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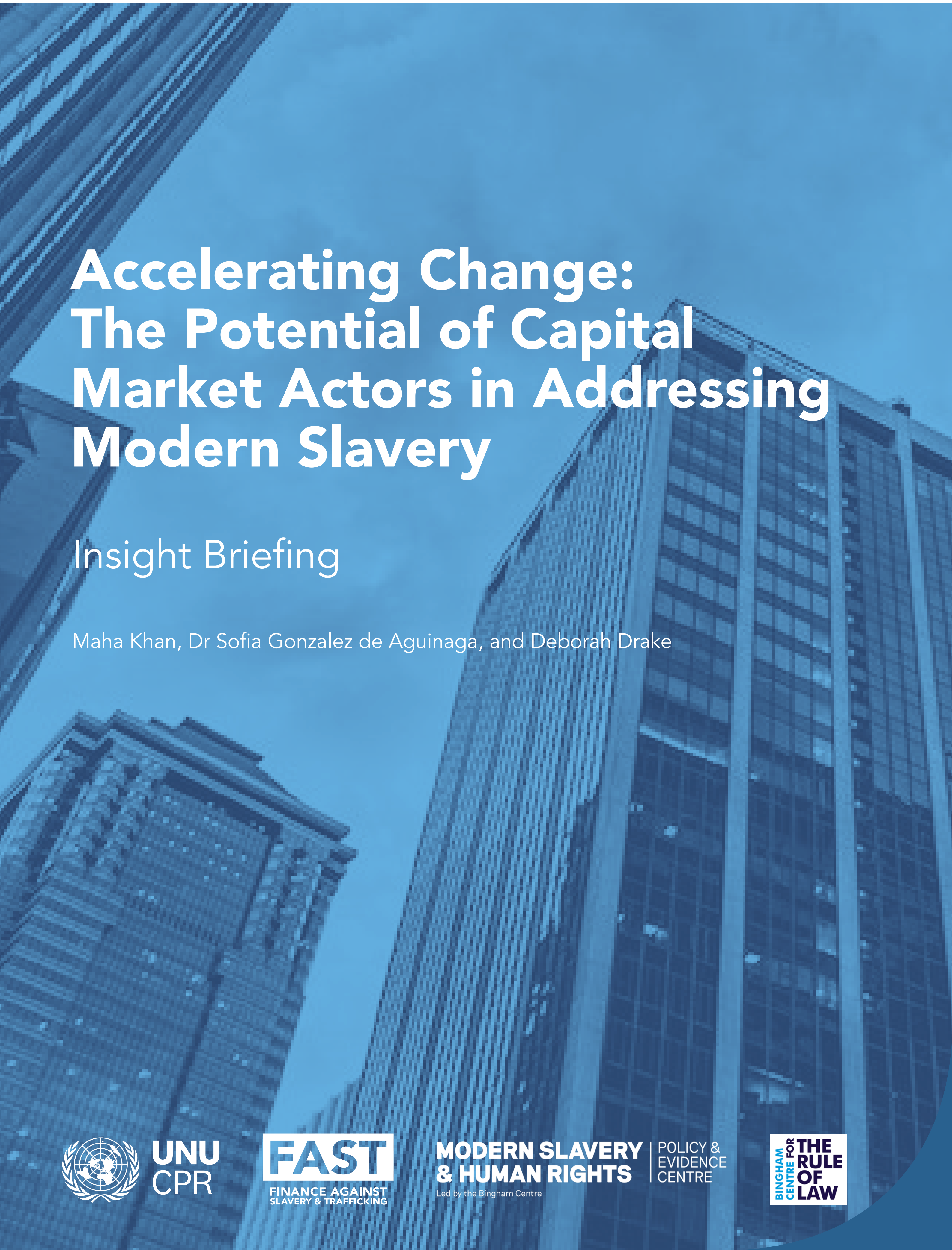

Accelerating Change: The Potential of Capital Market Actors in Addressing Modern Slavery

Insight Briefing

Maha Khan, Dr Sofia Gonzalez de Aguinaga, and Deborah Drake

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About FAST

Finance Against Slavery and Trafficking (FAST) is a multi-stakeholder initiative based at United Nations University Centre for Policy Research (UNU-CPR) that works to mobilize the financial sector against modern slavery and human trafficking. Through its alliance-building approach and grounding its work in evidence-based approaches and rigorous analysis, FAST provides tools and training to financial sector stakeholders to take meaningful, sustained action against modern slavery and human trafficking. UNU-CPR is an independent think tank within the UN system based in New York. It combines research excellence with deep knowledge of the multilateral system to generate innovative solutions to current and future global public policy challenges.

Disclaimer

This research project was co-funded by the UK Foreign, Commonwealth and Development Office (FCDO) and the Modern Slavery and Human Rights Policy and Evidence Centre (Modern Slavery PEC), which in turn is funded and supported by the UK Arts and Humanities Research Council (AHRC). The views expressed in this briefing are those of the authors and not necessarily of the funders or the United Nations University.

Acknowledgements

With thanks to the research team: Maha Khan (Finance Against Slavery and Trafficking Initiative), Malaika Oringo (FAST, Footprint to Freedom), Deborah Drake, David Wray, Liva Sreedharan (FAST Consultants), Dr Irene Pietropaoli, and Dr Sofia Gonzalez De Aguinaga (Bingham Centre for the Rule of Law). Immense thanks also to the investors, stocks exchanges, civil society organisations, and others who participated in this study.

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ISBN: 978-92-808-6610-0

Citation: Maha Khan, Dr Sofia Gonzalez de Aguinaga, and Deborah Drake, “Accelerating Change: The Potential of Capital Market Actors in Addressing Modern Slavery,” *UNU-CPR Insight Briefing* (New York: United Nations University, 2023).

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Foreign, Commonwealth & Development Office
GOVERNMENT PRINCIPALITY OF LIECHTENSTEIN
Ministry of Foreign Affairs
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Executive Summary

Modern slavery[1] remains a global challenge, and impacted the lives of an estimated 50 million individuals in 2021 (the last year global figures were published). The financial sector has played a key role providing access to finance for vulnerable people exposed to modern slavery risks. However, there is limited information on the role that capital market actors[2] can play to address modern slavery in their value chains. Given the global aim to eradicate modern slavery by 2030 (SDG target 8.7), understanding their role is crucial for effective and sustainable solutions.

This brief is aimed at capital market actors—asset owners, asset managers, private equity funds, stock exchanges, investment banks, and development finance institutions (DFIs)— and in particular those engaged in high-risk sectors like extractives, construction, and agriculture.[3] It focuses on their crucial role in addressing modern slavery and the strategies, practices, and leverage of their peers. As responsible investment trends reshape risk assessment approaches and values, this brief is an essential resource for capital market actors engaged in high-risk sectors, helping them to understand how they can combat this human rights violation. It offers good practice examples, case studies, and five actionable recommendations.

The brief is informed by the research project, Capital Markets and Modern Slavery, funded by the UK Foreign, Commonwealth and Development Office (FCDO) and the Modern Slavery and Human Rights Policy and Evidence Centre (Modern Slavery PEC), which explored the drivers and levers[4] capital market actors can utilize to address modern slavery. This research was conducted between February and August 2023 by the Finance Against Slavery and Trafficking (FAST) initiative at the United Nations University Centre for Policy Research (UNU-CPR) and the Bingham Centre for the Rule of Law.

This brief is divided into three key sections:

1. Taking Stock of Current Practices of Capital Market Actors;
2. Challenges; and
3. Recommendations for Capital Market Actors.

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[1] 'Modern slavery' is an umbrella term that includes a range of forms of conduct defined in different ways. All these involve a victim being exploited or deprived of their freedom through coercion, threats, violence, or deception. These forms can often intersect, with victims potentially experiencing multiple types of exploitation, such as forced labour and human trafficking.

[2] Capital markets allow for the buying and selling of financial securities, such as stocks, bonds, and currencies. This brief refers to capital market actors that encompass asset owners, asset managers, stock exchanges, investment banks, development banks, and publicly-listed companies.

[3] According to the 2021 Global Estimates of Modern Slavery, the five sectors accounting for the majority of total adult forced labour (87 per cent) are services (excluding domestic work), manufacturing, construction, agriculture (excluding fishing), and domestic work. Other sectors form smaller shares but still represent hundreds of thousands of adults, including in the extractives industry, fishers trapped in forced labour aboard fishing vessels, people forced to beg on the street, and people forced into illicit activities.

[4] Policies and practices implemented by capital market actors to influence the behaviour of existing or potential portfolio companies.

Key Findings

Practices

1. The term 'modern slavery' does not always resonate with capital market actors and their investees partially due to a lack of awareness and understanding of the modern slavery concept.
2. Capital market actors' drivers, priorities, and leverage to address social risks differ across geographies, profiles, and investments.
3. Environmental, Social, and Corporate Governance (ESG) risks are becoming more integrated into investment policies and pre-investment due diligence processes.
4. Senior level buy-in and board oversight is a pre-requisite to addressing social risks, such as modern slavery.
5. Loan and Shareholder agreements, particularly those employed by Development Finance Institutions (DFIs) and private equity firms are beginning to include social risks.
6. Investors' active stewardship, primarily through company engagements, is a key lever to influence investee behaviour.
7. Investors and stock exchanges are focusing on building corporate capacity to address social risks.
8. Social data standardization is desirable but capital market actors emphasize taking into account contextual differences across regions.

Challenges

Investor interviews demonstrated a commitment to improve due diligence, monitoring, and engagement with companies about modern slavery risks. There was a recognition, however, of the many challenges investors face in 'moving the needle' on the path to better outcomes and effectiveness. Challenges included:

1. Understanding the 'S' in ESG.
2. Data availability, measurement, and reliability.
3. Inconsistent approaches to governance.
4. Lack of resources.
5. Lack of an enabling environment.

Recommendations for Capital Market Actors

This brief provides broad recommendations to capital market actors as a whole given the nascent stage of understanding modern slavery in financial markets. It also includes specific recommendations for actors with significant potential for influence, such as DFIs and asset owners.

