Child labour and Dutch institutional investors:

a study on incorporating child labour in responsible investment

VBDO

WORK: NO CHILD'S BUSINESS

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Preface from VBDO

VBDO is pleased to present this report in collaboration with the *Work: No Child's Business* Alliance.

The recent adoption of the Child Labour Due Diligence Act (Wet zorgplicht kinderarbeid) is an encouraging step towards more transparency and traceability on child labour within the production chain. However, more can still be done. This report reveals how Dutch institutional investors are currently addressing child labour through their responsible investment policies as well as our recommendations on how to move this topic forward. It includes concrete examples of actions that can be taken by investors to tackle child labour in their portfolios.

Readers will notice that few case studies have been included in this study. This is due to the cautious approach taken towards child labour by most financial institutions. We are pleased to see that the majority of investors have at least indirectly implemented child labour into their RI policy and RI instruments. However, it is clear that there is still much work to be done. While we understand the challenges around this issue, we hope that you will take our key findings and recommendations into consideration when reflecting on existing policies and strategies. The tough message of this report is that there is no easy fix for child labour. However, this should not deter institutional investors from taking action. Let this report be a call to action to collaborate and to look beyond a risk and accountability framework.

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I would like to thank our partner the Alliance *Work: No Child's Business* for their fruitful collaboration on this project. A special thanks also goes to the institutional investors who participated in the research for this study, which resulted in an amazing response rate of 81%, representing over €1.442 billion in assets under management. Without your contribution, this study and its subsequent recommendations would not have been possible.

Angélique Laskewitz
Executive Director, VBDO
Utrecht, November 2021

Preface from the Work: No Child's Business Alliance

When it comes to child labour, we all know that we must avoid and fight it at all costs. A child that is still developing needs to be in school, not in the workplace. Unfortunately, reality is different. Still 162 million children globally are part of the labour force in a way that holds them back from getting their full education, causing health problems, and keeping them in poverty. And these numbers are on the rise again.

In the Alliance *Work: No Child's Business* we work to end child labour in six different countries (Vietnam, India, Mali, Jordan, Cote d'Ivoire and Uganda). Together with governments, communities, and companies the Alliance works on ensuring that children and youth are free from child labour and enjoy their rights to quality education and (future) decent work. Hereby contributing to Sustainable Development Goal 8.7 – to end all forms of child labour by 2025. All stakeholders involved must work together to address the root causes of child labour.

Companies and private actors must commit to their human rights due diligence to mitigate and eliminate child labour in their supply chains. Financial investors can also contribute to end child labour in all its forms by 2030. Engagement is a powerful tool to drive companies to tackle this problem head on.

Therefore, we are very pleased to have been able to collaborate with VBDO in this research. Even though engagement has the potential to create positive impact, the complexity of the problem demands careful consideration. To ensure engagement leads to concrete improvements for children, special policies need to be developed. In developing these, we must all work together to ensure policies that work for both governments, communities and companies. We are hopeful this research can be the starting point of multistakeholder engagement to continue our work on the elimination of child labour. We would like to thank VBDO in leading this research and all financial investors that contributed.

Sofie Ovaa
Program Manager
Work: No Child's Business

WORK: NO CHILD'S BUSINESS

The **Work: No Child's Business** Alliance consists of Save the Children Netherlands, UNICEF Netherlands and the Stop Child Labour Coalition in close collaboration with partner organisations and country offices in India, Ivory Coast, Jordan, Mali, Uganda and Vietnam.

Key Findings

Investors take an indirect approach to addressing child labour in the RI policy and RI instruments
The majority of investors address child labour indirectly in their RI policies – by addressing labour rights and/or human rights. Only a few investors in scope have developed a specific policy on child labour. This is also the case for RI instruments. Although investors engage on child labour, this is usually done indirectly, for example by discussing the living wage or human rights risks with companies.

