

INVERT

Disrupting Exploitation Networks



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Company-focused and victim-focused risk
indicators for labour trafficking

Work package 2

Deliverable 2.1

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ACRONYMS

Acronyms	Definition
CCTL	Arma dei Carabinieri - Comando per la Tutela del Lavoro
EU	European Union
INVERT	Identifying companies and victims in the exploitation phase to disrupt the financial business model of adult and child labour trafficking
LEA	Law Enforcement Agency
NGO	Non-governmental Organization
THB	Trafficking in human beings
WP	Work package

1. Introduction

1.1. Purpose and scope of the deliverable

Labor exploitation is an inherent risk in today's capitalist economy that strives to maximize profits by **reducing costs for materials, capital and labor** (Chesney et al., 2019). On the one hand, **deregulation and increased labor market flexibility** have created favorable conditions for workers' exploitation. Goods and services can be sold at **low prices** that do not reflect production costs by **cutting wages and lowering the standards of working conditions**. On the other hand, **irregular migration** feeds labor markets with a **cheap and easily exploitable workforce**, with no access to any type of legal protection.

Modern slavery is a practice that encompasses **various forms of exploitation** including forced labor, child labor, debt-bonded labor and traditional slavery (Nolan & Boersma, 2019). In particular, modern slavery can be represented as a **continuum of working conditions** from the extremes of modern slavery to fair and reasonable work, with a plethora of practices falling under the category of poor working conditions (Boersma & Nolan, 2022; Christ & Helliar, 2021). It is estimated that more than **50 million people are victims of modern slavery worldwide**, and **63% of forced labor cases occur in the private economy** in sectors other than commercial sexual exploitation (International Labour Organization et al., 2022). In particular, according to the most recent European Commission data, labor exploitation is the second most common purpose for trafficking in human beings (henceforth THB) in **EU-27 in 2017-2018** after sexual exploitation, with **15% of the registered victims trafficked for forced labor** (European Commission. Directorate General for Migration and Home Affairs., 2020).

The **proactive examination of risk factors** embedded in the characteristics of legitimate companies (**demand**) and workers (**supply**) is essential for promptly identifying instances of labor exploitation. Only through a comprehensive understanding and monitoring of these risks, public authorities – both in the EU and beyond – can **effectively detect, prevent, and mitigate** the impact of labor exploitation on economic competition and workers' rights. The scope of this deliverable is to provide a **guide for practitioners** dealing with risk assessment of legitimate companies and individuals potentially involved in various activities associated with labor exploitation.

1.2. Methodology

UCSC-Transcrime and INVERT Partners have identified the risk factors and indicators of this deliverable through three main steps:

- **Preliminary assessment:** *Arma dei Carabinieri - Comando per la Tutela del Lavoro* (CCTL) organized an online workshop in November 2023 to illustrate the most relevant features of labor trafficking identified by past national and international criminal investigations and judicial decisions. In particular, the workshop has provided extensive information on: (i) the characterization of the main features of THB places of abuse (i.e., at company level), and (ii) the characterization of the main features of victims for labor trafficking as experienced by partner prosecutor offices, law enforcement agencies (LEAs) and non-governmental organizations (NGOs) in their day-to-day work experience. A preliminary list of risk factors was drafted by CCTL.

- **Structured data collection:** A structured questionnaire prepared by CCTL was shared with INVERT Partners and external stakeholders between November 2023 and January 2024. INVERT Partners and external stakeholders were asked to:
 - assess the relevance of each risk factor in their domain of operation.
 - suggest additional risk factors to include based on their experience and expertise.

In particular, inputs have been collected from 12 external stakeholders in the EU, including 4 NGOs involved in the fight against labor exploitation, 3 law enforcement agencies, 3 international organizations, 1 National Labor Inspectorate and 1 Prosecutor’s Office.

- **Desk research and consolidation:** The findings from the first two steps formed the starting point of the analysis. Indeed, we combined the evidence from CCTL with input from INVERT partners and 12 external stakeholders which were surveyed. Then, we carried out an extensive literature review to collect relevant information emerging from academic sources, national and international institutions, and past EU projects on THB¹. Additionally, relevant use cases have been included to further validate results with key insights from recent criminal investigations and judicial cases across several EU countries. The current document features the INVERT list of risk indicators of labor exploitation at both company- and victim-level which will be included in the two INVERT risk assessment tools.

It is worth noting that the **risk indicators** included in the present deliverable should just be considered as “red flags”, namely alerts that point out a potential **increased risk of labor exploitation** requiring further investigation and action. However, the presence of one or more risk indicators **does not necessarily mean** that a legitimate company is engaging in labor exploitation, or a worker is victim of labor exploitation. Any instance of higher risk **should be substantiated by evidence** collected by end-users of the INVERT risk assessment tools during extensive criminal investigations.

¹ Among others, the following past EU projects on THB have been reviewed: (a) **ISF FLOW project** (Flows of illicit funds and victims of human trafficking: uncovering the complexities); (b) **ERC Human Trafficking: A Labor Perspective project**; (c) **FP7 – Security TRACE project** (TRafficking as A Criminal Enterprise); (d) **ISF UNCHAINED project** (Untangling the trafficking chain. Disrupting the financial model of THB); (e) **ISF PHIT project** (Psychological health impact of trafficking in human beings).

2. Risk factors at the company level

To date, national and international bodies **have focused their efforts** in tackling labor exploitation associated with **organized crime groups and individual perpetrators** (Davies, 2019). However, actors profiting from labor exploitation **are not restricted to criminal organizations** (De Vries, 2019). Indeed, labor exploitation is a form of **corporate crime motivated by economic profit** (Davies & Ollus, 2019). **Legitimate companies often engage in labor exploitation**, both knowingly and unknowingly, **gaining unfair economic advantage that distorts the EU competition and the business environment** (Barrientos, 2013; Davies & Ollus, 2019; LeBaron, 2015). Nevertheless, there has been minimal empirical research on the employment relations and dynamics that businesses use to engage in and profit from labor exploitation (Caruana et al., 2021; LeBaron & Crane, 2018).

The literature review and analysis of case studies have revealed that most cases of labor exploitation in the EU feature **fraudulent contractual arrangements between legitimate companies**. In particular, illicit schemes involve two profiles of legitimate companies:

- **a client company** seeking to reduce personnel costs.
- **a main contractor company and other subcontracting companies** that illicitly supply manpower to interested client companies while posing as legitimate service providers.

Recognizing this intricate and evolving landscape, **INVERT indicators have been specifically designed to identify both company profiles involved in fraudulent contracting of work** based on their main recurring characteristics as derived from empirical evidence.

2.1. The client company

Fraudulent contracting of work usually offers **several advantages to the client company**. For example, it unfairly increases the company's competitive advantage by **reducing labor costs** (wages and social contributions), **health and safety obligations as well as taxes**, and by **increasing work and organizational flexibility**. As a result, a company engaging in labor exploitation gains an **unfair economic advantage** and **distorts competition** in the free market (Davies & Ollus, 2019; Ollus, 2016). Some key characteristics of such companies, which may help public authorities in their timely identification, are listed and described below.

Excessive outsourcing

From a business perspective, **outsourcing is a legal and useful practice** to reduce labor costs if, for example, there is a lack of regular work to justify the retention of permanent employees. However, the **engagement of external operators heightens the potential for various forms of labor exploitation** to take place (Clarke & Boersma, 2019; Corbanese & Rosas, 2021; Crane et al., 2022). Indeed, **contracted intermediaries typically operate with lower labor costs**, and they may subsequently subcontract other providers at even lower costs. Additionally, the **more complex the supply chain, the more difficult it is to monitor and potential instances of labor exploitation** (Caspersz et al., 2022).

As a result, **companies involved in labor exploitation**, both willingly and unwillingly, often feature **long and complex supply chains**, which frequently hide labor exploitation and illicit financial flows in the lower parts of the chain (Caspersz et al., 2022; Crane et al., 2019; Davies & Ollus, 2019). The complexity of the subcontracting chain **makes it difficult to identify all the workers involved in the chain**, as well as their respective working conditions. Additionally, subcontracting **fragments labor communities** and

hampers workers' organization, since workers in the subcontracting chain have **different employers, different contracts and are often subject to different national legislations**. Lastly, it is worth noting that the complexity of the supply chain **does not necessarily entail complex ownership structures** for the client company.

Box 1. Outsourcing and labor exploitation in the construction sector in Belgium

In July 2022, Belgian labor inspectors uncovered **174 victims of THB for labor exploitation** (17 from Nepal, 52 from the Philippines and 105 from Turkey) at a **major construction site** owned by a chemical company in **Antwerp**. The workers were subject to **severe exploitation**, receiving only about **€600 per month while working more than 10 hours per day, 6 days a week**. In addition, they were **housed in atrocious conditions** and **were in Belgium illegally** as their work permits had expired. When questioned about the workers' conditions, the chemical company stated that the men were not its employees, as the **construction activities had been outsourced to a French-Italian contractor**. Notably, the main contractor **then subcontracted to another company** within its corporate group **which, in turn, subcontracted a Turkish company** that employed workers from Turkey.

