



European Bank
for Reconstruction and Development

Managing supply-chain risk

EBRD briefing note

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1. Introduction

1.1. Purpose of this briefing note

The European Bank for Reconstruction and Development (EBRD) is committed to promoting environmentally sound and sustainable development in the full range of its activities, pursuant to the Agreement Establishing the Bank.¹ The Environmental and Social Policy (ESP) is one of the Bank's three good governance policies and a key document that guides this commitment to promoting "environmentally sound and sustainable development" in the full range of its investment and technical cooperation activities.² The EBRD's Board of Directors approved the 2024 ESP and its 10 related Environmental and Social Requirements (ESRs) on 20 December 2024. These apply to projects started after 1 January 2025.

The purpose of this document is to provide practical guidance to support EBRD clients, their suppliers, contractors and advisers in applying the 2024 ESP's specific requirements on project supply-chain management, with a focus on the requirements set out in ESR 1 (on the assessment and management of environmental and social risks and impacts) paragraph 21.

1.2. Key changes from the 2019 ESP to the 2024 ESP

The EBRD first set out its requirements with regard to environmental and social risks and impacts in project supply chains with the establishment of the ESP in 2019. In the 2024 ESP update, these requirements were strengthened and brought more in line with the international supply-chain due-diligence standards outlined in the United Nations Guiding Principles on Business and Human Rights (UNGPs)³ and updated Organisation for Economic Co-operation and Development (OECD) guidelines.⁴ This primarily involves the requirements set out in ESR 1 paragraph 21,⁵ ESR 2 paragraphs 44-47 (on labour and working conditions)⁶ and ESR 6 paragraphs 25-27 (on biodiversity conservation and sustainable management of living natural resources).⁷ Links to other ESRs may also be assessed depending on the significance of related risks and impacts. Specific changes since the 2019 ESP include the following:

- The scope of supply-chain requirements now relates to "core supply chains", defined as "those suppliers and sub-suppliers who provide goods, equipment or materials essential to the project". Unlike the definition of "primary supply chains" in the 2019 ESP, this does not limit the scope of requirements to supply relationships that are "direct" and "ongoing".
- The use of clear and consistent definitions of key principles in ESR 1 and ESR 2 – prevention, mitigation, remediation and responsible disengagement – in line with the UNGPs and updated OECD guidelines.
- The introduction of stronger process requirements in ESR 1, including in relation to ascertaining that the supply-chain management system will be commensurate with the severity and likelihood of the risks and impacts involved, and the client's responsibility in causing, contributing or being directly linked to these impacts.
- In ESR 2, the introduction of an explicit requirement where significant risks have been identified, but core suppliers have not been identified, the client will conduct due diligence on potential suppliers and make reasonable efforts to select lower-risk suppliers.

1 See EBRD (1991).

2 See EBRD (2024).

3 See UN OHCHR (2011).

4 See OECD (2023).

5 See EBRD (2024), pp.33-34.

6 See EBRD (2024), pp.43-44.

7 See EBRD (2024), p.81.

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- In ESR 2, the introduction of an explicit requirement for a “responsible disengagement plan” as a last resort after failed attempts to prevent or mitigate significant risks or adverse impacts.

To underpin the new or strengthened supply-chain requirements in the ESRs, the ESP recognises that environmental and social risks and impacts in certain supply chains may not be readily addressed at the project level due to factors beyond the control of individual clients. Where concerted efforts are required to address these contextual factors, the EBRD will collaborate with select industry initiatives, multilateral institutions and stakeholders to explore common responses to these risks.

1.3. Key objectives of ESR 1.21

The EBRD is committed to promoting sustainable development by aligning its 2024 ESP with international supply-chain due diligence standards, recognising and addressing environmental and social risks in project supply chains, while acknowledging that actions should be proportional to supply-chain risks and impacts, as well as the client’s degree of responsibility. The Bank emphasises the importance of prioritising risks according to their severity and likelihood, using leverage to effect change in supplier practices and engaging with suppliers to improve their capacity to manage risks.

The objective of ESR 1 paragraph 21 is to ensure that adequate due diligence is conducted in relation to EBRD-financed projects, and that the mitigation and remedial actions taken are proportionate to the supply-chain risks and impacts, as well as other factors, such as responsibility and leverage.

ESR 1 paragraph 21 states:

“During the environmental and social assessment process and throughout project implementation, the client will identify significant environmental and social risks associated with the project’s core supply chains. Where significant risks are identified, the client will use reasonable efforts to prevent and mitigate these risks and to remediate impacts as necessary. Where relevant, these measures will be integrated into the ESMS [environmental and social management system] and/or a supply chain management system, commensurate with the complexity of the supply chains and the associated environmental and social risks and impacts and appropriate to the nature and scale of the project. The management system will take into account: (a) the severity and likelihood of the risks and impacts; (b) whether the client caused, contributed or is directly linked to these risks and impacts; and (c) the client’s leverage over the relevant core suppliers. Where necessary, the client will also assess whether terminating the relationship with a supplier would exacerbate the environmental and social risks and impacts identified. Requirements for addressing significant labour risks in the supply chain are outlined in ESR 2; requirements for addressing significant supply chain risks for living natural resources are defined in ESR 6.”⁸

1.4. How to use this briefing note

This briefing note provides practical guidance and addresses the following issues:

- the standards expected of clients and their contractors that source goods, equipment and materials in relation to EBRD-financed projects
- the steps EBRD clients and their contractors can take to identify and address environmental and social risks in core supply chains
- the steps EBRD clients and their contractors can take to prevent, mitigate and remediate those risks in practice.

This briefing note also includes several links to additional EBRD and external resources that can be used for more information.

⁸ See EBRD (2021), pp.33-34.

2. Understanding supply-chain management

2.1. What is supply-chain management?

Environmental and social supply-chain management covers the management of relevant environmental and social risks and impacts linked to a project's supply chain of goods, equipment and materials.

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

For the EBRD, this means the following:

- All projects must undergo a screening process to identify significant environmental and social risks associated with their core supply chains.
- Where significant risks are identified, clients must make reasonable efforts to prevent, mitigate and remediate these risks and impacts.
- These measures should be integrated into the project's environmental and social management system (ESMS) and/or a supply-chain management system, commensurate with the complexity of the supply chain and associated risks, and appropriate to the nature and scale of the project.
- The ESMS will take into account the severity and likelihood of the risks and impacts, the client's responsibility and leverage over suppliers, and the potential exacerbation of risks if the relationship with a supplier is terminated.

2.2. The importance of supply-chain management for EBRD projects

The most significant risks of adverse environmental and social impact often exist in project supply chains. Notably, risks related to child labour, forced labour, and occupational health and safety (including gender-based violence and harassment, or GBVH), as well as deforestation and environmental degradation, are likely to be significantly greater in supply chains than in direct project activities. Good environmental and social supply-chain management is, therefore, critical in managing and addressing environmental and social risks linked to the supply of goods, equipment and materials for these projects.

Context

There has been an increasing focus in recent decades on the potentially adverse environmental and social risks and impacts of global supply chains. This includes greater attention on the environmental and climate impacts associated with the sourcing of particular goods or materials (such as agricultural commodities, timber or extracted materials), as well as the social risks, such as the use of child or forced labour, that may be present in lower tiers of more complex supply chains, where end-user visibility is often limited.

In the past, much of the international attention has focused on supply chains to international fast-moving consumer goods companies, such as food and beverages and fast fashion, and allegations of poor environmental or social standards at supplier facilities. However, there has also been growing scrutiny of a wider range of supply chains, including those of infrastructure, technology and renewable energy projects, as well as projects financed by international financial institutions, such as the EBRD.

There is also a growing trend towards legislation – building on the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (see Box 1) – that requires businesses to act with regard to their supply chains in relation to reporting and disclosure, conducting ongoing due diligence and meeting import controls for certain markets. For example:

- **Reporting and disclosure requirements**, such as the European Union's (EU) Corporate Sustainability Reporting Directive, which concerns disclosures on a range of sustainability matters, including supply chains. Such regulations

typically require companies to disclose material risks they identify, including in their supply chain, and any actions taken to address those risks.

- **Legislation mandating ongoing environmental and human rights due diligence**, including in upstream and downstream value chains. Some legislation targets supply-chain due diligence on specific risks, such as child labour legislation in the Netherlands, or particular supply chains, such as the EU Conflict Minerals Regulation, the EU Batteries Regulation and the EU Deforestation Regulation (EUDR). The EUDR is particularly relevant to ESR 6 and sets out mandatory due diligence rules relating to commodities associated with deforestation and forest degradation, to ensure that only products that are deforestation-free and produced in accordance with national laws are allowed on the EU market.⁹
- **Import controls**, such as legislation in the United States of America, Canada and the EU prohibiting the import of products, materials or goods suspected of being produced with forced labour.

International frameworks on business responsibilities for environmental and human rights risks and impacts, including supply chains

UN Guiding Principles on Business and Human Rights (UNGPs)	The UN Guiding Principles on Business and Human Rights establish the responsibility of all businesses to respect internationally recognised human rights by taking steps to prevent, address and potentially remediate adverse impacts on human rights in their own operations and through their business relationships (including the entire supply chain) through a process of human rights due diligence. The UNGPs underscore the need for businesses to prioritise their efforts to address human rights risks and impacts according to the severity of the impact on affected people. They call on businesses to make use of commercial and other forms of leverage to prevent and mitigate adverse impacts, including in their supply chains. Where businesses lack such leverage, they should consider means through which to increase their leverage, including through collaboration with other actors. The UNGPs apply to all businesses, regardless of their size, location, sector, ownership and structure. The UNGPs describe how private actors can be involved in negative human rights impacts – whether causing, contributing to or being linked to such impacts – and outline their corresponding responsibilities, promoting the establishment of non-judicial grievance and remedy mechanisms at both project and institutional levels. The UNGPs require the private sector to focus on salient human rights risks – a risk-based approach that aligns with the EBRD's 2024 ESP.
OECD Guidelines for Multinational Enterprises on Responsible Business Conduct	The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct are another important reference point for structuring human rights due diligence. The guidelines, which consist of non-binding principles and standards for responsible business conduct, include recommendations for carrying out human rights due diligence in supply chains as part of wider efforts to prevent and mitigate adverse human rights impacts in a company's own operations and business relationships. Although the guidelines are addressed primarily to multinational enterprises, many of the broader principles and elements of the guidance are relevant to smaller companies and investors.

