



LABOR LENS INVESTING

The Business Case for Fair
Labor Practices

March 2018

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Foreword

Labor Lens Investing is the attempt to apply a human rights framework to social impact investing related to working conditions in the global trade economy. When we first started researching how impact investing could bring greater accountability in the intricate web of global supply chains, the impressive precedent that has been set by the business and human rights community to raise awareness of inhumane labor practices encouraged us. In our eyes, this report stands on the shoulders of efforts by Transparency International, Business for Social Responsibility (BSR), the United Nations Global Compact, Transparentem, and others that have documented the disturbing human, social, and economic consequences of labor exploitation. The Corporate Social Responsibility (CSR) movement gained in importance because of the dramatic increase in global trade over the past 30 years. It has improved corporate accountability, empowered workers across the world to fight for labor rights, and driven corporations, policymakers, philanthropists, and investors to improve the livelihoods of vulnerable populations.

We came up with the term “Labor Lens Investing” to build on these efforts and bring their relevance to the emerging field called “impact investing.” There have been impressive strides made by new values-based investing categories like “Environmental, Social, Governance (ESG) Investing”, “Clean Tech Investing”, “Gender Lens Investing”, and many others.

This paper is based on an unprecedented analysis of “Labor Lens Investments” across private and public equities, debt, fixed income, and philanthropy. We also uncovered some finance mechanisms that have been creatively engineered by a combination of business and human rights, social finance, and data experts. And, the nearly 30 interviews with investors and business and human right experts yielded more leads than this project enabled us to follow up on. Everyone we interviewed wants investors to be more conscious about how their investments can help improve fair labor practices. All expressed genuine enthusiasm for the progress to date and encouraged more.

Disclosure by public companies has increased drastically in recent years. However, when we explored investment models that address forced labor and labor exploitation in supply chains, we did not anticipate the limited progress to date on social performance standards (in contrast to environmental and governance standards) specifically designed to inform ESG investors. Our interviews found that, primarily in select private equity efforts, significant Labor Lens Investing efforts show noteworthy promise. Through this report, we hope to educate impact investors on these early-stage efforts and to show that there is a nascent, but impressive effort to finally bring to light unfair labor practices that have long gone neglected by investors.

Boundless is committed to working with the stakeholders we have met in the preparation of this report and hopes to help advance the development of clear and comprehensive metrics and tools that can help ESG and impact investors genuinely drive change and improve labor and human rights across the globe.

We would like to extend special thanks to the teams at Humanity United and The Freedom Fund for their generous support and dedication to this project, helping us define this critical new investment category and ultimately drive measurable change.

Note to Reader

With a topic as vast and nuanced as labor rights in global supply chains, a paper of this length cannot presume to do justice to all stakeholders. For that reason we focused our study on analyzing investment models that directly address labor exploitation and forced labor. We did not investigate worker well being, broader business considerations of labor rights in developing countries, questions of local versus national sovereignty, or large sums of investment capital, among many other related topics. The views presented in this paper reflect the opinions of those interviewed throughout the process (see page 46 for a complete list of interviewees). These interviews focused primarily on practitioners (investment professionals and fair labor professionals), and the views we report on do not reflect all perspectives on the topic.

This paper focuses on global supply chains because of the enormity of their scale and scope, and ultimately because there are opportunities for private investors to address fair labor practices. Global supply chains have resulted in enormous economic and social gains for individual workers around the globe, for developing local and national economies, for consumers, and for enterprises of all sizes. Policies, practices, laws, and culture in places that are producing on global supply chains vary widely, reflecting the complexity of global supply chain management. It should be noted that there are many responsible actors that have leveraged supply chains to improve lives, and there continue to be important efforts to address the harmful ways irresponsible actors have misused supply chains.

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Executive Summary

This paper describes a promising new effort to fight global labor exploitation using financing strategies to advance and expand the global trend toward fair labor practices. It focuses on private market investment innovations and opportunities, where investors interested in improving global labor conditions while achieving positive financial results are most likely to meet their objectives.

Labor Lens Investing is an investment approach that uses investors' leverage through supply chains to advance protections of internationally recognized labor rights.¹ Over the past two decades, progress has been made to improve labor standards in global supply chains, including some companies' responsible sourcing programs, civil society and shareholder advocacy, and regulations in the home markets of major brands, among other factors. However, despite these efforts, poor labor conditions persist in parts of the supply chain in many industries and sourcing countries. An as yet underutilized strategy, Labor Lens Investing aims to improve labor conditions and business outcomes by strategically directing capital to leverage the scale and scope of global supply chains and to generate solid investment results. A small but expanding group of private investors believes that increasing the labor focus of both private and public holdings will result in better business outcomes, better labor conditions, and solid investment returns. That is the Labor Lens Investing hypothesis.

Poor labor conditions in global supply chains offer investment opportunities that private equity and venture capital investors have begun to take seriously, envisioning both robust investment possibilities and promising levers for improving labor standards and conditions. The first wave of Labor Lens investors believes that improving labor conditions will result in more productive and more sustainable businesses, in turn generating positive investment results. While this idea is unproven to date, initial research is promising.

This paper is meant to ground prospective Labor Lens investors in an understanding of market conditions, to show them examples of what is already being done, to inform them about issues they should consider, and to suggest ways that Labor Lens Investing can progress from an emerging niche to a fruitful investment option for mainstream investors.

It has four main sections:

- I. The Need for Labor Lens Investing;
- II. The Labor Lens Investing Market;
- III. Investment Models & Structures; and
- IV. The Path Forward & Recommendations.

Section I explains the need for Labor Lens Investing. Improving working conditions in global supply chains is a complex global challenge with significant opportunity to positively impact the lives of millions of workers. The International Labour Organization (ILO) estimates that as many as 25 million people work in conditions amounting to forced labor,² generating approximately US\$51 billion³ in annual profits across the globe gained from human trafficking and forced labor. Often, the companies at the end of the supply chain have limited visibility into the lower tiers of their supply chains and therefore limited

leverage to influence labor standards at the policy level in sourcing countries. It is worth noting that local customs, cultures, and laws are also a strong contributing factor to the norms surrounding labor standards, and should not be overlooked by stakeholders actively looking to improve working conditions across the globe.

Section II details ways in which supply chains can be leveraged to improve labor standards globally. This section provides an overview of the Labor Lens Investing Market, including the emerging landscape of actors and stakeholders, and the ways in which they are navigating and responding to opportunities as well as reputational, business, and compliance risks. Growing awareness of these risks is aligning stakeholders around the need for broader adoption and more rigorous enforcement of compliance standards and more effective monitoring, evaluation and research protocols to document it, each of which is outlined. This section also discusses the emergence of increasingly robust global, national and industry-specific laws and regulatory frameworks supporting labor rights standards. These advances, aligned with the increasing pressures from consumers, investors, industry stakeholders, and regulators, are rapidly shifting the economic and policy forces influencing working conditions.

Section III provides an overview of a handful of promising new investment models and structures that create more transparency and accountability in supply chains, enabling more constructive engagement between employers and labor, aligning consumers and producers, and increasing productivity through better labor practices. Through innovation and collaboration with existing business operations, these models reduce risks across the board.

Section IV lays out the path forward and recommendations for building a community of practice aligned around Labor Lens Investing. The paper concludes that Labor Lens Investing, albeit emerging, is gaining traction and shows significant potential.

Section I: The Need for Labor Lens Investing

Labor exploitation can take many forms. It ranges from compromised workplace safety to unethical hiring to modern-day slavery—and poses a material drag on the global economy, an obstacle to long-term business growth, and a moral crisis. Over the past two decades, progress has been made to improve labor standards in global supply chains, including some companies' responsible sourcing programs, civil society and shareholder advocacy, and regulations in the home markets of major brands, among other factors. However, despite these efforts, poor labor conditions persist in parts of the supply chain in many industries and sourcing countries. Labor Lens Investing builds upon these efforts to create a new, capital-led effort to counteract and mitigate labor exploitation.

The scale and scope of labor exploitation mirror those of globalization on multiple fronts: human and civil rights, labor rights, health, inequality, lost productivity, and business risks linked to complex supply chains. The ILO estimates that 25 million people are currently exploited in working conditions amounting to modern slavery—and that 152 million children between the ages of 5-17 are subjected to child labor (including 10 million child slaves).⁴

The economic impact of labor exploitation is vast. Forced labor can affect virtually every sector of the global economy; for example, the US Department of Labor reports annually on goods produced with forced or child labor, covering 139 products from 75 countries as of 2016.⁵ In its 2014 report, Profits

and Poverty – The Economics of Forced Labor, the ILO estimates the total illegal profits obtained from the use of forced labor amounting to approximately US\$51 billion.⁶



Source: International Labour Organization

In addition, according to the ILO, poor occupational safety and health practices cost an estimated 4% of global Gross Domestic Product each year.⁷ Poor health and safety standards continue to pose a major human rights challenge in global supply chains. Each year, more than 2.3 million workers die as a result of occupational accidents or work-related diseases, and over 317 million are injured in on-the-job accidents.⁸

These problems span borders, economies, and cultures, posing a growing dilemma in leading developed nations—including the United States—as well as developing economies. Goods today are most often produced far from where they are purchased and consumed, successively changing hands along complex and opaque corporate supply chains. Cases of labor exploitation have been documented in almost every corporate sector—from agriculture to construction, and from apparel to electronics. However, it is important to note that poor working conditions across sectors predate the globalization of supply chains. Indeed, responsible sourcing programs at many major global brands have helped improve working conditions for many as globalization has promoted global economic growth, created jobs,

increased competition and decreased prices for consumers. Rather, globalization has raised awareness of labor challenges, exacerbated them, and provides new opportunities to seek to address it.

Labor Lens Investing requires the ability to differentiate “fair” labor practices from labor exploitation. Fair labor practices comply with internationally recognized labor rights—a subset of internationally accepted human rights codified in legal instruments such as the ILO Core Conventions, the Universal Declaration of Human Rights, and the International Covenants on Civil and Political Rights and on Economic, Social, and Cultural Rights. The fundamental Labor Rights codified in the ILO Core Conventions are:

- Freedom of association and the effective recognition of the right to collective bargaining;
- Freedom from all forms of forced or compulsory labor;
- Freedom from child labor; and
- Freedom from discrimination in respect of employment and occupation.