Exclusion is the RI instrument most frequently used to address child labour, but engagement is the most recommended tool
The majority of investors (82%) use exclusion to avoid investing in companies that violate international agreements such as the UN Global Compact. However, respondents indicated that engagement is considered to be the most effective investment approach to combat child labour. This is because initiating and maintaining a dialogue will help to remedy or prevent conditions that (are perceived to) exacerbate child labour, such as poverty or insufficient access to education.

Lack of (supply chain) transparency and detailed ESG data on child labour prevent investors from directly incorporating child labour in their RI policies and in most RI instruments
The biggest obstacles mentioned by investors are insufficient transparency in the supply chain of companies and lack of relevant ESG data derived through on-the-ground inspections. Investors pointed out that traceability issues and lack of transparency make it difficult to assess the risk of exposure to child labour.

There is little collaboration with (local) NGOs/civil society
Few investors indicated that they consult (local) civil society organisations about incorporating child labour in the RI policy. Most investors are also not using sources and research provided by such organisations to inform, for example, engagement trajectories. As these organisations know what is happening on the ground and have insight into human rights violation risks in the supply chain, they could be a valuable source of information. Currently, most investors rely on information on child labour sourced via external ESG-data providers.

The board, participants and customers are instrumental to the inclusion of child labour in the RI policy
The overwhelming majority of respondents indicated that the prevention of child labour is included in the RI policy due to the insistence of the board and/or participants and customers. This demonstrates the importance of direction from the board and that institutional investors do consider the wishes of their clients and participants.

Recommendations

Connect and collaborate with civil society organisations and other stakeholders on the ground in countries and sectors at risk

Supply chain transparency and lack of information on child labour were pointed out as the main obstacles preventing investors from, for example, explicitly including child labour in the RI policy. NGOs and unions can often provide investors with insights into how operations are run on the ground and alleged human rights and labour rights violations. This will enhance engagement efforts as information provided by these stakeholders will prevent the company engaged with from placating shareholders with empty promises and greenwashing.

Make child labour a separate and distinct topic of interest instead of an add-on to other topics

While it is important to include child labour in relation to topics such as the living wage and access to education, it is important to establish an explicit stance on child labour and to incorporate this into the RI policy. This signals the importance of the topic to both asset managers and investees. Child labour is a complex issue that needs to be addressed from several angles. Focusing on one aspect, for example the living wage, is insufficient for creating the prerequisites needed to effectively diminish and ultimately stop child labour. This also means that taking action on child labour is a long-term project which requires a long-term vision.

Initiate (collaborative) engagement trajectories which explicitly include child labour in key sectors

Instead of implying the prevention of child labour through adjacent topics like the living wage or 'tagging it on' to these topics, it is important to substantially discuss child labour as a separate topic. This includes adding child labour to the list of topics to discuss during round tables for key sectors. Voting can be used to amplify engagement by demonstrating the investor's disagreement or discontent with the lack of progress made. Voting against management can be used as an escalation strategy and filing a resolution on child labour or related subjects indicates a strong interest in the topic. This could include the explicit mention of child labour at the AGM.

Make child labour a separate and distinct topic of interest instead of an add-on to other topics

Stay ahead of legislation

It is encouraging to see the recent developments in (international) legislation on child labour and legislation that would enforce due diligence by businesses on this matter. However, complying with legislation should be a baseline, not an end goal. Investors should not be afraid to take the lead by taking action beyond what is legally required of them, and pushing companies to do the same.

Due diligence in excluding child labour

As a large institutional investor, there is a high likelihood that you are currently investing in child labour through the supply chains of the large companies in which you invest. Waiting for a controversy to happen before considering exclusion foregoes necessary due diligence. In addition, this inactive approach is insufficient, inefficient and does not take full advantage of the opportunities for active ownership that are available to investors.

