the level of leverage over primary suppliers, and whether the purchaser causes or contributes to specific risks or impacts (for example, if order specifications, volumes, or schedules are likely to result in the supplier adopting practices with adverse environmental or social impacts).

Note: A supply chain management plan does not necessarily need to be a discrete project document. For projects with complex and/or high-risk supply chains, a dedicated supply chain management plan is likely to be appropriate. In other cases, a supply chain management plan may consist of specific items integrated into other project environmental and social documentation (such as an ESIA), and/or ESAP where gaps with the requirements of the ESPF are identified, that form part of the broader Environmental and Social Management System (ESMS).

The combination of risk severity and purchaser leverage will help determine what mitigation or other measures are feasible for the purchaser to take. However, it is important that purchasers (and Borrowers) can demonstrate reasonable efforts to address all significant supply chain risks identified.

#### Example items for a supply chain management plan

Issue faced by purchasers	Potential actions to address issues
Lack of visibility and/or information concerning primary supply chains and primary suppliers to extent necessary to identify risks	<ul style="list-style-type: none"> <li>• Develop or revise procurement policies and procedures, in line with the IADB ESPF and procurement policies, to improve quality of information collected concerning primary suppliers and/or relevant goods and materials to be procured</li> <li>• Conduct training for procurement personnel on identifying and assessing supply chain risk issues</li> <li>• Engage with primary suppliers to understand conditions and practices at their premises.</li> </ul>
Purchaser capacity to develop effective risk management strategy not commensurate with risk level	<ul style="list-style-type: none"> <li>• Select and engage external experts with relevant subject matter expertise or skills to support on the development of effective measures to address supply chain risks</li> </ul>

### Example items for a supply chain management plan

<p>Specific risks are identified in the primary supply chain(s) – and the purchaser has some leverage</p>	<ul style="list-style-type: none"> <li>• Increase internal understanding within the purchaser about specific ESPS 2 and 6 risks and lower-risk sourcing options (by sharing known information, engaging with experts, considering relevant certification schemes).</li> <li>• Engage with new and existing suppliers to raise awareness of expectations under the ESPF. This should include clear information about what constitutes child labor, forced labor, or natural and critical habitats, etc.</li> <li>• Include requirements concerning child labor, forced labor, worker safety and health, and biodiversity (consistent with ESPS 2 and 6) in supplier contracts via standard contractual clauses and developing a supplier Code of Conduct</li> <li>• Support capacity building of primary suppliers to manage and report on risks</li> <li>• Develop remediation activities (e.g., transferring children from work to school in the case of child labor). Purchasers should involve specialist third parties to design remediation strategies where in-house expertise or capacity is limited.</li> </ul>
<p>Specific risks are identified in the primary supply chain(s) – but the purchaser lacks leverage</p>	<ul style="list-style-type: none"> <li>• Participate in – and encourage suppliers to join – a credible sectoral or regional initiative focused on relevant supply chain risk issues.</li> <li>• Seek to increase leverage through enhancing contractual, commercial, or technical leverage (see 4.3.1).</li> <li>• Shift to (an)other supplier(s) that can more clearly demonstrate capacity to manage and address relevant risks</li> </ul>

### 4.3.1 Approaches to enhance purchaser’s supply chain leverage

Where the purchaser has identified significant risks related to the operations of a primary supplier, but assesses its leverage over that supplier to be low, the purchaser should consider ways to increase its leverage. There is no single best method for increasing leverage and the most effective strategy (or combination of strategies) will typically depend on context factors; for example, the characteristics of the supply chain and supplier, existing purchasing practices, and geographical context.

### Options for purchasers to enhance leverage over primary suppliers concerning supply chain risks

<p>Contractual leverage</p>	<p>What enhanced contractual requirements, in line with the IADB ESPF and procurement policies, could be included in purchasing contracts to ensure effective measures to address ESPS 2 and 6 issues are in place, demonstrable, and enforceable?</p> <p>Is there a need for on-site assessment at a primary supplier? Does the assessment need to be conducted by an independent third party?</p> <p>Are additional supplier reporting and monitoring requirements needed to drive changes in supplier practices?</p>
<p>Commercial leverage</p>	<p>What incentives could the purchaser offer to encourage the supplier to improve performance or transparency or gain relevant certification? Incentives could include pricing, predictability of orders, or assurances concerning ongoing business / commercial relationships.</p>

