FROM POOR WORKING CONDITIONS TO FORCED LABOUR – WHAT’S HIDDEN IN YOUR PORTFOLIO?

A GUIDE FOR INVESTOR ENGAGEMENT ON LABOUR PRACTICES IN AGRICULTURAL SUPPLY CHAINS
THE SIX PRINCIPLES

1. We will incorporate ESG issues into investment analysis and decision-making processes.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the Principles.

6. We will each report on our activities and progress towards implementing the Principles.

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INTRODUCTION

Recent legislation such as the UK Modern Slavery Act, along with prominent examples of labour breaches in agricultural supply chains - which include child labour in the cocoa industry or forced labour in the seafood industry – are exposing food and beverage companies to heightened operational, regulatory and reputational risks.

From 2013-2015, the PRI coordinated a collaborative investor-company engagement that saw supply chain labour reporting, and in many cases, practices, improve at 23 of the 34 global food and beverage companies targeted (detailed findings can be found in Appendix 1).

This document, incorporating learnings from the engagement and third-party resources, is intended as a tool for engaging food and beverage companies. It outlines the business case for engagement, what questions to ask, examples of good practice and further resources in each of the key areas.

Investors can also use the accompanying investor expectations statement to present to companies what investors expect of them.

Given the continued prominence of this issue, the PRI will coordinate a second phase of engagement to encourage further improvements, focusing on the following areas:4

- **Supplier code of conduct**: Establishing a code that reflects international standards, and applies to direct suppliers, as well as sub-suppliers, labour brokers and recruiters.
- **Governance**: Ensuring board oversight, processes to respond appropriately to global regulation and internal capacity building.
- **Traceability and risk assessment**: Mapping supply chains, by geography and by product, and assessing risk.
- **Sourcing and supplier relationships**: Evaluating suppliers for labour performance, incentivising good labour performance through multi-year contracts, building supplier and worker capacity and avoiding short-notice requirements on suppliers.
- **Collaboration on systemic issues**: Collaborating with external stakeholders such as trade unions, civil society organisations, human rights experts and sector peers.
- **Monitoring and corrective action**: Monitoring labour performance of direct suppliers and sub-suppliers, reporting on outcomes and requesting corrective action plans for non-compliant suppliers.
- **Target setting and disclosure**: Reporting regularly on management processes and on performance against measurable and time-bound targets in each of the above areas.

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1 MSCI ACWI captures large and mid-cap representation across 23 developed and 23 emerging markets and with nearly 2,500 constituents, the index covers approximately 85% of the global investable equity opportunity set.

2 MSCI (2015) - “Slaving away in hiding”.

3 The engagement questions include transferable learnings from other sectors, most notably the apparel sector, from both companies such as the Higg Index of the Sustainable Apparel Coalition and investors, such as Morgan Stanley’s ESG framework for Retail / Softlines. Further, relevant indicators of the 6x Sustainability Reporting Guidelines, the Sustainability Accounting Standards Board (SASB), and from benchmarks including the KnowTheChain Benchmarks, the Corporate Human Rights Benchmark and Oxfam’s Behind the Brands benchmark were considered. Additional external expertise which informed the engagement questions includes for example the IFC Performance Standard 2 as well as a report on “Human rights in supply chains: Promoting positive practice” from the Australian Human Rights Commission, Australian Centre for Corporate Social Responsibility and Global Compact Network Australia.

4 Note the second phase of this PRI engagement will not specifically focus on access to remedy. The engagement aims is to focus on feasible, company-specific engagement asks, and most agricultural companies are missing preceding processes, such as understanding where they are sourcing from.
CASE STUDY

CP FOODS WORKS TO ERADICATE SLAVERY IN THE THAI SEAFOOD SUPPLY CHAIN

In June 2014, the British newspaper The Guardian reported that shrimp producer Charoen Pokphand Foods (CP Foods) buys some of its fishmeal from suppliers that own, operate or buy from fishing boats manned by slaves.5

CP FOODS AND ITS SUPPLY CHAIN
Thailand-based CP Foods is the world’s largest aquaculture producer of prawns. To feed its prawns, the company buys fishmeal, which comes from two sources: by-catch and by-product. The by-product is certified, but the by-catch travels from boat to boat, which makes it difficult to determine its origin. As The Guardian documented, due to labour shortages in Thailand and margin pressure from high gasoline costs, some commercial boat owners buy migrant workers from human traffickers for as little as £250 (US$350). Working conditions reported by migrants include abuse by employers, shifts of up to 20 hours, and little-to-no pay.

INVESTOR COALITION TALKS TO CP FOODS
The Dutch investment manager Robeco, together with other international investors collaborating in the PRI-coordinated engagement, contacted the company in July 2014, straight after The Guardian published its articles. Coming from a broad investor coalition, a letter, followed up by a series of in-depth conference calls, led to constructive dialogue with CP Foods. The dialogue was further informed by calls with content experts who helped educate the company.

IMPROVED TRACEABILITY, ENCOURAGING RESULTS
CP Foods has taken proactive measures by mapping its supply chain, and initiating dialogue with its most important customers, peer companies and the Thai government. It is a founding member of the Shrimp Sustainable Supply Chain Task Force, stressing the need for a supply chain-wide solution.

CP Foods has strongly improved its audit system regarding labour standards in the supply chain. It has developed a traceability protocol and supportive traceability tools: no fish catch can be landed before all ship crew members’ passport credentials are recorded. This, combined with a vessel monitoring system that the Thai government has established with support from European counterparts, shows good progress.

In 2015 the company developed a foreign labour hiring policy that resulted in suspending some of its suppliers. The company also developed a Sustainable Sourcing Policy. In 2015, 200 out of 600 direct suppliers signed up to this policy. Corrective actions continue and verifications will follow to check if all direct and sub-suppliers live up to the sourcing policy.

In addition to these improvements on the ground, CP Foods joined the UN Global Compact, responding to a specific request from the group of investors and further exemplifying the company’s commitment to live up to international labour standards.

5 The Guardian: Kate Hodal, Chris Kelly, Felicity Lawrence - (10 June 2014) – “Revealed: Asian slave labour producing prawns for supermarkets in US, UK”
WHY ENGAGE?
SUPPLY CHAIN LABOUR PRACTICES

Improving supply chain labour standards can help mitigate operational, legal/regulatory and reputational risks, as well as present opportunities to benefit from innovative suppliers, access to more markets and contracts, loyal customers, productive/committed employees and secure supplier relationships.

International actors such as the G7, the ILO and through the Sustainable Development Goals, the United Nations, are putting labour conditions in the supply chain on their agenda.

WHAT DO WE MEAN BY LABOUR PRACTICES IN AGRICULTURAL SUPPLY CHAINS?
Crops, livestock and fishing are the agricultural sub-sectors where most breaches of international labour standards occur.

The International Labour Organisation’s (ILO) Declaration on Fundamental Principles and Rights at Work defines the following as fundamental rights of workers, and commits member states to respect them, regardless of whether they have ratified its conventions: freedom of association and the right to collective bargaining as well as freedom from forced labour, child labour and discrimination.

Additional labour rights relevant to agricultural supply chain companies’ labour practices include occupational health and safety, working conditions and wages.

WHAT IS THE SCALE OF THE PROBLEM?
Issues such as forced labour and human trafficking are a global problem, and not limited to developing countries: according to the US labour consultancy Verité: “161 countries are either a source, transit or destination country for human trafficking.”

The majority (59%) of all child labour occurs in agriculture, equating to 98 million child workers globally. Most child labour can be found on small-holder farms, but also in livestock production, fishing and aquaculture.

Agriculture sits alongside construction and mining, as one of the three sectors with the highest work-related fatalities, with at least 170,000 workers killed each year. Workplace accidents involving agricultural machinery or pesticides, as well as accidents caused by physically demanding work in harsh weather conditions are also common.

Aside from forced labour, child labour and high fatality rates, workers in agriculture can face issues such as no right to freedom of association and collective bargaining, hazards to occupational health and safety, poor working conditions, no access to medical care or pensions, long hours and insufficient wages.

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9 See for example Financial Times: Michael Peel (16 December 2015) – “FT Seasonal Appeal: Thailand’s slave ships on the retreat” or Ethical Trading Initiative, Ashridge Centre for Business and Sustainability (2015) – “Corporate approaches to addressing modern slavery in supply chains: A snapshot of current practice”. The latter study found that 71% of the global brands interviewed believe modern slavery may occur in their supply chains.
### RISKS AND OPPORTUNITIES

**RISKS**

- **Operational risks and supply chain disruptions:** A company with poor labour practices in its supply chain is less likely to have a stable supply chain, and might have to change suppliers at short notice. The European supermarkets Waitrose and Aldi for example suspended a UK apple supplier over poor working conditions.