Overall, the recommendations stress the importance of ongoing engagement and investment in high-risk sectors like agriculture, construction, and extractives, given the intricate dynamics at play in addressing modern slavery. While capital market actors may want to avoid modern slavery risks by divesting or exclusion, investors can play a pivotal role by conducting thorough due diligence and pursuing engagement strategies that enhance company standards and practices. This approach is mindful of potential unintended consequences of divestment, which could worsen conditions for workers and heighten the risk for others vulnerable to modern slavery practices.

The information below provides a high-level summary of recommendations, which are expanded in more detail in the brief:

1. Improve awareness and understanding of modern slavery risks and their relation to ESG issues.
2. Develop dedicated social policies that align with international human rights and labour standards and principles.
3. Incorporate Human Rights and Environmental Due Diligence (HREDD) processes throughout the investment life cycle to identify, prevent, mitigate, and remediate modern slavery risks.
4. Increase collaboration with capital market actors to increase leverage, capitalizing on shared resources and building each other's capabilities.
5. Partner with modern slavery knowledge experts, including civil society organizations, workers' rights organizations, and survivors (people with lived experience of modern slavery) to obtain actionable data.

Introduction

Modern Slavery and Capital Markets

'Modern slavery' is an umbrella term that includes a range of forms of exploitation for commercial or personal gain, including but not limited to forced labour, human trafficking, and debt bondage. All these involve a person being exploited or deprived of their freedom through coercion, threats, violence, or deception. These forms of exploitation can often intersect, with victims potentially experiencing multiple types, such as forced labour and human trafficking.[5]

Human trafficking represents the most pervasive criminal economy globally. There is approximately $150 billion in annual profits made from forced labour. Much of this illicit money flows through the global financial system.

The convergence of the climate crisis, escalating conflicts, displacement of populations, and the disproportionate economic impact of COVID-19 on vulnerable communities has left many desperate for employment or income-generating activities, thus placing them in risky situations vulnerable to exploitation. This convergence has intensified the need for capital market actors to employ their leverage with businesses to combat modern slavery. According to the United Nations Guiding Principles on Business and Human Rights (UNGP), a definitive and voluntary framework promoting business accountability for human rights, investors and businesses hold the responsibility to avoid infringement of, and respect, human rights, and to provide or contribute to effective remedy in cases where they cause or contribute to harm.

Finance is one of the key levers by which the entire global economy can be moved to eradicate modern slavery. However, despite the growing awareness around modern slavery, the global situation appears to be regressing. There were 10 million more individuals experiencing modern slavery in 2021 compared to five years ago, bringing the estimated total to 50 million.[6] The latest estimates concerning the prevalence of forced labour per thousand people indicate that this form of exploitation is highest in the Arab states (5.3 per thousand people), followed by Europe and Central Asia (4.4), the Americas (3.5), Asia and the Pacific (3.5), and Africa (2.9).

Unfortunately, modern slavery often remains deliberately concealed, particularly within intricate global value chains and the broader financial ecosystem. As a result, capital market actors, particularly investors, may inadvertently support businesses reliant on forced labour or support an environment that might exacerbate labour exploitation, partially fostered by the Global North's demand for low-price goods and/or high-risk commodities from the Global South.

Encouragingly, there is increasing regulation in the Global North focused on supply chain transparency, human rights and environmental due diligence, Environmental, Social, and Corporate Governance (ESG) disclosure, and forced labour import bans. This will require capital market actors to be fully aware of the threat that modern slavery poses to both people and businesses. Consequently, they must take intentional, sustained, and meaningful actions to address and combat this exploitative practice which affects 6.4 individuals for every thousand in the world.

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5 Vulnerability to exploitation can be heightened in contexts of weak governance, along with exploitative commercial and labour practices, and in situations characterized by unmet needs, social inequality, disenfranchisement, and conflict. These structural factors are compounded by socially-constructed markers like race, gender, class, and caste, as well as unfavourable market conditions, poverty, and limited opportunities to acquire marketable skills.

6 This estimate of modern slavery comprises forced labour (private and state-imposed forced labour, commercial sexual exploitation, and child labour) and forced marriage.

Objective and Methodology

This brief is aimed at capital market actors—asset owners, asset managers, private equity funds, stock exchanges, investment banks, and development finance institutions (DFIs)—particularly those engaging in high-risk sectors like extractives, construction, and agriculture.[7] It focuses on their crucial role in addressing modern slavery by exploring the strategies, practices, and leverage of their peers. As responsible investment trends reshape risk assessment approaches and values, this brief is an essential read for capital market actors engaging in high-risk sectors to understand how they can combat this human rights violation, providing readers with case studies and good practice examples.

Vulnerable communities facing limited economic opportunities may turn towards exploitative situations, or worse, fall victim to coercion. While offering improved opportunities can reduce their vulnerability and instances of modern slavery, the paradox lies in the fact that such high vulnerability contexts can become risky for companies to source from and investors to invest in. In this light, this brief offers capital market actors five broad practical recommendations they can put into action at any stage, with an emphasis on ongoing engagement and thorough due diligence to enhance company practices. This approach is mindful of potential unintended consequences of divestment, which could worsen conditions for workers and heighten the risk of others vulnerable to modern slavery practices.

This brief is divided into three key sections:

1. Taking Stock of Current Practices of Capital Market Actors;
2. Challenges; and
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This research project was co-funded by the UK Foreign, Commonwealth and Development Office (FCDO) and the Modern Slavery and Human Rights Policy and Evidence Centre (Modern Slavery PEC) to explore the drivers and levers that capital market actors can utilize to address modern slavery. This research project was conducted by the Bingham Centre for the Rule of Law and the Finance Against Slavery and Trafficking (FAST) initiative at the United Nations University Centre for Policy Research (UNU-CPR).

Between February and August 2023, the research team collected and analysed qualitative evidence in two complementary phases: a desk-based literature review and primary evidence collection. The evidence review focused on modern slavery, forced labour, and labour rights,[8] and collected evidence predominantly from the Global North; while the primary evidence collection encompassed a broader range of social risks and focused on the Global South.

7 According to the 2021 Global Estimates of Modern Slavery, the five sectors accounting for the majority of total adult forced labour (87 per cent) are services (excluding domestic work), manufacturing, construction, agriculture (excluding fishing), and domestic work. Other sectors form smaller shares but still represent hundreds of thousands of adults, including in the extractives industry, fishers trapped in forced labour aboard fishing vessels, people forced to beg on the street, and people forced into illicit activities.

8 The ILO's *Declaration on Fundamental Principles and Rights at Work*, adopted in 1998 and amended in 2022, is an expression of commitment by governments and employers' and workers' organizations to uphold basic human values - values that are vital to our social and economic lives. It affirms the obligations and commitments that are inherent in membership of the ILO, namely: a) freedom of association and the effective recognition of the right to collective bargaining; b) the elimination of all forms of forced or compulsory labour; c) the effective abolition of child labour; d) the elimination of discrimination in respect of employment and occupation; and e) a safe and healthy working environment.

Phase 1: Between February and April 2023, a rapid evidence review was undertaken. More than 70 publicly-available documents (including open access academic papers) were reviewed and systematically analysed on NVIVO (software) using a thematic coding technique. For more details see Annex 3.

A limitation of this research phase is that most publicly-available evidence in English originated in or referred to the Global North. In addition, most was not academic or peer reviewed, and some was self-reported. This phase informed the scope for Phase 2 in terms of sectors and geographies to focus on, as well as the design of the interview guides.

Phase 2: Between May and July 2023, 39 one-to-one key informant interviews were undertaken with a wide range of actors, including a diverse group of investors (from asset managers to pension funds), civil society organizations (CSOs), and stock exchanges (Annex 3). Interviews were analysed thematically.

This phase focused predominantly on the Global South, given the lack of evidence and documented experiences and behaviour of investors in these regions. A diverse range of capital market actors based in Africa (excluding North Africa) and South-East Asia were interviewed, due to the high risk and prevalence of forced labour in these regions and the prevalence of FAST's stakeholder networks. This posed a further limitation of this study. The research team also conducted interviews with investors in the Global North. Finally, the team held a virtual validation workshop in July 2023 with a small group of investors based in both the Global South and Global North to receive their feedback on the findings. Their feedback is incorporated in this brief.

Given the methodology, the data collected was self-reported. However, the interviews were complemented with data from capital market actors' sustainability reports, and interviews with CSOs and trade unions. As much as possible, the research aimed to keep a relatively equal number of interviews in the selected Global South regions.

While the second phase attempted to focus on high-risk industries, like mining in Africa and agriculture in South-East Asia, this deep dive was not possible because of investors' broad and diverse portfolios. Therefore, the findings are not sector specific. Lastly, given the small sample size, the findings can only provide an initial understanding of capital market actors' drivers and practices, and the challenges they face.

Taking Stock of Capital Market Actors' Practices

The Term 'Modern Slavery' Does Not Always Resonate With Capital Market Actors and Their Investees

A key finding from the interviews is that globally only a minority of investors and stock exchanges explicitly address modern slavery risks in their investment portfolios or stock exchange ESG guidance, partially due to a lack of awareness and understanding of the modern slavery concept. In particular, the interviews revealed that the term modern slavery does not always resonate with capital market actors or their investees and some noted that the term is not used in national regulatory frameworks.

For instance, in South-East Asia it can trigger defensive responses from investees. Addressing child labour, however, was mentioned as a priority across Africa and South-East Asia. In African countries this may partially be due to the high prevalence of child labour in high-risk supply chains like gold mining.

The interviews demonstrated that labour issues are mostly addressed under the 'health and safety' umbrella, 'human rights,' or 'working conditions.' However, these categories do not always include extreme forms of exploitation such as forced labour, and therefore modern slavery practices may fall under the radar. While this may explain why some investors are not intentionally addressing modern slavery in their portfolios, some investors highlighted that they are addressing these risks as part of their broader ESG agenda, as discussed in a subsequent section.

