



Analysis of procurement data for the risk of trafficking in human beings

Pilot project for the OSCE Mission to Serbia



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Glossary

Index: A statistical aggregate that measures multi-dimensional concepts (for example, competitiveness, rule of law) which cannot be captured with a single indicator. It should be based on a theoretical framework, which allows individual indicators to be selected, combined and weighted in a manner which reflects the dimensions or structure of the phenomena being measured.

Median: The middle value separating the higher half from the lower half of the sample.

Supply chain: The material and informational interchanges in the logistical process stretching from acquisition of raw materials to delivery of finished products to the end user. All vendors, service providers and customers are links in the supply chain.

Tier 1 suppliers: Companies which provide products and/or services directly to an organization (for example, the OSCE) without dealing with a middleman or other manufacturers.

Tiers in supply chain: Tiers indicate suppliers' distance to an organization (for example, the OSCE) in the supply chain. While tier 1

corresponds to direct suppliers, tier 2 corresponds to indirect suppliers (supplier of suppliers) and tier 3, 4, etc. correspond to further upstream suppliers.

Trafficking in human beings (THB): the recruitment, transportation, transfer, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labour or services, slavery or practices similar to slavery, servitude or the removal of organs.¹

Upstream: Refers to the supply side of the supply chain. Upstream partners are the suppliers who provide goods and services to the organization needed to satisfy demands which originate from the point of demand or use, as well as other flows such as return product movements, payments for purchases, etc.

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Executive summary

The OSCE commissioned the University of Nottingham's Rights Lab to undertake an independent analysis of THB risks the OSCE Mission to Serbia ('The Mission') might have in its tier 1 suppliers. This report presents the preliminary evaluation of the supplier portfolio of the Mission and provides recommendations for managing THB risks in supply chains. It is the first time such an evaluation is undertaken for the procurement portfolio of an inter-governmental organization and shall set a pioneering milestone for procurement in inter-governmental organizations. It is explicitly produced to provide a basis for further debate, analysis and action on procurement practices and how THB risks can be addressed.

To credibly regulate businesses on the issue of THB, governments and inter-governmental organizations should engage in making their supply chains THB-free as public procurement is not any less exposed to THB risks than commercial procurement. In this respect, the OSCE recommends and supports the OSCE participating States to prevent human trafficking in their supply chains. In line with previously adopted OSCE commitments and guidance from the OSCE participating States, the OSCE also works towards eliminating THB from its own supply chains, thus leading by example. Accordingly, this report presents an initial THB risk assessment of the OSCE mission to Serbia. It evaluates THB risks of the Mission's tier 1 suppliers which provide products and/or services directly to the Mission.



Key findings

In 2017 the Mission issued
2,667
 purchase orders totalling
2,212,177 euros

It had
480 suppliers
 in 24 countries

Procurement activities were largely concentrated in Serbia. Of the 480 suppliers **403** were based in Serbia and they accounted for 91% of the total spend

All **77 international suppliers** were based in relatively low-risk countries but there is no further information on the location suppliers beyond tier 1

The Mission procured a wide range of products and services that differ markedly in terms of the level of THB risk.

Managerial considerations could include:

- consolidation of suppliers in high-risk categories
- establishment of long-term relationships with consolidated high-risk category suppliers
- increasing supply chain transparency and visibility
- increasing granularity of purchasing data for more detailed risk identification
- widening and deepening supply chain insight
- increasing leverage over suppliers by establishing procurement collaboration of inter-governmental organizations
- organising meetings and round tables with suppliers in high risk categories, and educate public procurement officers across the OSCE and its membership on the implementation of THB prevention
- communication to bidders about the THB compliance expectations of the OSCE
- conducting further research to identify leverage points with suppliers and to share and implement best practices across the OSCE executive structures and field operations

Prevalence of trafficking in human beings in Serbia

Serbia is described “as a source, transit, and destination country for men, women, and children subjected to sex trafficking and forced labour, including domestic servitude and forced begging”². Being on a transit route for irregular immigration to Western Europe makes Serbia particularly vulnerable to THB.

Serbia has made some progress to eradicate THB by collaborating with inter-governmental organizations including the OSCE. However, it requires better coordination among different stakeholders and the implementation of further mechanisms to prevent the use of forced labour in the production of goods and services³.

Scope and limitations

The scope of this report is to evaluate THB risks associated with tier 1 suppliers of the Mission in 2017. It does not take into consideration risk mitigation mechanisms the Mission has already implemented for high-risk categories. For instance, suppliers providing cleaning services to the Mission are required to name workers in the contract. This requirement also applies to the suppliers providing chauffeur services to the Mission. Moreover, the report is solely based on the Mission’s procurement data without assessment of contextual factors which may change the level of THB risks.