Beyond regulatory requirements, there is strong business rationale for giving serious consideration to environmental and social risks in project supply chains. When companies do not have systems in place to identify, mitigate and monitor risks in their supply chains, this can have potentially adverse impacts on suppliers' workforces and the ecosystems and communities in which they operate. This can create reputational risks not only for the company, but also for investors. In addition, the supply-chain disruptions brought about by the Covid-19 pandemic and recent conflicts have illustrated to many companies that reliable and resilient supply chains, in which material and product origins are known, will benefit both immediate and longer-term profitability.

Technological advances mean that a growing number of companies are adopting digital tools, such as blockchain, artificial intelligence (AI) and the internet of things (IoT), to improve supply-chain transparency and traceability in an effort to meet emerging regulatory requirements. These tools support responsible sourcing and accelerate the aggregation of large quantities of data that ensure accurate tracking of materials and products from origin to destination. However, the growth of cyber threats necessitates robust measures to protect these data and ensure the resilience of digitally intermediated supply chains.

The EBRD recognises that effective management of supply-chain risks can be challenging. This is especially the case for small and medium-sized enterprises (SMEs) that lack the resources of large multinational enterprises to implement comprehensive due-diligence mechanisms. Challenges typically include: a lack of visibility and clear understanding of the

⁹ See EU (2023).

company's supply chains; limited ability to influence suppliers' business practices (especially where local regulatory frameworks and enforcement capacity are weak); limited internal expertise, capacity and resources to manage supply-chain risks; and a lack of alternative sourcing options. For this reason, effective measures in response to the identification of significant supply-chain risks need to be tailored to project or company circumstances.

3. Understanding EBRD policies and requirements for supply-chain management

The 2024 ESP and its ESRs principally aim to minimise the environmental and social risks and impacts of direct project activities. However, the EBRD also understands that project supply chains may be associated with significant environmental and social impacts and risks. The ESP and its ESRs, therefore, include specific provisions with regard to supply-chain management.

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

- ESR 1 on the assessment and management of environmental and social risks and impacts
- ESR 2 on labour and working conditions
- ESR 6 on biodiversity conservation and the sustainable management of living natural resources.

While the supply-chain risk management approach set out in the 2024 ESP focuses on specific risks that the Bank considers significant, the principles of ESR 1 paragraph 21 apply to other potentially significant supply-chain risks, which may include, but are not limited to, forced resettlement and/or the rights of Indigenous Peoples, which sometimes coincide with land-use conversion and labour exploitation.

3.1. ESR 1: Assessment and management of environmental and social risks and impacts

ESR 1 – overview	
Focus	<ul style="list-style-type: none">• An overarching standard, setting out a requirement for supply-chain due diligence as part of the assessment of environmental and social risks of the project and the development of an effective ESMS.• This requirement applies to all 'core' supply chains, defined as those suppliers and sub-suppliers along the supply chain who provide goods, equipment or materials that are essential to the project.
Requirements for supply chains	<ul style="list-style-type: none">• Supply-chain risks should be assessed as part of the environmental and social assessment of the project.• Where significant risks are identified, the client will use reasonable efforts to prevent and mitigate these risks and to remediate impacts as necessary.• These measures will be integrated into the ESMS and/or a supply-chain management system, commensurate with the complexity of the supply chains and the associated environmental and social risks and impacts, and appropriate to the nature and scale of the project.

ESR 1 is the overarching standard for EBRD-financed projects, setting out the requirement for clients to put in place an effective ESMS to manage environmental and social risks for the entire lifecycle of a project. ESR 1 requires clients to carry out an environmental and social assessment to identify potential risks, including those related to core supply chains, and to establish and maintain an ESMS appropriate to the nature and scale of the project. This risk assessment should be ongoing and be able to identify and respond to changes to the structure and composition of core supply chains and risk characteristics of suppliers throughout the project lifecycle.

All projects that source a significant volume and/or value of goods, equipment or materials from third parties should undertake an initial mapping of core supply chains and an assessment of environmental and social risks and impacts associated with these supply chains. Where specific suppliers or sub-suppliers are not yet known, this mapping will focus on risks associated with likely sourcing sectors and regions. The responsibility for conducting this initial assessment lies with the client, though it is recognised that in some cases – such as complex, or high-risk supply chains – supply-chain risk assessment may require the commissioning of additional external expertise.

Where the core supply-chain risk assessment identifies significant environmental or social risks, the client must exercise reasonable efforts to develop measures that prevent and mitigate risks. ESR 1 does not prescribe the form that these measures should take; the onus is on the client to develop a systematic response to supply-chain risk management. ESR 1 suggests that, in some cases, risk management measures may be best incorporated into the project's overall ESMS.

However, for complex or high-risk supply chains, it will probably be most appropriate for the client to develop a standalone supply-chain management system (SCMS).

The response of the client should be informed by:

- **The severity and likelihood of the risks and impacts.** Clients should prioritise those project supply-chain risks that pose the greatest risk of harm to supply-chain workers, communities and the environment.
- **Whether the client caused, contributed or is directly linked to any impacts.** If an action or omission on the part of the client has caused or contributed to an adverse impact, then the client will take responsibility for providing remedial measures and actions. Where the client is “directly linked” through its business relationships (such as a supply-chain relationship), but cannot be said to have caused or contributed through an action or omission to the adverse impact, the client will seek to collaborate and use leverage with those business partners, such as suppliers or sub-suppliers, causing or contributing to the harm in providing remedial actions.
- **The client’s leverage over the relevant core suppliers.** The client will identify and use its ability to effect change in the practices of suppliers or sub-suppliers that are causing or contributing to significant adverse impacts, and seek to build this leverage where it is limited. For instance, where a client is sourcing relatively small volume or value, or has less commercial scale than the supplier, it may be necessary for the client to seek to cooperate and collaborate with other actors, such as sectoral initiatives and industry associations.

Where necessary, the client will also assess whether terminating the relationship with a supplier would exacerbate the environmental and social risks and impacts identified.

3.1.1. Scope of ESR 1 in relation to supply chains

Core suppliers

ESR 1 applies to all “core” supply chains, defined as those suppliers and sub-suppliers who provide goods, equipment or materials that are essential to the project. “Essential to the project” means suppliers of goods or materials to production and/or service processes that are essential for a specific project activity and without which the project could not continue.

In practical terms, goods, equipment and materials that are “essential” to the project can be defined based on two criteria:

1. those goods, equipment and materials without which the project would not be feasible or could not continue, because the goods, equipment and materials form an irreplaceable part of the asset or service being financed and/or there is no economic equivalent or technological alternative
2. those goods, equipment and materials sourced for the project that constitute the highest value and/or volume.

Note that the client’s leverage over suppliers is a secondary consideration: *all* core supply chains, including those where the client may have limited leverage, fall under the scope of ESR 1.

Procurement by contractors

Core suppliers are defined in terms of their relationship to the project, not to the client. Therefore, even in cases where procurement is conducted by a third party, such as an engineering, procurement and construction contractor or agent, the suppliers contracted are still “core suppliers” if they provide goods or materials essential to the project, including construction materials.

How far down the supply chain?

The 2024 ESP defines core suppliers as “those suppliers and sub-suppliers who provide goods, equipment or materials essential to the project”. This means that the supply-chain provisions of the 2024 ESP apply to *all tiers* of the upstream supply chain and are not limited to first-tier suppliers.

“Ongoing supply” versus one-off purchases

Note that the 2024 update of the EBRD’s ESP no longer refers to “ongoing” supply of goods, equipment and materials. In particular, where one-off purchases constitute goods, equipment or materials that are essential to the project, the EBRD expects clients (and/or contractors) to implement the requirements of ESRs 1, 2 and 6 and apply the practical supply-chain management approach set out in this briefing note.

Environmental and social risks beyond ESR 2 and ESR 6

ESR 1 requires clients to “identify significant environmental and social risks associated with the project’s core supply chains”. While the approach to specific significant risks is outlined in ESR 2 and ESR 6, the scope of environmental and social risks subject to assessment and management should not be constrained to these ESRs. The objective of ESR 1 is to use a risk focus to best prioritise environmental and social management. Therefore, all environmental and social risks associated with supply chains should be identified and those constituting a significant risk should be assessed further.

Note, in particular, that ESR 1.3 seeks to “integrate human rights risks and impacts into the assessment and management process”. Broader human rights considerations should, therefore, be identified and assessed where there are salient risks in a project’s core supply chains.

While there are no explicit requirements under the ESP, the Bank’s commitment to supporting clients in implementing their corporate emissions abatement targets in line with the Paris Agreement (ESP paragraph 2.9) also has implications for the management of activities with a high reliance on carbon-intensive supply chains.

3.2. ESR 2: Labour and working conditions

ESR 2 – overview	
Focus	<ul style="list-style-type: none">• ESR 2 sets out specific requirements with respect to people employed or engaged by suppliers and sub-suppliers who provide goods, equipment or materials essential to the project (supply-chain workers), including where these goods, equipment or materials are procured by contractors.
Requirements for supply chains	<ul style="list-style-type: none">• As part of the supply-chain assessment process outlined in ESR 1 paragraph 21, the client (and/or contractor) must identify significant labour risks and impacts in core supply chains related to child labour, forced labour, and occupational health and safety (including GBVH).• The client (and/or contractor) must monitor its core supply chains on an ongoing basis to identify any relevant changes and to identify new significant risks or impacts associated with these changes.• Where significant risks are identified, the client will require the supplier to prevent and mitigate risks; in supply chains where significant risks are identified, the client will conduct due diligence on new and potential suppliers, incorporate labour requirements into contracts, and build and exercise leverage.• In case of actual incidences of child labour, forced labour or harm to workers (including GBVH), clients (and/or contractors) will provide remediation, notify the EBRD and report on progress.• Clients will implement a plan for responsible disengagement from suppliers as a last resort after failed attempts to prevent or mitigate identified risks or impacts.

ESR 2 covers labour and working conditions in relation to “project workers” and contains specific provision in relation to workers engaged by the project’s core suppliers and sub-suppliers (“supply-chain workers”). In applying ESR 2, it is also important to distinguish between “suppliers” and “contractors”. Supply chains relate to the provision goods, equipment or materials, whereas contractors provide labour or services.

Specific requirements covering supply-chain workers relate to child labour, forced labour, and worker health and safety and are addressed in ESR 2 paragraphs 44-47.¹⁰

¹⁰ See EBRD (2024), pp.44-47.