1. An overview of child labour by the Work: No Child's Business Alliance

2021 is the International Year for the Elimination of Child Labour. This has inspired the *Work: No Child's Business* Alliance (WNCB) to team up with VBDO to address this issue within the financial sector. The issue of child labour is still highly prevalent in the supply chains of many investee companies, but there is still insufficient understanding of how to tackle the problem and investors are not taking enough responsibility. In order to tackle this issue, we need to first know what we mean by child labour, the facts and figures and what the root causes are.

The ILO Convention 182 on the Worst Forms of Child Labour calls for "immediate and effective measures to secure the prohibition and elimination of the worst forms of child labour." Unfortunately, we still live in a world where 79 million children are still subject to these forms of child labour. According to the most recent analysis by ILO and UNICEF, child labour has risen for the first time in two decades. There are now estimated to be a total of more than 160 million underage workers.[1] This data was collected prior to January 2020, so the impact of the COVID-19 pandemic on this figure is not yet known. This global crisis will likely lead to an even greater increase in children being forced to leave school and join the workforce prematurely. Preliminary findings of UNESCO and Human Rights Watch confirm this expectation.[2]

Other international laws regarding child labour exist, and most countries are party to these conventions. The UN Convention on the Rights of the Child (UNCRC) defines a child as "every human being below the age of 18 years unless under the law applicable to the child, majority is attained earlier" (Article 1). Article 32 stipulates that children shall be protected from

[1] https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_797515.pdf
[2] https://en.unesco.org/news/one-year-covid-19-education-disruption-where-do-we-stand
https://www.hrw.org/news/2021/05/26/covid-19-pandemic-fueling-child-labor

ABOUT THIS STUDY

This thematic study aims to provide an overview of how child labour is currently incorporated in the RI policies and RI instruments of the Dutch financial sector, and to recommend steps to take in order to advance on this topic. VBDO approached Dutch financial institutions and asked for their voluntary participation in this study. The questionnaire on which this report is based focused on how child labour has been captured in policies and RI instruments. Data derived from these questionnaires is self-reported by respondents and has not been validated by VBDO. Responses have been aggregated and processed anonymously. The response rate for this study is 81%. This represents over €1.442 billion in combined assets under management.

"performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development." The WNCB Alliance defines child labour as any form of work performed by children under the age of 15 that interferes with their right to formal quality education, and/or that is mentally, physically, socially and morally dangerous and harmful for their health and development; as well as any form of hazardous work performed by children between 15 and 18 years old.

Individuals subject to child labour are not a homogeneous group. They differ in age, gender and background, with increasing numbers of rural migrant children working in urban regions in the manufacturing or service sectors. Some do paid work, others unpaid; some are self-employed, others receive wages. Many children work in the informal sector, an area of economic activity that is largely invisible and unregulated by governments. This makes these children even more vulnerable to all forms of exploitation, ranging from very low wages and excessive working hours to unhygienic or even abusive working conditions, and from restrictions on their movement due to employers retaining identity documents, to debt bondage. Due to the often non-existent or poor functioning child protection systems in countries where child labour is prevalent, little is done to prevent and address the various forms of child exploitation and abuse. Regardless of the differences between child labourers, there is one thing all of them share, and that is the fact that the work they are forced to do negatively impacts on their education. A very large number of working children are completely deprived of education: more than a quarter of children between the ages of five and 11 who are subject to child labour are excluded from school. This rises to a third of those children aged between 11 and 15.

Our experience in countries such as India, Mali and Uganda has shown that social norms and traditions, social exclusion and discrimination, as well as poor functioning education systems, are the key reasons why children are working and not attending school.

A range of social, economic and political factors is responsible for the persistence of child labour in many countries. Contrary to what is often assumed and stated, poverty is often not the decisive factor that pushes children into work. This has become ever more clear over WNCB's many years of involvement with the issue of child labour and education worldwide. Nor is poverty the main obstacle to making full-time formal education accessible for every child. In most cases, child labour is not vital to helping poor families to survive. Research shows that children's wages only contribute marginally to the family's income. Our experience in countries such as India, Mali and Uganda has shown that social norms and traditions, social exclusion and discrimination, as well as poor functioning education systems, are the key reasons why children are working and not attending school. Furthermore, the lack of decent work for adults, weak laws and/or law enforcement by government, and failing labour inspections also contribute to the persistence of child labour.

