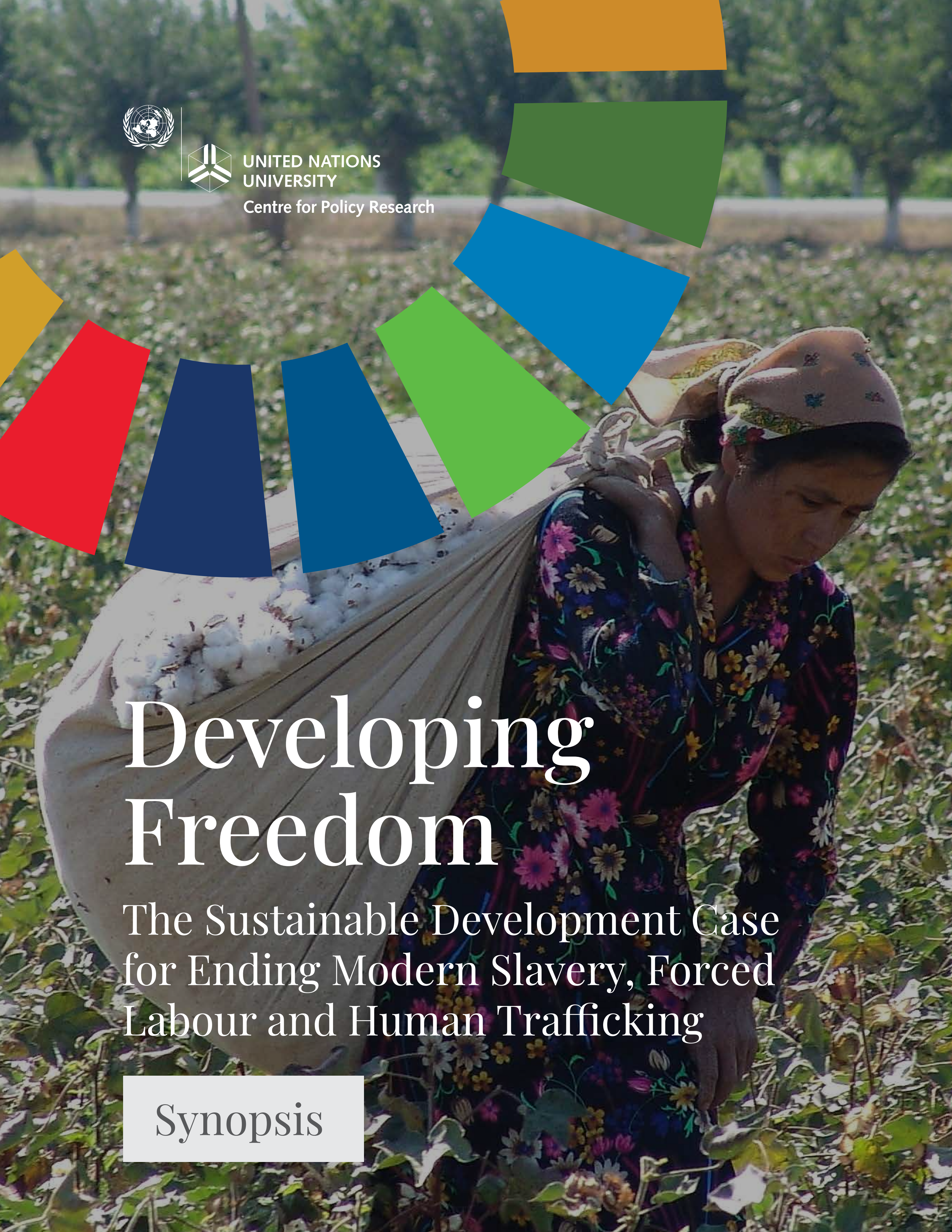

UNITED NATIONS UNIVERSITY
Centre for Policy Research

Developing Freedom

The Sustainable Development Case for Ending Modern Slavery, Forced Labour and Human Trafficking

Synopsis

Q: How can fighting slavery contribute to sustainable development?
A: By protecting and maximizing people's economic agency.

40.3 million people – around 1 in every 185 people alive – experienced modern slavery or forced labour in 2016. Ending modern slavery is central to several targets of the UN Sustainable Development Goals (SDGs), notably Target 8.7. Yet, development sector voices are often notable for their absence from global anti-slavery and anti-trafficking discussions. This study considers a simple question: *how can fighting slavery contribute to sustainable development?* Over eighteen months, we used comprehensive literature reviews and mapping, quantitative analysis, surveys and mixed methods case studies to develop a thorough answer to that question. Our conclusion is simple: *by protecting and maximizing people's economic agency*.

This is a synopsis of the full report. For evidence, graphics and references please see the full report at www.developingfreedom.org

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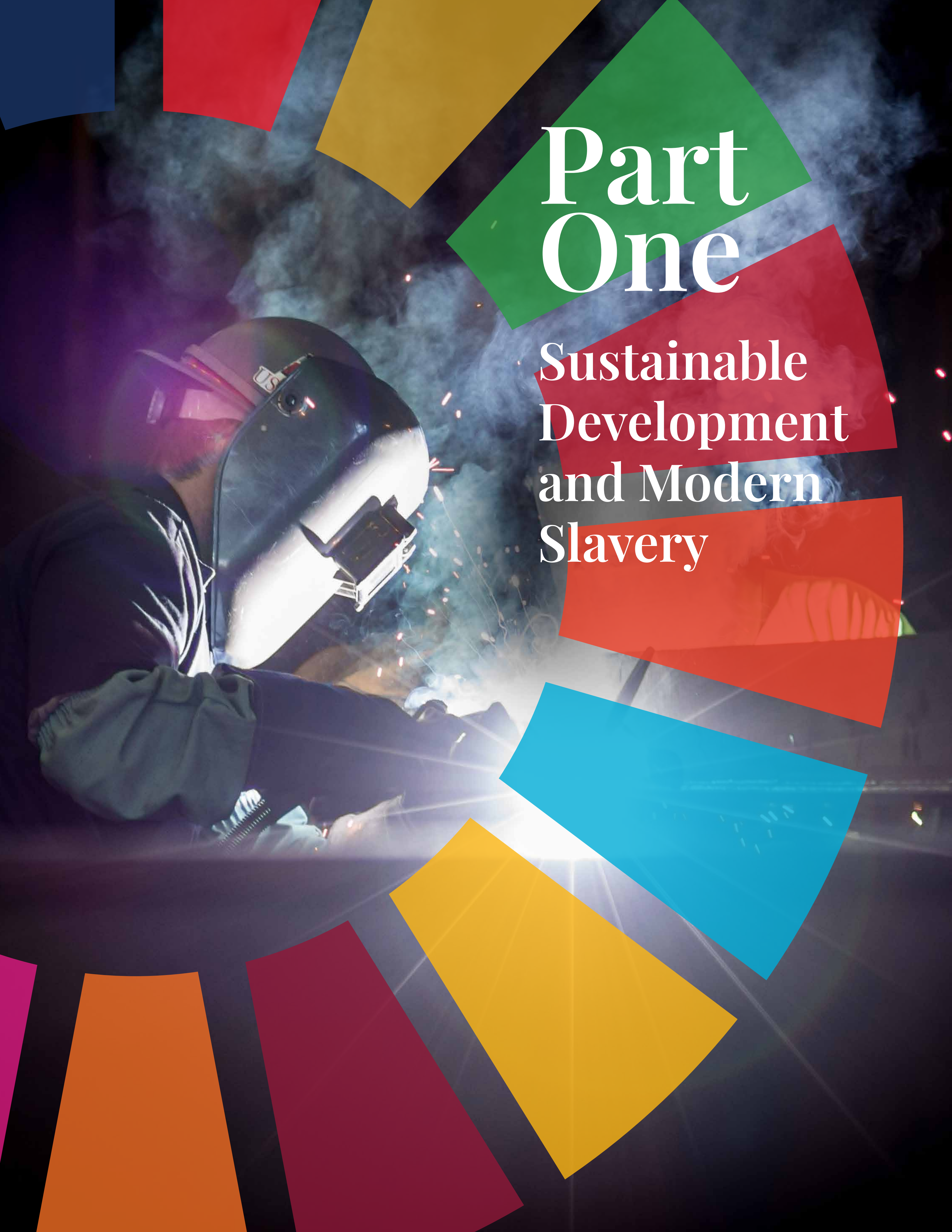
Part One

Sustainable Development and Modern Slavery



Slavery, agency and development

Economic agency is the ability to make choices, for yourself, about how to develop and use your own capabilities. That includes choices about savings, consumption and investment, and about how to use factors of production such as land, labour and capital. Contemporary economic theory and development discourse assumes people make these choices for themselves. Yet, modern slavery involves some people treating others as if they own them, preventing them exercising agency over their own labour – as well as, in some cases, their own consumption, savings and investment choices. It involves an intentional restriction or denial of economic agency, even as victims and survivors find other, creative ways to assert their agency.

This intentional denial of agency ripples through the economy, creating significant negative externalities that impose costs not only on victims but on the economy as a whole. Our study identifies 10 ways that slavery impedes development.

1. Slavery reduces productivity

Coercion in labour relations demotivates workers, encouraging them to leave the job – if they can. If they cannot, productivity drops. Coercion also allows employers to set wages below the value of the marginal product of labour, capturing resulting rents. This leads to an inefficient allocation of labour at the economy-wide level, and capital moves to these rent-taking industries. This depresses the equilibrium wage: all workers, both free and unfree, are left worse off. Slavery thus drives economic stagnation. Historically, slavery has only led to long-term development when rents from slavery were used to invest in moving the economy *away* from a predatory pathway towards a more developmental one.

2. Slavery creates inter-generational poverty

Slavery injures the physical and mental health of its victims and deprives them of educational and human capital formation opportunities. The resulting impacts last for the rest of their lives and can have inter-generational impacts. Slavery skews demography, hurts agricultural production, increases gender discrimination and violence, and increases disease burdens. Slavery has had inter-generational impacts in Africa, Latin America, North America and Eastern Europe, reducing income, health outcomes, and national income, and even regional economic performance. Transatlantic slavery may account today for 72 per cent of income disparity between African nations and the rest of the world – and 99 per cent of the disparity between these nations and other developing countries.

3. Slavery institutionalizes inequality

If one person controls another's economic agency, it allows them to capture the value from that person's agency, while socializing the resulting costs. Slavery thus operates as an extractive system that enriches and empowers exploiters while also reducing prices for consumers. Those who benefit may lean on legal forms and narratives such as race, caste, gender and 'free capital' to entrench this inequality. Slavery is consequently more likely where political freedoms are more constrained (as Landman and Silverman have recently shown), and where societies are vertically unequal (as Piketty has shown). Efforts to end slavery thus require not only financial incentives but also political power. Buying off those who benefit from slavery can be expensive: it cost the UK a payment of 5 per cent of Gross Domestic Product (GDP), paid off over 180 years, to buy out British slavers in the 1830s. Haiti spent over two hundred years paying off the debt her former French slave-masters demanded to accept Haitian independence. And Russia's former serfs paid the bill for their own emancipation for 49 years.

