Issue Paper
Protecting Migrant Workers

Domini
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In a tightly interconnected world, investors can no longer afford to ignore the social and environmental costs of business as usual. For decades, responsible investors have joined with civil society organizations, corporations and public institutions to address working conditions in global supply chains and, although problems persist, we've made significant headway.

Twenty years ago, companies argued that they carried no responsibility for working conditions in factories they did not own. We no longer hear that argument. While it is true that these human rights abuses occur at factories and fields owned by third-parties, global companies can exercise significant influence. According to the United Nations' Guiding Principles on Business and Human Rights, adopted in 2011, global businesses are obligated to identify these problems and do what they can to address them.

Around the world, approximately 150 million people leave their countries each year in search of economic opportunities elsewhere, often passing through the hands of unscrupulous recruiters with every incentive to take advantage of their vulnerable situation. Many workers find themselves working months on the job simply to pay off exorbitant recruitment fees. In other words, they are working for no pay at all. This is known as 'bonded labor' – a form of forced labor where a person is working to pay off a debt. It is considered the most common, and least known, form of modern slavery.

The International Labor Organization estimates that almost 21 million people are trapped in conditions of forced labor, generating over $150 billion for other parties. More than 75% of these workers work within the private sector, particularly in industries such as agriculture, construction and manufacturing.

Migrant workers are among the most vulnerable members of the global workforce and are subject to multiple forms of abuse across industries.

While attention has been paid to conditions in the factory or on the farm, less attention has been paid to the path migrant workers take to get to the workplace, and the unique risks they face. Today, that is changing.

What Can Investors Do?

Our experience teaches us that investors can have significant influence over corporate practices.

Domini has worked closely with the Interfaith Center on Corporate Responsibility (ICCR), a coalition of faith-based and socially responsible investors, since our inception. ICCR has launched a "No Fees Initiative" to address unethical recruitment practices, based on three pillars:

1. **No Fees**: Workers should not be obligated to pay for their job and should be immediately reimbursed for any fees charged. If a worker is indebted to her recruiter, she can effectively work months without pay. She may even feel honor-bound to repay these unjust debts. According to

a 2014 US Department of Labor-funded study, “92 percent of the migrant workers in Malaysia’s electronics industry had paid recruitment fees and…92% of that group had paid fees that exceeded legal or industry standards.”

2. **Workers should be provided with contracts in their own language**: If a worker’s contract is written in another language, he can’t agree to the terms of his employment, and he can’t understand his legal rights.

3. **No passport retention**: If a worker cannot retain her passport or other identify documents, then she is unable to go home.

These are the most common factors that hold these workers in debt bondage, often without their awareness.

According to Know the Chain, a project led by Humanity United that ranks companies in the apparel, tech and food and beverage sectors on their responses to forced labor issues, corporate awareness of unethical recruitment practices is very low. For example, in the tech sector, out of twenty companies reviewed, “only four of the companies demonstrate awareness of the risks of forced labor that can arise from the use of recruitment agencies.” Know the Chain awarded the industry an average of 20 points out of 100 on recruitment issues.

Investors have important opportunities to raise awareness of the problem, set expectations and engage with companies to eradicate these practices.

The Corporate Response

Many of us first learned about the extreme conditions migrant workers can face after a series of articles broke in the Guardian and the Associated Press in 2014 and 2015, uncovering slavery in the Thai shrimp supply chain. Our research department spotted the issue early, leading to decisions to continue excluding **Thai Union** and **Charoen Pokphand (CP) Foods**, two Thai companies at the heart of the controversy, from the Domini Funds. We made those decisions before these stories broke.

Often, we are unable to obtain reliable information about labor issues from the companies themselves. In the absence of corporate reporting, we must rely on what we know about these industries and the regions where they operate. Reliable NGOs can be an invaluable source of information. In this case, a report published by Finnwatch in 2013 highlighted problems identified by interviewed workers including accusations of low wages, child labor, a large migrant workforce, and unpaid compensation and leave. The report stated that about half of Thai Union Manufacturing’s (TUM) employees were Thai citizens and the rest were migrant workers from Myanmar and Cambodia. Finnwatch reported that violations of migrants’ rights are common in Thailand. The NGO also reported the company’s denial of these allegations.

Under the spotlight of public attention, conditions are changing. Large consumer-facing brands like **Costco** and **(William) Morrisons** (United Kingdom) are taking action as part of the Shrimp Sustainable Supply Chain Task Force, a multi-stakeholder alliance which aims to tackle forced labor and human trafficking in Thailand’s seafood supply chain. The ability to track workers far out at sea is one critical piece of the problem they are trying to solve. CP Foods and Thai Union are also engaged, and working to improve their practices.

