

Dutch Pension Funds and Forced Labour Speak up



While more than 40 million people are the victim of modern slavery in total, 25 million people are estimated to be in forced labour.



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Speak up

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About VBDO

The Dutch Association of Investors for Sustainable Development (VBDO) is a not for profit multi-stakeholder organisation. Our mission is to make capital markets more sustainable. Members include pension funds, insurance companies, banks, asset managers, NGOs, consultancies, trade unions, and individual investors. VBDO is the Dutch member of the international network of sustainable investment fora. VBDO's activities target both the financial sector (investors) and the real economy (investees) and can be summarised as follows:

Engagement

Since the foundation more than 20 years ago, the core activity of VBDO has been engagement with 40+ Dutch companies listed on the stock market. VBDO visits the annual shareholders' meetings of these companies, asking specific questions and voting on environmental, social and governance (ESG) themes. The aim of this engagement is to promote sustainable practices and to track progress towards the companies becoming fully sustainable, thereby providing more opportunities for sustainable investments.

Thought leadership

VBDO initiates knowledge building and sharing of ESG-related issues in a pre-competitive market phase. Recent examples of this include: three masterclasses on climate change related risks for investors; the development of guidelines on taking Natural Capital into account when choosing investments and organizing round tables about implementing human rights in business and investor practices. Also, VBDO regularly conducts capacity building with regard to responsible investment both to investors as well as NGOs.

Benchmarks

Benchmarks are an effective instrument to drive sustainability improvements by harnessing the competitive forces of the market. They create a race to the top by providing comparative insight and identifying frontrunners, thus stimulating sector-wide learning and sharing of good practices. VBDO has extensive experience in developing and conducting benchmarking studies.

VBDO has conducted annual benchmarking exercises, for example, since 2007 about responsible investment by Dutch pensions funds, and since 2012 about responsible investment by Dutch insurance companies. This has proven to be an effective tool in raising awareness about responsible investment and stimulating the sustainability performance of pension funds and insurance companies.

VBDO is one of the founding partners of the Corporate Human Rights Benchmark. The benchmark ranks the world's 500 largest companies based on their human rights performance, and makes the information publicly available, in order to drive improvements. VBDO's Tax Transparency Benchmark ranks 64 listed multinationals on the transparency of their responsible tax policy and its implementation.

For more information about VBDO, please visit our website:

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Slavery is not something from the past. A staggering 25 million people are expected to work under force today. Forced labour is often hidden away in increasingly complex supply chains.



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Foreword VBDO



Twenty five million is the shocking number of people that work under force today. The growing complexity of global supply chains makes tackling this serious violation of human rights difficult. This means we have to create a combined effort; companies cannot do it alone. Governments, NGOs, trade unions, but also institutional investors have an important role to play in the elimination of forced labour.

It is my pleasure to offer the report 'Dutch Pension Funds and Forced Labour: Speak Up' to FNV, the largest Dutch trade union. In this report we investigate how pension funds deal with forced labour in their investment portfolio and we offer them more tools in overcoming the challenges.

This study shows that quite some Dutch pension funds act on forced labour under the heading 'labour rights', of which it is of course an inherent part. But the seriousness of the topic makes explicit reporting valuable. It sends a clear signal that forced labour is on the agenda. Reporting and transparency also creates the possibility to learn from each other. This is why we would like to call upon pension funds to speak up on forced labour.

I would like to thank our sponsor FNV and hereby also thank the participating pension funds and their asset managers for their valuable contributions.

Angélique Laskewitz

Executive Director VBDO

Foreword FNV



The FNV welcomes that the Dutch Association of Investors for Sustainable Development (VBDO) for the third consecutive year has done a survey on one of the core labour rights: forced labour the great antithesis of decent work.

The result shows us that there still is a lot of work to do to translate the UN Global Compact, in which the ILO Core Conventions are included, into a serious pension fund policy. This means that there is a large mission for our FNV Trustees that act on behalf of employees and retirees, since FNV's pension policy stipulates that pension money must be invested in a socially responsible way with respect for labour and human rights.

Working together within the International Trade Union Confederation (ITUC), our great challenge is that elimination of contemporary forms of modern slavery is a moral imperative. More than 25 million modern slaves are victims of forced labour worldwide. Due to the widespread globalization it usually is hidden deep in complex supply chains that also accelerate all kind of modern slavery models. This makes it hard to identify easily.

In modern slavery recruitment is a critical stage when migrant workers are more vulnerable to abuse. According to ITUC General Secretary, Sharan Burrow "Unscrupulous recruitment agencies take advantage of the lack of law enforcement by governments or because workers are simply not aware of their rights."

That is why the ITUC with support from the [ILO Fair Recruitment initiative](#) developed the Recruitment Advisor. A platform which lists thousands of agencies in Nepal, Philippines, Indonesia, Qatar, Saudi Arabia, Hong Kong, Malaysia, Singapore and other countries. Workers can use this platform to comment on their experiences, rate the recruitment agencies and learn about their rights.

The ultimate goal of this Recruitment Advisor is to promote recruiters that have a fair recruitment process based on [ILO General Principles and Operational Guidelines for Fair Recruitment](#) and to give useful feedback to governments regarding the practices of licensed recruitment agencies, which could be used to complement more traditional monitoring systems.

To quote Sharan Burrow: With this tool “we can put power back into workers’ hands to rate the recruitment agencies and show whether their promises of jobs and wages are delivered. An organised workforce cannot be enslaved, but when there is a governance failure and no law enforcement, then slavery can flourish. Together we will stop unscrupulous recruitment practices, we will eliminate slavery in the supply chains and we will end modern slavery.”

Pension funds can play a large role as asset owners to influence company policies and to do due diligence on their supply chain on all core labour rights including the prevention and abolition of forced labour. To overcome the difficulties and challenges it is important to cooperate not only with other institutional investors but also with trade unions, NGO’s, companies and governments.

We are happy to see that more pension funds were willing to participate in the survey this year and we encourage our trustees and all pension funds to work on an investment policy in which the ILO Core Conventions are meaningful key objectives.

Coen van der Veer

Treasurer FNV and Chair of the
Committee on Workers’ Capital

Tuur Elzinga

Vice President of the FNV
and responsible for pension policy

Executive summary

Slavery is not something from the past. A staggering 25 million people are expected to work under force today. Forced labour is often hidden away in increasingly complex supply chains. As large asset owners and shareholders, pension funds can have a significant effect on the policies and activities of companies regarding forced labour. Tackling forced labour is a challenge that can only be overcome when companies, governments, NGOs, trade unions and institutional investors work together. With this combined effort we can eradicate forced labour and are a step closer to creating Decent Work and Economic Growth (SDG 8) for all.

Findings

In this report we investigate how the largest Dutch pension funds deal with the issue of forced labour. Although only one pension fund indicates to publicly report on forced labour, twenty-six of the responding funds have included forced labour into their responsible investment policy. The most used instrument is exclusion. A majority of the responding pension funds (58%) indicates that forced labour is specifically used as one of the criteria that leads to the exclusion of companies.

Exclusion is closely followed by **engagement**. 55% of the pension funds state that forced labour is included in engagement criteria. Remarkable is that when asked which instrument pension funds would recommend with regard to forced labour, a majority named engagement. We see that half of the funds (47%) include forced labour in their risk assessment, as part of **ESG integration**. 45% of the responding pension funds uses the instrument of **voting** to influence the policy of companies with regard to forced labour.

Speak up

These numbers show that a lot of progress can, and has to be made regarding forced labour. Pension funds hardly play a visible role in addressing this grave violation of human rights. Although most pension funds do report on labour rights in general (of which forced labour is an inherent part), explicit reporting sends a signal that forced labour in the investment portfolio is unacceptable. Reporting

raises much needed awareness about the topic among companies and society in general. This role of visibility should also be extended to active participation in the public debate on forced labour.

Start using existing data and stimulate innovations

A lack of data is seen as the biggest challenge by pension funds. Sufficient, high quality data and information are important when embedding ESG factors into the investment process. Pension funds could use the expertise of trade unions and NGOs to collect the needed information. Actively promoting the normative screening of companies in an investment portfolio in combination with engagement and exclusion policies decreases those parts of a company's supply chain that now remain invisible, thereby reducing numerous financial, reputational and ethical risks. Innovations such as the use of big data, sentiment and social media analysis, the use of drones and real time stakeholder engagement with workers (using tools such as Ulula app) could help companies to (jointly) tackle the challenges. Gradually more of these tools are becoming available at a large scale. Investors could play an important role in making companies aware of these possibilities.

