

The SGS-Sedex Partnership to Address Supply Chain Social Risks

EXPLORING HOW OUR EVER-EVOLVING PARTNERSHIP
AND SMETA TACKLE THE VARIOUS ISSUES

White paper



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Supply chain complexity and social risks

Why are supply chains becoming more complex?

Complexity and complications through internationalization and suppliers

Sourcing from different regions is rising. As supply chains expand internationally, they become more intricate and vulnerable to disruptions from reduced supplier transparency.

Suppliers can import numerous risks, from third-party contractors entering their facilities to undertake crucial but high-risk activities to another supplier sourcing from low-cost countries with known social compliance issues.

Many companies also have international and complex procurement structures that significantly reduce supplier visibility, which can lead to customer and investor distrust.

Responsible supply chains and sourcing are considered business priorities. Achieving transparency throughout your supply chain is crucial for mitigating risks and fostering customer and investor trust.

A richness of risks

From the types of products and services to safety, social and ethical issues, there is a rich tapestry of supply chain risks, including:

- Country and/or region of supply: when sourcing from low-cost or high-risk countries
- Types of products and/or services: such as safety-critical items or those prone to theft due to high value on the black market

- Spending levels: how much money the company spends on particular products and/or services
- Safety: when suppliers import risks to the organization
- Reputation: when supplier behavior directly affects the organization's reputation
- Quality: when high standards are required
- Social and ethical: when there is an increased risk of factors like bribery, corruption, modern slavery and child labor, etc.

Why is there a focus on social risks in supply chains?

With increasing emphasis on environmental, social and governance (ESG), businesses are now more closely evaluating supply chain social risks, recognizing the potential impact on their reputation and compliance.

What are the key social risks and what data must be captured?

Modern slavery

Slavery is not confined to the history books. Almost 50 million people are still slaves worldwide and it impacts every country.

49.6M

49.6 million people live in modern slavery – in forced labor and forced marriages.



Modern slavery, as a term, encompasses many forms, such as human trafficking and people born into slavery. There are various definitions, but all include aspects of control, involuntary actions and exploitation.

A modern slave might face violence or threats, be forced into inescapable debt, or have their passport taken away and face deportation. Many people have fallen into this trap because they were trying to escape poverty or insecurity, improve their lives and support their families. Now, they cannot leave.

According to the International Labour Organization (ILO), Walk Free and International Organization for Migration's (IOM) latest Global Estimates of Modern Slavery (2022) document:

- 49.6 million people live in modern slavery – in forced labor and forced marriages
- Roughly a quarter of all modern slavery victims are children
- 22 million people are in forced marriages. Two out of five of these people were children
- Of the 27.6 million people trapped in forced labor, 17.3 million are in forced labor exploitation in the private economy, 6.3 million are in commercial sexual exploitation, and nearly 4 million are in forced labor imposed by state authorities
- COVID-19 exacerbated the conditions that lead to modern slavery
- Migrant workers are particularly vulnerable to forced labor

For supply chains, modern slavery cannot be underestimated. Slaves can be involved in numerous actions, from making clothes and serving or producing food to picking crops or working in factories.

Modern slavery can exist at every stage of the supply chain, from harvesting or extracting raw materials, such as cocoa or cotton, to manufacturing and shipping. Most products pass through a long, complex chain of producers, manufacturers, distributors and retailers before reaching consumers. It is difficult to track all of a product's components back to a particular producer. Such supply chains naturally make it tricky to see who is working where and under what conditions.

~1/4

Roughly a quarter of all modern slavery victims are children.

What data must be captured?

You must capture data on supply chain structure, supplier practices, risk factors like forced labor and unethical recruitment, and worker conditions, such as low pay and restricted movement.

You must map your supply chain and assess risks at all levels before using this data to inform supplier due diligence, audits and effective anti-slavery policies and procedures.

Forced labor

Forced labor is one type of modern slavery. It continues to be prominent because of the intense focus on modern slavery and related widespread legislation. Forced labor tends to be hidden due to its illegality and, thus, is difficult to detect. Identification relies on utilizing key indicators, such as the ILO indicators of forced labor:

1. Abuse of vulnerability
2. Deception
3. Restriction of movement
4. Isolation
5. Physical and sexual violence
6. Intimidation and threats
7. Retention of identity documents
8. Withholding of wages
9. Debt bondage
10. Abusive working and living conditions
11. Excessive overtime

Agriculture, construction, service providers (e.g. hospitality and tourism, cleaning and security providers) and some forms of manufacturing are particularly at risk.