The 2024 ESP defines these as follows:

ESR 2 paragraphs 26-29 – forced labour¹¹

- International standards on forced labour are set out in two Fundamental Conventions of the International Labour Organization (ILO) – [Convention No. 29 on Forced Labour](#) and [Convention No. 105 on the Abolition of Forced Labour](#) – as well as the [Protocol to the Forced Labour Convention](#). These ILO standards mark the minimum requirements for the EBRD, regardless of the content of national law.
- Under these standards, forced labour refers to situations in which persons are not working voluntarily and are coerced to work through the use of violence or intimidation, or by subtler means, such as accumulated debt, the retention of identity papers, or threats of dismissal or denunciation to immigration authorities.
- Forced labour covers a wide range of coercive labour practices, including indentured labour, bonded labour and involuntary prison labour, as well as trafficking in persons

ESR 2 paragraphs 30-32 – child labour ¹²

- International standards on child labour are set out in two Fundamental Conventions of the ILO – [Convention No. 138 \(Minimum Age for Admission to Employment and Work\)](#) and [Convention No. 182 \(Worst Forms of Child Labour\)](#). These ILO standards mark the minimum requirements for the EBRD, regardless of the content of national law.
- The minimum work age must comply with national law and must not be lower than the minimum age specified in the country's ratification of ILO Convention 138 – typically 15 years old – and establish procedures for verifying age during hiring processes.
- Where young people aged between the minimum working age and 18 are lawfully employed, this work shall be subject to an appropriate risk assessment and regular monitoring of health, working conditions and hours of work to ensure that the child is not engaged in any hazardous activities.

ESR 4 paragraphs 12-18 – occupational safety and health

- International standards on the right to a safe and healthy working environment are set out in two Fundamental Conventions of the ILO – [Convention No. 155 on Occupational Safety and Health](#) and [Convention No. 187 on the Promotional Framework for Occupational Safety and Health](#). EBRD requirements are guided by these standards.
- Under these requirements, all workers will work in a safe and healthy working environment, taking into account inherent and foreseeable risks in the sector in question, as well as specific classes of hazard that may be present, as well as working conditions (including excessive or erratic working hours and overtime) that may constitute a safety risk.

ESR 2 paragraphs 33-35 – violence and harassment at work

- International standards on violence and harassment at work include [ILO Convention No. 190 on Violence and Harassment](#). This Convention guides EBRD requirements.
- The 2024 ESP defines GBVH as “any harmful act perpetrated based on socially ascribed gender differences, including acts that inflict physical, mental or sexual harm or suffering, threats of such acts, coercion and other deprivation of liberty. GBVH covers all acts of sexual exploitation, sexual abuse and sexual harassment.”¹³

3.2.1. Risk assessment

The initial environmental and social risk assessment carried out under ESR 1 will identify potential child labour, forced labour, and occupational health and safety (including GBVH) risks associated with core supply chains and carry out further assessment(s) where these are deemed significant.

In line with this briefing note, this risk screening and assessment will be coordinated with the broader screening for and assessment of any other significant environmental and social risks in core supply chains.

3.2.2. Monitoring

Supply-chain risk identification and assessment is not a one-off process: core suppliers should be monitored on an ongoing basis throughout the project cycle for child labour, forced labour, and health and safety risks, to identify any relevant changes and to identify new risks or impacts associated with these changes.

¹¹ See EBRD (2024), pp. 41-42.

¹² See EBRD (2024), p.42.

¹³ See EBRD (2024), p.7.

3.2.3. In cases of significant risk

If the initial risk assessment or ongoing monitoring of core suppliers reveals significant risks, the client will carry out further due diligence and require that the supplier implement appropriate measures to adequately prevent and mitigate such risks. Where a direct contractual agreement with the supplier exists, the client will use reasonable efforts to incorporate the relevant labour requirements into the contractual agreements.

Where core suppliers have yet to be identified or contracted, but the initial risk assessment identifies significant risks associated with the sector and region of the core supply chain, the client will conduct further due diligence on potential suppliers and select those that demonstrate active management of these risks.

In cases where there is no direct contractual relationship with a sub-supplier, the client will use reasonable efforts to build and exercise all available forms of leverage to prevent and mitigate the identified risks.

3.2.4. In cases of actual incidence

If the initial risk assessment, due diligence or ongoing monitoring uncovers actual instances of child labour, forced labour, occupational health and safety, or harm to workers (including GBVH), the client will use or seek leverage to collaborate with the suppliers and sub-suppliers involved to prevent recurrence and to ensure remediation is provided to the affected supply-chain workers.

This reflects the principles set out in ESR 1, whereby the client's response will be informed by an assessment of whether the client caused, contributed or is directly linked to any impacts. In most supply-chain contexts, the degree of client involvement is likely to be "direct linkage", so the appropriate response is to coordinate and use leverage over suppliers to cause them to remediate impacts as necessary. However, in any cases where the client has caused or contributed to an impact in the core supply chain through its own actions – for instance, where a last-minute order change directly necessitates excessive working hours, which may be involuntary, or pose a present severe health and safety risk for workers at a core supplier workplace – then the client will assume a certain level of responsibility for remediating impacts as necessary.

Where adverse impacts have been identified, the client will only continue to procure goods or materials from a supplier after receiving satisfactory assurances or evidence that the supplier is committed to implementing measures to prevent such impacts within a reasonable timeframe and to provide appropriate remediation. The client will notify the EBRD of any such occurrences of child labour, forced labour or worker harm and will report regularly to the Bank on how the implementation of preventative and remedial measures is progressing.

In some cases, such as high-risk supply chains, potential steps to remediate impacts should be anticipated and set out in the project ESMS or SCMS.

3.2.5. Responsible disengagement

As a last resort, if attempts to prevent or mitigate significant risks or adverse impacts fail and/or if compliance with ESR requirements is unattainable, the client will develop and implement a responsible disengagement plan with regard to the relevant supplier(s) or sub-supplier(s). This requirement should be read in conjunction with ESR 1, which calls for the client to assess whether terminating the relationship with a supplier would exacerbate the environmental and social risks and impacts identified (see Section 4.3.6 for more).

3.3. ESR 6: Biodiversity conservation and sustainable management of living natural resources

ESR 6 – overview	
Focus	<ul style="list-style-type: none">• ESR 6 sets out specific standards concerning the protection of biodiversity and sustainable management of living natural resources in relation to project activities.
Requirements for supply chains	<ul style="list-style-type: none">• Identify and assess whether there are foreseeable risks of significant land-use conversion that could impact biodiversity and ecosystem services (such as deforestation) in the project's core supply chain.• Where a risk of significant land-use conversion that impacts biodiversity or ecosystem services (for example, deforestation or depletion of freshwater resources) is identified in the client's core supply chain, the client will find alternative suppliers or, if that is not feasible, remediate impacts as necessary in accordance with

good international practice over a timeframe agreed with the EBRD and as outlined in ESR 1, including establishing supply-chain policies, procedures and verification practices.

- The client is expected to manage supply-chain risks in relation to ESR 6 on an ongoing basis, consistent with other supply-chain provisions of the ESP.
-

ESR 6 is a specific standard focused on protecting biodiversity, maintaining ecosystem functions and promoting the sustainable management of living natural resources in relation to EBRD-supported projects. Similarly to ESR 2, the standard includes a wide range of requirements related to direct project activities, as well as a more defined set of additional requirements for core supply chains.

3.3.1. Risk assessment

As part of the initial environmental and social risk assessment carried out under ESR 1, clients must identify and assess whether there are foreseeable risks of significant land-use conversion that could affect biodiversity and ecosystem services (such as deforestation or depletion of freshwater resources) in the project's core supply chain. The term "foreseeable" requires clients to look at past and recent land-use conversion to identify potential risks.

In some cases, projects may rely on core inputs, the production of which may pose a risk to or have recently negatively impacted biodiversity. Examples include natural resource commodities, agricultural products, forest products and other goods, the production of which may be associated with land use or environmental practices that may be incompatible with biodiversity conservation. In these cases, core supply chains must be assessed for any major risks posed to biodiversity, such as large-scale habitat loss or over-exploitation of fisheries. For example, a project that uses palm oil as a core input must evaluate the source of that oil and determine whether suppliers are contributing to deforestation.

Such inputs should be evaluated if they are purchased regularly and/or acquired in large volumes. Inputs that are acquired in small volumes can be excluded from analysis. There is an important distinction between a small volume and a small percentage – they are not necessarily the same; a small percentage of a very large volume of inputs may still be a large volume and must be evaluated. In general, exclusions will most likely apply for inputs to very small buyers or incidental inputs to other buyers.

An initial assessment can determine whether the product is known (or likely) to originate in a region of concern. Regions of concern will include those countries where loss of natural habitat for land conversion is occurring at a rapid pace – for example, the loss of tropical forests in West Africa for cocoa production or Indonesia for oil palm. Typically, deforestation is well documented and can be checked via sources such as [Global Forest Watch](#). Loss of other natural habitats, such as natural grasslands, is less well documented and may require more in-depth research and/or the evaluation of remotely sensed images on platforms such as Google Earth, which can display historical images revealing land-use changes in recent years.

3.3.2. In cases of significant risk

If the initial assessment identifies that core inputs are produced in a region of concern, the client must determine how they will manage the risk of significant land conversion from their production.

1. Where feasible, the client may identify and purchase the inputs from other regions where land-use conversion is not a concern.
2. Where alternative sourcing regions cannot be identified or are not commercially feasible, the client will purchase only products that have a recognised independent certification that prohibits natural habitat conversion. Certifications must be carefully evaluated to confirm that they prohibit the conversion of all relevant types of natural habitat, as some certifications may only prohibit deforestation and, for example, overlook relevant risks to grasslands.
3. Where continuing to source from a region of concern, the client will establish an SCMS that: a) includes a policy to purchase only from producers that have not converted land after an agreed cutoff date; b) traces inputs to their place of production (smallholders can be aggregated, for example, at a cooperative level); c) implements agreements with producers not to convert natural habitat; d) provides the needed technical assistance and incentives to promote compliance by producers; e) verifies compliance; and f) enforces non-compliance through corrective action plans and the potential termination of purchasing. This option is challenging to design and

implement, and should be considered with due regard for staff and resource requirements, as well as the potential difficulties of working with producers at the origin. However, this approach is now widely used by many large entities purchasing commodities covered by the EU's Regulation on Deforestation-free Products (2023/1115).¹⁴

3.3.3. Monitoring

The client should conduct an ongoing review of its core suppliers. Standards and certification systems exist that can facilitate the verification and ongoing monitoring of supply chains, although the EBRD does not endorse any particular standards.

¹⁴ See EU (2023).