Capital Market Actors' Drivers, Priorities and Leverage Differ Across Geographies, Profiles, and Investments

The Majority of Actors are Driven by Financial Returns and Reputation Risk to Address Social Risks

The interviews showed that while capital market actors, especially investors, may share similar characteristics and an overarching goal to minimize risk and maximize financial returns, they have different motivations for addressing social risks in their portfolios depending on their investment thesis, portfolio characteristics, and geographical context.

Interviewed investors cited reputation risk and financial return as the top drivers to address social risks, with most seeing regulation as a crucial factor in guiding their actions. These drivers may arise from national or international controversies, Withhold Release Orders

> The term 'modern slavery' is not widely understood in the Thai context, probably because it is not clearly spelled out in Thai legislation despite references to child labour and human trafficking.
>
> (Asian Investor)

(WRO),[9] regulatory requirements, or client demand—for instance, from DFIs that typically require action plans on ESG. On the other hand, impact investors mentioned being driven by positive impact and saw no trade-offs with financial materiality.

Stock exchanges mostly mentioned national and international regulation as a key driver, including WROs and forced labour import bans, and linked this to their perceived role as regulators.

The interviews also found that reputational drivers are intrinsically linked to financial, impact, and regulatory drivers. These are slightly nuanced findings from those in the evidence review that did not identify reputation as intrinsically linked, suggesting that different contexts can shape how investors perceive and respond to modern slavery, leading to distinct approaches and levels of engagement in addressing this critical problem.

While the "E" is a Greater Priority in South-East Asia and the Global North, African Investors 'Have Always' Prioritized the "S" Among ESG Factors

Interviews found that Global North and South-East Asian investors prioritized environmental factors over social considerations in their ESG frameworks, suggesting competing priorities. Some South-East Asian investors mentioned that social issues were not necessarily a priority, partly attributing this to international influence and ESG trends.

> The 'S' is not very sexy right now.
>
> (Asian Investor)

African investors, on the other hand, highlighted social risks as a priority in their investment approach, likely due to the influence of DFIs as co-investors and technical assistance providers. A 2022 report by the Southern Africa Venture Capital and Private Equity Association demonstrates that ESG risks are more strongly considered by private equity firms in Southern Africa than globally because of the strong DFI influence on private equity funds operating in the region.

Within the broad range of social risks, Diversity, Equity, and Inclusion (DEI) risks were highlighted most often by South African investors, likely due to the historical context of the country. This regional variance confirms the important role of understanding context to address modern slavery related risks.

Leverage can Depend on Investment Strategy, Asset Class, Management Involvement, and Share of Investment

The evidence review found that investors may exert varying levels of influence on capital markets and investees at different points in time due to differences (among other potential factors) in investment strategy, asset class, management involvement, and the share of investment. For example, asset owners like pension funds, who hold large portfolios of long-term retirement savings managed conservatively by asset managers, have unique levers and data needs compared to private equity firms that hold direct (often majority) stakes in companies.

Interviews with private equity firms noted that because they sit on the board of directors, they can demand action plans, provide resources for policy development, restructure teams, hire social risk specialists, and validate their requirements through on-site visits.

The interviews also confirmed that asset size plays a key role in investors' decisions to monitor and engage with companies post-investment. For example, all three pension funds interviewed engage with companies based on their ESG priority areas and/or asset size (i.e., the top 10 largest companies in their portfolio).

ESG Risks are Becoming More Integrated into Investment Policies and Pre-Investment Due Diligence Processes

The research found that responsible investment trends are shifting investors' risk assessment approach, their reporting, and to an extent, their values. The interviews found that investors are increasingly integrating ESG risks into their investment policies,[10] outlining how material ESG risks and opportunities are integrated into investment decisions or active stewardship strategies.

[9] The US Customs and Border Protection implements Section 307 of the Tariff Act of 1930 (19 U.S.C. 1307) through issuance of WROs and findings to prevent merchandise produced in whole or in part in a foreign country using forced labour from being imported into the United States.

[10] An investor's investment policy outlines the investment philosophy, objectives, and governance structure.

This is reflected in investors' sustainability reports which highlight their company's ESG policies and priorities — some of which include modern slavery statements when required under regulatory requirements.

Most of the interviewed investors noted that they are taking a risk-based approach to their investments and applying ESG frameworks that focus on risk mitigation (as opposed to setting positive impact goals), with respect to social risks. One African investor spoke of taking a systemic risk perspective by running due diligence and risks assessment without the materiality threshold. This helps them look at the full set of risks and what it costs to mitigate all of them.

A Global North asset manager that similarly follows a risk-based approach, views modern slavery as a systemic risk prevalent in value chains. In this context, they do not specifically factor in modern slavery risks in investment selection and approval but rather focus their efforts post-investment to improve company practices. They also believe they can achieve more impact (on people and planet) by focusing on ESG factors like modern slavery that other investors may not be focusing as much on.

> We need to teach the world that human rights abuses are endemic. We can only begin to have an impact when we recognize it's there.
>
> (Global North Investor)

As mentioned in Section One, only a few explicitly mention modern slavery risks in their ESG policies and fewer noted human rights due diligence processes specifically. Most investors interviewed reported that these risks, such as forced and child labour, were embedded under the 'human rights,' 'working conditions,' or 'health and safety' themes within their general ESG policy.

It should be noted that some investor interviews mentioned the importance of referring to specific human rights issues in order to better address and distinguish them. This can help investors identify if a company is performing well on one factor versus another.

Additionally, some interviewees placed emphasis on determining if the potential investee's ESG management system is robust enough to provide the data needed for monitoring social risks and identifying red flags. They also stressed the importance of analysing an investee's governance structure to evaluate and monitor a company's commitment to human rights/social policies.

> If a business model relies on forced or underpaid labour you cannot produce sustainable returns. If you don't know where you are sourcing from, what does it say about you as a global management team? Good quality management team should be trading at a premium.
>
> (Global North Investor)

Interviews also demonstrated that some asset managers in Africa and Australia overlay their own social mandates and conduct deeper due diligence on human rights criteria than those required by the client (pension funds). However, these additional mandates were not always fed back to their clients, indicating that clients may not be aware of potential good company engagement practices undertaken by their asset managers.

Governance: Senior Level Buy-in and Board Oversight are Pre-Requisites to Addressing Social Risks

The senior-level buy-in, capacity, and capability of capital market actors are pre-requisites that can determine their approach to evaluating human rights risks. The governance structure of how the ESG framework is developed, approved, implemented, and monitored affects investment selection criteria, exclusion parameters, company engagement, and potential divestment in the event of continued violations.

In some cases, these robust structures also translate to policies that require companies to adhere to international normative frameworks such as the International Finance Corporation's (IFC) performance standards and to undertake capacity-building measures which investors monitor throughout the life of the investment.

Some asset managers and a private equity fund manager described governance structures that encouraged active engagement between investment officers and sustainability managers in ESG policy departments. The close interaction facilitated clear communication and understanding of company priorities and action steps if needed. It is noteworthy that in these particular cases ESG teams were embedded in investment decision-making processes.

> The board of directors has oversight and approves the ESG framework and policies. The board is receiving training. There is a board ESG committee at the portfolio company level and an ESG management system implemented.
>
> (African investor)

Figure 1: Capital Market Actors' Governing Structures Can Determine their Approach to Human Rights Risks.

Loan and Shareholder Agreements, Particularly Those Employed by DFIs and Private Equity Funds, are Beginning to Include Social Risks

There is a growing use of clauses pertaining to ESG in contracts and shareholder agreements concluded and executed by investors, particularly by DFIs, to hold companies accountable for ESG commitments or targets. DFIs have specific requirements for borrowers related to labour rights and forced labour and companies are held accountable if found to be in violation.

For instance, the African Development Bank Group updated its safeguards policies, the Integrated Safeguards System, in 2023, to include modern slavery and establish requirements related to labour conditions and avoidance of forced and child labour. One pension fund in South-East Asia is requiring companies to meet their new 'workers' wellbeing issue' policy by 2024, demonstrated in the case study below.

Investors' Active Stewardship is a Key Lever to Influence Corporate Behaviour

Asset managers and asset owners are increasing their active stewardship with companies on ESG issues, notably environment and climate change. Concurrently, the research found that some African and Asian investors are increasing their attention to mitigate broad social risks and build the capacity of companies to identify and address those risks.

For instance, one pension fund highlighted that they select ten companies per year and monitor their performance according to an identified thematic priority. In 2021, they focused on human rights policies and found that the companies fulfilled their human rights mandates in relation to policies. This thematic priority aligned with their investment philosophy on financial materiality (maximizing financial returns for members) and social capital (doing business responsibly). While the focus on policy development over practices may

Case Study: Requiring Compliance to Worker Wellbeing Policy

One pension fund introduced a 'Worker Wellbeing Priority Issue Policy' whereby investees must meet core requirements by 2024. They were driven to develop this policy by a combination of factors: the COVID-19 pandemic demonstrating the importance of worker rights; national controversies on labour rights, resulting in heightened security and international coverage; and evidence from global benchmarks on labour rights.

Companies must meet 14 requirements ranging from people and operations; initiatives; targets; and reporting and disclosure. Companies that don't meet these requirements and don't provide explanations will be subjected to stewardship actions, with the fund prioritizing active engagement at this juncture. These expectations are specifically targeted at boards and management teams of asset managers and investees.

not fully capture a company's actions to address modern slavery, the evidence review identified that the majority of investors were able to influence changes in investees' policies and did not find as much evidence on influencing outcomes in terms of reducing the incidents of modern slavery—data that can be harder to measure or may not be available to investors.

According to the evidence review findings, corporate engagement practices have mostly been undertaken collaboratively between asset managers and asset owners through investment coalitions. Notably, CCLA Investment Management in the UK initiated the 'Find It, Fix It, Prevent It Coalition' to address modern slavery, witnessing its expansion from £3.5 trillion in 2019 to £12.8 trillion in managed assets in 2022. The coalition's advancement is reinforced by evidence that smaller shareholders can create social value in a coalition with shared goals and ESG priorities.