Get a grip on supply chains

Forced labour is often 'hidden away' in the second tier and beyond in supply chains. Research has indicated that most companies that address forced labour both start and end their due diligence by focusing on first-tier contractors and suppliers. Besides, forced labour can take 'subtle' forms, which makes detecting it very difficult. The increasing complexity and international character of supply chains makes more transparency essential. Especially companies operating in labour intensive sectors need to identify forced labour risks beyond the first tier. Investors could improve their insight in supply chains by stimulating companies to expand their due diligence. Pension funds should use the expertise of NGOs and trade unions, since they can play an important role in assessing local circumstances. NGOs and trade unions could also think about different possibilities of sharing their knowledge in a way that is relevant and useable for investors.

Seize the moment

Globally, there has been increased attention to the eradication of forced labour. Awareness is growing. Major international organizations like the G20, the UN and the International Trade Union Confederation (ITUC) have voiced their particular focus on this goal. Dutch pension funds could use the increased global urgency for additional information and for lobby possibilities.

Use existing tools as a baseline to start

For a successful eradication of forced labour, a convincing methodology is needed. Clear rules and transparency are important to stimulate this development. Any method is subject to criticism; nevertheless several initiatives could serve as important starting points. Different initiatives and organizations such as KnowTheChain, the ILO and the International Organization for Migrants (IOM) have developed tools that can be used as a baseline to start.

Define your policy

Several inputs can help in defining your own point of view:

- Screen international standards and initiatives you have signed on to and use these as a basis for creating a policy.
- Define your mission and vision for your stance on forced labour.
- Map the opinions and viewpoints of your main stakeholders on forced labour.
- Make a materiality scan of forced labour and the linked risks.
- Map your portfolio and distinguish which sectors are particularly sensitive to exploitation.
- Define which responsible investment instruments would most likely fit your policy and investment management strategy.

Start reporting and be transparent

When developing a policy on forced labour and putting it into practice, it is of importance to be transparent on your policy, the arguments for creating this policy and the challenges faced. A clear explanation of the steps financial institutions can take on this topic will lead to more awareness, more knowledge sharing and hopefully to more collaboration on this issue. This study shows there is much to gain in this field.

Work together

The challenges concerning the implementation of a policy aimed at eradicating forced labour can only be overcome if there is more collaboration, and not just between companies but also between financial institutions. For pension funds, it is important to also collaborate with asset managers, data-providers, trade unions, NGO's and most important; other pension funds. If investors work together they will have the power to stimulate more specific guidelines and criteria for forced labour. Joining forces can have a notable positive effect on the lives of numerous workers around the world. The IMVO Covenant for the Dutch pension sector that is currently being developed provides promising prospects for this kind of co-operation.

Use the expertise of trade unions

Pension funds can benefit from the expertise of trade unions to develop an investment strategy on forced labour. They can play an important role in assessing the local circumstances. Trade unions can also play a role in the empowerment of other trade unions in developing countries, with respect to forced labour.

Management samenvatting

Slavernij behoort niet tot het verleden. Een schokkend aantal van 25 miljoen mensen werkt vandaag de dag onder dwang. Dwangarbeid zit tegenwoordig vaak diep 'weggestopt' in de ketens van bedrijven die door toenemende globalisering steeds complexer zijn worden. Als grote asset owners en aandeelhouders kunnen pensioenfondsen een aanzienlijk effect hebben op het beleid en de activiteiten van bedrijven met betrekking tot dwangarbeid. Het tegengaan van dwangarbeid is een uitdaging die alleen aangegaan kan worden wanneer bedrijven, overheden, Ngo's, vakbonden, maar ook institutionele beleggers met elkaar samenwerken. Alleen door nauwe samenwerking tussen alle relevante partijen kan dwangarbeid verleden tijd worden.

Bevindingen

In deze studie wordt onderzocht hoe de grootste Nederlandse pensioenfondsen omgaan met het thema dwangarbeid. Hoewel slechts één pensioenfonds aan geeft publiek te rapporteren over dwangarbeid, blijkt uit dit onderzoek dat zesentwintig fondsen (van de veertig respondenten) dwangarbeid wel hebben opgenomen in hun verantwoord beleggingsbeleid. Het meest toegepaste beleggingsinstrument is uitsluiting. Een meerderheid van de pensioenfondsen (58%) geeft aan dat dwangarbeid wordt meegenomen als criterium voor uitsluiting. Uitsluiting wordt gevolgd door engagement. Voor 55% van de pensioenfondsen is dwangarbeid reden tot het starten van een engagement traject. De helft van de respondenten (47%) neemt dwangarbeid mee in de risico-analyse, als onderdeel van ESG-integratie. Tevens gebruikt de helft van de fondsen zijn stemrecht om het beleid van bedrijven te beïnvloeden met betrekking tot dwangarbeid.

Spreek je uit

Deze aantallen laten zien dat er nog veel vooruitgang geboekt kan worden. Pensioenfondsen spelen nu nauwelijks een zichtbare rol in het adresseren van deze ernstige schending van mensenrechten. Hoewel de meeste pensioenfondsen wel rapporteren over arbeidsrechten in het algemeen (waarvan dwangarbeid een inherent onderdeel is), zou expliciete rapportage een duidelijk signaal zenden

naar bedrijven en de samenleving dat dwangarbeid in het beleggingsportfolio voor pensioenfondsen niet acceptabel is. Meer zichtbaarheid houdt ook in dat pensioenfondsen zich gaan mengen in het publieke debat rondom dwangarbeid.

Maak gebruik van bestaande data en stimuleer innovaties

Pensioenfondsen geven aan dat een gebrek aan data het belangrijkste obstakel is in het opnemen van dit thema in het verantwoord beleggingsbeleid. Voldoende kwalitatieve data en informatie zijn essentieel voor het opnemen van ESG factoren in het investeringsproces. Pensioenfondsen kunnen de expertise van vakbonden en Ngo's inzetten om de juiste data te verzamelen. Het actief promoten van de normatieve screening van bedrijven in het beleggingsuniversum in combinatie met engagement en uitsluiting, vergroot de zichtbaarheid van de gehele keten waardoor vele financiële en ethische risico's evenals reputatieschade voorkomen kunnen worden. Innovatieve maatregelen zoals het gebruik van big data, sentimentanalyse van sociale media, het gebruik van drones en real-time stakeholder engagement met arbeiders (met bijvoorbeeld het gebruik van de app Ulula), kunnen bedrijven helpen meer zicht te krijgen op dwangarbeid in hun keten. Investeerders kunnen een rol spelen in het vergroten van de aandacht voor dergelijke mogelijkheden.

Krijg meer grip op de keten

Dwangarbeid is vaak diep in ketens 'verborgen'. Onderzoek laat zien dat bij veel bedrijven de due diligence ophoudt bij de eerstelijns leveranciers. Daarnaast kan dwangarbeid 'subtiel' vormen aannemen, wat het detecteren ervan lastig maakt. De toenemende complexiteit van internationale ketens maakt meer transparantie noodzakelijk. Voornamelijk bedrijven in arbeidsintensieve sectoren moeten de risico's van dwangarbeid door de hele keten heen identificeren. Investeerders kunnen het zicht op de ketens van bedrijven in hun beleggingsportfolio vergroten door bedrijven te stimuleren hun due diligence te verbeteren. Ook hierbij geldt dat pensioenfondsen de kennis van Ngo's en vakbonden kunnen gebruiken om de lokale omstandigheden van arbeiders in te schatten.

Maak gebruik van het moment

Wereldwijd is een toename te zien van aandacht voor het tegengaan van dwangarbeid. De bewustwording rondom dit thema groeit. Internationale organisaties zoals de G20, de VN en de International Trade Union Confederation (ITUC) hebben aangegeven een specifieke focus te hebben op dwangarbeid. Nederlandse pensioenfondsen kunnen gebruik maken van deze toegenomen wereldwijde urgentie om meer data te verzamelen en te lobbyen bij overheden.