What data must be captured?

You must capture data on vulnerability-related factors driving slavery and forced labor, such as:

- The nature of the employment relationship (e.g. informal/formal or temporary)
- The recruitment process, as there is a significant risk of exploitation by intermediary labor recruiters
- The worker's social and economic status (e.g. migrants and women are usually more susceptible to exploitation)
- Worker isolation
- The dependence on the employer for travel or accommodation
- Fragile governance in the country of recruitment and/or employment

Child labor

Child labor is more visible and pervasive than forced labor. Despite global efforts to eliminate it, including numerous laws, over 138 million children are in child labor. Positively, this has decreased from over 160 million estimated in 2020, a figure largely driven by COVID-19 and other crises.

Child labor is most common in upstream production, especially agriculture (mainly smallholders producing cash crops), outsourced production or homeworking, mining (particularly artisanal mining) and informal activities like waste picking.

What data must be captured?

You must capture data on the countries in which suppliers operate, at all supply chain tiers. Child labor is fueled by societal challenges, such as poverty and lack of access to proper education.

Suppliers in countries and sectors with higher poverty and underdeveloped education systems usually have increased risks of child labor.

>138M

Over 138 million children are in child labor.

Discrimination

Discrimination refers to the risk that individuals from a specific group (e.g. women, ethnic or religious minorities, people with disabilities, younger or older workers, or lesbian, gay, bisexual or transgender people) receive negative treatment from co-workers or managers. More severe cases may include harassment or violence.

Although there is often a strong focus on gender-specific risks, organizations should identify discrimination risks for all potentially vulnerable people.

Vulnerability is intersectional – risks of discrimination often combine with other social and economic inequalities. Gender-based discrimination is a risk in all sectors and countries. Other discrimination often depends on the presence of minority groups, cultural norms or inadequate management practices.

What data must be captured?

You must capture data on where workers from a specific group fill most lower-skilled or lower-status positions, or form a small minority of the workforce and are more likely to be isolated.

Analyzing grievances, including those by different worker characteristics, such as gender or ethnicity, is also important. This can highlight hidden issues or common concerns, direct or indirect discrimination, among members of the same specific group.

Freedom of association

Freedom of association concerns workers' ability to unionize or form worker representative organizations to negotiate employment terms and conditions.

Employers may forbid or attempt to suppress independent worker organizations or trade unions, or discriminate against union members.

In addition to being a fundamental worker right, respecting freedom of association is crucial in helping businesses build worker engagement to attract and keep skilled and experienced employees.

The risk of anti-union attitudes and activity by employers is present across most sectors and countries. It is highest in countries that do not permit independent trade unions or sectors with little history of worker organizations.

What data must be captured?

You must capture data on where a supply chain extends into countries with restrictive laws on independent unions or with poor records of protecting union rights.

You should examine worksites with few or no methods of employee engagement, such as worker committees or adequate grievance mechanisms.

Health, safety and hygiene

More attention is being paid to health and safety, partly because the ILO now recognizes it as its fifth fundamental principle and right at work.

Organizations must prevent workplace accidents, injuries and disease, and, more recently, support workers' mental health.

While many countries have workplace health and safety laws, risks are ever-present. Occupational health and safety hazards are particularly prominent in sectors using dangerous equipment or machinery, such as construction, engineering and manufacturing.

The risk is also high where legal enforcement is poor, work is more informal or workers do not receive appropriate safety equipment or training. Health and safety risks typically increase where there is excessive overtime.

What data must be captured?

You must capture data on the number of accidents, injuries and near-misses at supply chain sites. You should also look at suppliers' health and safety processes and management systems.

Consider broader risks

There are numerous other social issues that business activities can affect. Other workplace risks include excessive working hours and inadequate wages, while community-related risks, including land rights and access to water, can be significant in certain industries or regions.

How do I begin assessing social risks?

A thorough social risk assessment should adopt a holistic perspective that considers risks in the workplace and surrounding communities.

ESG risk assessment is not a one-size-fits-all process. Risks vary by country, sector and business. A step-by-step approach could start with:

- Supply chain mapping
- Determining the risks most relevant to the people and industries in your supply chain
- Assessing the likelihood and potential severity of the risks in the countries within the supply chain

On-site supplier audits will verify information, identify health and safety risks, and work with suppliers to address these.