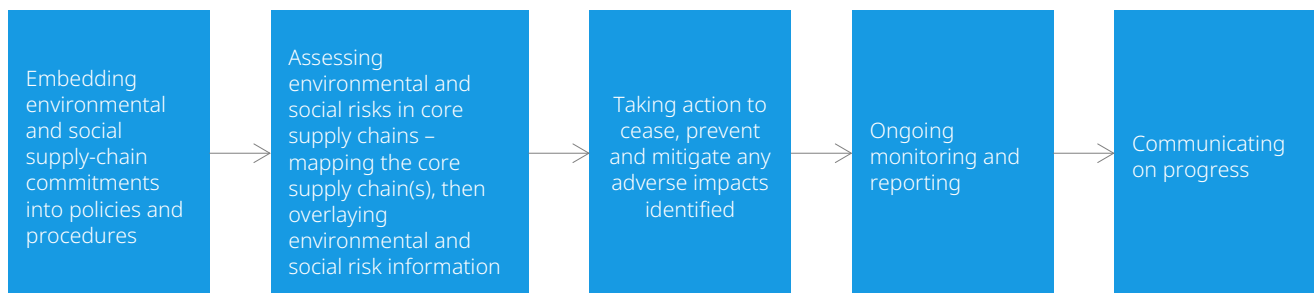
4. Managing environmental and social risks and impacts in supply chains

The 2024 ESP places responsibility on EBRD clients to identify and address significant environmental and social risks and impacts related to a project's core supply chain(s). This section sets out an integrated approach that encompasses the specific provisions set out in ESR 2 and ESR 6, but which can and should serve as a guide to identifying and managing all significant environmental and social risks in project supply chains, in line with ESR 1.

Under the ESP, clients' responsibilities include the development of an ESMS that considers supply-chain risks (ESR 1), as well as specific requirements to identify and address risks related to child labour, forced labour, occupational health and safety (ESR 2), and biodiversity conservation and the sustainable management of living natural resources (ESR 6).

For the client to meet these broad environmental and social obligations, it is important for the entity with direct responsibility for purchasing goods and products for the project (whether the client or a contractor) to gain a clear and early picture of likely supply-chain risks, as well as appropriate ways to respond to potential issues.

Effective supply-chain management in line with these ESP requirements relies on different but related actions throughout the project cycle. At their most comprehensive, these actions comprise the core of an SCMS and include:



As noted above, the specific form of integrating supply-chain risks into wider environmental and social management systems will vary according to the characteristics of the project and its core supply chain(s). For example, where a project has a series of complex or high-risk supply chains, the EBRD expects clients and, where relevant, their contractors to develop a fully fledged SCMS.

If a project's supply chains are less complex and give rise to fewer risks, then relevant ESR 2 and ESR 6 requirements might be adequately covered through discrete actions as part of the project ESMS or regular reporting requirements.

The following sections present the key elements of an SCMS. An example SCMS framework can be found in Appendix 1.

4.1. Developing client-specific supply-chain policies and procedures

4.1.1. Establishing and implementing a client-specific policy

Establishing a company policy on supply-chain environmental and social risk management enables clients to define and demonstrate their commitments in relation to supply-chain management. The policy may be a standalone "responsible sourcing" policy or may form part of a broader sustainability or human rights policy. The policy will set out the key standards the client expects its suppliers to respect, aligned at a minimum with the EBRD ESP.

A company policy should be accompanied by a supplier (or business partner) code of conduct that sets out the company's expectations of its suppliers in relation to environmental and social performance.

Where the client (or contractor) already has a policy framework in place, it is useful to undertake an assessment of the current policy and management framework against the 2024 ESP, alongside this briefing note, supplementary sector- or commodity-specific briefing notes, and applicable international good practice. The following box provides some examples of emerging good international practice in relation to responsible contracting.

Good practice on responsible contracting	Notes
The Responsible Contracting Project Toolkit	The Responsible Contracting Project Toolkit provides contracting templates aligned with the UNGPs and the OECD Multinational Enterprise Guidelines on Responsible Business Conduct.
Common Framework on Responsible Purchasing Practices	The Common Framework is a multi-stakeholder framework on improved purchasing practices aimed at preventing harm and facilitating both social and environmental improvements in the supply chain.

Depending on the client's business and supply-chain profile, the policy may focus on specific pertinent issues. For example, in the case of biodiversity risks, company sourcing policies should include a clear commitment on deforestation.

These policies should be clearly communicated both internally and externally, and embedded into company oversight bodies and management systems as part of regular business processes.

4.1.2. Company procedures

Company procedures set out the client's approach to implementing the policy and may include:

- defining competencies required, roles and responsibilities, and training across corporate functions, such as sustainability, procurement, legal and compliance teams
- supplier screening procedures, pre-qualification and selection processes
- communicating to suppliers the company's expectations as regards environmental and social performance throughout its supply chain
- integrating environmental and social commitments into supplier documentation, including contractual arrangements in line with the aforementioned good international practice; where environmental and social performance requirements cannot be directly included in supplier contracts, a supplier/business-partner code of conduct can be annexed to sourcing contracts
- integrating the commitment to environmental and social performance into the company's procurement process to ensure suppliers' capacity to manage human rights risks and impacts is taken into consideration, including who is responsible for their implementation; specific mechanisms for cascading requirements down the supply chain to suppliers and sub-suppliers, and approaches for the review of ongoing or framework supplier agreements
- incorporating environmental and social performance indicators into regular supplier evaluations and reviews, including how and under what circumstances suppliers' and sub suppliers' performance will be verified, including through third-party on-site audits or assessments; ensure that supplier monitoring and auditing programmes integrate environmental and social risks and impacts
- establishing clear procedures for remediating instances of child and forced labour within their supply chains in the form of remediation plans; ensuring any grievance or complaint mechanisms are accessible to supplier workers.

Examples of items in supply-chain procedures	
Supply-chain action	Output/procedure
<p>The client develops and implements supply-chain due diligence and management procedures that can identify significant ESR 2 risks in its core supply chain.</p> <p>The client risk assesses all significant core goods or materials sourced for the project from a biodiversity perspective,</p>	<ul style="list-style-type: none"> • Description of the supply-chain risk assessment and due-diligence process that the client will undertake. • Description of the process for identifying the location of production goods or materials and associated biodiversity risks linked to the product and sourcing location.

Examples of items in supply-chain procedures

Supply-chain action	Output/procedure
The client develops processes to prevent – and, if cases are identified, to remediate – ESR 2 and ESR 6 impacts in its core supply chains. These processes include the allocation of appropriate budgetary/staffing resources and the implementation of contractual, monitoring and compliance mechanisms.	<ul style="list-style-type: none"> • Clause in contractual agreements with suppliers prohibiting the use of child or forced labour and mandating a healthy and safe working environment. • Description of the supply-chain monitoring process used to identify cases of child or forced labour on an ongoing basis. • Description of the remediation policy when violations are found. • Description of any certification or other assurance mechanisms that have been applied in relation to biodiversity issues.

4.2. Assessing environmental and social risks in core supply chains

For projects that source a significant volume and/or value of goods, equipment or materials from third parties, clients are expected to assess specific environmental and social risks (child labour, forced labour, occupational safety and health, and biodiversity) in the project’s core supply chains.

This supply-chain assessment should be carried out as part of the client’s broader environmental and social due diligence for the project, with findings feeding into the project’s ESMS and, if necessary, a standalone SCMS. Supply-chain risk assessment should also be an ongoing process, updated as supply chains change or new suppliers are onboarded during the project’s lifetime.

These steps are most appropriate in relation to the “ongoing” supply of goods and materials. Where a client is making a “one-off” purchase, depending on the type of purchase, the following options can be considered:

- Include relevant requirements – including relating to child labour, forced labour, occupational health and safety, and deforestation– in any tender documents.
- Undertake selection and evaluation so that only suppliers who can demonstrate compliance with these requirements can participate.

4.2.1. Initial mapping of the project’s core supply chain(s)

As a starting point for environmental and social supply chain due diligence, clients should develop an initial core supply-chain map. The map should enable the client to improve its visibility over the most significant project suppliers, allowing it to assess the level of risk in different supply chains and help prioritise high-risk supply chains for further due diligence and targeted action.

The initial supply-chain map focuses solely on establishing visibility over the supply chain as a precursor to overlaying environmental and social risk information.

As a first step, clients need to identify “core supply chains” to map, based on the extent to which the product sourced is central and irreplaceable to the project, and on the volume or value of material sourced.

To develop a basic supply-chain map, clients should consider the following:

Define core supply chains – those goods, equipment and materials that are essential to the project	Names and locations of suppliers that provide goods, equipment and materials essential to the project (first-tier suppliers)	Lists of goods and products that are procured from the supplier, including quantity/volume of goods purchased and value or spend with each supplier to feed into	Contractual information, including contract start and end date and contract value
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The following checklist can assist in developing a basic supply-chain map of core suppliers and sub-suppliers:

- Compile basic data on suppliers and supply chains using available internal and external sources, such as supplier lists, procurement records, industry databases and public registries.
- If any information is missing, make information requests to suppliers to develop a full picture.
- Regularly update supply-chain mapping to include new suppliers.

4.2.2. Enhanced mapping of the project's core supply chain(s)

Where companies identify supply chains with higher risks (see risk identification below), they may need to undertake a more detailed mapping exercise. Enhanced supply-chain mapping involves working backwards through the supply chain to trace products back to their origin. The full process involves mapping direct (tier 1) suppliers and collecting information about their suppliers (sub-suppliers) and then following this process through the supply chain all the way to raw materials.

The supply-chain mapping exercise will also help to determine the company's visibility over key suppliers and supply chains. If visibility is low, companies can start with a more generic supply-chain map to build a better understanding of typical supply-chain structures for key products.

The following steps can assist with this process:

- Ask suppliers to provide information about and disclose the names and locations of their own suppliers to expand the supply-chain map.
- Make use of existing supply-chain maps to build a better understanding of the typical structure of key supply chains.
- Increasingly, technology- and database-driven solutions are available that can help businesses to map their supply chains and increase supply chain traceability (see, for example, the US Department of Labor-funded [Global Trace Protocol](#) with regard to labour rights and the [Trase](#) platform, which provides information on deforestation risks in relation to agricultural commodities).

The aim of supply-chain mapping is to improve both supply-chain *transparency* and *traceability*.

Transparency

Transparency refers to the capture and transference of "high-level" information along the supply chain. The captured data are specific and accurate, relating to a product's components and raw materials, the names of producers and suppliers, the location of facilities and associated information on the supplier – for instance, monitoring or auditing reports relating to their labour practices.