2. Child labour: a material and ethical issue for institutional investors

Child labour is a sensitive topic due to its complex nature and the difficulty of tracing and detecting child labour violations in the activities of companies and their supply chains. Perhaps most importantly child labour is an ethical issue and a salient risk.

Material considerations

Child labour is a serious material risk as detection and/or allegations of child labour can lead to significant reputational risk and financial loss. Some sectors and regions are more at risk than others, for example the palm oil sector and cobalt and mica mining operations. Legislative action is becoming more likely with the introduction of several relevant laws. In 2019, a landmark lawsuit was filed against several mining companies active in cobalt mining in Congo. It was filed on behalf of guardians of children who were injured, maimed or killed while working in

Detection and/or allegations of child labour can lead to significant reputational risk and financial loss.

artisanal and small-scale cobalt mines. The plaintiffs allege that the five major technological companies are responsible for their deaths and injuries.[3]
VBDO urges investors to explicitly include commitments on child labour as this is crucial to tackling the issue and it is vital if investors are to move away from a mere risk and compliance perspective. Investors should not shy away from taking action out of fear of being held accountable and of its associated reputational risks when exposure to child labour is inevitably discovered. The reality is that institutional investors are most likely exposed to child labour due to the size of their investment portfolio and sectors at risk of child labour being hard to avoid, but that does not mean that steps cannot be taken.

Ethical considerations

Another facet to child labour is its ethical implications. While all financial institutions will agree that investing should happen ethically, discussing the ethics and morality of investments in certain products or sectors can be a sensitive subject. VBDO would like to emphasize that ESG is an integral part of the fiduciary duty of institutional investors. Ethical considerations on human rights issues should weigh into the investment decision making process, including deciding on topics to include in the RI policy and on which topics to perform active ownership. This point was stressed in the 2019 PRI report 'Fiduciary duty in the 21st century'. Child labour is a topic that, based on materiality, saliency and ethical considerations, should not be overlooked because of its complexity. In short, while institutional investors have to ensure that they are able to fulfill their fiduciary duty, this does not mean that they should limit themselves to just this one aspect of their activities. But most importantly, fiduciary duty and risk should not be leading considerations on this topic. Institutional investors have the moral obligation to act on child labour based on its ethical abhorrence.

[3] https://www.business-humanrights.org/en/latest-news/lawsuit-against-apple-google-tesla-and-others-re-child-labour-drc/
[4] https://zoek.officielebekendmakingen.nl/stb-2019-401.html
[5] https://www.business-humanrights.org/en/latest-news/german-due-diligence-law/
[6] https://www.business-humanrights.org/en/latest-news/european-commission-promises-mandatory-due-diligence-legislation-in-2021/

Textbox 1 | LAWS AND LEGISLATION

- The Child Labour Due Diligence Act (Wet zorgplicht kinderarbeid[4]) was adopted in 2019 and is expected to come into force in 2022. This law requires companies selling products or services to Dutch consumers to perform reasonable due diligence on the involvement of child labour in its production process, including in the supply chain. If the company is at risk of child labour or if evidence of child labour has been found in its operations, an action plan should be implemented. A statement on the company's due diligence process, which confirms that sufficient due diligence has taken place, has to be submitted to the regulatory body. These statements will be made publicly available in an online registry. The law refers to the ILO-IOE Child Labour Guidance Tool.
- Germany adopted the Act on Corporate Due Diligence in Supply Chains this summer.[5] The Act includes forced labour and child labour.
- The EU Human Rights Due Diligence Act[6] was brought into force in March 2021. This covers large EU enterprises and publicly listed SMEs, meaning its scope is more limited than the Dutch Child Labour Due Diligence Act.

