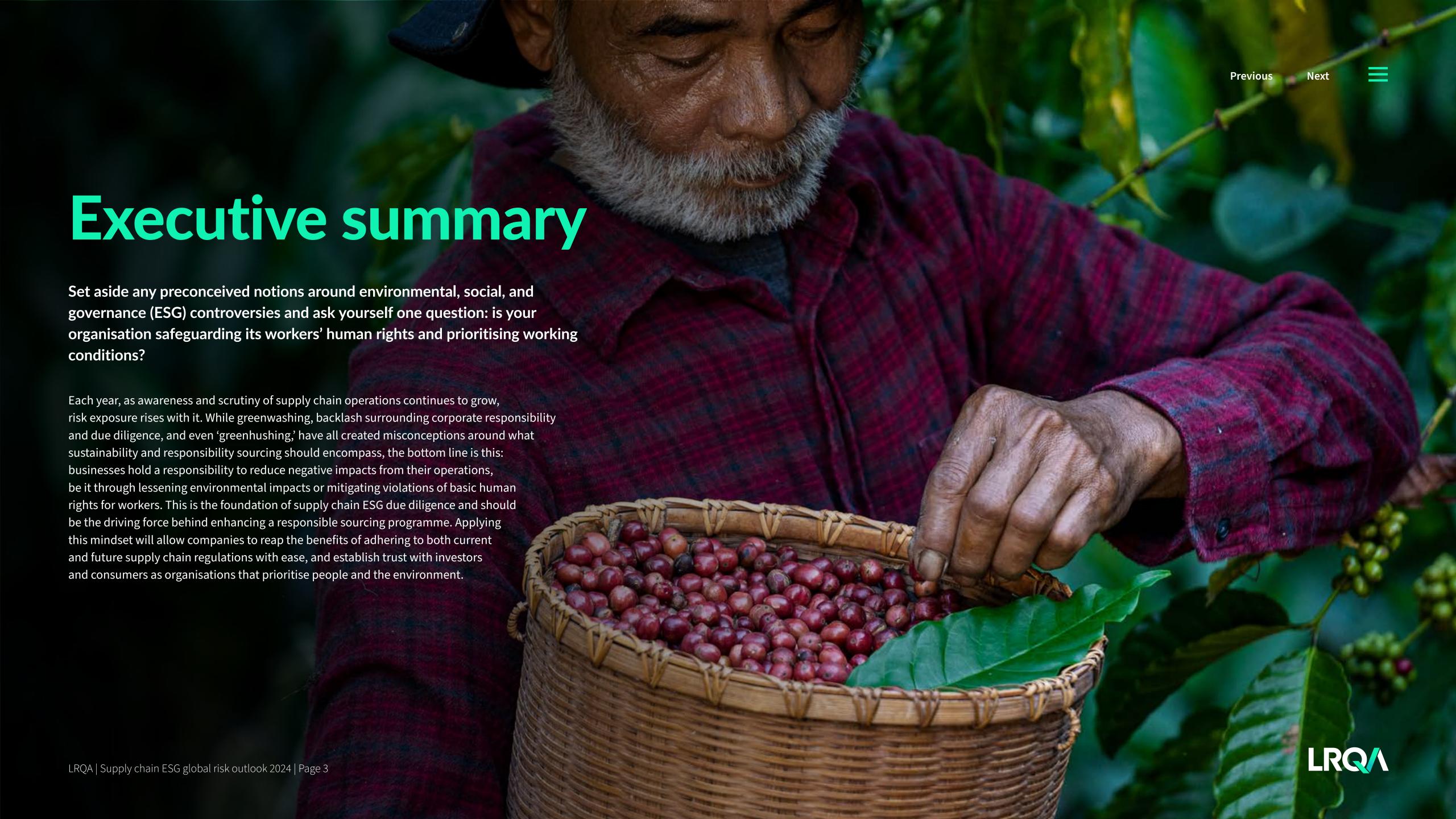


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# **Executive summary**

Our 2024 report underscores several of the most salient ESG issues infiltrating supply chains such as forced labour, unfair wages, and excessive overtime hours - and from which regions these threats are the highest. Key findings from our ratings include:



# Globally, nearly half

of the sourcing regions analysed showed higher overall supply chain risk from the previous year.



reported lower transparency scores in 2024, indicating risk levels could be even higher than reported.



# More than 90 regions

showed high or extreme risk for health and safety violations in 2024.



Key sourcing markets for supply chains showed higher risk in the forced labour index, even with a heightened focus from governments regulating forced labour instances in supply chains worldwide.

Regions that reported higher forced labour risk in 2024 include China, Netherlands, United States, Australia, United Kingdom, India, and more.

The insights in this report are derived from LRQA's supply chain ESG risk ratings found in our supply chain due diligence platform EiQ. The ratings are comprised from onsite audit data (20,000+ per year) combined with civil society research. By gaining a better understanding of supply chain ESG risks and trends that are shaping the evolving landscape, we can better support organisations in mitigating potential threats and complying with rising due diligence requirements.

This report also integrates from-the-ground data using insights from our worker sentiment surveys and grievance channels, illustrating a more holistic risk view using worker voice.



Content in this report was sourced from our EiQ platform using data from our onsite work in more than 100 countries. **Click here t**o learn more about EiQ or speak to one of our analysts.



# LRQA's ESG risk ratings overview

Our geography ESG risk ratings present a comprehensive overview of the highest-risk regions against more than 38 critical ESG metrics. These metrics are categorised under five overarching 'pillar' categories: labour, health and safety, environment, business ethics, and management systems. Each country or region receives an overall supply chain risk rating, ratings for each of LRQA's five supply chain pillar categories, and 31 ratings for the subcategories beneath these five pillars (detailed on the right).

These ratings indicate the inherent sourcing risk at a national or regional level, and provincial level, when applicable. The ratings measure inherent ESG risk, or the risk associated with the sourcing activity specific to a region. The ratings help organisations understand the worst-case scenario, or maximum exposure to risk, that an entity has if no activity or process is yet undertaken on the part of the entity to control risk. The most common application of inherent risk analysis is for answering questions of prioritisation: which areas of the supply chain or regions of operation are most exposed to forms of supply chain ESG risk.

#### Five pillars of responsible sourcing ESG risk

Sub-index contribution to pillar index Labour Health and safety Child labour (20%) Building safety (15%) Domestic migrant workers (5%) Chemical related (10%) Forced labour (10%) 오 Labour Emergency evacuation (5%) Freedom of association (10%) Fire safety (5%) Humane treatment (5%) Hygiene and sanitation (20%) Migrant workers (10%) Injuries (15%) Wages (20%) Machine safety (15%) Working hours (20%) Occupational safety (15%) 30% Pillar index contribution to supply chain risk value Health and safety 20% Pillar index contribution to supply chain risk value **Environment** Air emissions (20%) Environment management (20%) Environment permits (20%) **Environment** Waste management (20%) Management systems Wastewater violations (20%) Code awareness (10%) H&S policy (10%) Pillar index contribution to supply chain risk value Other documentation (10%) Unauthorised subcontracting (25%) **Business ethics** Wage documentation (20%) **Business ethics** Worker contracts (10%) Business integrity (60%) Working hours documentation (15%) Policy index (20%) Transparency index (20%) 15% Pillar index contribution to supply chain risk value Management systems **15%** Pillar index contribution to supply shain risk value





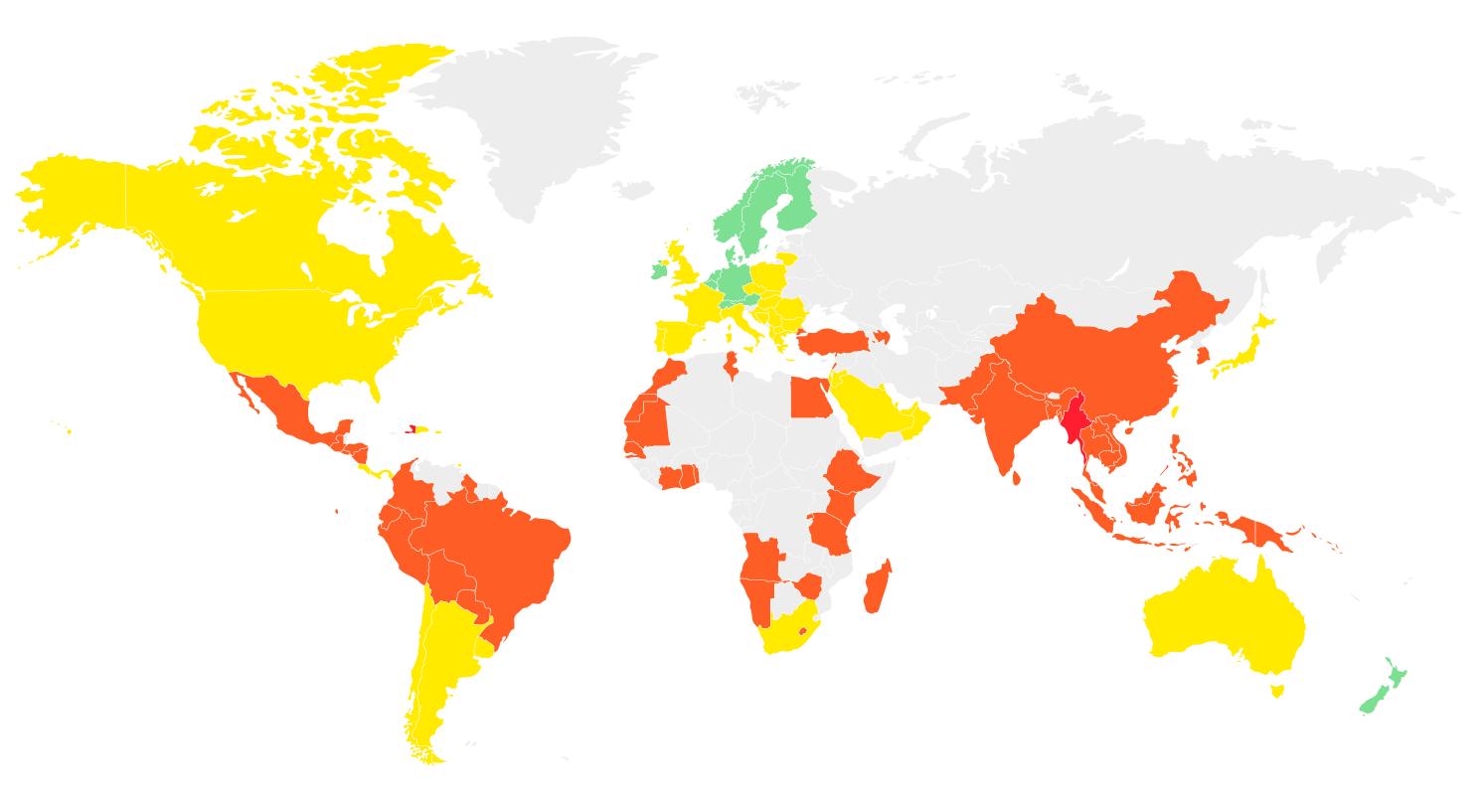
## Global risk trends

Globally, nearly half of the sourcing regions analysed showed higher overall supply chain risk than in 2023.

Ongoing trends in 2024 are further complicating the risk landscape. Global civil conflict is impacting risk for foreign migrant workers, while climate risk is highlighting the interconnected relationship between environmental risks and human rights risks. Meanwhile, evolving due diligence regulations, while well-intentioned, may be creating instances of lower transparency in supply chains, rather then reduced risk. Businesses must gain a better understanding of the overall operating context in order to implement due diligence best practice into their responsible sourcing programme.

We will first highlight the top findings uncovered globally from our risk ratings, then dive into more issue-specific and region-specific insights. These ratings are derived from data generated on our supply chain due diligence platform, EiQ. The platform leverages machine learning combined with a robust dataset from onsite audits and trusted civil society research to conduct risk analysis on sourcing regions, products, and individual suppliers.

#### Global overall supply chain risk heat map, EiQ



**Risk key:** • Extreme (0 - 2.49) • High (2.50 - 4.99) • Medium (5.00 - 7.49) • Low (7.50 - 10)

Our heat maps represent the overall risk data and can be found in our EiQ platform. Our compilation of top five and bottom regions for supply chain ESG risks are based on audit volumes. Our lists were derived from areas where the highest number of onsite audits were conducted.

Our overall supply chain risk index reflects the level of risk related to sourcing from a specific region based on LRQA's audit dataset. It is generated by aggregating the values of what we classify as the five main ESG pillars: labour, health & safety, environment, business ethics and management systems.



## Global risk trends

Our data indicates that risk is rising for many key supply chain ESG issues and violations. At least 78 regions in 2024 showed higher overall risk, representing nearly a third of the sourcing regions analysed.

In 2024, fewer countries were categorised as high or extreme risk for overall supply chain ESG violations. However, specifically in supply chain risk, a score comprised solely from audit data, there more regions denoted as high or extreme risk in 2024 than in 2023.

The global average of overall supply chain labour risk, which includes categories such as forced labour, child labour and inhumane treatment, worsened in 2024.