Low personnel costs

The business model of labor exploitation revolves around minimizing labor costs for maximizing profits (Jokinen & Ollus, 2019). This often results in recruiting undeclared workers, namely workers who carry out paid activities which are not declared to public authorities. There are three main reasons not to declare these otherwise lawful activities: (a) to **avoid payment of income or other taxes**; (b) to **avoid payment of social security contributions**; (c) to **avoid having to meet legal labor standards**, such as minimum wages, maximum hours, safety standards etc.

In addition to undeclared work, legitimate companies may engage in **other social security fraud schemes** associated with a formally reported employment (Eurofound, 2017b). In particular, they may mislead, deceive, manipulate, or force some of their workers to register as self-employed while, in reality, they work under their subordination. **Bogus self-employment schemes** deprive workers of their legitimate rights as employees (e.g., sick pay, security and pension contributions, minimum wage), while legitimate companies **reverse the burden for payment of taxes and social contributions to the workers** and thus cut labor costs.

Another fraudulent scheme involves the **abuse of the posting of workers**, namely the temporary relocation of workers to another EU Member State in the context of a **contract of services, an intra-group posting or a hiring out through a temporary agency**. The existence of differentials in social security contribution rates across EU Member States could lead companies, especially in labor-intensive sectors, to **abuse posted workers** (generally from Member States in Eastern Europe) **to benefit from lower social security contributions** (Robin-Olivier, 2022; Voss et al., 2016). Additionally, employers **may submit false declarations** stating that social security contributions are paid into the welfare fund of the area from where the posting is alleged to take place. Or employers **may dismiss workers after they have been posted**, even though they continue working for the 'host' company (Eurofound, 2017a).

Box 2. Labor exploitation in the gig economy in Italy

In October 2020, the Prosecutor's Office in Milan **put under temporary receivership a leading company in the food delivery sector**. According to the prosecutors, the company exploited extremely **vulnerable migrants and asylum seekers** from conflict areas (Mali, Nigeria, Ivory Coast, Gambia, Pakistan, Bangladesh) who were **paid less than €3 per delivery**, regardless of the day or the time. Riders were also **deprived of voluntary tips left by some customers**, with some of them also experiencing **arbitrary reductions in their compensation** if they violated the terms of their agreement. Notably, in October 2023, the Labor Court in Milan issued a verdict acknowledging the systematic abuse of these workers, **formally classified as self-employed freelancers to evade social and security contributions**. The Court ordered the company to **rectify their contractual status by officially hiring them as dependent workers** and to **settle all the security and social contributions evaded in the preceding years**.

Previous criminal charges and negative news

Companies and/or their owners or managers/directors may have prior enforcement provisions (e.g., arrests, judgments) or have been reported in media articles for being involved in **negative events** that potentially link them to illicit activities (e.g., labor exploitation, tax crime, money laundering). Therefore, to conduct a comprehensive risk assessment of a company, it is important to check if **all the related entities have either prior enforcement provisions or adverse media coverage** that could potentially signal a risk of being connected to illicit schemes. This information could be retrieved from:

- **open source** (e.g., online newspapers, institutional websites and reports of LEAs, governmental institutions, etc.).
- **court orders and judicial documents publicly available**. These can be found by searching:
 - on web search engines (e.g., Google, Qwant).
 - in specific databases.
- **competent authorities' databases**. Information on persons or legal entities targeted by enforcement measures held in competent authorities' archives is normally not accessible to the public. A specific request could be submitted to obtain these data, specifying the reason for the request (e.g., carry out a research project, investigation, etc.).
- **specialized repositories**. Repositories exist which, by screening daily public sources, collect information on previous enforcement and sanctions. Usually, these repositories are accessible upon payment of a fee and are widely employed by banks and other obliged entities for anti-money laundering purposes.

The collection and processing of this information shall be **carried out cautiously and in compliance with what is provided by extant regulation**. This information falls within the special category of personal data, according to the current EU personal data protection regulatory regime, and, as such, its processing shall be minimized, duly justified, and supported by a valid legal basis.

Box 3. Criminal record of the business owner of a company involved in labor exploitation in Italy

In December 2023, Italian *Polizia di Stato* confiscated **assets worth €12 million**, including **13 companies**, of which one in Bulgaria and one in Sweden, **32 real estate properties**, and **110 trucks**. This action targeted a **Sicilian entrepreneur** operating in the **transport sector in Emilia-Romagna**. Investigations revealed the entrepreneur's involvement in **smuggling Brazilian, Moldavian, and Turkish citizens into Italy**. Subsequently, he exploited them as **truck drivers in his transport companies**, using falsified documents. The workers endured **unpaid overtime** and worked in **unhygienic and unsafe conditions**. Notably, the **entrepreneur had previously been convicted of sexual exploitation and**, in November 2022, evaded the execution of a pre-trial detention order in

the context of **operation Hermes**, in which he was **charged with facilitating illegal immigration, unlawful labor intermediation, and labor exploitation.**

Records of previous labor violations

Labor inspections play a fundamental role in the enforcement of labor legislation and are essential to **monitor and enforce workplace standards** to ensure **compliance with labor obligations** and the **safety and health of EU employees** (Arrigo et al., 2011). Occupational Safety and Health (OSH) in the EU is regulated by Member States Labor Inspectorates that manage the day-to-day activities of Labor Inspectors. By visiting the premises of legitimate companies, Labor Inspectors can verify if OSH standards are sufficient to comply with relevant legislation and, if necessary, they can ask for remedies or they can use sanction to legally compel companies to improve safety and working conditions. **Labor violations detected in the supply chain** of a legitimate company can be **indicators of potential THB for labor exploitation** (Yagci Sokat, 2022).

Exposure to high-risk territories

The **presence of a vulnerable workforce** susceptible to exploitation represents a considerable risk factor. As a result, legitimate companies located in **geographical areas where it is easier to recruit workers willing to accept exploitative working conditions** (e.g., irregular migrants) may be more inclined to engaging in THB for labor exploitation. For example, it is well-known that the workforce exploited in the Italian agricultural sector has been mainly recruited from reception centers, contributing to the so-called “refugeeization” of the workforce (Dines & Rigo, 2016; Guidi & Berti, 2023). Additionally, it is common to see gangmasters who **pick up workers in minivans every day at the same hour** to transport them to their workplaces (Gangmaster and Labour Abuse Authority, 2015).

Box 4. Recruitment of workers to exploit in reception centers for migrants in Italy

In September 2023, the Italian *Polizia di Stato* of Cagliari discovered that more than **50 migrants staying in the reception center** at Monastir in Sardinia **were approached by recruiters who put them to work illegally in the fields**. The migrants worked harvesting artichokes and other vegetables on small plots of land for **up to ten hours a day**, but they were also employed in the vineyards of prestigious wine producers, where they were **paid just €5 per hour**. Five Pakistanis aged 25 to 43 with regular residence permits were detained on charges in connection with the illegal recruitment and exploitation. Two others, also Pakistani citizens, were reported to authorities after they **were caught taking migrants with their lorries to work in farms** near Cagliari, in Parteolla, Sulcis and Campidano. A total of **12 companies were placed under investigation** for allegedly illegally exploiting workers.

High-risk economic sector

While there are **no economic sectors which are immune** from labor exploitation, the phenomenon **affects some of them more**, including **construction, agriculture, forestry, food processing, hospitality, cleaning services, manufacture, and domestic work** (International Labour Organization et al., 2022). Employment in these sectors is often characterized by a prevalence of **labor-intensive, low-skilled, underpaid, and precarious job positions** that often locals do not want to fill in (Andrees, 2008; Bullock et al., 2024). For example, in higher income countries where the national average of education of the population is high and the service sector of economy is well developed, the **local population has higher expectations of employment, which creates an unsatisfied demand of unskilled workers.**

These sectors are particularly attractive because they are **labor-intensive** (i.e., a large portion of total costs is due to labor and personnel costs) and therefore **savings on labor costs have quite a**

remarkable impact on profits (Belsler, 2005), pushing both small- and large-businesses to potentially engage in illegal strategies to lower costs. Additionally, workers in these sectors are often **temporary, casual, and seasonal**, as these sectors need workforce for short peak periods of time based on the needs of the market. To varying degrees, these industries rely on migrants' labor, which some companies use to reduce costs by employing a **cheaper, outsourced workforce** and **mitigate labor expenses** such as **training and paid absence** (Davies et al., 2023).