  Operational performance may also be weakened by increased worker motivation and productivity.

  In food and agriculture businesses, poor working conditions hold a risk of producing poorer quality products, and may lead to issues regarding food safety. Food quality in turn is one of the main causes for supply chain disruptions. Additional operational costs may occur due to investigations, site shutdowns and for corrective measures.

- **Legal and regulatory risks,** including law suits and fines: Forced labour is illegal in most countries. Trade regulations focused on forced labour can lead to imported goods being seized or held until they are proven to be free of forced labour. There is an increase in specific legislation requiring companies to report on the steps taken to ensure no forced labour takes place in their own operations and in their supply chains.

  As many as 62% of companies in the MSCI ACWI Index will be subject to either the UK Modern Slavery Act or the California Transparency in Supply Chains Act, or the proposed Business Supply Chain Transparency on Trafficking and Slavery Act in the US.

  There are also an increasing number of soft law mechanisms on human and labour rights, most notably the UN Guiding Principles on Business and Human Rights (the “UN Guiding Principles”). Included in these are mechanisms such as the OECD Guidelines for Multinational Enterprises, which allow individuals and NGOs to bring complaints to National Contact Points. These clearly define corporate responsibility to respect human rights, and while not mandatory, are taken increasingly seriously by companies, which are aware that soft law has the potential to become hard law.

**LAWSUITS AGAINST FOOD AND BEVERAGE COMPANIES OVER SUPPLY CHAIN LABOUR PRACTICES**

Despite aiming to eradicate forced labour in their supply chains, several companies have been subject to lawsuits. Examples include the US food processor and commodity trader Archer Daniels Midland and the private commodity trader, purchaser and distributor Cargill, both of which have been involved in a lawsuit regarding involvement in trafficking, torture and/or forced labour of children on cocoa farms in the Ivory Coast and/or Ghana.

In 2015, the consumer rights law firm Hagens Berman filed separate class action lawsuits against US food companies Mars and Hershey and Swiss Nestlé for failing to report the use of child labour in their cocoa production.

Further class action suits have been filed against the US warehouse club Costco and Thai agro-industrial and food conglomerate Charoen Pokphand Foods (CP Foods) over forced labour in their prawn supply chain and misleading labelling of those prawns.

- **Reputational risks:** Labour issues in agricultural supply chains are increasingly brought to light by NGOs and the media, with a high number of forced labour allegations being made in relation to palm oil, cocoa and fishing. For example investigations by The Guardian brought international attention to forced labour cases in the Thai seafood industry, and to human trafficking, poor working conditions and low wages of seafood workers in Ireland.

  Allegations by NGOs and media coverage has focused on companies at all levels of the supply chain - from major brands such as Carrefour or Walmart to suppliers such as Thai seafood processor Thai Union Frozen Products Plc or Malaysian agri-business Felda Global Ventures. Once an allegation or incident occurs, this can have long-lasting repercussions on brand value, especially for consumer-facing companies.

  The Corporate Human Rights Benchmark and the KnowTheChain benchmarks will publicly rank large global food and beverage companies on aspects related to supply chain labour practices.

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17. The Guardian: Felicity Lawrence (19 August 2015) – “Costco and CP Foods face lawsuit over alleged slavery in prawn supply chain”.


23. The Guardian: Felicity Lawrence (19 August 2015) – “Costco and CP Foods face lawsuit over alleged slavery in prawn supply chain”.

OPPORTUNITIES

- **Lower cost of capital in equity markets:** A review of over 100 academic studies found that all studies conclude that companies with better CSR or ESG ratings benefit from lower costs of capital, thanks to markets recognising the lower risk of those companies.\(^{21}\)

- **Access to supply chain innovations:** Building stable relationships with suppliers can lead to companies benefitting from more innovation within the supply chain: suppliers with innovative products or processes are most likely to share these with companies with whom they have positive relationships. Some companies, such as Unilever, expect the majority of innovation to come from their supply chain.\(^{22}\)

- **Access to government contracts:** The US government is the largest single purchaser of goods and services in the world. Since 2012, President Barack Obama's Executive Order 13627 requires any contractors and sub-contractors to prevent human trafficking and forced labour in the provision of government goods and services. Likewise, the Dutch government requires contractors to adhere to its sustainable public procurement policies, which since 2012 include provision on international labour standards.\(^{23}\)

- **Access to trade markets:** Since 2010, EU regulation prohibits import of 'illegal, unreported and unregulated fishing (IUU)' into the European Union. Likewise, since 2016 the US prohibits importing fish caught by forced labour.\(^{24}\)

- **Market share, customer loyalty and price premium:** Companies with good supply chain management and a positive reputation can benefit from enhanced customer loyalty, and in some cases can charge a price premium. An Oxfam survey undertaken in Australia found that 84% of respondents want more information on where their products come from, and 60% believe consumer choices have an impact on working conditions at farm level, with nearly 50% stating they would stop buying products from companies whose policies and practices they are dissatisfied with.\(^{25}\) A Nielsen poll of over 28,000 consumers in Asia, the Middle East and Africa found that over half of them are prepared to pay a premium for products that “give back to society”.\(^{26}\) A study from Bonn University found that customers were willing to pay roughly 30% more for products produced according to Fair Trade Standards (which include labour criteria).\(^{27}\)

- **Improved ability to preserve reputation** that can withstand negative impacts if/when they occur to a company, or to a commodity the company has in its supply chain.

- **Increase in employee motivation:** More motivated employees leads to higher retention, increased productivity and improved product quality and food safety. An example from the apparel industry shows that factories with improved labour practices reduced their product rejection rates by 44%.\(^{28}\)

- **Supply security:** Building long, stable relationships with suppliers reduces a company’s risk of labour abuses in its supply chain, and therefore limits the need to change or drop suppliers at short notice following unexpected allegations.

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\(^{22}\) Oxfam (2013) – “Labour rights in Unilever’s supply chain.”

\(^{23}\) SOMO (2014) - “A review of Dutch policy for socially responsible public procurement.”

\(^{24}\) New York Times: Ian Urbina (15 February 2016) – “U.S. Closing a Loophole on Products Tied to Slaves”.

\(^{25}\) Oxfam Australia (Media release - 26 February 2013) - “Aussie shoppers kept in dark about their groceries.” Accessed 11 April 2016.

\(^{26}\) Oxfam briefing paper (26 February 2013) - “Behind the Brands, Food justice and the “Big 10” food and beverage companies”, p. 19.

\(^{27}\) University of Bonn et al (8 September 2015) – “Effects of social sustainability signaling on neural valuation signals and taste-experience of food products.”


CASE STUDY

CARREFOUR – CREATING AN ECOSYSTEM FOR LASTING CHANGE

As part of the PRI-coordinated engagement, Dutch investment manager Robeco and French asset owner ERAFP led a dialogue with the French retailer Carrefour. During several conference calls and company visits to Paris, the investors learned about Carrefour’s model to improve labour practices in its supply chain.

Using workers to identify and prevent labour-related issues
Carrefour feels that every supplier should remain responsible for managing their factories and that Carrefour must therefore not interfere in day-to-day operations. The company operates unannounced audits, where a minimum of ten employees are interviewed. Labour standards risk management is a bottom-up process, managed between the quality manager and the human rights manager for every supplier relationship.

Building strong relationships with unions
A key pillar of Carrefour’s approach is to work closely with unions. Carrefour collaborates with UNI – the global association of trade unions – who they meet quarterly to discuss human rights and labour-related issues. In Carrefour’s experience, working through the tripartite combination of the employer, the worker and the trade union is the most effective way to improve working conditions and create a constructive environment for collective bargaining at supplier level. The experience with this approach has been positive and has led to better access to information. For example if a supplier bans unions, Carrefour is likely to find out directly from the unions. Carrefour continues to evaluate the success of its approach compared to more traditional, prescriptive approaches adopted by some other retailers.

Collaborating with partners and peers to address root causes
Carrefour is aware that many systemic improvements are still needed. The company recognises that there are cases such as forced labour issues at its supplier CP Foods, where it did not have all the necessary information.

Carrefour is convinced that this is a challenge for which it should identify solutions at local rather than at headquarter level. Ultimately, the company aims to go beyond audits, which are snapshots of labour standards in time, and is committed to working collectively with NGOs, unions, and sector peers to improve practices.
From 2013 to 2015, the PRI coordinated phase 1 of a collaborative investor engagement with food and beverage companies on supply chain labour standards. The engagement resulted in 23 out of 34 target companies (67%) improving their reporting and, in many cases, also their practices.

The largest improvements were in governance and certified sourcing, with good improvements also in the areas of penalising negative performance, incentivising positive performance and building suppliers’ capacity. A few companies now report on supplier names and remediation activities – areas that none of the companies were reporting on before the engagement. Detailed findings can be found in Appendix 1.