Consequently, transparency requires a client to be able to provide:

1. a map of its entire supply chain, indicating all the economic operators along that supply chain
2. a management system that captures specific information relating to each supplier, including name, location and address, a named responsible manager and, if the facility is certified or subject to audits or monitoring, certification, certifying bodies, expiry dates and a copy of the certificate
3. ongoing monitoring systems to check that each supplier is, and remains, compliant with safety, environmental and labour requirements.

While the Bank expects clients to disclose their policies and codes of conduct, it does not require them to disclose supplier maps or audit reports publicly, as this may contain commercially sensitive or confidential information. However, clients should include a section in their sustainability report(s) to demonstrate how they implement their responsible sourcing policy for a wider stakeholder audience.

Traceability

Traceability is the ability to trace a specific product from point of origin to point of sale. Traceability is particularly crucial in complex supply chains where significant risks are identified in the primary phases of the upstream supply chain and where knowledge of the origin of materials or goods sourced is critical to environmental and social risk prevention and mitigation.

Traceability systems follow the movement of a product and its components or material inputs through particular stages of production, processing and distribution. Product traceability requires granular data and documentation on individual ingredients or components. This can be batch-lot data (catch/harvest date, field data), purchase order data or other operational information.

Whereas transparency focuses on mapping the whole supply chain, traceability looks at individual batches of components or purchase orders as they progress through the supply chain. Establishing traceability (or chain of custody)

for specific products is significantly more resource-intensive than establishing basic supply-chain mapping, so is most applicable to (a sample of) pre-identified high-risk products or goods.

Where a company has a digital traceability system in place, a resource-intensive documentation review can be replaced with a targeted assessment – for instance, across a sample of high-risk products – of the integrity of the digital traceability system.

Where labour-rights risks are concerned, the [STREAMS Traceability Matrix](#) can help EBRD clients understand how supply-chain traceability systems can be used to support labour-rights due diligence.

In terms of biodiversity risks in the supply chain, traceability systems such as [TraceX Technologies](#), which can verify the specific geographical origin of commodities, are a vital tool in identifying deforestation risks in supply chains and will be a prerequisite to compliance with the EUDR.

4.2.3. Identify environmental and social risks and impacts in the project's core supply chain

Once the core supply-chain mapping has been completed, it is possible to overlay environmental and social risk information to create a core supply-chain risk map. Clients should aim to assess the risk of child or forced labour, occupational health and safety and, where relevant, adverse impacts on biodiversity in relation to all suppliers providing goods or materials sourced from areas of natural or critical habitat. Furthermore, where other human rights or climate (Scope 3) risks are associated with sourcing sectors and regions, these should be noted in the core supply-chain risk assessment.

Clients can draw on information from multiple sources in developing supply-chain risk maps. In particular, clients should consider:

- Whether any products and/or supplier countries of operation appear in the latest [US Department of Labor List of Goods Produced by Child or Forced Labor](#). Building on these risk data, the [Supply Chain Traceability Matrix](#) supply-chain typology describes supply-chain features that have implications for labour risks and the implementation of a traceability system.
- Whether any living resources, goods or materials are known or likely to be sourced from areas that contain critical habitats as defined by ESR 6 – bearing in mind that the [EUDR](#) identifies seven commodities (cattle, cocoa, coffee, oil palm, rubber, soya and wood) that together account for the majority of global deforestation. Implementation of the EUDR will be accompanied by a benchmark identifying producer countries as being at low, standard or high risk of producing commodities or products that are not deforestation free. See the table entitled “Sources of information on environmental and social risks in supply chains” in Section 4.2.4 for more.
- Whether there are known risks based on other sources or information (for example, media reports, previous experience and open-source databases (including the [Business and Human Rights Resource Centre](#) or [EJAtlas](#)) concerning child or forced labour, serious health and safety issues, or adverse biodiversity or climate impacts associated with any of the goods or materials to be sourced.

In addition, clients can engage with relevant civil society organisations, academia or other specialists with relevant expertise. Various subscription-based supply-chain risk databases are also available.

Clients might also consider requesting specific information from suppliers themselves, such as any relevant risk assessments, studies or other initiatives that the supplier has carried out or can identify as useful sources. Clients can also make use of certification or audit information from (potential) core suppliers to the project to understand risks. Clients should consider risk assessment an ongoing process and know that screening suppliers through supply-chain risk assessments and audits before contracting constitutes an initial step. Clients must develop and agree on corrective actions with core suppliers, incorporating such plans into contracts as legal commitments. Clients should then monitor the implementation of these corrective action plans through site visits or supplier reporting, as appropriate to the risk level involved.

4.2.4. Supply-chain risk information sources

In identifying core supply-chain risks, clients should use reliable and verifiable sources that provide objective assessments. The following table suggests some useful sources in relation to ESR 2 and ESR 6 supply-chain risks.

Sources of information on environmental and social risks in supply chains

Child labour and forced labour	<p>In relation to labour standards, at a minimum, it is useful to look at the findings of the most recent US Department of Labor list of goods produced with child labor or forced labor. Other sources for establishing “reported risk” include:</p> <ul style="list-style-type: none">• US Department of Labor country-by-country assessments of the prevalence of child labour with sectoral distribution• ILO country-by-country resources on child labour and forced labour, including sectoral reports• US Department of State country-by-country assessments of human trafficking, including sectoral descriptions.
Occupational safety and health	<p>Under the heading “acceptable conditions of work”, the US Department of State Country Reports on Human Rights Practices reports typically include a short subsection on occupational safety and health in the country in question, including information on specific sectors with higher risks. Additional useful sources of information on worker safety and health at the workplace include:</p> <ul style="list-style-type: none">• ILO profiles on occupational safety and health in specific sectors and industries• ILO country profiles on occupational safety and health.
Biodiversity and living natural resources	<p>There is a range of potential information sources that can help clients determine whether the product they are sourcing, or seeking to source, has a higher risk with regard to biodiversity and living natural resources. These include broad assessments of the biodiversity impacts of specific commodities and products, through to tools that enable the tracing of specific products to their origin. High-level resources for checking commodities and source countries for deforestation risk include the International Finance Corporation's GMAP tool and the Trase data explorer.</p> <p>A key source of information for biodiversity are suppliers themselves. It is important to ask suppliers where they are sourcing particular products from, whether there is applicable certification for the product and, for higher-risk products, what steps they have taken to assess and reduce the risk involved. Other sources include:</p> <ul style="list-style-type: none">• Global Forest Watch for identifying land-use risks relating to forests• Google Earth (time slider) for identifying land-use risks relating to grasslands• Protected Planet to identify whether products are originating from protected areas.

4.2.5. Capacity of core suppliers to identify and manage labour and biodiversity risks

Based on information from the project's core suppliers, clients should assess the adequacy and effectiveness of each supplier's labour management and environmental management systems and processes. Depending on the outcomes of the initial risk assessment, this evaluation should focus on:

- ESR 2: the adequacy of systems and processes to identify and manage the risk of child labour, forced labour, and serious occupational health and safety issues
- ESR 6: the adequacy of systems and processes to identify the origin of living resources, goods and materials sourced for the project and any associated impacts on biodiversity and living natural resources in the area.

This assessment may include determining whether the supplier:

- demonstrates knowledge and understanding of relevant labour and biodiversity risks in relation to its business activities and the activities of its suppliers' supply chains
- has adequate internal capacity to manage relevant labour and biodiversity risks (for example, adequate expertise and resources) within its own operations and those of its suppliers' supply chains
- has a clear policy and practical verification procedures to ensure the prevention of child labour (for example, verification of workers' age and hazardous work assessments for workers under 18 years); this may include a code of conduct for the supplier's own supply chain
- has a clear policy and practical verification procedures to ensure the prevention of forced labour (for example, the prohibition of retention of workers' ID documents by managers, using reputable recruitment agencies that do not charge excessive fees to workers) within its own operations and those of its suppliers' supply chains
- has a clear policy, staff training programme and adequate management plan on occupational safety and health, including GBVH, and keeps reliable data on workplace injuries and accidents, as well as reports of GBVH, both within its own operations and those of its suppliers' supply chains

-
- has in place clear and reasonable procedures to identify and trace the origin of any living resources, goods or materials that it produces (for example, participation in third-party traceability, multi-stakeholder and other certification schemes for specific commodities) and those produced within its suppliers' supply chains.

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

4.3. Taking action

Having mapped the core supply chain(s) and identified the key environmental and social risks, clients – and their contractors – are in a position to take action to prevent or mitigate actual impacts. This includes actions that can lessen the severity of risks, even if they cannot be entirely prevented, or reduce the likelihood of impacts arising.

The management approach may form part of the project ESMS, but the nature and scale of the risks may necessitate a standalone SCMS to systematise and coordinate efforts to address risks and impacts.

As noted in ESR 1, clients' responses to identified risks and impacts should take into account:

- the severity and likelihood of the risks and impacts – to prioritise risks for targeted action
- whether the client caused, contributed or is directly linked to these risks and impacts – to understand involvement in supply-chain impacts and, hence, responsibility for mitigating the impacts
- the client's leverage over the relevant core suppliers – to understand how the client can act to encourage suppliers to prevent and remediate impacts and enhance this leverage over time.

The development and implementation of the client's supply-chain management approach should involve legal, commercial and procurement functions, as well as staff with responsibility for environmental and social issues, such as the sustainability or environmental, social and governance (ESG) functions.

4.3.1. Prioritising risks for targeted action

Most businesses will be exposed to a number of environmental and social risks through their supply chain and may not be able to address all the risks at the same time. Risk prioritisation involves identifying which risks to address first through targeted actions to prevent or mitigate risks or impacts, but does not mean writing off certain risks as not requiring further attention.

Prioritisation of risks should reflect the *severity* and *likelihood* of the risks in question:

- *Severity* refers to an assessment of the impact's scale, scope and remediability.
- *Likelihood* refers to an assessment of how likely the impact is to occur and, therefore, takes into account operating contexts throughout the supply chain.

The severity factor has a greater weighting than the likelihood factor. This is because, when it comes to impacts on people, some impacts are so severe (for example, fatal workplace accidents) that they warrant prioritisation, even if their likelihood is low. In practice, this means that companies should prioritise risks in the following order: high severity, high likelihood; high severity, lower likelihood; low severity, high likelihood; and low severity, low likelihood. For external resources to determine the severity supply-chain risks, see the table entitled "Sources of information on environmental and social risks in supply chains" in Section 4.2.4.

4.3.2. Client involvement with supply-chain risks or impacts

ESR 1 establishes that the client's response to identification of risks and impacts in the core supply chain will be informed by an assessment of whether the client has caused or contributed, or is directly linked to any impacts.