Box 5. Labor exploitation and high-risk economic sectors in the EU

Between May and June 2021, Europol supported **EU-wide coordinate action days against THB for labor exploitation**. In particular, the police operation, led by the Netherlands, involved law enforcement agencies from 24 EU countries and resulted in the arrest of 229 individuals and the identification of 630 possible victims of labor exploitation. The operation primarily focused on **labor-intensive sectors (e.g., restaurants, delivery services, beauty salons, and transport and construction companies)** that require **low-skilled workers**, as they are characterized by **precarious working conditions** that make employees vulnerable to exploitation.

Lack of quality controls certifications

Labor rights and the provision of safe working conditions are important issues in the global policy debate (Lim & Prakash, 2017). To sell products at competitive prices, legitimate companies may be incentivized to violate labor laws and workplace regulations. There have been **several regulatory responses to labor exploitation** over the decades. However, the **traditional approach of criminalizing offenders and enforcing border controls**, while important, has proved to **be not effective in addressing structural problems linked to companies and supply chains** (Davies, 2020). These shortcomings have led to an increased **emphasis on the role of companies in tackling exploitation through corporate social responsibility (CSR)**, or 'self-regulation' (Lebaron et al., 2018). In this regard, on 14 December 2023, the Council and the European Parliament reached a provisional agreement on the **corporate sustainability due diligence directive (CSDDD)** which aims to enhance the protection of the environment and human rights in the EU and globally. The due diligence directive will **set obligations for large companies regarding actual and potential adverse impacts on human rights and the environment, with respect to their own operations, those of their subsidiaries, and those carried out by their business partners** (European Council & Council of the European Union, 2023).

Over the last few years, there has been an **increased attention to voluntary quality management programs and internal frameworks**, often developed by legitimate companies to establish and monitor compliance with codes of conduct and other standards, often based on standards issued by authorities or NGOs. Examples include, among others, **ISO 9001** (Quality management standards), **ISO 45001** (Occupational health and safety management systems), **ISO 26000** (Social responsibility) and **SA8000** (Social Accountability System).

Despite some limitations and criticalities of CSR measures (Crane et al., 2019; New, 2015), previous empirical research has demonstrated that the **implementation of voluntary quality management programs significantly increases the quality of workplace safety and conditions** (Aburumman et al., 2019; Lim & Prakash, 2017). Conversely, **gaps in the internal governance of a company** (e.g., weak monitoring and enforcement of labor standards, lack of regulations on disclosure and transparency) may **lead to exploitative labor practices** (Corbanese & Rosas, 2021).

Box 6. Labor exploitation in long supply chains characterized by inadequate due diligence checks

In January 2024, the Carabinieri Command for Labour Protection of Milan, following an investigation coordinated by the local Public Prosecutor's Office, executed a judicial administration decree issued by the Court of Milan that placed under receivership a **luxury fashion company** which **outsourced** its whole production of bags to **three contracting companies**. However, the three third-party companies had **no material resources to fulfil their obligations** and further **subcontracted to Chinese factories** which exploited their workers to minimize labor costs. Specifically, out of the total workforce of 197 individuals, **37 workers were employed irregularly without proper labor contracts** and **lacked legal status** on the national territory. In addition, these workers received compensation **below the minimum** mandated by national regulations and were forced to **live and sleep on the factories' premises**. Despite not being directly involved in the labor exploitation, the prosecutors noted that the **client company had implemented insufficient internal controls over its supply chain**. In particular, it **failed to conduct background checks on outsourced companies** to ensure they possessed the necessary resources to fulfill contractual obligations. Furthermore, the company **neglected regular audits to verify and monitor the working conditions of employees in its supply chain**.

2.2. The main contractor and subcontracting companies

For the understanding of illegal practices underlying outsourcing in labor exploitation schemes, it is essential to also consider the characteristics of the contracted companies, as well as the subcontracting mechanisms (Battistelli & Campanella, 2020). Client companies **may stipulate service contracts** with companies which, in turn, may **subcontract to other companies** to carry them out. However, the **provision of goods and services is only apparent**, as the companies subcontracted are only involved in the **illegal provision of manpower to the client company**. Some key problematic situations of such companies, which may help public authorities in their timely identification, are listed and described below.

High-risk legal form

Certain legal forms of companies available in specific jurisdictions exhibit **heightened susceptibility to criminal exploitation** due to their inherent characteristics. In the case of labor exploitation, empirical evidence shows that most of the contracted **bogus companies are often incorporated in the legal form of workers' cooperatives or consortia of cooperatives**². Cooperatives benefit from certain **favorable tax regimes**, have laxer financial reporting requirements, and have the **flexibility to list their workers as shareholders**, removing the requirement to provide them with the legal protections given to employees (Battistelli & Campanella, 2020). However, bogus cooperatives **feature neither the effective participation of worker-members in the management of the company nor the equitable distribution of profits** (Dueñas Herrero & Tonelli, 2022).

Box 7. Bogus worker cooperatives employed as subcontractors in the Spanish meat sector

As reported by Borelli (2022), the companies that act as **subcontractors in the Spanish meat industry** are often **bogus worker cooperatives** where workers are considered **self-employed**. Consequently, **collective agreements, as well as labor law, usually do not apply to them** and

² Some examples are *Società consortile – S.c.a.r.l.* (Italy) and *Sociedad Regular Colectiva - S.R.C. o S.C.* (Spain)

cooperatives do not have to pay the employer's contribution. Between 2018 and 2020, the Spanish Labor Inspectorate identified almost **50,000 bogus self-employed** workers due to fraudulent activities committed by bogus cooperatives in different sectors of the Spanish economy. This led to the **regularization of 23,000 falsely self-employed workers**, and companies faced fines totaling more than €200 million. Following the crackdown on bogus self-employed status, meat producers increasingly contracted out to **multiservice companies**, which **were often created ad hoc** to avoid applying the national collective agreement compulsory for the client and the main contractor. To fight against unfair competition generated by multiservice companies, the labor reform approved by Royal Decree-Law 32/2021 establishes that contractors and subcontractors shall apply the national sectoral collective agreement to their workers for the activity they carry out.

Recent incorporation and short lifespan

While in some labor exploitation cases they already exist, bogus companies are often **new corporate entities established ad hoc** by the client company to conceal the true employer (Battistelli & Campanella, 2020; Borelli, 2022). While creating a new company is legal and may be economically and legislatively advisable, such entities are frequently exploited for a variety of criminal purposes (Bosisio et al., 2021; Does de Willebois et al., 2011). In addition, bogus companies in labor exploitation schemes often declare insolvency and go **bankrupt in a short period of time** to avoid controls and scrutiny from authorities, after having accumulated **high levels of tax debt due to the non-payment of income and social security taxes** (Battistelli & Campanella, 2020; HM Revenue & Customs, 2022).

Anomalous geographic concentration

An address frequently listed as registered office for a significant number of companies could raise concerns about potential irregularities. It is conceivable that **legitimate companies sharing the same registered office with numerous others**, especially if they are not part of the same corporate group, may be **bogus companies that do not engage in any active operations** (Bosisio et al., 2021). These entities might be registered at the **address of a professional or an intermediary** who provides their residence as the registered office for companies effectively controlled by different individuals (Riccardi et al. 2013).

Box 8. Labor exploitation in companies incorporated at the same corporate address

In June 2021, Italian Police arrested a **Chinese couple** accused of running a leather goods business which exploited immigrant workers to make handbags for a luxury clothing brand supplier and seized €523,000. In particular, the couple exploited at least **40 immigrants from countries including China, Pakistan, and Bangladesh**, making them work **up to 14 hours a day for just over 3 euros an hour**. Notably, the arrest warrant included a transcript of a wiretapped phone conversation in which one of the Chinese owners under investigation told a supplier's employee that, if needed, he could make workers toil through the night to dye the needed products on time. Additionally, the Chinese couple had **opened and closed a series of leather goods companies** since 2013 to evade taxes and the authorities' controls, **transferring workers and machinery from one business to the other, but keeping the same corporate address**.

Lack of real economic activity and high tax debts

Bogus companies in labor exploitation schemes are often firms with no tangible economic activity as they often **lack physical headquarters, equipment or other tangible assets**, while being characterized by a **large number of employees** (Battistelli & Campanella, 2020; Eurofound, 2017b; van Nierop et al., 2021). Indeed, these companies **do not have any real organization of the means of production nor any autonomous production** because they are set up with the **sole aim of providing cheap labor to the client** (Dueñas Herrero & Tonelli, 2022). As a result, bogus companies often declare insolvency and

go **bankrupt in a short period of time** to avoid controls and scrutiny from authorities, after having accumulated **high levels of tax debt due to the non-payment of income and social security taxes**. **Employees are transferred to a new cooperative** which, as a result, registers an **anomalous growth of revenues shortly after its incorporation** and repeats the fraudulent scheme (Mineva & Stefanov, 2018).