Methodology

This report presents the findings of an assessment of the Mission’s procurement data for 2017 towards exposure to THB risks in tier 1 suppliers. The data for this study was obtained from the Mission to Serbia, which consisted of 480 anonymized suppliers with a total of 2,667 purchase orders. It was extracted from the enterprise management software Oracle, which the Mission uses to manage and record procurement activities.

The Mission to Serbia was selected for this pilot study for two main reasons. Firstly, it was open to engage and take an active role in the OSCE initiative against THB. It provided a detailed record of its procurement, which constitutes the main source of information for the risk assessment presented in this report. Secondly, many of the products and services the Mission procures are typical to other OSCE missions, which makes the findings of this study transferable across the OSCE missions.

The risk assessment was undertaken in five main steps: i) overview of spend profile, ii) categorization of purchase orders, iii) prioritization of purchase categories, iv) creation of supplier risk management

Data for this study was obtained from the Mission to Serbia, which consisted of 480 anonymized suppliers with a total of 2,667 purchase orders

matrix, and v) recommendations for managing high-risk categories and the supply chain in general.

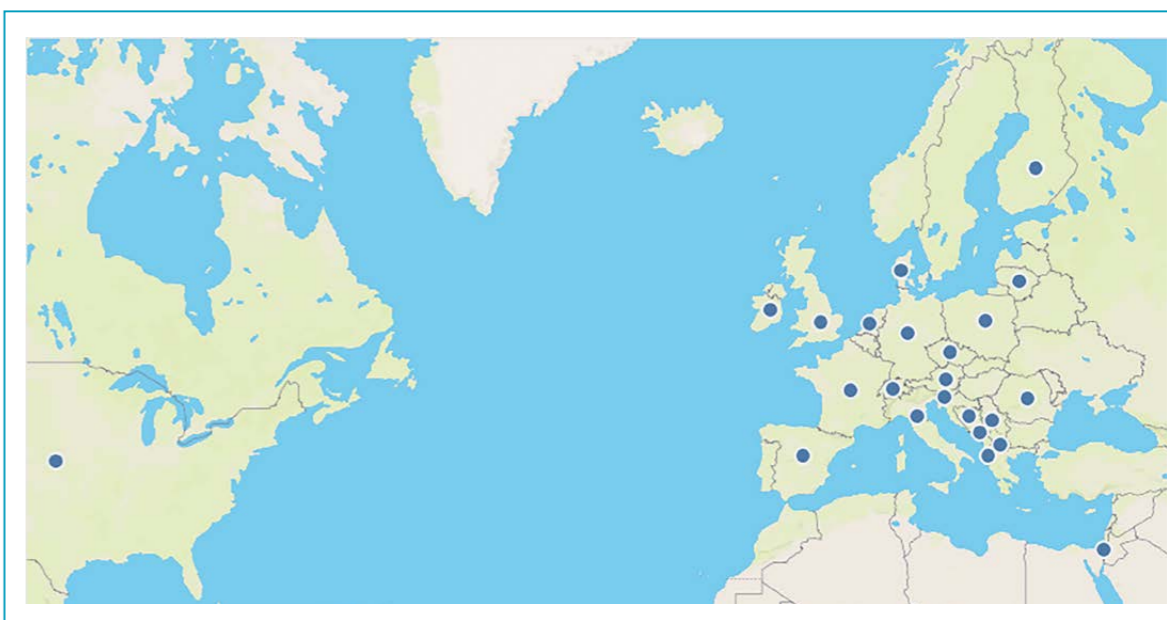
The scope of this assessment is THB risks associated with tier 1 suppliers of the Mission in 2017. Suppliers were evaluated against country-level and industry-level THB risks. Country-level THB risks refer to macro-level socio-economic and political factors that affect the vulnerability of individuals to become a victim of THB. Suppliers’ country-level THB risks were assessed with the Vulnerability Index⁴ developed by the Walk Free Foundation. Incorporating various country-level indicators (for example, GDP, Gini Coefficient, violent crime) the Vulnerability Index provides aggregated scores to countries on a continuous scale ranging from 1 (lowest vulnerability to THB) to 100 (highest vulnerability to THB). Among other advantages, the use of objective parameters, broad coverage of 167 countries, and transparency behind methodological decisions make the Vulnerability Index a reliable measure to examine supplier’s country-level THB risks.

In the Industry-level risk assessment we examined suppliers based on the THB risks they carry due to the industries in which they operate. Accordingly, we focused on factors that would affect the vulnerability of workers to become a victim of THB, such as agent-based recruitment of workers, low skill employment, and use of seasonal workers.

1. Overview of spend profile

In 2017, the Mission had 480 suppliers from 24 countries including Serbia. The following map illustrates where these suppliers are located. After Serbia, the largest country for procurement is Austria which accounts for 9% of the total spend. This mainly results from procurement of travel through a travel agency based in Austria, which provides travel services to all OSCE executive structures and field operations based on a single contract.