Phase 2 of the engagement will start in 2016.

Beyond these first steps, investor expectations for companies in seven key areas are outlined below. While all companies are expected to implement all elements, investors should prioritise engagement asks and focus on feasible next steps depending on where a particular company currently stands. The seven expectations start with relatively more basic steps and proceed to more advanced practices, with the exception of Expectation 7 on transparency, which is relevant for companies at all stages.

Investors with very limited resources can build the “opening questions” under each of the expectations into existing and ongoing dialogue with companies. In order to have a more in-depth dialogue on supply chain labour practices specifically, investors can consider the “follow-up questions” under each expectation.

Each expectation below is supported by additional information for engagement:

- Background to the expectation
- Engagement questions
- Examples of company practices and disclosure
- Tools and further guidance

When engaging an investee company, investors can start by asking the company to implement the UN Guiding Principles on Business and Human Rights, and to manage supply chain labour risks in alignment with the international standards such as IFC’s Performance Standard 2 and the OECD-FAO Guidance for Responsible Agricultural Supply Chains. Investors can also review any information captured in public benchmarks, or information on corporate incidents and allegations which is available on sites such as the Business & Human Rights Resource Centre.
Companies should have a publicly available supplier code of conduct that reflects international standards such as the ILO core labour standards30 (covering child labour, forced labour, trade union rights and equal opportunities), covers health and safety and working conditions, and contains at least a longer term target for a living wage.31 The code should apply to direct suppliers as well as sub-suppliers, labour brokers and recruiters.

BACKGROUND
A supplier code of conduct is the first step for a company to formulate and communicate its expectations to suppliers and provide them a framework for compliance. It provides a company the opportunity to broaden standards it may already have in place for its direct employees to the employees of all its suppliers and other business partners, thus avoiding mixed messages and establishing a foundation for managing supply chain labour practices.

ENGAGEMENT QUESTIONS32
OPENING QUESTIONS:
- Has the company published a supplier code of conduct that reflects the ILO core labour standards?
- Is the code approved at senior level and reviewed on a regular basis?

FOLLOW-UP QUESTIONS:
Scope
Does the company have a public supplier code of conduct that:
- Reflects international standards, including health and safety and working conditions;
- Includes at least a longer term target for a living wage;
- Applies to all suppliers and sub-suppliers;
- Specifically applies to labour brokers and recruiters?

Implementation
How does the company work with its suppliers to improve their practices in relation to:
- Forced labour;
- Child labour;
- Freedom of association and right to collective bargaining;
- Discrimination (especially with regards to women and migrants);
- Working conditions;
- Living wages?

RELEVANT COMPANY EXAMPLES
Examples of supplier codes of conduct which fulfil at least one of the above elements include:

Living wages: The Canadian food processing and distribution company George Weston states in its Responsible Sourcing Code of Conduct that suppliers need to pay living wages, and explains this means that “wages should always be enough to meet basic needs and to provide some discretionary income”. This follows the definition of living wage of the Ethical Trading Initiative (ETI).

30 The ILO Declaration on Fundamental Principles and Rights at Work covers eight conventions in four categories: freedom of association and the effective recognition of the right to collective bargaining (no. 87 and no. 98), the elimination of forced or compulsory labour (no. 29 and no. 105), the abolition of child labour (no. 138 and no. 182) and the elimination of discrimination in respect of employment and occupation (no. 100 and 111). These rights are universal, and apply to all people in all states - regardless whether states have ratified the relevant conventions.

31 The Ethical Trading Initiative (ETI) Base Code defines living wages as follows: “Wages and benefits […] meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. […] Wages should always be enough to meet basic needs and to provide some discretionary income.” This is in line with the International Covenant on Economic, Social and Cultural Rights, which states that wages should provide for a decent living for workers and their families.

32 Note: Having a solid supplier code of conduct in itself is not sufficient – companies need to communicate and enforce it internally and externally. The external supplier facing aspect is covered in ‘Expectation 4: Sourcing and Supplier relationships’ and looks at elements such as communicating the expectations defined in the code of conduct to suppliers, integrating expectations into contracts and providing training on the code of conduct. Internal awareness raising and training on the supplier code of conduct is covered in ‘Expectation 2: Governance’.
Applicability to sub-suppliers: The Global Supplier Code of Conduct of the US food manufacturing company Kellogg states that suppliers as well as agents and subcontractors need to comply with the code, which in turn applies to all employees, including temporary staff and migrant workers. The code expects suppliers to review their own operations and the operations of their suppliers insofar as they are providing goods and services to Kellogg, and to verify compliance with the code. Kellogg may verify compliance via its own or third party audits.

Applicability to labour brokers and recruiters: The No Deforestation, No Peat, No Exploitation Policy of Singaporean agribusiness group Wilmar includes specific clauses to ensure the rights of all workers – including contract, temporary and migrant workers – are respected. The policy includes very specific provisions regarding ethical recruitment and recruitment fees, passport retention and employment contracts, accommodation, access to remedy, etc.

TOOLS AND FURTHER GUIDANCE

Guidance for companies on how to create a supplier code of conduct:


Examples of internationally recognised corporate labour codes:
- Ethical Trading Initiative (ETI) Base Code
- FLA Workplace Code of Conduct
Companies should ensure oversight at board level, and that board members are regularly trained. They should establish processes that enable them to identify and respond appropriately to legislation and ensure relevant departments (e.g. human resource and labour/environmental compliance, senior management, procurement or sourcing, communications and/or marketing, production) are trained.

BACKGROUND
Board oversight is key to ensure that the company takes supply chain labour practices seriously across departments, and that capacity and processes are built up where needed. Heightened visibility of labour related issues in the supply chain and emerging legislation means that companies will be increasingly held to account for their performance in this area.

ENGAGEMENT QUESTIONS
OPENING QUESTIONS:
Board oversight

- Do the responsibilities of the board specifically include oversight of human rights, including supply chain labour rights?
- Does the board regularly discuss human rights and/or is the board regularly informed of human rights, including supply chain labour rights?
- Does the board receive training on human rights, including supply chain labour rights?

FOLLOW-UP QUESTIONS:
Senior level accountability

- Does the company have a senior staff member responsible for human rights goals, including those related to supply chain labour?
- Are there clear reporting lines for operational staff to report into the responsible senior staff member?
- Does the company link remuneration for senior executives to human rights or more specifically to labour practices in the supply chain?

Response to emerging regulation

- Has the company established processes that enable it to identify and respond appropriately to relevant global legislation?
- Does the company disclose information as required by relevant legislation (e.g. UK Modern Slavery Act, California Supply Chain Transparency Act)?

Internal capacity-building

- Does the company provide human rights training, including supplier code of conduct training to relevant departments (e.g. human resource and labour/environmental compliance, senior management, procurement or sourcing, communications and/or marketing, production)?

RELEVANT COMPANY EXAMPLES
Board oversight and remuneration: The responsibilities of the Finance, Governance and Sustainability Committee of the Brazilian food company BRF include oversight of sustainability, including in the supply chain. BRF publishes the names of the four committee members and links the remuneration of board members, committee members and executive board members to sustainability-related issues.33

Board oversight specifically of labour aspects in the supply chain: Since 2007, the French food product company Danone has a Social Responsibility Committee in place whose responsibilities include social issues relating to the company’s own employees and the employees of its partners, subcontractors, suppliers and customers. The committee reviews Danone’s social policies, their objectives and the results obtained, and reports back to the board of directors.34

Building internal capacity on human and labour rights:
The US food processing company Archer Daniels Midland communicates its human rights commitment – which includes aspects such as child labour, forced labour, workers' rights and compensation – to its employees through internal channels such as the company’s annual compliance training, prominent workplace postings, its intranet and other communications.35

Training procurement staff: The US-based food and beverage company Mondelēz International trains its procurement staff on labour-related procurement risks, including on human trafficking and slavery.36

TOOLS AND FURTHER GUIDANCE
The following publication provides guidance for companies on how to build internal capacity on supply chain management – from executive leadership and the board of directors to supply chain management professionals – including how to address challenges such as internal alignment and cross-functional coordination.


EXPECTATION 3:
TRACEABILITY AND RISK ASSESSMENT

Companies should map their supply chains, by geography and by product, and assess labour-related risks in the supply chain, by geography and by product.

BACKGROUND
To manage labour practices in their supply chains, companies need to understand where and who they source from, as well as any associated risks. This is particularly relevant in agriculture, as supply chains are complex and multi-tiered and many companies lack an understanding of the situation at farm level, where most labour breaches occur. Reporting the names of suppliers increases transparency and accountability for both the company and suppliers.