Other internationally recognized human rights related to the workplace include:

- Reasonable limitations of working hours;
- Payment of a living wage, sufficient to cover the basic needs of the worker and her family as well as some discretionary income; and
- Healthy and safe working conditions.

Building on this framework, the 2011 UN Guiding Principles on Business and Human Rights (UNGPs) are the *de facto* global standard for corporate management of human rights risks, including labor rights. Unanimously endorsed by the UN Human Rights Council, the UNGPs expect companies to “know and show” respect for human rights by acting with due diligence. The UNGPs include guidance for states and companies on their respective human rights duties and responsibilities and outline expectations for both to provide access to effective remedies.

The UNGPs have earned broad support. Major global business associations as well as 29 investors—both asset managers and owners—representing more than US\$2.7 trillion in assets under management, have stated strong support. Civil society organizations, including major human rights groups such as Amnesty International and Human Rights Watch, have criticized UNGPs, however, for not going far enough in holding business accountable for human rights abuses, including labor rights violations in their supply chains.

Similarly, the UN’s Sustainable Development Goals (SDGs) and the supporting Global Development Compact provide voluntary frameworks for private sector commitment to improving labor as well as other human rights, environmental protectionism, and anti-corruption. With more than 9,000 signatory companies, the Global Compact is one of the most widely adopted business standards on corporate responsibility. (See Appendix C for details.)

In addition, labor rights are addressed through voluntary initiatives such as supplier codes of conduct like the Fair Labor Association's Workplace Code of Conduct⁹ and the Responsible Business Alliance, formerly known as the Electronic Industry Citizenship Coalition (EICC).¹⁰ Voluntary initiatives such as these prescribe how companies and states should protect and realize these rights in the workplace, including in global supply chains. Management approaches incorporating the intentions of voluntary initiatives range from third-party human rights due diligence to factory audits to measurement systems to training and effective grievance mechanisms.

These frameworks recognize that corporate responsibility for human rights extends to adverse impacts that companies affect directly and indirectly through their business relationships along their supply chains. Importantly, the UNGPs apply to all business enterprises. The responsibility to respect human rights applies directly to the factories and farms, or anywhere else labor abuses occur. Similarly, the state duty to protect human rights outlined in the UNGPs, including through regulation of business activities, applies to governments in sourcing countries. The aggregation of voluntary initiatives and standards such as the UNGPs, along with transparency laws discussed below, have given rise to increased awareness and attention, new resources and solutions, and investment opportunities.

Labor Exploitation in Global Supply Chains

As public awareness of labor abuses grows, many businesses have been taking a closer look at forced labor, human trafficking, and unsafe working conditions throughout their supply chains. From shrimp processing to electronics production and factory floors, competitive companies can no longer afford to ignore the implications of their labor standards. Building on existing responsible sourcing programs at many companies, increasing interest among regulators, consumers, and investors have led to new resources and tools for identifying and remedying labor rights abuses throughout supply chains. Similar tools are starting to be developed for socially conscious investors. Brands at the top of supply chains are responsible, but so are suppliers. Many responsible brands devote extensive resources to tracking suppliers and improving working conditions. Unfortunately, it is often trickier to audit the practices of suppliers throughout the supply chain with a diverse set of standards, procedures, and operations.

Supply chain economic factors often run counter to fair labor practices. Incentives to reduce labor and other costs can lead suppliers to avoid expenses related to worker training, workplace safety, management systems, worker recruitment, decent working conditions and hours, legal compliance, and more. In turn, this can discourage transparency, dis-incentivize accountability, dissuade improvements, and lead to shortcuts that put workers at risk and can create business risk for the brands at the top of the supply chain.

The global supply chain business model that creates economic growth and opportunity—and facilitates economic and social mobility in some producing nations—has evolved quickly, and the labor standards have not always kept pace, resulting in some unforeseen risks for some workers. Most major brands enforce their own labor standards only as far as their direct employment reaches, leaving workers hired by subcontractors at risk. These brands tend to rely on the ethical performance of their contractors, and many of them only assess labor conditions periodically and voluntarily. In addition, labor standards and enforcement vary widely in the nations where the jobs are. Workers with limited employment options are therefore often forced to work in unacceptable conditions.

Those conditions—which range from exploitive hiring practices to inadequate safety procedures to absentee factory management to inequitable dispute resolution—are difficult to document consistently. Information flows are spotty, uneven, and too often unreliable. Many global brands use second- and third-party social audits and industry-led self-reporting protocols to document conditions. These audits have significantly increased the data available and have enabled brands to engage suppliers in remediation and mitigation. Armed with this information, brands can reward high performing suppliers while ending relationships with those unwilling to improve labor standards. However, critics have called into question the quality of these data and have pointed to the limited value of processes, focusing on monitoring compliance, rather than more direct investments in improving outcomes. Companies providing audits are often more committed to improving working conditions throughout the supply chain than those who are not. However, even with the best of intentions, the results of these audits can harm a company’s reputation. Employers generally have weak incentives to provide information, though consumer and investor demands for transparency are beginning to mount. (See “Meeting the Data Challenge” in Section II, below.)



Image: Josh Stride/Humanity United

Reputational risk comes from investigative journalism—notably those from *The Guardian*, *Bloomberg Businessweek*, *Associated Press*, *The Washington Post*, and *Transparentem*—but also from allegations that rest on anecdotal information. The media have emerged as a key stakeholder in documenting instances of persistent labor exploitation.

Risks to multinational corporations and brands include damage to brand reputation, legal and regulatory compliance costs, supply chain interruptions, and lost productivity. The primary reputational risk to brands involves unfavorable consumer views of products and production processes negatively affecting consumer purchasing patterns, and in turn dissuading investors. At the same time, compliance risk is also becoming an important factor: the risk of potentially costly sanctions is rising as more laws are enacted—and increasingly enforced—by major economies like the UK, France, Australia, and the state of California.

Labor exploitation issues related to global supply chains offer investment opportunities that private equity and venture capital investors have begun to take seriously, envisioning both robust investment possibilities and promising levers for reducing labor exploitation. The Labor Lens approach is driven by private investors with impact intentions who believe that increasing the labor focus of both private and public holdings will result in better business outcomes, labor conditions, and solid investment returns.

The Labor Lens Investing hypothesis is that increasing the labor focus of both public and private holdings will improve labor conditions, produce better business outcomes, and generate solid investment results.

For decades, as supply chains have grown in complexity, social justice and human rights activists have focused on reducing and eliminating global labor exploitation, acknowledging that global supply chains can both enable and mitigate labor exploitation. Similarly, many global companies and brands have worked individually and collaboratively within and across industries to improve working conditions in global supply chains, both out of respect for worker rights and to manage business risks. Labor Lens investors are finding opportunities to counter negative labor incentives. They seek to leverage the scale and efficiency of global supply chains to improve working conditions and generate financial results. Their goal is to produce positive change at scale by incentivizing openness, rewarding improvements in working conditions, and encouraging alignment of labor and capital interests.

Section II: The Labor Lens Investing Market

Labor Lens Investing is an emerging investment category focused on advancing promising enterprises that incorporate fair labor goals into business practices and deploying fair labor investment strategies across asset classes. It is predicated on the belief that business and financial results will advance as working conditions improve and that emerging value-add technologies such as distributed data collection and blockchain technology contribute to achieving that goal by increasing transparency and giving investors more and better information with which to assess risks and pursue opportunities.¹¹

Building on the convergence of interests that seem to align across supply and demand, the availability of new technologies, and the increase in entrepreneurship focused on working conditions, Labor Lens investors seek to disrupt unfair labor practices and support fair ones.

Labor Lens Investing is an investment approach across asset classes that seeks to use the investor's leverage through supply chains around the globe to advance protections of internationally recognized labor rights. It is premised on the belief that the strategic placement of capital directed at the scale and influence of multinational supply chains — is an effective means to help improve labor conditions and reduce labor exploitation.

Labor Lens Investing is being pioneered by a committed group of private investors focusing on building more and ensuring fair labor practices through investments in businesses that are part of supply chains.

Those private investments include private equity, venture capital, as well as blended-value vehicles such as family offices and public and private philanthropy. Public equities remain a large, accessible, yet diversified and diluted Labor Lens option through a range of investment models and asset management vehicles (See “ESG & SRI in Public Equities”, below.) Debt, too, is a critical component, both through quasi-public multinational entities and through private public-purpose lenders.

Labor Lens investors are entrepreneurial, identifying and financing businesses offering innovative products that can improve working conditions globally, return strong financial results, and open new investment opportunities for others.

A small group of investors is already using a Labor Lens to improve working conditions globally. These include:

- Private investors (those investing in private rather than public markets), including both private equity investors and venture capital investors, are on the leading edge.
- Activist and passive socially responsible investors (those that invest in and engage companies) in public equity markets are brokering opportunities and opening doors.
- Environmental, Social, Governance (ESG) investors (both institutional and individual) in public equity markets are foundational and maintain corporate performance baselines.
- Private institutional lenders are building incrementally on successes.
- National and quasi-governmental international investors and lenders are seeding and proving new possibilities.

Some financing bridges these categories, perhaps reflecting the innovation necessary in a new investment area such as Labor Lens Investing. In order for Labor Lens Investing to be effective in the long run, it must include investments across all asset classes in both private and public markets.

The Labor Lens Investment market needs products and services that match supply and demand. Asset managers, investment funds, pension funds, university endowments, international organizations, and private equity companies are offering new products and services, in response. This report includes pioneering efforts such as:

- Private investors such as Stardust Equities.
- Asset Managers such as Parametric, Domini Social Investments, Trillium, Calvert Investments, Ethic Inc., and Motif.
- International organizations such as the International Finance Corporation (IFC), the private sector development arm of the World Bank, working in collaboration with the International Labour Organization (ILO).
- Pension funds such as the Norwegian Pension Fund, as well as two prominent Dutch pension funds—ABP Fund, and PGGM.