Box 9. Bogus companies used as “manpower reservoirs” in labor exploitation schemes in Italy

In June 2023, the Italian *Guardia di Finanza* of Milan seized almost 48 million euros from a **leading supermarket chain** accused of being involved in a complex tax fraud scheme. In particular, the scheme involved the use of **fake invoices for services never provided** from the so-called “**manpower reservoirs**”, namely agencies and cooperatives in the logistic and good transport sector that provide workers to other companies, allowing them to avoid direct employment. These companies – **shielded by “filter” companies** - signed fictitious procurement contracts that masked the **illegal provision of manpower**, leading to the **issuance and consequent use of non-existent invoices** for over 221 million euros, plus VAT exceeding 47 million euros. In addition, fake **cooperatives systematically omitted the payment of VAT** and, in most cases, social security and welfare charges, and **were frequently declared insolvent soon after** a short period of time to avoid scrutiny from authorities, **transferring their workers to other cooperatives** to reiterate the fraudulent scheme.

Links with bankrupt companies

Bogus companies in subcontracting chains are **opened and closed in succession** to avoid scrutiny from law enforcement agencies. Therefore, when investigating a company for labor exploitation, **examining potential connections with bankrupt companies becomes essential**. These connections may be of different types. The first type of link regards the presence of **high-ranking figures within a company, such as beneficial owners or directors, having roles within other failed businesses**. Another red flag is the **presence of multiple bankrupt firms registered at the same address company**. If the address where the company is legally based has previously been associated with a high number of failed businesses, this factor can represent a signal of potential linkage to past irregularities or fraudulent activities.

Lack of shareholding information

An **unclear beneficial ownership** is considered a relevant risk factor for legitimate companies involved in labor exploitation (NCA, 2020). Indeed, it plays a crucial role in **concealing the true beneficial owners** of bogus companies involved in illicit activities, complicating law enforcement investigations. For this purpose, **opaque corporate vehicles** (e.g., trusts, fiduciaries, foundations, certain types of investment funds) can make it problematic (and often impossible) to correctly identify beneficial owners as they enable the separation of legal and beneficial ownership of assets.

Anomalous place of residence of prominent figures

Prominent figures within a company (e.g., managers, directors) **residing significantly far from its headquarters** may signal a **lack of genuine involvement in the company’s activities**. Specifically, this risk factor could suggest that the individual is merely a **figurehead**, knowingly or unknowingly **concealing the identity of the true beneficial owners and shielding them from potential law enforcement actions and legal repercussions**. Moreover, the geographical disparity between a company’s prominent figures and its place of registration may cast doubt on the substantive nature of its economic activities, thereby **questioning the legitimacy and operational viability of the company under scrutiny**.

2.3. Summary

Table 1. List of relevant risk factors for labor exploitation at the company level

<i>Category</i>	<i>Risk factor</i>	<i>Description</i>
<i>Client company</i>	Excessive outsourcing	The company engages in excessive outsourcing to lower its costs. In particular, long subcontracting chains are particularly vulnerable to abuse for labour exploitation purposes
	Low personnel costs	The company has low personnel costs on its total costs
	Previous criminal charges and negative news	The company has business owners and directors who have criminal charges or are involved in adverse media
	Records of previous labor violations	The company has previous records of labor violations
	Exposure to high-risk territories	The company is in a high-risk territory where it is easier to recruit workforce to exploit (e.g., irregular migrants)
	High-risk economic sector	The company is active in an high-risk economic sector in terms of labor exploitation
	Lack of quality controls certifications	The company does not hold any quality controls certifications
<i>Main contractor and subcontracting companies</i>	High-risk legal form	The company has a legal form considered at high-risk in terms of labor exploitation
	Recent incorporation and short lifespan	The company has been incorporated recently or show an anomalous short lifespan before its dissolution
	Anomalous geographic concentration	The company is registered at a corporate address where a large number of other companies are registered, and it is not justified on the basis of an economic or geographic rationale.
	Lack of real economic activity and high tax debts	The company has high tax debts on income and social and security contributions
	Links with bankrupt companies	The company has links (e.g., ownership, common address, other) with companies that filed for bankruptcy
	Lack of shareholding information	The company has no shareholding information, or is controlled by entities with no shareholding information, for example due to local company law which do not require disclosure of company ownership
	Anomalous place of residence of prominent figures	Prominent figures in the company (e.g., managers, directors) reside significantly far from the company's headquarters.

3. Risk factors at the victim level

Men, women and children of all ages and backgrounds can be victims of THB for labor exploitation. Nevertheless, **some are more vulnerable than others** due to their specific characteristics. To date, however, **the identification process has been hindered by the lack of systemic procedures**, as often no organizations nor authorities “have an equally developed system of indicators” (Villacampa, 2022, p. 9).

The next sections list some key **risk factors that public authorities can use to effectively identify potential victims of labor exploitation** during engagement with them. The list of risk factors is based on the preliminary list produced by CCTL and it has been enriched by evidence and information from **academic and institutional literature, criminal investigations, existing checklists for the identification of labor exploitation victims** at the international level, as well as inputs provided by INVERT partners and external partners which have been consulted. Despite the importance of paying attention to the specific indicators, it is worth noting that **not all the indicators are applicable in every case**, and some may not be immediately apparent. Furthermore, there are **no set number of signs that will surely indicate that a person is a victim of trafficking** or subject to forced labor, so each case should be assessed on an individual basis (Gangmaster and Labour Abuse Authority, 2015).

3.1. Personal characteristics and physical appearance

Status of irregular migrant or with a deportation order

Migrant workers, in particular from developing countries, are **more vulnerable to exploitation in the workplace** than other workers, as a result of structural factors that may include **discrimination, unethical recruitment practices, migrants’ status, level of formal instruction, language proficiency or ability to negotiate the terms of work or access support services** (International Labour Organization et al., 2022; IOM, 2022). The issue is further exacerbated in the case of **irregular migrants who are not protected by law and/or are unable to exercise their rights** (International Labour Organization et al., 2022). Irregular migrants often have **no access to formal and lawful employment** and are **forced to accept exploitative conditions to sustain themselves out of necessity** (European Union Agency for Fundamental Rights, 2021; Guidi & Berti, 2023; Palumbo & Sciurba, 2015). Not secondary, they are **less likely to report their employers to the authorities due to the fear of losing their jobs and being returned to their countries of origin** (López-Jacob et al., 2010; Moyce & Schenker, 2018; Van Meeteren & Wiering, 2019).

Unscrupulous employers may prefer migrant workers, as they represent a **flexible labor force**. Indeed, migrant workers are often **structurally disempowered due to informal work arrangements, limited language proficiency and low union participation** (IOM, 2022). They often **accept wages and working conditions below the normal standards of the country of destination**, as the wages may still be higher than in their country of origin and they often have obligations back home (Rye & Scott, 2018; Shepherd et al., 2021). Notably, they **may even not identify as victims of abuse or exploitation**, either because they do not know their rights in the destination country, or because they expect poor working conditions and low pay given their migrant status, thus inevitably hampering potential interventions (FLEX-LEAG, 2016).

Notably, some studies highlighted the **relevant recurrence of child labor in marginalized minority groups**, such as migrants and refugees (Ramani & van Uden, 2021). For example, a global study conducted by Save the Children found that children from minority groups in East and Southern Africa had nearly twice (4.1%) the likelihood of being engaged in paid work than children who did not belong to a minority group (2.1%) (Loperfido & Burgess, 2020). Migrant children face **several barriers which may increase their vulnerability** to labor exploitation, such as **social stigma, discrimination, and lack of access to social services** (Habib et al., 2021).

Box 10. The exploitation of irregular migrants in the agricultural sector in Italy

The criminal investigation “Miraggio”, carried out by the Italian *Carabinieri* in February 2020, led to the arrest of 4 **Moroccan nationals** who allegedly exploited **13 fellow compatriots to work in fields** in northern Italy for **up to 11 hours a day** and paid them **only €3 per hour**. Most of the migrants in the group were **undocumented** and did not have the courage to speak because they **hoped to obtain official working papers and a permit to stay**. The workers were forced to **live in an unhygienic environment** that did not meet minimum safety standards. If the migrants protested for their conditions, they **were beaten** and often **forced to work even if injured**.

Signs of physical injuries that appear to be the result of control measures

Physical violence is quite often used **to punish workers when they do not understand a command, make a mistake, or do not deliver good work** by the employer’s standards (Ahmed & Arun, 2023). In addition, employers may use physical violence to **prevent workers from reporting their poor working conditions to the authorities**. Psychological abuse, threats, physical abuse and withholding of necessities are some of the most commonly reported means of control reported by victims of THB for labor exploitation (Europol, 2016).

As a result, victims of labor exploitation may show **signs of physical or psychological abuse, look malnourished or unkempt**. Elements of the working conditions perceived as forms of violence included the **aggressive behaviour of employers/superiors, time pressure, lack of sleep, poor nutrition, pressure to work harder and for longer hours, and bullying and humiliation**. Lack of sleep and exhaustion were identified as elements that put exploited workers in a physical and mental state that does not allow them to react and leave the condition of exploitation (European Union Agency for Fundamental Rights, 2019).