Figure 1: Location of tier 1 suppliers



According to the Vulnerability Index, all tier 1 suppliers are located in relatively low-risk countries, the scores of which are all lower than the median score in the Vulnerability Index scores. Therefore, the prioritization of tier 1 suppliers for managing THB risks is largely unaffected by country-level considerations.

2. Categorization of purchase orders

THB risks greatly vary between different products and services. Classification of purchase orders enable organizations to focus managerial resources on suppliers providing high-risk category products and services. In order to identify suppliers providing high-risk products and services, we clustered the Mission’s purchase orders into seven main categories: **reimbursement, goods, transportation, technology and communication, hospitality, rent, and service**. Tables 1 and 2 summarize the distribution of procurement by the amount spent and the number of purchase orders. Service, rent, and hospitality are the three largest purchase categories, accounting for 71% of the total spend. Transportation replaces rent from the top three when the ranking is based on the number of purchase orders.

Table 1: Distribution of procurement (by spend, €)

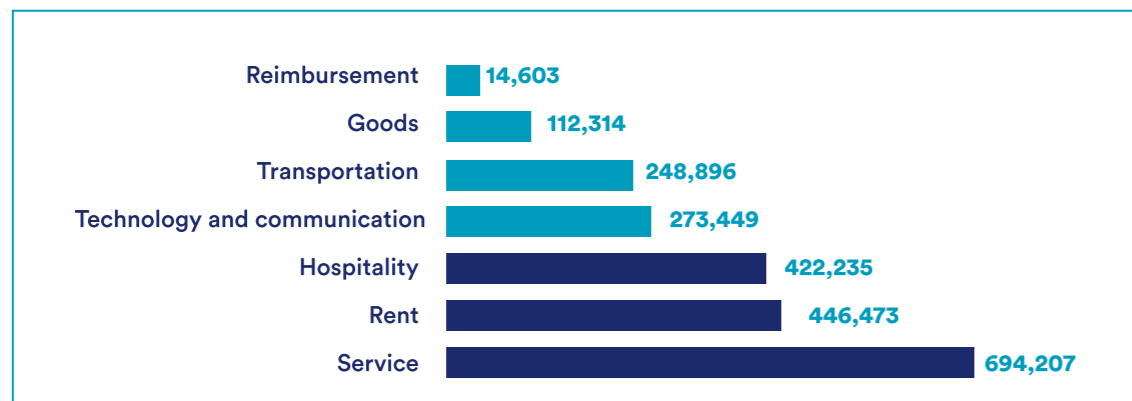
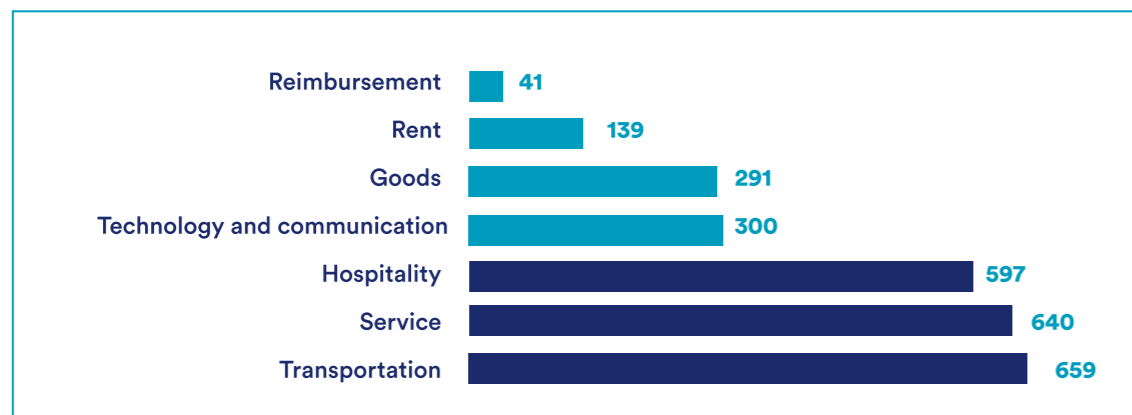