3. Results

This chapter presents the research results of the conducted questionnaire and study. Our results indicate that institutional investors hesitate to directly and explicitly include child labour in their responsible investment policies and practices. However, the majority of investors do take action on child labour through at least one RI instrument.

Figure 1 | **Relevance of child labour as a topic on a scale of 1 to 5**

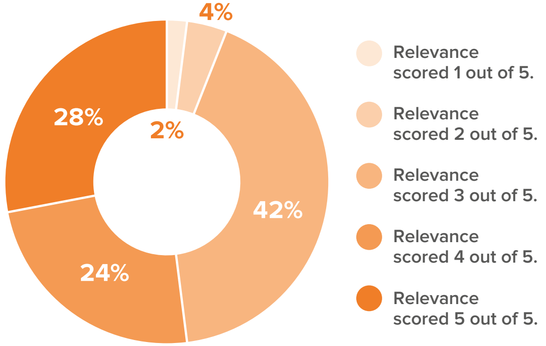


Figure 2 | **Child labour is mentioned in the RI policy**

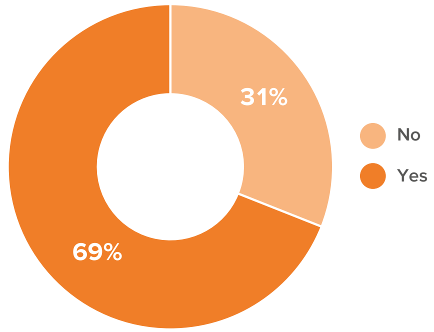
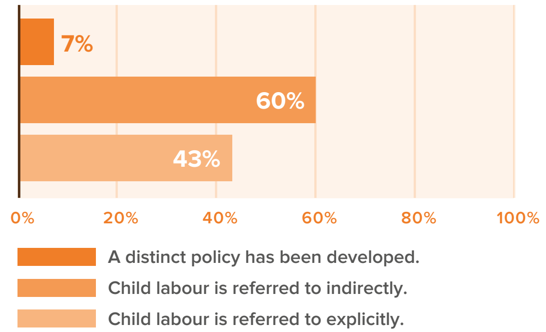


Figure 3 | **The inclusion of child labour in the RI policy**



Responsible investment policy

The overwhelming majority of surveyed investors indicated that they consider child labour to be a relevant topic; 94% scored its relevance as either 3, 4 or 5 on a scale of 1 to 5.

Considering this high percentage, it is perhaps surprising that just 69% of investors reference child labour in their RI policy. Of this 69%, only 43% make an explicit reference to child labour, while a meagre 7% have developed a distinct policy on the topic. The 60% who indirectly included child labour in the RI policy have done so by incorporating other relevant targets, standards or guidelines, such as human and labour rights, relevant SDGs (for example SDG 8: Decent work and economic growth), OECD guidelines, the UN Global Compact (specifically Principle 5: Labour), and/or relevant covenants. These standards have been incorporated into the RI policy in order to address labour rights rather than to specifically address child labour.

When it comes to the main reasons for including child labour in the RI policy, significant differences can be seen. The majority of investors who included child labour in their RI policies state that either the board (82%) or participants, customers or clients (68%)

Figure 4 | **Labour rights are incorporated in the RI policy through reference to:**

