INVESTOR PERSPECTIVES ON CHILDREN’S RIGHTS
Global Child Forum

Global Child Forum is an independent, global multi-stakeholder platform for informed dialogue and thought leadership on how to advance children’s rights in support of the UN Convention on the Rights of the Child. Global Child Forum aims at gathering leaders from business, governments, academia and civil society in a joint effort to implement children’s rights.

Global Child Forum is a non-profit foundation initiated by H.M. the King and H.M. the Queen of Sweden in 2009.

GES

GES is Europe’s leading provider of engagement services focusing on supporting asset owners and asset managers develop and implement integrated investment strategies with environmental, social and governance (ESG) considerations. Our due diligence of companies’ non-financial business conduct aim at identifying financially material improvement objectives that can deliver increased shareholder value with the highest degree of stakeholder relevance and external credibility. We act as an owner advocate and add proven value to €750 billion of investments worldwide by assessing and engaging with clients’ portfolio companies. GES is a privately held company founded in 1992 with over 55 employees globally. We have offices in Sweden, Denmark, Poland and Switzerland with engagement professionals based in Europe, Asia, North and South America.
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Introduction

Global Child Forum is an independent, global multi-stakeholder platform for informed dialogue and thought leadership on how to advance children’s rights in support of the UN Convention on the Rights of the Child. This report is part of Global Child Forum’s objective to initiate and share research, raise crucial global awareness, new thinking and cross-sector dialogue regarding children’s rights.

Global Child Forum worked with GES to survey how investors integrate children’s rights in their responsible investment policies and practices.

Responsible investment is an investment approach that acknowledges the relevance and potential impact of environmental, social and governance (ESG) factors in a long-term perspective. It means integrating ESG considerations into investment decision-making, management processes and active ownership practices such as risk analysis, corporate dialogues, proxy voting and exclusions.

Investors have been a driver for the development of good corporate governance and practices regarding ESG issues. Through their responsible investment strategies, investors have successfully promoted responsible corporate behaviour in relation to topics such as the environment, water scarcity, community, consumer protection, and human rights. To some extent, children’s rights related issues – for example child labour and responsible marketing – have also been included in these efforts.

While there is some transparency around how investors address ESG issues, we believe that better understanding regarding investor perceptions and practices related to business and children’s rights specifically will move the issue of corporate responsibility for children’s rights forward.

We plan to repeat the study on an annual basis to measure progress and track developments. The results were presented and discussed at the Global Child Forum in Stockholm in April 2014.

2. That investors and owners also can be an important driver in regards to children’s rights was one conclusion drawn from a survey on the views of 400 CEOs on the issue of children’s rights and business that Global Child Forum commissioned in 2013 – The Global CEO Study, The Boston Consulting Group, March 2013.
3. www.globalchildforum.org
The study is based on a combination of a questionnaire and publicly available information, published by investors. The questionnaire was developed by GES and Global Child Forum and was also used as a framework when assessing investors’ public information. 195 investors in Europe and USA were invited to participate in the survey. Only 22 investors responded. A systematic assessment using the questionnaire as a research framework was done on the 173 non-responsive investors’ publicly available information.

The main findings were:
- Investors typically focus primarily on child labour and less on other children’s rights issues.
- 32 of the 195 investors have a publicly available responsible investor policy that includes a reference to children’s rights.
- Of the 22 investors who answered the questionnaire, 21 replied that children’s rights have a potentially material impact to their investments.
- 21 of the respondents say they have or are developing a procedure for integrating children’s rights into their investment decision-making process.
- Most respondents believe that a link between children’s rights and materiality and financial risk is difficult to make.
Methodology

We invited 195 European and North American asset owners signatories to the PRI (Principles for Responsible Investment) to participate in the survey. The response rate was low – only 11 per cent. 41 per cent of the respondents represented government pension funds and just below 30 per cent private pension funds. Almost 70 per cent had more than 10 billion USD in assets under management.

A systematic assessment using the questionnaire as a research framework was done on the 173 non-responsive investors' publicly available information. The main sources of information were responsible investment policies, information published by the asset owners on their websites, or annual and other reports.

The data gathering was conducted by GES. GES and Global Child Forum analysed the data.