### Options for purchasers to enhance leverage over primary suppliers concerning supply chain risks

	To what extent is there a business case for the supplier to improve its performance on relevant labor and biodiversity improvements? How could this be strengthened?
Technical leverage	Does the supplier have adequate information and understanding about key risk issues to fulfil its obligations under the ESPF? Could the purchaser contribute to capacity-building for the supplier?
Engagement with other actors	Are there other government entities, or civil society organizations or networks, that can play a role in the supply chain risk management process? If so, how?
	Are there national or international specialist agencies that are already addressing specific identified risk issues in their programming (for example, a national child labor taskforce, UN agencies such as the ILO, FAO, IOM, or UNEP)? Could the purchaser coordinate project-related initiatives with any of these agencies?

### 4.3.2 Integrate supply chain risks into project ESIA, ESAPs or contractual conditions

Purchasers, in cooperation with other entities within the Borrower or other implementing agency, should include specific supply chain issues – including appropriate steps to mitigate risks and address issues – in relevant environmental and social documentation developed for the project such as ESIA or ESAP where gaps with the requirements of the ESPF are identified. The ESAP or contractual conditions should also contain clear provisions for risk-focused reporting to the IDB on supply chain risk management and outcomes (see also 4.4). Depending on the complexity of the supply chain and level of risk identified, the supply chain management plan can be part of the ESMS, ESIA, other relevant environmental or social documentation, or be included as an item in the ESAP or contractual conditions (see above).

### Example supply chain items in a project Supply Chain Management Plan, ESIA or ESAP

Supply chain action	Output / project document
The purchaser will develop and implement supply chain due diligence and management procedures that can identify high risks of child or forced labor in at least its first-tier primary supply chain. In relation to biodiversity, the purchaser will risk assess all significant primary production goods or materials sourced for the project.	<ul style="list-style-type: none"> <li>• Description of the supply chain risk assessment and due diligence process that the purchaser will undertake</li> <li>• Description of the process through which to identify the location of primary production goods or materials and associated biodiversity risks linked to the product and sourcing location</li> </ul>
The purchaser will develop processes to prevent – and, if cases are identified, to remediate – child and forced labor in its primary supply chains. These processes will include allocation of appropriate budgetary / staffing resources and implementation of contractual, monitoring, and compliance mechanisms.	<ul style="list-style-type: none"> <li>• A clause prohibiting the use of child or forced labor in contractual agreements with suppliers.</li> <li>• Description of supply chain monitoring process used to identify cases of child or forced labor on an ongoing basis.</li> <li>• Description of remediation policy when violations are found.</li> </ul>

#### Example supply chain items in a project Supply Chain Management Plan, ESIA or ESAP

- Description of any certification or other assurance mechanisms that have been applied in relation to biodiversity issues

## 4.4 Monitoring and reporting

Both ESPS 2 and ESPS 6 expressly require Borrowers – and, by extension, purchasers – to conduct ongoing monitoring and review of primary suppliers in relation to relevant labor (child and forced labor, serious safety and health issues) and biodiversity risks. More generally, Borrowers are expected to report to the IDB on the results of their ongoing supply chain risk monitoring, and purchasers play a key role in such reporting.

Purchasers should, therefore, put in place clear monitoring and reporting systems, as part of their ESMS, concerning their primary supply chains and suppliers. Monitoring systems should be appropriate to the level of risk in the supply chain, with more rigorous and comprehensive monitoring activities in the case of high-risk supply chains or suppliers.

The ESPF expressly require that monitoring and review of suppliers and supply chain risk is *regular* and *ongoing*. Conditions in supply chains and at suppliers may change significantly in the course of a project and/or new information or specific issues may come to light that render initial supply chain risk assessments defunct. Purchasers should therefore expect to update and renew supply chain and supplier risk assessments, and make appropriate changes to its ESMS, environmental and social documentation, and/or the supply chain management plan, at regular intervals and in response to any new information or changes in supply chain conditions or context.

Effective supply chain monitoring requires a combination of indicators through which to assess evolving risk profiles. Indicators should include both qualitative and quantitative measures and be tailored to the supply chain context and broad risk profile in question. Purchasers should include data on relevant indicators as part of their regular reporting on supply chain management and risk, both internally (e.g., within the Borrower or other implementing agency) and to the IDB.