What are the benefits of addressing supply chain social risks?

The benefits are numerous, including:

- Drive positive impacts for workers and communities
- Cultivate resilience by supporting a healthy, stable workforce
- Comply with modern slavery, health and safety, and human rights due diligence requirements
- Attain and indicate improvements across social areas, supporting ESG reporting
- Enhance your reputation among investors, consumers, communities and other stakeholders through a commitment to socially responsible business practices and effective risk management
- Reduce costs and the risk of penalties like fines





How can Sedex, SMETA and SGS help?

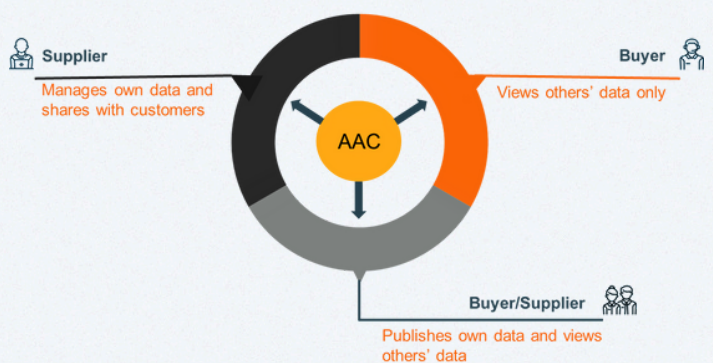
Why do 95k+ companies trust Sedex?

The Supplier Ethical Data Exchange, better known as **Sedex**, is a global technology company specializing in data, insights and professional services that empower supply chain sustainability.

Over 95,000 companies worldwide trust Sedex to build ethical and sustainable supply chains. Its mission is to empower more sustainable supply chains and effective due diligence with its central data platform and assessment tools for mapping, assessing, mitigating and reporting.

Sedex membership is a prerequisite for participation.

The following outlines the overall Sedex ecosystem:



What are the key steps in Sedex?



>95K

Over 95,000 companies worldwide trust Sedex to build ethical and sustainable supply chains.



What are the benefits of Sedex?

The benefits of Sedex include:

See beyond Tier 1

Trace risks deep into your supply chain with globally recognized audit data.

Prove your due diligence

Meet global laws like the Corporate Sustainability Due Diligence Directive (CSDDD) and Corporate Sustainability Reporting Directive (CSRD) with third-party audit verification.

Lower audit costs

Eliminate multiple audit processes with one comprehensive, verified methodology.

Reduce incidents

Apply proven corrective action plans to protect workers and safeguard revenue.

Turn goals into action

Use site-level insights to meet social and environmental targets.

Show true transparency

Back your sustainability claims with third-party verified data.

What is SMETA?

Retailers, brands and customers are increasingly concerned that their goods are manufactured in a way that ensures fair treatment for all workers involved in their production supply chain.

The **Sedex Members Ethical Trade Audit (SMETA)** is the world's most widely used audit. Organizations, large and small, utilize SMETA to understand and improve their business, supply chain working conditions and environmental performance.

SMETA helps you understand the labor, health and safety, environmental performance and ethics levels within your operations or supplier sites. It helps protect workers from unsafe conditions, overwork, discrimination, low pay and forced labor.

Delivered by an Affiliate Audit Company (AAC), such as SGS, the SMETA audit includes a Corrective Action Plan Report (CAPR) as part of the audit report to help improve performance in these areas.

SMETA's requirements, which comprise the Ethical Trade Initiative (ETI) Base Code with additional environmental topics, form a benchmark standard based on ILO conventions.

Sedex, the scheme owner, has broken down the Base Code into SMETA Workplace Requirements to enhance transparency and consistent auditing. SMETA 4-pillar audits include additional elements related to environment and business ethics. These are in addition to local legislation and specified customer requirements.



The ETI is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights worldwide. The Base Code covers:

- Employment is freely chosen
- Child labor shall not be used
- No discrimination is practiced
- Freedom of association and the right to collective bargaining are respected
- Living wages are paid
- Regular employment is provided
- Working conditions are safe and hygienic
- Working hours are not excessive
- No harsh or inhumane treatment is allowed

The main audit elements are labor standards and health and safety. Additional pillars for environment and business integrity may be added. There are two assessment scopes, 2-pillar and 4-pillar, which are selected by the member or client, according to their specific needs.

What is new in SMETA 7.0?

SMETA 7.0 is the latest version and introduces significant enhancements to provide greater transparency, accountability and impact.