Some of these organizations and their investment models are profiled in Section III. They all represent possibilities as well as progress and suggest areas for innovation.

Reputational and Compliance Risk

Reputational risk is a common and, for most brands, key factor driving fair labor practices and policies. No company wants to be known for treating employees poorly; yet as global labor standards and compliance systems proliferate and evolve, so do corporate vulnerability to compliance and other perceived risks. Brands with larger and more complex supply chains may face increased risk, with greater potential of incidents of non-compliance occurring in their supply chain.¹²

In the 1990s, Western consumers were just beginning to consider labor conditions contributing to the vast array of products at their fingertips. The awakening started with high profile investigative journalism, triggering consumer and investor activism that led to reforms in supply chain management and, in some instances, overall corporate culture.

Perhaps most notably, throughout the 1990s headlines alleged that Nike was profiting from underage workers, long hours, unfair wages, and poor working conditions, with Indonesian workers earning only 14 cents an hour. In response, Nike's CEO promised to raise the minimum age of workers, significantly increase monitoring, and adopt US Occupational Safety and Health Administration (OSHA) clean air standards in all factories. This new commitment to fair labor standards and auditing helped revive the Nike brand and establish a new precedent for multinational corporate responsibility.¹³ Yet Nike's increasingly rigorous investments in transparency around labor practices revealed the fine line between transparency and compliance. A 108-page report released in 2005 detailed conditions at the 700 factories producing Nike footwear and clothing, including admissions of abuses such as forced overtime and restricted access to water. The report was praised by advocacy groups such as Human Rights First as "an important step forward," and had little impact on Nike's dominant market share.

Fast forward to the social media era. In May 2017 Ivanka Trump was caught off guard when news broke that shoes made for her brand might be produced by exploited workers. The story made headlines and stirred social media—including a July 2017 long-form photojournalism piece in the Washington Post—due to the unprecedented visibility of the Trump brand.¹⁴

Few brands attract the social media frenzy garnered by the First Daughter. Yet another recent case demonstrates the powerful impact of reputational risk in a sector that usually garners little media attention or consumer awareness. The Associated Press's 18-month investigative reporting series detailing full-fledged slavery and other abusive labor practices in the Southeast Asian and Hawaiian seafood industries earned a 2016 Pulitzer Prize; the coverage resulted in widespread calls for boycotts by US elected representatives and consumer groups; in the freeing of more than 2,000 slaves; and in then-President Obama's tightening of the Tariff Act of 1930, which banned importing goods made by children or slaves.



Image: Liuser/iStock

In many cases, media scrutiny is reinforced by advocacy organizations and global partners. For example, Humanity United supported The Guardian's 2014 exposé of modern-day slavery in Malaysia's electronics industry, based on Verité data that publicized the forced labor conditions behind billions of dollars of Malaysian electronics exports.¹⁵ Verité's investigation reported that 77% of migrant workers had to borrow money for recruitment fees; 95% did not feel they could leave their jobs until they had paid off their debts; and 90% had passports taken and held by managers or recruiters. The Malaysian electronics industry attracts US\$2.6 billion in overseas investment annually.

Another sector exposed with the help of Verité data is the Asian palm oil industry. Palm oil, which costs less than other oils, is used widely in food, cosmetic, industrial, and other products. A 2013 Bloomberg Businessweek article reported that thousands of child laborers were lured into forced labor with abusive and unsafe conditions in largely unregulated Malaysian and Indonesian plantations, which employ approximately 3.7 million workers.¹⁶ Facing little pressure from consumers, palm oil producers in the US\$44 billion industry, according to Businessweek, relied largely on unregulated contractors; even with a loose alliance of local and international labor, environmental, and human rights advocacy organizations shining light on labor abuses throughout the supply chain, multinationals sourcing palm oil inputs (including Procter & Gamble, Cargill, Unilever, Kellogg, Kraft Heinz and General Mills) defended their supply chains, citing supplier codes of conduct that prohibit labor exploitation. This publicity brought progress in consumer awareness and corporate compliance in relation to environmental concerns in the palm oil industry.

As stakeholder awareness and expectations have grown, compliance and reputational risk have become intertwined, challenging companies to navigate the complexities of the risk-landscape and penalizing them unpredictably when they fail. "Fair labor issues are becoming material business concerns," explains KnowTheChain, a leading resource and benchmark for businesses and investors to understand and address labor abuses within their supply chains.¹⁷ Compliance risk is emerging as a motivator, yet most governments lack the capacity to enforce—or even establish—regulations that hold companies accountable for better behavior; and companies are challenged to account for both legal and voluntary code compliance, both of which are included in emerging laws. For this reason, reputational risk remains the primary driver of change.

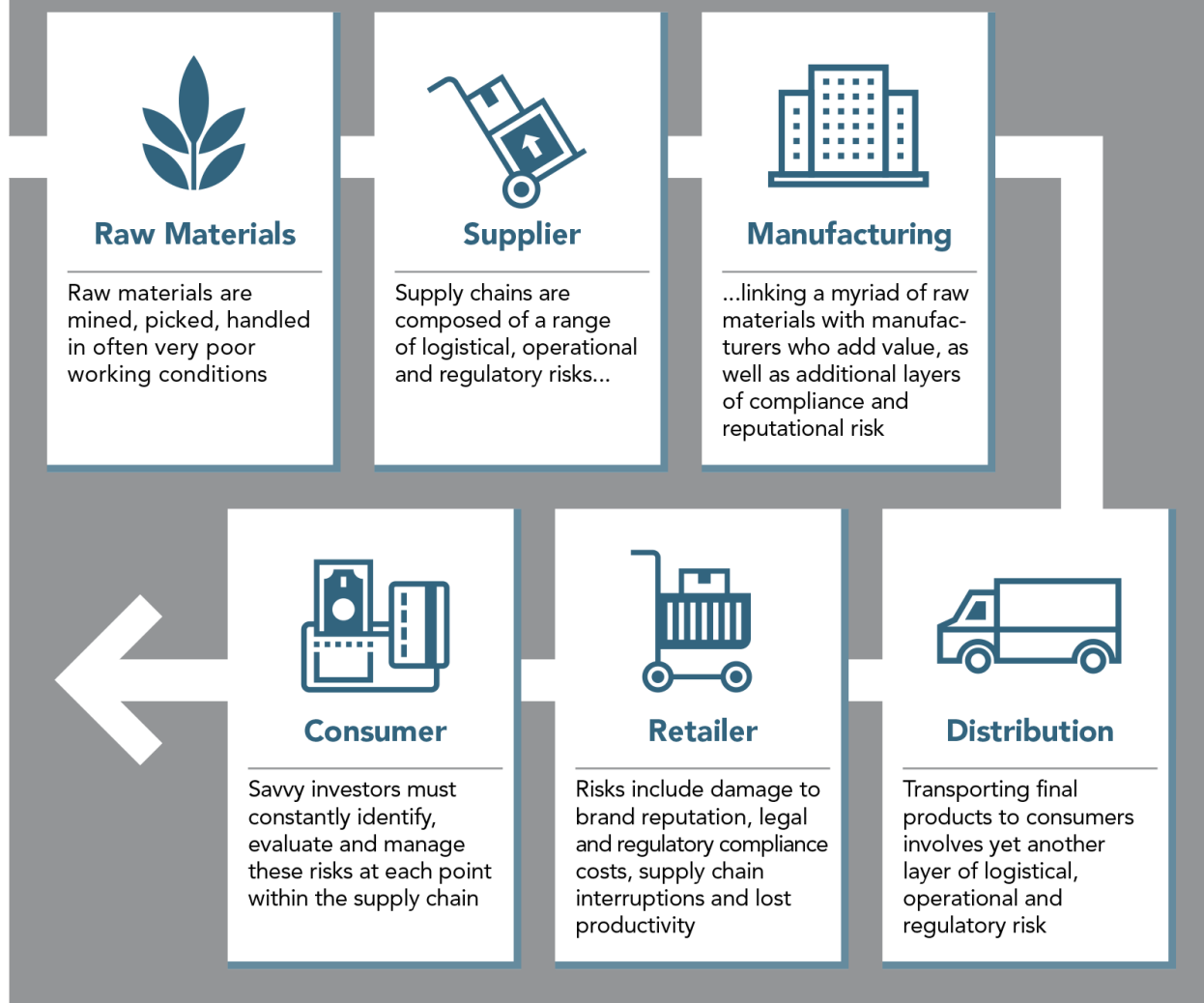
The premise of Labor Lens Investing is that, while supplier factories themselves have the responsibility to respect labor rights in their operations, top-of-chain companies have compelling reasons, and an opportunity to improve working conditions in their supply chains. The business model they use—predicated on a multi-link supply chain—dissociates brands from the actions of what can be a long chain of subcontractors. David Weil, a former senior official in the Department of Labor, argues in The Fissured Workplace¹⁸ that “work” and “jobs” have been increasingly and successively outsourced in tiers over the past 30 years, in ways that have led inevitably to a global labor workforce dissociated from employers—hence the “fissure.”

Despite decades of work by labor and human rights activists, policymakers, reporters, and corporate officials, labor exploitation persists as a global humanitarian challenge that links people, business, and values through the basics of economic supply and demand. The urgent challenge is to create economic incentives to address the crisis.

There is a significant and increasingly coordinated effort among major American, European, and other brands to respect labor rights, not least because high profile reports have steadily raised awareness of both consumers and investors. Consumers can affect corporate behavior over the long term, and investors can influence corporate behavior directly through public investment, and indirectly by supporting disruption and innovation through more immediate solutions. Innovative companies can plan now for evolving market trends, taking proactive steps on ethical supply chains today that benefit their brands and bottom lines in both the near and long-term.

Capital must be part of the solution. Fortunately, legal and regulatory advances help set the stage for investors to actively address these challenges.

RISK THROUGHOUT THE SUPPLY CHAIN



Legal & Regulatory Advances Supporting Labor Lens Investing

A growing global regulatory environment mitigates both reputational and compliance risk through myriad laws designed to align corporate and consumer stakeholders with fair labor practices. The past decade saw a rise in fair labor laws in “buying” nations—the home markets of multinationals with complex supply chains. These laws aim to increase due diligence and disclosure related to working conditions in supply chains and represent a critical development supporting Labor Lens Investing.