4. Slavery weakens multiplier effects

Victims of slavery, forced labour and human trafficking frequently have their control over their own consumption, savings and investment choices restricted or denied. Employers may withhold wages altogether, or force wages to be spent at company stores or on mandatory 'fees'. Victims cannot make their own choices about nutrition, healthcare, education or business. This reduces economic multipliers. Once victims' agency is restored through emancipation, significant economic bumps usually follow.

5. Slavery discourages innovation in production

Slaves have no reason to innovate, since they know they will not enjoy the fruits of innovation. And those who use slavery also have disincentives to innovate, since it may actually reduce rent income, for example because exploitation becomes harder as workers' skill levels increase. These disincentives for innovation can lead industries that rely on slavery and forced labour to stagnate and become uncompetitive.

6. Slavery produces a capital market failure

Slavery invites the collateralization of people. Although it is illegal today to treat people as capital, the introduction of coercion after people enter employment, debt or marriage contracts leads to people being treated like low to zero cost factors for capital formation and accumulation. Those at the top of value chains use their power to capture the value developed, through multiple levels of mark-ups, securitization and leveraging, out of the seed of workers' collateralized freedom. Capital markets reward firms that operate on this model, since they seem to have low labour costs. Those apparent low costs are a product of these firms' being permitted to externalize the true costs of coerced labour. Market regulation does not yet properly factor social costs into labour pricing, just as markets have historically failed to price in environmental costs. This is a classic market failure. Enterprises relying on unlawful forced labour have an unfair advantage on capital cost over those that do not. In effect, capital markets are subsidizing illegality, leaving us all worse off.

7. Slavery hits the public purse

Slavery reduces public revenue and increases public expenses. It reduces income tax receipts because wages are unpaid and reduces consumption tax receipts because those unpaid wages are unspent. Slavery also increases public expenditure, on enforcement, criminal justice, health services and victim services. UK Home Office researchers estimated direct and victim costs in the UK from modern slavery to be around GBP 3.3 to 4.3 billion per year.

8. Slavery weakens governance

We found that slavery corrodes social trust, increases social stratification, ethnic fractionalization, violence and conflict. It also seems to impede State formation and investment in public goods and infrastructure. This all generates negative economic impacts over multiple generations. To succeed, anti-slavery interventions may need to address governance questions (SDG 16) and not only decent work (SDG 8).

9. Slavery fuels corruption and illicit financial flows

Slavers bribe and corrupt officials to protect the slavery system, further weakening governance. Where value is captured in a country other than where the labour is sourced – for example in the case of exploitation of migrant workers – this may represent an illicit transnational financial flow. The development sector's response may need to include use of stolen asset recovery tools.

10. Slavery harms the environment

Slavery skews production to unsustainable labour-intensive methods, and frequently coincides with illegal deforestation, fishing and land use. This reduces space for carbon sequestration, increases carbon emissions, and often leads to loss of biodiversity and natural capital stock. All of this connects slavery to unsustainable production and consumption practices, suggesting a need to develop interventions that combine work on SDG 8 with SDG 12.

The development sector has a slavery blind-spot

Since slavery imposes multiple drags on development, it follows that ending slavery should promote sustainable development. There is growing evidence of this. For example, IMF researchers recently suggested that eliminating child marriage – one element of modern slavery – would offer poor countries GDP per capita growth of around 1.05 per cent. We explored how anti-slavery efforts would promote the achievement of other SDGs. We found they can contribute to 113 of the 179 Sustainable Development Goal Targets, especially in 1 (Ending Poverty), 4 (Quality Education), 8 (Decent Work), 13 (Climate Action) and 16 (Peace, Justice and Strong Institutions).

What approach do development actors currently take to modern slavery, forced labour and human trafficking? To answer that question we surveyed practitioners from 16 countries and reviewed the practice of bilateral development agencies (US, UK, Norway, Australia), multilateral development banks (the World Bank; the Asian Development Bank [ADB], African Development Bank [AfDB], European Bank for Reconstruction and Development [EBRD], European Investment Bank [EIB] and Inter-American Development Bank [IDB], export credit agencies, development finance institutions, new development lenders (Asian Infrastructure Investment Bank [AIIB], New Development Bank), and China.

While Amartya Sen's *Development as Freedom* encouraged thinking about human capabilities as a foundation of development, most development entities continue to assume that all people – at least all adults – have economic agency. That is not always so. Yet, most development actors fail to account meaningfully for the economic implications of the loss of agency experienced by 40.3 million people.

67 per cent of development practitioners surveyed said their organizations perceive slavery not as an economic, trade or industrial policy concern, but as a social or criminal justice policy concern. Perhaps unsurprisingly therefore, most development actors treat slavery risk reduction as a project safeguarding question – a risk management issue – not as a strategic objective of capital allocation decisions or policy advice. Only 21 per cent of practitioners surveyed said modern slavery risks are factors guiding investing or lending objectives.

Slavery is not treated by development sector actors as a predictable outcome of how risk is structured and distributed by prevailing economic arrangements and development strategies. The sector lacks a coherent policy approach that locates anti-slavery as part of a deliberate strategy to promote sustainable development, instead treating it as an unintended and unpredictable risk arising from and to be addressed through project management. Privatizing and devolving project risk management to beneficiaries, as many development actors now do, rather than approaching slavery reduction as a public policy question, may also lead to unintended results. For example, deferring to national labour standards risks amplifying labour violations and reinforcing institutional environments conducive to such violations.

There are growing efforts from the Organisation for Economic Co-operation and Development (OECD), the International Finance Corporation (IFC) and others to promote responsible business conduct (RBC) by beneficiaries. But these efforts may not reach the up-stream, informal sites of slavery, or address intersection of programming with contextual factors to increase risk. Development Finance Institutions (DFIs) and Export Credit Agencies (ECAs) may need to consider not just how slavery risk may arise within project execution, but also how contextual risk can heighten project risk, and vice versa. In Ghana, for example, World Bank funding for a dam in the 1960s led to the disruption of traditional agricultural livelihoods, which then led to families trafficking their children into slavery on Lake Volta. And presently, in Eritrea, EU financed road construction, managed by the UN, may contribute to demand for forced labour supplied through a controversial government conscription scheme.

ODA spending is low and fragmented

We analysed more than 2 million official aid project records from 2000 to 2017. On average, less than USD 12 per victim was committed in aggregate Official Development Assistance (ODA), globally, each year. Spending on modern slavery, forced and child labour and human trafficking is highly fragmented into a large number of small projects. Average spending was around USD 109,000 for bilateral projects, and just USD 18,000 for multilateral projects. Only 1,327 projects in the more than 2 million project records we reviewed were worth USD 1 million or more and addressed these forms of exploitation. ODA spending on these issues was spread to more countries, but increasingly thinly, over time.

While more and more countries have addressed these issues in their ODA commitments, most spending was concentrated in a small number of donors. The US contributed around 43 per cent in the period studied, four times the EU commitment, and 7 times the commitments of Norway, Germany, Canada, Australia, Spain, Sweden, UK and Switzerland. UNICEF has been the most consistent multilateral donor, while the World Bank has been the largest.

Tracking estimated prevalence, most spending is for programming in Asia-Pacific, then Sub-Saharan Africa. But spending does not appear to be based on need alone. Some countries that are thought to have very high prevalence have received little ODA to address this issue, while some major recipients are not thought to be amongst those countries hosting the largest victim populations. And spending varies significantly by form of exploitation: spending on forced labour and human trafficking has been an order of magnitude higher than spending on forced marriage, modern slavery and child soldiering.

UN development and anti-slavery efforts are not integrated at the country level

UN development efforts at the country level generally do not treat anti-slavery as a strategic opportunity warranting integrated programming. We reviewed 396 UN country development strategy documents covering 2000 to the present, looking at whether they addressed modern slavery, forced labour, human trafficking or child labour in a country. 74 per cent of the time they did not.

Most references were to human trafficking and child labour, with references to forced marriage, child marriage, and forced labour well behind. Modern slavery and slavery were almost never mentioned. Nearly all these references were contextual or described programming by one individual UN entity. Only 1.3 per cent of the time was reduction of these risks treated as the kind of strategic development opportunity warranting joint programming. Most such references were in 2000-2005.

What programming has been rolled out and where, seems to have depended on which UN entity was involved. Most work is criminal justice oriented, led by the United Nations Office on Drugs and Crime (UNODC), or labour policy oriented, led by International Labour Organization (ILO). Since there is no UN operational entity addressing 'modern slavery' or 'slavery', such programming is rare. Institutional path dependency also seems to explain geographic and temporal clustering in the programming rolled out.

The lack of integrated thinking is reflected in the existence of separate UN-wide coordination mechanisms focused on human trafficking, the Inter-Agency Coordination Group against Trafficking in Persons (ICAT) and forced and child labour (Alliance 8.7). Neither has attracted significant commitment from the main economic development organizations in the UN system – such as UN Development Programme (UNDP) and the World Bank. The Alliance 8.7 Pathfinder process offers an opportunity to strengthen integration in anti-slavery efforts – but also risks creating a separate silo of country-level development assistance, disconnected from the broader UN development strategy for the country and UN Country Team mechanisms. This risks missing out on opportunities for synergies between anti-slavery programming and broader sustainable development initiatives.

The growing significance of China to anti-slavery development outcomes

China lends to around 80 per cent of all countries, and China is the world's largest official creditor. Consequently, China lends to many countries facing high modern slavery risks. Those loans are often commercial (not concessional), and collateralized, putting Chinese creditors at the front of the queue when debtors struggle to repay. For all these reasons, Chinese lenders' approaches to modern slavery, forced labour and human trafficking may have a significant bearing on how such risks are handled in the development context in the years ahead.

There is a growing body of Chinese Government and industry-generated norms directing and encouraging this lending to address forced labour and child labour risks, including some industry-specific norms that explicitly align with the UN Guiding Principles on Business and Human Rights. These have the potential, if enforced, to help ensure Chinese overseas lending contribute to slavery reductions. Most, however, merely require conformance with local law, and uptake by Chinese firms operating overseas remains limited.

Difficult questions are also raised by China's domestic development policies and practices, especially the development and poverty alleviation strategy for the Xinjiang Uyghur Autonomous Region known as 'Xinjiang Aid' (援疆). Credible reports suggest development instrumentalities, including financing from China's domestic development banks, may be underwriting imposition of systematic forced labour on the region's Uyghur and other ethnic minority populations, both in Xinjiang and in factories elsewhere in China. Chinese authorities frame these policies in terms of development, poverty alleviation and counter-terrorism. The allegations generate questions about the consistency of China's development policies with anti-slavery norms. Both Chinese and international development actors operating or financing projects in Xinjiang, or working with organizations involved in the execution of the Xinjiang Aid policy, may need to build and use leverage to address forced labour risks and enable effective remedy.