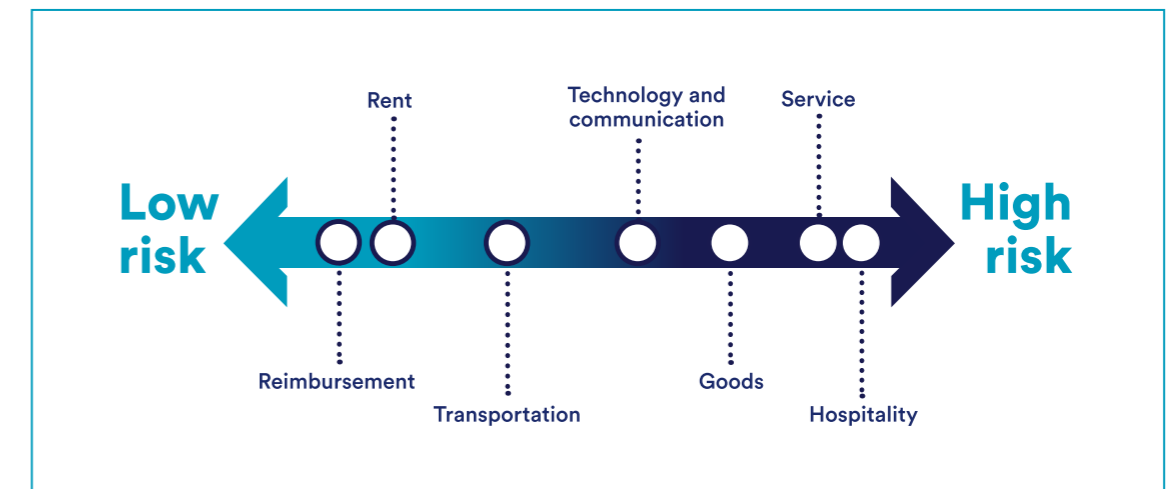
Table 2: Distribution of procurement (by number of purchase orders)



3. Prioritization of purchase categories

Supplier mapping in the first step revealed that suppliers have a similar degree of country-level risks. In this step, we evaluate THB risks of each category in order to identify which suppliers should receive more managerial attention. The indicators used for the prioritization of purchase categories include low-skill employment, use of temporary or seasonal workers, and reliance on outsourcing and agent-based recruitment of workers. Each of these factors increases the vulnerability of the workers, thereby also increasing the THB risks. Figure 2 shows the prioritization of purchase categories based on the risk of THB.

Figure 2: Relative risk of THB associated to purchase categories



Reimbursement, which consists of payments made to guests for their expenses when attending events (conferences, training, etc.) is considered a low-risk category. While the dataset did not include the details of the expenses reimbursed, the OSCE procurement officers confirmed that most reimbursement orders were made to cover guests’ travel expenses.

Another low-risk category is **rent** which encompasses payments for office and conference room rentals. Different than office rentals, the rent of conference rooms may contain a service component for the maintenance of the facilities which poses a risk of THB⁵.

Most of the **transportation** orders are issued for flight tickets, which are purchased from a travel agency based in Austria, which is the travel services supplier to all OSCE executive structures and field operations.

Technology and communication orders include subscriptions, bills (for example, telephone, internet, electricity), and technology products (for example, computers, cameras). While some of these products and services pose a high risk of THB at upstream stages of the supply chain (for example, electronics), the risk of THB to occur at tier 1 suppliers is low.

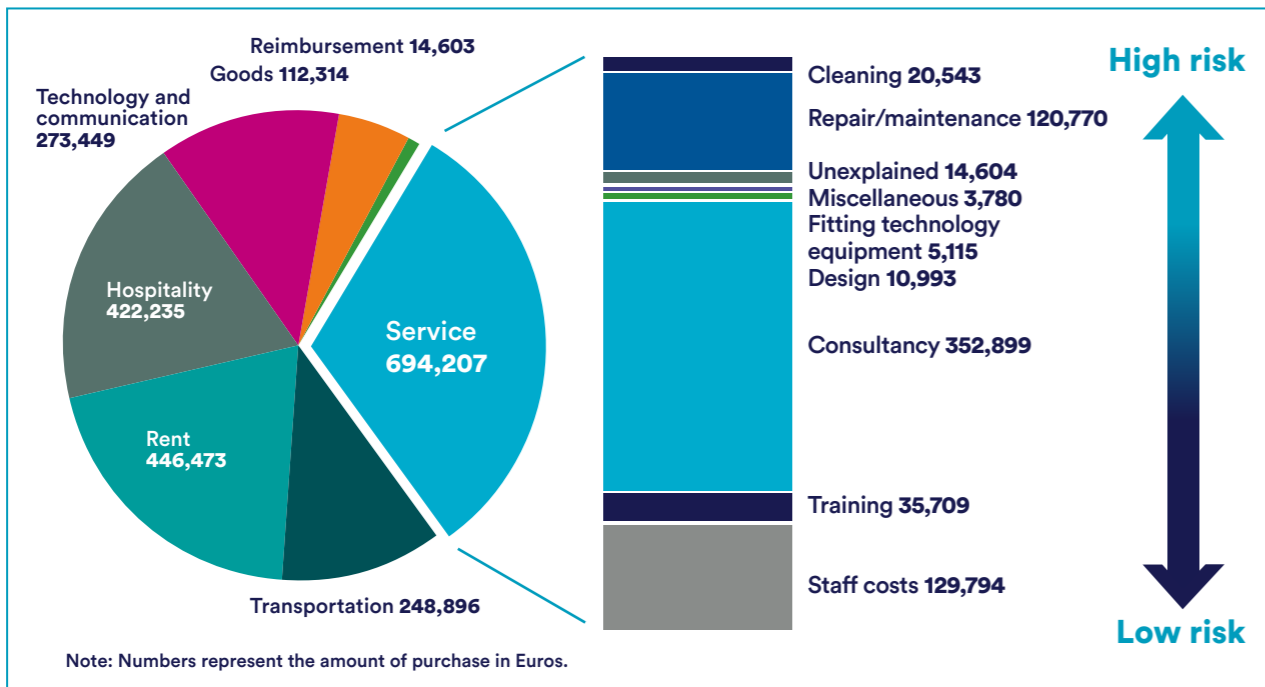
Most of the purchases in the **goods** category are related to office supplies (for example, papers, folders, printing) and promotional items (for example, bags, gifts, flags). Similar to electronics, many of these goods have global supply chains where the THB risk increases substantially towards the raw materials stage corresponding to upstream suppliers.