In the US, for example, the US Dodd-Frank Wall Street Reform and Consumer Protection Act, passed in 2010 and implemented by the Securities and Exchange Commission (SEC) in 2012, addresses the labor exploitation issues around conflict minerals. The law requires companies using gold, tin, tungsten, and tantalum to make efforts to determine whether those materials came from the Democratic Republic of Congo (DRC) or an adjoining country and, if so, to carry out a “due diligence” review of their supply chain.¹⁹ This reporting requirement creates a lever to support transparency and holds companies accountable for practices within their supply chains. The Enough Project credits Dodd-Frank and related




reforms with significant improvements in the transparency of corporate supply chains and a major reduction in the number of conflict mines in eastern Congo.²⁰ The reforms achieved these improvements by creating a mechanism for distinguishing conflict mines from conflict-free mines, and therefore creating a two-tier market whereby the price for untraceable conflict minerals is significantly lower than the price for verified conflict-free minerals, making the trade in minerals significantly less lucrative for armed groups.²¹ Others have criticized the law, pointing to limited impact on the ground and the fact that corporate resources are devoted to reporting rather than impact, among other concerns. A 2016 study by the US Government Accountability Office found that the required due diligence did not help the majority of companies in determining the source of conflict minerals in their product and whether those minerals helped finance armed groups.²²

Other important rules with the potential to influence fair labor practices include the US Federal Acquisition Rule and the European Union Directive on Non-Financial Reporting²³, as well as others summarized below. We expect more action on similar laws in coming years. For example, the Attorney General of Australia began a formal inquiry in February 2017, on whether Australia should adopt its own modern slavery law.²⁴



Image: Sasint/Adobe Stock

EXAMPLES OF KEY REGULATORY MEASURES

	 California Transparency in Supply Chains Act	 United Kingdom Modern Slavery Act	 French Due Diligence Law
OVERVIEW	Overview: Requires certain companies to report on their actions to eradicate slavery and human trafficking in their supply chains. The law's chief goal is to ensure companies provide consumers with information that enables them to understand if the company manages its supply chains responsibly.	The UK Modern Slavery Act includes a number of measures to enable law enforcement to fight modern slavery, ensure severe punishments for these crimes and enhance support and protection for victims. It also requires businesses over a certain size to disclose annually what action they have taken to ensure there is no modern slavery in their business or supply chains.	The new French Due Diligence Law, adopted in February 2017 creates new due diligence obligations covering companies' own operations and those of their subsidiaries and entities within their supply chain, that may result in serious violations of human rights, health and safety protections and the environment.
IN EFFECT SINCE	2012	2015	2017
APPLIES TO	Retailers and manufacturing companies with worldwide annual revenues of at least \$100 million; an estimated 3,200 companies headquartered in California or doing business in the state.	Any business – or part of a business – that has a global turnover of £36m or more and supplies goods or services in the UK.	Companies headquartered in France with at least 5,000 employees in France, or at least 10,000 employees globally.
KEY REQUIREMENTS	A company must disclose on its website to what extent it: (1) engages in verification of product supply chains to evaluate and address risks of human trafficking and slavery; (2) conducts audits of suppliers; (3) requires direct suppliers to certify that materials incorporated into the product comply with the laws; (4) maintains accountability standards and procedures for employees or contractors; and (5) provides employees and management training.	Companies to whom the UK MSA applies have to produce and publish an annual slavery and trafficking statement in a "prominent" place on its website every year. The statement must set out what steps the organization has taken to ensure there is no slavery in any part of its business, including its supply chains. These steps may include policies, due diligence, training, and other measures. If a company does not take any steps it must disclose this.	Companies are required to develop and implement a due diligence plan ("plan de vigilance") to identify and prevent risks related to human rights, health and safety and the environment that might result from the company's own activities and those of its suppliers. Non-compliance can result in fines up to EUR 10m, and allows victims of human rights impacts to sue the company for damages.

The California and UK laws outlined in the table above require transparency but do not mandate specific due diligence steps from companies. Both laws aim to spur corporate action by leveraging the risk to a company's reputation that would result from being required to disclose that it has taken no steps to address modern slavery in their supply chains. These laws require companies to publicly and prominently disclose what they are doing to address abuses in their supply chains.

While these laws have garnered considerable attention among large multinational companies and labor rights advocates, it is still too soon to tell what impact they will have on improving the situation for supply chain workers. There are also concerns that these laws divert resources at companies away from addressing impacts and improving labor conditions towards reporting and compliance efforts. These laws have clearly driven greater attention to labor issues, however, stimulating companies' need to

investigate their own supply chains and providing a focal point around which companies can collaborate and major corporations can promote their brands. Publicizing adherence or non-adherence to the laws can be another way to bring greater attention to labor concerns.

An Ergon Associates analysis of company disclosures in compliance with the UK Act, conducted in March 2017, found that approximately 79% of the 150 companies reviewed complied with the UK MSA disclosure requirements.²⁵ It also reported limited progress in disclosing details of due diligence and other risk mitigation efforts.²⁶ A key challenge to measuring real progress is the persistent focus on transparency and disclosure rather than demonstrated improvements in supply chain-working conditions.

The French law has more rigorous standards, authorizing both European Union penalties for non-compliance and the right of civil action for victims of human rights violations. In addition, multiple nations where employees in supply chains work have relevant laws, regulations, and standards. Enforcement is uneven, however. Multiple interviewees for this report expressed little confidence that in-nation legal enforcement is effective overall or on a consistent basis. For that reason, some fair labor advocates in “buying” countries favor the reach and consistency of the California, UK, and French laws. Others, however, point to impunity as a major underlying cause for labor exploitation and view pressure on local governments to raise standards and strengthen enforcement of laws and regulations as essential to addressing the challenge.

Companies worldwide are also subject to an array of industry-led standards and reporting frameworks, multinational quasi-governmental standards, and other disclosure and/or reporting requirements—though these apply inconsistently. (See Appendix B for a summary.) These standards include both fair labor-specific reporting and human rights reporting. As of yet, the array of laws, regulations, and standards are at least as much a challenge to Labor Lens investors as a boon. They result in noisy market intelligence and make it hard for investors and prospective investors to analyze and gauge risk.

A recent report from The NYU Stern Center for Business and Human Rights, “Putting the ‘S’ in ESG: Measuring Human Rights Performance for Investors,” emphasized that, “investors should be able to rely on the ESG industry to provide data that helps them identify strong performers and assess risk.” But the report cautions against:

Fundamental gaps in the existing landscape for the social component of ESG...The industry should be evaluating companies’ real-world effects, based on a set of clear standards for social performance, in service of investment approaches that seek to reward high performers...instead the ESG industry is overly deferential to companies themselves to make voluntary and inconsistent disclosures about the efforts they undertake on a wide range of poorly defined ‘social’ activities. This creates a chaotic and costly landscape of data that does little to differentiate or evaluate companies.²⁷

There seems to be broad agreement that self-disclosed data, social audit data, and other means of assessing corporate processes are necessary but not sufficient, for at least three reasons: First, the integrity of the data may not be good. Second, social impact should be measured in real changes benefitting workers and workplaces, and results should be correlated to those real changes. Third, available data are not linked to investible entities (employers or supply chains). Unsubstantiated, general, and poorly substantiated results will not support growth in Labor Lens Investing.

Meeting the Data Challenge

Making the case for Labor Lens Investing involves access to clear, consequential evidence that companies that fail to conduct effective due diligence of working conditions in their supply chains and therefore are exposing their investors to avoidable risks. Access to high quality, consistent data is critical to making reputational and compliance risk key factors for Labor Lens Investment decisions. Global supply chains require current data flows that inform investors about business operations, potential risks, and possible opportunities. Sophisticated supply chain management systems and software might make this easier, though the limited supply of useful data on working conditions and potential risks is a deterrent to investors. For instance, the broad and general data publicly available on working conditions and labor exploitation are not tied to individual brands, companies, employers, contractors, or nations.

There is a growing information supply industry to support Labor Lens Investing, and it is getting stronger. It includes social audit firms, deep-dive data providers such as KnowTheChain and SharedAction, investment research entities like RepRisk, EIRIS Vigeo, MSCI, Sustainalytics, the Pension Investment Research Consultants (PIRC), and research and advocacy organizations such as the NYU Stern Center for Business and Human Rights, the Fair Labor Association, and the Better Work Transparency Portal.

The NYU Stern report mentioned above outlines three categories of data—human rights, investor, and company-focused frameworks. Human rights-focused frameworks, like the Corporate Human Rights Benchmark and Behind the Brands²⁸, are developed by experts with a comprehensive understanding of human rights issues, but are restricted to evaluating a company's efforts, including their policies, procedures, and governance structures—rather than assessing actual performance.

Company-focused frameworks, such as the UN Guiding Principles Reporting Framework, the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB)²⁹, are most likely to measure effects; but each company has the freedom to opt in, making the quality of these reporting standards undependable. They may provide a good indicator of practices, but lack consistency and transparency, delivering an insufficient overview of company's overall social outcomes.

Finally, investor-focused frameworks are able to measure effects, but with a limited scope, often excluding many relevant human rights and labor issues, most notably in the supply chain. These frameworks, such as Dow Jones, Bloomberg, and the FTSE³⁰ have a proprietary focus, allowing for greater access to data, but often lack transparency.

As our many interviews concluded, greater collaboration and the development of shared standards will allow investors to do better diligence and begin to close the information gap.³¹

Not surprisingly, data supply and analysis is a major focus of early-stage private equity and public purpose investors. Investors are exploring new methods of aggregating data (for example, distributed data collection from workers), big data opportunities for analyzing data, and blockchain and other data transparency and visualization methods with potential to transform the marketplace.

These field-building efforts will likely have at least two major influences on the market place: First, they should encourage Labor Lens investments in all asset classes by meeting expectations for market data.

Second, they should increase compliance and reduce compliance costs, particularly in the spotlight of recent laws emphasizing disclosure in service of both transparency and accountability.