It is important to note that **child labor has been strongly associated with different adverse health consequences** (Habib et al., 2021; Rafferty, 2013). Indeed, children **are particularly vulnerable** to occupational hazards **since they are still developing mentally and physically** (Fouad et al., 2022). In particular, **injuries, musculoskeletal disorder symptoms, malnutrition and respiratory diseases** have been reported among working children (Habib et al., 2021; Kearney et al., 2020; Mohammed et al., 2014).

Box 11. Physical and sexual abuse against migrant fishers in the United Kingdom

From June 2021 through October 2021, the University of Nottingham Rights Lab conducted an independent baseline study of **working conditions across the UK fishing fleet**, collecting 108 surveys and 16 interviews covering England, Scotland, Wales and Northern Ireland (University of Nottingham Rights Lab, 2022). Most migrant fishers surveyed reported working **excessive hours**. For example, 60% reported working **a minimum of 16 hours per shift** and **1/3 reported working more than 20 hours per shift**. Additionally, 30% reported that they never received 10 hours of rest. Because they are required to stay on board the vessel while in port, another 25% reported that they **never received 77 hours of rest in a 7-day period** because they are required to **clean and repair the vessel, take the gear off the vessel, or mend nets on their days “off” in port**. When accounting for

monthly salary, debt, catch-based bonuses, and average hours of work (excluding informal port work), the average salary for migrant fishers was equivalent to **£3.51 per hour**. In addition to this systemic overworking and underpaying, **35% of fishers reported experiencing regular physical violence**. Multiple narratives of extreme violence also emerged, with one fisher describing being beaten while the skipper’s son yelled **racial slurs** and two fishers reported **graphic and extreme sexually violent acts**.

Signs of psychological distress and abuse

Psychological coercion and violence are deeply intertwined, serving as significant **sources of trauma and chronic stress** for victims of THB for labor exploitation. Research has highlighted the profound impact of these experiences, with trafficked individuals often suffering relevant **traumatic events and psychological consequences**. Perpetrators of trafficking exert **extensive power and control over their victims**, employing systematic and organized techniques to disempower and disconnect them across various domains - social, physical, psychological, sexual, and economic. This manipulation creates an **environment of fear and dependency**, making it challenging for victims to seek help or escape their circumstances. As a result, victims may exhibit behaviors such as **avoiding eye contact**, appearing **fearful or hesitant when interacting with strangers**, or harboring a **distrust of law enforcement**. These reactions stem from a multitude of reasons, including a **lack of trust in others, uncertainty about where to seek assistance, fear of deportation, or concerns about retaliation** against themselves or their families. Furthermore, **inconsistencies in their narratives or lapses in memory**, along with indications that they are **acting under coercion or instruction from others**, should raise red flags for potential abuse and trafficking.

Lack of identification documents, or the availability of false or forged documents

The **confiscation of workers’ identity documents** allows employers to **control workers’ freedom of movement and prevent them from leaving their employment**, thus representing a **strong indicator of coercion for both adult and child victims** involved in labor exploitation (Christ & Helliard, 2021; Shepherd & Wilkinson, 2021). For example, out of the 15,886 victims of labor trafficking detected in the United States in the period 2018-2020, **43% had their documents withheld or destroyed**, which significantly impacted their ability to leave their employer and report any abuse (Polaris Project, 2022). In addition to holding victims into forced labor, the confiscation of identity documents affects them in several other ways as it **prevents them from accessing essential services, such as healthcare, banking, and education** (European Union Agency for Fundamental Rights, 2019). Additionally, it is worth noting that employers often resort to replacing withheld identity documents with fraudulent ones, facilitating employment for workers, as well as masking their true nationality and gaining access to benefits. For example, external stakeholders have reported the use of fake work visas by Georgia nationals to work in Poland.

Box 12. Retention of identity documents in a case of severe labor exploitation of Moldovan women in Italy

In September 2021, as reported by Eurojust (2015), Italian and Moldovan authorities dismantled a criminal network involved in THB for the labor exploitation of Moldovan women in southern Italy. The operations have been carried out by a joint investigation team (JIT) composed of the Carabinieri Command for Labour Protection, Moldovan Police and the Public Prosecutor’s Offices of the two cooperating countries. The **nearly 90 victims identified** were living in **precarious social and economic conditions in their home country** and were **promised a job as housekeepers in Italy**. Once in Italy, **victims’ passports and ID cards were confiscated and used to forge counterfeit**

documents, such as **false COVID-19 health certificates** and **employment contracts**. Victims were told **they could only get their passports back after repaying a heavy debt incurred by travel and accommodation**. This was often close to impossible due to the **additional interest rate charged by traffickers**. The victims were then assigned to local families and forced to **work extremely long hours**, in **degrading housing conditions** and subjected to **ongoing threats** and **intense surveillance**.

Lack of familiarity with the local language and laws

Language skills are a key condition for migrants to be socially and economically integrated in their destination country (Adserà & Pytliková, 2016; Bredtmann et al., 2020; Chiswick & Miller, 2015). **Without sufficient language skills**, third-country nationals are at **higher risk of undeclared work** and **experiencing exploitative working conditions**. In fact, **language barriers** can prevent them from understanding the terms and conditions of their employment, as well as from **understanding and exercising their rights** (European Union Agency for Fundamental Rights, 2019; van Nierop et al., 2021).

Migrants are usually **coerced into signing contracts in a foreign language**, which they do not understand, and they are **not informed of the relevant tax obligations and other statutory contributions** (Dimitriadis, 2023). In most cases they see no other choice but to sign it as they find themselves in a situation of need. Moreover, **lack of knowledge of labor laws of the destination country** often leads workers to **accept exploitative conditions with respect to the wage**, working hours and safety measures, especially **in cases where workers come from countries with lower legal standards** (European Union Agency for Fundamental Rights, 2019).

Box 13. Migrants are coerced into signing a contract in a foreign language in Finland

In August 2023, Finnish authorities investigated a **construction company** in Uusimaa for the suspected **exploitation of 17 foreign workers from Peru and Romania**. The workers are believed to have been forced to **work long hours**, up to **12 hours per day**, **without any overtime being paid**, and giving them very **few days off work**. They also did not know at the outset of a working day what time they would be allowed to finish, or when their outstanding wages would be paid. The preliminary investigation also uncovered that the **company exploited the workers' lack of Finnish language skills as well as their poor understanding and knowledge of Finnish labor law** and collective agreements. Indeed, **some of the workers were happy with the pay they received**, because **it was much higher than what they would have been paid in their home country**.

Social and economic vulnerability situations of the victims in their respective geographical areas of origin

One of the most prevalent factors that influences human trafficking for labor exploitation is **poor socioeconomic conditions** of vulnerable groups in their countries of origin. **Abuse of difficult family situation, economic reasons, lack of education, and mental illness** are all indicators of recruitment for the purpose of forced labor. While these poor conditions are often the push factors to leave their country of origin, these vulnerable groups are even more susceptible to exploitation and trafficking in the destination country. Not secondary, **poverty, displacement, large family size, and low parental educational status** are also the major factors contributing to **child labor** (Islam & Hoque, 2022; Khatab et al., 2019).

3.2. Employment conditions

Lack of an employment contract

Undeclared work increases the risk of labor exploitation, as the **worker is “hidden” from supervisory and enforcement authorities** (van Nierop et al., 2021). The absence of an employment contract can have several negative consequences on workers. First, **they are prevented from renewing a residence permit or applying for a residence permit** (European Union Agency for Fundamental Rights, 2021). Second, **employers are not legally bound to respect labor regulations and workers are not able to exercise their rights**, thus increasing the risk of exploitative conditions with respect to wages, working hours and payment of social security contributions (Dimitriadis, 2023).

Particularly extended working hours

Poor working conditions do not necessarily lead to slavery and are not always illegal, but they are often perceived as an **early indicator that the risk of slavery is higher** (Christ et al., 2020). For example, the ILO estimated that nearly **half of the victims of labor exploitation surveyed between 2017 and 2021 have experienced excessive overtime or more hours than initially agreed** (International Labour Organization et al., 2022). Victims often report **having no days off, not being able to take breaks** during the workday and **not being entitled to sick leave** (European Union Agency for Fundamental Rights, 2019). Excessive overtime is among the ILO’s 11 indicators of forced labor (International Labour Organization, 2012). Unscrupulous employers may force workers to sign their consent to work overtime; if workers refuse, they may be subject to threats of not extending their work agreements (BetterWork, 2012).

Disproportionately low wage conditions

Wage theft encompasses several actions that companies undergo to deny their rightful pay or benefits (Raghunandan, 2021). Common violations include **not paying minimum wage, not paying time-and-a-half for overtime work, and not giving workers their final paycheck**. Exploiting situations of vulnerability and desperation, unscrupulous employers often offer wages as low as a few euros per hour. In addition, **delayed payments or arbitrary salary deductions** are common occurrences, as employers employ these tactics to **exert control over workers and manipulate their behavior** (Fernández García et al., 2023).