This should be considered a base line study. It is the first time we undertake an investor survey and our ambition is to increase the sample size to a larger number of asset owners and also include asset managers in the future. We will replicate the study on an annual basis to track progress and identify developments. The methodology is developed to be easily replicable, but may over time be modified to capture relevant issues and developments.

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4. We decided to focus on asset owners in this study as they are in a position to set standards and push for change in the investment value chain and issue directions to their asset managers.
5. www.unpri.org
6. The survey was sent to 158 European and 37 North American asset owners.
7. We only checked information in English. Policies in domestic languages were not accounted for.
Results

Children's rights typically mean 'child labour'

The response rate on the questionnaire was low; only 11 per cent of the invited participants responded. The level of awareness of children's rights seems relatively high in this group. One way to interpret this result is that only those asset owners who believe children’s rights are relevant answered the questionnaire. If this is the case, this is a very poor result indeed.

In the questionnaire-based survey all respondents but one say human rights considerations are included in their responsible investment policies, but only five of these say children’s rights are specifically mentioned. A majority of the survey respondents, 80 per cent, perceive children’s rights not as a separate area, but as part of human rights. We also found that most respondents equate children’s rights with child labour. This was also the case in the “Setting a Children’s Rights Benchmark for the Corporate Sector” study issued in April 2014, an assessment on how more than 1,000 global companies address children’s rights issues in their business strategy and operations. Companies and investors seem to have the same narrow focus regarding children’s rights.

When reviewing the publicly available information of the investors that did not respond to the questionnaire we saw that when investors explicitly acknowledge children in their approach to responsible investment it is typically in relation to condemning and taking measures against child labour.

75 of the 195 selected owners have made their responsible investment policy publicly available. Whereas 69 policies included a reference to human rights, children were specifically mentioned in 32 cases.

More and more companies and investors look at social and environmental issues in terms of materiality. Materiality aspects are those that reflect an organisation’s significant economic, environmental and social impacts both in the short term and the long term. According to the Global Reporting Initiative, material issues include “those topics that have a direct or indirect impact on an organisation’s ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.”

Fig 1. Do you consider childrens rights issues to have potentially material impact to investments?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>(21 of 22)</td>
<td>(1 of 22)</td>
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8. Setting a Benchmark on Children’s Rights for the Corporate Sector, is a collaboration between The Global Child Forum and The Boston Consulting Group. The report is available on www.globalchildforum.org. The study will be repeated on an annual basis.

9. Children’s rights issues included in Setting a Benchmark on Children’s Rights for the Corporate Sector were: product safety, responsible marketing, environmental impact, sexual exploitation, and community displacement or security arrangements in conflict areas.

Assessing the public information of the 173 investors that did not participate in the survey, we found only two investors that explicitly stated that children’s rights had a potential material impact on investments. In our survey, only one respondent did not consider children’s rights as having a potential material impact to investments. However, turning this acknowledgment into practical measures does not appear so straightforward: the most common response to the question regarding challenges with integrating children’s rights into investment strategies was that it is difficult to make a link between children’s rights and materiality and financial risk. Demonstrating the link between the integration of ESG and profit and value enhancement at company level was also identified as problematic.

Among other challenges identified was fund managers’ lack of attention and understanding in relation to the children’s rights issue, while one respondent suggested that if integration were an explicit request from top management it would not be much of a challenge. As it stands, 11 respondents have, or are planning to, develop a procedure for integrating children’s rights into their investment decision-making process. 11 investors responded that they do not have any integration plans at this time. See Fig. 2 below. The assessment of publicly available information found another ten investors that had integrated children’s rights in their investment decision-making process.

Furthermore, few opportunities linked to the integration of children’s rights were mentioned: one investor suggested product and services development linked to child safety, while another one proposed more industry cooperation and more certification programmes.

![Fig. 2. Have you developed, or are planning to develop, a procedure for integrating children’s rights into your investment decision-making process?](image)
ESG management at investee company level

Does it matter to performance how companies address and manage children’s rights? It turns out that investee companies’ management of child-related issues has impacted investments negatively as well as positively. However, based on the respondents answers poor management of children’s rights has a greater impact on investments than good management.