While this practice seems to be more prevalent among investors in the Global North, the interviews illustrated an increasing recognition by investors in the Global South on the important role and influence of collaborative action through investor coalitions like Investors Against Slavery and Trafficking Asia-Pacific (IAST-APAC).

Annex 1 provides investors with case studies of a diverse group of their peers employing leverage through corporate engagement as a way to address modern slavery.

Investors and Stock Exchanges are Focusing on Building Corporate Capacity

Capital market actors broadly identified that companies need to build their capacity to be able to comply with increasing domestic and international regulations, voluntary ESG reporting frameworks, and reporting initiatives.

The evidence reviews and interviews found that the main lever that stock exchanges have to address modern slavery is to build the capacity of companies through issuing guidelines, developing tools, and providing training to publicly-listed companies. For instance, the Stock Exchange of Thailand, in collaboration with FAST and Walk Free, has issued modern slavery-specific guidance, and the Johannesburg Stock Exchange has included modern slavery-related provisions in their ESG guidance.

> "Who you engage with matters [in order to] to change behavior.
>
> (African investor)"

Case Study: Guidance on Modern Slavery Risks for Thai Businesses

Launched in December 2021, the Guidance on Modern Slavery Risks for Thai Businesses was produced by the Stock Exchange of Thailand, Walk Free Foundation, and FAST. The Guidance is the first of its kind in Thailand and across South-East Asia. It aims to assist Thai listed companies in fulfilling their responsibility to respect human rights by helping them to identify and address modern slavery risks and related exploitation across their value chains. The Guidance is also designed to assist Thai companies to meet their sustainability reporting obligations, as set out by the Thai Securities and Exchange Commission.

The Guidance provides Thai companies with an overview of modern slavery, including in the Thai context, modern slavery risks across eight Thai industries, and a checklist for companies to use in assessing and disclosing modern slavery risks in their sustainability reports. The checklist provides an overview of actions that companies should take to address risks, targeted questions, and guidance on information that should be disclosed to investors and other stakeholders. Source: FAST E-learning Course for South-east Asian Government Officials.

Through investors' stewardship activities and the role of stock exchanges as regulator, capital market actors are focusing on building capacity in two ways:

1. Raising investees' awareness on the importance of addressing human rights risks in all stages of the investment process, from investment selection and due diligence to portfolio monitoring.
   - Asset managers and pension funds referred to long-term engagement strategies, identifying the key senior people to build trust with and change practice.
   - Stock exchanges and DFIs primarily host awareness-raising activities, like roundtables, with a diverse group of actors.
2. Providing financial resources and technical expertise.
   - DFIs and private equity fund managers are providing financial resources and technical expertise to build investees' ESG data capabilities, for example ESG management systems.
   - Asset managers referred to providing technical advice or pointing to best practices/competitors to encourage investees to change their practices.

> We use our central role as connector to facilitate engagement and advocacy in relation to sustainability.
>
> (African stock exchange)

Case study: Building Capacity through Consistent Engagement

A private equity (PE) fund in Africa may knowingly invest in a company whose labour standards may not meet international standards. Nevertheless, they focus on building capacity by first building their understanding of the importance of labour rights. They work with investees to help them build ESG management frameworks so that they can monitor their own performance, and in turn, the PE firm requires companies to submit data on a quarterly basis to track progress on labour-specific issues. Due to the equity stakes, the PE firm can hire and/or lend their ESG expertise – which the research findings demonstrate can be lacking globally and expensive to hire – to further assist investees in improving working conditions and achieving other ESG targets.

Case Study: Raising Awareness and Addressing Modern Slavery Risks from Due Diligence to Implementation

A small-sized asset manager conducts its own due diligence and triangulates data from company disclosures, engagement with CSOs, and on-site visits. The ESG team (of three) is also embedded in investment decision-making processes and while they do not have a standalone human rights policy, they incorporate human rights factors like forced labour into their ESG priorities. They evaluate companies based on their risk exposure and risk management, such as countries of operation, suppliers' locations (beyond Tier 2), high-risk sectors, and how the company is managing risks (for instance grievance mechanisms and responsible sourcing). In addition, the team looks at where the company operates and the location of Tier 1 and 5 suppliers. While this analysis helps to build a picture of risk, the firm uses engagement as a means to continually assess risk and build capacity, as quantitative data does not always help in assessing risk. As a result, this firm engages with CSOs and worker organizations to understand realities on the ground. Their engagement revolves around getting to know the company, building trust with senior management to switch their mindset from compliance to impact, and providing technical expertise and best practice examples to help them build capacity. As one Global North Investor commented, "[Provide] innovative solutions that others have done. Point a company to that. You [investor] become a consultant and find ways that are win-win. Companies respect you. Provide an idea that results in a better outcome financially and human rights wise. You'd be a fool as a company if you don't take that on board." In this way, the asset manager gets the data they need to monitor progress and helps the company achieve ESG targets in a meaningful way.

Social Data Standardization is Desirable but Capital Market Actors Emphasize Taking into Account Contextual Differences Across Regions

Interviewed investors generally incorporate international ESG reporting standards and tools, often developed in the Global North. For instance, interviewed investors in African countries mostly referred to using the IFC Performance Standards, as well as the IFC's Policy and Performance Standards on Environmental and Social Sustainability, as their primary source for setting expectations regarding stakeholder engagement and disclosure requirements by investee companies. Capital market actors also referred to the Global Reporting Initiative (GRI), the International Labour Organization (ILO), and UN Guiding Principles on Business and Human Rights.

Some investors commented on the benefit of harmonizing legislation and data standardization of social risks to facilitate their measurement and consistency. However, others, particularly African investors, voiced concern that social risks must be contextualized as some investors noted that social risks vary by region and may need to be more nuanced than standardization allows.

Interestingly, however, and as mentioned previously, interviewed investors rarely engaged with CSOs which could help them understand local realities more effectively.

Similarly, the evidence review found that the lack of standardization of ESG data was a key challenge for investor action as it meant that data varied substantially across rating agencies and data providers, posing interpretation and comparative challenges for investors. The interviews with investors suggest that while standardization of practices, data, and measurements around social factors is important, it is also important to allow local realities to be factored in.

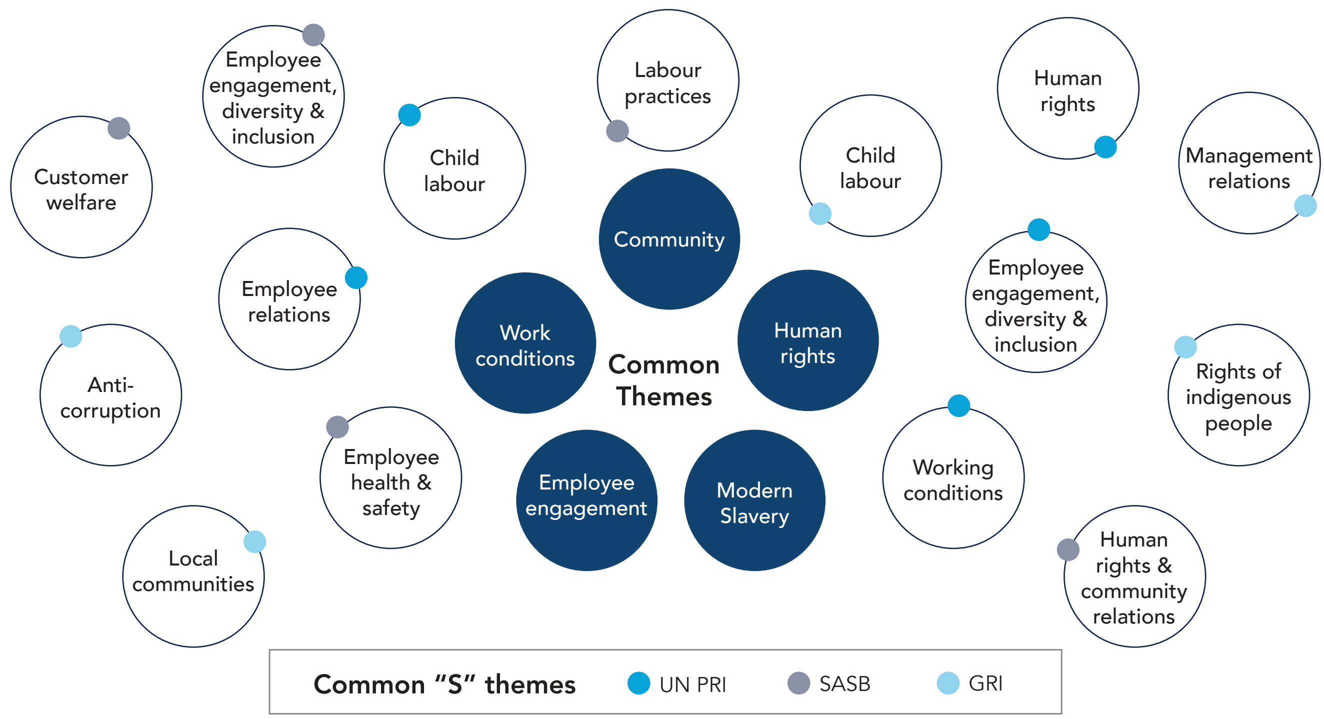
Challenges

Understanding the 'S' in ESG

A key challenge highlighted in interviews but not reflected in the evidence review, and that relates to the lack of intentionality at addressing modern slavery, is understanding what the 'S' in ESG encompasses.

According to investors interviewed across all types and geographies, there is a lack of consensus on what issues are included as social in ESG. This is illustrated by the figure below, where different standard setting organizations ranging from the UN Principles for Responsible Investment (PRI) to the GRI and SASB have set forth their own examples of 'S'-related issues and labelled them accordingly.

Figure 2: Putting the 'S' into ESG.