If an action or omission on the part of the client has caused or contributed to an adverse impact, then the client takes responsibility for providing remedial measures to address those impacts. Where the client is "directly linked" through its business relationships (such as a supply-chain relationship), but cannot be said to have caused or contributed to the adverse impact through an action or omission, then the client will seek to collaborate and use leverage with business partners, such as suppliers or sub-suppliers, to build and exercise all available forms of leverage to prevent and remediate the adverse impacts.

In most supply-chain contexts, the degree of client involvement will likely be "direct linkage", so the appropriate response will be to coordinate and use leverage with suppliers with the aim of ensuring that they mitigate harms. This approach is underlined by ESR 2. Notably, the degree of leverage to be exercised by the client will depend on the corresponding business volume or share of the supplier. In any case, where the client has caused or contributed to an impact in the core supply chain through its own actions – for instance, where order specifications, volumes or schedules are likely to result in the supplier adopting practices with adverse environmental or social impacts – the client will need to assume certain levels of responsibility for mitigation.

4.3.3. Assessment of leverage

Where supply-chain risks are identified, clients should look to use their leverage and control of core supply chains to address these risks. To this end, the initial supply-chain risk mapping should include a self-assessment of their level of management control or influence over core suppliers and, hence, clients' ability to fully address any risks identified.

Clients' leverage over suppliers may also be determined by the importance of the commercial relationship to the supplier and the supplier's own market position (for example, whether there are viable alternative suppliers for the project allowing for supply-chain diversification).

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

- *High or medium leverage* – the client has some form of long-term partnership with the core supplier and/or procures a high proportion of the supplier's total production and/or the client is one of a small number of customers.
- *Low leverage* – the client has no long-term relationship with the supplier and/or procures only a small proportion of the supplier's total production and/or the client is one of a large number of customers.

Where the client identifies potential supply-chain risks that need to be addressed, but deems its leverage over the suppliers in question to be low, it may be useful to consider reasonable means to increase the client's leverage. Increasing leverage may enable the client to address relevant supply-chain risks without requiring a change in core supplier.

For many SMEs, leverage over suppliers is often limited. A small or medium-sized business is likely to represent a relatively small share of the supplier's overall customer base, so will have limited scope to negotiate proprietary terms, including in relation to human rights and/or deforestation. In this context, SMEs may find the most viable means of expanding leverage is by collaborating with other buyers and/or participating in broader sectoral or multi-stakeholder initiatives.

Enhancing clients' supply-chain leverage

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

Options for clients to enhance leverage over core suppliers

Contractual leverage	<p>Enhanced contractual requirements, in line with the EBRD ESP and procurement policies, should be included in purchasing contracts to ensure that effective measures to address issues pertaining to ESRs 1, 2 and 6 are in place, demonstrable and enforceable.</p> <p>Establish whether there is a need for on-site assessment at a core supplier and whether the assessment should be conducted by an independent third party.</p> <p>Establish whether there is a need for additional supplier reporting and monitoring requirements to drive changes in supplier practices</p>
Commercial leverage	<p>Where possible, the client should offer incentives to encourage the supplier to improve performance or transparency, or gain relevant certification; incentives could include pricing, predictability of orders, or assurances concerning ongoing business/commercial relationships.</p> <p>Illustrate the business case for the supplier to improve its performance on relevant labour and biodiversity improvements, and where this can be strengthened.</p>
Technical leverage	<p>Establish whether the supplier has adequate information and understanding about key risk issues to fulfil its obligations under the ESP, and whether the client could contribute to capacity building for the supplier.</p>
Engagement with other actors	<p>Identify whether government entities, civil society organisations or networks can play a role in the supply-chain risk management process.</p> <p>Identify whether national or international specialist agencies, such as a national child labour taskforce, United Nations agencies such as the ILO, Food and Agriculture Organization of the United Nations (FAO), International Organization for Migration or UN Environment, are already addressing specific risk issues in their programming and whether the client could coordinate project-related initiatives with these agencies.</p>

In many cases, EBRD clients' leverage will be limited. For instance, labour risks are associated with primary production and will likely be in the lowest tiers of the client's supply chain. The client may not be a significant business partner for (sub-)suppliers or have a long-term relationship with them. In this context, it is important that the client focus on engaging – and potentially participating – in a relevant and credible sectoral or multi-stakeholder initiative.

Where client leverage is low and engagement in multi-stakeholder initiatives is not a meaningful option that is likely to yield any concrete outcomes during the project timeframe, the EBRD might prioritise shifting suppliers to lower-risk regions or certified supply chains.

In other cases, such as state-imposed forced labour, where both leverage and capacity to prevent or mitigate risks are highly constrained, client efforts should focus on enhancing supply-chain visibility and diversification, so as to avoid these risks becoming entrenched in the supply chain.

4.3.4. Addressing supply-chain risks and impacts

The combination of risk severity and client leverage will help determine what mitigation or other measures are feasible for the client. However, it is important that clients can demonstrate reasonable efforts to address all significant supply-chain risks identified. The following are potential measures for responding to identified supply-chain risks under various scenarios:

<p>Specific labour risks are identified in a core supply chain, but suppliers are not yet contracted</p>	<ul style="list-style-type: none"> • Conduct due diligence (screening) on potential suppliers and select only those suppliers that demonstrate active management of these risks. • Include requirements on child labour, forced labour, worker safety and health and GBVH (consistent with ESR 2) in supplier contracts through standard contractual clauses and by developing a supplier code of conduct. • Engage with new suppliers to raise awareness of expectations under the ESP. This should include clear information about what constitutes child labour, forced labour and GBVH. • Increase the client's internal understanding of specific ESR 2 risks and lower-risk sourcing options (by sharing known information, engaging with experts and considering relevant certification schemes). • Implement regular reporting requirements on labour risk management and performance for all new suppliers.
<p>Specific labour risks are identified at core suppliers (first tier)</p>	<ul style="list-style-type: none"> • Include requirements on child labour, forced labour, worker safety and health and GBVH (consistent with ESR 2) in supplier contracts through standard contractual clauses and by developing a supplier code of conduct. • Engage with existing suppliers to raise awareness of expectations under the ESP, including clear information on what constitutes child labour, forced labour and GBVH.

- Implement regular reporting requirements on labour risk management and performance for all existing core suppliers.
- Support capacity building of core suppliers to manage and report on ESR 2 risks.
- Increase the client's internal understanding of specific ESR 2 risks and lower-risk sourcing options (by sharing known information, engaging with experts and considering relevant certification schemes).

Specific labour risks are identified at core sub-suppliers (beyond first tier)

- Require or request suppliers to "cascade" the supplier code of conduct and contractual conditions to sub-suppliers.
- Participate in – and encourage suppliers to join – a credible sectoral or regional initiative focused on relevant supply-chain risk issues.
- Seek to increase leverage by enhancing contractual, commercial or technical leverage.
- Onboard supplier(s) that can more clearly demonstrate capacity to manage and address relevant risks at sub-suppliers.

Specific biodiversity risks are identified in existing core supply chains

- Identify commercially feasible alternatives to deforestation-linked commodities and reorientate supply chains towards lower-risk sourcing origins; this could include, for example, using other plant-based oils as an alternative to palm oil, or synthetic rubber instead of natural rubber.
 - Based on the supply-chain mapping, identify any suppliers that might be associated with deforestation risk (for example, based on geography/location and type of commodity) and collect additional information relating to their sourcing practices and deforestation policies.
 - Identify suppliers that can provide certified deforestation-free products.
 - Require the client to establish an effective control and verification system, including establishing supply-chain policies, procedures and verification.
-

4.3.5. Remediation in cases of impact



If a client identifies the presence of child labour, forced labour or GBVH in the operations of core suppliers, it is essential to seek professional and expert advice on how to address this issue immediately in a way that the person's rights are protected and they are safeguarded from any future harm. See the relevant EBRD [ESR 2 briefing notes](#).

If a client identifies actual instances of child labour, forced labour or harm to workers (including GBVH) in a core supply chain, they must use or seek leverage to collaborate with the suppliers or sub-suppliers involved to prevent recurrence and provide remediation to the affected supply-chain workers. This should align with existing remediation plans set out in their SCMS.

Where the presence of child labour or forced labour is linked to a core supplier, clients must obtain evidence that immediate steps have been taken to remediate the situation and prevent further abuses. In the absence of such evidence, the client must cease procuring such goods or materials from that supplier.

Where children are found to be engaged in child labour in a core supply chain, immediate steps must be taken to remove them from such activities. Where possible, children who are above the minimum age for employment should be moved to non-hazardous, age-appropriate tasks, in line with national legal requirements.

The client will notify the EBRD of any such occurrences of child labour, forced labour or worker harm and will report regularly to the Bank on how the implementation of prevention and remedial measures is progressing.

Where adverse biodiversity impacts are identified in the production or cultivation of living natural resources that form inputs to core supply chains – including but not limited to deforestation – clients must take immediate action to disengage responsibly (see Section 4.3.6) and seek alternative suppliers.

It is also important to note that deforestation can be associated with human rights harms, such as land grabs, the displacement of Indigenous Peoples and environmental harm to livelihoods.

4.3.6. Responsible disengagement and seeking alternative suppliers

The 2024 ESP spells out a differentiated approach to seeking alternative suppliers in relation to supply-chain risks and impacts.

On biodiversity risks in core supply chains, ESR 6 states a primary preference for seeking alternative suppliers whose supply chains demonstrably do not pose a risk of significant land-use conversion that impacts biodiversity or ecosystem services (for example, deforestation). In such cases, the EBRD's approach is to seek credible sustainability certification and traceability. However, this provision must also be read in light of ESR 1 paragraph 21, which states that "where

necessary, the client will also assess whether terminating the relationship with a supplier would exacerbate the environmental and social risks and impacts identified".¹⁵

On labour risks in core supply chains, ESR 2 recognises that simply exiting a business relationship due to social concerns can have unintended adverse impacts. For example, if a factory is found to employ adolescents in hazardous forms of work (meeting the definition of child labour) and the buyer ends the business relationship, the supplier may continue the practice or dismiss the adolescent workers. The latter may ultimately result in those workers entering more hazardous forms of work in other businesses or sectors.