We also asked about potential challenges which investee companies may face regarding the integration of children’s rights in their ESG management. The following points were raised by the investors:

- Lack of systematic and robust information regarding child labour, as well as child labour and business. Several respondents mentioned the complexity around child labour as particularly challenging – for example the alternatives for children not to work; decent work conditions for parents; and child labour in the informal sector.
- Children’s rights is not a company specific problem but demands an industry sector approach.
- Problems related to supply chain management.
Dialogues on children’s rights

One active ownership tool and a way for investors to interact with investee companies on issues that are of concern to them is corporate dialogue. In some cases investors engage collaboratively. Dialogues are carried out by the investors themselves, or through an external engagement service provider.

Few respondents gave any exact figures regarding the number of dialogues with investee companies that included children’s rights issues. The most common issues reported as having been raised with companies were child labour in cocoa and cotton industries, and one investor mentioned marketing and product responsibility and exploitation of vulnerable customers such as children.

The respondents seemed to focus on the same handful of sectors for their dialogues on child labour and children’s rights – Cocoa, Tobacco, Mining, and Cotton. Companies within the Food & Beverage sector were most frequently named.

Exclusions based on children’s rights concerns

Another ownership tool, which is typically used when a dialogue with a company is deemed as unsuccessful or not progressing, is divesting from that company or excluding the company from the universe of possible investments of any particular fund. Some funds also exclude companies for breaching an international standard or ethical guidelines. Seven respondents said they had excluded or divested from companies due to their misbehavior in relation to children’s rights. The assessment gave information on one more exclusion due to children’s rights. There were no details provided on any of the exclusion cases.

Norms and Guidelines

That the responsibility for children applies to private actors and all business enterprises is today generally accepted and formulated in a number of international and national norms, standards, policies and voluntary codes.11

When assessing the public information of the 173 investors that did not participate in the survey we found some references to the related ILO conventions and the UN Convention on the Rights of the Child. In the group of investors participating in the survey, both the awareness and the perceived relevance of the UN Convention on the Rights of the Child is relatively high. Again, this may reflect the fact that investors who are aware of and pay attention to children’s rights responded to the questionnaire.

The ILO conventions together with the UN Global Compact, which includes child labour as principle No 5, received highest recognition. This is in line with the fact that most respondents see child rights as a question of child labour.

11. See www.globalchildforum.org/resources
Fig. 4. Which of the guidelines do you consider to have direct relevance for investors?

- Childrens Rights and Business Principles
- The ILO Conventions
- UN Global Compact’s Ten Principles
- The UN Convention on the Rights of the Child
- UNCRC General Comment No 16
Case studies

On the following pages three investors describe how they are already integrating children’s rights in their investment practices and in dialogues with companies.

Case study 1:
ICCR and Access to Nutrition

In recent years, members of The Interfaith Center on Corporate Responsibility (ICCR), a coalition of US investors, have begun to engage some of the largest (publicly held) food, beverage, restaurant, retail, and media companies in dialogue around the public health issues of obesity and undernutrition, particularly as they affect children. ICCR’s concern about these issues has increased as influential voices in government, public health, finance, and the media have drawn attention to the childhood obesity epidemic and considered its relationship to industry practices.

ICCR’s initiative, Access to Nutrition, focused on 21 companies, resulting in dialogues with corporate management in the majority of cases and in shareholder resolutions in the minority. Investors address a range of issues with the companies, including:

• **Governance and reporting on nutrition.** Whether the company: has a strong policy that is responsive to local health and nutrition needs; places responsibility for nutritional impact with the Board of Directors; invests in research and development toward healthier products; and reports publicly on its nutrition-related policies and practices.

• **Nutritional improvement of the product portfolio.** Whether the company: is setting ambitious goals and timelines for reducing salt, sugar, and fat in products – particularly those geared toward children – and including nutritious ingredients; is seeking to increase the proportion of items in its portfolio that qualify as “healthy”.

• **Responsible marketing.** Whether the company: sets strong nutritional standards for the products it markets to youth globally; actively markets its healthier products to children; and refrains from targeted marketing of unhealthy products in communities disproportionately impacted by nutrition-related diseases.

• **Expanding access to healthy choices.** Whether the company prices healthier items competitively with less healthy products and makes them accessible in underserved communities through store location, packaging, and distribution strategies.