Gebruik de bestaande tools als basis

Om dwangarbeid tegen te gaan is een goede methodologie nodig. Transparantie en duidelijke regels zijn hiervoor essentieel. Elke methode is vatbaar voor kritiek, toch zijn er vele initiatieven die kunnen dienen als startpunt om een methodologie te ontwikkelen. Voorbeelden zijn tools van de International Labour Organization (ILO), de International Organization for Migration (IOM) en KnowTheChain.

Definieer uw beleid

Bij het bepalen van uw standpunt kunnen verschillende stappen helpen:

- Het screenen van internationale standaarden en richtlijnen die het pensioenfonds heeft ondertekend kunnen als basis gelden voor het creëren van beleid.
- Definieer uw missie en visie met betrekking tot dwangarbeid.
- Breng de visies en meningen van belangrijke stakeholders in kaart.
- Maak een materialiteitsscan van dwangarbeid en de risico's die eraan verbonden zijn.
- Breng uw portfolio in kaart en onderscheid die sectoren die kwetsbaar zijn voor exploitatie.
- Bepaal welke duurzame beleggingsinstrumenten het meest passen bij het beleid en de investeringsstrategie van uw pensioenfonds.

Start met rapporteren en wees transparant

Bij het ontwikkelen van een beleid op dwangarbeid en het in de praktijk brengen hiervan, is het van groot belang om transparant te zijn over de redenen van het vormgegeven beleid en de uitdagingen die het pensioenfonds tegenkomt. Een heldere uitleg van de genomen stappen kan zorgen voor meer bewustwording, meer kennisdeling en meer samenwerking. Deze studie laat zien dat er op het gebied van rapporteren nog heel veel te winnen valt.

Werk samen

De uitdagingen omtrent de implementatie van het beleid kunnen alleen overwonnen worden door meer samenwerking. Het gaat dan niet alleen om samenwerking tussen bedrijven of institutionele beleggers onderling, maar voor pensioenfondsen is het van groot belang ook samen te werken met data providers, asset managers, vakbonden, Ngo's en bovenal met andere pensioenfondsen. Wanneer pensioenfondsen samenwerken hebben zij de macht om meer specifieke richtlijnen en criteria te stimuleren. Wanneer institutionele beleggers de handen ineen slaan met betrekking tot dwangarbeid kan dit effect hebben op de levens van vele werknemers wereldwijd. Het IMVO Convenant voor de pensioenfondsector biedt veelbelovende perspectieven voor meer samenwerking op dit gebied.

Gebruik de expertise van vakbonden

Pensioenfondsen kunnen baat hebben bij de kennis van vakbonden bij het ontwikkelen van een beleid op dwangarbeid. Hier is vaak de kennis aanwezig over lokale omstandigheden. Daarnaast kunnen vakbonden een belangrijke rol spelen in het versterken van andere vakbonden in ontwikkelingslanden.

Forced labour is often hidden in supply chains
and can take subtle forms.



1 Introduction

Over the last years there have been major developments in the field of responsible investment. Sustainability themes are increasingly high on the agenda of pension funds. There is a growing attention to respect the fundamental human rights of workers. An important part of these labour rights is forced labour.

The main goal of this study is to provide an overview of how pension funds are coping with the topic of forced labour. We look at the challenges to overcome, and the motivations for implementing a clear policy. Based on the results, the final chapter aims to provide pension funds with recommendations on how to formulate and implement a policy on forced labour. In this study we discuss the following:

- In chapter 2 we describe the methodology used;
- In chapter 3 we offer a short background of the theme;
- Chapter 4 looks at how forced labour is linked to responsible investment and why it is an important topic for pension funds;
- An overview is offered on how pension funds deal with the topic of forced labour in chapter 5;
- And the last chapter shows the conclusions and offers practical recommendations on how to approach this topic as a pension fund.

We hope the recommendations will provide pension funds the information and the tools to take steps, not only in developing a clear policy, but also in reporting on forced labour, because this grave violation of human rights should be eradicated from this world and pension funds have an important role to play.

2 Methodology

This study focuses on the fifty largest Dutch pension funds and their investments related to forced labour. All answers have been aggregated anonymously and responses are not traceable to individual pension funds.

Data gathering

Three different methods of gathering data were used:

- A literature review of existing research was performed on the topic of forced labour and the social and financial implications of creating a policy on forced labour.
- Based on the desk research, a questionnaire was sent out to the pension funds. This questionnaire focussed on the policies and practices applied and instruments used by pension funds regarding forced labour. The response on the questionnaire was processed on basis of anonymity.
- Qualitative interviews were held with pension funds to collect in-depth information about the policies pension funds have and what obstacles they encounter. Interviews were also held with experts in the field of forced labour in order to provide a more comprehensive background on the topic.

Forty pension funds replied to the questionnaire, which corresponds with a response rate of 75%. Information could be internally or publicly available. The questionnaire and the respondents that have given permission to be mentioned can be found in the appendices of this report.

Finally, when judging the results, a response bias should be considered since funds with a more formulated and developed policy on forced labour are more likely to respond. The information offered by pension funds was self-provided and not verified by VBDO.

3 Forced Labour

According to the International Labour Organization (ILO), modern slavery consists of both forced marriage and forced labour.¹ While more than 40 million people are the victims of modern slavery in total, 25 million people are estimated to be in forced labour. The ILO Forced Labour Convention described forced labour in 1930 as follows:

*"[...] all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily"*²

This definition highlights three essential elements of forced labour: work or service, menace of any penalty, and involuntariness. The definition includes, in principle, every kind of work or service, either in the private, public, informal or formal market place. Yet, forced labour typically occurs in industries that are poorly regulated, and where the production process requires many workers.³ The coercion involved in forced labour can take many forms. The use or threat of physical violence is not essential to characterize a labour relationship as 'forced labour'. Debt bondage, threatening to denounce a worker to immigration authorities, or the retention of identity papers can 'force' workers as well.⁴

Sixteen million people, are exploited in the private sector, four million are exploited by state authorities, and 4.8 million are sexually exploited. Gender does seem to affect both a person's vulnerability to becoming a victim of forced labour and the kind of labour she will most likely get involved in. Slightly more women than men are the victims of privately inflicted forced labour (57.6%), while men are more likely to become victims of state-imposed forced labour. Forced labour occurs in every region of the world.⁷ Agriculture and fishing, mining, construction and apparel are the highest risk sectors.⁸

¹ <https://www.ilo.org/global/topics/forced-labour/lang-en/index.htm>

² C029 - Forced Labour Convention, 1930 (No. 29), Article 2(1).

³ <https://www.antislavery.org/slavery-today/forced-labour/>

⁴ http://www.ilo.org/global/topics/forced-labour/news/WCMS_237569/lang-en/index.htm

⁵ Ibid.

⁶ Ibid, pp. 51-2.

⁷ Ibid, p. 26.

⁸ ILO forced labour estimates, p. 52.

PRISON LABOUR

Prison labour, often overlooked, shows an example of the many forms forced labour can take. While prison labour is in principle allowed under the rules of the ILO, labour standards should resemble those of a free labour relationship.⁹ The exceptional situation in the US is, however, that prison labour can be legally required under its national law.¹⁰ Therefore, the criminal justice system determines the amount of 'workers' available.¹¹ As a result of the very small or non-existent returns the inmates receive, the inmate labour market is worth over 1 billion dollar.¹² The ethical concerns involved in gaining economic benefits from punishment are increasingly recognised. Both NGOs and investors therefore urge for the critical assessment of a company's supply chain to avoid reputational and financial risks and human rights abuses.¹³

History

Slavery is no modern phenomenon: it has been a driving force behind economic development throughout history.¹⁴ While the slave trade between 1500–1800 globalised forced labour, it was only from the beginning of the nineteenth century onward that slave-trade became illegal.¹⁵ A first step to abolish slavery was taken by the League of Nations during its 'Slavery Convention' in 1926. The definition of slavery in this convention mainly focussed on the exercise of 'ownership' over a person.¹⁶ At present, slavery refers less to the actual owning of people and more about controlling and exploiting them.¹⁷ The broad definition employed by the ILO enables to apply to both forms of slavery.