#### Example indicators for monitoring regular reporting on supply chain risks

General	<ul style="list-style-type: none"> <li>➤ Number of suppliers used during reporting period</li> <li>➤ List of products considered high risk in relation to relevant risk issues during reporting period</li> <li>➤ Supply chain mapping results (or changes since last reporting period) – primary suppliers, goods supplied, volume sourced, location of production sites, origin of primary production</li> <li>➤ Any changes in contractual terms between the purchaser and primary supplier or to the purchaser's relevant Codes of Conduct for suppliers</li> </ul>
Supplier characteristics, policies, procedures	<ul style="list-style-type: none"> <li>➤ Any changes in ownership or significant management changes at primary suppliers</li> </ul>

## Example indicators for monitoring regular reporting on supply chain risks

- Summary of and any changes in primary suppliers' key policies and procedures (e.g., labor management or risk assessment procedures for sourcing living resources or materials)
- Basic workforce data from suppliers (e.g., total number of workers disaggregated by age, nationality, sex/gender; record of workplace accidents or injuries)
- Any changes to a supplier's certification status under credible third-party certification schemes

### Actions and outcomes

- Summary of purchaser's supply chain monitoring activities since last reporting period, including results (specific issues identified, number of non-conformities with contractual terms or Code of Conduct)
- Description of circumstances of cases of relevant ESPS non-conformities, root causes and remediation actions taken/required to prevent recurrence.
- Challenges or lessons learned or need for assistance/advice from IDB to help the purchaser in addressing ESPS2 and ESPS6 risks in the project supply chain
- Number of reported cases of specific issues in relation to primary supply chains / suppliers (forced labor, child labor, serious health and safety issues, significant adverse impact on natural and/or critical habitats)
- Description of information provided by primary suppliers demonstrating appropriate measures to prevent, identify, and remediate cases of child labor, forced labor, or serious health and safety issues
- Description of information provided by primary suppliers to the borrower demonstrating no adverse impacts on biodiversity and natural and/or critical habitat

## Some examples of 'red flags' in monitoring primary suppliers and supply chains

Missing or incomplete information from the supplier when requested and/or as agreed under any monitoring or reporting plan

- This may indicate that risk assessment and management processes at the supplier are inadequate or incomplete, or that information is being deliberately withheld.

Supplier changes ownership or experiences a significant change in key leadership positions

- Although not necessarily indicative of enhanced risk, significant management and operational changes in the supplier may warrant a new supplier risk assessment.

Supplier makes significant changes to relevant policies and procedures - such as for workforce management

- At the very least, a significant change in company policies and procedures is likely to require a renewed supplier risk assessment.

Workforce data indicates a significant change in workforce characteristics -

- Changes to workforce characteristics may indicate new risk issues not previously present (for example, enhance occupational safety risks)



## Some examples of 'red flags' in monitoring primary suppliers and supply chains

especially an increase in workers under 18 or foreign (migrant) workers	related to employment of minors, or potential forced labor risk associated with employment of vulnerable populations)
Supplier changes the location of its production site(s) and/or the area from which primary production materials are sourced	➤ This could indicate new risks related to a new location (e.g., health and safety issues at a new factory) or, in the case of living resources or materials, a new sourcing area that may be subject to different biodiversity risks.
Formal investigation by regulatory or other official body (e.g., labor inspectorate), or credible media or other third-party reports, concerning significant issues or poor practice at the supplier	➤ This may indicate new or enhanced risks issues that were missed or not given adequate weight during previous assessment.
Primary supplier loses certification status or fails to progress as expected under given certification scheme	➤ This could be an indication of a deterioration of or failure to improve standards at the supplier, and thus increased risk.

### 4.5 Responding to grievances

The ESPF outlines specific requirements for Borrowers to establish and implement project-level grievance mechanisms. These mechanisms should be accessible for all direct workers and contractors involved with the project. However, there is no express requirement for Borrowers to either open their project-level grievance mechanisms to primary supply chain workers, or to ensure that primary suppliers have in place their own grievance mechanisms.