However, where the company lacks the leverage to prevent or mitigate adverse impacts (and/or where the supplier is unwilling or unable to improve practices), it should consider ending the business relationship. ESR 2 makes clear that this should be guided by a responsible disengagement plan, which identifies the potential risks of an adverse impact on workers and sets out measures to mitigate these risks. A responsible disengagement plan should include:

- Involving relevant stakeholders, particularly trade unions and/or labour inspection where applicable.
- Seeking to cooperate and align with other buyers on the decision-making process for disengaging with the supplier.
- Determining the impact of disengaging with the supplier on the workforce and community, and any role the client should play in mitigating or preventing that negative impact, based on the client's leverage.
- Specific measures that will be taken to mitigate or prevent the negative impacts identified. For example, where disengagement is likely to lead to job losses (or closure), this might include continued engagement with the supplier to ensure compliance with relevant legislation, and workers receiving all wages and severance payments due to them. In practice, where disengagement is likely to lead to job losses, responsible disengagement will usually entail a longer timeline for disengagement.
- Formal communication of the decision to the supplier. Use this communication as leverage and as a last step to engage the supplier in change, where feasible, providing sufficient notice of the client's disengagement from the business relationship. Communication regarding the exit should be clear and consistent and take place over a period of time that allows for improvement.

As noted, there are specific contexts in which disengagement is the most appropriate course of action – for example, in instances of state-imposed forced labour in core supply chains, where the client's visibility and leverage are highly constrained.

¹⁵ See EBRD (2024), p.34.

4.4. Tracking implementation – ongoing monitoring and reporting

Both ESR 2 and ESR 6 expressly require clients to conduct ongoing monitoring and regular reviews of core suppliers in relation to labour (child and forced labour, serious safety and health issues) and biodiversity risks. More generally, clients are expected to report to the EBRD on the results of their ongoing supply-chain risk monitoring, as well as to communicate sustainability efforts and environmental and social risk management policies to wider stakeholders.

Clients should, therefore, put in place clear monitoring and reporting systems as part of their ESMS or SCMS with regard to their core supply chains and suppliers. Monitoring systems should be appropriate to the level of risk in the supply chain, with more rigorous and comprehensive monitoring activities in the case of high-risk supply chains or suppliers. Depending on relevance and capacity, supplier auditing and certification can play an important role in the ongoing monitoring of higher-risk supply chains.

The ESP expressly requires that the monitoring and review of suppliers and supply-chain risk to be regular and ongoing, as conditions in supply chains and at suppliers may change significantly over the course of a project and/or new information or specific issues may come to light that render initial supply-chain risk assessments obsolete. Clients should, therefore, expect to update and renew supply-chain and supplier risk assessments and make appropriate changes to their ESMS, environmental and social documentation, and/or supply-chain management plan at regular intervals and in response to any new information or changes in supply-chain conditions or context.

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

Example indicators for client reporting on supply-chain risks

General	<ul style="list-style-type: none"> • Number of suppliers used during the reporting period • List of products considered high risk in relation to relevant risk issues during the reporting period • Supply-chain mapping results (or changes since the last reporting period) – core suppliers, goods supplied, volume sourced, location of production sites, origin of production • Any changes in contractual terms between the client and core supplier or to the client's relevant codes of conduct for suppliers
Supplier characteristics, policies, procedures	<ul style="list-style-type: none"> • Any changes in ownership or significant management changes at core suppliers • Summary of and any changes in core suppliers' key policies and procedures (such as labour management or risk assessment procedures for sourcing living resources or materials) • Basic workforce data from suppliers (for example, the total number of workers disaggregated by age, nationality and sex/gender, and records of workplace accidents or injuries) • Any changes to a supplier's certification status under credible third-party certification schemes
Actions and outcomes	<ul style="list-style-type: none"> • Summary of the client's supply-chain monitoring activities since the last reporting period, including audit results, where relevant (specific issues identified, number of non-conformities with contractual terms or code of conduct) • Description of the circumstances of cases of relevant ESP non-conformities, root causes and remedial actions taken/required to prevent recurrence • Challenges or lessons learned, or the need for assistance/advice from the EBRD to help the client in addressing ESR 2 and ESR 6 risks in the project supply chain • Number of reported cases of specific issues in relation to core supply chains/suppliers (forced labour, child labour, serious health and safety issues, including GBVH, significant adverse impact on natural and/or critical habitats) • Description of information provided by core suppliers demonstrating appropriate measures to prevent, identify and remediate cases of child labour, forced labour, or serious health and safety issues • Description of information provided by core suppliers to the borrower demonstrating no adverse impacts on biodiversity and natural and/or critical habitat; this could also include independent satellite imagery tracking

4.4.1. Responding to grievances

There is no express requirement in the EBRD ESP for clients to open their project-level grievance mechanisms to core supply-chain workers or to ensure that core suppliers have their own grievance mechanisms in place.

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

- Will individuals be put at risk of retaliation because of a complaint?
- In cases of child and forced labour, what preliminary steps need to be taken to safeguard supply-chain workers at risk?
- What role could the client play in the investigation and remediation of any circumstances that are found to be in breach of EBRD standards or national law?
- If the grievance is accepted within the project grievance mechanism, it is important to clearly communicate to the complainants about the limitations of the process and its reliance on the supplier for any possible remediation or response, if applicable.

4.5. Communication and disclosure

In line with good international practice, clients should seek to communicate externally relevant information on due-diligence policies, processes and activities conducted to identify and address actual or potential adverse impacts, including the findings and outcomes of those activities.

Good practice for information disclosure on supply-chain risks and their management involves adhering to internationally recognised frameworks such as the UNGPs, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, and the Global Reporting Initiative. Sector-specific standards can offer further valuable guidance. However, it is important to note that the EBRD does not have clear requirements in the ESP beyond the general requirements to disclose project environmental and social impacts to stakeholders, as outlined in ESR 10.¹⁶

Good practice for information disclosure on supply-chain risks and their management includes the following elements:

1. **Transparency:** Companies should provide clear and comprehensive information about their supply-chain risks and management practices. This includes disclosing material aspects of the nature, scope and timing of incidents, as well as the material impact or reasonably likely material impact on the company.
2. **Governance:** Companies should disclose their processes for assessing, identifying and managing material risks from supply-chain threats. This includes governance practices relating to supply-chain risks, including the roles of management and the board of directors.
3. **Compliance:** Companies should ensure that their disclosures align with relevant regulations and standards.

¹⁶ See EBRD (2024), p.99.

Annexes

EBRD resources

Environmental and Social Policy (ESP)

ESR 2 and ESR 6 guidance notes and thematic briefing notes

Supply-chain resources

General resources

Responsible Contracting Project: [Responsible Contracting in Sustainable Procurement: Introduction](#) – guidance on how to integrate human rights and environmental obligations into commercial contracts

Common Framework on Responsible Purchasing Practices: [Common Framework on Responsible Purchasing Practices](#) – multi-stakeholder framework aimed at improving purchasing practices

UN Global Compact Library of Tools: [Resources to Get You Started: UN Global Compact](#) – tools and guidelines for sustainable business practices

Agribusiness supply chains

Accountability Framework Initiative: [Accountability Framework](#) – practical roadmap for addressing deforestation, conversion and human rights in the agriculture and forestry sectors

[Deforestation Driver and Carbon Emission \(DeDuCE\) model](#) – dataset that provides country-level estimates of agriculture and forestry-driven deforestation and associated carbon emissions

Fairtrade: [Implementing Human Rights and Environmental Due Diligence: Guide for Small- and Medium-sized “First-buyers”](#) – starter kit for trading companies that make direct purchases from primary producers

Global Forest Watch: [Forest Monitoring, Land Use & Deforestation Trends: Global Forest Watch](#) – an online platform that provides data and tools for monitoring forests.

[Google Earth](#) – “time slider” functionality for identifying land-use changes to grasslands

IFC: [Global Map of Environmental and Social Risks in Agro-Commodity Production](#) – high-level tool for identifying and managing supply-chain risks related to child and forced labour, conversion of natural and critical habitats, and loss of biodiversity

IFC: [Working with Smallholders: A Handbook for Firms Building Sustainable Supply chains](#) – practical steps for downstream companies to plan and design a cost-effective smallholder engagement strategy, plus an overview of potential interventions

ILO: [Tackling hazardous child labour in agriculture: Guidance on policy and practice](#)

OECD and FAO: [Guidance for Responsible Agricultural Supply Chains](#) – guidance on responsible business conduct in agricultural supply chains, including a model enterprise policy outlining standards for responsible agricultural supply chains

OECD and FAO: [Business Handbook on Deforestation and Due Diligence in Agricultural Supply Chains](#) – guidance to assist companies in embedding considerations on deforestation and forest degradation into their corporate due diligence procedures

Proforest: [Protecting & Respecting Human Rights Defenders: Guidance for companies in agricultural commodity supply chains](#) – guidance on concrete steps to embed the protection and respect of human rights defenders into company policies and management systems

Proforest: [Remediating human rights grievances in the supply chain: Guidance on grievance management for buyers of agricultural commodities](#) – guidance for mid-sized and downstream companies covering grievance management basics, handling procedures for grievances upstream in the supply chain, and good practice for supporting suppliers

Responsible sourcing: [Food & Beverage Sector Toolset](#) and [Seafood Sector Toolset](#) – sector-specific tools to support companies in preventing and addressing forced labour in upstream value chains

STREAMS Traceability Matrix: [Supply Chain Typology](#) – including labour-risk and supply-chain typologies for multiple agricultural commodities, fisheries and forestry

TRASE Earth - data-driven transparency initiative that maps the international trade and financing of key commodities associated with tropical deforestation

Verité: [Farm Labor Due Diligence Toolkit](#) – based on the UNGPs, the [OECD Due Diligence Guidance for Responsible Business Conduct](#) and the [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#), this tool provides a framework for HRDD in agricultural commodity supply chains

Manufacturing supply chains

Business & Human Rights Resource Centre (BHRRC): [Business & human rights in the chemical industry](#)

BHRRC: [Business & human rights snapshot: Automotive sector](#)

BHRRC: [Business & human rights snapshot: ICT sector](#)

Dutch Garment and Textile Agreement: [Practical guide for companies on IRBC and OECD due diligence](#)

EBRD, CDC and IFC: [Addressing GBVH in the manufacturing sector](#) – practical measures that can be undertaken by manufacturing companies to address GBVH risks

Ethical Trading Initiative: [Human Rights Due Diligence Framework](#)

German Helpdesk Business & Human Rights: [Strengthening human rights due diligence in electric vehicle production](#)

ILO: [Code of practice: Safety and health in textiles, clothing, leather and footwear](#)

International Trade Centre: [Standards Map](#) – an overview of certification and MSI standards in a range of manufacturing sectors

OECD: [Due Diligence Guidance in the Electronics Sector](#) – actions and tools to help companies in the electronics sector identify, prevent and mitigate risks of negative impacts throughout relevant value chains