⁹ http://www.ilo.org/empent/areas/business-helpdesk/faqs/WCMS_DOC_ENT_HLP_FL_FAQ_EN/lang-en/index.htm#Q3. Also see: <https://www.ethicaltrade.org/blog/can-prison-labour-ever-be-acceptable>

¹⁰ <https://www.economist.com/united-states/2017/03/16/prison-labour-is-a-billion-dollar-industry-with-uncertain-returns-for-inmates>

¹¹ <https://www.theatlantic.com/business/archive/2015/09/prison-labor-in-america/406177/>

¹² <https://www.economist.com/united-states/2017/03/16/prison-labour-is-a-billion-dollar-industry-with-uncertain-returns-for-inmates>

¹³ <https://www.greenamerica.org/hidden-workers-fighting-change/sale-now-prison-labor>

¹⁴ Axel Marx, "Combating Slavery, Forced Labour and Human Trafficking. Are Current

¹⁵ International, European and National Instruments Working?"

¹⁶ *Ibid.* & *Slave trades, 1500-1800 : globalization of forced labour/* ed. by Patrick Manning

¹⁷ Article 5(1) & Article 1(1) Slavery Convention, 1926. <https://www.antislavery.org/slavery-today/modern-slavery/>

The numbers show that the goal envisioned by the above-mentioned ILO Convention was not sufficient to successfully eradicate forced labour. The previous decades have however, resulted in significant changes in the characteristics of forced labour. In 1930 forced labour was primarily used by colonial administrators and certain independent states.¹⁸ The ILO Convention No. 29 in 1930 aimed at the progressive abolition of forced labour in these colonies and the suppression of its use in the private sector.¹⁹ During this ‘transitional period’ states were still allowed to use forced labour when certain regulations were adhered to. After recognising that this transitional period had expired for a long period already, forced labour was also no longer allowed in the public sector under any circumstances.²⁰

International guidelines, regulations, and initiatives

On a global scale, the **UN Guiding principles on Business and Human Rights** name business enterprises as ‘specialized organs of society’. This brings with it a responsibility to comply with laws that are applicable in general, with a focus on human rights in their supply chains in particular.²¹ The Sustainable Development Goals (SDGs), adopted in September 2015 provide a powerful framework to address the Environmental and Human Rights challenges of our time. SDG 8 focuses on decent work and economic growth.²² While labour is often viewed as a way to escape poor living conditions, it is also the cause for distress for many. One of the global targets under the SDGs, 8.7, therefore focuses on immediate and effective measures to eradicate forced labour and end modern slavery. In addition, international organisations, like the ILO, G20 and UN have emphasized their commitment to the eradication of forced labour.²³

¹⁸ ILO

¹⁹ http://www.ilo.org/global/topics/forced-labour/publications/WCMS_508317/lang-en/index.htm

²⁰ http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---declaration/documents/publication/wcms_508317.pdf p. 6

²¹ https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

²² <http://www.undp.org/content/undp/en/home/sustainable-development-goals/goal-8-decent-work-and-economic-growth.html>

²³ https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_556159/lang-en/index.htm &

https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_562082/lang-en/index.htm &

<https://news.un.org/en/story/2016/12/546802-international-day-un-spotlights-need-combat-forced-labour-particularly-children> &
<https://www.ituc-csi.org/unions-call-for-political-courage>

On a regional level, the EU has, for example, implemented a Non-Financial Reporting Directive which requires larger enterprises and organisations to not only report on financial results, but on environmental and social criteria as well.²⁴ These efforts are supplemented by a human trafficking and conflict minerals directive.²⁵

On a national level the **UK's Modern Slavery Act**, for example, requires companies with a revenue above a threshold of 36 million pounds to publish an annual statement which includes (1) the steps taken to eradicate forced labour and human trafficking from their supply chains, or (2) to publish a statement that no steps to either reduce or confirm the existence of slavery and trafficking were taken.²⁶

This Act, together with the **French Due Diligence law** (2017) and the statements made in the **German National Action Plan** highlights the growing public attention toward human rights conduct of companies in general, and the growing tendency to highlight a company's responsibility for the developments within its whole supply chain.²⁷ For investors this suggests higher financial and reputational risks when investing in companies without insight in their supply chains.²⁸

Also in the **Netherlands, a National Action Plan on Business and Human Rights** has been published in 2013.²⁹ This action plan focuses on the specific topic of 'forced labour & modern slavery' the ratification of the ILO's fundamental labour standards and the inclusion of provisions on sustainability and ILO standards in its trade and investment agreements.³⁰ In addition, an initiative for the pension sector in the Netherlands has been developed aimed at both determining and achieving goals with regard to corporate social responsibility. In this so-called

²⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>

²⁵ [https://ec.europa.eu/anti-trafficking/legislation-and-case-law-eu-legislation-criminal-law/directive-201136eu_en & http://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/](https://ec.europa.eu/anti-trafficking/legislation-and-case-law-eu-legislation-criminal-law/directive-201136eu_en&http://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/)

²⁶ https://en.wikipedia.org/wiki/Modern_Slavery_Act_2015

²⁷ CHRB report, p. 10.

²⁸ Know the Chain: "Forced Labour Action Compared: findings from three sectors", p. 10.

²⁹ <https://globalnaps.org/country/netherlands/>

³⁰ <https://globalnaps.org/issue/forced-labour-modern-slavery/>

IMVB Covenant the public and private sector are working together to strengthen sectorial, national and international guidelines.³¹

The OECD Guidelines, on which this IMVO Covenant is based, emphasize the responsibility of companies to develop sound due diligence policies on human rights in general, with a specific focus on forced labour.³²

³¹ <https://www.pensioenfederatie.nl/actueel/nieuws/2018/openbaar/01-januari/pensioenfondsensector-start-besprekingen-voor-imvo-convenant>

³² http://mneguidelines.oecd.org/MNEguidelines_RBCmatters.pdf

4 Forced Labour and Responsible Investment

This chapter outlines the impact pension funds can have on eradicating forced labour, how they can create this impact and where the challenges lie. As large capital asset owners and shareholders of companies, pension funds can have a significant effect on the policies and activities of these companies and on their societal impact.

The challenges regarding forced labour lie mainly within the supply chains of companies. These supply chains have become increasingly complex as a result of growing globalisation. Production is often outsourced to multiple companies within different countries where there is limited guarantee of decent work and the risk of forced labour occurs. Being aware of both environmental and human rights risks in the supply chain of the companies in the investment portfolio is essential to eradicate investment risks. Institutional investors are increasingly aware of these risks and aim for higher standards.

Forced labour is perceived as one of the gravest violations of labour rights. Eliminating forced labour is therefore considered an essential minimum standard to adhere to. Since an estimated 25 million people are victims of forced labour there is still a huge potential for improvement in companies' supply chains.³³ Some important motivations as to why pension funds should integrate forced labour considerations into their responsible investment policy and practices are listed below.

³³ http://www.ilo.org/wcmsp5/groups/public/-dgreports/-dcomm/documents/publication/wcms_575479.pdf

The Motivations

Ethical: Many institutional investors acknowledge they have an ethical obligation to address Environmental, Social and Governance (ESG) issues. This is related to the increasing acceptance by institutional investors that they share an ethical or moral responsibility for the external consequences of their investment choices. As is stated in the UN Guiding Principles on Business and Human Rights, companies have a responsibility to respect human rights, which includes both the duty to avoid causing or contributing to adverse human rights impacts and to seek to prevent or mitigate adverse human rights impacts.³⁴ The use of forced labour is a serious breach of the victims' human dignity. It combines (1) the limitation of the freedom of the victims, (2) their exploitation for the benefit of others and (3) the fact that these practices often target the most vulnerable members of society, such as migrant workers, temporary workers and children. In order to achieve SDG 8 (inclusive economic growth and decent work for all) active contributions of the financial sector are needed. Pension funds therefore have multiple ethical duties to fulfil: not to willingly profit from the use of forced labour and to actively encourage and reward business activity aimed at eradicating forced labour and which provide decent work for all. In addition, there is a growing global momentum in both soft and hard law instruments to accelerate the eradication of forced labour, making involvement in forced labour practices not only unethical but unlawful as well.³⁵

Fiduciary: According to the PRI report 'Fiduciary Duty in the 21st Century', not incorporating long-term investment value drivers, which include ESG issues, is a failure of the fiduciary duty. ESG risks are increasingly being considered as financial material, both in positive terms (High ESG performance is linked to a higher financial performance) as well as in negative terms (not taking ESG issues into consideration can result in lower returns). Since forced labour is one of the

³⁴ UN Guiding Principles on Business and Human Rights, par. 13.