Whilst the range of different social issues is broad and exacerbates the lack of an agreed definition of 'Social' by investors and companies, common themes can be identified. As previously mentioned, investors interviewed in Africa and South-East Asia often mentioned child labour as a key issue related to 'S.' With a burgeoning number of reporting frameworks and international directives underway, investors face the challenge of interpreting them and understanding where to apply modern slavery language to ensure reliable reporting and alignment in future company engagement efforts.

However, the lack of understanding of 'S' means that it can increase the difficulty of gathering and measuring data, especially quantitative data, for proper and comprehensive due diligence and monitoring.

Data Availability, Measurement, and Reliability

Interviewed investors reported facing multiple challenges regarding actionable data on social risks. Specifically, they perceive a lack of data availability, difficulties in measuring social data, and data reliability concerns. This resonates with analysis led by the Alan Turing Institute and the Bingham Centre for the Rule of Law which found that investors face inaccessible unstructured data, incomplete data, and lack of comparability.

Data Availability

The interviews found that some investors were concerned that data on 'S' was not widely available. For instance, investors mentioned difficulty in obtaining data at the lower tiers of the supply chain, given the complexity of global supply chain networks, the lack of transparency, and in some cases the reluctance from companies to disclose data.

While there is a wide range of contextual, sectoral, and modern slavery data available for investors—some of which can be found in the catalogue of data resources for investors developed by the Alan Turing Institute and the Bingham Centre — investors face incomplete social data to inform their investment decisions. Technology, however, is increasing the availability of social data for investors, according to the ESG working Group.

Data Measurement

As discussed previously, there is a lack of consensus on what falls under 'S' (social issues) in ESG. This hinders consistent and comparable social data and exacerbates the difficulty of measuring social data. For instance, the evidence review found that inconsistent measures of ESG by third-party ESG rating agencies, poses interpretation and comparative challenges for investors. Interviewed investors noted the difficulty of measuring social data, especially as they understood this data to be mostly qualitative, which is not necessarily the case. Additionally, most interviewees referred to the challenges in measuring social data broadly versus specific issues such as modern slavery.

Data Reliability

While reliable data exists, investors tend to depend on unverifiable data, such as self-reported data by investee companies which may not have robust ESG management systems in place. Nascent ESG management systems and lack of financial and human resources, or even willingness to provide data, make it difficult for investors to follow the behaviour of companies all the way down the value chain.

Triangulating data can improve this challenge. However, while some interviewed investors note the importance of engaging with CSOs to obtain on-the-ground reporting and data and identify red flags, most investors do not. Likewise, most investors are not engaging with survivors of modern slavery or the organizations supporting them, who can provide reliable and contextualized data, and support companies in the development of modern slavery metrics and identification of red flags.

Inconsistent Approaches to Governance

As governance structures varied amongst investors, so did the level of engagement and involvement of ESG managers in the investment decision-making process. Many interviewees pointed out that they have limited engagement with their company's investment officers who source and monitor investments, leading to information silos. On the other hand, some investors highlighted the fact that their ESG managers and/or researchers were embedded in the decision-making process which facilitated communication about investee performance and behaviour on social risks.

> The ESG system describes in detail what the investment process is and ESG is embedded into the investment process, and it is the same for the impact and metrics frameworks.
>
> (African investor)

While this practice was not very common among the investors interviewed, several of them stated that this governance structure would improve the investment process.

> [It] comes down to the effective implementation of policies [at investment firm] and an ESG researcher needs to play an active role.
>
> (Global North Investor)

Lack of Resources

Several interviewees talked about limited resources, both human and financial. In many cases, ESG teams were comprised of two people and investors mentioned how small ESG teams hindered their ability to address social issues. For instance, some investors mentioned the need for more human resources to monitor their equity assets.

Human resources are also key for company engagements. This was voiced by a Global North investor who stated that limited resources required them to make decisions about which company engagement efforts to prioritize, and for how long, in the absence of behaviour change.

Lack of an Enabling Environment

The study found that the regulatory and political institutional environment of the country of investment can enable or constrain investor action and influence the effectiveness[11] of investors' efforts at ultimately tackling modern slavery in their portfolios.

For instance, for one African country of major global investment and supply chain significance, an interviewee noted that conflict, corruption, power imbalances between labour unions and companies, and the weak or absent enforcement of regulations, can compromise efforts by investors to tackle modern slavery.

> It's impossible to operate in [country name] without modern slavery… without investing in war… even if investors come with the best intentions.
>
> (International CSO)

Nevertheless, the interviewee noted better practices in the country from investors headquartered in countries where there were national or regional mandatory human rights and environmental due diligence and modern slavery-related and ESG reporting regulations, including supply chain transparency provisions, and high labour standards. This finding aligns with a recent study which found that investors from countries whose governments are committed to the SDGs and with legal systems prioritizing multiple stakeholders, invest less in unsustainable companies (defined in this paper as those that may cause social and/or ecological harm).

In this regard, trade agreements may play an important role. A separate research project, led by the Rights Lab, University of Nottingham, is exploring the role of trade and investment in addressing modern slavery risks in the Indo-Pacific region, and findings are expected to be published in autumn 2023. The African Continental Free Trade Area Agreement (AfCFTA) may therefore have key implications for modern slavery across the continent.

[11] The Modern Slavery PEC in several of its research projects looking at "what works" has measured effectiveness in three ways: effectiveness of implementation of policies and practices, effectiveness of influencing behavioural changes, and effectiveness at ultimately reducing modern slavery.

Recommendations for Capital Market Actors to Accelerate Change

This study suggests that with growing regulation on social risks and responsible investment trends, capital market actors are uniquely positioned to identify, prevent, mitigate, account, and remediate modern slavery effectively. The recommendations below are broad in nature and target capital market actors as a whole, particularly investors, given their nascent understanding of modern slavery risks, and the evolving shifts in responsible investing trends. Nevertheless, some of the recommendations are targeted to capital market actors that were found to have significant influence, like DFIs and pension funds.

It's important to recognize the intricate dynamics at play in addressing modern slavery. While investors may want to avoid modern slavery risks by divesting or exclusion, the recommendations below stress the pivotal role investors play by conducting thorough due diligence and pursuing engagement strategies that enhance company practices. This approach is mindful of potential unintended consequences of divestment, which could worsen conditions for workers and heighten the risk for others vulnerable to modern slavery practices.

Recommendation 1: Improve Awareness and Understanding of Modern Slavery Risks and Their Relation to ESG

- Improve awareness and understanding of modern slavery as it requires different and specific solutions to other human rights violations like racial discrimination or occupational health. Importantly, exploitation occurs in a continuum from decent work to forced labour. For instance, the violation of labour rights such as freedom of association or the payment of fair wages, can lead to more extreme forms of exploitation such as forced labour—that can include restriction of movement and withholding of wages—in which vulnerable people experience a range of different human rights violations. These differences are also reflected in remedial actions that need to be taken to protect victims and survivors.
- Increase knowledge on the interrelation between modern slavery and environmental concerns, especially in high-risk industries—such as agriculture and mining—and in regions where environmental issues were reported as a key ESG priority, such as South-East Asia (where environmental concerns by governments are illegal fishing, logging, and deforestation).
  - Improve awareness on how climate change is heightening vulnerability to modern slavery and capitalize on the increasing evidence linking modern slavery and climate change.
  - Improve awareness that trafficking of natural resources (minerals, precious metals, timber, wildlife, and illegal fishing) not only have significant impacts on the environment but also exploit and expose communities to modern slavery. This awareness can help investors enhance their HREDD and improve ESG reporting practices.
  - Aim for your investments to be free from both modern slavery, and climate harms. Engage with your investees to improve practices and only disinvest as a last resort.

Resources for Practical Guidance (Recommendation 1)

Indicators and Checklists:

- ILO provides a definition and indicators of forced labour.
- The Stock Exchange of Thailand's Modern Slavery Guidance outlines high-risk industries and provides a checklist to monitor a company's performance on modern slavery.

"E" and "S" interrelation:

- FAST provides recommendations to investors on the nexus between modern slavery and natural resources in Africa in cocoa and gold value chains.
- Walk Free demonstrates the intersection between modern slavery, climate change, and migration.
- Modern Slavery PEC funded research on the links between the climate crisis and modern slavery, climate change and modern slavery in public procurement, and the integration of policies addressing modern slavery and climate change.

> Most leading investors have net zero commitments in place and understand that climate risk is fundamental to prudent investment management. Those ahead of the pack also realize the relevance of engaging with climate-related human rights impacts in their portfolios. For institutional investors, risk to people directly translates to risk to business.
>
> (Simon O'Connor, CEO, Responsible Investment Association Australia.)

Source: Human Rights and Climate Change: A Guide for Institutional Investors.

Recommendation 2: Develop Dedicated Social Policies that Align with International Human Rights and Labour Standards and Principles

Develop a dedicated social policy that explicitly includes modern slavery language and practices to improve the identification of modern slavery risks and facilitate its prevention, mitigation, and remediation.

- Consider developing a stand-alone policy on human rights, aligned with the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidelines for Multinational Enterprises, as these may be best placed to fully identify modern slavery risks, such as freedom of association and collective bargaining, use of recruitment fees, poor working conditions, and wage withholding, which occupational health and safety policies do not cover.
- Explicitly link this policy to your general ESG policy and consider the interrelation of modern slavery and climate/environmental damage.
- Engage leadership and senior level in the development of these policies as their buy-in is critical to develop policies that can be implemented effectively. This is typically followed by building capacity like dedicated human capital and resources on ESG, and capability such as ESG management systems to effectively implement policies.
- Consistently revisit policy to ensure it can be adapted to the national/regional context of investment in order to capture social norms and regional context.