ENGAGEMENT QUESTIONS
OPENING QUESTIONS:
Supply chain mapping
- Does the company understand who its suppliers and sub-suppliers are, down to farm level?
- Does the company fully disclose its sourcing, by product and geography?

Geographic and product risk assessment
- Does the company have a process in place for assessing risk, by product and geography?
- Does it at least cover all high-risk countries and/or most sourced products?
- How does the company prioritise which labour related risks to focus on?37

FOLLOW-UP QUESTIONS:
Length of supply chain
- Is the company able to demonstrate that it understands the length and complexity of its supply chain beyond its direct suppliers (e.g. different tiers of its supply chain, total number of suppliers in all tiers)?

List of suppliers
- Does the company know the names and locations of its direct suppliers and sub-suppliers? To what extent are these disclosed (e.g. does the company at least disclose names of suppliers of key crops, suppliers from high-risk countries, or suppliers with the highest purchasing volume)?

Geographic and product risk assessment
- How does the company prioritise which risks to focus on?
- In the last three years, has the company conducted at least one risk assessment that examined social issues in the supply chain focused on a specific commodity or region?
- Does the company disclose a summary of the assessment results (e.g. type of suppliers, countries/geographical areas considered at risk and types of risks identified)?
- If child labour, forced labour, discrimination, working conditions and/or trade union rights are not included, is the company able to explain why not?

RELEVANT COMPANY EXAMPLES
Length of supply chain: The Canadian fast food restaurant Tim Hortons illustrates the six key levels of its coffee supply chain. It includes farmers (from small-holders to large estates), intermediaries (i.e. traders that help farmers get their coffee to the market), in some cases organisations such as farmer associations or cooperatives, followed by exporters, importers, internal and third-party roasters.38

37 The UN Guiding Principles ask companies to prioritise salient human rights issues, as opposed to material human rights issues. This means using the lense of risk to people, not to business, and to focus on the most severe negative impacts on people. While in practice both concepts often look at the same risks, looking at salient risks means avoiding discounting some human rights risks and focusing too strongly on others, for example due a risk prioritisation process that is based on media coverage or client concerns. For more information see: UNGP Reporting Framework – “Salient Human Rights Issues”. Accessed 27 April 2016. Also see: Enoe Rights: Yousuf Affab and Audrey Mocle (2015) – “A Structured Process to Prioritize Supply Chain Human Rights Risks”. A Good Practice Note endorsed by the United Nations Global Compact Human Rights and Labour Working Group.
Disclosure of geographic and product sourcing, and of supplier names: In order to implement its No Deforestation, No Peat and No Exploitation Policy, in early 2014 the Singaporean agribusiness group Wilmar started to map its supply chain, focusing particularly on palm oil sourced from Indonesia and Malaysia. Wilmar has a dashboard microsite for its palm oil supply chain, developed in collaboration with The Forest Trust. The site lists the names and locations of Wilmar’s palm oil mill suppliers in Indonesia and Malaysia, and is updated on a quarterly basis to reflect increased traceability and changes in suppliers. The mill details are used in conjunction with data and information on land use, soils and social issues to prioritise assessment visits.

Wilmar also has a mapping function on its website that shows from which countries it sources tropical oils, oil seeds and grains. Wilmar is building a vertically integrated supply chain for sugar, and has disclosed the names of the suppliers it has acquired or in which it holds a stake.

For an additional example on traceability, also see the Case study: CP Foods works to eradicate slavery in the Thai seafood supply chain.

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TOOLS AND FURTHER GUIDANCE

The following resources provide guidance for companies on how to map their supply chains:

- Food and Drink Federation (2012) – Sustainable Sourcing: Five Steps to Managing Supply Chain Risk, see the following sections: 1. Map your supply chain, 2. Identify impacts, risks & opportunities, 3. Assess and prioritise your findings; p. 3-5.

The following guide presents a step-by-step explanation on how to implement traceability programmes:


The following sources provide country-specific information on labour-related risks and regulation:

- Labour Exploitation Accountability Hub – Countries (Country information on regulation on forced labour by country, currently covering 10 countries)
Companies should evaluate suppliers for labour performance, including on minimum labour compliance criteria and on suppliers’ capacity to manage compliance of their own suppliers. They should require compliance with their codes of conduct as a condition of contracts, and support suppliers in achieving this by building suppliers’ and workers’ capacity to attend to labour issues and prevent them from arising.

Companies should develop long-term supplier relationships, and incentivise good labour performance of suppliers through multi-year contracts or other means. Companies should avoid short notice requirements on suppliers, and implement a cost model that enables its suppliers to pay adequate wages.

**BACKGROUND**

Changing demands at short notice, and short-term contracts with companies with different standards can make it difficult for suppliers to implement a variety of demands. To enable suppliers to comply with expectations, companies should support suppliers and build longer lasting partnerships.

**ENGAGEMENT QUESTIONS**

**OPENING QUESTIONS:**

- **Communicating expectations to suppliers**
  - Has the company taken steps to communicate its supplier code of conduct to all of its suppliers?

- **Sourcing practices**
  - Does the company have minimum labour performance criteria for its suppliers?

**FOLLOW-UP QUESTIONS:**

- **Communicating expectations to suppliers**
  - Does the company include the expectations outlined in its supplier code of conduct in contracts with all direct suppliers, or ask its direct suppliers to sign the code?
  - Are the expectations outlined in the supplier code of conduct clearly communicated to all sub-suppliers (through the company or through suppliers)?

- **Sourcing practices**
  - Does the company evaluate new and existing suppliers on social/labour performance?
  - Does the procurement process consider suppliers’ capacity to manage compliance of their own suppliers?
  - Do the evaluation criteria consider all elements outlined in the supplier code of conduct?
  - Does the company’s product cost model ensure the labour costs of a product enable its suppliers to pay at least legal minimum wage levels?
  - How does the company avoid price requirements, short notice requirements or other business considerations undermining suppliers’ capacity to comply with labour standards?
  - Does the company disclose the outcomes of its sourcing decisions (e.g. the percentage or absolute number of new and/or existing suppliers screened for labour practices, signed onto a code of conduct or in compliance with a code)?

- **Incentivising good labour performance**
  - Does the company incentivise supplier good practice, e.g. does it
    - give preference to suppliers with better labour performance?
    - build long-term partnerships with socially compliant/outperforming suppliers?
Is the company able to demonstrate evidence of providing incentives by reporting on the outcomes (e.g. the number or percentage of suppliers that have received incentives or participate in long-term partnerships or similar initiatives)?

Supplier and worker capacity building
- Does the company provide awareness raising, training and capacity building on its supplier code of conduct for its suppliers (this may include smallholder cooperatives), such as:
  - guidance, improvement plans or self-assessment checklists for suppliers to work toward?
  - training or technical assistance for strategic or critical suppliers (i.e. those at highest risk and where the company has most leverage) or suppliers where training needs were identified?
  - issue-based resources, guidance, or joint projects?
  - financial support to fill gaps in supplier compliance?
- Is the company able to provide evidence that it builds capacity regularly and systematically, including at sub-supplier level and through training of workers?

RELEVANT COMPANY EXAMPLES

Communicating expectations to direct suppliers and sub-suppliers: The Swiss chocolatier and confectionery company Lindt & Sprüngli clearly communicates that compliance with its code of conduct is a prerequisite for doing business with the company. In its Supplier code of conduct and compliance declaration, Lindt asks its suppliers to confirm in writing that they have taken notice of the code, and that they will effectively communicate its contents to their employees, subcontractors and suppliers and ensure it is implemented.

Integration of expectations into contracts: The US food, snack and beverage company PepsiCo includes the expectations of its Global Supplier Code of Conduct into contracts with its suppliers. With prior notice, PepsiCo may conduct audits at its suppliers to verify compliance.

Sourcing practices: Unilever’s Responsible Sourcing Policy sets out three levels of supplier performance aimed at shifting suppliers’ practices from doing no harm to doing good: mandatory requirements, good practices and best practices. Unilever sets specific time-bound targets for its suppliers and creates commercial incentives for suppliers to move from entry-level to best practice. In order to become a supplier to Unilever, suppliers need to acknowledge alignment with Unilever’s Responsible Sourcing through contractual language or by completing a self-assessment questionnaire. Depending on the risk level, suppliers may be required to undergo an understanding responsible sourcing audit (URSA). This takes place at site level. In case of non-compliance, the supplier will have to undergo corrective action plans before being able to supply Unilever (a ‘no conformance, no contract’ system). Suppliers must also be willing to continuously improve.