The global average of wage

risk, which includes low

and overtime wages,

worsened in 2024.

wages, wage deductions,





At least 75 regions showed worsening transparency

Harassment and abuse-related

non-conformances were

countries in the past year.

detected across 20 different

The global average of overall supply chain risk worsened in 2024.



#### **EiQ** year-on-year risk trends

	2024	2023
Overall supply chain risk	regions in high or extreme risk categories	regions in high or extreme risk categories
Forced labour risk	regions in high or extreme risk categories	egions in high or extreme risk categories
Wage risk	regions in high or extreme risk categories	egions in high or extreme risk categories
Health and safety risk	regions in high or extreme risk categories	regions in high or extreme risk categories





We have identified the top and bottom performers in each of our **five ESG pillars**, as well as highlighted insights from critical sub-metrics such as forced labour, risk of wage issues and excessive working hours.

#### Labour risk

The labour index reflects the overall level of risk related to labour issues and is comprised of the aggregated scores from sub-categories such as child labour, forced labour, harassment and discrimination, wages and working hours. The labour index is used to gain insight into critical supply chain risks, especially zero tolerance risks such as forced labour and child labour.

Many new supply chain due diligence laws require companies to establish a risk management system to identify, prevent, or minimise the risks of human rights violations. Labour indices directly contribute to these requirements and support the reporting and mitigation processes.

#### Key regulations applicable for analysing labour risk index:

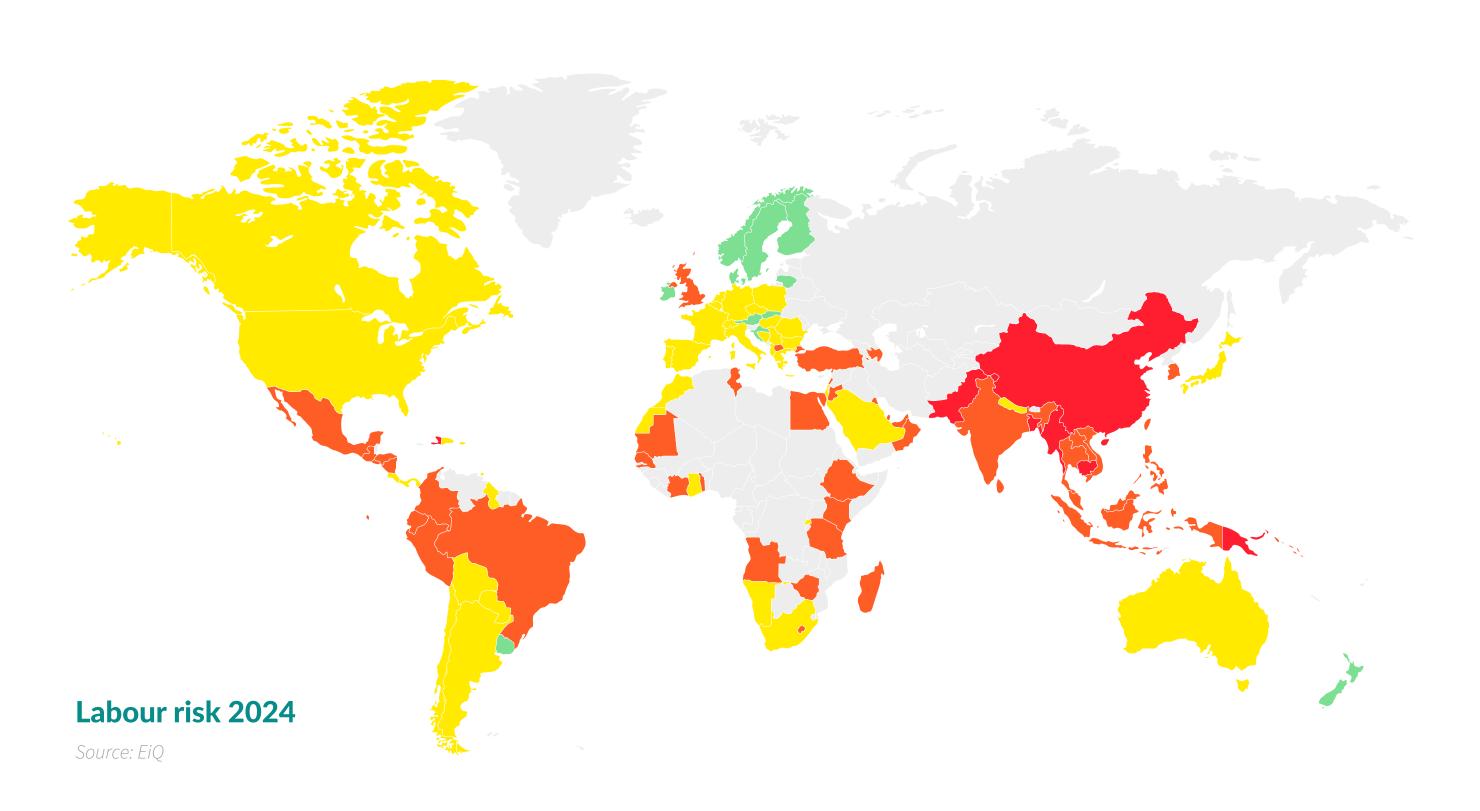


Our compilation of top and bottom regions for supply chain ESG risks are based on audit volumes. Our list was derived from areas where the highest number of onsite audits were conducted.



**Top performing regions** 

# Labour risk



#### **Bottom performing regions**

Region	Score	Key risk drivers	Region		Score
*: China	• 2.12	<ul><li>Working hours</li><li>Wages</li><li>Child labour</li></ul>		Portugal	• 7.33
Cambodia	• 2.34	<ul><li>Child labour</li><li>Freedom of association</li><li>Working hours</li></ul>		France	• 7.18
Bangladesh	• 2.42	<ul><li>Freedom of association</li><li>Working hours</li><li>Forced labour</li></ul>		Germany	• 7.05
C* Pakistan	• 2.46	<ul><li>Freedom of association</li><li>Wages</li><li>Working hours</li></ul>		Italy	<b>6</b> .91
India	• 2.58	<ul><li>Freedom of association</li><li>Forced labour</li><li>Child labour</li></ul>	<b>(A)</b>	Spain	• 6.39
Vietnam	• 2.61	<ul><li>Wages</li><li>Working hours</li><li>Forced labour</li></ul>	*	Canada	• 6.10
Philippines	• 2.79	<ul><li>Freedom of association</li><li>Working hours</li><li>Wages</li></ul>	*	Australia	<b>5.84</b>
Malaysia	• 2.92	<ul><li>Forced labour</li><li>Humane treatment</li><li>Migrant worker</li></ul>		Japan	<b>5.82</b>
<b>C</b> * Turkey	• 3.06	<ul><li>Freedom of association</li><li>Wages</li><li>Working hours</li></ul>		South Africa	<b>5.49</b>
Indonesia	• 3.21	<ul><li>Freedom of association</li><li>Humane treatment</li><li>Wages</li></ul>			

Our heat maps represent the overall risk data and can be found in our EiQ platform. Our compilation of top five and bottom regions for supply chain ESG risks are based on audit volumes. Our lists were derived from areas where the highest number of onsite audits were conducted.

**Risk key:** ● Extreme (0 - 2.49) ● High (2.50 - 4.99) ● Medium (5.00 - 7.49) ● Low (7.50 - 10)





### Forced labour risk

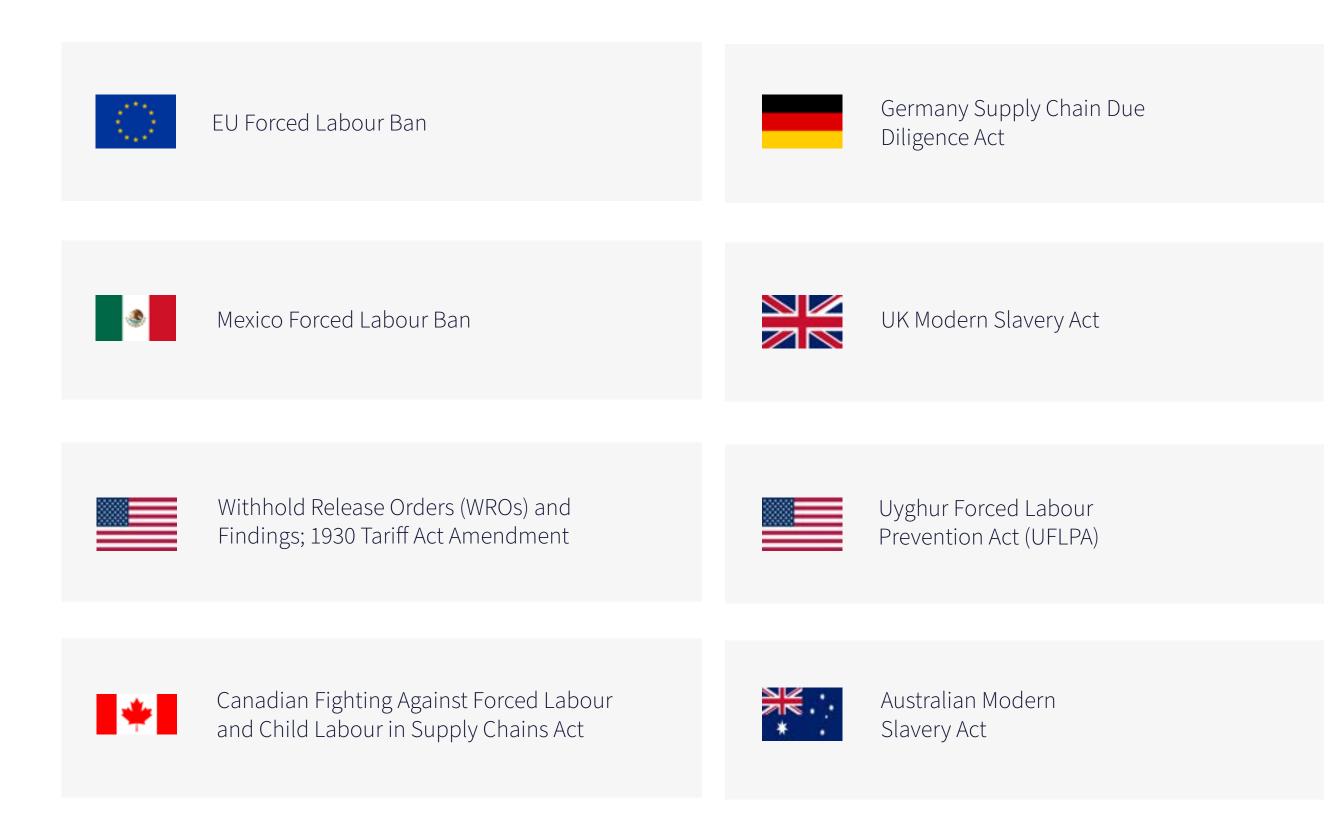
#### Forced labour risk

As of 2021, at least 27.6 million people are still found to be in forced labour situations, according to the International Labour Organisation (ILO). For businesses, forced labour is one of the most critical ESG risks to evaluate and monitor in supply chains in order to safeguard human rights, particularly as due diligence regulations and media scrutiny on forced labour investigations bring heightened focus on the issue. With the rise of globalisation and complex supply chains spanning multiple countries and regions, the risk of forced labour has become more prevalent and difficult to detect. Companies face growing pressure from stakeholders, including consumers, investors, and regulatory bodies, to ensure that their supply chains are free from forced labour and other human rights abuses.

Regions identified as key sourcing markets for supply chains saw worsening scores in forced labour risk, even with a heightened focus from governments regulating forced labour instances. Regions that reported higher forced labour risk in 2024 include China, Netherlands, United States, Australia, United Kingdom, India, and more. The forced labour index reflects the risk of forced labour violations present from site operations and production. The index is calculated based on the prevalence of non-compliances in accordance with the ILO forced labour indicators. Examples of violations include illegal recruitment fees, retention of identity documents, forced overtime, restriction of movement and wage withholding.

Companies operating in regions with high forced labour risk face legal and regulatory consequences and are vulnerable to sourcing malpractice connected to human rights violations, putting the reputation and integrity of their business at risk.