³⁵ Know the Chain, Food and Beverage Benchmark Findings report, p. 5.

gravest violations of human rights, it is the duty of pension funds to contribute to its eradication.

Financial: A focus on ESG issues in the investment research and decision-making process can improve the investment performance, especially in the long-term. Within the pension fund sector there is a growing recognition that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of a company. Increased public scrutiny after the recognition of a company's involvement in forced labour practices can decrease a company's value and consumer demand for its goods. In addition, (inter-)national legislation can have serious financial consequences. In Brazil, for example, companies were effectively blacklisted after being fined for two years for using forced labour; they could not obtain loans from state-backed banks and are barred from receiving public funds.³⁶

Reputational: Increasingly, participants of pension funds expect to contribute to a positive impact on society. A strong responsible investment policy can prevent investments in companies that exploit workers or engage with companies where the labour rights of workers are being violated. This will help prevent reputational damage for the investors.³⁷

Businesses are steadily acknowledging that commitment to corporate responsibility is a growing part of 'brand' image requirements. Regarding forced labour, this commitment to corporate responsibility extends beyond the company's first-tier suppliers: reputational damage can also occur when their business activities are linked with suppliers and contractors that are involved in forced labour.³⁸ Even upward in the chain investors have the responsibility to make sure their investees live up to this responsibility.

³⁶ <https://www.theguardian.com/global-development/2016/mar/02/brazil-loss-dirty-list-sparks-fears-worker-exploitation-olympic-games-international-labour-organisation>

³⁷ <https://www.investopedia.com/terms/r/reputational-risk.asp>

³⁸ https://www.ilo.org/empent/areas/business-helpdesk/WCMS_DOC_ENT_HLP_FL_EN/lang-en/index.htm

Qatar case

The 2022 World Cup has put the spotlight on Qatar. This spotlight also exposed the very questionable condition of labour rights in the country. While including many different elements, the kafala system has been at the centre of scrutiny. This system enables employers to have near total control over the movement of the workers they employ. This includes their movements within Qatar, their ability to change jobs, and even their ability to leave the country.³⁹ This often results in the inability of many construction as well as domestic workers to return home, since the kafala system mainly targets migrant workers from poorer countries, such as Bangladesh, the Philippines and Nepal.

NGOs, (international) trade unions, media outlets and the ILO have worked together to address the exploitation of these workers that may end up being the victims of forced labour. This system was so deeply embedded, and so many actors were involved that international cooperation was required. This requires research into money flows and the companies involved. It also resulted in the initiation of an ILO commission of inquiry, the pressuring of all actors that were either directly or indirectly involved in the World Cup and the economic and financial activities associated with this event. Additionally, the joint effort resulted in a technical cooperation programme between ILO and Qatar, and a real commitment by the Government of Qatar to make positive change on the ground for all workers.⁴⁰ This example shows how powerful international cooperation between all sectors including NGOs and trade unions can be in addressing forced labour

³⁹ https://www.ituc-csi.org/IMG/pdf/the_case_against_qatar_en_web170314.pdf

⁴⁰ https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_592473/lang-en/index.htm

The Challenges

While creating a responsible investment policy and practices on forced labour involves some challenges, but this should not hinder pension funds to include the topic in the investment policy. In this study we have focussed on the most heard challenges.

CHALLENGE 1 | There is not enough data available to act on forced labour.

The availability of more data is mentioned most often by pension funds as needed to develop a responsible investment policy to eradicate forced labour. Sufficient, high quality data and information are important when embedding ESG factors into the investment process. The development of data is executed by rating agencies, sustainability consultancies and benchmarks. Examples include the Corporate Human Rights Benchmark, the Workforce Disclosure Initiative and the benchmarks developed by KnowTheChain. The lack of information on the current state of affairs requires more disclosure of the necessary information by companies. Prioritising the topic and working together with the right partners that possess the right expertise in this field is extremely valuable.

CHALLENGE 2 | Forced labour is often 'hidden' in supply chains and can take 'subtle' forms

When companies themselves have difficulty detecting forced labour in their own supply chains, how can pension funds be expected to eliminate forced labour from their investment portfolio? Research has indicated that most companies that address forced labour both start and end their due diligence by focusing on first-tier contractors and suppliers.⁴¹ But forced labour is often hidden away in the second or third tier. Besides, forced labour can take 'subtle' forms, which makes detecting it very difficult. An example of a subtle form of forced labour is the withholding of passports or identity papers for "safe keeping", which is used by the kafala system.

⁴¹ https://knowthechain.org/wp-content/uploads/KTC_CrossSectoralFindings_Final.pdf

The increasing complexity and international character of supply chains makes increased transparency essential. Especially companies operating in labour intensive sectors need to identify forced labour risks beyond the first tier. Investors could improve their insight in supply chains by stimulating companies to expand their due diligence. Pension funds should use the expertise of NGOs and trade unions, since they can play an important role in assessing local circumstances.

CHALLENGE 3 | There is a lack of awareness of the problems forced labour presents in the global economy.

Globally, increased attention has been given to the eradication of forced labour. Major international organizations like the G20, the UN and the International Trade Union Confederation (ITUC) have voiced their particular focus on this goal.⁴² In addition, the ILO recently established a Global Business Network on Forced Labour and Human Trafficking and adopted a new protocol and recommendations on forced labour.⁴³ Dutch pension funds could use the increased global urgency for additional information, lobby possibilities and to apply pressure on their investees.

CHALLENGE 4 | There is a lack of available tools that can help pension funds to adequately address the issue of forced labour

For a successful eradication of forced labour, a convincing methodology is needed. As pointed out previously, clear rules and transparency are important to stimulate this development. Any method is subject to criticism but the initiatives can serve as important starting points. Different initiatives and organizations such as KnowTheChain, the ILO, the International Organization for Migrants (IOM) and the Walkfree Foundation have developed tools that can be used as a baseline to start.

⁴² https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_562082/lang-en/index.htm & <https://news.un.org/en/story/2016/12/546802-international-day-un-spotlights-need-combat-forced-labour-particularly-children> & <https://www.ituc-csi.org/unions-call-for-political-courage>

⁴³ https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_556159/lang-en/index.htm



Annie van Wezel

Former Senior Policy Adviser
International Affairs FNV

Do you consider international solidarity of trade unions essential for the fight against forced labour?

Yes, I definitely do. Trade unions generally operate on a national level, and due to this focus on one specific country they are very capable of influencing national legislation.

However, since our economies are increasingly linked worldwide, the collaboration between various trade unions is essential. Without understanding the complexity for example of existing global supply chains, it is unclear what national legislation is necessary in order to tackle the problem of forced labour effectively. Moreover, it is important to prevent multinationals from misusing their position by relocating their activities to countries with low or no protection of labour rights, or by threatening with doing this. By establishing international trade union solidarity, it will be prevented that workers will be played off against one another, which would weaken their negotiating position.

International solidarity of trade unions also can put pressure on governments of countries in which labour rights are low on the political agenda. More international attention combined with good collaboration between unions, NGOs and the International Labour Organisation (ILO) has led to improvement of the labour rights of migrant workers in Qatar [see textbox]. This is a great example of how trade unions deployed all instruments at their disposal, in combination with international collaboration, to enforce a breakthrough in a relatively short period of time.

One of the instruments at the disposal of trade unions is to research financial flows of Dutch pension funds in order to determine whether they are co-responsible for funding forced labour. I sincerely hope that pension funds will put the issue of forced labour and modern forms of slavery higher on their agenda.

What norms and regulations would help the pension fund sector to eliminate forced labour within their investment policies?

Obviously, the norm should be to stop investing in forced labour altogether. The question would be how to reach this norm. For this, a clear plan with time bound targets is essential. In order to develop such a plan, insight into the supply chain is indispensable. Therefore, pension funds should require transparency of companies within their portfolio on what they are doing on 'due diligence' regarding forced labour.

There is a clear movement emerging to push the elimination of forced labour and best practices such as Qatar, are helping to support this movement. In addition, some important reports have been published. An example is the report 'Modern Slavery in Company Operation and Supply Chains' of the international trade union organisation ITUC in collaboration with the Business & Human Rights Resource Centre, as well as the report of Walkfree: 'Global slavery index'. These reports could function as instruments and information sources to identify risks. As a consequence of the further development of such instruments, the due diligence of companies with regard to forced labour is improving. It is also becoming easier to demand and to monitor it.