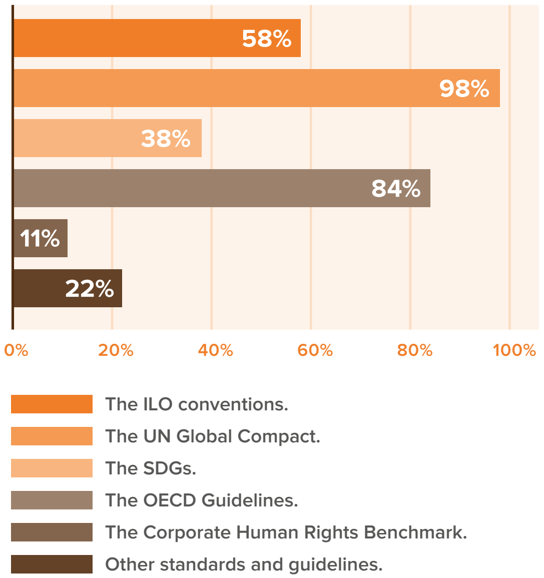


Figure 5 | **The main reason for including child labour in the RI policy**

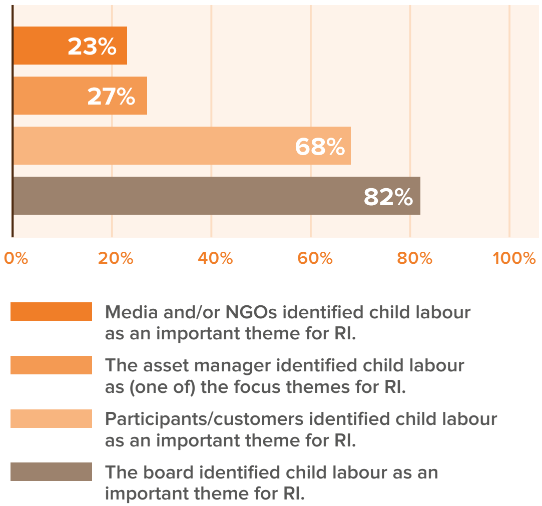
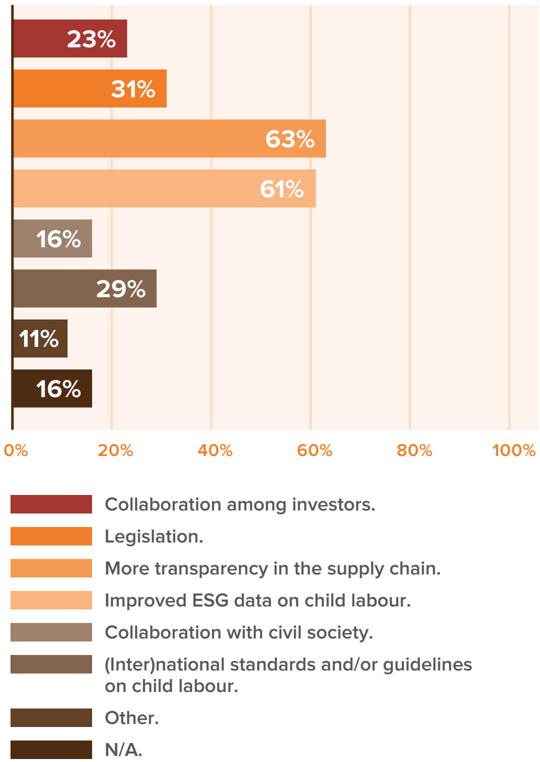


Figure 6 | **What is most needed in order to include child labour in the RI policy**



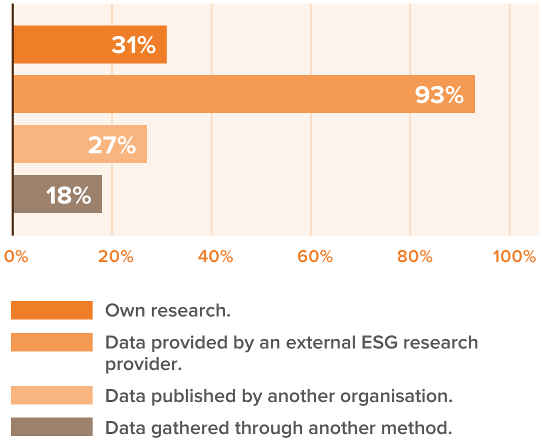
identified child labour as a topic of importance for responsible investment. Around a quarter of investors indicated that child labour is included due to identification by the asset manager (27%) or NGOs and media (23%).

