LIECHTENSTEIN INITIATIVE | FINANCE AGAINST SLAVERY & TRAFFICKING

# FAST INSIGHT 2

# Investor engagement to fight modern slavery and human trafficking

## About FAST

Finance Against Slavery and Trafficking (FAST) is a global public-private partnership mobilizing the financial system to fight modern slavery and human trafficking. The FAST Blueprint (September 2019) sets out five Goals and thirty Actions for financial sector actors to address modern slavery and human trafficking. This Insight focuses on the role of investor engagement under FAST Goal 3.

## Modern slavery and investor leverage

- In accordance with the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises, when an investor is connected to modern slavery and human trafficking through its investments it is expected to build and use leverage to seek to prevent, mitigate and remedy harm.

- Leverage depends on contextual factors, such as the size and duration of the investment, the nature of the investment strategy (active vs passive), the involvement of the investor in management, the investor's own capability and resources, and how 'crucial' the relationship is to the investee.

- Investors can exercise bilateral, collaborative and system-level leverage. Bilateral leverage refers to using the terms of the investment relationship and the powers exercised under it to influence the behaviour of the investee. Collaborative leverage involves investors working together, and with other partners, to influence investee behaviour. System-level leverage involves working to address regulation, market access and market expectations to better address these risks.

- If repeated efforts to build and use leverage in a business relationship do not succeed in addressing modern slavery risks, financial sector actors may need to consider divestment or exclusion. The aim of divestment must be to reduce risks to people, not just the business.

- Financial sector actors should consider how to benchmark and evaluate the leverage of their influence, to translate this into useable market information.

### More Information

- FAST, Leverage Practice Matrix
- Investor Alliance for Human Rights, Investor Toolkit on Human Rights
- PRI, Introductory Guide to Collaborative Engagement
- Shift, Financial Institutions
- PRI, The Case for Investor Engagement in Public Policy

## Investment stewardship

- Investor leverage activities may be shaped by 'stewardship' rules and expectations. Investment 'stewardship' aims to protect and enhance the value of investments over time. As stewards of financial capital, institutional investors are responsible for delivering risk-adjusted financial returns to their beneficiaries over the long-term.

- Stewardship expectations are framed both by the market and by regulation. Increasingly, stewardship expectations require investors to consider the social impacts of investment decisions.

- This is the effect, for example, of the EU Framework to Facilitate Sustainable Investment, which came into force in July 2020. During 2020, the European Commission and relevant financial regulators have been consulting stakeholders on corporate disclosure arrangements.

- Some jurisdictions have adopted a "comply-or-explain" approach. This includes both official regulation (Japan) and industry-led initiatives (Canada).

- National or regional Sustainable Investment Forums (SIFs) such as Eurosif are also influential in shaping and encouraging good stewardship practices.

### More Information

- European Commission, Non-financial reporting
- On regulatory frameworks: OECD, Investment Governance and the Integration of ESG factors
- On stewardship codes: ICGN, Global Stewardship Codes Network

## Engaging with high modern slavery risk investees

- The first step for investors is to identify salient modern slavery risks in their investment portfolio. The FAST Risk Mapping tool can help investors begin to identify the highest risk areas in their portfolio. Once high risk areas have been identified, deeper due diligence and engagement may be required to understand, manage and mitigate risk.

- Engagement focuses on dialogue with investees to address modern slavery risks. The aim is to incentivize investee companies to identify, reduce and address modern slavery risks and harms in their own value chains. This involves setting clear expectations and working with investees over time to ensure they meet those expectations. It is about building and using trust.

- Several regional initiatives have emerged in which institutional investors work together, and with investees, to foster such engagement. In Asia-Pacific, Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC) takes this approach. At it its launch in November 2020 it included 24 institutional investors with over USD 4 trillion assets under management. In the UK, the Find It Fix It Prevent It initiative takes a similar approach.

- The UN-supported Principles for Responsible Investment (PRI) also plays an increasingly important role. Its members collaborate on sector-specific human rights issues. PRI is moving to incorporate human rights into reporting requirements for all its members.

### More Information

- In the APAC region: Investors Against Slavery and Trafficking Asia-Pacific
- In the UK: Find It Fix It Prevent It
- On PRI: PRI Collaboration Platform

## Exclusion and divestment

- The aim of exclusion and divestment is to reduce modern slavery risks to people. Investors will need to identify whether exclusion and divestment, or continued investment and engagement, is more likely to achieve risk reductions.
- In many cases, divestment and exclusion will be the last measure in a process of graduated engagement and leverage. There will however be cases of large-scale, systemic forced labour where investors' ability to identify and address modern slavery risks is so limited that they may have no recourse but to divest. In 2017, for example, the Norwegian Government Pension Fund Global, the largest sovereign wealth fund in the world, divested from a company found to have used forced labour from the Democratic People's Republic of Korea.
- The possibility of divestment and/or exclusion can itself offer an important form of leverage. Since effective use of leverage depends on clear expectations, the terms for divestment and/or exclusion should be clearly spelled out from the commencement of an investment relationship and engagement with investees.
- Investors can make public 'observations' about divestment risks in order to influence the behaviour of both investees and other investors. The Norwegian Government Pension Fund Global has also pioneered this practice.
- In all cases, the aim must be to reduce modern slavery risks to people. Overly hasty divestment may increase these risks, for example by depriving vulnerable people of income or pushing them out of formal employment into informal work. Investors will need to work with experts to understand the impacts of proposed divestment and exclusion decisions on the ground.
- Divestment and exclusion do not absolve an investor of its responsibility to provide or enable effective remedy for modern slavery harms to which the investee was connected while the investor was invested. Investors may be in a better position to enable remedy if they remain invested and exercise leverage.
- The reasons for any divestment and/or exclusion decision should be clearly explained to both investees and other stakeholders, including affected people.
- Divestment and exclusion need not be permanent. As OECD Guidance has explained, investors may divest temporarily while pursuing ongoing risk mitigation.

### More Information

- FAST, FAST Blueprint, pages 99-101.
- OHCHR, The Corporate Responsibility to Respect Human Rights: An Interpretative Guide
- OECD, Responsible Business Conduct for Institutional Investors
- IAHR, Investor Toolkit on Human Rights

## Additional Resources


If you prefer to learn by listening, check out *Finance Against Slavery and Trafficking: The Podcast*.

This series explores the connection between global finance and modern slavery and human trafficking, looking at all the different ways the financial sector can harness its leverage to end modern slavery, forced labour and human trafficking.

Episode 5 of the podcast focuses on investor engagements.