Unfortunately, for a great deal of companies the process of due diligence on forced labour is not yet in order. When companies do have proper due diligence on for example child labour this policy could easily be connected to forced labour since both human rights violations often occur in the same vulnerable groups.

What role should pension funds have in eliminating forced labour and how could this role best be developed?

One of the new themes in the recent Protocol of Convention 29 on forced labour of the ILO is the focus on the prevention of forced labour as well as compensation and rehabilitation of the victims of forced labour. These two parts are indispensable

for every plan of action that is created, after well-executed due diligence. From companies can be expected that they are preventing forced labour in their supply chains, and secondly when it occurs, to compensate people who have been victims of forced labour.

In addition, it is essential for pension funds to actively participate in the public debate on forced labour. They should make explicit that the use of forced labour within the supply chain of companies is unacceptable, and compare it for example, with their policies on cluster bombs. This gives a clear signal to governments that there is a need for regulation to address the issue of forced labour in supply chains. This could be done by imposing a ban on the import of products that have been created with forced labour. The power of pension funds should not be underestimated, and they should play a clearer role in this debate.

Pension funds hardly report on forced labour explicitly. Most funds report on labour rights in general. Is it important that pension funds explicitly report on forced labour?

The core labour standards of the ILO should unquestionably be seen as a coherent whole, together with the other standards associated with the concept of 'decent work', including, for example, a living wage. That being said, involvement in forced labour and child labour should receive extra focus due to the serious violations of human dignity. With the adoption of the Sustainable Development Goals, the UN has agreed that child labour should be banned by 2025 and forced labour and all forms of modern slavery by 2030. These goals have created a worldwide momentum to actually tackle this problem. For both child labour and forced labour, I advise pension funds to make their policies explicit, both in their public reporting and in their internal policies. This policy could be linked to the SDGs and preferably strengthened with time-bound targets.

Where lie challenges for pension funds?

There is always a discussion about the lack of data: 'how do you organise due diligence without the right information?' It is again linked to transparency. If you want to obtain more information or data, it is important to cooperate with trade unions and NGOs. In this way, you will obtain knowledge on where the risk sectors and areas are located. The ILO, the International Organization for Migration (IOM), and the Walkfree Foundation are working on a map to identify the risk areas. It may take a lot of effort to gather information, but I do not believe it is impossible. When I worked for the FNV together with the trade unions in Asia, they were always able to take me to visit factories anywhere. The argument that companies cannot detect what is happening within their supply chain, I do not accept.

However, awareness can be a problem. With regard to forced labour, some companies think of slave labour only as known in former times and they are not aware of modern forms of slavery and forced labour. Moreover, there is sometimes the misconception that forced labour does not occur in Europe. So more awareness is important, but the main point is that pension funds should collaborate on this subject, and most importantly, to prioritise this subject.

The argument that clear toolkits are missing is less and less relevant. Toolkits are currently being developed by, for example, the ILO, which has also established the Global Business Network on Forced Labour in which toolkits and tips for collaboration are shared. Moreover, as a company and as an investor, you cannot wait to solve this problem until the solution is served on a silver platter. It is for pension funds to find out whether or not they unintentionally are investing in forced labour.

How could pension funds best deal with companies that do not have their due diligence in order?

Firstly, it is important to focus on engagement. There are certainly companies with goodwill that do not yet have a complete picture of forced labour in their supply chains. When I travelled in India my first image of forced labour was that of people who have been victims of debt bondage for generations. Only later did I come across modern forms of slavery and forced labour like for example the Sumangali system, in which young women work in the garment industry and receive part of their wages only after three years. The withholding of migrants' passports is also a modern form of slavery. There are companies that only do business in Europe and assume that forced labour does not occur there. Yet unfortunately forced labour is also happening in Europe including in the Netherlands.

Although engagement is an important instrument, it should come with a clear time limit. When companies do not show enough progress, exclusion should be the next step. The use of forced labour is a very serious violation of labour rights, serious enough to justify exclusion.

5 Results

This chapter presents and analyses to what extent forced labour is considered in the investment process. The results are based on questionnaires sent to the fifty largest Dutch pension funds of which forty funds responded.

Forced labour in the investment portfolio

Many pension funds have incorporated forced labour indirectly through the ILO Conventions, UN Global Compact or the OECD Guidelines. But only one pension fund publicly reports on forced labour. Most pension funds only report on labour rights in general. Although forced labour is an inherent part of labour rights, it is such a grave violation of human rights that explicit reporting can help send a strong signal: this is an important topic for pension funds. In addition, by not reporting on specific issues the evaluation of a fund's responsible investment practices by its participants and interests groups is made more difficult. Although only one fund indicates to report on forced labour, twenty-six of the responding funds have included forced labour into their responsible investment policy and use one or more of the below mentioned instruments.

Only one pension fund explicitly reports on forced labour

Exclusion



Exclusion is a responsible investment strategy that systematically excludes certain companies, sectors or countries from the investable universe.

In some cases, exclusion is considered to be a last-resort after a period of engagement. The reasons to exclude can vary from legal grounds or reputational standpoints to ethical beliefs.

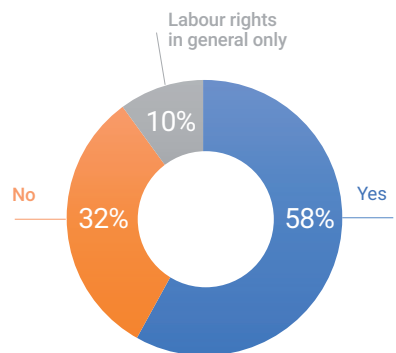


Figure 5.1 Is forced labour used as one of the criteria for exclusion

In total, a majority of the responding pension funds (58%) indicates that forced labour is specifically used as one of the criteria that leads to the exclusion of certain companies and funds from their portfolio. 10% indicates to focus their exclusion policy on respecting labour rights in general.

ESG Integration

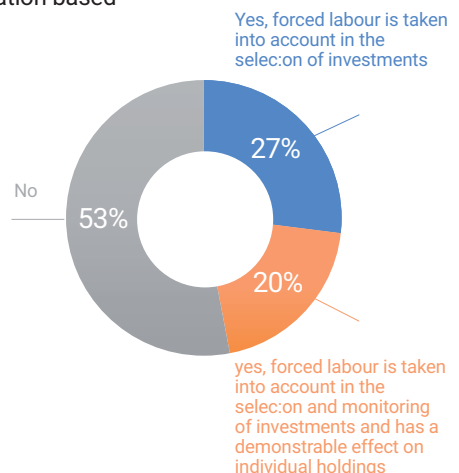


ESG integration is a process in which ESG factors are systematically integrated into the investment analysis. ESG identifies and weighs those ESG factors that could have a significant impact on the long-term performance of the portfolio. Pension funds can apply ESG integration in different ways. The three methods of ESG integration according to the VBDO Pension Fund Benchmark⁴⁴ are:

- A basic form of ESG integration. This could be, for example, the requirement for asset managers to be a signatory to the PRI.
- A more advanced form of ESG integration. This could, for example, mean that ESG information is included in the composition of an ESG-index or that one-pagers detail the company's sustainability performance;
- A very advanced form of ESG integration. In these cases, ESG is not only taken into account, but also has a demonstrable effect on individual holdings. For example, there could be an automated under- or overweighting in company stock valuation based on ESG criteria.

Best in class investments can be seen as a specific form of ESG integration. This goes beyond under or overweighting company stocks.

Figure 5.2 Is forced labour taken into account in ESG integration?



⁴⁴ VBDO Benchmark 'Responsible Investment by Pension Funds in the Netherlands 2018'.

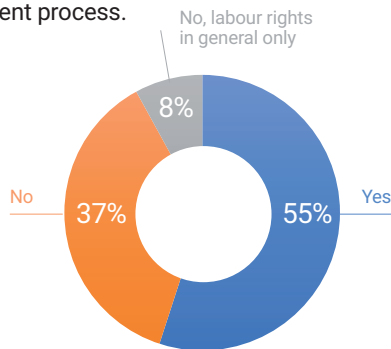
Half (21) of the funds do not include forced labour in their risk assessment as part of ESG integration. Considering the grave human rights violation involved in forced labour, important improvements can be made here. The other half (19) do take forced labour into account. Eight of them look beyond the selection of investments and monitor the actual effect on these investments. Forced labour criteria therefore have a demonstrable result on individual holdings of these funds.