Global value chain-based development models may need adjustment

The global value chains (GVC) developmental model, central to much contemporary development strategy, encourages countries to compete for access to global capital by lowering overall labour costs and increasing labour market 'flexibility'. Incorporation into GVCs can be a powerful motor for poverty eradication, increase formal employment and create jobs for women. But it can also end up concentrating value-capture and market power at the ends of GVCs (design and sales), while pushing risk to the middle (production). This can force countries to compete on labour costs, incentivizing coercion and labour exploitation.

GVC management practices that sometimes foster precarious work include: short-term supplier relationships, downward price pressures, volatility in order volumes and specifications, late payment and lack of access to working capital, labour subcontracting and production quotas. The result can be that GVCs reproduce vulnerability in the workforces and communities they depend on, undermining their sustainable development. The managerial challenge differs from value chain to value chain, depending on how they intersect with local institutions (laws, policy regimes, and social norms), vulnerabilities and business strategies. Factors that emerge as particularly important are:

- industry structure (with excessive market power amongst buyers increasing modern slavery risks);
- skills-intensiveness (higher skill work is less prone to exploitation); and
- conditions of production (isolation and precarity increases modern slavery risks).

GVCs work through economic unbundling of production into different tasks, each performed wherever is cheapest. This drives efficiency and increases overall welfare. The danger is that GVCs may accidentally unbundle communities, detaching high-skill, high-wage workers who operate at the ends of the value chain (design, sales), from low-skill, low-wage workers who are pushed into the risky, precarious middle (production). This can put different communities within the same country on different development pathways, and contribute to structural inequality, political polarization and vulnerability to modern slavery.

Addressing modern slavery requires a developmental model that reaps the pro-growth and job-creating benefits of GVCs, while also protecting people's economic agency. GVCs are the product of State choices, so State policies on trade, foreign direct investment (FDI), intellectual property, tax, competition law, labour regulation and land will all be involved in adjusting the GVC model to reduce modern slavery risks. The exact solution will depend on the dynamics of a particular GVC. Different businesses at different points in the GVC have different levels and forms of leverage to address these risks.

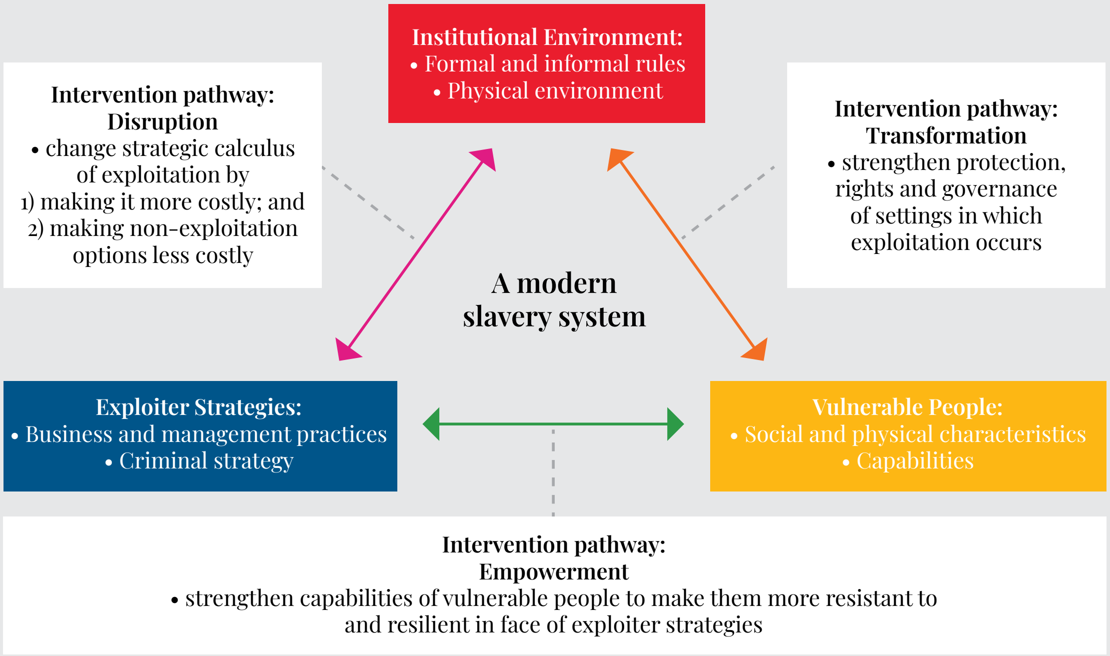
A systems approach to intervening to end modern slavery

Modern slavery is a rent-taking system that arises where 1) institutional environments intersect with 2) people's vulnerabilities in ways that allow 3) profitable exploiter strategies to emerge. Exploiters use the institutional resources in the environment – including laws, social norms and business practices – to turn people's vulnerability into stable control of their economic agency, allowing rent capture. These practices may further contribute to people's vulnerability (e.g. 'adverse incorporation'), creating a reinforcing feedback mechanism that helps sustain the system.

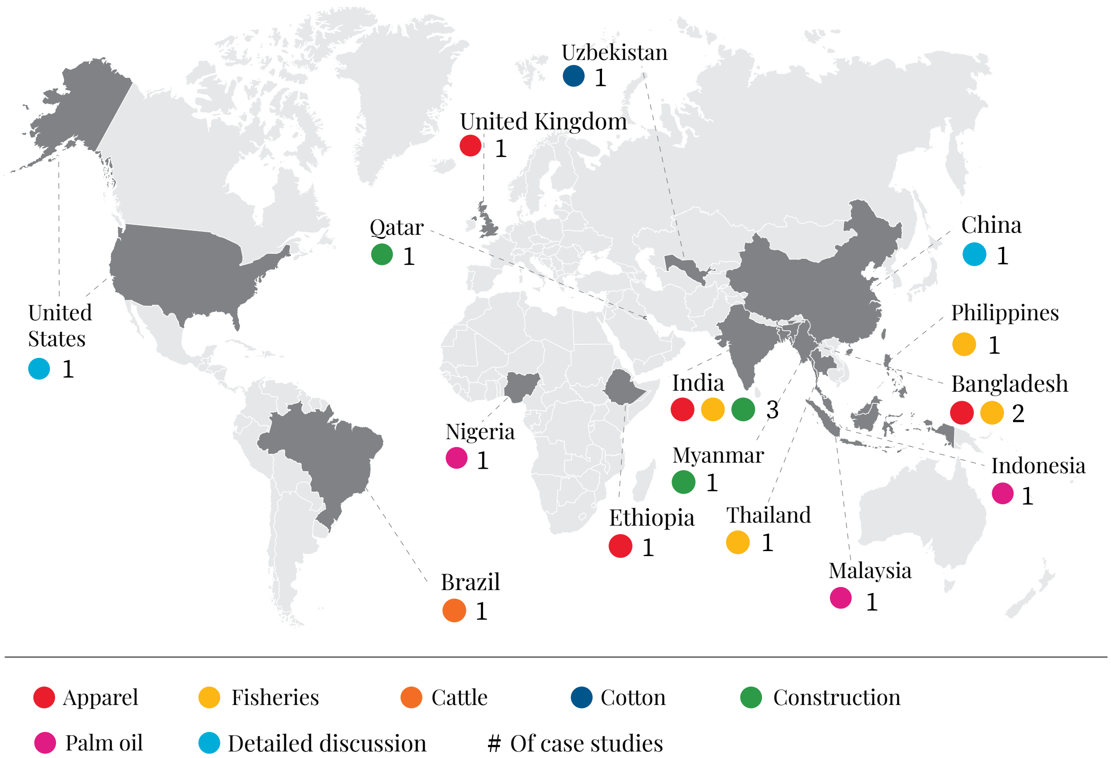
Interventions that aim to change the system to reduce modern slavery can seek to 1) transform the institutional environment, 2) empower people to make them more resistant to exploitation, or 3) disrupt exploiter strategies by changing their calculus.

Rent-takers maintain the system through 'domain maintenance' (Crane) to protect their autonomy from anti-slavery norms: alliances with political power and use of corruption. Where development actors intervene, rent-takers often resist, pre-empting, counter-mobilizing or coopting interventions (Choi-Fitzpatrick). Development interventions must account for rent-takers' political power. They must anticipate resistance, coordinate political capital and strategy to address it, and may need to work across multiple governance levels to achieve desired effects.

We explored how such interventions have panned out through six mixed-methods sectoral case studies. These studies, and other detailed discussions in Chapters One and Nine *of Developing Freedom*, cover: Bangladesh, Brazil, China, Ethiopia, India, Indonesia, Malaysia, Myanmar, Nigeria, Philippines, Thailand, UK, US and Uzbekistan.



Institutional Environment:
• Formal and informal rules
• Physical environment
Intervention pathway:
Disruption
• change strategic calculus of exploitation by
1) making it more costly; and
2) making non-exploitation options less costly
Intervention pathway:
Transformation
• strengthen protection, rights and governance of settings in which exploitation occurs
A modern slavery system
Exploiter Strategies:
• Business and management practices
• Criminal strategy
Vulnerable People:
• Social and physical characteristics
• Capabilities
Intervention pathway:
Empowerment
• strengthen capabilities of vulnerable people to make them more resistant to and resilient in face of exploiter strategies