Key changes include:

- Workplace Requirements: clearly defined expectations for workplace conditions, ensuring a consistent approach to assessing compliance with labor standards
- Management Systems Assessment: a deeper dive into management systems to identify potential risks and opportunities for improvement
- Collaborative Action Required findings: helping detect where additional activities are needed to sustain improvements. There is no fixed remediation deadline when sustainable improvement requires more time and collaboration between stakeholders

These enhancements empower you to:

- Identify risks more effectively: pinpoint potential supply chain vulnerabilities and take proactive measures
- Demonstrate commitment to sustainability: showcase a strong commitment to ethical business practices and responsible sourcing
- Improve supply chain resilience: build more robust and sustainable supply chains through data-driven decision-making
- Align with regulatory requirements: stay ahead of evolving sustainability regulations and industry standards

SMETA 7.0 is a key step forward in the shared commitment to building a more sustainable and ethical world.

SMETA in numbers

>370,000 audits on the Sedex platform.

>28 million workers benefit from Sedex sustainability practices.

115,000+ Sedex-registered sites in 2024.

180,000+ SMETA non-compliances closed in 2024.



What are the benefits of SMETA?

SMETA audits have given thousands of businesses confidence that they are working with suppliers in a sustainable way. You can identify improvement areas, enhance reputation and build stakeholder trust. The benefits include:

Increased visibility

Gain a greater understanding of your business and suppliers' social and environmental performance.

Prioritize and reduce risks

Assess and monitor higher-risk suppliers' performance over time and reduce social responsibility and supply chain sustainability risks.

Avoid audit duplication

SMETA audit reports reduce supply chain audit duplication by providing a widely accepted single format for social compliance audits.

Efficient supplier auditing

Share data with multiple buyers, decreasing the number of audits.

Improve supplier performance

A Corrective Action Plan will help improve supplier performance and resolve issues found in the audit.

Comply with legislation

Facilitate compliance with existing and upcoming legislation.

Stored in one platform

Audit reports are uploaded to the Sedex platform, enabling members to effectively share and manage information.

What is the audit structure?

2-pillar audit

1. Labor Standards Base Code Areas:

- 0: Enabling accurate assessment
- 1: Employment is freely chosen
- 1A: Responsible recruitment and entitlement to work
- 2: Freedom of association and the right to collective bargaining are respected
- 4: Child labor shall not be used
- 5: Legal wages are paid
- 5A: Living wages are paid
- 6: Working hours are not excessive
- 7: No discrimination is practiced
- 8: Regular employment is provided
- 8A: Subcontracting and homeworkers are used responsibly
- 9: No harsh or inhumane treatment is allowed