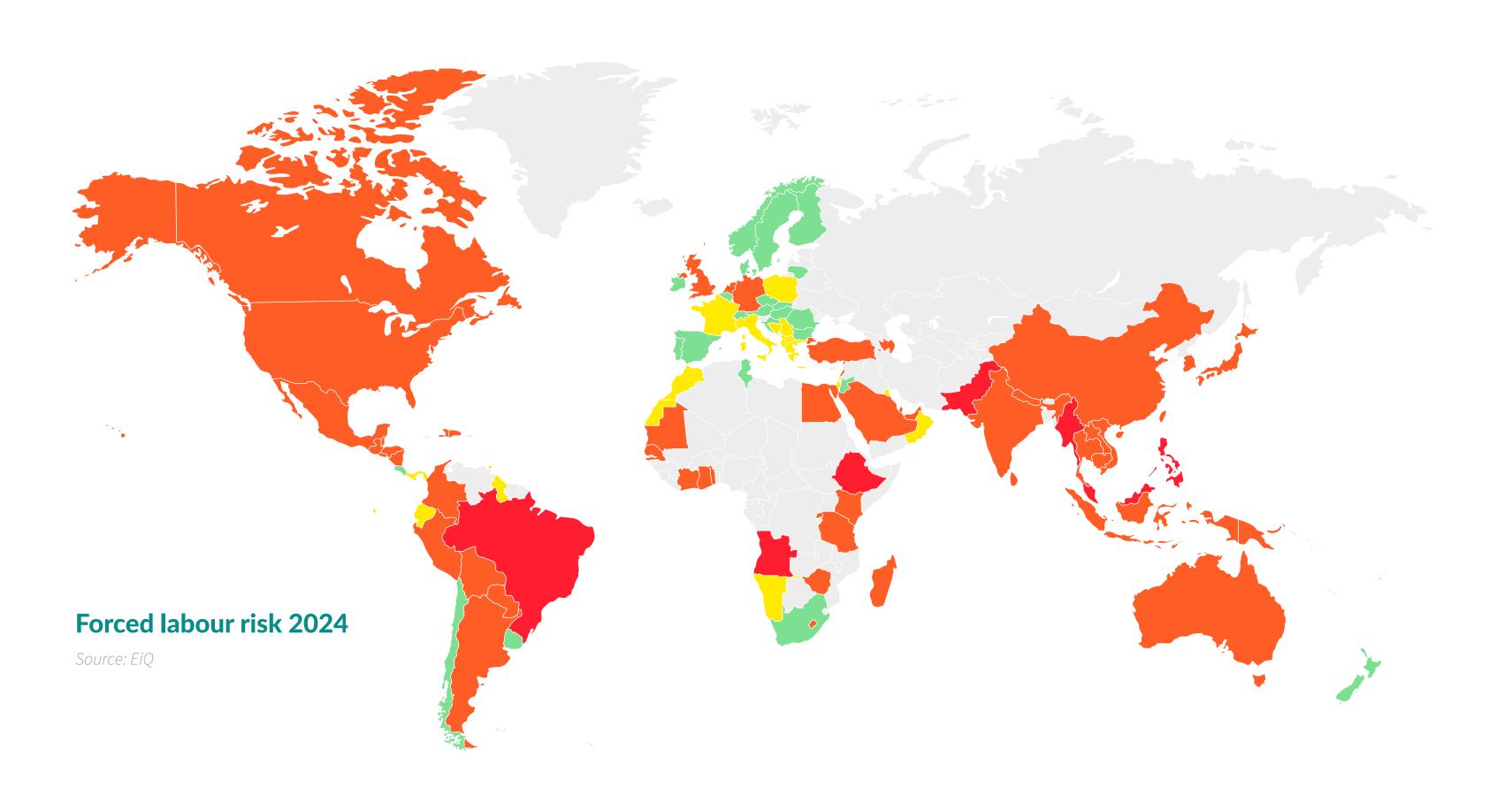
#### Key regulations applicable for analysing forced labour risk index:





#### Next

# Forced labour risk



#### **Bottom performing regions**

Region		Score	Region		Score
(* <b>=</b>	Malaysia	• 1.94		Bangladesh	• 2.62
<b>(</b>	Brazil	• 2.24	ARK.	Cambodia	• 2.78
*	Philippines	• 2.44		United States	• 2.89
C	Pakistan	• 2.48		Thailand	• 2.91
*	Taiwan	• 2.60		Sri Lanka	• 3.48
Risk key:	Extreme (0 - 2.49)	<ul><li>High (2.50 - 4.9</li></ul>	99) <b>–</b> Med	ium (5.00 - 7.49) •	Low (7.50 - 1

Our heat maps represent the overall risk data and can be found in our EiQ platform. Our compilation of top five and bottom regions for supply chain ESG risks are based on audit volumes. Our lists were derived from areas where the highest number of onsite audits were conducted.

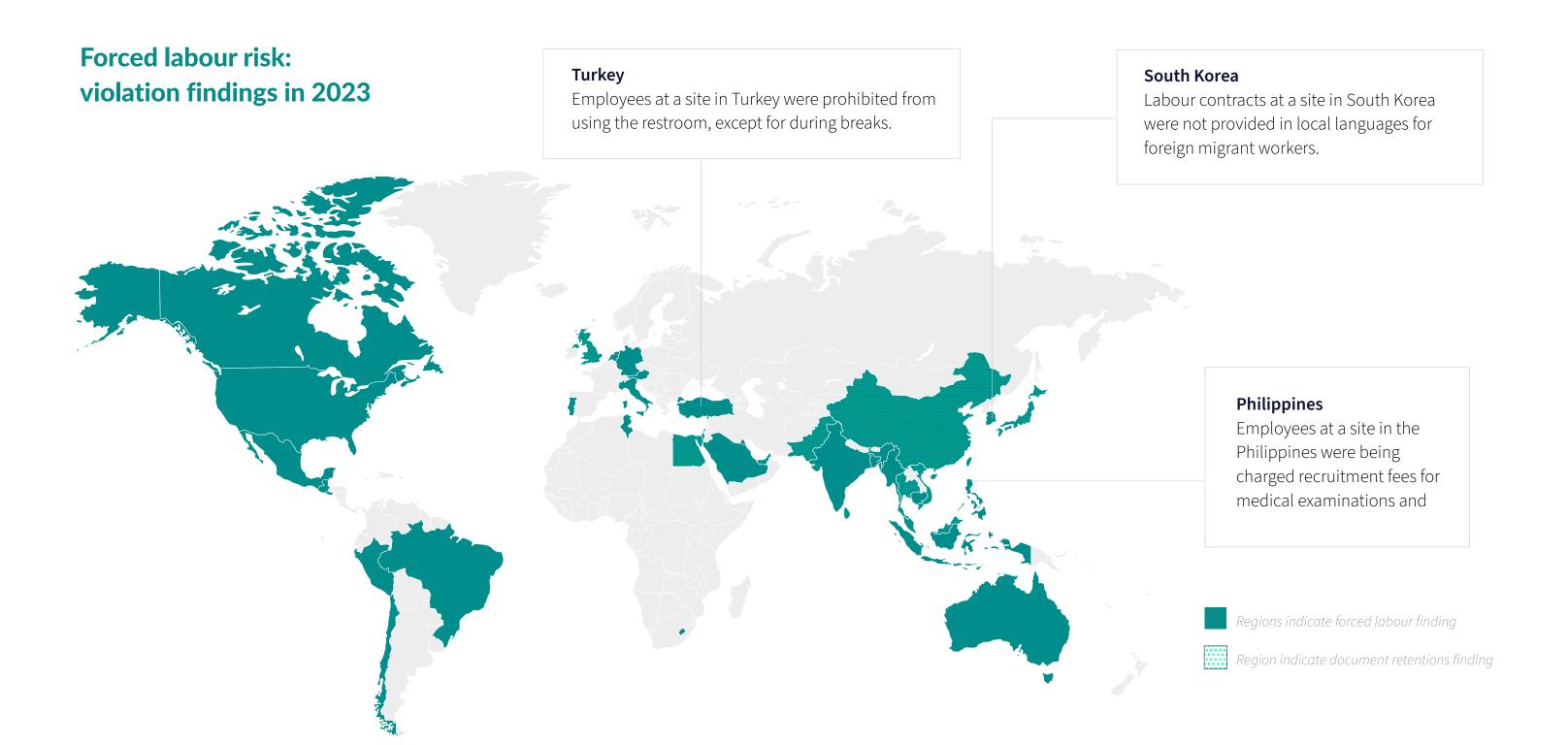


## Forced labour risk

Forced labour-related violations were uncovered in at least 40 sourcing regions in 2023 alone, according to EiQ data.

Many of these markets where forced labour violations were detected host a large population of foreign migrant workers, and therefore garner a higher risk exposure to forced labour violations. These markets include Malaysia, Japan, United Kingdom, and South Korea. Markets with larger foreign migrant worker populations are exposed to higher forced labour-related risks, as foreign migrant workers can be more susceptible to human rights violations. Foreign migrant workers can be more vulnerable to violations as they deal with complex recruitment processes, language barriers, and unfamiliarity with local laws. Foreign migrant workers are sometimes recruited through labour brokers or agencies that charge exorbitant fees for job placement, transportation, and accommodation, forcing them into situations of debt bondage and dependency on their employers. This debt bondage can often lead workers to not report abuse or seek assistance for fear of retribution in the form of termination or deportation.

Markets harbouring fewer or no foreign migrant workers still face forced labour risks through violations such as forced overtime, restriction to basic liberties, and recruitment fees. Our map pictured indicates the regions where forced labour-related violations were found in 2023 during onsite assessments.



#### **Unlawful document retention**

In 2024, our data showed in which countries certain production sites unlawfully retained documents from workers. This practice of withholding or manipulating essential documentation related to migrant workers' employment, rights, and welfare within the supply chain violates human rights standards and industry regulations, posing significant risks to both workers and companies involved in the supply chain.

Document retention can happen by withholding identification documents, where employers may confiscate or withhold migrant workers' passports, visas, or other identification documents, restricting their freedom of movement and ability to leave the workplace or country. This practice effectively traps workers in exploitative conditions and can increase their vulnerability to abuse and exploitation.

The map illustrates the regions where forced labour-related findings were uncovered in the last year and the regions where document retention violations were detected.



## Forced labour risk

## Beyond audit: identifying forced labour risk through adverse media

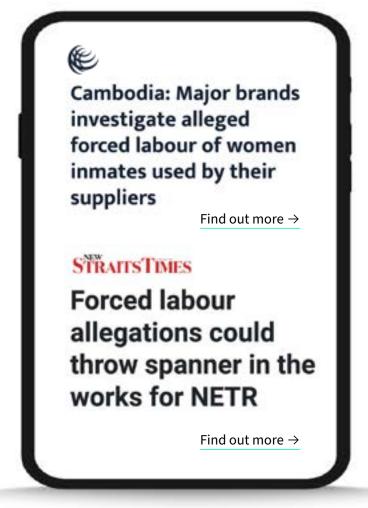
A growing media focus on forced labour investigations has exposed many global supply chains for their connections to supplier malpractices. Issues with audit transparency and the time lag between annual audits create a challenge for ongoing risk monitoring.

Our adverse media screening tool – EiQ Sentinel - builds a growing, accessible database of supply chain incidents and provides a highly scalable solution for screening new supply chain partners. Sentinel screens nearly 300,000 supply chain partners monthly and utilises local language sources for on-the-ground insights to facilitate ongoing risk monitoring.

In 2023, more than 1,450 incidents were uncovered in Sentinel connected to forced labour.

#### **Examples of forced labour articles detected through Sentinel, 2023**





Find out more →



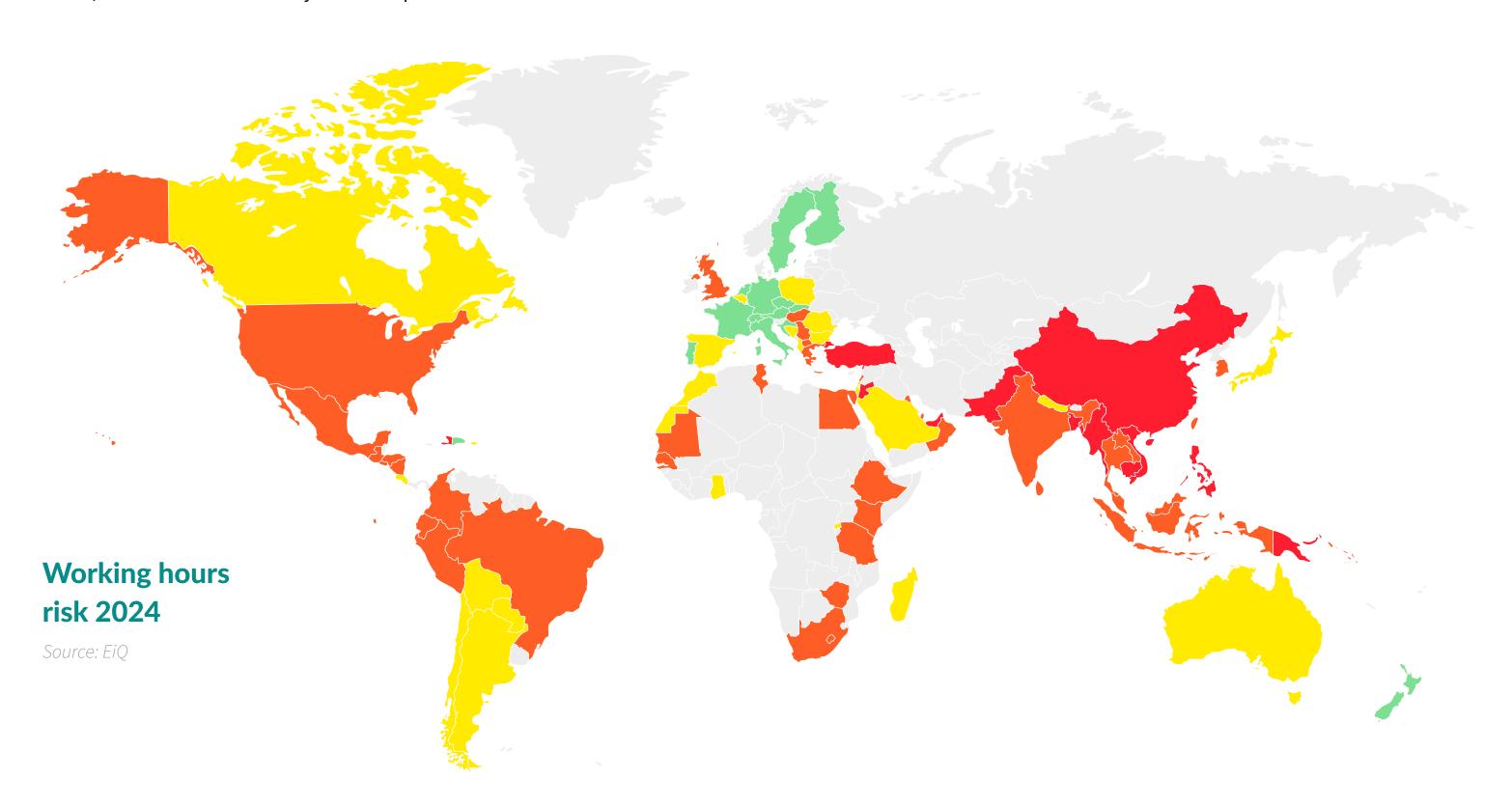
Beyond audit tools, such as EiQ Sentinel, support the required level of foresight into supplier risks.