• **Communications and/or labelling.** Whether the company: uses an interpretive front-of-pack emblem to help consumers identify healthier products; and uses thorough back-of-pack nutrition labelling in countries where regulation is weak or non-existent.
Case study 2: Investor Initiative on Child Labour in the Cocoa Sector

Over the last few years GES and many of its investor clients have been, and still are, engaging with some of the largest cocoa grinders and chocolate manufacturers on the issue of child labour in West Africa. Besides regular engagement meetings with the companies, one collaborative investor letter has also been sent. The main objectives of the engagement are for the companies to:

Policy commitment
- Implement stricter child labour policies, including reference to ILO Convention 182.

Traceability and mitigation
- Spread corporate responsibility expectations further in the supply chain (beyond tier one suppliers).
- Continue to implement and scale-up traceability, verification and certification systems.
- Expand programmes for farmers in order to improve their living conditions (i.e. increase yield and income for farmers, improve market knowledge and access), improve access to school in cocoa communities, and carry out training on how to avoid hazardous child labour by children helping out at family farms.

Sector initiatives
- To participate in industry initiatives carried out by for example ILO-IPEC, the World Cocoa Foundation and the International Cocoa Initiative, and to support specific joint efforts such as the implementation of Child Labour Monitoring Systems (CLMS) to track the number of children involved in child labour.
- Support the Children’s Rights and Business Principles.

Transparency
- Provide information on long-term and mid-term goals to combat exploitation or hazardous child labour, including trafficking.
- Set up and report according to common industry Key Performance Indicators on progress of farmer programmes and other initiatives, such as school enrolment rates and increased income rates for cocoa farmers.

One of the companies engaged is Nestlé.

“We definitely appreciate the constructive dialogue we have and feedback we get from all stakeholders in general and more specifically from investors to further refine our work in the area of corporate social responsibility. We believe we can do business in ways that both deliver long-term shareholder value and benefit society. We call this approach Creating Shared Value (CSV). Creating Shared Value begins with the understanding that for our business to prosper over the long term, the communities we serve must also prosper. It explains how businesses can create competitive advantage, which in turn will deliver better returns for shareholders, through actions that substantially address a social or environmental challenge.”

Luca Borlini,
Head of Investors Relations, Nestlé
Case study 3: Calvert Investments

The US investment management company Calvert Investments addresses children’s rights in the broader context of its labour and human rights initiatives. Specifically, the company addresses children’s rights in efforts concerning global labour supply chains and the state-compelled Uzbek cotton harvest. Both Calvert’s investment decision-making and shareholder advocacy activities seek to curtail private sector use of child labour and thus improve children’s well-being and access to basic human rights.

Effective global supply chain management is a material issue to Calvert and other investors concerned with corporate risk management that encompasses both specific financial and social risks, including harmful human rights impacts. Global companies, especially those that operate in, or rely on, the apparel, agriculture, and electronics sectors, face widespread human rights risks. Principal among these risks are labour rights impacts, including instances of child labour.

Calvert’s focus on supply chain management, including the elimination of child labour and trafficking, factors critically into the company’s sustainable investment approach and advocacy programmes. As a condition of investment eligibility, Calvert requires that apparel manufacturers maintain supplier codes of conduct and implement supplier monitoring that address potential human rights risks, such as child labour.

Calvert closely scrutinises and directly engages companies in high-risk sectors, to encourage the adoption of labour standards that protect children’s rights by excluding them from the workforce. The company also recognises the value of transparency in ensuring children’s and workers’ access to rights. It is with this understanding that Calvert has supported various multi-stakeholder initiatives aimed at developing and operationalising U.S. federal- and state-level supply chain transparency laws, including – most significantly – the California Transparency in Supply Chains Act. In this work, Calvert has partnered with the Alliance to End Slavery and Trafficking.

Calvert contributes to multi-stakeholder initiatives that influence companies, particularly in the apparel and home goods sectors, to rid their supply chains of Uzbek cotton. The investor directly engages companies with Uzbek operations, to encourage their intercession with the Uzbek government on behalf of employees and their families and communities. Calvert also participates in international multi-stakeholder initiatives that engage the Uzbek government, the International Labour Organisation, and the U.S. Department of State on this issue.