Uzbekistan 1
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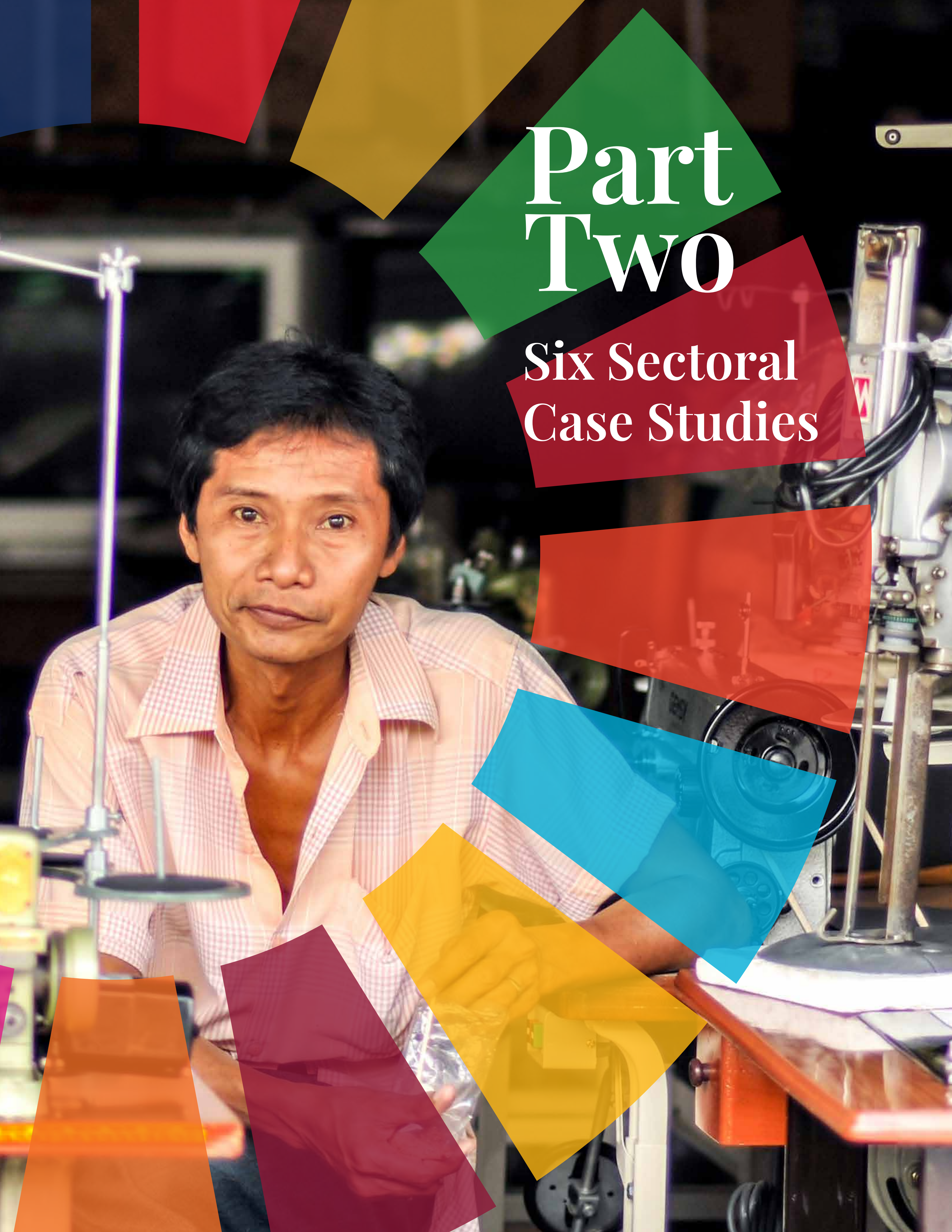
Qatar 1
China 1
United States 1
Philippines 1
India 3
Bangladesh 2
Nigeria 1
Myanmar 1
Indonesia 1
Ethiopia 1
Thailand 1
Malaysia 1
Brazil 1
Apparel
Fisheries
Cattle
Cotton
Construction
Palm oil
Detailed discussion
Of case studies

Part Two

Six Sectoral Case Studies



CASE STUDY: Cattle (Brazil)

Over the last 25 years Brazil has developed the most sustained and sophisticated domestic anti-slavery disruption effort in the world. This has been supported by civil society, the ILO, US, Norway and – to some extent – Brazilian business. It has rescued over 55,000 people from conditions of slavery. Around one third of those people worked in the cattle industry.

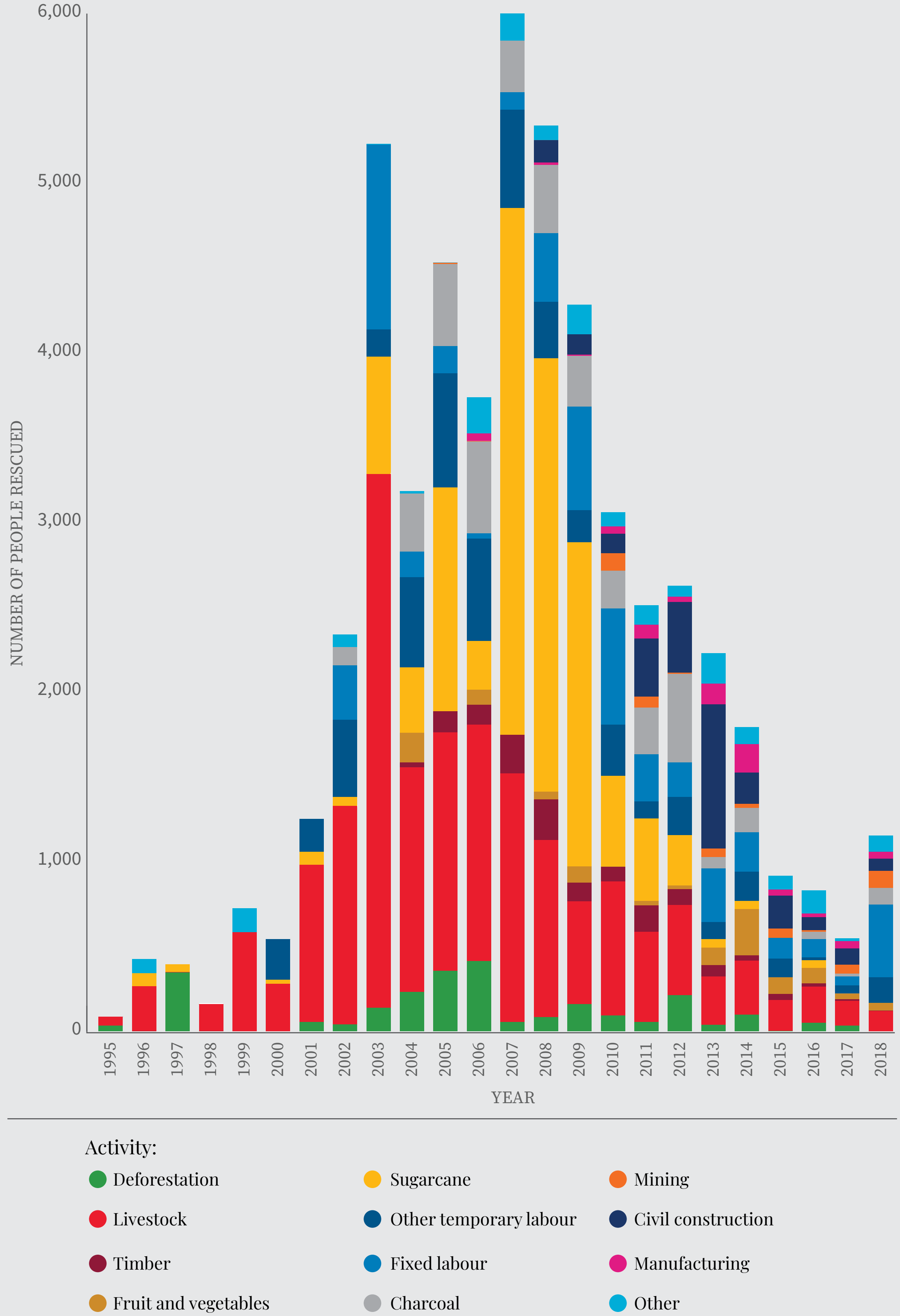
Slavery in Brazil's cattle industry is a product of several interacting factors. First, an institutional environment encouraging meat production in areas and supply chains where the State's enforcement power is weak, including the Legal Amazon and Cerrado. Second, a pool of marginalized, poor rural labourers (*peões*) susceptible to discrimination and exploitation. It is not the poorest of the poor, but the working, landless poor, with limited access to education, capital and finance that appear most susceptible to enslavement in the Brazilian cattle industry. Third, use of coercion and fraud by recruiters (*gatos*), contractors and producers to compete on labour costs, while harnessing traditional norms of social dependency and obligation and market norms of financial debt, to control workers' economic agency. Supply chain traceability is limited, and producers blame recruiters and foremen for poor labour practices. Many producers also enjoy effective impunity because of the isolation of their ranches, deliberate corruption of police and government officials, and intimidation of workers.

Brazil's disruption effort has evolved over time through a series of collaborations between government, civil society and business, notably the Commission for the Eradication of Slave Labour (*Comissão Nacional de Erradicação do Trabalho Escravo – CONATRAE*) and a successor, National Pact. The Government has developed a series of powerful tools for disrupting exploiter strategies, including mobile labour inspections and courts, and the famous 'dirty list' (*lista suja*) of companies found to have engaged in slavery or employed workers in slavery-like conditions. The *lista suja* became an important reference for both buyers and public and private lenders to use in screening out businesses that rely on slavery.

Yet, disruption efforts have lost momentum in recent years, as actors with interests in the cattle and other affected industries have counter-mobilized through judicial, political and extra-judicial channels. The National Champions Policy (2008-2013) saw Brazil's national development bank, the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) and foreign lenders provide billions of dollars of concessional financing to and take equity positions in several cattle-industry firms, allowing them to move up the global value chain. By 2013, one of these companies, JBS, had become the largest meat processing firm in the world. But it has also been linked to bribery scandals, and in 2014 it was Brazil's largest political donor. Politicians with close ties to the agribusiness sector have pushed back against the anti-slavery agenda.

As government steps back, civil society is encouraging private sector leadership to change supply chain management practices, including through big data solutions. This may give Brazil an important first-mover advantage in developing data-driven supply chain solutions for managing modern slavery risks.

ACTIVITIES FROM WHICH ENSLAVED PEOPLE WERE RESCUED IN BRAZIL, 1995-2018



Source: Data from CPT, 2019.

CASE STUDY: Palm oil (Indonesia, Malaysia, Nigeria)

Oil palm is an exceptionally profitable crop used in a wide array of consumer products and as a biofuel. Since the 1960s, production has grown over 500 per cent, in part through promotion by development actors. Today, 17 million people's livelihoods depend on the industry. Palm oil promotes growth and poverty reduction at the national level, but has variable impacts at the community level, depending on the prior institutional setting and the commercial structure of production.

In Indonesia and Malaysia most production occurs on private plantation estates, or on the land of smallholder 'outgrowers' operating under a long-term purchasing deals. Malaysia's industry has been shaped by close State-industry cooperation. 70 per cent of agricultural land is now oil palm. Malaysian firms have sought to reproduce close cooperation with the State in Indonesia. Palm oil now contributes around 12 per cent of Malaysian export earnings. But the growth of the industry has also brought local corruption, with district governors (*bupatis*) competing for access to foreign capital by facilitating access to low-cost land and labour. In Nigeria, we see more cooperative production and wild harvest from traditional, pre-industrial groves. Plantation production has only found success with the recent arrival of firms from South-East Asia.

Modern slavery risks vary across these contexts. Production quotas, wage penalties, isolation, debt and coercion are often used to force work. But vulnerability seems to vary on two main dimensions: political agency (i.e. reduced protection by the State) and control of land. In Indonesia, forced and child labour risks arise amongst the casual labour force on plantations and smallholdings, especially amongst indigenous people and internal migrants. In Malaysia, risks are connected in particular to the management of foreign migrant workers, who are often in debt bondage connected to recruitment fees. Women are at heightened risk, as are the 'stateless' children born to foreign migrant workers in Malaysia. In Nigeria, risks relate to adverse incorporation of smallholders into export-oriented plantations.