While prioritising current risks, successful responsible sourcing programmes also hold a level of foresight into emerging issues and develop deeper understanding into regions where forced labour risk may be highest.



# Working hours risk

The working hours index reflects the level of risk associated with working hours and rest days. The index is calculated based on the prevalence of non-compliance issues in accordance with local regulations and clients' codes of conduct. Examples of violations include excessive weekly and monthly hours, and insufficient rest days and rest periods.



#### **Bottom performing regions**

Region		Score
*)	China	• 0.58
	Bangladesh	• 1.07
<b>C</b> ∗	Turkey	• 1.71
C	Pakistan	• 1.89
*	Philippines	• 1.99
*	Vietnam	• 2.03
Add	Cambodia	• 2.37
<b>(*</b>	Malaysia	• 2.51
	Sri Lanka	• 2.65
	Thailand	• 2.71

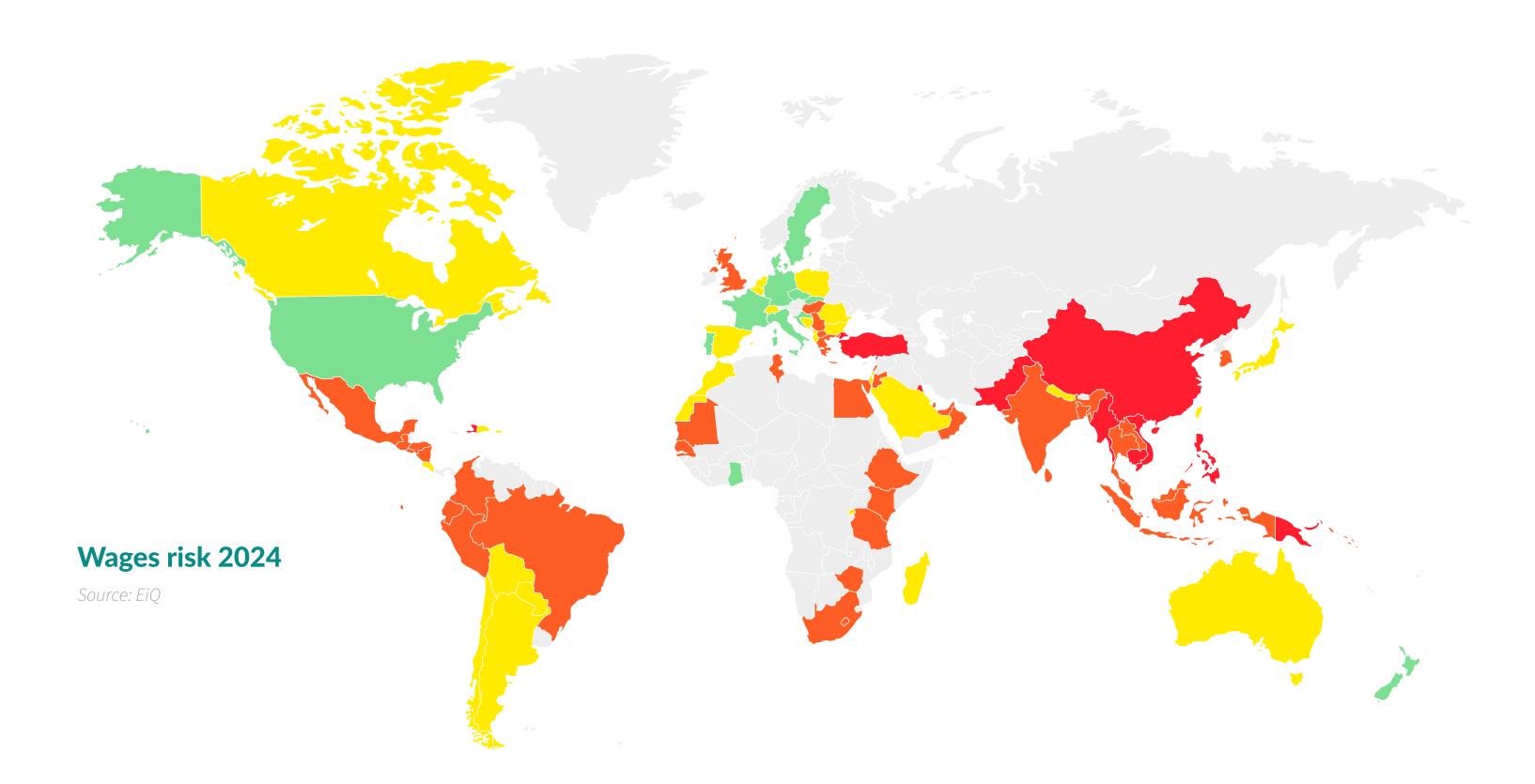
#### **Top performing regions**

Region		Score
	Germany	• 8.71
<b>(B)</b>	Portugal	• 8.56
	Italy	• 8.38
	France	• 8.25
高	Spain	<ul><li>6.89</li></ul>
*	Canada	<ul><li>6.67</li></ul>
*	Australia	<b>6</b> .44
	Japan	<ul><li>6.22</li></ul>
	• Extreme (0 - 2.4 (5.00 - 7.49) • Lo	



# Wages risk

The wages index reflects the level of risk associated with wages and benefits. The index is calculated based on the prevalence of violations related to minimum wages, overtime payment, timely payment, social insurances, leaves and other benefits.



#### **Bottom performing regions**

#### **Top performing regions**

Region		Score	Region		Score
*)	China	• 1.34		Germany	• 9.53
C*	Turkey	• 1.74		United States	• 8.57
C	Pakistan	• 1.97		France	• 8.25
*	Philippines	• 2.31		Italy	• 8.14
*	Vietnam	• 2.44	(3)	Portugal	• 7.64
	Indonesia	• 2.61	影	Spain	<ul><li>6.61</li></ul>
	Bangladesh	• 2.72		japan	• 6.51
***	Cambodia	• 2.79	XK.	Australia	<b>6</b> .44
•	India	• 2.84	*	Taiwan	• 6.33
	Sri Lanka	• 2.86	*	Canada	6.25

**Risk key:** • Extreme (0 - 2.49) • High (2.50 - 4.99) • Medium (5.00 - 7.49) • Low (7.50 - 10)

Our heat maps represent the overall risk data and can be found in our EiQ platform. Our compilation of top five and bottom regions for supply chain ESG risks are based on audit volumes. Our lists were derived from areas where the highest number of onsite audits were conducted.



# Wages risk

#### Wages risk: violations associated with worker payments

Unlawful profits gained from forced labour instances are growing worldwide, rising by \$64 billion since 2014, according to a recent report from the ILO.¹ Annual profits from forced labour make up more than US\$230 billion, with the highest rates of illegal profits in Europe and Central Asia, which account for about \$84 billion.

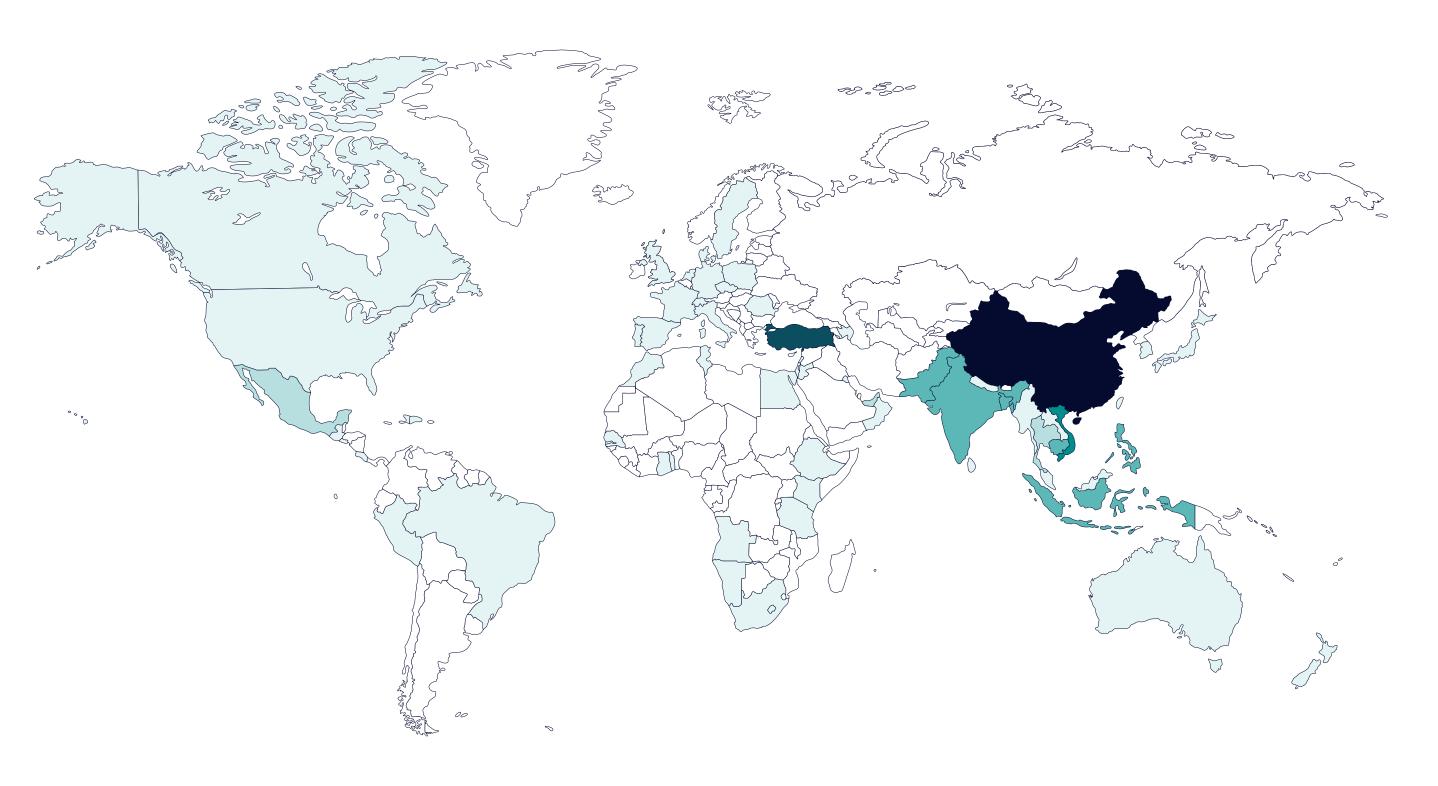
This figure reflects the wages or earnings effectively stolen from the pockets of workers by the perpetrators of forced labour through their coercive practices.

Total illegal profits from forced labour are highest in Europe and Central Asia, followed by Asia and the Pacific with profits of US\$62.4 billion. This is followed by the Americas (US\$52.1 billion), Africa (US\$19.8 billion), and the Arab States (US\$18.0 billion).

EiQ data from 2024 detected similar findings of instances associated with unlawful practices with worker wages. These findings included violations associated with late payments, wages lower than agreed terms of employment, and illegal deductions. More than 17,000 findings related to wage issues were uncovered in the last year, according to EiQ data. The map on the right illustrates the regions where these wage findings occurred.