The remaining two categories are **service** and **hospitality**, both of which have a higher risk of THB at tier 1. The Mission procures a wide range of **services**

Supplier mapping in the first step revealed that suppliers have a similar degree of country-level risks

including fitting technology equipment, repair, training, consultancy, and cleaning. Figure 3 breaks down the service category into service subcategories for a more nuanced view on THB risks in this category. Even though they all belong to the service category, suppliers providing cleaning and repair / maintenance pose substantially higher THB risks compared to consultancy and training. For this reason, it is necessary to examine subcategories independently for a better understanding of risks associated to suppliers.

Figure 3: THB risk levels of service subcategories



While **hospitality** could be considered as a subcategory of service, it was separated further in the analysis due to its considerable spend and high risk of exposure to THB. It consists of accommodation, catering, and parking purchases.

The Mission procured accommodation services predominantly from hotels. The hotel sector has been regularly highlighted as a high-risk area for labour exploitation⁶. It relies largely on low-skill employment for many tasks, such as cleaning and housekeeping. Since these low-skill tasks are mostly part of the ‘back-of-the-house’ operations, which customers rarely engage with, spotting labour exploitation is difficult. Another factor that increases risk of THB at hotels is the heavy reliance on outsourcing⁷. Tier 1 suppliers (i.e. hotel operators) may be unaware of the recruitment processes used by their contractors and labour providers.

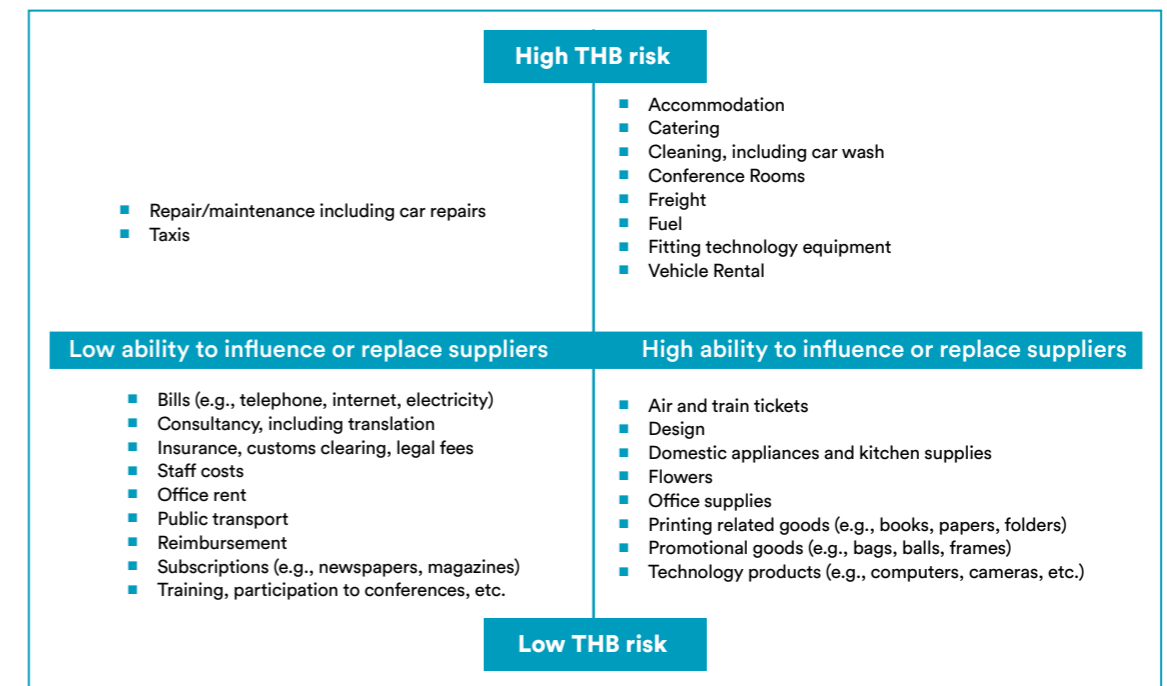
In this section we analysed relative THB risks of purchasing categories in the Mission’s procurement portfolio. While there is a varying degree of THB risk in each category, especially at the upstream tiers of supply chains, a relatively high risk of THB in tier 1 suppliers exists in the service and hospitality categories. These categories should therefore be prioritized for risk mitigation. Our analysis also revealed that THB risks considerably vary within categories, which requires THB risk assessment to be conducted at a subcategory level. The next section therefore will evaluate THB risks at subcategory level. It will present the development of a supplier risk management matrix to visualize relative THB risks of subcategories and the Mission’s ability to influence and/or replace suppliers for risk mitigation.