Recommendation 3: Incorporate HREDD Processes Throughout the Investment Cycle to Identify, Prevent, Mitigate, and Remediate Modern Slavery Risks

- Embed HREDD processes throughout the investment cycle, explicitly articulating modern slavery considerations.
- Ensure modern slavery is included in a risk-based approach that starts by identifying the high-risk sectors and countries of operation for modern slavery in your portfolio, such as agriculture, mining, and construction, and actions for management and mitigation.
- Gradually consider:
    - Building mandatory modern slavery reporting into investments and investment loan agreements to identify risks and investigate, verify, and manage them.
    - Requiring companies operating in high-risk sectors to map their value chains and to identify and disclose vulnerable populations in their workforce, such as migrant labour.
- Helping build corporate governance practices and risk management frameworks and processes that can identify, prevent, mitigate, and remediate modern slavery risks.
- Actively engaging with companies and monitoring their performance and related outcomes on modern slavery policies and practices. For instance, helping to establish independent, trusted grievance mechanisms for workers, and tracking the number of complaints received and resolved.
- Disclosing your assessments and corrective action plans to account for human rights risks in your portfolio.
- Encouraging and supporting investee companies in the remediation of human rights violations, including instances of modern slavery. The UNGP states that where an investor (or business in the real economy) contributes to modern slavery, they are expected to contribute to the remedy.
- Building environmental considerations into your HRDD processes and aligning them to HREDD guidelines like the *OECD Due Diligence Guidance for Responsible Business Conduct* or regulations such as the forthcoming *EU Corporate Sustainability Due Diligence Directive* (a draft directive has already passed scrutiny from the European Parliament).

Resources for Practical Guidance (Recommendation 3)

Modern Slavery Related Due Diligence Toolkits:

- The Investor Forum has a Toolkit for Investor Due Diligence.
- CCLA's Find It, Fix It, Prevent It Framework is focused on modern slavery and aimed at investors.
- The Responsible Investment Association of Australia has an armed conflict toolkit for investors to identify potential human rights risks.
- The UK Department for Works and Pensions Taskforce on Social Factors is developing guidance for asset owners, with a chapter dedicated to modern slavery. This could be extended globally to increase asset owners' awareness of the value proposition of addressing modern slavery risks and their influence on asset managers, along with metrics for measurement.

Modern Slavery Related Data:

- In late 2022, IAST-APAC's Policy Advocacy Workstream (WS1) formed an ESG sub-working group to understand the gaps in current modern slavery metrics and to develop a core list of metrics in relation to modern slavery. The objective of these core, concise metrics is not to imply that data disclosure is a solution in isolation, but rather that a common baseline of data can help facilitate targeted company engagement on modern slavery from investors. These metrics can be found in the annex of this report (Annex 2).
- Investors can employ publicly available resources like the Global Slavery Index and the Global Estimates of Modern Slavery.
- The UN's PRI recently-published Investors' Data Needs Framework can help investors identify decision-useful data for responsible investment.

Modern Slavery Related Financial Instruments:

- The ILO project Accelerating Action for the Elimination of Child Labour in Supply Chains in Africa (ACCEL Africa) is exploring the use of an impact bond, as an outcomes-based financing instrument, to attract private financing to implement public policies such as school meals and quality education programmes, and eliminate child labour in cocoa growing regions in Côte d'Ivoire. Investors are reimbursed only if outcomes are achieved and take on the risk of including innovative elements in evidence-based interventions.
- The Fair Cobalt Alliance (FCA), a multi-stakeholder initiative, aims to transform the cobalt artisanal mining (ASM) industry in the Democratic Republic of Congo by channelling demand for and increasing the availability of responsible ASM cobalt, as well as addressing the root causes of child labour and unsafe working conditions. They recently launched a Cobalt Credit System whereby companies are offered verifiable production and sales data and chain of custody at mining sites. Participating mines are required to meet minimum ESG standards and participating cooperatives and workers determine how the money is spent. A cobalt credit represents a particular volume of cobalt and a certain level/ benchmark of ESG performance.

Recommendation 4: Increase Collaboration with Capital Market Actors to Increase Leverage, Capitalizing on Shared Resources and Building Each Other's Capabilities

Investors Can Collaboratively Increase Their Leverage on Investments and Capitalize on Shared Resources

- Partner with investor coalitions to increase leverage and efficiency in the use of resources. The evidence review showed that through collective action, capital markets can effectively influence positive corporate changes in policy and practice.
  - Consider engaging with regional investor coalitions such as Rathbones' Votes Against Slavery, CCLA's Find it, Fix it, Prevent it initiative, and Investors Against Slavery and Trafficking (IAST-APAC).
  - Consider engaging with international investor coalitions such as the Interfaith Centre on Corporate Responsibility and the UN's PRI.
  - In African countries, consider collaborating with other investors to create the first regional coalition of investors tackling modern slavery.
- Engage in peer-to-peer learning:
  - Share data on core human rights metrics,[12] company engagements, escalation pathways, and best practices, including effective remedial action.
  - Increase disclosure on individual and collective efforts with investee companies and share it with each other. For instance, through the Task Force on Inequality-related Financial Disclosures.
- Collaborate with or support other capital market actors such as stock exchanges and DFIs in their efforts to build publicly listed companies' capacity and promote data standards.
  - For instance, investors can promote modern slavery-specific guidelines such as that of the Stock Exchange of Thailand (SET) on modern slavery risks for Thai businesses.
  - Investors can also advocate stock exchanges in the Global North to develop similar guidelines.
  - Investors can support DFIs in employing their data standards and frameworks with investees.

Pension Funds and Asset Managers Can Capitalize on Their Unique Relationship to Build Each Other's Capabilities

- Pension funds can capitalize on their leverage by introducing modern slavery-related mandates to asset managers and establish accountability mechanisms to ensure the allocation of capital is aligned.
- Asset managers can feed back best practices to pension funds to influence their ESG mandates, as some asset managers' overlay additional social mandates.

Global South DFIs Can Capitalize on Their Influence to Increase Awareness of Modern Slavery and Improve Capabilities and Practices

- Support and direct investments that address modern slavery and climate change risks in high-risk sectors like mining and share best practices. This can help crowd-in the market and attract other investors.
- Consider influencing the standardization of modern slavery risks as DFI's data standards are widely employed by investors. Ensure that the unique priorities of Global South countries and the voices of Global South financial actors are represented.
- Collaborate with diverse capital market actors to advocate the use of international data standards, for instance the IFC's standards on Environmental and Social Sustainability, to promote awareness and use of human rights data.
- Partner with CSOs and worker-led organizations in awareness-raising activities directed at the financial sector.

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12 Some core metrics to track progress on anti-modern slavery outcomes can be related to freedom of association and the right to collective bargaining, lack of or reimbursement of recruitment fees, freedom of movement, living wage, number of grievances raised and resolved aligned with UNGPs, employment/contractor clients guarantee international labour standards.

Investors Can Collaboratively Engage in Advocacy Efforts Targeting the Public Sector to Address the Root Causes of Modern Slavery, Especially in Challenging Contexts Where Investees Operate

- Understand the regional regulatory contexts where investee companies operate to address the root causes of modern slavery. Where there is a weak or an absent enabling institutional environment, consider:
  - Advocating with the public sector for the development of domestic policies that address modern slavery risks, where social and labour issues may not be a top priority in political and regulatory agendas. For instance, IAST-APAC investors submitted recommendations to the Australian Modern Slavery Act three-year review in 2022. CCLA investors joined the Home Office's Transparency in the Supply Chain Modern Slavery Strategy Implementation Group in 2020 to strengthen the UK's Modern Slavery Act.
  - Advocating with the public sector to strengthen national labour laws when they exist but it is unclear to what extent they are enforced or aligned with international standards.
  - Consider joining local or existing Public-Private Partnerships (PPPs). There are increasingly good examples of PPPs that recognize the power of the collective, like the South African Anti-Money Laundering Integrated Taskforce, the UK's Joint Money Laundering Intelligence Taskforce, and Germany's Anti Financial Crime Alliance.
- Use existing tools to help you navigate challenging environments.

Recommendation 5: Partner with Modern Slavery Knowledge Experts, CSOs, Workers' Rights Organizations, and Survivors to Obtain Actionable Data

- Partner with local, regional, or international CSOs, worker led initiatives, such as trade unions, worker-driven social responsibility programmes, as well as survivor-led organizations who have expertise and knowledge of modern slavery-related issues on the ground to build knowledge and expand sources of modern slavery-related data and collaborate in remediation.
  - Integrate the voices of survivors in investment decision-making as a valuable source of knowledge of on-the-ground realities that can provide guidance on red flags, metrics, and effective remedy to survivors. In particular, DFIs and impact investors can lead these efforts, as some of them already engage with these groups to some extent.
    - Consider engaging with survivor-led organizations and employ a trauma-informed approach when engaging with survivors.
  - Consider engaging with the Worker-Driven Social Responsibility Network (WSR-N) to learn about this approach and encourage companies in your portfolio to sign legally binding, enforceable agreements that place workers at the centre of workplace policies and decision-making. Some investors have already started encouraging companies to join the Fair Food Programme, for example. Other WSR-N initiatives to consider engaging with include the Fair Fish Project and the Accord on Fire and Building Safety in Bangladesh.
  - Consider engaging with multi-stakeholder initiatives (MSI) that are addressing modern slavery in high-risk industries. Investors should ideally understand when, how, and to what extent these initiatives serve to protect and promote human rights. The Multi-Stakeholder Initiative Integrity Group has identified criteria that makes MSI effective.
  - Triangulate this data with your own HREDD data, corporate disclosure data, media, and ESG rating and data providers.
  - Make use of existing research that has mapped investors' data landscape and that can help investors identify reliable and actionable data.
- Understand the regional contexts where investee companies operate to ensure that social issues are appropriately addressed without neglecting the unique perspectives, challenges, and goals of each region.
  - Participate, alongside local trade unions and CSOs, in the development of social data standards, including modern slavery data, that factor in local realities.
- Consider engaging with the International Sustainability Standards Board (ISSB). At the time of writing, for example, they have an open consultation on their future agenda priorities, including a possible standard on human rights.