Box 14. Disproportionate low wage conditions in the manufacturing sector in Spain

In December 2020, Spanish authorities arrested three people after finding **21 migrants who were hiding behind large bundles of clothes at a factory** in Murcia in southeastern Spain, which produced clothes to sell to African countries. The migrants were forced to work **long hours in unhygienic conditions for €2 per hour**, earnings approximately **half the minimum wage** in Spain, which is set monthly at €1,050.

Exposure of the worker to poor safety and hygiene conditions in the workplace

Adequate workplace safety and hygiene conditions include enough breaks for workers, **accessible toilet facilities, access to shade and water and use of personal protection equipment** if needed. Safety measures, however, are **not limited to adequate physical conditions of the workplace** as it also concerns the **provision of basic training and professional licenses** to workers. As a result, **poor hygiene and safety conditions are a common aspect of situations of labor exploitation** (European Union Agency for Fundamental Rights, 2019). This factor is also particularly relevant for child labor as it is a

phenomenon rooted in poverty, income insecurity, social injustice, and lack of public services (Radfar et al., 2018).

3.3. Other risk factors

Deprivation or limitation of the freedom of self-determination

The limitation of workers' basic rights by their employers contributes to keeping workers in a condition of vulnerability and is a strong indicator of coercion. It can take various forms:

- **isolation in communication or confinement:** The feeling of isolation can concern **both physical isolation in the workplace and the restriction of workers' social contacts**. Physical isolation is most experienced in the domestic, agricultural, fishing and manufacturing sectors and can derive from **working in remote areas** (e.g., agriculture, fishing) or **not having any co-workers** (e.g., domestic work) (European Union Agency for Fundamental Rights, 2019). The spatial and social isolation of many exploited workers is often exacerbated by **employers' deliberate efforts to prevent any communication with the outside world**, thereby thwarting the possibility of seeking assistance (van Nierop et al., 2021). There have been instances where workers have reported being **entirely deprived of their freedom of movement, confined within the workplace or their accommodation during the night (e.g., video surveillance, locked doors, inaccessible windows)** (European Union Agency for Fundamental Rights, 2019).
- **restriction or strict control of movements:** The restriction of movements, similarly to isolation, is a tactic employed by employers to prevent victims from attempting an escape or seeking assistance. In several cases of exploitation, victims are **permitted to leave the workplace only under tight surveillance or under threat of retaliation against themselves or family/loved ones** (Gangmaster and Labour Abuse Authority, 2015; Polaris Project, 2022).
- **restriction of freedom of speech:** victims of THB for labor exploitation are often **not allowed to answer questions, or their answers appear scripted and rehearsed**. In particular, they are often **accompanied by another individual who acts as a translator for them** (NCA, 2020). This also applies in cases of **children exploitation** (Greenbaum, 2016).
- **choice of housing:** Employers can intensify workers' dependence on them by controlling their housing arrangements (Andrijasevic, 2021). This control can manifest in **inadequate housing conditions, requiring workers to reside either on-site or at the employer's residence**, thereby granting the employer power over access to necessities such as food and transportation (van Nierop et al., 2021). Furthermore, providing accommodation within the workplace **amplifies the employer's capacity to subject victims to prolonged periods of labor** (Scott et al., 2012). The restricted freedom in choosing housing can also indicate situations of debt bondage, where the employer imposes mandatory housing fees that the worker cannot afford to pay, thus their condition of vulnerability. If a worker **cannot specify their home or workplace address, has not exercised choice in their living arrangements, or resides in communal settings at the workplace**, these circumstances warrant attention, as they **may signify a lack of self-determination and potential exploitative conditions** (Gangmaster and Labour Abuse Authority, 2015; NCA, 2020).
- **financial control:** Limited self-determination of victims of labor exploitation may also take the form of financial control from the employer. One of the most common tactics involves the employer **withholding all or part of the wages** to keep workers in the exploitative situation (European Union Agency for Fundamental Rights, 2019). In other cases, even if they receive a wage, the earnings might be paid into an account controlled by other people or **victims may**

have no access to bank cards or documents (Gangmaster and Labour Abuse Authority, 2015). Additionally, financial control may also take the form of financial exploitation, where victims are **coerced into opening bank accounts that will be controlled by the employer**, who may use victims' identities and details for criminal purposes, such as **submitting fraudulent social benefit claims and take advantage of tax credits and/or child benefits** (Europol, 2016; NCA, 2020).

Box 15. Control measures against workers in a labor exploitation scheme in Finland

As reported by Eurojust (2015), the Court of Appeal of Vaasa convicted **a man for THB for the purpose of labor exploitation**. The case involved **26 men from Kyrgyzstan** who were lured with promises of good working conditions in Finland. However, upon arrival, they **were stripped of their ID cards** and **coerced into signing documents** in Finnish that they did not understand. These individuals were then subjected to **grueling work hours** and **strict control measures** by their employers. Their **wages were disbursed in meager portions**, intended solely for purchasing food from a local grocery store. **Accommodation was provided either within the employer's residence or within company premises**, where multiple individuals were cramped into shared spaces. Furthermore, the victims were strictly **prohibited from interacting with locals** and faced fines for any perceived transgressions, such as leaving their accommodations without permission. Adding to the exploitation, one of the employers **clandestinely opened bank accounts in the victims' names** and **siphoned off a substantial portion of their earnings** using associated debit cards, without the victims' consent or knowledge.

Subjection to debt incurred to obtain employment and total or partial unavailability of earned money

Monetary debt, also known as debt bondage, is a cornerstone of labor exploitation relations; migrant workers often **contract debt due to the high recruitment fees or credit to cover travel, visa, and accommodation costs**. Traffickers use debt bondage to **entrap their victims by using perceived debt against the victim to force work to pay off the debt** (Bracy et al., 2021). Consequently, **debt significantly restricts workers' freedom** on three main fronts (LeBaron & Phillips, 2019; Strauss & McGrath, 2017): (a) **to move**; (b) **to change employers**; and (c) **to contest working conditions**. Indeed, monetary debt is a mechanism of "labor discipline" that precludes exit from a contract, regardless of the working conditions, and bonds workers to a particular employer or intermediary (LeBaron, 2014; Phillips & Mieres, 2015). Additionally, employers often subject workers to heavy monetary fines for "disciplinary misconducts", further aggravating their subjection to them. For example, LeBaron et al. (2021) surveyed 1,104 workers across 302 garment factories in India, Honduras, Ethiopia and Myanmar. Of those surveyed, 22% reported receiving unfair wage deductions. It is worth noting that debt bondage is also a significant risk factor in cases of **child labor**, as often **children' labor services are offered by their parents and/or relatives in exchange for a loan or to pay off an existing debt** (Letsie et al., 2021).

Box 16. Debt bondage for domestic workers in Spain

In October 2022, two Spanish women were found guilty of trafficking Nicaraguan women for forced labor. Prior to the victims' departure from Nicaragua to Spain, the traffickers **coerced them into using their family's real estate properties to cover the travel expenses**. The **true cost of the tickets was concealed from the victims**, so upon their arrival in Spain, the traffickers demanded a higher payment (**ranging from 3,500 to 7,000 euros**) than what was originally stated. At times, the traffickers even confiscated the money and mobile phones brought by the Nicaraguan women. To repay the debts, the victims were compelled to work in Sevilla in positions provided by the employer. The traffickers imposed excessively **high rents for overcrowded housing**, which they owned, and

also charged fees for assisting the victims in finding employment, transporting them to their workplace, and negotiating their salaries and working conditions with employers. Additionally, the traffickers would **withhold a portion or sometimes all the salary** earned by the Nicaraguan women in these jobs.