Section III: Investment Models and Structures

Labor Lens Investing is an effort to create greater transparency and accountability in supply chains, catalyze engagement between employers and labor, align consumers and producers, increase productivity through better labor practices, and reduce risks for all.

To that end, based on what we know today, Labor Lens Investments must:

- Be rights-compliant consistent with the United Nations Guidelines on Business and Human Rights and incentivize compliance at all levels of the supply chain;
- Offer competitive financial returns compared to similar forms of investments;
- Meet all standards for disclosure and transparency required by the California, United Kingdom, and French statutes, now and in the future (including new laws); and
- Regularly analyze and measure progress in both qualitative and quantitative terms. This is key to moving the system of impact measurement from merely reporting to consistent, reliable accounting.

We expect these criteria to change based on what Labor Lens Investors learn in practice and as Labor Lens Investing builds a base of experience.

There is evidence of real and encouraging progress. The progress is significant and promising despite the small number of active players or the scale of the effort to date. This section describes the operating models of three private investment strategies and one innovative quasi-public debt approach. In addition, it discusses longstanding ESG and Socially Responsible Investing (SRI) strategies and spotlights two promising models to target ESG/SRI investments using data-driven innovations.



Photo: Nada B/Shutterstock

LABOR LENS INVESTMENT MODELS

Investment Model	Asset Class	Strategic Elements
Stardust Equity	Private Equity & Philanthropic Hybrid Fund	Stardust combines a private equity investment fund (Stardust Equity, a mission-driven investment fund deploying capital to accelerate the economic and social power of people exploited and excluded by markets) and a philanthropic investment fund.
Humanity United	Impact Investment Platform with Philanthropic Subsidy	Humanity United launched Working Capital in January 2017. As an early stage venture fund, Working Capital employs a market-based strategy, investing in new ideas and solutions that address corporate demand for greater supply chain accountability and transparency as a way to benefit vulnerable workers at the bottom of the economic pyramid.
International Finance Corporation	Debt with Social Performance Incentives	The IFC's Global Trade Supplier Finance product is a short-term working capital loan that provides preferential pricing to borrowers demonstrating compliance with widely respected labor conditions standards set by Better Work.
Motif Investing	Public Equities	Motif allows investors to customize portfolios based on "motifs" that screen stocks around impact-related themes. The motifs function similar to exchanged traded funds (ETFs) and give investors direct, fractional ownership of individual securities.

Building the Labor Lens Investing Ecosystem: Stardust Equity

Stardust Equity—a private mission-driven fund launched by a family office in Houston—is partnering with Parametric, an asset manager, and with Humanity United’s supply chains initiative to build the ecosystem for Labor Lens Investing. A leading investor in Gender Lens investment strategies, Stardust combines a private equity investment fund (Stardust Equity, a mission-driven investment fund deploying capital to accelerate economic and social power of people exploited and excluded by markets) and a philanthropic investment fund (Stardust Fund).

Seeking a Labor Lens Investment opportunity, Stardust worked with Parametric, a custom portfolio management firm based in Seattle, to build a Labor Lens public equity portfolio using Parametric’s proprietary portfolio construction methodology. Parametric relies on research from MSCI and Sustainalytics, leading market research and data firms. It first applies an ESG screen; next, it employs a weighting model to define portfolios for investors; then uses its own tilting strategy to suit investor principles.

Parametric’s standard screens already incorporated criteria for child labor and labor rights issues; the Stardust partnership helped to enhance the Labor Lens. When Parametric opened up the Labor Lens Investment model to all of its investors, more than 153 separately managed accounts comprising \$635 million chose to participate by the last quarter of 2017.

Stardust’s Managing Director, Kyle Wright, states that the partnership with Parametric is intended to make it easier for investors to make Labor Lens Investments. “The best opportunities right now are those that are priming the pump for mainstream movement,” he explains. The goal is to make Labor Lens Investing viable for institutional investors by providing an easy, “low-friction option” for them to incorporate a Labor Lens in their investment approaches.

“There is a business case, demand, and a growing opportunity in Labor Lens Investing.” –Kyle Wright, Managing Director, Stardust Equity

Stardust does not expect the Parametric model to yield outsized returns or to produce direct impact on fair labor issues. It is working with Parametric to grow the total amount of assets managed under a Fair Labor Lens by making it an easy option for large institutional investors to customize their screens with specific labor criteria. It sees its labor screen as a risk mitigation strategy for its holdings.

Innovation & Scale through Business: Humanity United's Impact Investing Strategy

Humanity United (HU), a foundation launched by Pierre and Pam Omidyar and dedicated to bringing new approaches to the world's most intractable social problems, believes that businesses can be a powerful force for good. HU also believes that approaches to address forced labor have had limited impact because they have not reached wide scale adoption. Therefore, it launched Working Capital: The Supply Chain Innovation Fund to invest in new ideas and solutions that address corporate demand for greater supply chain accountability and transparency as a way to benefit vulnerable workers at the bottom of the economic pyramid.

Working Capital is collaborating with corporations and other foundations to invest early-stage capital to develop and scale supply chain solutions in a few areas:

- Worker Engagement—using SMS, IVR, and mobile app technology to facilitate better, real-time, worker-provided feedback and data on working conditions to suppliers and brands.
- Ethical Recruitment—improving practices ensuring that workers, particularly vulnerable migrant labor, enter the workplace fairly and without employer-caused debt.
- Risk Assessment—using big data and machine learning to identify where companies face the greatest area of non-compliant working conditions, increasing business intelligence and insights on potential risks in their supply chain to drive greater accountability and more ethical sourcing.
- Product Traceability—investing in applications, such as blockchain, that help to provide greater visibility and tracking of product flow through the supply chain, thereby making it more transparent and ethical.

Working Capital's strategy is to invest in innovations to address the growing corporate demand for more ethical and transparent supply chains through technology and other global solutions that can benefit millions of vulnerable workers in global supply chains.

By investing in early-stage ventures in a nascent market, Working Capital hopes to catalyze broader investor interest, scale new business models, and grow the overall market of supply chain solutions providers. Investment decisions will consider: 1) the potential for benefit to vulnerable workers along the supply chain and reduction in worker vulnerability, and 2) the promise of widespread adoption and commercial sustainability. Working Capital's investments will also benefit from HU's ongoing efforts to influence consumers, investors, policymakers, and the media to motivate companies to improve supply chain practices.

IFC's Global Trade Supplier Finance Program & ILO/IFC Better Work Program

The International Finance Corporation delivers a range of investment and advisory services for emerging market companies participating in global value chains, including short-term financing through its Global Trade Supplier Finance (GTSF) Program. IFC's GTSF Program provides working capital financing to factories that sell goods to international buyers and provides preferential pricing to factories demonstrating compliance with widely respected labor and environmental standards and purchasing brands' internal codes of conduct.

IFC also partners with the International Labour Organization (ILO) on Better Work, a global program that unites diverse groups—governments, employers, unions, and more than 60 leading apparel brands—to improve garment factory working conditions while stimulating business competitiveness. Both GTSF and Better Work are aligned with IFC's *Performance Standard 2: Labor and Working Conditions* (2012), one of the IFC's eight foundational investment standards.

GTSF provides working capital finance to emerging market suppliers and offers preferential pricing to suppliers demonstrating compliance with international labor standards and brands' internal codes of conduct.

Better Work provides assessment, training and advisory services to garment factories to help workers and employers self-diagnose and remedy labor issues from within. It helps factories improve compliance with the ILO's core labor standards and relevant national laws and regulations, and shares the results of its on-the-ground work to influence decision makers, promoting decent work and better business well beyond the 1,500 factories where it operates. The program has shown, for example, that improving working conditions boosts firm performance through increased productivity, greater profitability, and more favorable positioning in global supply chains. For most factories, this results in better business terms with buyers, increased order sizes, and a reduction in duplicative, costly audits. A handful of countries—including Cambodia, Jordan, and Haiti—require Better Work membership in order for factories to obtain export licenses. Many international brands and retailers also require their factories to be Better Work members. Funding for the Better Work program comes from governments, corporate foundations, factory owners, and international buyers and brands.

An independent assessment of Better Work by Tufts University found factories collaborating with Better Work were up to 22% more productive and the average factory in Vietnam experienced a 25% increase in profitability. It also found that as the length of time between delivery of an order and payment by a buyer increases, weekly pay for workers decreases at a significant rate.³² This data has the potential to alter the discussion around fair labor investing and show the importance of financial instruments that provide factories with short-term capital like GTSF.

Data-driven Investing: Themed Motifs for ESG and Fair Labor

New data and analytics technologies are expanding opportunities for ESG investing, paving the way for Labor Lens Investing. Motif Investing, a fully automated trading platform, offers an innovative Fair Labor product for investors seeking companies that promote fair wages, safe working conditions, and job security. Through a partnership with MSCI ESG Research—a leading global provider of ESG data and analytics—Motif identifies leading companies that meet investors' personal and financial criteria. Companies with favorable MSCI scores on labor management, health and safety, and supply chain labor standards are included.

Founded in 2010, Motif allows investors to create or buy “motifs” that feature a weighted group of stocks based around themes. The motifs function similar to exchanged traded funds (ETFs), but they give investors direct, fractional ownership of the individual securities. In early 2017, they launched a tool for automating the selection of ESG-focused stocks. Motif Impact Portfolios allow investors to directly own stocks representing five asset classes and categorized along three socially conscious themes. The company offers more than 150 professionally built motifs, with themes of Fair Labor, Sustainable Planet, and Good Corporate Behavior. The Impact Portfolios model is predicated on a survey that Motif conducted in January 2017, which found that 64% of American investors do not have a clear understanding of their investment holdings, and that 72% have no idea whether their investments align with their personal values.

Motif's Impact Portfolios charge a flat monthly subscription fee of US\$10 per US\$100,000 of invested assets, with a US\$1,000 account minimum. There is no charge for swapping out individual stocks, so investors do not get penalized for removing a stock that strays from their values. Motif's Impact Portfolios offer an unprecedented level of transparency and control for an automated investing account. Motif Investing has raised US\$126.5 million in venture capital funding, indicative of the vast potential for Labor Lens Investing to tap.