Engagement

Pension funds provide companies with the capital to engage in a range of activities. In return, asset owners can actively influence the policies and activities of these companies. In most cases, the asset manager conducts engagement activities on behalf of the pension fund, whether or not by an external engagement service provider. Through engagement, the pension fund dialogues with the companies it invests in, in order to address business strategy and ESG issues.

Engagement is most effective when time-bound and measurable targets are set. This is beneficial to both guide the actual change in policy and to prevent abuse of the extra time given to companies to adjust their practices. In addition, a demand for transparency regarding a company's supply chain is essential in order to monitoring the progress made with regard to the elimination of forced labour as a result of the chosen engagement process.

Figure 5.3 Is forced labour taken into account in engagement?



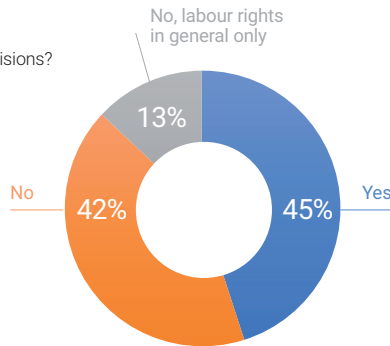
After exclusion, engagement is the most popular responsible investment tool to use against forced labour. Fifty-five per cent of the pension funds state that forced labour is included in their engagement criteria. Eight per cent of the funds states that whereas forced labour is not included in their engagement policy, labour rights are addressed in general.

Voting



As a shareholder, institutional investors have certain rights that can be exercised to address particular themes. Voting at annual general meetings is one such right. This provides the investor with a tool to directly influence a certain policy or activity. Shareholders can suggest, adopt or reject resolutions through voting.

Figure 5.4 Has forced labour taken into account in voting decisions?



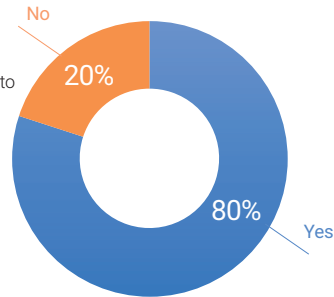
This study showed that nearly half of the responding pension funds (18) include forced labour in their voting criteria. Additionally, 5 funds, while not specifically voting on forced labour criteria, do include labour rights in general in their voting policy. Seventeen funds do not include labour rights in their voting criteria at all. This suggests that important improvements can be made in the exercise of active ownership of pension funds regarding forced labour.

Impact Investing



Impact investing is not a popular investment instrument to use to strengthen labour rights. Of the responding pension funds, 32 (80%) indicated they do not invest in impact investments that aim to strengthen labour rights. Of the 8 funds that did signal impact investments, 5 funds have framed these investments in terms of targets.

Figure 5.5 Does the pension fund use impact investments to strengthen labour rights in general?



Acting on forced labour

We asked pension funds what is most needed to address forced labour adequately. Multiple answers were possible. Most pension funds indicated that more sufficient data would be most effective to improve their investment policies. This is followed by a lack of awareness and education around the subject of forced labour, the need for a toolkit on how to eliminate forced labour and know-how on impact measurement.

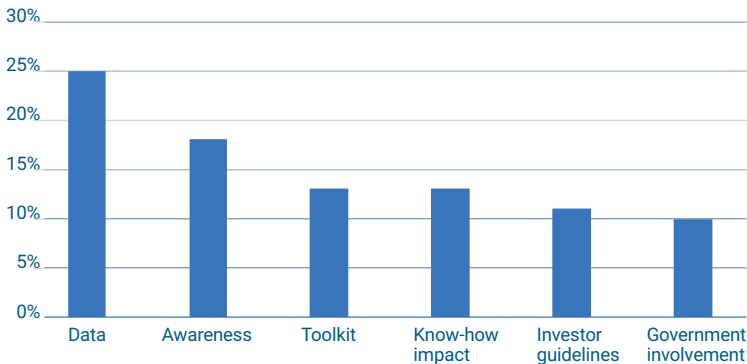


Figure 5.6 What is most needed in order to effectively include forced labour in responsible investment?

Best practise Pensioenfonds schoonmaak- en glazenwassersbedrijf

BPF Schoonmaak regards labour rights and human rights as two of the most relevant themes within its responsible investment policy. The reason for highlighting these topics is that especially in the cleaning sector, high demands are being placed on employees. This makes the protection of labour rights very important. Not only does the fund prioritize labour rights, a specific focus is also being given to forced labour. The board played an important role in prioritizing this topic. BPF Schoonmaak shows it is a matter of choosing clear focus points within your responsible investment policy and this applies in particular for smaller funds.

Freedom of association and the right to collective bargaining, Living Wage and Forced Labour; a comparison

In 2016 and 2017 VBDO performed a study on the role of pension funds in the subjects of ‘freedom of association and the right to collective bargaining’ and ‘living wage’. After three years of researching different labour rights, the conclusion must be drawn that Dutch pension funds do not prioritize these topics. Huge improvements can be made, not just in creating a clear policy, but also in reporting about these fundamental human rights.

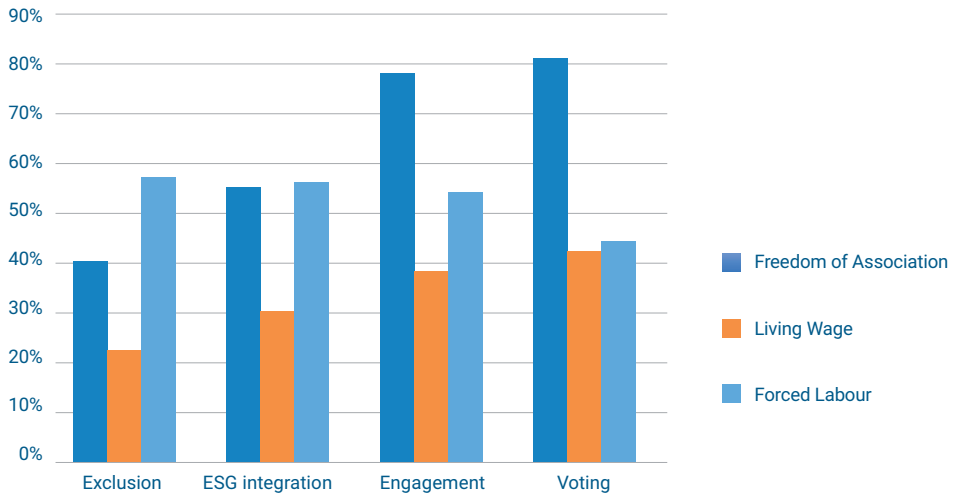


Figure 5.7 Comparing Freedom of Association, Living Wage and Forced Labour; a comparison.

6 Conclusions and Recommendations

Conclusions

Forced labour is a grave violation of human rights. Institutional investors have an important role to play in eliminating this form of modern slavery. Yes, forced labour is often hidden away deep down in supply chains, and yes, forced labour can take many, and sometimes very subtle, forms. Forced labour has no clear face. Its victims are usually not shackled together working in the fields (except maybe in the case of prison labour). But this does not mean it isn't there.

To repeat the numbers; a staggering 25.000.000 people are expected to work under force.

The numbers

Although only one pension fund indicates to publicly report on forced labour, twenty-six of the responding funds have included forced labour into their responsible investment policy with the use of one or more investment instruments. The most used instrument is exclusion. A majority of the responding pension funds (58%) indicates that forced labour is specifically used as one of the criteria that leads to the **exclusion**.

Exclusion is closely followed by **engagement**. 55% of the pension funds state that forced labour is included in engagement criteria. Remarkable is that when asked which instrument pension funds would recommend with regard to forced labour, a majority named engagement. We see that half of the funds (47%) include forced labour in their risk assessment, as part of **ESG integration**. 45% of responding pension funds uses the instrument of **voting** to influence the policy of companies with regard to forced labour.