Most sustainability efforts have focused on the sector's environmental impact, including carbon emissions, biodiversity loss, and harmful haze – which is thought to have caused 100,000 deaths in South-East Asia during one episode in 2015. The turn to labour practices has been more recent, and efforts in this area largely adopt a "techno-managerial" approach, framing issues in terms of workforce management without addressing underlying questions such as access to and control of land, labour migration governance, corruption and structural inequality. They focus on the physical production of palm oil without addressing its social production, and the ways in which State policies shape the interaction of land, labour and capital flows to generate rents from the restriction and control of vulnerable people's economic agency.

Sustainability efforts have become geopolitical questions as different States ally with different actors in the value chain. The Roundtable on Sustainable Palm Oil (RSPO), a multi-stakeholder certification scheme, covers around 19 per cent of global supply. Initial cooperation from Indonesia and Malaysia morphed into resistance as sector leaders in each country came to perceive the RSPO as a threat to their autonomy. Both countries characterized the RSPO's prioritization of environmental concerns as a threat to their sovereign choices to prioritize other aspects of sustainable development, such as economic growth, poverty reduction and people's livelihoods. Both countries created national certification schemes, which they presented as lower-cost options better tailored to local commercial realities and development priorities. This politicized dynamic has deepened since the EU removed palm oil from its list of approved biofuels (on deforestation grounds), and the US moved to hold some palm oil products at its border (over forced labour concerns).

In recent years, there have been attempts to foster convergence across the palm oil 'regime complex' around shared public policy goals, particularly through the RSPO certifying entire jurisdictions. This may offer opportunities for addressing these sustainability governance and economic agency in a more direct way, but also raises questions about voice and representation. Development actors have an important role to play in promoting coherence to maximize workers and smallholders' economic agency. The World Bank, IFC, UNDP and UN Environment Programme are all promoting palm oil smallholding as a path to sustainable development. Private capital markets and development finance entities may have a role to play to address barriers to smallholder financing (opaque land tenure, exposure to local political risk, and lack of access to credit histories). More work is needed to address the State policies that reproduce a vulnerable labour force available for the industry's exploitation, through standardization of contracts, promotion of collective bargaining and other agency-enhancing measures.

CASE STUDY: Cotton (Uzbekistan)

From 1992 to 2017, around one fifth of the adult population of Uzbekistan experienced forced labour in the cotton harvest each year. Yet, the number of people in forced labour fell from 448,000 in 2014 to 102,000 in 2019 (according to the ILO). This effort to disrupt systematic forced labour in Uzbekistan is arguably the most effective large-scale prevention campaign in recent times.

Forced labour in the Uzbek cotton harvest was a legacy of the Soviet command economy. Farmers were forced to grow cotton and sell it to the State at suppressed prices, while around two to three million people were mobilized each summer in a two to eight week *corvée* to pick cotton, unless they could buy or bribe their way out. Multiple institutions of society participated in this mobilization: local *mahalla* neighbourhood committees, universities and colleges, hospitals and clinics, public and private sector employers, and through mosques, all backed up by the State's security apparatus. A range of coercive techniques were used, from violence and intimidation, to prosecution, quotas, taxes and social pressure. That coercive pressure was dressed up through the use of social norms such as patriotism, piousness and solidarity. The system appears to have siphoned off billions of USD in rents to ruling elites, some of it moved offshore. Forced labour in the cotton industry was made possible by, and helped reproduce, a system of authoritarian rule.

Since President Mirziyoyev took power in 2016, however, Uzbekistan's approach has changed dramatically. Four additional factors combined with Uzbek Government leadership to produce rapid change:

1. sustained disruption pressure from a concerted international boycott campaign. This steadily raised the costs of systematic forced labour for the Uzbek elite;

2. falling rents from cotton due to the negative development impacts of forced labour. Cotton accounted for 90 per cent of Uzbekistan's exports in 1992. By 2016, it was just 3.4 per cent. The indirect costs of the forced labour system have been estimated at USD 211 to 291 million per year, and forced labour contributed to inflation, hurt human capital formation (by disrupting education), retarded innovation, and led to environmentally harmful land management;

3. effective engagement by the World Bank, ILO and international donors (including France, Germany, Japan, Switzerland, the UK and US; the EU, the Organization for Security and Co-operation in Europe (OSCE) and other UN entities; and the EBRD);

4. brave pressure from civil society and human rights defenders, which led to growing emphasis in government and international interventions on empowerment of Uzbek people and workers.

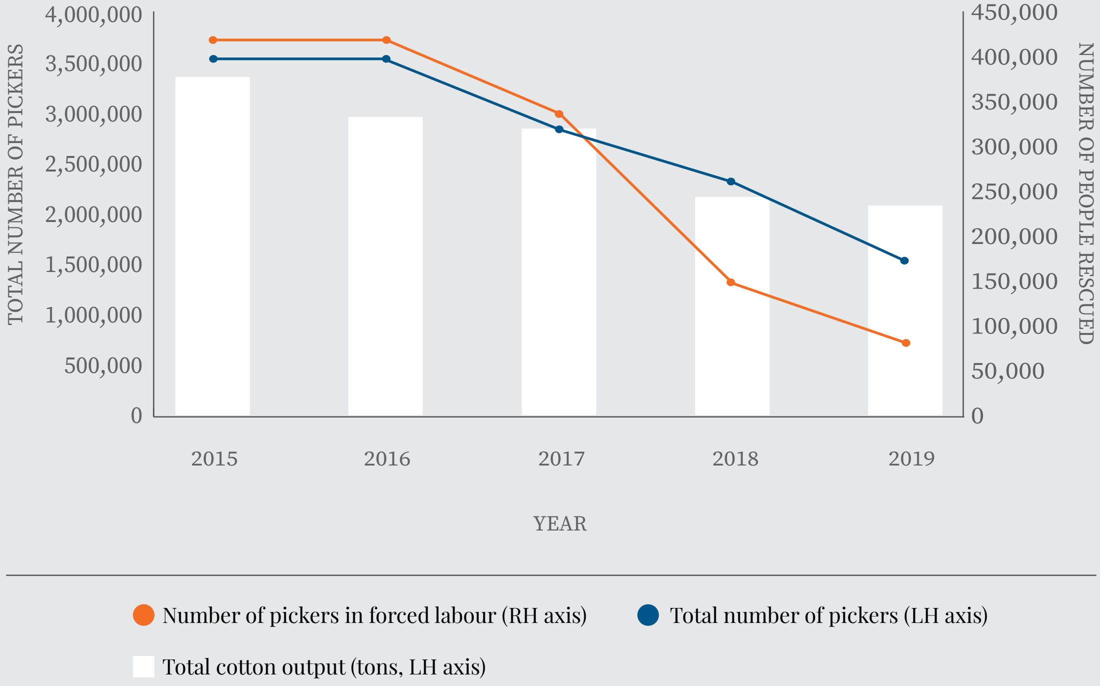
The result has been sustained reform by Uzbek authorities, who have withdrawn State support for forced labour, increased punishment and, in May 2020, abolished the centralized production system for cotton altogether. The case provides insights into the dynamics of engagement that lead to such rapid and large-scale reform. These include:

- the importance of effective strategic coordination between international actors. A 'good cop bad cop' dynamic between boycotters and engagers proved effective;

- the persistence of social institutions sustaining forced labour even after formal government support is withdrawn. Transformation efforts need to focus on both informal and formal institutions.

- the need to consider remedy. Stolen assets recovery and transitional justice tools may be relevant.

ILO ESTIMATES OF UZBEK COTTON PRODUCTION AND LABOUR FORCE (2015-2019)



Data: ILO.

CASE STUDY: Fisheries (Bangladesh, India, Philippines, Thailand)

Global fish production has grown seven-fold since 1950 and is expected to grow further in years ahead. Fishing and aquaculture is a very heterogeneous industry, with especially complex (and non-linear) supply chains. Different contexts give rise to different modern slavery risks.

In competitive marine capture fisheries, firms resort to labour coercion as they compete for profits from often dwindling fish stocks. Over-fishing of coastal fisheries has led to increased distant-water fishing, making State regulation more difficult – both due to distance, and due to the involvement of multiple States (coastal, flag, port, migrant workers' countries of origin). Distant-water fishing also often involves technologically advanced, capitalized vessels, whose owners use offshore legal structures, open international registers, secrecy jurisdictions and tax havens to protect profits.

This pattern is visible in Thailand's fisheries sector. Its fishing fleet grew from 99 vessels in 1961 to 57,000 in 2011. It is the largest exporter of canned tuna and a major source of shrimp exports to Western supermarket chains. Depletion of coastal stocks in recent decades led some Thai investors to focus on inland aquaculture, while others moved further offshore. Economic growth drew the Thai workforce to other sectors, so fishing and aquaculture have relied heavily for several decades on recruitment of poor migrant workers – first from within Thailand, and then from poorer neighbouring countries (Laos, Cambodia and Rohingyas displaced from Myanmar). Many are undocumented, heavily indebted, and deeply vulnerable to trafficking into slavery, including on illegal vessels far offshore. A 2008 UN study found that 59 per cent of trafficking victim respondents had witnessed the murder of a fellow worker on a Thai fishing vessel. Some distant water vessels stay at sea for months at a time, trans-shipping cargo back to shore, and operating from informal bases in foreign countries. One, between Australia and Indonesia, was found to have 600 men in iron cages when it was raided in April 2015.

In Thai industrial aquaculture and processing, modern slavery risks arise primarily for migrant labourers, especially women and children, and may be higher in export-oriented firms that are exposed to greater labour cost pressures. A 2012 UN study found 33 per cent of workers in one main processing region in Thailand were trafficked. A 2011 ILO study found over 10,000 migrants in child labour.

Debt is a crucial mechanism of control in both fisheries and aquaculture. Many migrant workers incur debts to pay recruitment fees, and workers are frequently forced to buy food, accommodation, travel and other services from their trafficker at inflated prices. Physical isolation is also used as a means of control, with identity documents often withheld. Pay is frequently provided only at the end of a long contract period.

The EU has used a 'carding' system to warn countries their seafood products may be excluded from European markets if changes are not made to address concerns related to illegal, unregulated and unreported (IUU) fishing. It gave Thailand a 'yellow card' in 2015, leading to a 21 per cent drop in Thai fishing export revenues the next year. The US has also used State policy levers to try to incentivize reform. In 2014, it downgraded Thailand to Tier 3 in its annual Trafficking in Persons status report, disrupting its access to US Government engagement. In 2015, it threatened to revoke preferential trade status for Thai fish and seafood exports. And it has subsequently issued detention orders for seafood products thought to be made with forced labour. Private actors also took action, incorporating labour management issues into sustainability certification regimes, and, in some cases, divesting from Thai supply chains.