1 ILO, Profits and poverty: The economics of forced labour. Second edition, Geneva: International Labour Office, 2024

#### Findings associated to wage violations, EiQ



#### **Count of findings**

0-50	51-100	101-500	501-1000	1001-10000	10000+





# Humane treatment risk: harassment and abuse

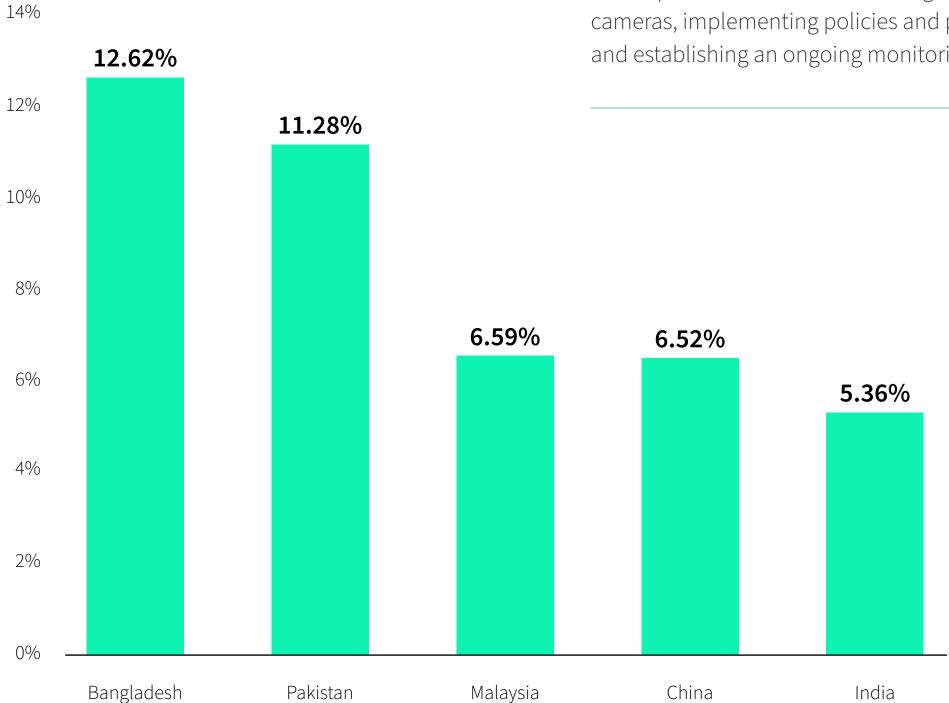
LRQA's grievance channels, which serve workers across Bangladesh, China, Malaysia, Indonesia, Pakistan, and India, showed harassment and abuse issues were one of the top grievances reported across every geography in the past year.

Grievance mechanisms serve as a vital feedback loop for businesses, as workers can raise concerns, or grievances within an organisation related to potential or actual adverse impacts on human rights and the environment. They enable companies to meet domestic and international obligations under due diligence legislation, anti-modern slavery laws, and custom and import control laws, while also aligning with global sustainability standards including the United Nations Guiding Principles (UNGP) and international best practice.



#### **Grievance mechanism case study**

A worker for a Malaysian palm oil supplier contacted the LRQA grievance channel to report physical abuse in the workplace. Upon further investigation, the helpline staff assisted with mitigation efforts such as installing CCTV cameras, implementing policies and procedures associated with the issue, and establishing an ongoing monitoring programme.



#### Grievances reported by workers, LRQA

Percentage of calls reporting harassment and abuse grievances: 2023



# **Environmental** risk

The environment index reflects the overall level of risk of environmental-related violations from an organisation's operations. The rating is calculated based on the weighted average of the environmental sub-categories including air emissions, environment management, permit, waste management and wastewater.

# Assessing environmental indices is vital to adhering to supply chain ESG regulations requiring companies to manage carbon emissions, these include:



EU Corporate Sustainability
Due Diligence Directive
(CSDDD)



Germany Supply Chain Due Diligence Act



EU Carbon Border Adjustment Mechanism (CBAM)



California Senate Bill 253: Climate Corporate Data Accountability Act



New Zealand Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act



EU Taxonomy Regulation



EU Deforestation Regulation (EUDR)

Along with regulations, environmental indices support adherence to recent reporting directives, intended to align with the Paris Agreement\* targets and reduce carbon emissions. These reporting directives include:



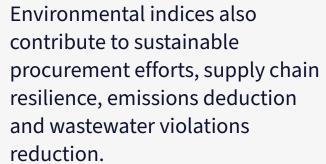
EU Non-Financial Reporting Directive



Task Force on Climate-related Financial Disclosures (TCFD)



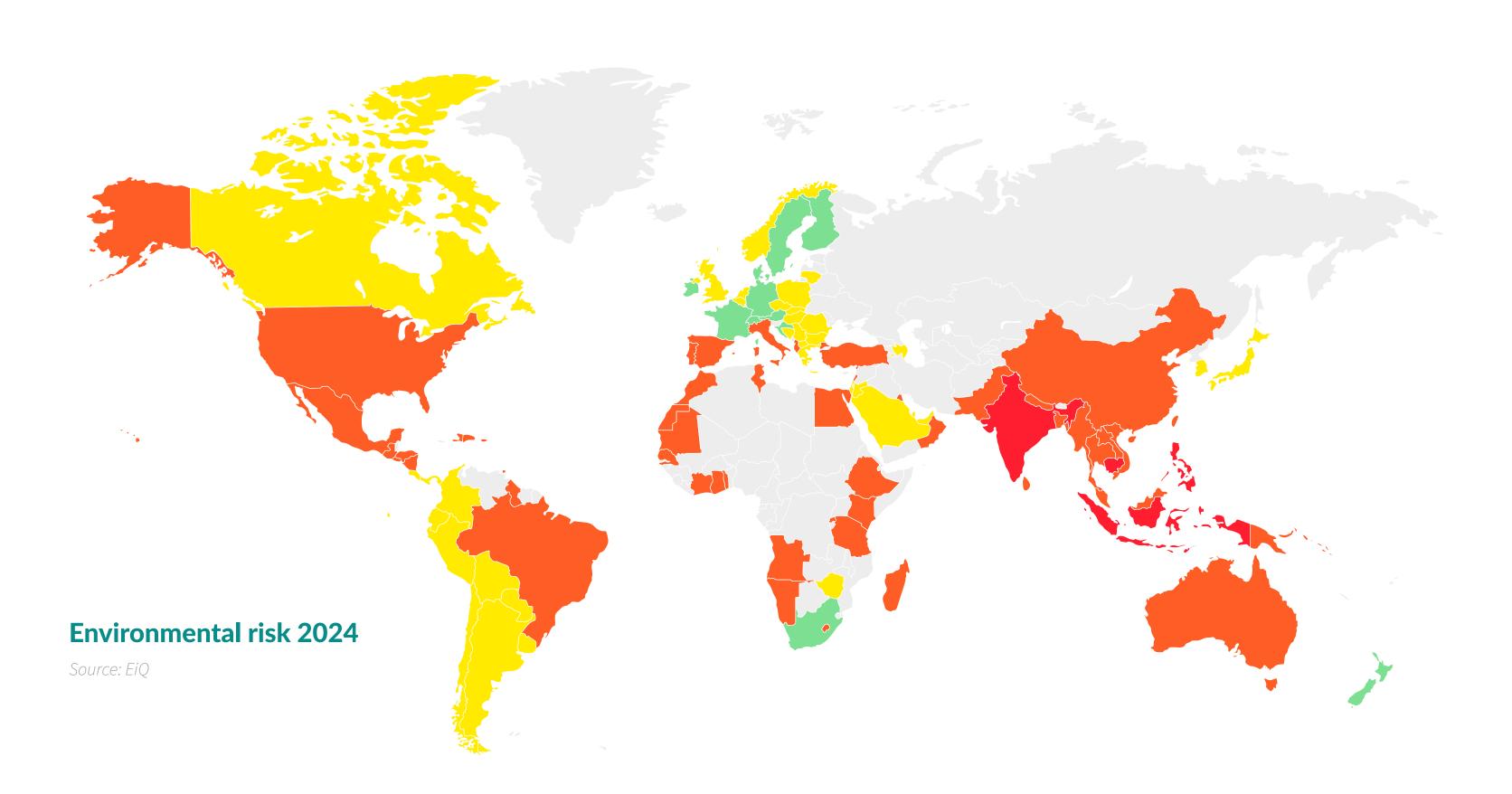
Global Reporting Initiative (GRI)
Standards



\* The Paris Agreement is the global initiative aimed at keeping temperature increases well below 2°C above pre-industrial levels.



# **Environmental risk**



#### **Bottom performing regions**

Region		Score	Region
	Indonesia	• 2.37	
AMA	Cambodia	• 2.49	
*	Philippines	• 2.50	>
•	India	• 2.50	*
C*	Turkey	• 2.57	
	Bangladesh	• 2.62	11011
<b>(*</b>	Malaysia	• 2.66	
<b>③</b>	Mexico	• 2.68	
	Thailand	• 2.78	
C	Pakistan	• 2.79	

#### **Top performing regions**

Region		Score
	Germany	• 7.77
	France	• 7.72
	South Africa	• 7.56
*	Canada	• 7.33
	United Kingdom	• 7.12
	South Korea	<b>6.93</b>
	Japan	6.55

**Risk key:** • Extreme (0 - 2.49) • High (2.50 - 4.99) • Medium (5.00 - 7.49) • Low (7.50 - 10)

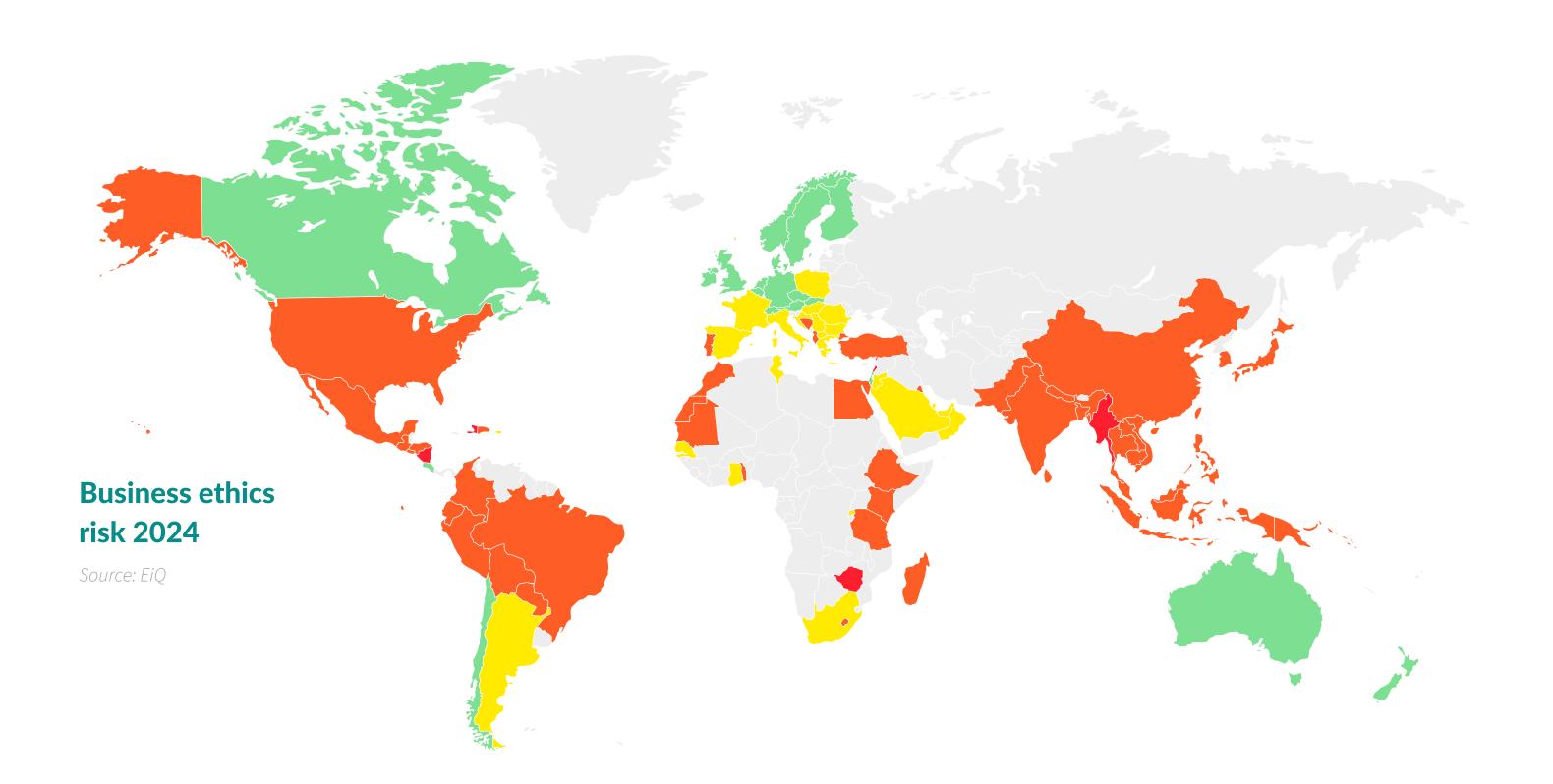
Our heat maps represent the overall risk data and can be found in our EiQ platform. Our compilation of top five and bottom regions for supply chain ESG risks are based on audit volumes. Our lists were derived from areas where the highest number of onsite audits were conducted.