Unfortunately, the flawed recruitment system that produced those horrifying conditions also serves a wide range of industries. And in those industries as well, several long-term Domini Funds holdings have taken leadership.

HP Inc. reports that it was the first IT company to develop its own foreign migrant worker standard, a standard that addresses each of the three pillars of ICCR's initiative. But the company took a step further that gets much closer to the root of the problem: HP is the first company in its industry to require direct employment of foreign migrant workers in its supply chain. Its policy, and the audit tools it has developed to enforce them, were developed in collaboration with Verité, a well-respected international nonprofit that promotes safe, fair, and legal working conditions, with particular expertise in combatting forced labor in supply chains.

When a person works in a factory, but is employed by the labor agency that recruited them, they are at far greater risk of exploitation. According to Verité, "HP's standard requiring direct hiring will remove a key obstacle to ethical treatment of migrant workers. The standard sets a new bar and will likely result in substantial financial benefit to foreign migrant workers in HP's supply chain, and we hope other companies will adopt similar policies." We agree, and are raising this issue with other companies. Direct employment may be the solution to this problem, but we will need to overcome objections from factory owners and others that argue that it is too expensive or burdensome for small suppliers to adopt.

Companies realize that they need to work collaboratively to find solutions to these endemic problems. Leading companies in the electronics industry have turned to the Electronics Industry Citizenship Coalition (EICC). EICC members share a common code of conduct for their supply chains and a common factory audit process. Thanks to the leadership of companies like HP, the EICC code of conduct now addresses unethical recruitment practices.

Another important collaborative effort cuts across industries. The **Coca-Cola Company, HP Inc., Hewlett Packard Enterprise, IKEA** and **Unilever** launched the Leadership Group for Responsible Recruitment, focused on promoting ethical recruitment and combating the exploitation of migrant workers in global supply chains across industries. **Walmart** and **Marks & Spencer (M&S)** have joined the initiative, which is supported by the Institute for Human Rights and Business, ICCR, the International Organization for Migration and Verité. The Leadership Group is working to champion the "Employer Pays Principle", which states that no worker should pay for a job – those costs should be borne by the employer.

Case Study: Turning Words into Deeds

In many instances, Domini has acted as a catalyst for change, helping to set a company on a new course that may produce substantial benefits in the future. **Apple** is a case in point.

In 2004, when we first reached out to Apple, the company was silent about working conditions in its supply chain, and did not have a policy to protect the rights of these workers. We changed that. After months of dialogue with Domini, Apple adopted a strong code of conduct, committing it to uphold core labor rights in its global supply chain.

Only words on paper. But when a corporation adopts a policy, it works to implement it. That code provided the foundation upon which to build a labor standards program. The company soon began public reporting, to ensure a degree of public accountability. Public reporting is needed to ensure effective implementation of these kinds of policies, and to educate others about the kinds of problems that are found, the tactics that work and those that don't. It is also a necessary mechanism for building trust with investors, consumers and other stakeholders, a valuable asset for any global brand. Our engagement also provided the foundation for a dialogue we have maintained with the company ever since.

Today, Apple is far more transparent about problems in its supply chain, and actively works to address them. Visit www.apple.com and click on "Supplier Responsibility" to read the story of Rechel Ragas, a factory worker recruited from the Philippines to Taiwan in search of higher wages. Apple reports that "to secure a factory position there, Rechel had to use a job broker agency that charged her more money than she made in an entire year working in her home country." When Apple uncovered these fees – fees that were legal, but violated Apple's policies – it ensured that she received full reimbursement. As a result, she was able to return home six months earlier than she had planned. Apple is the only company we are aware of that discloses the amount of recruitment fees it has reimbursed to workers: $25.6 million since 2008, including $4.7 million in 2015.

The company has not solved all of the problems it has found in its supply chain. **We don't demand perfection – not because we don't want to see it, but because we don't expect to find it.** We do expect companies to acknowledge these challenges and demonstrate how they are meeting them.

Apple has come a long way since 2004 and, although we would never claim that our efforts were responsible for all of this hard work, we believe we have had an impact.

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We applaud the EICC's efforts to address unethical recruitment issues, but still believe the industry should be doing more. On behalf of a group of institutional investors affiliated with ICCR, we wrote to **IBM** and **Motorola Solutions** with a series of questions about how they ensure that workers in their supply chains are free of these abuses. We also signed letters to **Broadcom, Canon, Cisco, EMC, Hitachi, Johnson Controls, Medtronic, Microsoft, Qualcomm, Texas Instruments** and **Xerox**.