4. Supplier risk management matrix

After identifying the relative THB risks of products and services, they were assigned into a risk management matrix which provide an overview of the entire procurement portfolio with respect to THB risks to formulate risk management strategies.

Figure 4 demonstrates the risk management matrix for the Mission to Serbia. Due to large variations of THB risks within individual purchase categories, the risk management matrix was developed at a subcategory level. While the vertical line represents the level of THB risks in tier 1 suppliers, the horizontal line represents the Mission’s ability to influence and/or replace its suppliers. Except two subcategories (i.e. repair/maintenance and taxis), the Mission is capable of reorganizing its supplier portfolio in high-risk subcategories mainly due to the fact there are alternative suppliers which would be able to replace existing suppliers with low switching costs. It should be noted that Figure 4 is developed from a generic understanding of the purchase categories and is presented as a starting point for further discussion with purchase category experts in the OSCE.

Figure 4: Tier 1 supplier risk management matrix for the Mission



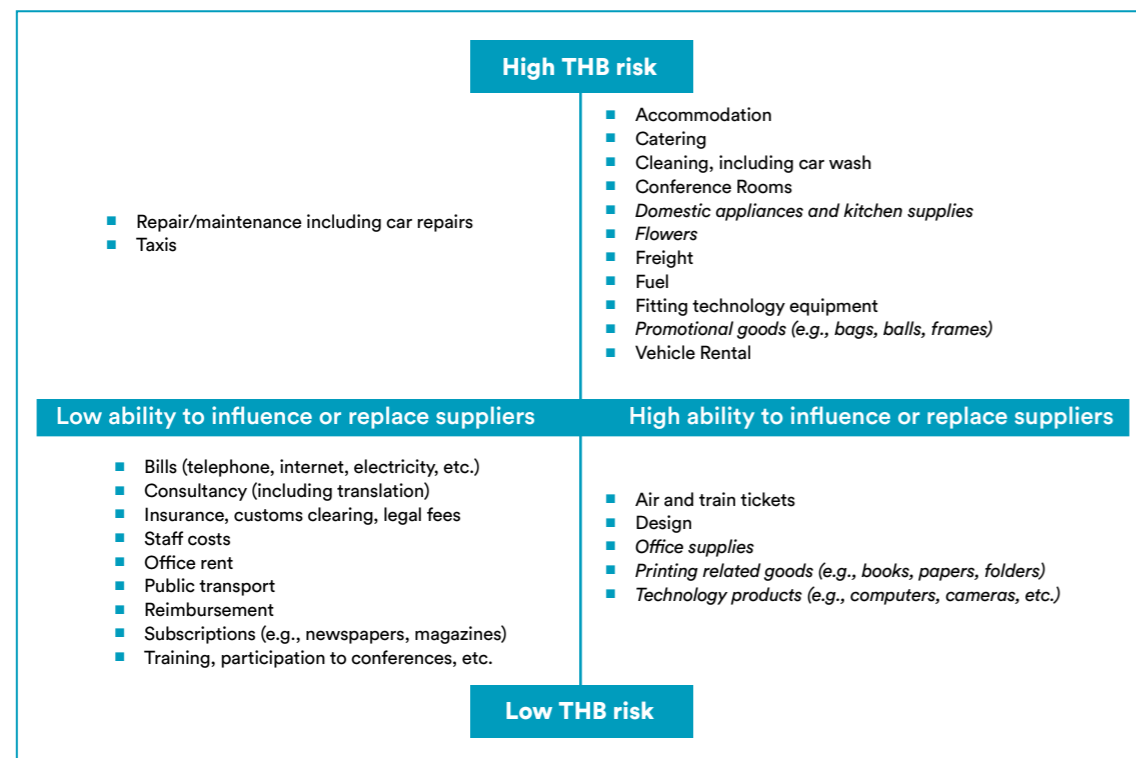
While our primary focus in this pilot study is to assess THB risks at tier 1, much bigger THB risks lie at the upstream tiers of internationally connected supply chain of goods. For this reason, we re-evaluated six subcategories (domestic appliances and kitchen supplies, flowers, printing related goods, office supplies, promotional goods, technology and communication products) by including a consideration of their upstream supply chain tiers.