Despite the lack of specific ESPF requirements concerning supply chain grievance mechanisms, it is both good practice and in the interest of purchasers to have some form of supply chain grievance mechanism in place. Such grievance mechanisms can provide valuable information to purchasers on supply chain risk level and impacts that can feed into wider risk assessment and monitoring processes. Purchasers may receive or become aware of (reports of) grievances through their monitoring of suppliers or, in some cases, through supply chain workers raising complaints directly to purchasers through a project-level grievance mechanism. In both cases, a purchaser may want to seek more information from the supplier in question and/or any third parties to understand more about the grievance, any root causes, and how the issue can best be remediated. When engaging with suppliers on grievances, the following should be considered:

- Will individuals be put at further risk for retribution or retaliation because of a complaint?
- In relation to child and forced labor, what preliminary steps need to be taken to safeguard potentially exploited supply chain workers?

- What role could the purchaser play in the investigation and remediation of any circumstances that are found to be in breach of IDB standards or national law?
- If the grievance is accepted within the project grievance mechanism, it is important to clearly communicate to complainants about the limitations of the process and also the reliance on the supplier for any possible remedy or response, if this is the case.



## 5.2 Annex 2: Useful resources

### 5.2.1 IDB resources

- [Environmental and Social Policy Framework](#) (ESPF)
- [Guidelines for the new Environmental and Social Policy Framework](#)
- [Learning resources on the ESPE](#) - these include online courses

### 5.2.2 External resources

- [A guide to risk assessment in supply chains](#) (Sedex)
- [Practical actions for companies to identify and address the worst forms of child labour in mineral supply chains](#) (OECD)
- [Labour rights risk identification in the supply chain](#) (ipieca)
- [ILAB List of Goods Produced by Child Labor or Forced Labor](#)

## 5.3 Annex 3: Background and contextual information

### 5.3.1 ESPS1: Overarching requirement on supply chains

ESPS1 requires Borrowers (and their designated purchasers), in coordination with other government agencies and third parties, carry out an environmental and social assessment to identify potential risks, including those related to supply chains, and to establish and then maintain management systems appropriate to the nature and scale of the project.

#### ESPS1 requirements on supply chains

9. The process will consider all relevant direct, indirect, and cumulative environmental and social risks and impacts of the project, including the issues identified in ESPSs 2 through 10, and those who are likely to be affected by such risks and impacts.

12. Where the Borrower can reasonably exercise control, the risks and impacts identification process will also consider those risks and impacts associated with primary suppliers, as defined in ESPS 2 (paragraphs 36–38) and ESPS 6 (paragraph 29).

16. Depending on the nature and scale of the project, these programs may consist of some documented combination of operational procedures, practices, plans, and related supporting documents (including legal agreements) that are managed in a systematic way. The programs will apply broadly across the Borrower's organizational structure for project implementation, including contractors and primary suppliers over which the organization has control or influence, or to specific sites, facilities, or activities. The mitigation hierarchy to address identified risks and impacts will favor the avoidance of impacts over minimization, and, where residual impacts remain, compensation/offset, wherever technically and financially feasible.

### 5.3.2 ESPS2: Child labor, forced labor and harm to workers in supply chains

ESPS2 contains explicit requirements for Borrowers on risks in the supply chain relating to child labour, forced labour and harm to worker health and safety. These requirements are outlined below.

Risks	Content of ESPS2
Child and forced labor	<p>36. Where there is a risk of child labor or forced labor related to the primary supply workers, the Borrower will identify those risks consistent with paragraphs 23 and 24 above. If child labor or forced labor cases are identified, the Borrower will take appropriate steps to remedy them. The Borrower will monitor its primary suppliers on an ongoing basis to identify any significant changes. If new risks or incidents of child and/or forced labor are identified, the Borrower will take appropriate steps to remedy them.</p> <p>For reference:</p> <p>23. The Borrower will not employ children below the minimum age of employment or engagement, which will be the age of 15 unless national law specifies a higher age. The labor management procedures will specify this minimum age. Children over the minimum age will not be employed or engaged in any manner that is economically exploitative or likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral, or social development. Children under the age of 18 will not be employed in hazardous work. The Borrower will identify the presence of all people under the age of 18. All work of people under the age of 18 will be subject to an appropriate risk assessment and regular monitoring of health, working conditions, and hours of work. If child labor cases are identified, the Borrower will take appropriate steps to remedy them</p> <p>24. The Borrower will not employ forced labor, which consists of any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty. This covers any kind of involuntary or compulsory labor, such as indentured labor, bonded labor, or similar labor-contracting arrangements. The Borrower will not employ trafficked persons. If forced labor cases are identified, the Borrower will take appropriate steps to remedy them.</p>
Workers' health and safety	<p>37. Additionally, where there is a high risk of significant health and safety issues related to primary supply workers, the Borrower will introduce procedures and mitigation measures to ensure that primary suppliers are taking steps to prevent or to correct life-threatening situations.</p>
Capacity to address risks of child and forced labor and workers' health and safety	<p>38. The ability of the Borrower to fully address these risks will depend upon the Borrower's level of management control or influence over the project's primary suppliers. Where remedy is not possible, the Borrower will shift the project's primary suppliers over time to suppliers that can demonstrate that they are complying with this ESPS</p>