**Top performing regions** 

## **Business ethics risk**

The business ethics index reflects the overall level of risk related to business integrity and transparency. Common audit violations under business ethics include falsification of documents, coaching workers for what to say during an audit, and bribery attempts. Transparency is an essential component of gathering credible data and gaining true visibility over supply chain operations. Site transparency allows stakeholders to assess the ESG performance of their business partners, including factors such as labour conditions, environmental impact, and compliance with regulations. This level of openness from supply chain sites facilitates better collaboration and stakeholder engagement to drive site improvement and allow for capacity building measures to be effectively implemented, when necessary.



#### **Bottom performing regions**

Brazil

Region		Score	Region		Score
C	Pakistan	• 2.59	*	Australia	• 8.97
Ģ.	China	• 2.66		Germany	• 8.60
* <b>=</b>	Malaysia	• 2.71	*	Canada	• 8.34
	Thailand	• 2.78	$\gg$	South Africa	• 7.35
<b>③</b>	Mexico	• 2.79		France	<b>6.60</b>
	Bangladesh	• 2.86	<b>1</b>	Spain	6.16
•	India	• 2.98		Italy	<ul><li>5.63</li></ul>
(*)	Portugal	• 2.98			
C*	Turkey	• 3.00			

regions for supply chain ESG risks are based on audit volumes. Our lists were derived from areas where the highest number of

**Risk key:** • Extreme (0 - 2.49) • High (2.50 - 4.99) • Medium (5.00 - 7.49) • Low (7.50 - 10)

**3.07** 





# **Business ethics risk**

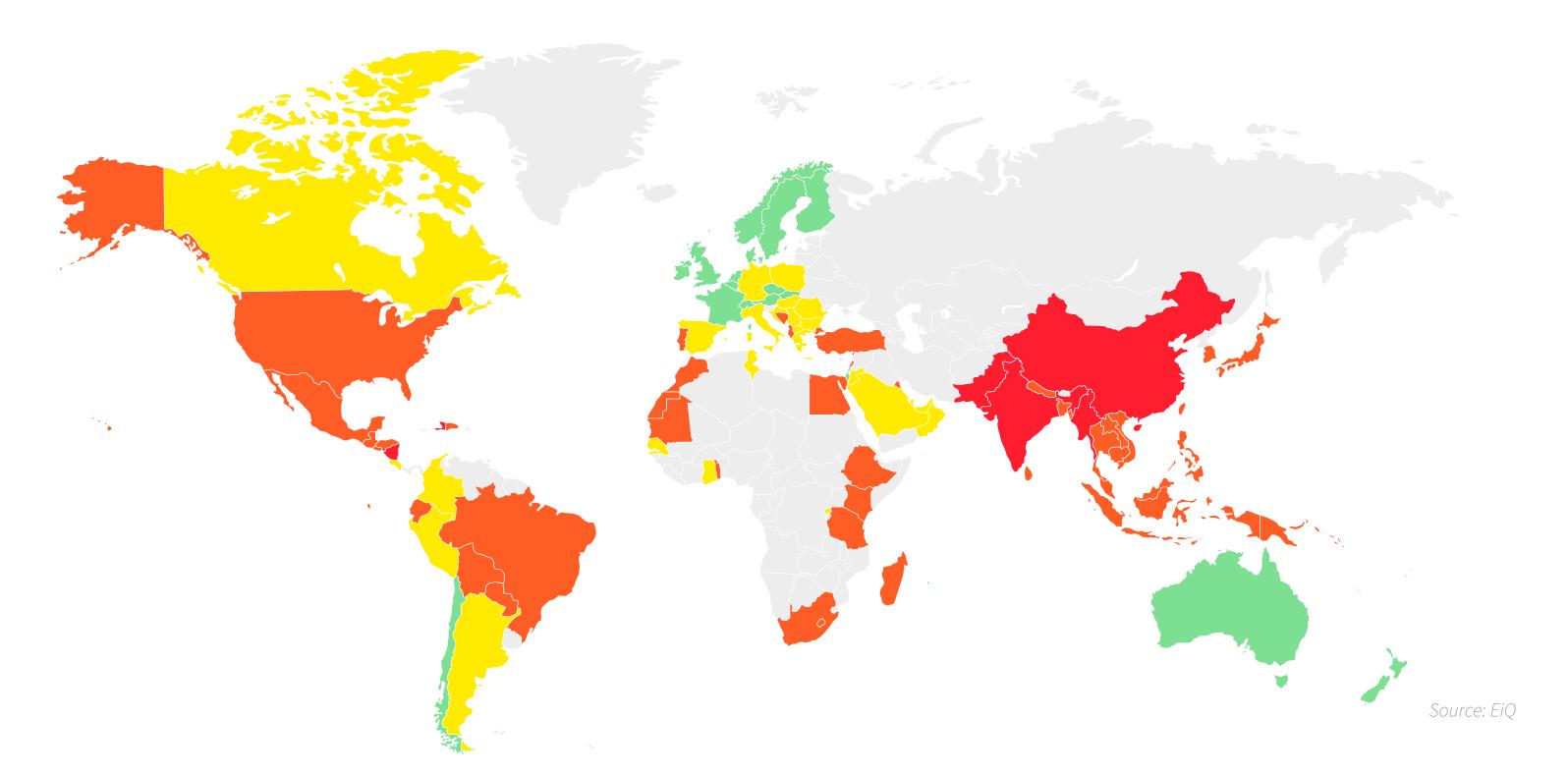
## Low transparency impacts access to reliable risk data

Transparency levels among suppliers can make or break a risk mitigation programme. This risk category is the key indicator of whether audit standards reflect true site conditions. Audit transparency denotes the level of access to information and the accuracy of information presented to auditors during assessment processes.

Transparency levels dropped worldwide during the Covid-19 pandemic, as lockdowns, economic downturns, layoffs and shipping delays created complications for sites. Factories were working overtime to keep up with production and adjust to supply chain disruptions.

Transparency levels dropped as access to sites became low and online and self-assessments allowed for misrepresentation of excessive working hours and labour violations from sites. As countries learned to adjust to the pandemic, transparency rates widely improved across many regions such as Italy, Mexico, and Indonesia. However, large markets like China, India, and Pakistan continue to show troubling transparency rates.

#### Global transparency risk heat map, EiQ



In 2024, China continues to be the least transparent major sourcing market. Just 55% of all audits conducted in China in the last year were classified as transparent. India, Pakistan, and Myanmar also exhibit extreme risk levels for low transparency, and countries like the United States, Mexico, and Bangladesh showed worsening transparency levels over the past year. Japan and Canada, both previously identified as low risk in the transparency category, showed significant drops in transparency levels in 2024.

Poor audit transparency compounds higher ESG risk exposure. If suppliers in high-risk countries engage in falsifying or concealing data, the likelihood of businesses unwittingly producing through high-risk practices increases significantly. Although the pandemic has subsided and transparency has improved due to the return of traditional assessment techniques, levels of low transparency in developed regions pose a problem for responsible sourcing programmes.

To combat this, businesses must prioritise using robust standards where auditors are trained to identify instances of audit deception. Improving transparency throughout end-to-end supply chain operations will also require beyond-audit measures – including adverse media scans and integrating worker surveys to gain a more holistic view of a site. Implementing supplier training modules to train sites on expectations and policies can also promote improvement of transparency throughout sites.



# Management systems risk

Assessment of management systems is pertinent to supply chain risk assessment because it provides insights into the effectiveness of governance, operational practices, and compliance mechanisms within the supply chain. Management systems play a fundamental role in driving responsible business practices, ensuring compliance with regulations and industry standards, and managing ESG risks effectively.

By evaluating management systems, companies can identify gaps, weaknesses, and areas of non-compliance that may pose risks to workers, communities, and the environment. For example, inadequate availability of permits and contracts may signal legal or regulatory risks, environmental liabilities, or supply chain disruptions.

The management systems index reflects the aggregated risk values related to insufficient managerial capacity and practices. The index is calculated based on instances of non-compliance related to documentation practices of wages and hours, subcontracting orders without buyer's authorisationand availability of permits and contracts. Examples of zero tolerance findings related to management systems risk includes unauthorised subcontracting or lack of documentation compliance which may include missing or incomplete records related to worker contracts, wages, working hours, health and safety protocols, and environmental permits. Management systems risk 2024 Source: EiQ

#### **Bottom performing regions**

Region		Score	
	Mexico	• 2.85	
(* <b>=</b>	Malaysia	• 2.93	
C*	Turkey	• 3.03	
C	Pakistan	• 3.25	
	Thailand	• 3.33	
	Indonesia	• 3.39	
<b>®</b>	India	• 3.64	
	Bangladesh	• 3.73	
	Sri Lanka	• 3.76	

#### **Top performing regions**

	0 0	
Region		Score
	Germany	<b>6.90</b>
	United Kingdom	6.84
*	Canada	6.81
<b>**</b>	Spain	• 6.40
	France	• 6.19
	United States	• 6.16
NK.	Australia	<b>5.93</b>
(8)	Portugal	<b>5.67</b>
	South Africa	<b>5.29</b>
***	South Korea	5.18

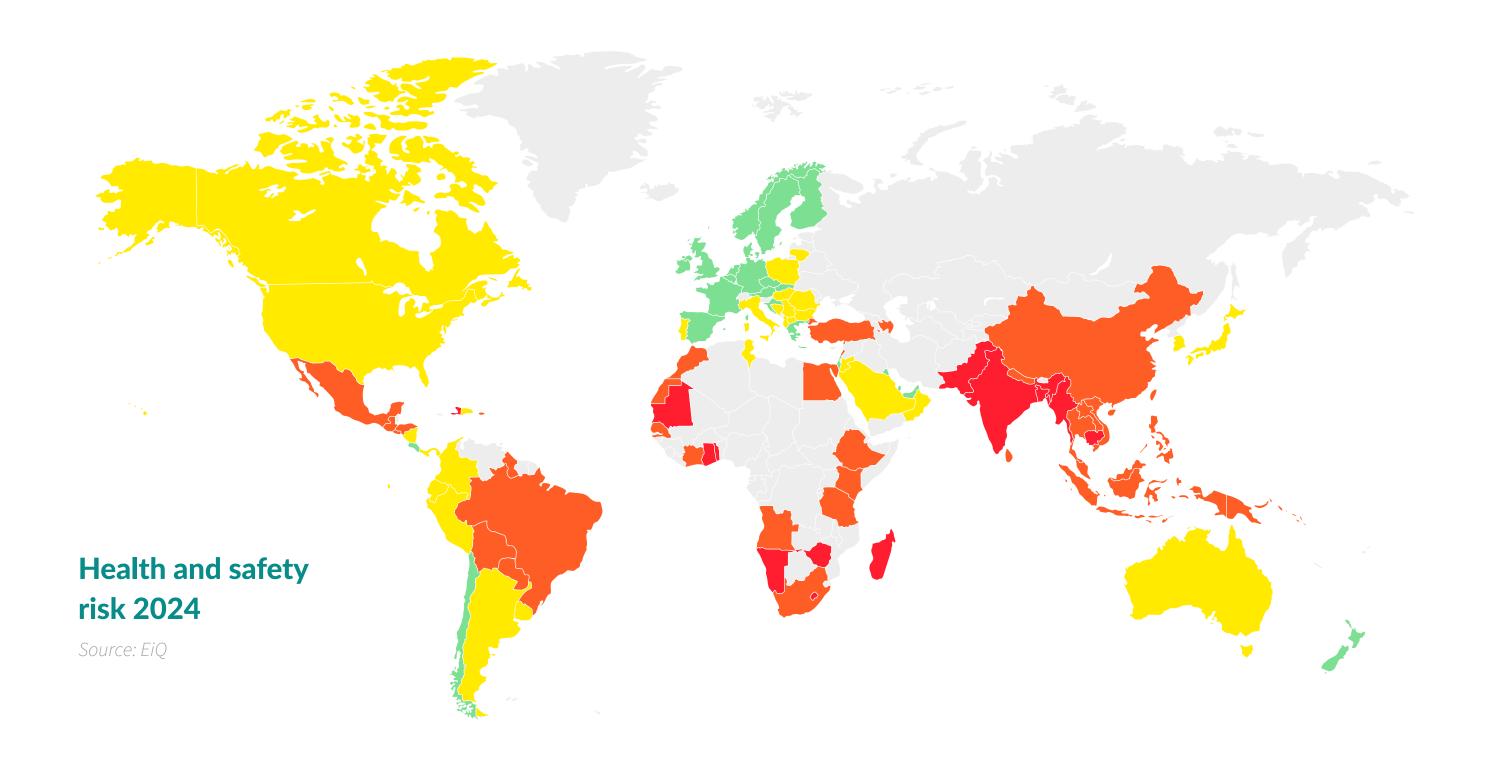
**Risk key:** • Extreme (0 - 2.49) • High (2.50 - 4.99) • Medium (5.00 - 7.49) • Low (7.50 - 10)

Our heat maps represent the overall risk data and can be found in our EiQ platform. Our compilation of top five and bottom regions for supply chain ESG risks are based on audit volumes. Our lists were derived from areas where the highest number on onsite audits were conducted.