Image: Humphrey/Shutterstock

ESG & SRI in Public Equities

As stakeholders become more aware of the impact of their operational, investment, and consumption choices, the implications of these layers of risk become more pressing—as modeled by strides in the Economic, Social and Governance (ESG) investing and Corporate Social Responsibility (CSR) movements over the past two decades. Organized investment in public equities using negative screens and affirmative goals marks the baseline of the new Labor Lens Investing approach. Yet ESG and SRI asset managers have for decades been using diversified criteria across issues. From a Labor Lens perspective, this approach yields diluted results that make it difficult to measure concrete social outcomes, as opposed to a targeted investment strategy that yields clear social impact.

The influence of ESG and SRI investing on mainstream finance is noteworthy, however. In 2016, the Forum for Sustainable and Responsible Investment identified US\$8.10 trillion in US-domiciled assets that included ESG criteria in the investment analysis and portfolio selection process, up 33% from 2014.³³ Growing interest in the ESG sector has led to more investors hiring firms to perform a screen of their ESG investments. ESG and SRI investors have been successful in focusing the dialogue on key social impact issues, including labor, making them an essential part of the Labor Lens Investing landscape.

While ESG and SRI investments provide a useful reference, they are subject to many of the same risks and limitations as Labor Lens Investments discussed above. The industry lacks a consistent set of standards to evaluate and rate the ESG framework. A handful of comprehensive screening methods exist, but still fall short in their capacity to evaluate actual performance.

The Sustainability Accounting Standards Board (SASB) in the US aims to standardize disclosure by public corporations of sustainability information useful to investors in regulatory filings that are based on a standardized set of industry-specific criteria. While the SASB approach is ambitious and has garnered impressive participation from U.S. companies, the quality and depth of the disclosures by companies still vary greatly, leaving investors with incomplete and incomparable information.³⁴

In the current ESG landscape, measurement practices are only as strong as the information companies are willing to disclose, leading to confusion and common misappropriation of the term “impact.” And, as NYU Stern documented, investors are focused primarily on environmental issues, second on governance issues, and least on social issues, including labor.³⁵

ESG often provides a platform for corporate engagement, though not all ESG advisors and managers have engagement strategies. For example, many investors concerned about labor issues work with and through the Interfaith Center on Corporate Responsibility (ICCR), a powerful network of investors across asset classes, which has anchored socially responsible investing and its successors—including ESG—since 1971. Founded in faith-based investing, ICCR remains the convening space for a wide range of issues and has more than 300 institutional investor members. ICCR Senior Program Director, Rev. David Schilling, emphasized in an interview for this paper that the organization’s value rests on building, sustaining, and leveraging long-term engagements with multinational corporations to change corporate policy and practice on social and environmental issues.

ICCR recently organized a multi-stakeholder roundtable on ethical recruitment, bringing together investors, companies, NGOs, and government representatives. “There are opportunities for investors to

utilize a range of new tools in their investment decisions and in their engagement decisions,” Schilling says.

Leading ESG/SRI investment managers such as Domini Investments, Calvert Funds, Trillium Asset Management, as well as leading investment funds such as BlackRock, factor some broad human rights into their strategies as one of many screens or factors, but we found none of the broad socially responsible asset managers in the US to focus on fair labor issues. The breadth of the issues they look at discourages them from targeting labor issues at the expense of other concerns. While this suits investors concerned with other challenges, it compromises the goals of Labor Lens investors.

The High Risk of Disruptive Innovation: The Case of TAU Investment Management

While innovation in a new field such as Labor Lens Investing is exciting and promising, as detailed in the cases above, it also bears risks that are important to explore.

TAU Investment Management was an early, bold mover in Labor Lens Investing, and carries the burden of disruptive innovation. An early pioneer, TAU’s struggles were disappointing to observers on both the advocacy and investing sides. Many investors in the Labor Lens market identify it as a source of important lessons, starting with right-sizing investment vehicles and understanding complex Labor Lens markets.

TAU seeks private equity growth investments in factories that maintain good labor conditions, with the aim of helping fair labor employers better meet the demands of large brands and retailers. By trying to transition fair labor employers into bigger roles in the supply chain, TAU aims to increase the number of quality jobs.

TAU takes junior positions (usually 25%-49% ownership with target investments of US\$30 million) in stable apparel manufacturing companies that need to grow. They hold rights for hiring and firing key personnel and work with ownership and management to implement and ensure good working conditions. They conduct audits and work with partners such as Verité to document working conditions and push for improvements, as needed.

Deal flow has been slow in part because TAU’s target companies are not necessarily seeking capital, and other investors with less or little emphasis on labor conditions may compete. This challenge came up with entrepreneurs we spoke to, as well, who found that mission-driven investors and profit-maximizing-only investors do not always work well together. What seems like an advantage may turn out to be a challenge.

On the Labor Lens Investing Horizon: Innovations to Watch

In and around the Labor Lens Investing landscape, we observed intriguing and promising concepts on their way to market:

- Sustainability bonds by Starbucks, Morgan Stanley, Bank of America, and others are creating value by offering labor-friendly financing outside the US. In 2016, Starbucks, for example, issued a US\$500 million, 10-year bond with a 2.45% coupon to purchase coffee beans. It used the proceeds, in part, to provide financing to its growers in a program that recognizes the importance of good working conditions.³⁶
- Social impact bonds (SIBs), which link repayment to social outcomes, are intriguing but not yet proven. It seems only a matter of time before someone develops an application for a SIB addressing Labor Lens Investing concerns.
- Credit enhancements and risk-based asset wraps are common in many markets, and they can be profitable for providers. Using third-party non-financial risk management strategies might support a credit enhancement model that could support investments.
- Ethical recruiting firms may require capital to scale to compete with unethical recruitment agencies. The existing recruitment agents have greater scale and often charge workers exploitative fees, making it difficult for new and ethical entrants to compete. Advocates have explored the possibility of a bond that could enable new ethical firms to meet expectations of their clients' needs without depending on the fees paid by workers.³⁷
- Ethical recruiting startups might ensure the integrity of their work and completion according to fair labor principles using a contract guarantee, much as construction contractors use bonding. Bonding agents expert in fair labor practices and standards might collaborate with a financial institution to offer Fair Labor Bonds. This product would make fair labor practices central to business practices, making them value-adds for investment strategies.
- A recent trend in civil litigation pooled funds may prove relevant to overcoming cost and liquidity barriers for cases involving people without other access to money to file a suit. In the US, the Cara Equity Partners Impact Fund provides a promising model focused on social justice cases. Investors would pool capital, fund managers would source cases, and returns would come from payments made in resolution of claims.
- New technology opportunities: In addition to the data-drive approach at Parametric, new, fair labor-focused offerings are also becoming available online. Other platforms like Ethic Inc. and OpenInvest are new data-driven financial technology (FinTech) startups that customize passive portfolios for sustainability-motivated investors. These technologies are meant to keep investors current in real time on their portfolios, including social metrics, at a granular level. For example, Ethic aims to help its clients—including family offices, wealth advisors, and foundation endowments—align their passive investments with their principles by using capital to make an impact on fair labor issues and bolster responsible companies. They hope to guide sophisticated mainstream investors into Labor Lens Investing by demonstrating that they do not have to sacrifice financial returns for impact.

Section IV: The Path Forward

The rise in interest in Labor Lens Investing—and the growing number of creative investment strategies and products developing around it—generates momentum. While more established forms of social investing, particularly ESG and SRI strategies in public companies, should expand, progress is more likely to come from disruptive startups and early-stage growth companies funded by high-risk financing such as venture capital and private equity. It seems likely that there will be rapid growth in new approaches, putting a Labor Lens spotlight on private investors for the foreseeable future.

On the public markets investing side, the path forward will take considerably more work to achieve noticeable results. Financial professionals know that money goes where it's wanted and stays where it's well treated. As NYU Stern notes, the absence of consistency and standardization adds cost to investment decisions.³⁸ Even broad guidance from fair labor advocates seems to constitute barriers to entry. In June 2016, KnowTheChain and ShareAction recommend general guidelines that illustrate the challenge.³⁹

KnowTheChain & ShareAction Guidance for Investors:

1. Know your investments—Seek out comprehensive information regarding company practices and policies.
2. Carry out a risk assessment—Publicly available benchmarks, reporting statements, and other tools can help investors identify high-risk industries and companies.
3. Minimize your risk—Encourage at-risk companies to adopt practices that minimize risk, consider divesting from high-risk companies that do not make adequate commitments to improve or manage risk.
4. Maximize your opportunities—Understand the market opportunities presented by companies that perform well against their peers.
5. Keep up to date—There is a lot of movement in the legislative arena. Keep up to date on the emerging legislation and the requirements companies will face.
6. Have a positive impact—Engage with policymakers as well as companies to press for best practice. Support collaborative investor initiatives to maximize impact. Engage with companies to improve their policies and practices as reflected in the relevant benchmarks.

Each guideline adds cost to due diligence and monitoring resulting in a disincentive to investment, making compliance unrealistic for all but large-scale, highly committed investors. Absent consistent, standard information that is highly reliable, current, and accessible, investors have reason to shy away. On the other hand, uncertainty about risk is a contingent liability that few investors, particularly public equity investors, will tolerate—but only if that risk is clearly apparent.

That explains, in part, why the leading edge of Labor Lens Investing is private investors, including private equity, venture capital, and public purpose investors such as family offices and public philanthropies.

CHALLENGES FOR INVESTORS

As investors pursue Labor Lens Investing strategies, their progress is challenged by a number of critical challenges and risks.