Prompted by these disruptions, the Thai Government has taken numerous steps to address the situation, including extending a minimum wage to fishers, overhauling fisheries monitoring and management, and strengthening anti-trafficking capabilities. Many of these reforms were supported by the ILO's 2016-2020 *Ship to Shore* project, financed by the EU. These efforts led to the EU removing Thailand's yellow card and the US promoting Thailand in its Trafficking in Persons watch list. But human rights actors have continued to allege ongoing labour rights violations, and in October 2019 the US Trade Representative suspended USD 1.3 billion in trade preferences. A March 2020 ILO estimate found that 10 per cent of fisheries workers had experienced forced labour, with larger numbers experiencing one of its two components (coercion – 12 per cent; involuntary work – 27 per cent). The ILO estimates there are still tens of thousands of workers in Thai fishing and seafood processing facing similar risks.

The Thai case reveals a number of insights into the dynamics of anti-slavery reform efforts:

- efforts to disrupt profitable slavery systems often meet active and passive resistance. An ILO study from early 2020 concludes that coercion and involuntary work are still prevalent in Thai fishing because "[o]fficials either do not see or simply ignore these abuses";
- the importance of strategic coordination of external actors around a substantive reform agenda. Unlike the situation with Uzbek cotton, there is no central entity coordinating advocacy on Thai fisheries reform.

External actors have accepted narrow, techno-managerial solutions – such as screening apps, training, port monitoring, and supply chain audits. There has been no sustained effort to engage with the questions of the fishing industry's political economy, to protect space for human rights defenders raising issues related to worker rights, or to connect procurement to questions of worker voice, unionization and collective action. The same 2020 ILO study concludes that while the underlying questions are "problems of power and the uses of power", they have instead been treated "as technical problems".

Our study also explores modern slavery risks in fishing and aquaculture in the Philippines, India and Bangladesh. In the Philippines, risks arise in production and processing, but especially for Filipino migrant workers on foreign-flagged vessels. Some efforts to encourage small-scale Filipino fishers to participate in markets and incorporate into supply chains may have increased debt bondage and precarity. In India, debt bondage in aquaculture and processing is a concern, especially for lower-caste, domestic migrant workers, and there are risks for male migrant workers on foreign fleets. In Bangladesh, there are similar concerns around forced labour of women and children in fish processing facilities, and increased precarity for traditional fishing and aquaculture-based livelihood as efforts to industrialize the sector take hold.

These cases point to a need for a more coherent approach to developing the economic agency of producers, workers and stakeholders across these complex fisheries and aquaculture value chains. To the extent that governance efforts address modern slavery risks, they have tended to do so in narrow labour-management terms, without addressing related questions of smallholder vulnerability and agency, or the institutional drivers of underlying exploitation strategies. The Food and Agriculture Organization (FAO)'s new guiding principles on social sustainability in fish and seafood value chains, which includes a cross-cutting commitment to the elimination of all forms of forced or compulsory labour and child labour, may provide the basis for developing a more coherent, cross-cutting agenda for promoting economic agency across this sector. But it will need to be operationalized in different governance forums.

At present, the anti-slavery agenda is absent from fisheries development and management discussion in key venues such as the regional fisheries management organizations (RFMOs). RFMOs could use their IUU registers to underpin exclusion from procurement, financing and insurance of vessels and supply chains connected to modern slavery, as well as addressing questions of worker voice in fisheries governance (as the Indonesian Government has recently advocated).

CASE STUDY: Garments and apparel (Bangladesh, Ethiopia, India, UK)

The garments and apparel sector accounts for roughly 2 per cent of global GDP. It employs approximately 60 to 70 million people, two thirds to three quarters of whom are women. Garment production can drive growth, industrialization and poverty reduction (including for women), especially in countries where backward linkages can be fostered into raw materials and textile production. Yet, competition for foreign investment can leave garment sector workers vulnerable to exploitation. Production moves to capture marginal gains created by changing trade, investment and labour migration rules. Labour cost and 'flexibility' are key to the model.

Global buyers, typically headquartered in the US, Europe or Japan, have the widest margins and the greatest power in the value chain. They determine who produces what, where and at what price. 97 per cent of profits for the whole fashion industry are earned by just twenty companies, most of them in the luxury segment. Beneath them, the value chain is highly fragmented and disarticulated. Producers operate on the narrowest margins and carry most of the risk. Supply chain outsourcing and fragmentation has promoted efficiency, but impedes traceability and accountability, inadvertently fostering exploitative purchasing practices. These include: contract terms that are vague on price and financial implications of delays; unilateral changes on order specifications; unrealistic order completion times and unpredictable placement of orders; pricing arrangements that treat labour cost as a residue, not a necessary input; and late payment.

These buying and management practices reward contractor responsiveness and labour cost reductions. Suppliers survive by managing capital and their workforce in ways that allow them to rapidly increase and reduce labour supply to respond to buyer demand, while maintaining low prices. That translates to a highly casualized and atomized workforce, often working from home, under informal or no contractual arrangements, with zero hours contracts or piece rate payment systems. Workers are frequently recruited through brokers and intermediaries who demand fees from workers for placing them in work. Unionization and collective organization are often absent. Unauthorized subcontracting by suppliers is ubiquitous. So too is under-payment and wage theft. One estimate put underpayments in the Chinese apparel sector at around USD 275 to 300 million per month.

Jurisdictions compete for investment and export contracts by promising "low business costs" – often a cipher for lax enforcement of labour protections and standards. Governments refrain from enforcing protections and outsource responsibility for enforcement to business and private supply chain governance initiatives. Yet, in many places audits are easily gamed, and worker grievance and support mechanisms are poorly adapted to the reality of casualized, atomized workforces. Suppliers are left to choose between the norms promoted, weakly, by the State, and the institutional demands of their customers – especially their demands for low price and fast turnaround.

We explored how these dynamics play out in four different contexts: Leicester in the UK – a traditional textile hub that has recently re-emerged as a leader, in the context of ultra-fast fashion; Bangladesh; India; and Ethiopia. In each place, the institutional dynamics of the value chain work to encourage labour exploitation. In some of these places, there is a 'captive' population – often refugees, migrants and those socially marginalized by language, gender or caste – with few outside options, vulnerable to exploitation. In each place, there are also signs that a lax approach to sustainability imposes costs not only on the worker population, but also on the broader community – including public health costs, lost tax revenue and environmental costs associated with unsustainable production practices.

In the **UK**, our research focuses on the allegations of labour exploitation in the Leicester supply chain of boohoo, a large ultra-fast fashion firm. A recent review by Alison Levitt QC suggests that allegations of unacceptable working conditions and underpayment of contractors by suppliers are substantially true. We explore the institutional setting, vulnerabilities and supply chain practices that have contributed to this system, and consider what a more developmental approach to supply chain upgrading might look like.

Bangladesh is the world's second largest garment exporter after China. Garment production accounts for roughly 20 per cent of its GDP and employs around 4.5 million people. It has been a powerful driver of development, especially for women, in recent decades. But it has also exposed millions of children to child labour in the production of leather and textiles. The Rana Plaza disaster of April 2013, in which 1,138 people were killed in the collapse of a building housing several garment factories supplying global brands, led to three different supply chain governance initiatives:

- a Government-ILO led National Tripartite Plan of Action on Fire Safety and Structural Integrity;
- the European company-led Accord on Fire and Building Safety in Bangladesh (which was legally binding and included union representatives); and
- the US company-led Alliance for Bangladesh Worker Safety (not binding, no unions).

At the inter-governmental level, Bangladesh, the EU, US, Canada and ILO also agreed a Bangladesh Sustainability Compact together to commit to strengthening respect for labour rights, building and workplace safety, and responsible business conduct. This created a strategic coordination framework, backed up by the threat of loss of trade preferences.

Overall, these initiatives appear to have significantly enhanced worker safety. But their scope was limited, both in terms of their reach into unauthorized factories, and into issues beyond worker safety – such as worker voice, sexual harassment, involuntary work and wage theft. Moreover, a World Bank study suggests that because buyers would not pay for the remediation and renovation of factories found to be unsafe, suppliers passed the costs of doing so on to workers – specifically, to female workers. That suggests that efforts that aim to address working conditions may generate trade-offs by suppliers on wages. A more holistic approach to workers' economic agency may be needed that grapples with broader labour rights questions, such as unionization.

In **India**, a large part of production is through informal, home-based work, where child labour may be prevalent. In recent years, there has been particular international mobilization around forced labour in the Tirupur area, the location of the majority of India's spinning units and knitted production. This has focused on the *sumangali* ('married woman') recruitment scheme – an indentured servitude scheme recruiting poor, unmarried, lower-caste, rural teenage girls, with the promise of earning enough money for a dowry – and thus the respectability of becoming a 'married woman'. In reality, workers often received less than promised, only at the end of a three-year term of service, while being subjected to coercion and involuntary work during that period.

Local and foreign civil society groups mobilized in the late 2000s to organize public relations, judicial and divestment campaigns, and stood up a local multi-stakeholder initiative. Local suppliers now argue the scheme is defunct. There are, however, signs that some of the exploitative practices persist. A new approach, pioneered by the Freedom Fund, combining elements of disruption, transformation and empowerment, may be having more sustained success: in the 400 villages participating in its regional programme between 2015 and 2018, the prevalence of households experiencing bonded labour fell on average from 56 per cent to just 11 per cent. That represents more than 63,000 fewer individuals in bonded labour.

Since the 1990s, **Ethiopia** has sought to diversify its agriculture-focused economy, through a labour-intensive, export-led industrialization model, based on East Asian models. Textile and garment manufacturing is seen as key to this process, fostering backward linkages to cotton production, while harnessing preferential trade access to the EU and US to deliver rents that can be used to invest in infrastructure, basic services and social programming. The Government's industrial policy has, since 2008, focused on attracting foreign investment in the industry, through favourable investment and tax regimes, low cost electricity, and access to land and government-funded industrial parks. Ethiopia also has the lowest textile industry wage in the world, no statutory minimum wage, and low union density. The strategy was significantly supported by development partners including then-named UK Department for International Development, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and IFC, as well as domestic banks.

The result has been 51 per cent growth in the industry between 2013 and 2018, and 45,000 new jobs. Yet, wages are so low that they may push workers into debt, once living expenses are factored in. This, combined with poor management practices, seems to lead both to low total-factor productivity, and to high workforce turnover, as workers leave to start their own informal businesses. Workers may experience involuntary work, or coercion – but do not seem to experience both. This is *not* a 'captive' workforce. Workers seem to retain the ability to exercise outside options in the labour market. Strategic coordination of stakeholders, worker inclusion, exit options, and the role of the State seem to be key to the relationship between modern slavery risks and development in the garment and apparel sector.

The garments value chain works the way it does because States have chosen to take a hands-off approach, favouring returns to capital over returns to labour. That is a choice; they could equally now choose to take a more interventionist path, guiding the global garment sector towards greater sustainability and resilience. This could lead to longer-term productivity gains, as more stable supplier relationships allow suppliers to save more, and to invest more in the well-being and training of their own workforce. The study canvasses options from Australia (Fair Work Ombudsperson) and the US (Fair Labor Standards Act), and points to a role for development actors in system transformation involving:

- creating incentives for improved supply chain transparency and information-sharing;
- modelling adjustments to trade and investment regimes for greater supply chain resilience;
- identifying and financing investments to promote resilience and sustainability upgrading;
- facilitating local market arrangements that foster longer-term planning and sustainability while protecting economic agency (such as worker and supplier cooperatives, framework agreements or accords between government and industry); and
- engaging global unions to develop and effectively implement global framework agreements.