# Health and safety

The health and safety index reflects the aggregated risk sub-indices related to worker safety in the workplace. The index is calculated based on the weighted average of the health and safety sub-indices including building safety, fire safety, injury, machine safety, and hygiene and sanitation at the workplace and in the dormitory/canteen. The index also integrates the risk of infectious diseases and virus outbreaks in the workplace. Health and safety index ratings support the risk mitigation process and identification of zero tolerance violations.



#### **Bottom performing regions**

#### **Top performing regions**

Region		Score		Region		Score
C	Pakistan	• 2.13			France	• 7.98
	Bangladesh	• 2.30			Germany	• 7.77
•	India	• 2.48		illia in the second	Spain	• 7.68
Add	Cambodia	• 2.50		*	Canada	• 7.02
*	Philippines	• 2.83		*	Australia	• 6.92
	Indonesia	• 3.04		<b>**</b>	Portugal	• 6.47
	Thailand	• 3.86			Italy	<b>5.83</b>
	Sri Lanka	• 3.86			United States	<b>5.62</b>
<b>C</b> *	Turkey	• 3.91			South Korea	• 5.30
(* <b>=</b>	Malaysia	• 4.00				
Pick key:	• Fytreme (0 - 2 49)	High (2	50 - <u>4</u> 99)	Medium	(5 00 - 7 49) <b>•</b> Low	v (7 50 - 10)

**Risk key:** ● Extreme (0 - 2.49) ● High (2.50 - 4.99) ● Medium (5.00 - 7.49) ● Low (7.50 - 10)

regions for supply chain ESG risks are based on audit volumes. Our lists were derived from areas where the highest number of onsite audits were conducted.





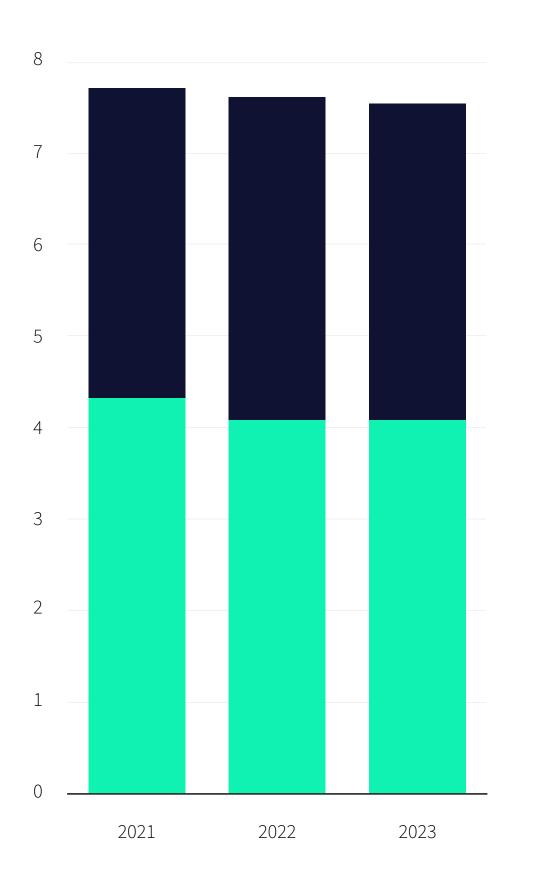
# Health and safety risk

Health and safety violations now make up nearly half of all non-conformances detected during audits. Health and safety violations have gradually been rising, with the top violations uncovered being related to machine safety, Personal Protective Equipment (PPE) usage, and protection from chemical leakage.

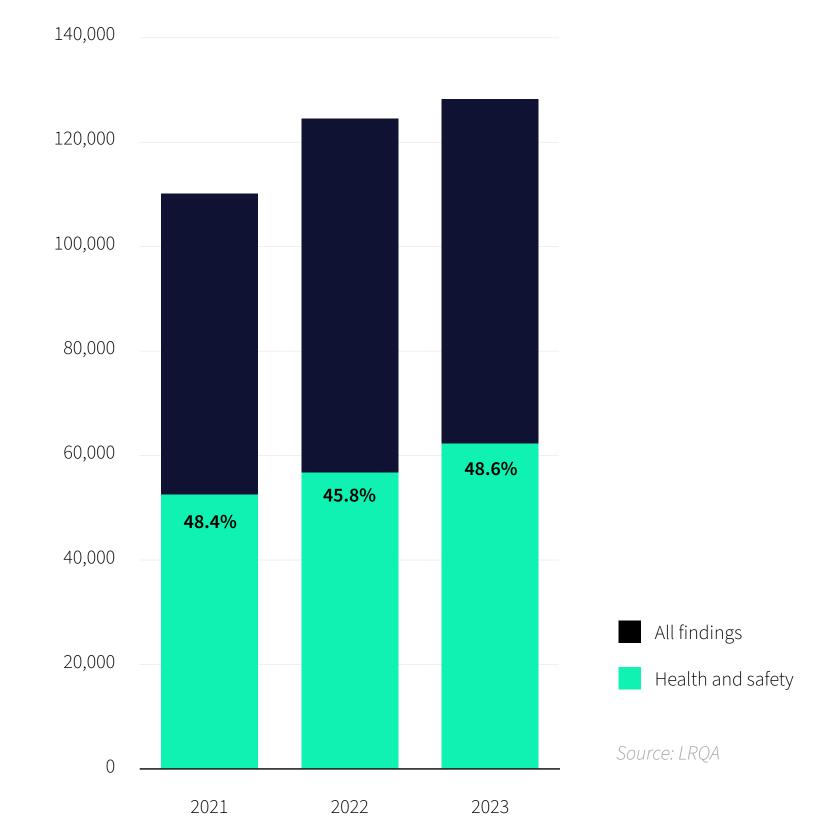
#### **Top health and safety violations (2023-2024)**

1	Machine guards
2	PPE – incorrect usage/lack of monitoring
3	Insufficient protection from chemical leakage
4	Occupational hazards
5	Regulatory approvals (building safety)
6	Label/signage (chemical and hazardous substances)
7	Evacuation route –blocked or obstructed

#### Findings per audit



#### **Total number of findings per year**



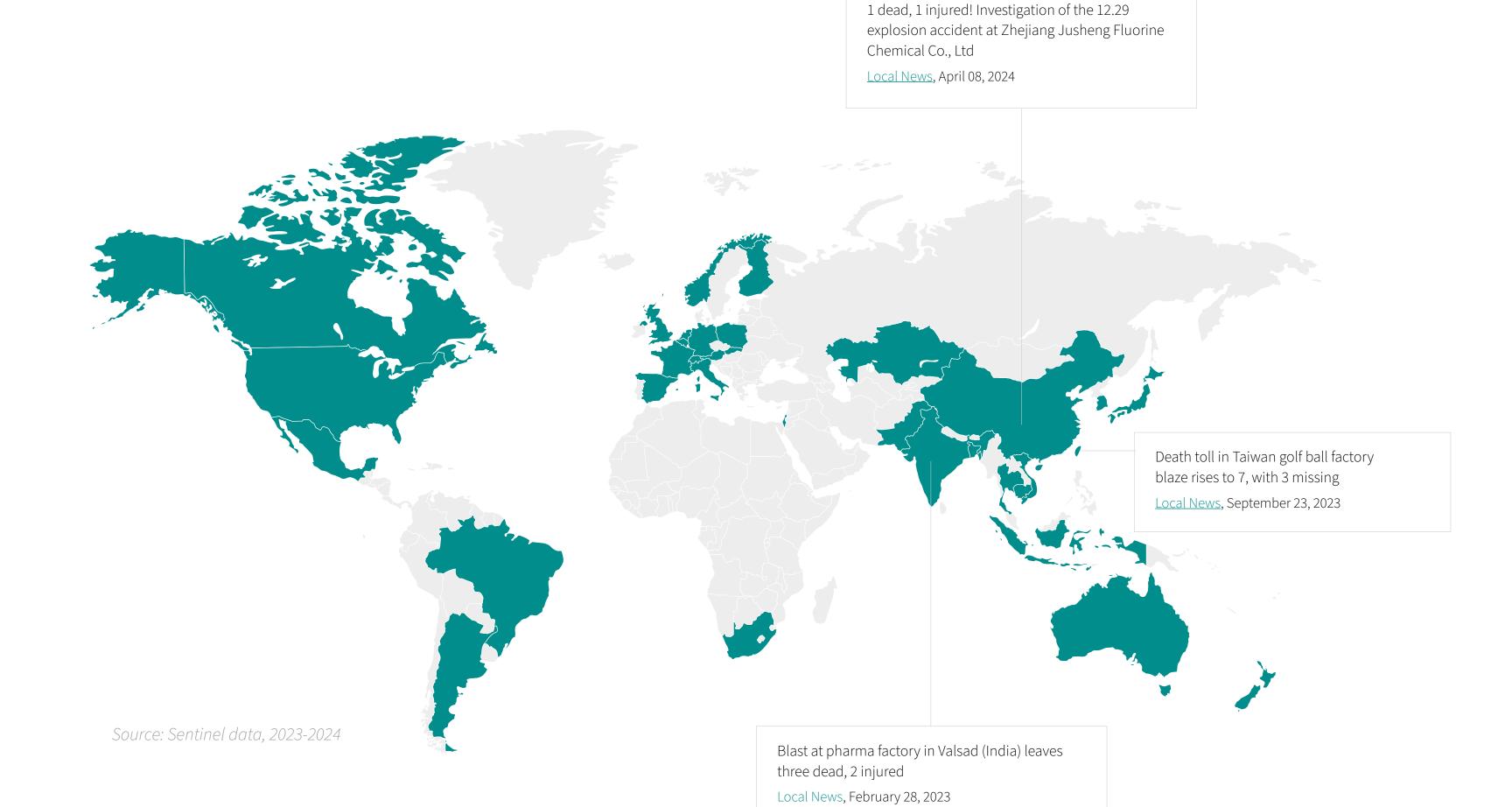


# Health and safety risk

We have seen the repercussions of unsafe working conditions through tragedies like the deadly Rana Plaza disaster, which killed more than 1,100 workers in 2013 after a garment factory in Bangladesh collapsed. This ignited efforts to improve working conditions worldwide, but the issue persists, as millions of workers continue to die each year due to unsafe working conditions, according to the International Labor Organisation (ILO).

Our EiQ Sentinel tool identified more than 300 fire incidents, including some fatal incidents, in 2023 and 2024 alone across 34 countries. Fire incidents and fatal injuries are rarely reported through standard audits, highlighting the need for beyond audit measures to properly assess health and safety risks on sites.

Prioritising health and safety protects the fundamental rights of workers. Unsafe working conditions can lead to injuries, illnesses, or fatalities, violating workers' rights to safe employment. Businesses have an ethical obligation to ensure that their operations do not harm employees and to ensure they are complying with international standards and oftentimes regulatory requirements.







# Key markets displaying troubling risk trends



#### The Philippines

The Philippines is a major hub for electronics manufacturing, contributing to the global supply chain for semiconductors and electronic products. The country is also one of the largest producers and exporters of coconut products and other agricultural products and is becoming a growing player in the apparel industry.

The Philippines showed worsening trends in its labour categories over the past year, including higher risk in forced labour violations and humane treatment.

The Philippines labour risk				
Risk index	2023	2024	Year-on-year change	
Labour	• 2.90	• 2.79	▼ -3.92%	
Child labour	• 4.71	• 4.89	<b>+</b> 3.76%	
Forced labour	• 2.48	• 2.44	-1.61%	
Freedom of association	• 1.51	• 1.67	<b>+</b> 10.17%	
Humane treatment	• 2.57	• 2.46	<b>▼</b> -4.07%	
Wages	• 2.43	• 2.31	<b>▼</b> -4.75%	
Working hours	• 1.97	• 1.99	<b>+</b> 1.15%	

#### **Risk insights**

The Philippines faces many challenges when addressing ESG risks in the country. A significant portion of its workforce is employed informally, without legal protection or benefits, making workers more vulnerable to exploitation. The Philippines is also one of the largest origin countries of foreign migrant workers. More than two million Filipino people have migrated to more than 100 countries over the last 40 years, according to the country's government.

The Philippines' key exports, such as mangoes, bananas, and pineapples, have been flagged by the United States' Department of Labor for child labour risk exposure, and the country's child labour risk has remained high in the past year, according to EiQ data.

The Philippines has also shown extreme levels of forced labour risk exposure and workers face vulnerabilities such as recruitment fees and humane treatment violations.

# The Philippines' key exports include

- Electronics
- Machinery
- Agricultural products (key exports include coconut products, bananas, and pineapples)
- Apparel and textiles
- Copper and minerals







#### **Sri Lanka**

Sri Lanka - a large exporter of tea, garments and textiles, rubber and agricultural products - showed significant downturns in nearly all labour categories over the past year. Audit data indicates the country is at higher risk for violations in nearly every labour category than in 2023.