Case Study: Engaging with Civil Society to Develop Grievance Mechanisms

In 2019, ABN AMRO, a Dutch bank, began consulting with CSOs, trade unions, academics, and other stakeholders about the options for a bank grievance mechanism that could enable remedy for populations affected by modern slavery and human trafficking. In 2020, it began testing its new grievance procedure with simulations based on real cases. The bank acknowledged the importance of partnering with CSOs and trade unions to publicize the grievance mechanism and ensure that affected communities can access the mechanism when their rights are violated. It also recognized that a client's unwillingness to cooperate in remedial processes could prevent the provision of remedy to affected populations. In these cases, ABN AMRO noted it would flag internally a client's lack of participation as a concern in their client due diligence process. Other lessons learned during the development of this grievance mechanism included a potential need for legal limits on transparency and the need for a collective and cooperative approach to remediation. See FAST's Course for South-East Asian Government Officials.

Glossary

Active Stewardship: Refers to investors using their influence over current or potential investees and other stakeholders. It includes different levers such as corporate engagements, voting practices, and filling shareholder resolutions.

Asset Managers: Companies that manage investments on behalf of asset owners. Includes investment fund managers, pension fund managers, and mutual fund companies.

Asset Owners: Entities that represent the ultimate owners of capital (for example beneficiaries or governments) and that hold long-term retirement savings, insurance, and other assets. Includes pension funds, endowments, foundations, insurance companies, and sovereign wealth funds.

Capital Market Actors: Capital markets allow for the buying and selling of financial securities, such as stocks, bonds, and currencies. Some key actors include asset owners, asset managers, stock exchanges, investment banks, development banks, venture capital, private equity, and publicly-listed companies.

Development Finance Institutions: National and international institutions specialized in supporting private sector development in developing countries. Usually, majority owned by national governments.

Global North and Global South: Concept used in development economics and international development to refer to countries that differentiate on their levels of economic and human development, and socio-economic and political characteristics. This distinction emphasizes geopolitical power relations (for example the Global South usually includes former colonies).

Institutional Investors: There is not an agreed definition of institutional investors, but this research refers to institutional investors as asset owners and asset managers that differentiate from retail investors.

Value Chain: Refers to a company's direct and indirect upstream and downstream business relationships involved in the production and disposal of products or services. Therefore, it includes but is not limited to the supply chain.

Stock Exchanges: Financial markets where traders can buy and sell securities such as shares, stocks, and bonds.

Annex 1: Leverage Case Studies

Case Study 1: IAST-APAC Collaborative Engagement

Between 2020 and 2022, a small group of Australian-based investors under the Investors Against Slavery and Trafficking Asia Pacific (IAST-APAC) initiative engaged with an Australian Securities Exchange (ASX) listed company in the consumer staples sector to improve their identification of forced labour risks in its supply chain, develop remediation policies for affected workers, and incorporate modern slavery into its governance structures, as well as its board and employee education programme.

As investors outlined these expectations, the company was initially reluctant to meaningfully engage in further conversation on adopting a comprehensive approach to addressing modern slavery risks. The company was concerned it was being unfairly singled out and noted that it was already compliant with Australian legislative standards and requirements.

In 2021, to assuage and address these concerns, investors used a range of tools to help progress discussions with the company, including:

1. Leveraging pre-existing relationships the largest shareholder had with the CEO and Chair, that enabled direct and detailed communication with both the CEO and the board;
2. The group of asset owners and managers collectively writing to the Board and Chair of the company to emphasize the importance of modern slavery risks to investors, including the social license benefits to the company of improving their modern slavery policies and procedures and embracing a leadership position in this area;
3. Emphasizing the benefits of investors working collaboratively with the company to set robust, board approved, and explicit anti-modern slavery objectives going beyond a modern slavery statement; and
4. Sharing best practice examples of other companies' efforts on this topic and facilitating collaborations with other companies to facilitate peer-to-peer learning.

However, the most impactful tools the investors employed were:

1. Consistent engagement via individual investor meetings as well as collaborative engagements with senior leadership;
2. Building trust by conveying that investor concerns are sector-wide and they are actively collaborating with other other ASX companies.;
3. Leveraging an existing trusted relationship with the CEO and Chair to help them understand the financial benefits of addressing modern slavery in supply chains (i.e., realizing supply chain efficiencies, rationalizing costs, improving shipping routes) and the reputational damage potential incidents could have; and
4. Leveraging the combined weight of capital, as well as asset managers and asset owners, (large Australian Super Funds/pension owners) to present a combined, consistent, aligned set of asks to management.

As a result of these collaborative efforts, in August 2022, the company formally committed in writing at board level to address the agreed objectives, and is now drafting remediation policies, progressing their internal employee and management training, and collaborating with suppliers and other ASX companies to better understand their shipping and logistics supply chain.

The company also clearly outlined these as formal objectives and commitments for the coming year within their next modern slavery statement. The company has since continued to progress their modern slavery policies and procedures, having met one of the objectives and progressing well on the other two. The investor and company collaborations have continued over the subsequent years, with the company and board stating that the collaboration has produced positive momentum internally on this issue, and publicly sharing their collaboration with the IAST-APAC investors in subsequent modern slavery reporting.

Case Study 2: Addressing Child Labour in Cocoa Farms

More than 30 institutional investors, with combined assets under management exceeding $3 trillion, led by Sustainalytics, have engaged the cocoa and chocolate sector over several years on child labour issues at small scale cocoa farms in West Africa. This includes encouraging companies to focus on three key performance indicators (KPIs):

1. Employ child labour monitoring and remediation systems (CLMRS);
2. Provide access to education, and;
3. Ensure living income for cocoa-growing farmers (independent smallholder farmers).

By engaging with the International Cocoa Initiatives (ICI) on their work in developing and rolling out CLMRS, Sustainalytics, as topic experts, inform investors on best practices and research and introduce and scale-up effective CLMRS in cocoa supply chains in West Africa. Additionally, investors explore areas related to living incomes to understand outcomes and actions such as farm-gate price and premiums, farm productivity, and income diversification in small-scale cocoa farms. They are able to use this research and best practices in bilateral company dialogues, as well as in investor/company forums where several companies are present.

Leverage has included continuous bilateral dialogues with companies, investor letters to CEOs and Chairmen of major cocoa and chocolate companies, public investor statements, joint events, and good practice guidance material with input from supply chain, cocoa sector, and living income experts. Moreover, a group of investors went to Côte d'Ivoire during the World Cocoa Foundation (WCF) Partnership meeting. Investors met with companies and stakeholders and were able to understand the issues farmers face more deeply, which motivated investors to track progress. This also enabled improved dialogue with companies since investors were more informed. Such efforts have likely contributed to more extensive roll-out of child labour monitoring and remediation systems, and have deepened corporate dialogues and actions on the topic of living income for small-scale farmers.

Case Study 3: Votes Against Slavery

Section 54 (s54) of the UK Modern Slavery Act (2015) created a duty for companies to publish a statement annually and have it approved by the company's board, signed off by a director and uploaded to a prominent place on the homepage of the company's UK website. However, the Act does not have enforcement powers. Rathbones Group Plc launched Votes Against Slavery (VAS) in 2020 to coordinate the response of the investment community to engage with companies to address modern slavery risks, and to provide the necessary accountability for observance. The 'Votes' in 'Votes Against Slavery' refers to the commitment of investors taking part in the campaign to vote against a company's annual financial statement and statutory report if it failed to meet the demands of s54. Investors' collective power and leverage via voting can help to create greater transparency around corporate behaviour.

In 2022, VAS conducted research on a UK company that provides investment platforms and stockbroking, as part of the investors' monitoring and engagement process, and discovered the company did not make it explicitly clear if their modern slavery statement had been approved by the Board of Directors. The research was shared with the investors in their collaborative engagement group to inform their voting.

Rathbones conducted further research ahead of the company's Annual General Meeting (AGM) and wrote to the company ahead of their 2022 AGM, forewarning the company that they would consider voting against the financial statements should the company still be non-compliant by the time of the AGM. Rathbones then initiated a meeting with the head of investor relations, who noted that this was an oversight by the company and thanked Rathbones for raising the issue. Subsequently, the company confirmed that the new 2022 statement would clearly show that board approval had been given and that this would be overseen by the Chief Risk Officer. Rathbones felt the company had better understood the importance of seeking and showing board approval for the modern slavery statement. The company's latest modern slavery statement, reviewed by investors, clearly shows board approval, demonstrating that the company has adopted a more robust process for ensuring full compliance with the Act and is now more aware of the importance this collaboration places on this issue.

Case Study 4: Engaging the Construction and Apparel Sectors

Often hidden and structural in nature, modern slavery can go easily undetected. This is especially so where due diligence tools are ill-suited to uncover violations. Between 2021 and 2023 over 20 institutional investors based in North America, Europe, and the Asia Pacific region joined a multi-year engagement on modern slavery, led by Morningstar Sustainalytics. The engagement centred on two-high-risk sectors: construction and apparel.[13] Investors are increasingly concerned about encountering modern slavery in portfolios, whether because of regulatory trends, incidents implicating companies in abuses, or global benchmark studies highlighting egregious practices. The aim of the dialogue has been to encourage investee companies to adopt fit-for-purpose strategies to effectively address the challenges they may face. Sixteen companies headquartered in key markets in Europe, North American, and Asia (Taiwan, Japan, and China) participated in the engagement.

Most of the companies had not previously been embroiled in forced labour exposés. This meant considerable time was dedicated during the engagement to persuade them about the presence of modern slavery risks in key markets, including those in the Global North, and that standard due diligence tools may need to be strengthened since these tend not to bring to the surface serious abuses like forced labour.

Investors actively participated in many of the dialogues, which focused on the structural drivers of modern slavery, gender-based violence, and the forced labour of Uyghurs, as well as other relevant themes. In December 2022, Sustainalytics hosted a roundtable[14] specifically for construction companies (which were less familiar with the topic than their apparel counterparts). The objective was to raise awareness of the risks of forced labour and similar abuses in key markets, including the US, Europe, and the Arab States. Speakers included a Member of the European Parliament, who spoke about upcoming relevant EU regulation, industry experts (including peer companies), and investors. The roundtable provided a forum for sharing challenges and best practices for addressing modern slavery in value chains.