CASE STUDY: Construction and infrastructure (India, Myanmar, Qatar)

Construction employs 7 per cent of the world workforce. It is at the heart of global plans for achieving the 2030 Agenda, with the G20's Roadmap for Infrastructure as an Asset Class, the China-backed One Belt One Road Initiative, and the Japan, US and Australia-backed Blue Dot Network. But it is also estimated to account for 18 per cent of forced labour. Risks are widespread: even in the UK, for example, one third of construction workers in one survey indicated that they had worked for no pay.

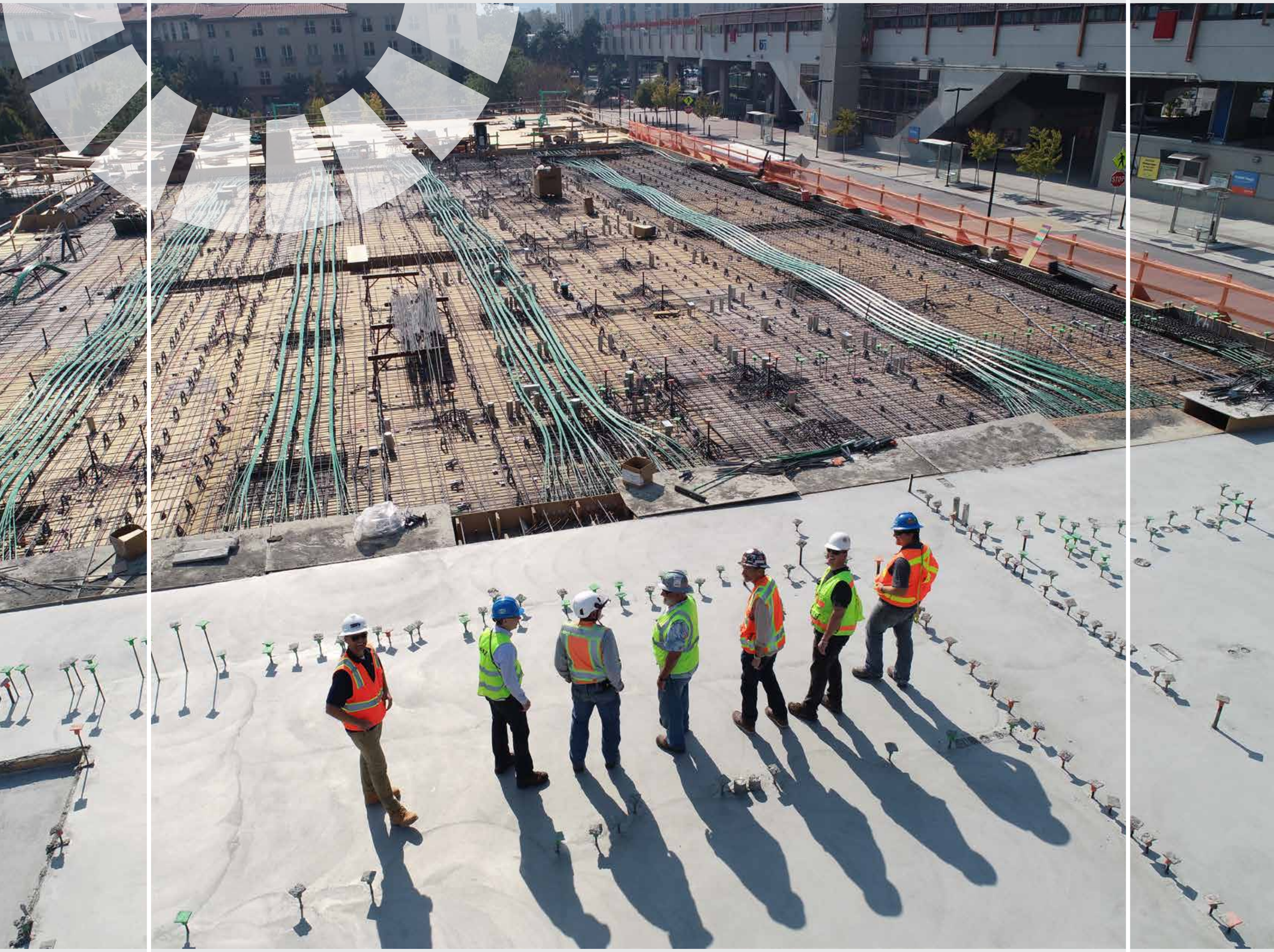
Modern slavery risks in the construction sector arise from the same supply chain outsourcing practices and vulnerable worker populations we identify in other sectors. But there is a key difference due to the physically-grounded nature of construction: production cannot move to the site of cheap labour, but rather must bring cheap labour to the construction site. The industry deals with this by externalizing recruitment costs onto workers. Workers effectively subsidize construction by paying intermediaries, brokers and lenders for access to jobs. Workers take out punishing loans to pay these fees. This leads to debt bondage and a USD 4 billion drag on development, depriving workers' home States of development income.

We explore some of these dynamics in a Qatar case study. Prompted by the FIFA World Cup 2022 spotlight and paradoxically liberated by the 2017 blockade imposed by Gulf Coalition Council and other countries, Qatar has turned substantially towards free labour market arrangements. Together, ILO and Qatar have worked since 2017 to reform Qatari labour market regulation, adopting reforms that have enlarged worker agency. New dispute resolution and worker voice systems were established, worker welfare standards were adopted, some recruitment fees started to be reimbursed, a workers' insurance fund was set up to move the risk from late payment from workers to the State. Finally, in August 2020, Qatar abolished its system of 'No Objection Certificates' and, with it, the *kafala* system in the country, while also moving to institute a non-discriminatory minimum wage. Yet, issues around worker voice remain unresolved.

The location-specific nature of construction also has implications for the sector's political economy. Control of buildings and built infrastructure gives access to rents, so it is a prize in political and military competition. Forced labour connected to infrastructure becomes a way to assert control over those assets' locations – and the populations that live there. We explore these dynamics in a Myanmar case study. From independence until the 1990s, the *Tatmadaw* (Myanmar military) used forced labour as a counter-insurgency tool of pacification to establish territorial control in Burma's post-colonial periphery. By the mid-1990s forced labour on infrastructure was worth perhaps 7 per cent of GDP. From the 1990s, as the military shifted towards a more market-oriented governance strategy, extracting profit from Myanmar's natural resources through partnership with ethnic leaders and foreign capital, forced labour evolved in a more commercial direction. In the last few years, however, the old military logic has resurfaced as the *Tatmadaw* has revived its counter-insurgency approach in Rakhine state, particularly targeting the Rohingya.

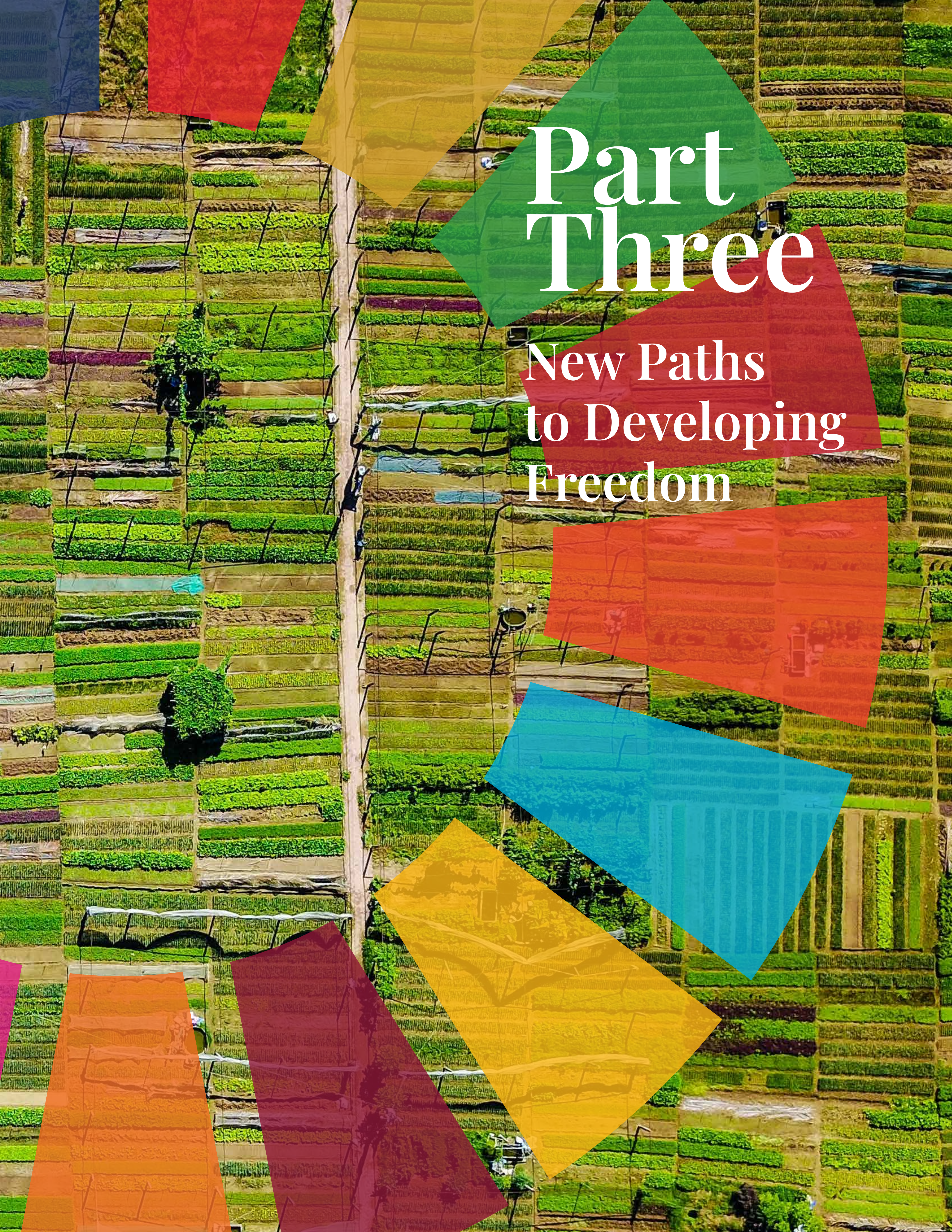
Finally, most value add from construction and much from built infrastructure is consumed domestically, restricting foreign actors' leverage. The exception is where infrastructure is created for export markets (for example exported energy or the television broadcast rights associated with mega sports events). We explore these leverage dynamics in both Myanmar and Qatar. In both places, the ILO has played a key role, and development actors have also contributed to positive reforms. At the time of writing, the World Bank's plans to invest USD 100 million in Rakhine raised difficult due diligence questions about how to ensure that development finance contributes to modern slavery prevention without exacerbating modern slavery risks.