3.4. Summary

Table 2. List of relevant risk factors for labor exploitation at the victim level

<i>Category</i>	<i>Risk factor</i>	<i>Description</i>
<i>Personal characteristics and physical appearance</i>	Status of irregular migrant or with a deportation order	The potential victim is an irregular migrant or has a deportation order
	Signs of physical injuries that appear to be the result of control measures	The potential victim shows signs of physical injuries
	Signs of psychological distress and abuse	The potential victim shows sign of psychological distress
	Lack of identification documents, or the availability of false or forged documents	The potential victim lacks identification documents or possesses identification documents that are found to be forged
	Lack of familiarity with the local language and laws	The potential victim does not speak the local language or lacks knowledge of the national laws regarding employment
	Social and economic vulnerability situations of the victims in their respective geographical areas of origin	The potential victim come from a low-level social and economic background
Employment conditions	Lack of an employment contract	The potential victim does not have a regular employment contract
	Particularly extended working hours	The potential victim works for a number of hours that exceeds the limit set by the national law.
	Disproportionately low wage conditions	The potential victims earns a wage that is below the minimum amount set by the national law
	Exposure of the worker to poor safety and hygiene conditions in the workplace	The potential victim does not use the necessary personal protective equipment or is exposed to poor safety and hygiene conditions in the workplace
Other risk factors	Deprivation or limitation of the freedom of self-determination	The potential victim is subject to control practices that limit his/her self-determination in terms of movement, communication, and housing choices.
	Subjection to debt incurred to obtain employment and total or partial unavailability of earned money	The potential victim is subject to debt bondage practices and is deprived of earned money

4. Risk factors at the victim level - child labor

Employers may seek to hire children because they know they can pay them **lower wages and exert more control over them** (e.g., working hours, type of work). Children are often **unaware of their rights and are less likely to protest**. In the risk assessment of a child who is a potential victim of labor exploitation, **all the risk factors listed and described in section 3 apply and can be used**. However, additional risk factors must also be considered as child labor often entails different dynamics compared to adult labour trafficking. The next sections list some **key risk factors that public authorities can use, in addition to risk factors included in Section 3, to effectively identify potential victims of child labor** during engagement with them.

Lack of access to schooling

Lack of access to schooling emerges as a significant risk factor for children, particularly those coming from underprivileged populations. In impoverished and marginalized communities, families heavily rely on the labor of their children as a **means of increasing household income**. As a result, the **absence of school attendance or registration** serves as a red flag for underlying vulnerabilities and potential instances of labor exploitation among children (Putnick & Bornstein, 2015; Radfar et al., 2018). For example, a study by ILO and UNICEF (2021) found that **more than a quarter of children aged 5 to 11 and over a third of children aged 12 to 14 who are in child labour are out of school**. Furthermore, once engaged in exploitative labor practices, children encounter **relevant barriers that impede their return to school or continuation of education**, thus increasing the risk of **potential learning disabilities and development delay**.

Lack of responsible caregivers

Unaccompanied minors, lacking the support of responsible caregivers, face **heightened vulnerabilities** to various forms of exploitation, including labor exploitation (Habib et al., 2024). Unaccompanied minors often come from backgrounds marked by **familial dysfunction or instability** (Kaur & Byard, 2021). This instability can arise from various factors, including **parental substance abuse, domestic violence, neglect, or parental incarceration and mortality**. Such circumstances can lead to a breakdown in family support structures, leaving minors **without proper guidance and protection**. In these occasions, minors are susceptible to labor exploitation as they **become responsible for their own well-being and that of younger siblings**.

Substance misuse

Children engaged in child labor are exposed to exploitative conditions which can severely affect their mental and physical development. Coping mechanisms, such as **smoking, alcoholism, and drug abuse, may arise as a response to physical and psychological stress** (Ibrahim et al., 2019). Not secondary, the use of drugs and alcohol can also **be imposed by employers** to increase their control over them.

Employment in family enterprises

Large numbers of children are **unpaid workers in family enterprises** (e.g., farms, informal sector workshops) which depend on family labor to survive. As reported by ILO and UNICEF (2021), **72% of all child labour and 83% of child labour among children aged 5 to 11 occurs within families**, primarily on family farms or in family microenterprises. Notably, **family-based child labor is frequently hazardous** despite common perceptions of the family as offering a safer work environment. As a result, children being involved in working activities within family enterprises **may raise concerns about potential child labor occurring**.

5. From risk factors to risk indicators – methodological note

This section presents the methodology elaborated by UCSC-Transcrime to quantitatively and qualitatively measure risk factors related to THB for labor exploitation listed and described in the previous sections. The following risk indicators will be included in the two INVERT risk assessment tools. Note that the operationalization of the following risk factors may change and evolve throughout the project's course, as adjustments may be necessary (e.g., unavailability of a specific data source).

5.1. Risk indicators at the company level – client company

Excessive outsourcing

Description of the risk factor

This risk factor focuses on assessing the abuse of outsourcing to lower personnel costs and other social and security costs. The risk factor builds on the hypothesis that a company showing extremely low levels of revenues per employee may be using a workforce provided by other companies.

Data sources

Company data providers

Operationalization

Calculation of revenues/employees ratios over a certain period of time and comparison with peer companies or sectoral average.

Low personnel costs

Description of the risk factor

The risk factor focuses on assessing a company's personnel cost efficiency and its potential risk related to labor exploitation through a streamlined financial analysis process. This factor is based on the hypothesis that a significantly low-personnel cost ratio, in comparison to industry benchmarks, may suggest illicit practices related to labor exploitation.

Data sources

Company data providers

Operationalization

Calculation of personnel costs/total costs over a certain period of time and comparison with peer companies or sectoral average.

Previous criminal charges and negative news

Description of the risk factor

This risk factor focuses on the potential association of business owners and directors of a target company with adverse media and negative evidence. This risk factor is based on the hypothesis that companies whose beneficial owners and directors are associated with adverse media may be more likely to be involved in illicit activities.

Data sources

Business registries/Corporate data providers and providers of adverse media/enforcement information

Operationalization

Identification of the number of beneficial owners and directors with previous charges or involved in enforcement cases or sanctions according to media sources.

Records of past labor violations

Description of the risk factor

This risk factor focuses on the presence of past labor violations for a company. The risk factor builds on the hypothesis that a company which has already been sanctioned for past labor violations may have a higher likelihood of engaging in labor exploitation.

Data sources

Providers of adverse media/enforcement information and other data sources

Operationalization

Checking if the company has been sanctioned in the past for labor violations.

Exposure to high-risk territories

Description of the risk factor

The risk factor assesses the exposure of a company to high-risk territories in terms of labor exploitation. The risk factor is based on the hypothesis that a company which is located in a territory where it is easier to recruit a workforce willing to accept exploitative conditions may have a higher likelihood of engaging in labor exploitation.

Data sources

Institutional reports, statistics, and other data sources

Operationalization

Checking if the company is in a high-risk territory in terms of labor exploitation.

High-risk economic sector

Description of the risk factor

The risk factor assesses the exposure of a company in a high-risk economic sector in terms of labor exploitation. The risk factor is based on the hypothesis that a company which operates in an economic sector which is at high-risk in terms of labor exploitation may have a higher likelihood of engaging in labor exploitation.

Data sources

Institutional reports, statistics, and other data sources

Operationalization

Checking if the company operates in a high-risk economic sector for labor exploitation.

Lack of quality controls certifications

Description of the risk factor

The risk factor measures if a target company holds certifications that guarantee the quality of its internal control framework, particularly concerning the correct implementation of monitoring mechanisms within its supply chain. The risk factor builds on the hypothesis that a company which holds these certifications have a lower likelihood of engaging in labor exploitation.

Data sources

Certifications data providers and other data sources

Operationalization

Checking if the company holds any quality controls certification.

5.2. Risk indicators at the company level – main contractor and subcontracting companies

High-risk legal form

Description of the risk factor

The risk factor assesses the legal form of a target company. The risk factor is based on the hypothesis that specific legal forms are more recurrently involved in cases of fraudulent contracting of work than others.

Data sources

Company data providers

Operationalization

Checking if the company has a legal form considered at high risk in terms of labor exploitation (e.g., Cooperative company with limited liability by shares, Limited liability consortium, Simplified Limited Liability Company).

Recent incorporation and short lifespan

Description of the risk factor

This risk factor focuses on measuring the company's age and overall timespan of activity if already closed. This risk factor is based on the hypothesis that bogus companies involved in fraudulent contracting of work schemes are often incorporated ad-hoc to supply manpower and declare bankruptcy in a short period of time to avoid the scrutiny from LEAs and public authorities.

Data sources

Company data providers

Operationalization

Calculation of the operating activity period and the overall lifespan period, if applicable, and comparison with peer companies or sectoral average.

Lack of real economic activity and high tax debts

Description of the risk factor

The risk factor focuses on measuring the proportion of debts on income and social security contributions on the total tax debts. The risk factor builds on the hypothesis that bogus companies involved in fraudulent contracting of work schemes are often characterized by high debts on income and social security contributions, as they fail to fulfill their financial obligations.

Data sources

Company data providers

Operationalization

Calculation of social security debts/total debts ratios over a certain period of time and comparison with peer companies or sectoral average.

Anomalous geographical concentration

Description of the risk factor

This risk factor assesses if a company is characterized by an anomalous geographical position. The risk factor builds on the hypothesis that the registration of multiple legitimate companies at the same corporate address may suggest the absence of real economic activity.

Data sources

Company data providers

Operationalization

Checking if an anomalous number of companies is registered at the same address of the target company.

Link with bankrupt companies

Description of the risk factor

This risk factor assesses if a company's beneficial owners, managers and directors had relevant positions (ownership or directorship) in bankrupt companies. The risk factor builds on the hypothesis that the presence of beneficial owners, managers and directors with roles in bankrupt companies may suggest fraudulent behaviors.