Building strategic partnerships: In 2011, Unilever launched Partner to Win, a strategic programme focused on building relationships with selected key supplier partners, including on sustainability. Unilever’s goal is to help its Partner to Win suppliers to move from mandatory requirements to good practice by the end of 2016. This covers approximately 200 large suppliers which cover up to 40% of Unilever’s total spend. In addition, the company aims to move its remaining strategic partners – 1,200 suppliers covering up to 5,000 sites and 80% of Unilever’s raw and packaging material spend – from mandatory to good practice by the end of 2017.

Supplier capacity building: Unilever provided on site awareness raising and training on its Responsible Sourcing Code to suppliers in highest risk countries. In 2014 and 2015 these were attended by over 750 supplier staff. Other relevant suppliers will be engaged via online training and Q&A documents, which include a self-assessment questionnaire gap analysis tool and audit checklists.

TOOLS AND FURTHER GUIDANCE

How to improve sourcing practices: A checklist for evaluating new suppliers:

How to create longer term partnerships with suppliers:

How to provide supplier capacity building:
To address systemic issues, companies should collaborate with external stakeholders such as trade unions, civil society organisations, human rights experts, governments, and sector peers.

BACKGROUND

Addressing labour practices in supply chains is complex and requires the knowledge and efforts of different stakeholders. Working with civil society organisations or human rights experts can help companies gain in-depth issue knowledge they might not have in-house. To identify solutions for workers, it is key to engage with workers or worker representatives.

Companies do not always have sufficient leverage on their own to change practices at supplier level, and companies often have the same suppliers as their peers, which means combining resources to monitor suppliers and build their capacity can help save costs and increase efficiency through joint standards. Engaging with peers can also help less advanced companies to gain practical insights on how to get started. Labour conditions at farm level are often connected to the underlying social, cultural and economic conditions in sourcing countries, making it important to join with sector peers when engaging policy makers.

ENGAGEMENT QUESTIONS

OPENING QUESTIONS:

- In which multi-stakeholder or external partnerships related to social issues in the supply chain is the company involved (e.g. initiatives regarding labour more broadly, or issues such as child labour and human trafficking more specifically; commodity-specific initiatives such as for cashews, cocoa, tea, palm oil or seafood; initiatives with local farmers to improve sustainable practices) and why?

FOLLOW-UP QUESTIONS:

- Is the company actively involved in multi-stakeholder partnerships (e.g. active role, chair, founding/long-standing member) or actively working with relevant stakeholders (e.g. through collaborations between human rights experts, governments, workers, trade unions or other labour organisations)?
- Does the company collaborate with sector peers (e.g. by engaging governments, providing joint supplier capacity building, participating in sharing data such as supplier names or results of compliance monitoring, etc.)?
- How transparent is the company about its collaborations with stakeholders?

RELEVANT COMPANY EXAMPLES

Sectoral collaboration on forced labour and child labour:

- **Australian retail companies:** In December 2015, eight Australian companies, including the food retailers Woolworths, Coles, Inghams, and food manufacturer Goodman Fielder signed a pledge, developed by the Retail and Supplier Roundtable Sustainability Council, to work together and with other stakeholders to address forced labour in their supply chains.41
- **Consumer Goods Forum:** In January 2016, the Consumer Goods Forum, a global network of retailers, manufacturers, and other stakeholders, committed in a Social Sustainability Resolution to develop an action plan to eradicate forced labour through collaboration between retailers and manufacturers, and called on other retail companies to join the initiative.42

Combining resources with peers to improve supplier capabilities:

- **Collaboration regarding conditions in tea production:** In 2014, Tesco helped to launch a coalition between UNICEF, The Ethical Tea Partnership and other companies to help prevent child labour and improve protection and opportunities for children in Assam’s tea-producing communities.43

Combining resources with peers to improve supplier capabilities: In 2014, six brands including the food and beverage companies Mars, McDonald’s, Nestlé and The Coca-Cola Company partnered with AIM-PROGRESS to host a one-day Responsible Sourcing Forum in India, which was attended by over 300 raw material and packaging material suppliers.44

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41 Retail & Supplier Roundtable (8 December 2015) – “Australian business pledge against forced labour”.
Worker-led collaboration between growers and buyers:
The Coalition of Immokalee Workers is an example of a worker-led organisation recognised for identifying and bringing about solutions for workers in the tomato industry in the US. Its Fair Food Program is based on a partnership among farm workers, Florida tomato growers, and participating retail buyers, including McDonald’s and Walmart. In addition to audits and a complaints mechanism, unique features include a legally binding agreement with buyers, the suspension of non-participating growers, worker-to-worker education sessions and a premium paid by buyers that is passed on to workers. The programme’s success is based on the mutually beneficial proposition it offers to growers, buyers and workers:

- Growers benefit from becoming an employer of choice, prevent risk and obtain verification for good labour practices, providing them with a competitive advantage.
- Buyers benefit from increased transparency and decreased risk, both of which provide a competitive advantage given increased consumer demand for more information on working conditions at farm level.
- Workers have benefited in a number of ways over the course of four years, including the elimination of forced labour, violence and sexual assaults; distribution of US$20 million in premiums paid by buyers and passed on to workers and improvements in health and safety conditions, such as shade in the fields.

Following its success, the programme expanded beyond Florida to other US states, other crops and other sectors, such as dairy and construction. It is also gaining traction internationally, attracting interest from worker organisations and governments in other countries.

For an example of a company building strong relationships with unions, see the Case study: Carrefour – creating an ecosystem for lasting change.

How can companies implement those expectations?
This guide provides guidance on why and how to collaborate with sector peers – including opportunities and risks and a partial list of industry initiatives – as well as in multi-stakeholder partnerships:


This guide maps key sustainability issues, main stakeholders as well as gaps or opportunities for collaboration on traceability by commodity:


For a list of global industry and multi-stakeholder initiatives that address supply chain labour practices, see Appendix 1.
Companies should regularly assess the labour performance of at least new and existing direct suppliers, and ensure that their direct suppliers assess and monitor their sub-suppliers. Companies should report on the results of these assessments. They should request corrective action plans from non-conforming direct suppliers and sub-suppliers, and, as a last resort in cases of repeated non-compliance, terminate contracts.

BACKGROUND

A 2013 UN Global Compact survey of nearly 2,000 global companies across sectors showed that while a majority of companies have established sustainability expectations for their suppliers, they are not tracking compliance.46 While supplier assessments such as audits can only provide a snapshot of performance at one point in time, when done well they can be helpful in identifying labour issues at supplier level, especially when information is gathered directly from workers. However, monitoring can only identify the problem, and needs to be followed up by actions to address the problem, such as building suppliers' capacity to address the issues (further examples are outlined in Expectation 4).

ENGAGEMENT QUESTIONS

OPENING QUESTIONS:

Monitoring supplier compliance – scope and robustness

- Does the company assess the labour performance of its direct suppliers and/or high-risk suppliers?

Addressing supplier non-conformance

- Does the company act in cases where suppliers are identified as not complying with the code?

FOLLOW-UP QUESTIONS:

Monitoring of supplier compliance – scope and robustness

- Does the company assess the labour performance of its sub-suppliers, including at farm level, and its labour brokers?
- What percentage or type of direct suppliers and sub-suppliers is the company monitoring, and how often?
- To what extent does the company undertake unannounced audits?
- Is the monitoring done according to internationally recognised standards (e.g. the SMETA methodology from Sedex)?
- Is a third party involved in the monitoring? If so, to what extent?
- Does the company gather information from workers on the ground (e.g. by making use of mobile phone applications)?

Monitoring of supplier compliance – outcomes

To report on outcomes of monitoring processes, what kind of information does the company disclose, including both quantitative information (e.g. percentage of suppliers assessed, number of suppliers where negative performance on the labour practices were identified) and qualitative information (e.g. whether cases of non-conformity were identified and what kind of issues)?

Certification

If the company uses certification that covers labour practices:

- How much of the company’s key crops/commodities/purchasing volume is certified?
- How does the company evaluate the effectiveness of the certification it uses? Where needed, how does the company work with certification bodies to improve standards?

Addressing suppliers non-conformance

- How does the company act in cases where supplier are identified as not complying with the code?
- Does the company decrease sourcing?
- Where the code is repeatedly violated does the company, as a last resort, suspend/terminate contracts?
- Does the company support suppliers to move to good practice e.g. via training?

46 UN Global Compact (2013) – “Global Corporate Sustainability Report 2013”.
Does the company disclose outcomes, e.g.
- percentage or number of suppliers with which improvements were agreed and/or achieved;
- percentage or number of suppliers that were warned or for which contracts have been terminated;
- percentage or number of suppliers with which relationships were terminated as a result of repeated negative performance?