We followed our letter to **Motorola** with a shareholder proposal on the topic, which prompted a constructive conversation with the company. Motorola Solutions has policies in place to address these issues, and as an EICC member, has adopted a "no fees" commitment. The company tells us that it is actively working through the EICC to develop more effective responses to these unethical recruitment practices. We recognize these efforts, but believe that investors have insufficient information to gauge how well the company is addressing these serious risks to workers. Our proposal seeks to rectify that by requesting an annual report disclosing the company's efforts to ensure that its global supply chain is free of forced or bonded labor, including any efforts to reimburse workers for recruitment fees that were paid in violation of company policies. We look forward to continuing our dialogue with the company.

Out of twenty apparel companies, Know the Chain found only seven that were aware of the risks of exploitation to migrant workers. They found only two companies that encouraged the direct hiring of workers in their supply chain.

Adidas (Germany) received the top ranking in Know the Chain's 2016 survey, and the top score for worker recruitment practices. Know the Chain praised Adidas' "strong awareness" of the risks facing migrant workers and listed a number of leading practices. Of particular importance, if an agency is involved in the recruitment process, Adidas requires that workers sign contracts directly with the factory, not with the recruitment firm. The company requires suppliers to disclose the recruitment firms it uses, and to monitor all recruiters. The Adidas Group publishes a list of names and addresses for its primary factories, subcontractors and licensees, a practice adopted by many leading companies in the apparel and electronics sectors.

We recently met with **Gap** to discuss its approach to these issues, including the possibility of adopting a direct employment policy, and wrote to **Ralph Lauren, Michael Kors** (where we ultimately submitted a shareholder proposal)**, Nike, L Brands (Victoria's Secret, Bath & Body Works)** and **Coach**.

Ralph Lauren reports that it is working towards a "recruitment fee–free" environment for all workers. The company reported to Know the Chain that an audit had uncovered that a group of new Bangladeshi workers had recently started work in one of its supplier facilities in Jordan, and had paid recruitment fees. The factory is now fully reimbursing the 33 workers affected over a period of 3 months.

These kinds of reports should help to illustrate a basic point – these problems are out there to be found and addressed. No company's supply chain is immune. Our letter prompted a constructive conversation with the company, which we look forward to continuing. We appreciate the company's recognition of the plight of migrant workers and are encouraging clearer commitments and more transparent reporting.

Another long-term Domini holding that has taken leadership on these issues is Unilever (Netherlands, United Kingdom). The company ranks first on Know the Chain's benchmark for the food and beverage sector, because of its commitment to traceability. The company's commitment to eradicating modern slavery and human trafficking is impressive given that it reportedly has 76,000 suppliers. Unilever is working to reduce the number of recruiters used by factories. It reports that it uses very limited numbers of recruiters in North America, Europe and South America, but larger numbers in Asia and Africa.

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Consider how you might handle the daily struggles these migrant workers take on, day after day. They are working far from home for people that speak another language. They may not be in the job they thought they bargained for. Those in the fishing industry may never have seen the sea before. Many find that their paycheck is considerably less than expected, but they have no option but to keep working -- they have family back home depending on them.

We invest in companies that can make a significant difference in the lives of migrant workers. That means that we can make a significant difference, as long as we refuse to turn a blind eye, and we persist in raising these concerns and pressing each company that recognizes the issue to do more.

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About Domini Impact Investments

Domini Impact Investments manages mutual funds for individual and institutional investors who wish to create positive change in society by integrating social and environmental standards into their investment decisions. **Visit www.domini.com or call 1-800-582-6757 to learn more.**

As of 3/31/17, these companies represented the following percentages of each Fund's portfolio: Domini Impact Equity Fund: Apple (2.5%), Coca-Cola (<1%), Cisco Systems (<1%), Costco Wholesale Corp. (<1%), Gap, Inc. (<1%), HP (.3%), Hewlett Packard Enterprises (1.3%), IBM (1.5%), L Brands (<1%), Michael Kors (.4%), Microsoft (1%), Motorola Solutions (<1%), Nike (<1%), Ralph Lauren (<1%). Domini Impact International Fund: Adidas (.7%), William Morrison's Supermarkets (1.2%), Unilever (<1%). The following companies discussed above are not currently eligible for investment by the Domini Funds: Canon, Charoen Pokphand (CP) Foods, Hitachi, Medtronic, Thai Union, Walmart, and Xerox. Broadcom, Johnson Controls, Marks & Spencer, Qualcomm, and Texas Instruments are eligible for investment, but not currently held by the Domini Funds. EMC and IKEA are not publicly traded. The composition of the Fund's portfolio is subject to change. Visit www.domini.com for a complete description of each Fund's portfolio.

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