Sri Lanka labour risk				
Risk index	2023	2024	Year-on-year change	
Labour	• 4.51	• 3.31	<b>▼</b> -26.49%	
Child labour	• 7.54	• 4.85	<b>▼</b> -35.68%	
Forced labour	• 4.77	• 3.48	<b>▼</b> -26.99%	
Freedom of association	• 2.83	• 2.18	<b>▼</b> -23.09%	
Humane treatment	• 4.73	• 3.60	<b>▼</b> -23.09%	
Wages	• 4.26	• 2.86	<b>▼</b> -32.94%	
Working hours	• 2.38	• 2.65	<b>▲</b> +11.37%	

#### **Risk insights**

Several media reports in 2023 exposed companies in Sri Lanka for labour and human rights violations. Wage issues were a recurring problem, including reports of delayed wage payments or halted payments for workers.¹ EiQ data showed Sri Lanka is at higher risk for wage issues by more than 30 percent in 2024 than in 2023.

Sri Lanka's risk for child labour violations also rose significantly in the past year. A 2022 US Department of Labour report said children in Sri Lanka are subject to the worst forms of child labour, including forced domestic work and in commercial sexual exploitation.<sup>2</sup>

Factors contributing to Sri Lanka's higher ESG risk exposure are its economic instability, civil unrest and a weaker regulatory framework. While the US Department of Labour noted the country made moderate advancements in strengthening its mitigation efforts, their investigation found that lack of resources in the country hindered authorities from carrying out proper investigations and assessments.

Sri Lanka supplies to key markets such as the United States, India, and China. The country's strategic location and trade agreements with the European Union and the United States has attracted foreign investors in the apparel sector.

#### Sri Lanka's key exports include

- Apparel and textiles
- Tea
- Rubber and rubber products
- Precious and semi-precious gemstones
- Electronics
- Seafood

1 Business and Human Rights Resource Centre, "Apparel SMEs in grave crisis", 29 Jan 2023. 2 United States Department of Labor, 2022 Findings on the Worst Forms of Child Labor.



# Key markets displaying troubling risk trends

#### C\*

#### Turkey

Turkey, another key player in the apparel industry, indicated higher risk for violations related to wages, working hours and child labour. Forced labour violations were also detected in the country in 2023, according to EiQ data, where findings of recruitment fees and withholding wages from workers were uncovered.

Turkey supplies markets across various industries, one of the most significant being the apparel sector, where Turkey is known for its textile, clothing, and leather goods production. The country harbours a modern infrastructure and serves as a strategic channel between Europe, Asia, and the Middle East. Turkey is also a major producer and exporter of automotive parts, machinery, electronics, and agricultural products, further solidifying its role in the global supply chain. Its diverse manufacturing base and export-oriented economy make Turkey a key player in various supply chains worldwide.

Turkey labour risk				
Risk index	2023	2024	Year-on-year change	
Labour	• 3.18	• 3.02	▼ 5.10%	
Child labour	• 4.72	• 4.64	▼ 1.72%	
Forced labour	• 3.35	• 3.35	▼ 0.00%	
Freedom of association	• 1.70	• 1.70	▼ 0.00%	
Humane treatment	• 2.66	• 2.67	<b>△</b> 0.55%	
Wages	• 2.10	• 1.74	<b>▼</b> 16.91%	
Working hours	• 1.79	• 1.71	<b>▼</b> 4.53%	

#### **Risk insights**

Turkey has faced criticism for labour rights violations, including issues such as poor working conditions, inadequate wages, and restrictions on workers' rights to organise and bargain collectively. These violations are particularly prevalent in sectors such as textiles, agriculture, and manufacturing. According to Walk Free's 2023 Global Slavery Index, Turkey was identified as one of the country's with the highest prevalence of modern slavery in Europe and Central Asia.<sup>1</sup>

Turkey's geopolitical location exposes it to conflicts and refugee crises, leading to human rights abuses, displacement, and social tensions. Migrant workers and vulnerable populations, including refugees and internally displaced persons, are at heightened risk of exploitation and abuse in the absence of adequate protections and safeguards. Turkey hosts millions of refugees from Syria and other displaced migrants. Political instability in the country as well as enforcement challenges contribute to risks of non-compliance of human rights violations.

#### 1 Walk Free 2023, The Global Slavery Index 2023, Minderoo Foundation.

#### Turkey's key exports include

- Textiles and apparel
- Automotive products
- Chemicals
- Food and agricultural products
- Metals and metal products
- Electronics



# Key markets displaying troubling risk trends



#### **Thailand**

Thailand, a leading exporter in manufactured goods and agricultural products, not only showed higher risk in key labour indices, but the country also displayed worsening trends across critical health and safety indicators.

Thailand showed higher risk in overall health and safety violations, as well as violations related to injuries, machine safety, and emergency evacuations.

Thailand labour risk				
Risk index	2023	2024	Year-on-year change	
Labour	• 3.28	• 3.24	▼ 1.37%	
Child labour	• 5.91	• 4.96	<b>▼</b> 15.98%	
Forced labour	• 2.24	• 2.91	<b>▲</b> 30.01%	
Freedom of association	• 1.34	• 1.89	<b>4</b> 1.00%	
Humane treatment	• 2.77	• 2.70	▼ 2.45%	
Wages	• 3.49	• 3.30	▼ 5.33%	
Working hours	• 2.44	• 2.71	<b>1</b> 1.44%	

#### **Risk insights**

Thailand faces challenges related to labour rights violations, including forced labour, child labour, and poor working conditions in various industries such as agriculture, fishing, manufacturing, and construction. The country's fishing industry relies on migrant workers, which can be subjected to debt bondage and other forms of exploitation.

One of Thailand's most significant risk changes in the past year was its higher risk exposure to child labour violations, as the country's score worsened by nearly 16% in EiQ. The United States Department of Labour (DoL) 2022 report on child labour findings indicates increased migration between Burma and Thailand in 2021 resulted in more migrant children engaging in child labour. The DoL also reported Thailand has seen more instances of recruitment

agencies falsifying ages on official documents. "Children working in agriculture face health risks from lifting heavy loads, risk injury from operating dangerous machinery and using sharp equipment, and are exposed to pesticides, sun and heat, and work long hours from very early in the morning until nighttime," the DoL reported.<sup>1</sup>

Thailand's risk for health and safety violations can be attributed to the specific occupational health hazards prevalent in the country, including exposure to chemicals in manufacturing, unsafe machinery in construction, and the physical demands of agricultural work. These hazards contribute to a higher incidence of work-related illnesses and injuries. Thailand is also a large informal economy, where issues of labour regulations can exacerbate health and safety risks.

# Thailands's key exports include

- Automobiles and automotive parts
- Electronics
- Agricultural products
- Food and beverage
- Textiles and apparel



# Leveraging risk insights to enhance proactive risk remediation

With awareness comes the opportunity to take action. Uncovering risk insights and gaining wider knowledge of the supply chain ESG risk landscape can empower companies to implement improved risk management and mitigation. While governments can work to regulate human rights violations and environmental impacts, the responsibility ultimately lies with businesses to create real change, resulting in higher value creation.

Our risk ratings provide a new level of visibility for businesses and allow them to take a more proactive approach to identifying and mitigating potential threats to their operations, reputation, and financial performance. Having a comprehensive understanding of supply chain ESG risks ensures compliance with relevant laws and regulations and gives companies the opportunity to differentiate themselves in the market. This is the era of Assurance 4.0, where we are leveraging data-driven insights to support businesses in improving their ESG strategies and supply chain integrity. There must be a renewed sense of urgency to address the critical risks outlined in this report. Transparency must be improved to develop a truer sense of where the highest risk lies. Improved

transparency is correlated to the robustness and quality of data. This means training auditors to understand and identify potential signs of falsification during assessments, integrating worker voice into datasets, and implementing capacity building measures to ensure sites are aligned with the integrity and policies of the organisation.

The solution lies in effective risk remediation and mitigation. Each supply chain and its coinciding risks and exposure to risks are highly individualistic, and therefore a 'one-size-fits-all' method will not suffice. Companies should begin by gaining a better understanding of the individual needs and priorities of their supply chains and implementing credible, verified data to conduct a deeper diagnostic of risks. Once there is a clearer view of the risks and areas of potential risks, organisations can then implement the right tools and technologies to monitor, mitigate, and deploy corrective measures to the ESG risks present in their supply chain.

The health and safety of workers is at stake, not to mention the impact supply chain operations can have on the environment. We have seen what can happen when these risks are overlooked, through tragedies like the 2013 Rana Plaza disaster in Bangladesh and ongoing worker strikes across the globe due to unfair working conditions. These fundamental truths should be what are driving businesses to improve responsible sourcing and furthering due diligence.



# **About EiQ**



LRQA's EiQ platform is the world's first end-to-end supply chain ESG due diligence and assurance platform. It defies the "one size fits all" paradigm for responsible sourcing by enabling a tailored risk-based programme that is aligned with the unique supply chains of each individual business.

EiQ is a data driven ecosystem used by brands and retailers to enhance Environmental, Social, and Governance (ESG) due diligence and assurance. The ecosystem combines LRQA's three core applications (Analyse, Assess and Learn) into a single seamless workflow that provides comprehensive ESG solutions to transform responsible sourcing programmes and to facilitate sustainable trade.

#### **Audit data**

25,000+ audits per year 300+ data points per audit 10+ years of audit history

#### **Worker viewpoints**

Grievance mechanism 6,000+ per month 3,000+ worker surveys per year

#### **eLearning data**

1 million+ course completions

**500,000+** index values

75,000,000+

audit data points

#### **Analytics data**

50+ supply chain indices | 200+ regions 20+ key sectors | 400+ products and services 200,000+ entities scanned for adverse media

**250,000+** entities

#### **Corporate scorecards**

500+ multi-nationals

#### **Vendor scorecards**

15,000+ vendor profiles

#### Site scorecards

50,000+ unique factories and farms

# Data availability

#### Data availability of the Geography Risk Ratings

#### 2023

105

Country-level risk values with relevant confidence values

Province-level risk values for China with relevant confidence values

State-level risk values for India with relevant confidence values 33

State-level risk values for United States with relevant confidence values



Region-level risk values for Vietnam with relevant confidence values

#### 2022

100

Country-level risk values with relevant confidence values

Province-level risk values for China with relevant confidence values



State-level risk values for India with relevant confidence values



State-level risk values for United States with relevant confidence values



Region-level risk values for Vietnam with relevant confidence values

#### 2021

80 👀



Country-level risk values with relevant confidence values

Province-level risk values for China with relevant confidence values



State-level risk values for India with relevant confidence values



State-level risk values for United States with relevant confidence values



Region-level risk values for Vietnam with relevant confidence values

#### Value calculation

For the Geography and Product ESG Risk Ratings, all violations are aggregated at national, provincial levels or at sector level and their averages are normalised on a scale of 0 to 10.

Indices values are also translated into

#### **Risk Band:**

LOW

#### Rating:

7.50 - 10

0 - 2.49 0 - 2.49 EXTREME 2.50 - 4.99 2.50 - 4.99 5.00 - 7.49 5.00 - 7.49 MEDIUM

7.50 - 10



### **Data sources**



#### **Audit data**

LRQA conducts more than 25,000 onsite social and environmental assessments per year.

Assessment data is standardised and aggregated at the national, subnational, and sector level.



### **Civil society data**

LRQA leverages civil society data from trusted multilateral organisations and NGOs to complement risk information when audits are less likely to evidence specific violations – e.g., forced labour – or in countries with a lower audit volume.

If supply chain confidence is	Civil society weighting	Supply chain weighting
0% (no audit)	100%	0%
> 90% - < 100%	10%	90%
> 80% - < 90%	20%	80%
> 70% - < 80%	30%	70%
> 60% - < 70%	40%	60%
> 50% - < 60%	50%	50%
> 40% - < 50%	60%	40%
> 30% - < 40%	70%	30%
> 20% - < 30%	80%	20%
> 10% - < 20%	90%	10%



#### **EiQ Sentinel data**

LRQA leverages highly localised, local language public disclosures gathered through a monthly scan of 250,000+ entities to complement risk information gathered from audits and civil society datasets. Why? Sentinel is able to capture data points that audits and civil society organisations cannot – from the presence of an entity on sanctions lists, to evidence of association with forced labour practices or worker deaths.





YOUR FUTURE. OUR FO-

#### **About LRQA:**

LRQA is the leading global assurance partner, bringing together decades of unrivalled expertise in assessment, advisory, inspection and cybersecurity services.

Our solutions-based partnerships are supported by data-driven insights that help our clients solve their biggest business challenges. Operating in more than 150 countries with a team of more than 5,000 people, LRQA's award-winning compliance, supply chain, cybersecurity and ESG specialists help more than 61,000 clients across almost every sector to anticipate, mitigate and manage risk wherever they operate.

In everything we do, we are committed to shaping a better future for our people, our clients, our communities and our planet.

#### **Get in touch**

Visit www.lrqa.com/uk for more information, email enquiries.uk@lrqa.com or call +44 (0)121 817 4000







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