In order to evaluate THB risks of the six subcategories we used the knowledge intensity of goods as a proxy for price pressure in supply chains. Compared to labour-intensive, commodity-like goods, standardization is lower in knowledge-intensive goods. Companies are more interested in fulfilling customers’ diverse demands by differentiating their products with unique features than offering the lowest price in the market, which reduces pressure on suppliers to cut labour costs. Thus, the risk of THB in supply chains is lower for knowledge-intensive goods.

We used the Product Complexity Index (PCI)⁸ to measure the relative knowledge intensity of the subcategories. Some of the subcategories consisted of multiple goods that have different scores in the PCI. To obtain a single score for each subcategory, we took the average of the PCI scores corresponding to purchase orders within subcategories. Then we divided the six subcategories into two equal size groups based on their resulting PCI scores. While the three subcategories with higher PCI scores (high-knowledge intensity) were labelled as low-risk subcategories, the remaining three subcategories with lower PCI scores (low-knowledge intensity) were labelled as high-risk subcategories.

Figure 5 demonstrates the risk management matrix with the re-evaluated six subcategories which appear in *italic*. Although the subcategories *domestic appliances and kitchen supplies*, *flowers*, and *promotional goods* have become high-risk subcategories after re-evaluation, the Mission's ability to influence or replace suppliers in these subcategories remain same.

Figure 5: Revised supplier risk management matrix for the Mission



The next section provides recommendations for managing high-risk categories and the supply chain in general. These recommendations are supplemented with examples from the hotel sector specifically as part of accommodation subcategory, which was identified as a high-risk / high ability to influence subcategory.

5. Recommendations

5.1 Recommendations at field level

Consolidate suppliers in high-risk categories

Supplier consolidation *per se* does not change the Mission's THB risk in its supply chain. However, having a smaller number of high-risk category suppliers makes it more feasible for the organization to invest in engagement with individual suppliers to mitigate THB risks.

The Mission had 78 suppliers for hotels and other types of accommodation in 10 countries across 212 purchase orders. While it may be difficult for the Mission to manage risks with the current number of suppliers, the Mission has a chance of working with a fraction of the 78 suppliers without affecting its operations. For instance, in Belgrade, there were at least 6 hotels⁹ the Mission used for accommodating guests and staff in 2017. The Mission's varying needs in hotel procurement (for example, the size and number of meeting rooms, proximity to event centres) and other external factors (for example, availability of the hotel at the time of booking) might require working with multiple hotels in Belgrade. Although a smaller number of hotels in the same location would allow the Mission to enable closer engagement with the remaining hotels, the commercial engagement with more hotels can also be used as a mechanism to educate businesses on identifying and mitigating THB risks and to improve THB mitigation practices in the hotel sector.

Strengthen relationships with suppliers in high-risk categories

One-off orders and transactional short-term relationships with suppliers increase the risk of THB in supply chains because of reduced due diligence checks for ad-hoc and small volume suppliers. The mission might consider shifting transactional supplier relationships towards longer-term relationships, particularly for categories that it procures regularly.

The Mission hosts events with guests from a range of locations. It made 212 purchase orders for hotel accommodation in 2017. Using the same suppliers regularly will allow also the avoidance of renewed on-boarding engagement.

Increase supply chain transparency and visibility

In its early communication and engagement with high-risk category suppliers, the Mission might consider increasing supply chain visibility and encouraging suppliers towards more transparency, which is a crucial enabler for understanding THB risks and mitigation intervention. Supply chain transparency and reporting is already legally demanded in some jurisdictions and for certain high-risk materials (for example, conflict minerals). It is also increasingly applied in private and public organizations on a voluntary basis. As an example, all tier 1 suppliers for the 2019 OSCE Alliance against Trafficking in Persons Conference were asked about their THB risk measures, which enabled the OSCE to identify different dimensions of THB risks and evaluate its suppliers' preparedness to act against THB. Similar exercises could be undertaken with tier 1 suppliers locally.

Increase granularity of purchasing data for more detailed risk identification

In many categories the risk of THB is likely to increase towards upstream stages of supply chains. To expand the scope of risk assessment beyond tier 1 suppliers, the Mission might consider engaging with tier 1 suppliers to gather information about the upstream tiers of their supply chains and their sources of workers.