We consider challenges facing global sustainability frameworks for this sector, such as the Equator Principles (project financing) and Building Responsibly (a coalition of six major construction and engineering firms supported by Business for Social Responsibility). We conclude that effective constructive engagement requires careful strategic coordination amongst external actors around a substantive reform agenda aimed at maximizing economic agency. Mega sports events may offer unique disruptive opportunities, but also bring significant risks. Development actors could push the industry's value chain away from normalized late payment by financing worker insurance schemes, promoting use of Project Bank Accounts, and using social finance to link capital costs to environmental, social and governance (ESG) performance. We look at one such instrument being rolled out in the Indian construction sector, and consider the Blue Dot Network and the rise of infrastructure financing as a core focus of multilateral development banks. Finally, we consider the regulatory turn towards joint liability frameworks for worker welfare in the construction sector.



Part Three

New Paths to Developing Freedom



COVID-19 and the Developing Freedom agenda

We use the Developing Freedom framework to understand the pandemic's impacts on modern slavery:

Vulnerability dimension: The pandemic puts people's health, livelihoods and income at risk. All of these factors restrict economic agency and make people more vulnerable to modern slavery. The pandemic's impacts are also regressive: those most marginalized have their risk most greatly increased. Women and girls are at heightened risk, through isolation during lockdown, reduced educational and workforce participation, and reduced food security. Children are more likely to be forced into child labour through impoverishment, parental ill-health or morbidity, and reduced access to education. A 1 per cent rise in poverty leads to a 0.7 per cent increase in child labour rates, pointing to a high risk of reversal of the reductions of child labour achieved in recent decades. Remittances are expected to decline by roughly 20 per cent, removing household income keeping children in school. Reduced incomes can induce child labour migration and child marriage.

Stranded migrant workers are at heightened risk of exploitation as they seek to avoid deportation, compete for jobs, seek to avoid loss of securities or deposits and fight to keep visas and work permits valid. And repatriated migrant workers risk exclusion from social assistance programmes. COVID-19 pushes people into informal work, more insecure and less remunerative than formal work. And the pandemic threatens a microfinance insolvency crisis, removing income support. Reduced access to microcredit will mean worse economic, social and health outcomes for women and girls, reduced household investment in education, reduced education participation rates, and increased child labour.

Exploiter strategies dimension: The pandemic disrupts business models, leading to innovation and adaptation by traffickers and exploiters. In some sectors, the collapse in demand means firms are competing – often on labour costs – for shrinking business, incentivizing coercion. In other sectors, such as Personal Protective Equipment (PPE), there is a boom in demand on short turnaround that is driving forced work. Sadly, there appears to be a global surge of online child sexual exploitation, representing a tragic internet-based adaptation in exploiters' profit-making strategies.

Institutional dimension: Reduced resources disrupt some institutional anti-trafficking responses, such as inspections, and may have other institutional effects that impact vulnerability (such as school closures, or withdrawal of income support and social protection coverage). Some countries have responded to the economic downturn in ways that could further heighten risks, for example reducing worker protections with a view to securing foreign investment and demand.

The pandemic has reduced public revenues and will most likely reduce ODA commitments (the term used to describe both promised and actually disbursed ODA allocations). But it may also have accelerated a turn to ESG factors in investment and lending decisions. Capital markets are realizing that worker vulnerability can spell vulnerability for both firm performance and economic growth. This offers a significant opportunity for 'maximizing finance for development'. Multilateral actors already looking to use public spending to crowd-in private capital investment have an opportunity now to do this in a way that helps reduce modern slavery risks and develop freedom.

Lessons from transatlantic slavery on the risks involved in financialized development

The turn to private finance carries some risks. To understand them, we look to a key episode in Western economic development – the 1830s development of the Mississippi Valley and American south-west, which led to a financial panic in 1837 with important similarities to the 2008 Global Financial Crisis and important insights for current efforts to create tradeable assets backed by development projects. Public actors worked to create a market for private investment in the development of the American south-west, leading to a boom in cotton – and in slavery. The unintended results were catastrophic – not only for the Native Americans displaced and the hundreds of thousands of African Americans enslaved, but for America. In the short term, the boom led to a financial bubble, the Panic of 1837 and an economic depression not matched until the 1930s. In the longer term, the bursting of the cotton bubble led to a shift in financial and political power from south to north, and the destabilization of the American political settlement leading later to the American Civil War.

The financing strategy used to develop the Mississippi Valley has similarities to current multilateral approaches to Financing for Development – including the creation of tradeable asset classes pooling risk from multiple underlying development projects. In the 1830s, public actors facilitated the creation of bonds, underpinned by mortgages of plantations and even of slaves themselves. These bonds were sold into European capital markets. We highlight two lessons: 1) the dangers of encouraging private risk-taking without mandating centralized monitoring of resulting systemic risk; 2) the dangers of delegating risk assessment and management to private actors whose incentives might not align with the public interest.

Yet, the episode also points to the possibility of creative solutions, such as the construction – by American abolitionists including a young Abraham Lincoln – of a market for reliable risk information. We show how this may point to an important role for development actors in regulating today's sustainable finance to help reduce modern slavery risks. This points to a final lesson: development is shaped not just by single interventions and national development strategies, but by global market regulation. If the development sector is serious about reducing vulnerability to modern slavery, it must think not only about how to safeguard against modern slavery at the individual project level, but also at the systemic level.

An Agenda for Developing Freedom – Recommendations

The last section of the report sets out a Developing Freedom Agenda. (Please see the full report for the discussion of these recommendations.) This Agenda aims to mobilize development actors to protect and sustain economic agency to prevent enslavement and unlock the potential of those who have been enslaved. We offer five broad recommendations to development actors, addressing implications both for pandemic recovery and longer-term efforts.

1. Commit to develop freedom: *make maximizing economic agency a development goal.*

We argue for treating developing freedom – maximizing economic agency – as an explicit goal of global development efforts, alongside economic growth, poverty alleviation or conflict prevention. This requires:

- *moving from safeguarding to a strategic approach*, treating developing freedom as an aim of intervention, something to be prioritized and proactively pursued through lending, spending and policy advice;
- recognizing that pandemic recovery requires *commitment to an economy that works for people* – an economy that promotes their economic agency and helps them develop their freedom;
- *connecting anti-slavery efforts to ongoing development work* on resilience, empowerment and governance.

2. Slavery-proof development pathways: *use the developmental role of the State to maximize economic agency.*

We argue for rethinking the developmental role of the State, to focus not just on economic growth and social development, but on maximizing people's economic agency. Pandemic recovery policies should not promote protectionist policies, but rather harness the increased State presence in economies brought about by COVID-19 to promote a more equal, entrepreneurial and educational growth model than is currently offered in models of incorporation into GVCs. We suggest aligning this model on five lines:

- *emphasizing human capital formation*, including investment in education, lifelong learning and skills development, and fostering migrant education, skills recognition and skills development;
- *promoting entrepreneurialism and wealth pre-distribution*, through improvements to labour market mobility, financial inclusion, and capital formation – for example through promoting retirement savings, democratizing ownership of new technologies such as green technologies and industrial robots, and fostering use of cooperative production systems;
- *providing safety nets*, to protect in crisis and encourage responsible risk-taking, through wage insurance schemes, protection floors, access to healthcare and childcare, and strengthened government-to-person (G2P) platforms;
- *promoting high-skilled growth*, for example through industrial policy promoting skills-intensive exports backed up by necessary education, training, wage policy and incentives for private investment; and
- *reducing inequality of economic agency*, through progressive taxation, effective competition policy and executive compensation rules.

3. Supply freedom: *turn GVC practices towards responsible business conduct.*

We argue for development actors to use their resources and leverage to encourage responsible business conduct in GVCs, prioritizing sectors and value chains where COVID-19 has most severely reduced economic agency. Development actors should encourage companies and suppliers to which they are connected to protect people as effective economic agents, for the long-term health of the whole economy. This includes:

- *protecting workers' health, incomes and livelihoods*, through workplace safety measures, maintaining supplier relationships, promoting wage subsidies, loan guarantees and flexible payment arrangements. Remedial measures may also be needed where supplier decisions have contributed to or caused increased modern slavery risks.

- *working together*, through joint approaches to high-risk supply chains, social dialogue, promoting worker voice, managing migrant labour repatriations, and mobilizing around share GVC transformation plans.

Realizing these goals may require working across multiple institutional levels and action in new forums (such as the UN Regional Economic Commissions and Regional Fisheries Management Organizations). Pandemic recovery offers a new start – a chance for governments and development actors to work with value chain stakeholders to reshape those value chains, collaborating, rather than competing. This could begin with development of a set of shared expectations of suppliers in high-risk value chains – such as PPE.

4. Finance freedom: *use development finance to reduce modern slavery risks.*

We argue for the development sector to take a more active role using its collective leverage to shape how capital markets address modern slavery risks. In the short term, during pandemic recovery, this should focus on keeping people afloat, by:

- *increasing liquidity at all levels*, to help governments and enterprises access needed resources, including by enlisting intermediary financial institutions;

- *a microfinance rescue plan*, to ensure that hundreds of millions of at-risk households and enterprises survive the global economic downturn;

- *increasing digital financial inclusion*, using the opportunity created by the crisis to invest in efforts to address the 1.7 billion people who remain unbanked, and to improve access to working capital for the small and medium enterprises and micro-contractors that may be most prone to use forced labour.

In the longer term, the focus should be on collective leverage to ensure capital markets accurately price modern slavery risks, including:

- coordinated exclusion of known modern slavery risks from public financing, lending and investment;

- active participation in the construction of a harmonized ESG risk information infrastructure;

- systemic risk monitoring to identify when privately incurred ESG risks are reaching toxic levels; and

- concerted action to tackle illicit financial flows connected to systematic forced labour, including stolen asset recovery and disrupting the recruitment fee system.

5. Organize communities for freedom: *empower stakeholders to maximize economic agency.*

The study identifies community organization and strategic coordination as central requirements for developing freedom. Slavery is not only an economic but a political system that redistributes wealth from labour to coercive capital. Disrupting slavery systems has always generated a political backlash and will do so in future. To develop freedom therefore requires effective community organization – from the local to the global level. We argue for:

- *Creating a Developing Freedom Forum*, where development actors can share information, learn lessons, and develop coordinated strategy to apply in a coordinated manner across different institutional settings and GVCs.

- *Developing new tools for tracking progress*, including new Development Assistance Committee (DAC) programming codes and common monitoring and evaluation variables,

- *Joint value chain mapping and transformation planning*, to develop shared understandings of how modern slavery risks can be addressed in specific sectors.

The cases in the study make clear that only where the international community organizes around a shared substantive agenda for reform, building and using leverage in a coherent and coordinated way, can we expect to see the scale of slavery reduction needed to end modern slavery by 2030.

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