Over the course of the engagement, which will conclude in early 2024, 104 company meetings have taken place.[15] Several companies have strengthened their approach to modern slavery risks, which has included policy changes, more focused efforts to address risks in specific purchasing categories, internal training on modern slavery risks, and joining human rights initiatives (or objectives to do so). Whilst companies may have planned to undertake these steps anyway, Morningstar Sustainalytics received feedback that the investor engagement was a key contributing factor in many companies' decision to implement changes.

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13 In 2017, the ILO, Walk Free Foundation and International Organisation for Migration ranked the construction and manufacturing sectors among the top industries with the largest share of adults in forced labour (apparel is a subsector of manufacturing). These figures were revised upwards in the most recent estimates in 2022.

14 See report on roundtable, Global Construction Sector and Modern Slavery.

15 Includes the 16 companies in the engagement and others that declined to join. Sustainalytics also sent investor letters to boards and recommendations were made to vote against companies in some cases, where companies did not respond or declined to engage.

Annex 2: IAST-APAC Suggested Core Metrics for Modern Slavery Action, Disclosure, Collection, and Publication

About IAST-APAC

The Investors Against Slavery and Trafficking Asia Pacific (IAST-APAC) initiative is an investor-led, multistakeholder collaborative. It was established in 2020 to engage with companies in the Asia-Pacific region to promote effective action in finding, fixing, and preventing modern slavery in operations and supply chains. IAST-APAC comprises 42 investors with A$9.4 trillion in AUM, together with the Australian Council of Superannuation Investors (ACSI), Walk Free, and FAST.

Modern Slavery Risks are Also Business Risks

Ongoing and effective management of human rights and modern slavery risks can have material commercial implications, including:

1. Efficiency and resilience: Improved corporate governance, business performance, supply chain productivity, and resilience.
2. Investor focus: Weak management of modern slavery risks in operations and supply chains is increasingly seen as a key business risk by investors and can even determine if a company is eligible to be held in ESG funds.
3. Stakeholder expectations: Customers and employees are increasingly informed about company sustainability performance, including human rights, and make decisions based on their values and standards.
4. Regulatory risk: The global regulatory landscape is evolving rapidly with stronger modern slavery disclosure and sustainability reporting laws, new human rights due diligence laws, and increasing cases of fines/sanctions or market access being denied for products that fail to meet minimum standards on human rights or other ESG issues.

Why Data and Transparency Matter

A company's exposure to modern slavery risks can be complex due to both the contextual nature of the risks (different issues can be present based on sector, industry, and geography), as well as the rise of distributed, dynamic, and fragmented supply chains. Given this complexity, when assessing modern slavery risks, data disclosure and collection should not be seen as a substitute for qualitative analysis. The members of IAST-APAC believe that disclosure of a core set of metrics can help to provide an initial scalable step towards analysis of company performance and help to facilitate discussion and engagement with companies (and other stakeholders) to understand modern slavery risks better and move towards positive outcomes.

In the table below, IAST-APAC sets out a framework to distinguish between 'input' and 'output' metrics. Input metrics represent the inputs into effective management of modern slavery risk while output metrics aim to provide a quantitative measurement of tangible outcomes as a result of policies, frameworks, and processes adopted and implemented. The data points are grouped by the three stages of the 'Find It, Fix It Prevent It' framework, which IAST-APAC members use to frame engagement plans with listed companies in consumer staples and discretionary, healthcare, and technology sectors under its collaborative engagement workstream. Leading indicators are in **bold**, and indicators marked with an asterisk (*) are where we would like to see momentum. We intend to publish a list of advanced metrics in due course.

Table 2: Core Modern Slavery Metrics, IAST-APAC

Core Modern Slavery Metrics Framework	Input Metrics	Output Metrics	Why This is Helpful
Find It	**Location and activities of key suppliers (Tier 1, Tier 2).** Percentage of operations/supply chain mapped. **Percentage of high-risk suppliers covered by third party audits.**	Number and percentage of suppliers considered to have high exposure to modern slavery risks. Outcomes and actions from third party audits disclosed.	Identification and mapping of the supply chain is the first step in understanding potential exposure to modern slavery risks. Once identified, audits of high-risk suppliers and associated outcomes can provide evidence that a more formal evaluation has occurred.
Grievance Mechanism Introduced in Line with UNGP's Effectiveness Criteria	**Number of workers identified (in operations and supply chain) as being impacted by exploitative labour practices, forced labour, or other forms of modern slavery.**	The presence of a grievance mechanism(s) provides an important channel for identifying potential issues. Reviewing grievance mechanism includes whether the intended users "know," "trust," and "use" the mechanisms.	
Fix It	Percentage of workers identified as experiencing labour exploitation, forced labour or modern slavery to whom remedy was provided.	Given the complexity and prevalence of modern slavery risk, we expect many companies will identify some issues within their supply chain.	

Core Modern Slavery Metrics Framework	Input Metrics	Output Metrics	Why This is Helpful
Prevent It	Employment/service contracts are aligned with international human rights and labour standards (including no forced/child labour, no recruitment fees, living wage paid, no excessive overtime, freedom of association, freedom of movement).	Percentage of workers (including migrant workers) that sign contracts consistent with international standards. Percentage of suppliers that sign contracts consistent with international standards.	Minimum standards and best practices for labour and supplier contracts, including codes of conduct, can help set the foundation for preventing modern slavery risks.
Percentage of People Trained on Modern Slavery (Operations and Supply Chain).	Training and skill development to help identify and remediate.		

Annex 3: Methodology

Phase 1: Evidence Review

The review of evidence focused on the policies and practices of stock exchanges and institutional investors such as asset managers, pension funds, insurance companies and banks, as well as venture capital, private equity, and DFIs. The bond market and other capital markets, apart from the stock exchange market, were excluded to keep the study focused and avoid complexity in the differences across these markets. Other actors such as State-owned enterprises and Public-Private Partnerships (PPP) were also excluded, given their public sector component and unique characteristics, to avoid further complexity.

To collect the evidence, the researcher ran standard searches in English in Google, Google Scholar, and open access academic databases such as Social Science Research Network (SSRN) using key words related to modern slavery terminology and variants; for instance, 'Modern Slavery,' 'Forced Labour,' and 'Human Trafficking' (but excluding 'forced marriage,' 'commercial sexual exploitation,' and 'criminal exploitation') as well as broader but related terms such as 'decent work,' 'labour rights,' and 'human rights.' These were used in combination with capital market actors such as 'investors,' 'asset managers,' and financial terminology such as 'Socially Responsible Investment,' and 'ESG.' The selection of documents for review was based on year of publication, prioritizing the most recent documents, and their potential to answer the study's research questions which involved reading the abstracts of the yielded documents. There were no geographical or sectorial exclusionary criteria.

The researcher also purposively looked for evidence in repositories such as the Business and Human Rights Resource Centre website, and those of organizations in the anti-slavery field, previously identified as relevant for this project based on their mandates. These included PRI, Walk Free, CCLA, FAST, the United Nations Sustainable Stock Exchanges Initiative, ShareAction, ISS, Investor Alliance for Human Rights, and IAST-APAC, among others. These organizations are mostly based in the Global North, and their reports are not necessarily peer reviewed.

Therefore, a limitation of this research phase is that most publicly available evidence in English originated in or referred to the Global North, and most was not academic or peer reviewed, including, albeit to a lesser extent, self-reported evidence (by the investor community itself).

Most publicly-available evidence is focused on revealing company malpractice or investor involvement in malpractice (for instance, Facing Finance's Dirty Profits, with a minority being academic or peer reviewed (for instance from Sheffield Hallam University's Helena Kennedy Centre for International Justice and Re: Structure Lab). Most but not all case studies on good practice came from reports by the PRI, triangulated with other sources (e.g., CCLA, Rathbones, IAST-APAC, or specific reports from the investors involved). Evidence from CSOs was also included, for example from Amnesty International. Other reviewed documents include those from industry actors from KnowtheChain and Shift.

The time limitations of the evidence review did not allow for an in-depth analysis of any asset manager's policies. The only asset manager that was looked at directly (by reviewing its reports) was BlackRock on the basis that it is the largest asset manager in the world by AUM. Any evidence from other asset managers specifically mentioned in this brief were referenced in third-party sources.

Based on high risks of modern slavery, prevalence of forced labour, and gaps in the literature, this phase informed the selection of sectors and geographies[16] to focus on in Phase 2, as well as the design and content of the interview guides.

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[16] Africa (excluding North) and Southeast Asia

Phase 2: Primary Data Collection

Table 1: Key Informant Interviews

Actor	Africa (excluding North Africa)	South-East Asia	Global North (Australia, US, and Europe)	Total
Academic	**1**			**1**
Asset Managers*	**2**	**1**	7	10
Asset Owners				**6**
Banks		1	1	2
Pension Funds	1	2		3
Endowment Funds			1	1
Civil Society Organizations	**3**	**4**		**7**
Companies	**2**			**2**
Development Finance Institutions	**4**	**1**		**5**
Investor Association/Coalition	**1**		**1**	**2**
Stock Exchange	**2**	**2**		**4**
Trade Union	**1**	**1**		**2**
Total	**17**	**12**	**10**	**39**

* Includes private equity and impact investors

About UNU-CPR

United Nations University Centre for Policy Research (UNU-CPR) is a think tank within the United Nations that carries out policy-focused research on issues of strategic interest and importance to the UN and its Member States. The Centre prioritizes urgent policy needs requiring innovative, practical solutions oriented toward immediate implementation.

The Centre offers deep knowledge of the multilateral system and an extensive network of partners in and outside of the United Nations. The United Nations University Charter, formally adopted by the General Assembly in 1973, endows the Centre with academic independence, which ensures that its research is impartial and grounded in an objective assessment of policy and practice.

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