The above is especially noteworthy as the majority of investors indicated that more transparency in the supply chain (63%) and improved ESG data on the topic (61%) is needed in order to better include child labour in the RI policy. NGOs have extensive on-the-ground and local knowledge, including on supply chains. However, only 16% of investors indicated that more collaboration with civil society is needed in order to more substantially include child labour in the RI policy.

When asked where they turn to for information about child labour, 27% of investors chose 'another organisation' and 18% chose 'other'. Some, but not all, then gave the name of an NGO or organisations such as Platform Living Wage Financials, indicating that less than 27% of investors in scope currently use NGOs as a source of data or other information.

Another noteworthy insight is that a number of Dutch institutional investors supported the Child Labour Due Diligence Act[7] but only 31% consider legislation

Figure 7 | **Information gathering method for the RI policy**



to be instrumental to the substantial inclusion of child labour in the RI policy.

RI INSTRUMENTS

The most used instrument for dealing with child labour is exclusion, with 82% of investors implementing this instrument when needed. ESG integration is the second most used RI instrument at 68%, closely followed by voting and engagement at 67% and 65% respectively. Impact investing is by far the least used at 11%.

Exclusion

The vast majority of investors (82%) practise exclusion to address child labour. Some of the investors who do not indicated that they prefer engagement over exclusion (with divestment being a possible result of engagement) or that they chose this option as they have no specific policy on child labour in place. As shown in the section on RI policies, investors have incorporated initiatives such as the UN Global Compact in their RI policies, meaning that child labour should be excluded from the investment universe.

ESG integration

68% of investors surveyed include child labour when integrating ESG. Of these, 32% consider child labour when selecting investments, while 68% take child labour into account in the selection and monitoring of investments, and consider this topic to have had a demonstrable effect on holdings.

Voting

Although voting is limited to investments in publicly listed equity, its usefulness should not be overlooked. Voting is reported to be an often-used instrument regarding child labour, and 67% of the investors who indicated that they use this instrument incorporate child labour when conducting research to inform voting decisions. However, only 33% report that child labour has a demonstrable effect on casted votes. These investors gave examples of support for shareholder resolutions on human and children's rights policies and related disclosures. Some of these resolutions were directly linked to identification of child labour in the company's operations or supply chain.

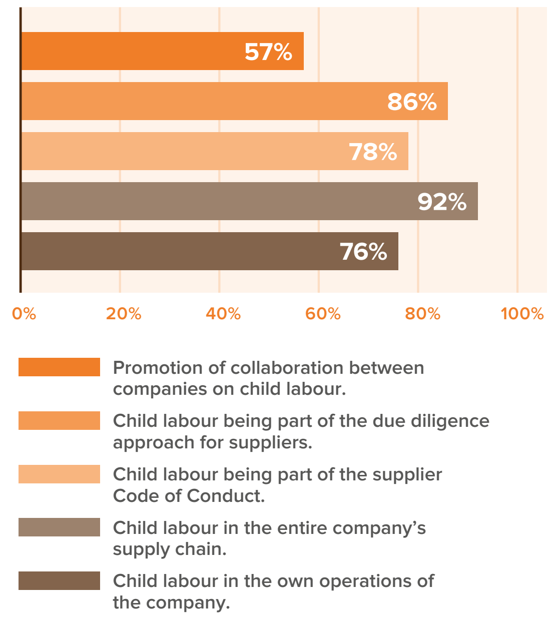
Textbox 2 | **THE IMPORTANCE OF A MULTI-ANGLED APPROACH**

Child labour is a complex issue influenced by many factors. It is important to look at and act on this topic from multiple angles; direct and indirect approaches are best used in tandem. Our research shows that the living wage is often used as an indirect approach to discussing child labour and is considered to be the most effective way to help prevent child labour by the financial sector. However, as laid out in the introduction, poverty is not the main cause for the persistence of child labour. While we do not want to discourage financial institutions from using the living wage as a vehicle to enable conversations on child labour, we would urge investors to include other issues in the 'S' category of ESG in for example their engagement activities in addition to the living wage. Issues that can be highlighted in this regard are labour rights and children's rights in general, especially freedom of association, freedom from slavery and forced labour, and the provision of safe environments for children outside of their caretaker's workplace.