Data sources

Company data providers

Operationalization

Checking if the company's beneficial owners, managers and directors had relevant positions (e.g., ownership, directorship) in bankrupt companies

Lack of shareholding information

Description of the risk factor

This risk factor assesses if beneficial ownership information of a company is available. The risk factor builds on the hypothesis that the unavailability of beneficial ownership information may suggest fraudulent behaviors.

Data sources

Company data providers

Operationalization

Checking if the company's beneficial ownership information is available.

Anomalous place of residence of prominent figures

Description of the risk factor

This risk factor assesses if prominent figures within the company (e.g., managers, directors) reside significantly far from its headquarters. The risk factor builds on the hypothesis that prominent figures within the company residing significantly far from its headquarters may act as figureheads.

Data sources

Company data providers

Operationalization

Checking if prominent figures within the company reside significantly far from its headquarters.

5.3. Risk indicators at the victim level

The second INVERT risk assessment tool is an electronic track which **aims to assist INVERT end-users in conducting interviews with potential victims of THB for labor exploitation** for a timely and effective identification. Prosecutor offices and LEAs will be able to retrieve extensive information on potential victims they may screen during their daily operations. For this purpose, **risk factors described in Section 3 and 4 will be included in the electronic questionnaire**. Each risk factor will be operationalized in a **corresponding variable which will record either the presence or the absence of a specific risk factor in the potential victim of THB for labor exploitation under scrutiny**. INVERT end-users will collect information to fill the questionnaire **during interviews** with potential victims of THB for labor exploitation and/or from **other available data sources at their disposal**.

The information included in the questionnaire by the INVERT end-users will contribute to **generating a risk profile for the potential victim of THB for labor trafficking**. The calculation of the overall risk score will involve **aggregating the scores obtained from single risk indicators**. Each indicator will be assigned a score based on the level of risk it signifies. By averaging these scores, a comprehensive view of the potential victim's risk level can be obtained. To ensure accuracy and effectiveness, **different risk score functions will be explored and tested** during the development phase. These functions may consider various factors such as the weightage assigned to each indicator, the presence of multiple risk indicators, and the interplay between different indicators.

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Annex

The present Annex provides additional information on the workshop organized by CCTL within WP2. On November 22nd, 2023, from 09:00 am to 1:00 pm, CCTL held an online workshop from its headquarters in Rome, titled «Analysis of risk indicators referred to victims of labour exploitation and companies».

Figure 1. Agenda of the online workshop organized by CCTL within WP2

 Online Workshop ROME, 22 NOVEMBER 2023 – h. 09:00	
09:00 – 09:30	Brig. Gen. Antonio BANDIERA Chief of the Carabinieri Command for Labour Protection
09:30 – 10:30	Dr. Giovanni CONZO Public Prosecutor of the Public Prosecutor's Office of Rome
10:30 – 11:30	Lt. Col. Federico ZEPPONI Chief of the Operational Department of the Carabinieri Command for Labour Protection
11:30 – 11:45	<i>Coffee Break</i>
11:45 – 12:15	Lt. Col. Federico ZEPPONI Chief of the Operational Department of the Carabinieri Command for Labour Protection
12:15 – 13:00	All participants

The first speaker, General Antonio Bandiera, provided extensive insight into the concept of “action” embraced by the Carabinieri Corps in combating the crime of THB for the purpose of labor exploitation, analyzing:

- the general dimensions and features of the THB chain, both from a normative-criminological and socio-economic point of view.
- the complex investigation activities carried out by the Carabinieri Corps, and the operational procedures followed as Labor Inspectors and Judicial Police Officers.

- operational police cooperation at European and international level.
- activities involving operational analysis and strategic planning regarding the phenomenon

Finally, General Antonio Bandiera concluded with an introductory remark on the theme of identifying trafficking indicators, which served as the focal point of the Workshop.

The second speaker, Dr. Giovanni Conzo, delineated the key aspects of illicit mediation and labor exploitation crimes adopted in the Italian legislation referred to in Article 603-bis of the Criminal Code, focusing:

- the constituent elements of the offense (both objective and subjective).
- the definitions of "state of need" and "exploitation".
- the aggravating circumstances.
- the legislative measures enacted to combat property-related offenses, with a specific focus on the institutions of compulsory and equivalent confiscation.

The keynote speaker of the Workshop's central theme, Lieutenant Colonel Federico Zeponi, provided a comprehensive analysis of the risk factors referred to:

- labour exploitation.
- trafficking in persons.
- minors' employment.
- companies run by employers responsible for exploitation conducts.

The assessment of the risk factors was carried out through a careful and relevant analysis of four distinct investigative cases carried out by the Carabinieri Corps.

Finally, all workshop participants were encouraged to engage in discussion by posing questions, sharing comments, and presenting proposals. The following considerations emerged from this final review:

- there is a substantial convergence of partners on the approach adopted by CCTL about filling out the list of the risk indicators related to the four categories.
- to complete the data collection and analysis of risk factors, there is a need for the questionnaire to be further examined by all the partners and participants in the workshop, to provide written feedback on the reflections resulting from this in-depth study.
- It has been confirmed the principle, already indicated at the Kick-off meeting held in Milan on 4th July 2023, that the selected indicators should be:
 - clear, determined, precise, unambiguous, and widely shared between partners.
 - granted with the knowledge and experience deriving from ongoing or closed court cases.
 - formulated on the basis of common factors found in the European field, from the criminological and regulatory point of view, and selected also on the basis of exploitation indices derived from deficiencies and gaps in the field of health and safety in the workplace.

The preliminary list of risk factors related to THB for labor exploitation developed by CCTL and discussed during the online workshop organized within WP2 is reported below.

Risk factors identified in the INVERT project for THB (victim-level)

- Worker vulnerability.
- Illegal presence on the national territory.

- Ignorance of the laws and language of the destination country.
- Lack or confiscation of personal identity documents (or availability of forged documents).
- Deprivation of the freedom to self-determination.
- Isolation in communications.
- Subjection to debt or partial unavailability of the money earned, due to the need to pay off debts.
- Undeclared work (Informal employment “contract”).
- Particularly extended working hours (e.g., from 11 to 16 per day).
- Particularly disproportionate wage (e.g., hourly wage not exceeding 2/3 euros per hour).
- Subjection of the worker to violence or threats.
- Severe deficiencies in workplace safety and hygiene conditions.
- Exposure of the worker to serious danger.
- Exposure of the worker to other particularly oppressive or degrading working conditions.

Risk factors identified in the INVERT project for exploitation (victim-level)

- Undeclared work.
- False contracts and/or irregular hires.
- Salaries lower than those mandated by law or the relevant legal contract.
- Violation of regulations on working hours, daily and weekly rest periods, holidays, and mandatory leave (the right to be absent from work in all cases where it is compulsory).
- Employment of foreign labor with particular reference to undocumented individuals.
- Worker’s state of need.
- Inadequate hygiene and safety conditions in workplaces and violation of related regulations.
- Lack of training, information, and medical surveillance.
- Lack of personal protective equipment.
- Subjection of the worker to degrading working conditions.
- Subjection of the worker to surveillance methods.
- Subjection of the worker to inadequate housing conditions.
- Exposure of the worker to serious danger.
- Subjection of the worker to violence and threats.

Risk factors of trafficking/exploitation (company-level) - Common risk factors in all employment sectors

- Criminal and/or police records of the owners for specific offenses.
- Previous inspections with sanction outcomes, also related to undeclared work, workplace health, and safety.
- Excessive use of precarious contractual forms.
- Non-compliance with insurance obligations.
- Non-compliance with social security contribution obligations.
- Anomalies in productivity and workforce relationship.
- Excessive externalization
- Intermediary without authorization for labor supply or mediation
- Presence in the neighboring territory of "ghetto" areas and/or migrant reception centers (with specific reference to the agri-food sector).
- Circulation of dilapidated vans loaded with people near the production facility (with specific reference to the agri-food sector).
- Anomalous relationship between utility accounts and hired workers.

- Work-related injuries.
- Economic and social territorial context.
- Non-adherence to quality supply chains.

Risk factors identified in the INVERT project (company-level) - With specific reference to the agri-food sector

- Presence of foreign workers.
- Presence in the territory of "ghetto" areas and/or migrant reception centers.
- Circulation of dilapidated vans loaded with people.
- Presence of landless farms or companies.
- Places/locations of assembly, parking, and removal of workers.

Risk Factors identified in the INVERT project (child labor)

- Age
- Nationality
- Length of stay in the destination country
- Language proficiency in the destination country and level of education in the country of origin
- Lack of friends their age or mainly associating with adult countrymen
- Need to repay debts or send money home
- Involvement in previous illegal activities
- Unusual communications with family
- Signs of physical violence or fatigue and poor personal hygiene
- Signs of suspected control by someone, such as limited or absent communication with others, movement restrictions, isolation, forced use of drugs and alcohol.