2. Health and Safety Base Code Area:

- 3: Working conditions are safe and hygienic

3. Environment Code Area:

- 10A: Environment 2-pillar

4-pillar audit

1. Labor Standards Base Code Areas:

- a: Same as the 2-pillar audit

2. Health and Safety Base Code Area:

- a: Same as the 2-pillar audit

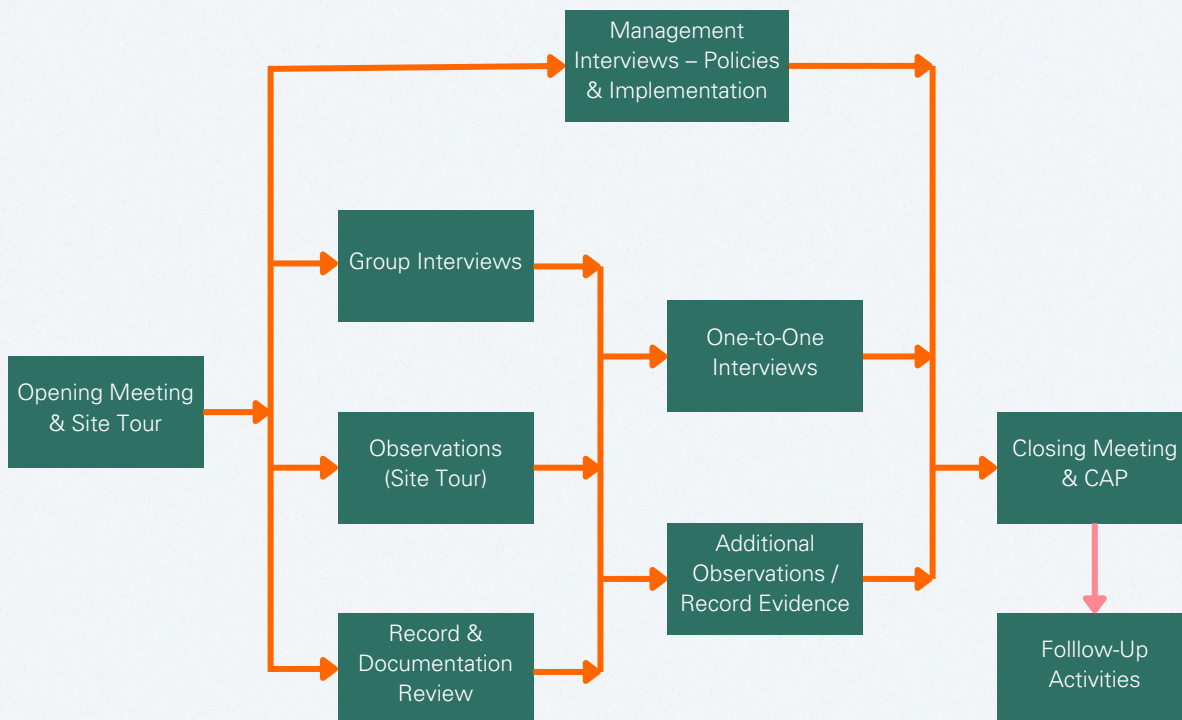
3. Environment Code Area:

- 10A: Environment 2-pillar
- 10B: Environment 4-pillar

4. Business Ethics Code Area:

- 10C: Business ethics

What is the audit process?



What is the audit duration?

SMETA has the following assessment types:

- Initial audit: the first time the audit site will be audited against the SMETA methodology
- Periodic audit: this full audit is conducted regularly to monitor supplier sites, with varying intervals depending on the member
- Follow-up audit:
 - Follow-up audit (on-site): the progress against corrective actions is verified by an auditor. The follow-up audit's nature is determined by the findings raised. These may be either:
 - Desktop audit: where corrective actions do not require a site visit and can, instead, be verified remotely, e.g. through photographic evidence or documents, provided via the digital platform
 - On-site follow-up: where the auditor visits a site but only checks the progress against issues found during a previous audit

Note: Collaborative Action Required (CAR) findings are not reviewed in follow-up audits, only in periodic audits.

How is the audit executed?

The audit scheduling process covers the following key stages:

- Allocation
- Audit preparation and planning
- On-site evaluation
- Reporting
- Publishing
- Follow-up activities

The scheduling timeframe depends on the country and supplier's site availability.

All SMETA reports are completed using the Sedex platform's digital reporting tool. All reports (initial, periodic, follow-up) are submitted within 15 calendar days upon completion of an on-site audit, if not stated otherwise.

Desktop reviews are assessed and submitted within a maximum of five days after evidence is submitted on the platform. Sedex members can publish the report once it is submitted. In the absence of the report being published by the member, an auto-publish function exists 15 business days after the audit date.

Which audits can be hosted on the Sedex platform?

The Sedex platform accepts any third-party ethical audit where the organization has been audited by an independent certification body, such as SGS, a registrar or similar third-party organization. This is the most common audit for most Sedex members and is more impartial.

This audit can be useful. However, you should check your customer's requirements before committing to a particular audit.



What is the audit notification and frequency?

The audit type depends on the buyer or payer:

- Announced: the audit date is agreed with or notified to the audited site
- Semi-announced: the audit date is agreed within a "window period"
- Unannounced: no prior audit scheduling type is given

Note: semi-announced is the recommended type.

Sedex does not determine the audit frequency. Sedex members recommend:

- High risk: annual audit
- Medium risk: two-yearly audit
- Low risk: at the customer's discretion

Must I be a Sedex member to share my SMETA audit with customers?

Only Sedex members can undergo SMETA (full or follow-up audits) conducted by an AAC like SGS. You must register and have an active account on the Sedex platform. Only members can upload audits to the Sedex platform.

Become a member [here](#) or visit the SMETA web page.

Which companies use SMETA?

2-pillar companies

SMETA is accepted by many European, US and other companies within their own programs, e.g. Ahold, Disney and Walmart.

It is adopted by Australian and South African companies, e.g. ALDI Australia and Mr Price Group.

4-pillar companies

Numerous AIM-Progress members are involved, including Nestlé, Kraft and Mondelēz.