RELEVANT COMPANY EXAMPLES

Setting measurable and time-bound targets on monitoring: The Singaporean agri-business Olam has set time-bound targets to ensure its suppliers, including farmers, are compliant with the labour criteria of its supplier code: by 2015, the company aims to have 50% of tonnage compliant, and 100% by 2020. To achieve this, the company will continue its supplier training and awareness raising on its code, develop country level supplier risk assessments, conduct annual audits, focus on products with a higher risk – cocoa, hazelnut, cotton, rubber and palm – and continue as one of the few food and beverage companies participating in the Fair Labor Association (FLA).

Assessing conditions at farm level, unannounced third party audits, reporting on outcomes: A number of companies report that they reserve the right to conduct unannounced audits, without explaining whether they actually exercised that right. To demonstrate its compliance with ILO standards, Olam provided a case study of its hazelnut sourcing from Turkey, where Olam conducted unannounced audits with the FLA at 39 farms, and aims to monitor another 60 farms in the next season. Cases of child labour were identified on three farms, where children of migrants were found to be employed. Remedial actions were immediately put in place, including a warning that repeated incidents would not be tolerated, establishing child care areas and supporting ILO projects.

Reporting on volumes of certified commodities: Olam lists the certification bodies it is using in its sustainability report. It reports on the tonnage of internally and third-party verified produce, e.g. 71,488 MT Rainforest Alliance certified cocoa and coffee and 30,755 MT UTZ certified cocoa and coffee.47

Addressing supplier non-compliance: The British Dutch consumer goods company Unilever requires non-conforming suppliers to create time-bound remediation plans addressing root causes, the implementation of which is verified by an audit company. Where suppliers are not willing to comply, Unilever’s Procurement Code Committee will evaluate the situation and issue recommendations. In cases where suppliers are found in repeated non-conformance with the code and put no remediation plans in place, the issue will be escalated to Unilever’s Global Procurement Code Committee for a decision on terminating the business relationship.48

The company demonstrates its systematic supplier analysis and improvement process by reporting in detail on outcomes including the extent to which corrections were achieved in each country (see chart on the following page). Most issues related to health and safety, with wages and working hours being another recurring issue, in particular in relation to part-time or temporary workers. In 2013/2014, Unilever found a 60% decrease in non-conformance of suppliers who were re-audited one year after the initial non-conformance was identified.

TOOLS AND FURTHER GUIDANCE

Guidance on how to monitor supplier compliance:

Labour related certifications and standards:
- The Standards Map of the International Trade Centre provides an overview of sustainability standards. Amongst other things, these can be filtered by commodity, producing country, destination market and issues (including worker and labour rights, ILO 8 core conventions, child labour).
- SA8000 certification covers ILO core conventions, as well as working hours and living wage.

Issue-specific guidance on common audit non-compliance, and how to achieve and maintain standards:

Unilever's reporting on supply chain human rights issues and outcomes achieved by country

NON-CONFORMANCES PER COUNTRY BY SALIENT ISSUE 2013 AND 2014

NON-CONFORMANCES CLOSED OUT (CORRECTED) PER COUNTRY 2014 (%)
EXPECTATION 7:
TARGET SETTING AND DISCLOSURE

In each of the above areas, companies should report regularly and publicly on policies and processes as well as on performance against measurable and time-bound targets. We encourage a combination of quantitative reporting, such as the G4 Sustainability Reporting Guidelines, and qualitative reporting, such as the UN Guiding Principles Reporting Framework, including on incidents of non-compliance.

BACKGROUND
Reporting helps companies to respond to increasing demands from stakeholders, improve relationships with them and improve access to related business opportunities. Reporting helps investors to judge to what extent their investee companies understand risks and opportunities and are managing those appropriately. Meaningful reporting can improve companies’ ability to preserve reputation when negative impacts occur.

ENGAGEMENT QUESTIONS
Note that some reporting questions, in particular questions regarding reporting on outcomes, are integrated in Expectations 1-6.

OPENING QUESTIONS:
Targets

- Which measurable and time-bound targets has the company set in each of the above areas (Expectations 1-6) to measure its supply chain labour performance, and why?

FOLLOW-UP QUESTIONS:

- Does the company assess progress against its targets on a regular basis, and provide an analysis on trends over time?

POLICIES AND PROCESSES
- Does the company regularly and publicly report on relevant processes in each of the above areas (Expectations 1-6)?

ROBUSTNESS
- Does the company assure its human rights and labour-related reporting, or commission a relevant third party to evaluate its performance and report on the findings?

PERFORMANCE
- Does the company provide evidence that it has implemented its processes?
- Does the company report on negative performance, or conversely that no negative performance has been identified?
- In its qualitative reporting, does the company go beyond activity-based reporting and describe the impact of its measures (such as remediation) on workers?

RELEVANT COMPANY EXAMPLES

Reporting against measurable and time-bound targets over time and on impact of measures on supply chain workers: The US beverage company The Coca-Cola Company ("Coca-Cola") reported how it implements the UN Guiding Principles on Business and Human Rights, and has set measureable and time-bound targets against which it reports progress over time. By the end of 2014, 90% of Coca-Cola’s direct suppliers achieved compliance with Coca Cola’s Supplier Guiding Principles, exceeding the 2014 target of 89%. The company’s 2020 target is to achieve at least 95% compliance with the code. It further describes the impact of its activities on workers. These include eliminating recruitment fees for migrant workers in Singapore and mitigation efforts in Myanmar, which include efforts to address issues around overtime hours, wages and benefits as well as worker health and safety and well-being, such as medical clinics and childcare facilities.49

Reporting on positive and negative performance and validating performance by internationally recognised human rights experts: The Swiss food and beverage company Nestlé has been working with the Danish Institute for Human Rights since 2008, especially in the area of

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human rights impact assessments. The company reported on its human rights impacts in seven country operations. The report included positive and negative impacts, related to supply chain workers’ wages and working conditions and steps the company has undertaken to address those.50

The company commissioned the independent labour consultancy Verité to investigate six production sites in Thailand to improve its understanding of risks related to forced labour and human trafficking. Verité found indicators of forced labour, trafficking, and child labour at the production sites, many of which are systemic.51 Understanding and publicly acknowledging negative impacts is an important step for any company to address these impacts.

TOOLS AND FURTHER GUIDANCE

The following resource provides guidance on how to set goals – from internal performance to supplier performance, how to measure processes and practices and how to communicate this:


The following resources are a compilation of the most established qualitative and quantitative indicators and reporting framework:

- G4 – Reporting Principles and Standard Disclosures (quantitative indicators)
- UN Guiding Principles Reporting Framework (qualitative indicators)
- Sustainability Accounting Standards Board (SASB) – Consumption I Standards and Consumption II standards (focus on strategy, certification and sourcing standards)
- Oxfam – Behind the Brands: Interactive Excel spreadsheet of indicator data. (Transparency tab: sections on corporate governance, sustainable sourcing volumes by commodity, buying agents and sourcing countries, audits; Workers tab: section on awareness and programmes, impact, commitment to good labour practices, supply chain management). [Accessed 27 April 2016.]

The following resource provides guidance on how to develop a supply chain CSR report:


OUTCOMES OF THE PRI-COORDINATED ENGAGEMENT ON SUPPLY CHAIN LABOUR PRACTICES

In 2013, the PRI started phase 1 of a collaborative engagement on supply chain labour practices in the agricultural sector. The sector was chosen due to its high risk exposure and because it had received much less scrutiny from investors and other stakeholders than the apparel and electronics sectors.

The former PRI Supply Chain Labour Standards Steering Committee 52 engaged external stakeholders including a company, a worker representative and a subject expert, and defined the engagement programme, which aimed to:

1. Identify and assess existing corporate practices
2. Encourage enhanced communication and reporting
3. Support improved performance and impact by target companies

Baseline research was undertaken against the public reporting of 100 large global food and beverage companies. The list included both leading and lagging companies and companies with known controversies. They were analysed against six areas:

- Supplier code of conduct and building suppliers’ capacity
- Traceability, risk assessment and monitoring
- Governance and sourcing
- Reporting
- Collaboration with external stakeholders
- Grievance mechanisms

Subsequently, 38 PRI signatories with combined assets under management of US$2.4 trillion began engaging 34 global food and beverage companies on the issue. The companies included a diverse set of players in the global food and beverage supply chains, including retailers, processors and producers.

Over the course of the engagement, the investor group held educational calls with several companies, worker representatives, industry initiatives and NGOs to stay up to date with trends and developments and to improve the quality of dialogue.

In 2015, after 16 months of engagement, the public reporting of the 34 companies was re-evaluated.

OUTCOMES OF PHASE 1 AGAINST AIMS

1. Identify and assess existing corporate practices
   - In 2013 the PRI developed an assessment methodology and assessed 100 large global food and beverage companies on their disclosure of processes and performance on supply chain labour practices.
   - In 2015 it assessed the disclosure of processes and performance of 34 target companies.