These numbers show that a lot of progress can, and has to be made regarding forced labour. Pension funds hardly play a visible role in addressing this grave violation of human rights. Although most pension funds do report on labour rights

in general (of which forced labour is an inherent part), explicit reporting sends a signal that forced labour in the investment portfolio is unacceptable. Reporting raises much needed awareness about the topic among companies and society in general

Recommendations

Speak up

A majority of the responding pension funds have incorporated forced labour into their responsible investment policy. It is time for pension funds to become more visible about how they are dealing with this topic. In this study only one pension fund indicated to publicly report on forced labour. This role of visibility can also be extended to active participation in the public debate on forced labour.

Start using existing data and stimulate innovations

A lack of data is seen as the biggest challenge by pension funds. Sufficient, high quality data and information are important when embedding ESG factors into the investment process. The development of relevant data is executed by rating agencies, sustainability consultancies and benchmarks; such as the Corporate Human Rights Benchmark, the Workforce Disclosure Initiative, the Global Slavery Index and the benchmarks developed by KnowTheChain. Prioritising the topic and working together with partners that possess the right expertise in this field is extremely valuable. Pension funds could use the expertise of trade unions and NGOs to collect the needed information.

This lack of data can also be perceived as a motivation to increase due diligence practices to promote the eradication of forced labour. Since forced labour often occurs beyond first tier suppliers and contractors, there is especially a need for increased transparency in companies' supply chains. Actively promoting the normative screening of companies in an investment portfolio in combination with engagement and exclusion policies decreases those parts of a company's supply chain that now remain invisible, thereby reducing numerous financial, reputational and ethical risks. Innovations such as the use of big data, sentiment and social

media analysis, the use of drones and real time stakeholder engagement with workers (using tools such as Ulula app) could help companies to (jointly) tackle the challenges. Gradually more of these tools are becoming available at a large scale. Investors could play an important role in making companies aware of these possibilities.

Get a grip on supply chains

Forced labour is often 'hidden away' in the second tier and beyond in supply chains. Research has indicated that most companies that address forced labour both start and end their due diligence by focusing on first-tier contractors and suppliers. Besides, forced labour can take 'subtle' forms, which makes detecting it very difficult. The increasing complexity and international character of supply chains makes more transparency essential. Especially companies operating in labour intensive sectors need to identify forced labour risks beyond the first tier. Investors could improve their insight in supply chains by stimulating companies to expand their due diligence. Pension funds should use the expertise of NGOs and trade unions, since they can play an important role in assessing local circumstances. NGOs and trade unions could also think about different possibilities of sharing their knowledge in a way that is relevant and useable for investors.

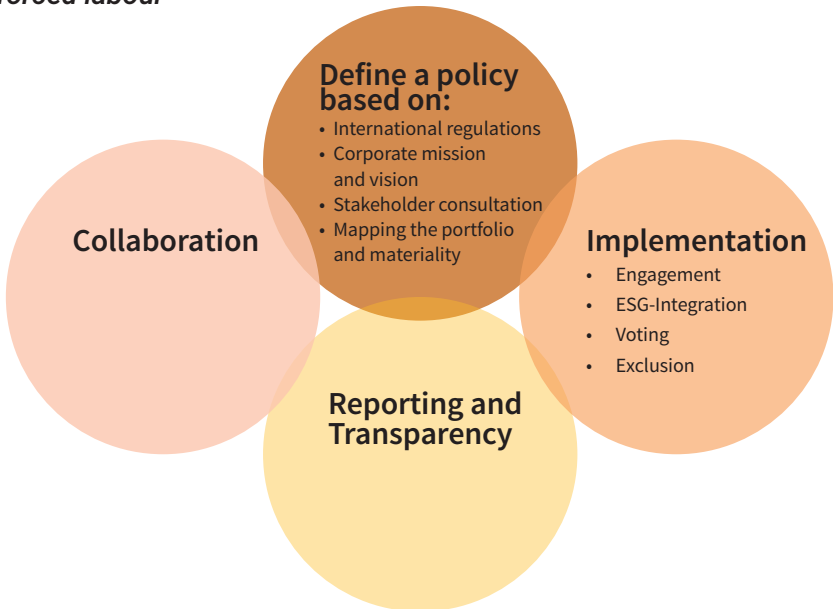
Seize the moment

Globally, there has been increased attention to the eradication of forced labour. Awareness is growing. Major international organizations like the G20, the UN and the International Trade Union Confederation (ITUC) have voiced their particular focus on this goal. Dutch pension funds could use the increased global urgency for additional information, lobby possibilities and raising awareness at their investees.

Use existing tools as a baseline to start

For a successful eradication of forced labour, a convincing methodology is needed. As pointed out previously, clear rules and transparency are important to stimulate this development. Any method is subject to criticism; nevertheless several initiatives could serve as important starting points. Different initiatives and organizations such as KnowTheChain, the ILO and the International Organization for Migrants (IOM) have developed tools that can be used as a baseline to start.

Steps to implement a successful responsible investment policy on forced labour



Define your policy

Several inputs can help in defining your own point of view:

- Screen international standards and initiatives you have signed on to and use these as a basis for creating a policy.
- Define your mission and vision for your stance on forced labour.
- Map the opinions and viewpoints of your main stakeholders on forced labour.
- Make a materiality scan of forced labour and the linked risks.
- Map your portfolio and distinguish which sectors are particularly sensitive to exploitation.
- Define which responsible investment instruments would most likely fit your policy and investment management strategy.

Define a policy based on:

- International regulations
- Corporate mission and vision
- Stakeholder consultation
- Mapping the portfolio and materiality implementation
- Engagement
- ESG-Integration
- Voting
- Exclusion

⁴⁵ <https://www.pensioenfederatie.nl/actueel/nieuws/2017/openbaar/pensioenfondsen-werken-toe-naar-imvo-convenant>

Start reporting and be transparent

When developing a policy on forced labour and putting it into practice, it is of importance to be transparent on your policy, the arguments for creating this policy and the challenges faced. A clear explanation of the steps financial institutions can take on this topic will lead to more awareness, more knowledge sharing and hopefully to more collaboration on this issue. This study showed there is much to gain here.

Work together

The challenges concerning the implementation of a policy aimed at eradicating forced labour can only be overcome if there is more collaboration, and not just between companies but also between financial institutions. For pension funds, it is important to also collaborate with asset managers, data-providers, trade unions, NGO's and most important; other pension funds. If investors work together they will have the power to stimulate more specific guidelines and criteria for forced labour. Joining forces can have a notable positive effect on the lives of numerous workers around the world. The *IMVO Covenant* for the Dutch pension sector that is currently being developed provides promising prospects for this kind of cooperation.

Use the expertise of trade unions

Pension funds can benefit from the expertise of trade unions to develop an investment strategy on forced labour. They can play an important role in assessing the local circumstances.⁴⁵ Trade unions can also play a role in the empowerment of other trade unions in developing countries, with respect to forced labour.

Appendix 1 List of respondents

(These are the participants who have given permission for their names to be published in this study)

- *Algemeen Burgerlijk Pensioenfonds*
- *Algemeen Pensioenfonds KLM*
- *Bedrijfstakpensioenfonds Koopvaardij*
- *Bedrijfstakpensioenfonds Schilders*
- *Bedrijfstakpensioenfonds Schoonmaak*
- *Bedrijfstakpensioenfonds voor de Bouwnijverheid*
- *Bedrijfstakpensioenfonds voor de Media*
- *Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf*
- *Pensioenfonds APF (AkzoNobel)*
- *Pensioenfonds Architectenbureaus*
- *Pensioenfonds DSM Nederland*
- *Pensioenfonds Horeca en Catering*
- *Pensioenfonds Huisartsen*
- *Pensioenfonds KLM Cabinepersoneel*
- *Pensioenfonds Metaal en Techniek*
- *Pensioenfonds Openbaar Vervoer*
- *Pensioenfonds PGB*
- *Pensioenfonds SNS Reaal*
- *Pensioenfonds TNO*
- *Pensioenfonds UWV*
- *Pensioenfonds van de Metalektro*
- *Pensioenfonds Vervoer*
- *Pensioenfonds Vliegend Personeel KLM*
- *Pensioenfonds Werk en (re)Integratie*
- *Pensioenfonds Zorg en Welzijn*
- *Pensioenfonds voor Woningcorporaties*
- *Philips Pensioenfonds*
- *Rabobank Pensioenfonds*
- *Spoorwegpensioenfonds*



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