IMPUNITY

Transparency without accountability undercuts the ability of investors to invest

ENFORCEMENT

Ineffective and inconsistent enforcement of laws, often due to corruption, is a significant risk factor for investors

PUSHING THE CHAIN

Regulation, ratings, rankings and shareholder advocacy have all focused primarily on multinationals at the top of supply chains, and only on disclosure as a lever rather than compliance

GOING POSITIVE

Business incentives are mostly negative and intangible, such as reputational risk stemming from negative headlines or the “naming and shaming” approach of transparency-focused regulatory measures or rating and ranking efforts. Both investors and business owners are just beginning to appreciate the potential for positive incentives such as productivity gains related to labor conditions

Key Issues for Labor Lens Investors to Consider

At this early stage of expansion, Labor Lens Investing's path is, to a great extent, contingent on how investors and fair labor advocates respond to a set of key issues with potential to affect growth:

Third-party versus self-reported results: This involves two overlapping questions. First, does company self-reported fair labor data (for example, under international laws and industry voluntary reporting systems) meet investor risk assessment needs? Or does Labor Lens Investing require further data reporting? In another sense, how do different data sources affect pricing? Second, how do investors (and prospective investors) weight data on fair labor efforts (business practices and processes) compared to data on fair labor results (changes in working conditions)? Do investors place different value on the means compared to the ends?

Financial performance versus impact performance: Market-rate investors seek to maximize yields, while some are also seeking social impact returns. In an investment area that is still young, investors are likely to divide into two groups: One will seek higher yields because of early-stage risks; the other will concede returns (or in some cases, be unusually patient about the timing of returns) to facilitate longer-term growth of Labor Lens Investing. Most of the operating investors and asset managers we spoke to are in the second group and know that new investors are more likely to expect market-rate returns on a risk-adjusted basis. How do Labor Lens investors manage this evolution?

Financial yields versus field-building: Expectations of investor profit maximization, which might drive companies to underfund fair labor expenditures and investments, and the need to direct resources to fair labor efforts, comprise the defining tension of Labor Lens Investing. The factors are financial, economic, and moral. Is the early stage Labor Lens marketplace prepared for a discussion of what might seem paradoxical—investing that's good for capital and good for labor, too?

"Do No Harm" versus "Do Good" strategies: Labor Lens Investing has a broad lens that scans from incremental improvements in working conditions (for example, training) to critical workplace issues (safety and health) to labor exploitation to full-fledged slavery. Addressing incremental issues is "lower-hanging fruit" that can make significant improvements in workers' lives. At the other end of the spectrum, ending slavery or forced labor is more consequential and perhaps more important. For Labor Lens investors, the most important thing is for the results along that spectrum to align with their intent. For the broader Labor Lens Investing field, however, there is a strategic question of ensuring that investors support solutions across the spectrum. All social impact finance seeks to cause transformational (systemic) changes in a transactional business, and for anyone invested in fair labor goals, ending slavery is unquestionably an outcome requiring transformational change. How do short-term investment decisions align with long-term transformational goals?

Labor Lens Investment Innovation Carries Risks: Every innovator knows that, in theory, there is no difference between theory and practice, but in practice there is. The transition from business plan to business implementation is a minefield of good assumptions that do not pan out, assessments of market demand that are off target, and intangible factors that no one could have known about.

Recommendations

This paper documents an emerging pattern of financing strategies around Labor Lens Investing, defines opportunities and challenges, and connects investors who generally are otherwise working in isolation or with limited interaction with other investors. It demonstrates considerable movement toward an organized investment category:

- Investment opportunities across asset classes;
- High-potential (disruptive) investment possibilities in private equity and other forms of private holdings;
- A well-documented legal (statutory, regulatory, and civil) infrastructure;
- Reliable information about fair labor conditions that need to get better;
- An active advocacy community driving progress and stirring up change that creates opportunities for investors, as well as a compelling moral and business cause for sustained action; and
- A growing, deeply engaged investor community.

To move this work forward, we recommend a three-tier strategy:

1. Defining success—better articulating key results-based fair labor metrics, assessing the potential of existing data models, driving discussion across financiers and human rights advocates, and suggesting a quantitative framework to build out in coming years; and tracking Labor Lens financing activity, growth, and performance.
2. Organizing the practice of Labor Lens Investing—convening, engaging, and connecting Labor Lens investors; developing a common vocabulary and voice; forming a Labor Lens working group (or coalition); and building consensus around best practices.
3. Fueling awareness and understanding of Labor Lens Investing—integrating the conversation into existing ESG, SRI, CSR, labor rights, and human rights dialogue and platforms; stimulating conversations across the sectors on this paper and on the work recommended in #1 and #2; and building out a coherent Labor Lens investment category and brand.

The third tier—awareness and understanding—is a logical next step from the work involved in researching and writing this paper. There exists a group of investors across asset classes that are eager to bridge the gaps in expertise and understanding. In addition, we found that there is growing interest among mainstream asset managers, private equity funds, venture capital firms, and investment banks in doing more work in the “S” component of ESG. Labor Lens Investing fits that interest well.

Increased awareness and understanding will be critical to efforts to define success. As we bring more people to the Labor Lens Investing table, conversations will necessarily grow more demanding, more specific, and more results-oriented. We suggest that practitioners get ahead of the inevitable

conversations by focusing immediately on metrics and evaluating the complex array of data drivers (legal, self-regulatory, investor-drive, etc.).

To succeed, leading Labor Lens investors and other key stakeholders need to offer Labor Lens investors and practitioners a clear roadmap for building a coherent investment category. Investors will organize through formal and informal convenings leading to a working group or roundtable that provides a practical focus and a hub for coordination as the practice expands. As leaders in Labor Lens Investing, that group of investors can collaborate in defining and promoting best practices. That work will necessarily cause investors to work closely with labor rights and human rights advocates and activists, aligning capital, investment practice, policy, and supply chain labor practices around the shared goal of improving labor conditions. Done well, such an alliance will strengthen all Labor Lens players and accelerates gains all along global supply chains.

Conclusion

Labor Lens Investing extends from a centuries-old agenda of protecting fair treatment and basic rights of workers, adapting the agenda to the realities of today's complex globalized labor sector. It aims to increase accountability and performance by strategically placing capital in ways that improve labor conditions and create more transparency in supply chains.

As an early-stage, emerging market, Labor Lens Investing today is too new and too small to make a material difference in financial markets and too exploratory to make a material impact in the lives of thousands, let alone millions, of people who work under unfair conditions. Yet the importance of this new investment category lies in its potential to scale financially along global supply chains as a lever for social and economic good, benefitting workers who are exposed to labor conditions that are unhealthy and ultimately harmful to business. In a global economic climate rife with mounting exploitation and vulnerability, consumers and investors are being called towards awareness and engagement with the labor conditions behind the products they use. Labor Lens Investing provides the framework for this engagement, and this paper provides the scaffolding for its evolution.

Appendix A: Related Systems Influencing the Labor Lens Investment Market Place

International Standards & Guidelines

International standards and guidelines addressing the responsibility of business to avoid infringing on human rights, including in the supply chain, include:

- The United Nations Guiding Principles on Business and Human Rights⁴⁰
- United Nations Global Compact⁴¹
- OECD Guidelines for Multinational Enterprises⁴²
- International Finance Corporation (IFC) Performance Standards⁴³

Current Human & Labor Rights Interventions

Many efforts by business, civil society, the public sector, and investors aim to prevent adverse impacts in global supply chains. At the same time, they recognize and seek to maximize the business benefits that can result from effective human rights risk mitigation measures, such as adopting operational efficiencies, reducing legal risk, strengthening reputation and brand value, and attracting and retaining top talent.

While this report focuses on levers available to investors, other interventions (including recent laws discussed earlier) include voluntary industry initiatives and benchmarks, rankings, and ratings.

Voluntary Industry Initiatives

A number of industry specific or cross-sector collaborative initiatives are operating to address labor rights abuses in global supply chains. For example, the Coalition of Immokalee Workers (CIW) is a worker-based human rights organization internationally recognized for its achievements in the fields of social responsibility, human trafficking, and gender-based violence at work. Built on a foundation of farmworker community organizing which started in 1993, and reinforced with the creation of a national consumer network since 2000, CIW's work has steadily grown over more than twenty years to encompass three broad and overlapping spheres:

- **Fair Food Program (FFP)**, a groundbreaking model for Worker-driven Social Responsibility (WSR) based on a unique partnership among farmworkers, Florida tomato growers, and participating retail buyers, including Subway, Whole Foods, and Walmart. In 2015, the Program expanded to include tomatoes in Georgia, South Carolina, North Carolina, Maryland, Virginia, and New Jersey, as well as Florida strawberries and peppers.
- **CIW's Anti-Slavery Campaign** has uncovered, investigated, and assisted in the prosecution of numerous multi-state farm slavery operations across the Southeastern US, helping liberate over 1,200 workers held against their will since the early 1990's. CIW also pioneered the worker-

centered approach to slavery prosecution, played a key role in the passage of the 2000 Trafficking Victims Protection Act, and co-founded the national Freedom Network USA and the Freedom Network Training Institute.

- **CIW's national Campaign for Fair Food** educates consumers on the causes and solutions of farm labor exploitation, and forges alliances between farmworkers and consumers that enlist the market power of major corporate buyers to help end that exploitation.⁴⁴

The table below “Illustration of Select Voluntary Initiatives”, while not an exhaustive list of relevant voluntary initiatives, further displays the diverse number of other collaborative efforts that exist across the globe.

ILLUSTRATION OF SELECT VOLUNTARY INITIATIVES

Initiative	Industry	Coverage	Launched	Membership	Activities
 FAIR LABOR ASSOCIATION Fair Labor Association	Multi-Industry, primarily apparel	Labor Rights, incl. Environment, Health & Safety	1999	Companies, incl. Suppliers Civil Society Organizations, and Universities	Joint Principles and Code of Conduct Assessments Complaint Mechanism Training
 Responsible Business Alliance <small>Advancing Sustainability Globally</small> Responsible Business Alliance	Electronics and recent new members from other sectors	Labor Rights Health & Safety Environment Ethics Management	2004	Companies, incl. Suppliers	Joint Code of Conduct Joint Audits Training and Capacity Building Collaboration
 Ethical Trading Initiative <small>Respect for workers worldwide</small> Ethical Trading Initiative	Multi-Industry	Labor Rights, incl. Health & Safety	1998	Companies, incl. Suppliers Civil Society Organizations Trade Unions	Joint Code of Conduct Collaborative projects on specific issues or industries Capacity building Public policy advocacy
 Sedex Sedex	Multi-industry, primarily apparel and food/beverage	Labor Rights Health & Safety Environment Ethics	2001	Companies, incl. Suppliers	Independent framework for data sharing and performance management
 icti CARE ICTI-Care	Toys	Labor Rights Health & Safety	2004	Companies (Toy Brands and Retailers)	Factory audits and certification; training and capability building; worker helpline.
 ACCORD <small>on Fire and Building Safety in Bangladesh</small> Bangladesh Accord on Fire & Building Safety	Garments	Fire & Building Safety	2013	Companies Trade Unions NGOs	Standards, factory inspections, corrective action plans, and disclosure; Remediation funding and implementation. Worker training and complaint mechanism.
 ALLIANCE <small>FOR BANGLADESH WORKER SAFETY</small> Alliance for Bangladesh Worker Safety	Garments	Fire & Building Safety	2013	Companies (Apparel Brands and Retailers)	Standards, factory inspections, corrective action; remediation funding and implementation; worker helpline; training programs for workers and management.