Hidden risks may be discovered by a more nuanced understanding of the purchasing activities and individual purchase orders in discussion with procurement officers and

suppliers. Furthermore, procurement data are traditionally recorded with a commercial focus. By adding THB risk-relevant information to purchase orders will make the risk-based categorization of suppliers and categories more accurate and straightforward.

Increase leverage over suppliers

The Mission would benefit from collaborating with other inter-governmental organizations (IOs) which procure similar products and services. Merging procurement needs among IOs would increase their leverage on suppliers who would be more willing to accept terms and conditions in order to secure a large contract.

The UK higher education sector constitute a good example for IO collaboration for procurement. The majority of universities in the UK are affiliated to one of six regional Higher Educational Purchasing Consortia¹⁰ which are dedicated to improving both the quality of procurement and the level of collaborative procurement across the higher education sector. By combining their purchasing power and developing joint policies for sustainable procurement through these consortia, they have been able to maximize their influence on suppliers.

Organize annual meetings and round tables with suppliers in high-risk categories to raise awareness about the OSCE expectations against THB

Suppliers often do not have existing capabilities to detect and mitigate risks in their supply chains. Building on its expertise in organising events with a wide range of stakeholders, the Mission can establish meetings and round tables for knowledge transfer and capacity building in suppliers operating in high-risk categories.

5.2 Recommendations at central level

Widening and deepening supply chain insight

This pilot risk assessment focuses solely on the tier 1 suppliers of the Serbia Mission's procurement activity. A deepening of supply chain insights into upstream tiers of the supply chain and engagement with tier 1 suppliers may reveal new areas for THB risks and mitigation opportunities. As could be seen in the re-evaluation of the supplier risk management matrix, a widening of the pilot to other OSCE missions and central procurement is also a logical next step and will allow a sharing of best practices across the organization.

In the requests for proposals, communicate to bidders the expectation of the OSCE that goods and services should be delivered without exploitation of people

The Mission could consider mechanisms to ensure that potential bidders are aware of the OSCE principles against THB in supply chains. In its communication with bidders, the Mission can use the OSCE Supplier's Code of Conduct¹¹ which clearly sets out the OSCE principles for labour, human rights, environment, and ethical conduct.

Conducting further research to identify leverage points with suppliers and to share and implement best practices across the OSCE executive structures and field operations

This report presents a preliminary evaluation of the supplier portfolio of the OSCE Mission to Serbia. It provides a basis for further research on THB risks in supply chains across the OSCE executive structures and field missions and to identify leverage points where the OSCE can trigger and influence supplier action. Due to similarities in procurement needs, the OSCE structures are well placed to share resources and best practices for THB risk assessment and there is clear potential for implementing best practices across the OSCE executive structures and field missions.

Notes

1. Adopted from the UN Protocol to Prevent, Suppress and Punish Trafficking in Persons Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime. <https://www.ohchr.org/Documents/ProfessionalInterest/ProtocolonTrafficking.pdf>
2. United States Department of State. (2018). Trafficking in Persons Report: Serbia. <https://www.state.gov/reports/2018-trafficking-in-persons-report/serbia/>
3. More information can be found from the Global Slavery Index assessment of Serbian Government response against THB where Milestones 3 and 5 provide further evidence for the need for better coordination and mechanisms. <https://www.globallslaveryindex.org/2018/data/country-data/serbia/>
4. Walk Free Foundation. The 2018 Vulnerability Model. <https://www.globallslaveryindex.org/2018/methodology/vulnerability/>
5. Since 2017, the Mission has separated purchase orders for office rentals from the purchase of services associated to the maintenance of office space.
6. Oxford Brookes University, University of West London, Lapland University of Applied Science and Ratiu Foundation for Democracy. (2016). COMBAT Trafficking in Human Beings in the Hotel Industry. <https://www.brookes.ac.uk/Documents/CDPRP/combat/The-Toolkit/Reference-Guides-and-Slides/Combat-Reference-Guide-for-Boards-printv1/>
7. KPMG. (2017). Labour migration in the hospitality sector: A KPMG report for the British Hospitality Association. <https://www.bha.org.uk/wordpress/wp-content/uploads/2017/05/BHA-EU-migration-final-report-170518-public-vSTC.pdf>
8. The Observatory of Economic Complexity. Product Complexity Rankings. <https://oec.world/en/rankings/product/sitc/>
9. The number of hotels the Mission worked with Serbia would be higher because some accommodation purchase orders do not specify the location of the hotels.
10. More information can be found at the London Universities Purchasing Consortium website. <https://www.lupc.ac.uk/>
11. The Organization for Security and Co-operation in Europe. OSCE Supplier's Code of Conduct. <https://www.osce.org/procurement/135931?download=true>



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