2. Encourage enhanced communication and reporting
   - Out of 34 companies, 23 improved their reporting.
   - The most improved companies improved their reporting by 33%; the average improvement amongst the 23 was just under 10%.
   - Notable improvements include some companies reporting on indicators which none of the companies had reported before:
     - Four companies reported on remediation activities
     - Three companies disclosed at least some supplier names

3. Support improved performance and impact by target companies
   - For example, on:
     - Governance: Eight companies improved their reporting on high-level internal accountability for implementation of social responsibility goals, and five companies improved their reporting on internal capacity building.
     - Linking sourcing decisions to social goals: Eight more companies reported on sourcing certified commodities.
     - Enhancing supplier relationships: Five more companies reported on incentivising supplier best practice.

It was positive to see that improvements could be observed

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52 The initial work was undertaken in 2013-2014 by the PRI Supply Chain Labour Standards Steering Committee which included the following signatories: Bâtirante, Boston Common Asset Management, British Columbia Investment Management Corporation, Calvert Investments, Christian Super, Governance for Owners (now GO Investment Partners), Hermes Fund Managers and New York State Common Retirement Fund.

53 With the highest scoring companies only scoring 60 out of 100 points and the engagement framework being extensive, a 10% increase in reporting is considerable and means for example a company reports for the first time and to an advanced degree on a) penalising supplier negative performance and incentivising supplier positive performance or b) putting in place high level accountability and supplier capacity building.
from companies regardless of whether they were a leader or laggard in the beginning; companies initially scoring in the middle improved the most. Likewise company size did not seem to influence the level of improvement.54

The table below outlines the methodology used to evaluate the reporting of the 34 food and beverage companies in 2013, and again in 2015. It was developed by the labour consultancy Verité and encouraged quantitative reporting, including on negative performance. For most of the scoring details, the investor group further refined the methodology to allow for differential points depending on the scope and robustness of the policy or process.

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>SCORING DETAIL</th>
<th>POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Supplier code of conduct and building suppliers’ capacity</td>
<td>Publicly available code of conduct</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Covers forced labour</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Covers child labour</td>
<td>2</td>
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<tr>
<td></td>
<td>Covers working conditions (incl. hours, health and safety, wages)</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Includes pledge for living wage</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Covers right to freedom of association</td>
<td>2</td>
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<tr>
<td></td>
<td>Applies to sub-suppliers</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Applies to labour brokers/agents/recruiters in supply chain</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Supplier capacity building/training</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Financial support to fill gaps in supplier health and safety compliance</td>
<td>2</td>
</tr>
<tr>
<td>2. Traceability, risk assessment and monitoring</td>
<td>Internal auditing/monitoring</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Third party auditing/monitoring</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Participates in certification scheme</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Risk assessment applies beyond direct suppliers</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Risk assessment applies to labour brokers/recruiters</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Evaluates areas with higher risk (geographic and sector based)</td>
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</tr>
<tr>
<td>3. Governance and sourcing</td>
<td>High-level staff responsible for integration of social goals</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Internal capacity building around human and labour rights</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Statement or evidence of incentive for supplier best practice</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Statement or evidence of penalty for supplier repeated negative performance</td>
<td>5</td>
</tr>
<tr>
<td>4. Reporting</td>
<td>Moves beyond “activity based reporting” - Describes impact of remediation activities on workers</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Updated at least annually</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Provides quantitative information on performance (including negative performance)</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Addresses length of supply chain55</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Discloses geographic and product sourcing</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Discloses list of suppliers (at least largest direct suppliers)</td>
<td>1</td>
</tr>
<tr>
<td>5. Collaboration with external stakeholders</td>
<td>Evidence of participation in multi-stakeholder or other external partnerships/consultations</td>
<td>5</td>
</tr>
<tr>
<td>6. Grievance mechanisms</td>
<td>Establish or participate in effective operational-level grievance mechanisms to prevent and address worker grievances throughout supply chain</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total points</strong></td>
<td><strong>100</strong></td>
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Number of companies, out of 34, reporting at least some information on their supplier codes of conduct and on building suppliers’ capacity

Supplier code of conduct and building suppliers’ capacity

Supplier code of conduct: A supplier code of conduct was the element most commonly found in public reporting, and reporting on all aspects of the code saw an increase. Over 80% of the companies had a public supplier code of conduct in place that covers child labour, wages and working conditions.

However a pledge for a living wage (a wage that is enough to meet basic needs and to provides some discretionary income for workers in the supply chain) is still rare. Likewise, out of the 20 companies whose code applies not only to direct suppliers, but also to sub-suppliers, only four companies reported on how this is enforced (e.g. audits, provision of compliance records, due diligence processes) or whether the expectations were included in suppliers’ own contracts with their suppliers.

Building suppliers’ capacity: Companies are increasingly working with their suppliers to address labour practices in their supply chains. One key element is to build suppliers’ capacity, where the number of reporting companies rose from 26% in 2013 to 38% in 2015. Many companies provided supplementary guidance or self-assessment checklists for suppliers. Other companies provided training opportunities to build capacity related to sustainability or ethics including social issues. Some companies reported on providing training to specific groups such as smallholders, women farmers, farmers in emerging countries, a specific country (India), or to critical or strategic suppliers.

None of the companies reported on providing financial support to fill gaps in health and safety compliance, as happens to some extent in the apparel sector, for example through the Bangladesh Fire and Building Safety Accord.
Number of companies, out of 34, reporting at least some information on traceability, risk assessment and monitoring; as well as governance and sourcing.

Traceability, risk assessment and monitoring and Governance and sourcing

Risk assessment and monitoring: While criticism on the usefulness of audits and certification schemes (especially for sub-suppliers) is growing, auditing and certifying suppliers is a common way for companies to identify and monitor compliance, and the number of companies reporting in these areas is rising.

Very few companies specified whether audits or reviews were to take place at regular intervals and if so, what the interval would be. A few companies reserved the rights to conduct unannounced audits, however tended not to report on whether they actually exercised that rights. While most information regarding audits was general in nature, several companies were more specific and said they would conduct audits on suppliers in high-risk countries, that supply certain commodities, that were Sedex registered, or that the audit would focus on certain issues such as child labour.

Governance: It is encouraging to see that out of all KPIs, high-level accountability was one of the strongest areas of reporting, with 65% of companies reporting in this area, up from 53%. While those companies reported that they have high-level oversight on CSR or sustainability issues in place, it was rare that companies specified supply chain labour practices as a specific topic that is monitored by the board or senior management.

Sourcing: Providing incentives for supplier good performance is another area of strong improvement, with the number of companies reporting doing so rising from 6% to 21%. The types of incentives offered ranged from recognising good performance on the company’s website, to supplier awards and multi-year contracts.

That said, penalising negative performance is far more common than rewarding positive performance: more companies put policies or processes in place that reserve the right to terminate a relationship with a supplier as a result of repeated non-compliance with the code. Some companies also included provisions that suppliers were expected to put corrective actions in place to try to bring themselves back into compliance.

However, no companies reported on the number or percentage of suppliers that had been terminated as a result of non-compliance.
Number of companies, out of 34, reporting at least some information on their reporting, collaboration with external stakeholders and grievance mechanisms.

**Reporting:** It was encouraging that reporting on remediation processes or outcomes increased, an area none of the companies had reported on in 2013. Positive improvements were also seen in the areas of regularly updated reporting and quantitative reporting.

Despite some improvements, few companies provide visibility into their supply chains. Even advanced companies tend to have a good understanding of their direct supplier base only.

**Collaboration with external stakeholders:** The number of companies reporting on their participation in multi-stakeholder or other external partnerships related to social issues in the supply chain increased from 20 to 23 companies. The most common organisations or initiatives that companies participated in were the UN Global Compact, initiatives regarding child labour and human trafficking, commodity-specific initiatives (such as for cashews, cocoa, tea and palm oil) and initiatives with local farmers to improve sustainable practices. While many companies only listed the initiatives they participated in, about half of the reporting companies provided details of their participation, reasons for joining or what they want to or have achieved by joining.

**Grievance mechanisms:** Four more companies reported on having grievance or communication mechanism for supply chain workers in place. Companies usually reported on the means of communications, but not on details such as how often the mechanisms were used, the types of grievances received or how those were resolved.

**Phase 2 of the engagement**

For the second phase of the engagement a revised methodology and revised engagement questions will be used based on the expectations set out in this document. The second phase will no longer specifically focus on the “grievance mechanisms” category, as the aim is to focus on feasible, company-specific results, and most agricultural companies are missing preceding processes that remediation would require, such as understanding where they are sourcing from.