Appendix B: Benchmarks, Rankings & Ratings

There has been an increase in benchmarks, ratings and rankings of corporate human rights and labor rights performance, including benchmarks with a focus on working conditions in global supply chains. These include the KnowTheChain benchmarks, which focus on companies' efforts to address forced labor and human trafficking in global supply chains;⁴⁵ the Corporate Human Rights Benchmark, which rates companies' broader human rights management and due diligence systems;⁴⁶ and the UN Guiding Principles Reporting Framework, which provides detailed guidance to companies for reporting on their implementation of the UN Guiding Principles on Business and Human Rights and catalogues company disclosures.⁴⁷

Rankings and ratings by civil society assessing corporate disclosure in response to these laws have the potential to reinforce and amplify these laws' impact. In 2016, KnowTheChain benchmarked 60 large global companies in the Information & Communications Technology, Food & Beverage, and Apparel & Footwear sectors on their efforts to address forced labor and human trafficking in their supply chains, leveraging the public disclosures by companies in response to the CA Supply Chains Transparency Act, and assessing each company's policies and management systems.

Appendix C: Sustainable Development Goals, the Global Compact, and Labor Lens Investing

Launched in January 2016 to succeed the UN's Millennium Development Goals, the Sustainable Development Goals (SDGs)⁴⁸ are a universal call to action to end poverty, protect the planet, and improve life for future generations. The SDGs comprise 17 core goals that range from ending hunger to reducing the impact of climate change. As part of the SDG agenda, the United Nations called out the importance of private-sector involvement in achieving these goals to shape a sustainable future.

The SDGs offer a relatively simple and common language for investors looking to broaden their understanding of ESG principles or the Fair Labor Investing space and begin building an impact investing portfolio that drives more private capital towards achieving SDG targets.

Impact investors were flagged as particularly well positioned to help accomplish the SDG targets—particularly in relation to Goal 8: Decent Work and Economic Growth. Targets for achieving this goal include higher levels of economic productivity, job creation, and innovation as well as equal pay, safe and secure working environments, and an end to modern slavery. By leveraging capital to address these targets, Labor Lens Investing principles are fundamentally aligned with this agenda. Further, addressing fair labor issues via investment strategies has the potential to support other, broader targets related to Goal 8 as well. The ripple effects of Labor Lens Investing can also help achieve several other SDG goals, such as elimination of poverty (Goal 1), reduced inequalities (Goal 10), gender equality (Goal 5), and responsible consumption and production (Goal 12).

The SDGs are supported by the UN Global Compact, launched in 2000, which provides a voluntary framework for private sector commitment to efforts to improve on labor, human rights, environmental protection and anti-corruption.⁴⁹ The initiative calls on companies and investors to align strategies and operations with ten universal principles, with an emphasis on supporting SDG targets. The Global Compact provides signatories with communication tools and resources, trainings, and access to strategic

partnerships. The Compact requires signatories to regularly report on progress in implementing the ten principles, but does not set performance standards. With more than 9,000 signatory companies, it is one of the most widely adopted business standards on corporate responsibility. The Global Compact's principles on human rights and labor rights, and its resources on decent work in global supply chains make it a useful entry point and guiding framework for businesses and new investors looking to adopt a Labor Lens.

Appendix D: List of Resources

Better Work
EIRIS Vigeo
Ethical Trading Initiative, Human Rights Due Diligence Framework
Fair Labor Association
The Freedom Fund
Global Slavery Index
Interfaith Center on Corporate Responsibility
International Organisation of Employers (IOE)
International Finance Corporation
International Labour Organization (ILO)
ILO International Labor Standards
KnowTheChain
MSCI
NYU Stern Center for Business and Human Rights
OECD, Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector
OECD, Guidelines for Multinational Enterprises
ShareAction
Shift Project
Sustainalytics
Pension Investment Research Consultants (PIRC),
RepRisk
The United Nations Global Compact
The United Nations Guiding Principles on Business and Human Rights
United Nations Principles for Responsible Investment
The United Nations Sustainable Development Goals
Verité

Acknowledgements

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With additional thanks to: Ed Marcum, Liliana Giffen, Gina Dafalia, Kerry Kennedy, Tim Isgitt, Anna de Courcy Wheeler, Christopher Demers, Michael Posner

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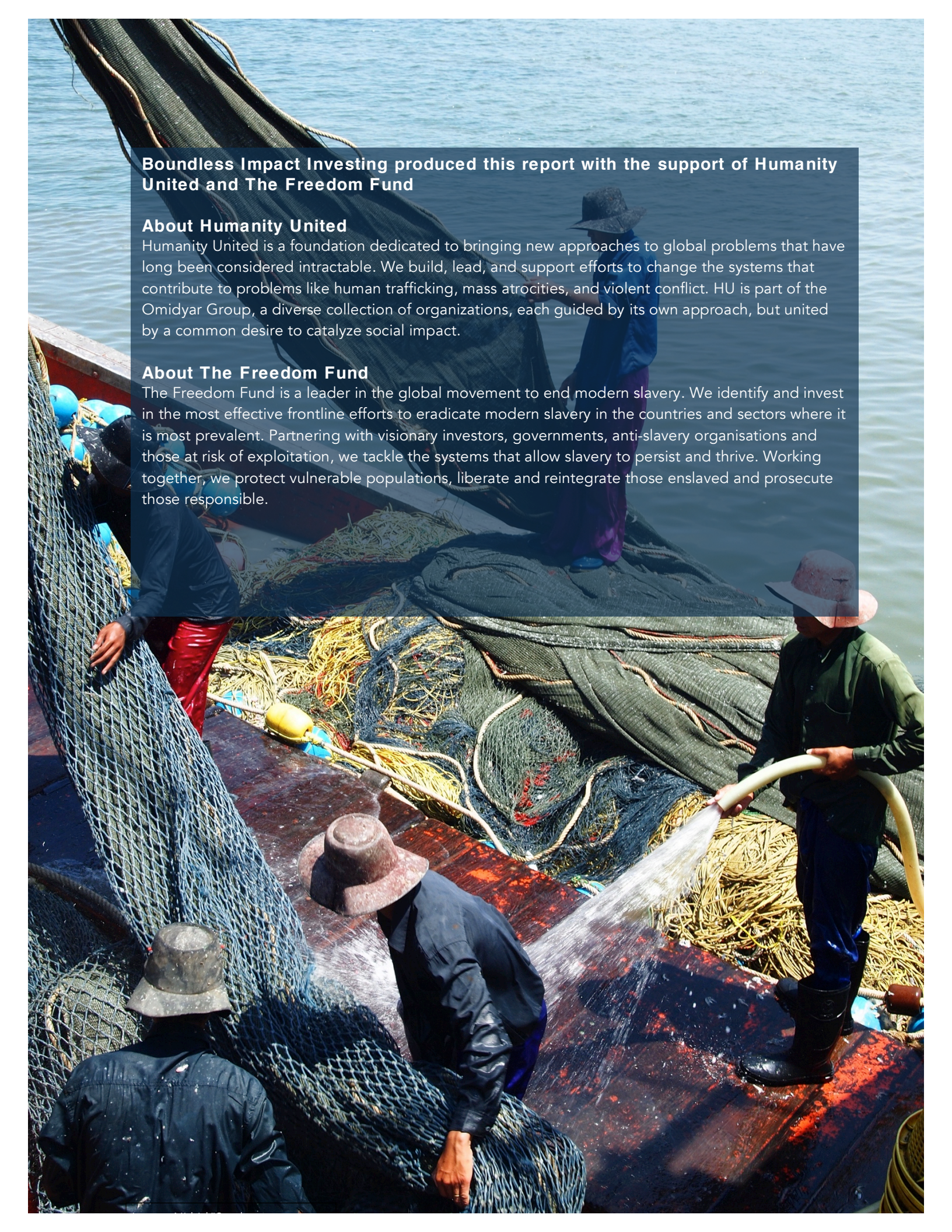
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Sharon Waxman, Fair Labor Association
Tara Rangarajan, Better Work
Stephen Pursey, International Labour Organization
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Scott Leonard, C&A Foundation

Endnotes

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A photograph of a fishing boat deck. Several workers wearing hats and dark clothing are visible. One worker in the foreground is using a high-pressure hose to spray water onto a large pile of fishing nets. The nets are tangled and feature various colored floats (blue, yellow, red). The background shows the calm blue water of the sea.

Boundless Impact Investing produced this report with the support of Humanity United and The Freedom Fund

About Humanity United

Humanity United is a foundation dedicated to bringing new approaches to global problems that have long been considered intractable. We build, lead, and support efforts to change the systems that contribute to problems like human trafficking, mass atrocities, and violent conflict. HU is part of the Omidyar Group, a diverse collection of organizations, each guided by its own approach, but united by a common desire to catalyze social impact.

About The Freedom Fund

The Freedom Fund is a leader in the global movement to end modern slavery. We identify and invest in the most effective frontline efforts to eradicate modern slavery in the countries and sectors where it is most prevalent. Partnering with visionary investors, governments, anti-slavery organisations and those at risk of exploitation, we tackle the systems that allow slavery to persist and thrive. Working together, we protect vulnerable populations, liberate and reintegrate those enslaved and prosecute those responsible.