OECD: [Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector](#)

Sector Dialogue Automotive Industry: [Due Diligence Guidelines](#)

[Social & Labor Convergence Program](#) – tools to capture accurate data about working conditions in global supply chains

[Supply Chain Traceability Matrix](#) – a series of resources describing supply-chain features of key manufactured products and implications for labour risks and the implementation of a traceability system; the index draws on data from the US Department of Labor's List of goods produced with child or forced labour:

- [food and beverages](#)
- [rubber and rubber gloves](#)
- [healthcare and pharmaceuticals](#)
- [electronics](#)
- [household goods](#)
- [textiles, apparel and luxury goods](#)

Renewable energy supply chains

Business and Human Rights Resource Centre Investor snapshots: [hydropower](#), [geothermal energy](#), [solar energy](#), [wind energy](#), [bioenergy](#)

Business and Human Rights Resource Centre: [Renewable Energy & Human Rights Benchmark](#)

Energy Sector Dialogue: [Joint risk analysis for the renewable energy sector](#)

International RBC Agreement for the Renewable Energy Sector: [Due Diligence Assessment Framework](#)

IPIECA: [Environmental and social good practice for the energy transition](#) – reviews applicability of range of IPIECA tools and guidance to renewable energy sub-sectors, with links to all resources

IPIECA: [Good practices in supply chain management and carbon footprint of wind and solar energy technologies](#) – review of good practices for E&S risk management in solar and wind supply chains

Solar Stewardship Initiative: [ESG Standard](#) – standard on ESG performance at production sites along the solar value chain

Sociaal-Economische Raad: [International Responsible Business Conduct Agreement for the Renewable Energy Sector](#) – multi-stakeholder agreement that aims to assist wind and solar energy companies in improving their human rights and environmental due diligence practices

Appendix 1. Example SCMS

Area	What	Examples of documents	Contents	Additional clarifications	Suggestions for roles and responsibilities
1. Plan					
1. Embedding responsible business conduct into the company's policies and management systems	1.1 Gap analysis		Assessment of the current policy and management framework measured against relevant standards, guidance and good international practice	<ul style="list-style-type: none"> • Ascertain what is already in place to minimise duplication • Identify areas for improvement and make the planning stage more efficient 	Corporate sustainability function in cooperation with corporate procurement, legal, compliance and other relevant teams
	1.2 Policy	Human rights policy/responsible sourcing policy (or other relevant policies)	High-level commitment to standards, principles, objectives and targets	<ul style="list-style-type: none"> • Policies summarise high-level commitments to managing environmental and social risk impacts • Devise, adopt and disseminate responsible sourcing policy issues that set out the company's commitment to supply-chain due diligence principles and standards from relevant instruments 	
		Code(s) of conduct	<ul style="list-style-type: none"> • Company's own code of conduct • Supplier/partner code of conduct 	<ul style="list-style-type: none"> • Embed the company's policies into company oversight bodies and management systems as part of regular business processes • Incorporate policies and expectations into supplier and business relationships • Supplier/partner codes of conduct can be annexed to sourcing contracts <p><i>Policies should be clearly communicated both internally and externally</i></p>	
1.3 Strategy	Responsible sourcing strategy	Approaches to increasing leverage	<p>Timeline and approach to diversification of supply chains</p> <p>Participation in multi-stakeholder/industry initiatives</p>	<ul style="list-style-type: none"> • Companies can use their leverage to mitigate risks and adverse impacts in their supply chains and business relationships; in many instances, for an enterprise's leverage to be effective, the real possibility of disengagement is necessary • Where mitigation or remediation is not possible, explore supply-chain diversification strategies and set a timeline • Participate in multi-stakeholder/industry initiatives that seek to address the supply-chain risks and impacts identified, increase traceability, etc 	Senior management

Area	What	Examples of documents	Contents	Additional clarifications	Suggestions for roles and responsibilities
			Public communications and commitments	<ul style="list-style-type: none"> Determine what information to communicate externally on due diligence policies, processes, activities conducted to identify and address adverse impacts, and the findings and outcomes of those activities 	
	1.4 Management plan/guidelines	Responsible sourcing management plan/guidelines	Definition of purpose, scope of application, roles and responsibilities, applicable standards (such as laws, ILO, EBRD ESP and ESRs, voluntary standards or protocols), management measures and controls, implementation schedule, monitoring and training, audit and reporting	<p>Management plans/guidelines provide detailed information on:</p> <ul style="list-style-type: none"> how policy commitments will be operationalised, including detailed procedures required who is responsible for implementation specific mechanisms for cascading requirements down the supply chain to suppliers and sub-suppliers approaches to the review of ongoing or framework supplier agreements how and under what circumstances will suppliers' and sub-suppliers' performance be verified, including through third-party on-site labour and/or traceability audits 	Corporate sustainability function in cooperation with corporate procurement, legal, compliance and other relevant teams
2. Do					
2.a Identifying and assessing actual or potential adverse impacts in the supply chains	2.1 Operating procedures	Provide a detailed process for implementing management measures and controls	<p>Mapping and risk assessment including contextual risk (sector and geography) and reputational risk</p> <p>Prioritise, define red flags, set benchmarks and key performance indicators (KPIs)</p>	<ul style="list-style-type: none"> Carry out a broad scoping exercise to identify operations and relationships where supply-chain risks are most likely to be present and most significant Carry out iterative and increasingly in-depth assessments on the most significant risks from operations and relationships Assess the company's involvement with the actual or potentially adverse impact to determine the appropriate responses, and whether the company causes, contributes or is directly linked to the adverse impact Prioritise where necessary the most significant risks and adverse impacts for action based on defined indicators 	Operational units (environmental and social management, procurement, integrity/compliance, etc)
2.b Respond to the identified adverse impacts by ceasing, preventing and mitigating them		Supplier pre-qualification and selection processes	<p>Supplier self-assessments/supplier learning</p> <p>Assessment of supplier capacity and own supply-chain management system</p> <p>Pre-sourcing screening/auditing/traceability requirements</p>	<ul style="list-style-type: none"> Identify and cease activities that cause or contribute to adverse impacts with regard to environmental and social supply-chain risks identified in the EBRD ESP Set criteria and provide guidance for supplier selection to avoid adverse impacts Develop and implement a plan to prevent or mitigate actual or potential adverse impacts Ensure international auditing standards and principles are adhered to consistently across the whole of the supplier's facilities and operations 	

Area	What	Examples of documents	Contents	Additional clarifications	Suggestions for roles and responsibilities
			Internal and independent auditing procedures Supplier worker surveys	(independence of auditors; privacy of worker interviews; zero tolerance of retaliation; transparency and unfettered access to facilities and records)	
	2.2 Training of own procurement, legal and compliance, and ESG teams	Training plan	Define competencies required and deliver relevant training to key personnel		Corporate sustainability function in cooperation with corporate procurement, legal and compliance
	2.3 Contractual/legal requirements	Standard legal clauses	Develop standard legal clauses and a mechanism to cascade requirements to suppliers' sub-suppliers	<ul style="list-style-type: none"> • Clauses should include both the requirements and the rights of the contract holder to verify their implementation and act (including disengagement) should a breach of these requirements be identified 	Legal department
3. Check					
3. Tracking implementation and measuring results	3.1 Monitoring KPIs and verification	Ongoing risk monitoring Post-sourcing monitoring/verification procedures	Open-source information monitoring Post-sourcing internal/independent auditing Worker grievance mechanism for suppliers and sub-suppliers	<ul style="list-style-type: none"> • Track the implementation and effectiveness of the company's due diligence activities. • Use the lessons learned from tracking to improve processes in the future. • The monitoring procedure needs to be risk-based, where the high-risk suppliers are prioritised in supplier monitoring to ensure that their risks are managed to an acceptable level. 	Operational units
4. Providing for or cooperating in remediation when appropriate	4.1 Remediation plan	Corrective action planning	Root-cause analysis to inform action plan Supplier capacity building Agreed timeline for corrective actions Responsible disengagement	<ul style="list-style-type: none"> • Determine appropriate response to adverse impacts, for example, based on severity of impact, likelihood of effective mitigation • If the company decides to continue the business relationship, it must provide support to business partners to implement a corrective action plan; such a plan can take the form of financial support and/or support for social dialogue and can include a credible threat of disengagement • Companies faced with labour risks in their supply chain may continue the business relationship while working with the supplier to raise awareness and capacity and improve the effectiveness of preventative measures • Corrective action plans implemented by suppliers and business partners should outline agreed timelines and indicators, as well as terms for disengagement if improvement is not demonstrated • Comply with national laws, international labour standards and the terms of collective bargaining agreements 	Corporate sustainability function and other units as relevant

Area	What	Examples of documents	Contents	Additional clarifications	Suggestions for roles and responsibilities
				<ul style="list-style-type: none"> • Articulate upfront the escalation measures for disengagement from the business relationship • Provide detailed information to management and trade unions, where they exist, supporting the decision to disengage • Where feasible, provide sufficient notice of the disengagement to the business relationship. 	
5. Tracking implementation and results	5.1 Management reports	Internal reports to senior management/board		<ul style="list-style-type: none"> • Use the lessons learned from tracking to improve current and future processes. • Development of good international practice should generally be part of what informs the overall improvement. 	Senior management/board
Implementing improved measures	5.2 Corrective actions and continuous improvement: change management	Regular review and update of management policies, plans and/or procedures	Setting up procedures for closing out non-compliances and escalation pathways		
6. Communicating how impacts are addressed	6.1 Regular public reporting	External reporting on implementation of policies and strategy		<ul style="list-style-type: none"> • Companies should communicate externally relevant information on due diligence policies, processes, as well as activities conducted to identify and address actual or potential adverse impacts, including the findings and outcomes of those activities. 	

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Acronyms and abbreviations

AI	artificial intelligence
EBRD	European Bank for Reconstruction and Development
ESMS	environmental and social management system
ESP	Environmental and Social Policy
ESR	Environmental and Social Requirement
EU	European Union
EUDR	European Union Deforestation Regulation
FAO	Food and Agriculture Organization of the United Nations
GBVH	gender-based violence and harassment
ILO	International Labour Organization
IoT	internet of things
IFC	International Finance Corporation
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
SCMS	supply-chain management system
SMEs	small and medium-sized enterprises
UNGPs	United Nations Guiding Principles on Business and Human Rights
UN OHCHR	United Nations Office of the High Commissioner for Human Rights

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Five Bank Street
London E14 4BG
United Kingdom

ebrd.com

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