The second phase will build more strongly on the elements of traceability and sourcing. A key element will be building sustainable buyer-supplier partnerships by integrating labour criteria in sourcing decisions, rewarding positive performance through longer contracts, and building suppliers’ capacity to address issues. Overall the second phase will see a stronger emphasis on supporting and rewarding positive performance, rather than monitoring and punishing negative performance (which may lead to companies covering up negative findings, e.g. by double book-keeping and falsified audit results).
FURTHER RESOURCES FOR ENGAGEMENT

Please find below selected resources to support investor engagement with food and beverage companies on supply chain labour standards.

International frameworks and standards:

- UN 2011 - “Guiding Principles on Business and Human Rights” (full text of the UN Guiding Principles, plus explanatory comments)
- UN Global Compact – “Food and Agriculture Business Principles” (include a principle on: ‘Respect human rights, create decent work and help communities to thrive’)

News and latest resources:

- Ergon - Human rights briefing: agricultural supply chains (regular digest of research, reports, initiatives and news regarding food and agricultural commodity supply chains)

Engagement guidance:


Company-specific information:

- Business & Human Rights Resources Centre - “Find companies” (company specific articles on human rights) and “Company Action Platform” (database with information provided by nearly 150 companies – including the top 30 food & beverage & agriculture companies by market cap - on human rights policies and practices)
- Oxfam – Behind the Brands (public scorecards assess the agricultural sourcing policies of the world’s ten largest food and beverage companies; issues covered include transparency at a corporate level and workers on farms in the supply chain)

How-to resources for companies:

- Forthcoming: Know the Chain – KnowTheChain Benchmarks (starting from 2016, will publicly benchmark companies, including from the food and beverage sector, on their efforts to address forced labour in their supply chains)
- Forthcoming: Aviva Investors, Business & Human Rights Resource Centre, Calvert Investments, Institute for Business and Human Rights, Nordea, VBDO, Vigeo EIRIS - Corporate Human Rights Benchmark (starting from 2016; public open source human rights benchmark of food & beverage and other companies)
- Tellus Institute and Sustainalytics (2012) – “Worker Equity in Food and Agriculture. Practices at the 100 largest and most influential U.S. companies”

Country information:

- Labour Exploitation Accountability Hub – “Countries” (Country information on regulation on forced labour by country, currently covering 10 countries)

How-to resources for companies:

- BSR, UN Global Compact (2015) - “Supply Chain Sustainability - A Practical Guide for Continuous Improvement, Second Edition” (available in English, Mandarin, Japanese, German, Turkish, Portuguese, Urdu, Bengali, Spanish)
- ILO Helpdesk for Business on International Labour Standards
- United Nations Global Compact: Sustainable Supply Chains Online Portal: Resources and Practices (information for business to embed sustainability in supply chains; lists initiatives, programmes, codes, standards and networks, resources and tools, company case studies; sortable by issue, sector, region)
- Sedex and Verité (2013) - “Supplier Workbook”. See Part 1: Labour Standards. (practical risk-management tool to help suppliers understand what ‘good practice’ looks like and how to fix gaps)
- Shift (Workshop Report 2012) – “Respecting Human Rights Through Global Supply Chains No. 2”
- Food and Drink Federation (2012) – “Sustainable Sourcing: Five Steps to Managing Supply Chain Risk” (includes 5 steps each with questions to consider and guidance on how to get started: 1. Map your supply chain, 2. Identify impacts, risks & opportunities, 3. Assess and prioritise your findings, 4. Create a plan of
action, 5. Implement, track, review & communicate)

- Australian Human Rights Commission, Australian Centre for Corporate Social Responsibility, Global Compact Network Australia (2015) – “Human rights in supply chains: Promoting positive practice” (focus on Australian companies and context)


Reporting guidance:

- G4 – Reporting Principles and Standard Disclosures (quantitative indicators)

- UN Guiding Principles Reporting Framework (qualitative indicators)

- Sustainability Accounting Standards Board (SASB) – “Consumption I Standards” and “Consumption II standards” (focus on strategy, certification and sourcing standards)


Legislative information:

- Labour Exploitation Accountability Database (A database of legal mechanisms on human trafficking and forced labour around the world.)

Commodity specific standards:

- The Standards Map of the International Trade Centre provides an overview of sustainability standards. Amongst other things, these can be filtered by commodity covered, producing country, destination market and issues covered (including worker and labour rights, ILO 8 core conventions, child labour). As of April 2016, it covers over 170 standards, codes of conduct, audit protocols.

Commodity specific initiatives:


Global industry initiatives:

- AIM-PROGRESS (forum of leading Fast Moving Consumer Goods (FMCG) manufacturers and common suppliers, aiming to enable and promote responsible sourcing practices and sustainable supply chains; work areas include business and human rights, and agriculture)

- Consumer Goods Forum (global industry network bringing together CEOs and senior management of retailers, manufacturers, service providers, and other stakeholders; strategic focus areas include social sustainability)

- Global Social Compliance Programme (facilitated by The Consumer Goods Forum, the GSCP brings together actors of the consumer goods industry to collaborate on driving positive change and efficiency in the areas of social and environmental supply chain sustainability)

Multi-stakeholder initiatives:

- Fair Labor Association – FLA (collaborative effort of universities, civil society organizations and socially responsible companies dedicated to protecting workers’ rights around the world; members include mainly apparel but also few food and beverage companies)

- Ethical Trading Initiative - ETI (alliance of companies, trade unions and NGOs that promotes respect for workers’ rights globally; corporate members are mainly from the UK, but also from Australia, Germany, Spain, Sweden and USA.)

- Sedex (Supplier Ethical Data Exchange; not for profit membership organisation dedicated to driving improvements in responsible and ethical business practices in global supply chains)

- Social Accountability International – SAI (aims to advance the human rights of workers around the world by building local capacity and developing systems of accountability through socially responsible standards; developed the SA8000® standard for decent work)

SELECTED ISSUE SPECIFIC RESOURCES

Child labour

- ILO, IOE (2015) - “How to do business with respect for children’s right to be free from child labour: ILO-IOE child labour guidance tool for business” (This Guidelines aims to improve global supply chain governance, due diligence and remediation processes to advance the progressive elimination of child labour)

- Child Labour Platform (IOE-ITUC led, aim to identify practical ways of overcoming implementation of the ILO guidelines in supply chains, members include food and beverage companies)

Forced labour

- UN Global Compact (2014) – “Addressing the Retention of Identity Documents”.
- UN Global Compact (2015) – “Eliminating Recruitment Fees Charged to Migrant Workers”.
- Verite (2016) – “Strengthening Protections Against Trafficking in Persons in Federal and Corporate Supply Chains” (indicates for each commodity geographic risk exposure to human trafficking, forced labour and child labour)

Freedom of association


Living wage

- Ethical Trading Initiative – “A living wage for workers”. (includes frequently asked questions; living wage initiatives, resources and standards; wages and purchasing theories) Accessed 27 April 2016.
- Fair Labor Association (2016) – “Guide for collection of compensation data”. (compensation data collection tools and guidance to help companies retrieve and analyse compensation data in their supply chains; also available in Chinese, Turkish, and Spanish)
- Global Living Wage Coalition (led by the global membership association for sustainability standards ISEAL - Fairtrade International, Forest Stewardship Council (FSC), GoodWeave, Sustainable Agriculture Network/Rainforest Alliance (SAN/RA), UTZ Certified, Social Accountability International (SAI) - have made a joint commitment and launched a collaboration to develop a joint methodology to measure and scale up their impacts in living wage.)

- Oxfam (2014) – “Steps towards a living wage in global supply chains” (explanation of the issue, the challenges, what good looks like, and an assessment of (very limited) progress mostly in the garment sector)

Working conditions

- UN Global Compact (2013) – “Occupational Safety and Health in the Supply Chain”.

Resources for small and resource constrained companies

- BSR, UN Global Compact (2011) – “Supply Chain Sustainability: A Practical Guide for Continuous Improvement for Small and Medium Enterprises” (offers baseline definitions and practical steps that small and medium enterprises (SMEs) can take toward effective management of the social, environmental and economic impacts of supply chains. Also available in German.)
- European Commission (2013) – “De-mystifying Human Rights for Small and Medium-sized Enterprises” (Key messages: Human rights are relevant to SMEs and SMEs don’t have to start from zero when addressing human rights; includes case studies from France, Poland, Denmark, Belgium, Macedonia.)
- Forthcoming: The UN Global Compact is developing a Guide to Traceability specifically for SMEs (see current guide here).
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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles were developed by investors and are supported by the UN. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

UN Global Compact

Launched in 2000, the United Nations Global Compact is both a policy platform and practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to catalyse actions in support of broader UN goals. With 7,000 corporate signatories in 135 countries, it is the world's largest voluntary corporate sustainability initiative.

More information: www.unglobalcompact.org