What is an Affiliate Audit Company (AAC)?

Sedex only accepts the best audit firms to drive continuous improvement. AACs, including subsidiaries unless otherwise specified, are [Association of Professional Social Compliance Auditors \(APSCA\)](#) members and can conduct all in-person SMETA audit types.

Check out the AAC list [here](#) or visit the SMETA web page.

"It's amazing to see the SGS-Sedex partnership flourish over the years, to become a leading light in addressing social supply chain issues.

"We have clearly established ourselves as a leader in the field and are eager for even more to join the cause.

"Contact us today to partner with our team to experience peace of mind in managing social risks."

Neil Willings
Global Head of Sustainability
and Supply Chain

Why choose **SGS-SMETA** services?

Decades of social accountability experience

As the world's leading testing, inspection and certification company, we have been a Sedex AAC for over 15 years, reinforced by almost three decades of social accountability expertise.

An AAC account indicates our commitment to correctly using SMETA, Sedex social audit methodology and conducting audits with quality and integrity.

As one of the largest providers of SMETA, we have in-depth knowledge and are actively involved in various SMETA forums and working groups, where we contribute to developing guidance documents. Our deep involvement in these forums demonstrates our dedication to social compliance auditing best practices, ensuring robust supply chain due diligence.

Tens of thousands of social audits delivered

Globally, we conduct over 25,000 social audits annually, and thousands of these are for SMETA. This validates our extensive experience and leadership in social compliance auditing, providing brands with a reliable and well-established partner.

We have one of the largest networks of highly trained auditors, with industry-specific experience and first-hand knowledge of local conditions and norms.

>25K

Globally, we conduct over 25,000 social audits annually, and thousands of these are for SMETA.

A founding and full APSCA member

We are a founding and full member of the leading industry association, APSCA. We have a global network of over 800 experienced APSCA-enrolled auditors in more than 80 countries, ready to support your SMETA needs.

Our auditors have extended tenure, resulting in robust industry expertise and consistent service delivery.

We only use APSCA Certified Social Compliance Auditors (CSCA) to lead SMETA audits, ensuring the highest level of auditor competency. Our internal quality management system (QMS) is fully aligned with ISO 17021 (bodies auditing and certifying management systems), underpinning our commitment to continuous improvement and operational excellence.

We have experience in conducting thousands of audits against third-party, industry and client-specific codes and social compliance programs.

Active in the Sedex Audit Quality Programme

Since 2023, we have been actively involved in the Sedex Audit Quality Programme (AQP) to enhance SMETA reliability and consistency.

Under this framework, several SGS audit reports across different geographies are globally reviewed every quarter. The results consistently highlight the high quality of our audits, with increasing average score % across key performance indicators, such as:

- **Completeness:** ensuring that all required audit fields are completed properly and that correct documentation is uploaded to the Sedex platform
- **Consistency:** validating that audit reports provide coherent, logical and non-contradictory information throughout
- **Accuracy:** ensuring that audit findings accurately represent working conditions and enable buyers, such as Disney, to make informed risk assessments

Introducing **IMPACT NOW** for sustainability

With ever-increasing concerns about climate change, human rights, effective governance and economic stability, coupled with new regulations, legislation and consumer demands, sustainability must be front and center of every organization.

As sustainability is complex and rapidly evolving, we hear organizations' concerns daily. Wherever you are, whatever your industry and ultimate sustainability aspirations, our **IMPACT NOW** experts are ready to support you. Utilizing over 30 years of sustainability leadership, we help you move from complexity to clarity, and from advice to meaningful action.

Our sustainability impact services and solutions are broadly categorized under **Climate**, **Circularity**, **Nature** and **ESG Assurance**. This helps you pinpoint exactly what you need to make your impact now.

Our **social audits**, including **SMETA**, are the foundation of our services for addressing the S in ESG.

Support the S in ESG

For more information:

Social audits section on www.sgs.com
Contact us to book your SMETA audit or supplier audits: RBS@sgs.com



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Skillcast – <https://www.skillcast.com>

Supply Chain Digital – <https://supplychaindigital.com/>

World Vision – www.worldvision.org

When you need to be sure

SGS Headquarters
1 Place des Alpes
P.O. Box 2152
1211 Geneva 1
Switzerland

sgs.com



The SGS logo, consisting of the letters 'SGS' in a bold, sans-serif font, with a vertical orange line to the right of the letters and a horizontal orange line below the letters.