### 5.3.3 ESPS6: Risks to biodiversity and sustainable management of living natural resources in supply chains

ESPS6 requires Borrowers to adopt systems and verification practices to evaluate primary suppliers that source primary production (living natural resources, goods, and materials) for the project.

Risks	Content of ESPS6
Biodiversity	<p data-bbox="488 243 1352 390">29. Where a Borrower is purchasing primary production (especially but not exclusively food and fibre commodities) that is known to be produced in regions where there is a risk of significant conversion of natural and/or critical habitats, systems and verification practices will be adopted as part of the Borrower's ESMS to evaluate its primary suppliers.</p> <p data-bbox="488 422 964 449">The systems and verification practices will</p> <ul style="list-style-type: none"> <li data-bbox="516 453 1352 510">i. identify where the supply is coming from and the habitat type of this area;</li> <li data-bbox="516 514 1328 541">ii. provide for an ongoing review of the Borrower's primary suppliers;</li> <li data-bbox="516 546 1352 688">iii. limit procurement to those suppliers that can demonstrate that they are not contributing to significant conversion of natural and/or critical habitats (this may be demonstrated by delivery of certified product, or progress towards verification or certification under a credible scheme in certain commodities and/or locations); and</li> <li data-bbox="516 693 1333 779">iv. where possible, require actions to shift the Borrower's primary suppliers over time to suppliers that can demonstrate that they are not significantly adversely impacting these areas.</li> </ul> <p data-bbox="488 810 1341 896">The ability of the Borrower to fully address these risks will depend upon the Borrower's level of management control or influence over its primary suppliers.</p>

## 5.4 Annex 4: Key sectoral initiatives relevant to infrastructure supply chain risks

When trying to assess risks related to specific supply chains or products, it can be useful to look at certification schemes and sectoral initiatives as a potential indicator of risk.

Social and environmental certification standards and sectoral initiatives serve as a tool to improve social and environmental good practices related to specific commodities. Through certification, a producer – or indeed supplier – can show their buyers that they comply with the certification scheme’s standards and requirements on labor and environmental issues. There are many different certification schemes out there, each with their own scope and focus.

For example, when considering the sourcing of timber there are well established systems of certification which take into account environmental, biodiversity and social impacts. Seeking to source from suppliers with such certification – or a demonstrated alternative form of control - could be seen as a very sensible risk mitigation approach.

- [Forest Stewardship Council](#) (biodiversity – timber). FSC forest management certification confirms that the forest is being managed in a way that preserves biological diversity and benefits the lives of local people and workers
- [Roundtable on Sustainable Biomaterials](#) (biodiversity, forced / child labor, and workers’ safety and health – biomaterials). A biomaterials certification that aims to mitigate business risks, fuel the bioeconomy and contribute to the UN Sustainable Development Goals in order to enable the protection of ecosystems.
- [UN Global Compact](#) (forced / child labor and broad environmental sustainability – business in general). Membership of UN Global Compact requires companies to make a commitment to meet responsibilities regarding human rights, labor, environment and corruption, and produce an annual communication on progress on these areas.
- [Fair Labor Association](#) (forced / child labor, workers’ safety and health – manufacturing). FLA accreditation demonstrates that companies are compliant with the FLA Fair Labor Code, which includes requirements on a broad range of working conditions.