[7] See for example: https://tonyschocolonely.com/storage/configurations/tonyschocolonelycom.app/files/wetzorgplichtkinderarbeid/tonys_brief_wettegenkinderarbeid.pdf

An example of this is Pensioenfonds Bakkers, which supported several resolutions on human rights due diligence in 2020. This included a resolution filed at the AGM of an American retailing group. The company did not display formal commitment to respect human rights or remedy adverse impacts, there was no clear evidence of board commitment, management incentives, or engagement with stakeholders. Additionally, implementation of processes to ensure no child or forced labor is present and processes ensuring the payment of a living wage were absent. Therefore, Pensioenfonds Bakkers supported the resolution requesting the Board of Directors to report on the company's process for identifying and analysing potential and actual human rights risks of its operations and its supply chain. However, several investors pointed out that resolutions on child labour specifically are rarely raised.

Figure 8 | **Engagement topics**



Engagement

Of the 65% of investors that engage on child labour, most engage on several topics. The 35% of investors that do not engage on child labour provide several reasons for this, including:

- Excluding investments;
- Only participating in collaborative engagement initiatives, none of which relate to child labour;
- Engaging on child labour indirectly, for example via forced labour or human rights engagement.

49% of investors engage on child labour indirectly, for example via topics such as the living wage and human rights. The danger of indirect engagement is that issues, especially sensitive ones like child labour, can become so diffuse that no meaningful impact is made. For other investors, the size of investment being too small to exercise influence and a limited workforce prevents them from entering their own in-depth engagement trajectories. Joining forces with larger investors in collaborative engagement initiatives is a great way to ensure that concerns are heard. Additionally, it is necessary to engage before

Textbox 3 | CASE STUDY: PRI COLLABORATIVE ENGAGEMENT ON THE RESPONSIBLE SOURCING OF COBALT

Cobalt mining is a high-risk sector for child labour, making this a key concern when engaging on human rights. The Principles for Responsible Investment (PRI) supported a group of investors who collaboratively engaged companies in the automotive and electronics sectors on their cobalt-sourcing practices. The trajectory ran from 2018 to 2020; child labour was one of the key topics discussed with companies. In the engagement results report, PRI stressed the importance of (collaborative) engagement on core issues and recommended (collaborative) engagement with stakeholders such as NGOs and local communities.

More information on the PRI-supported collaborative engagement can be found here: https://www.unpri.org/collaborative-engagements/collaborative-engagement-on-responsible-sourcing-of-cobalt/6278.article. The engagement results report can be found here: https://www.unpri.org/collaborative-engagements/responsible-cobalt-sourcing-engagement-results/8208.article.

controversies take place in order to address systemic problems.

Impact investing

Impact investing is by far the least reported instrument at 11%. Determining what exactly qualifies as an 'impact investment' can be complicated, especially in the context of the topic of this study. We have included self-reported impact investments in this percentage. Reported investments include microfinance, investments in SMEs and smallholders, and investments in financial inclusion and/or companies that directly or indirectly work towards eradicating child labour.

Impact investments on child labour can also be related to creating favourable conditions for children. Some caretakers feel obligated to take children in their care with them to their workplace as the children are too young to be left alone or the local situation is unsafe for children to be left at home and/or at school, and there is no school or other safe daycare option available. However, investments in, for example, relevant infrastructure or schools were not mentioned by respondents to our survey.

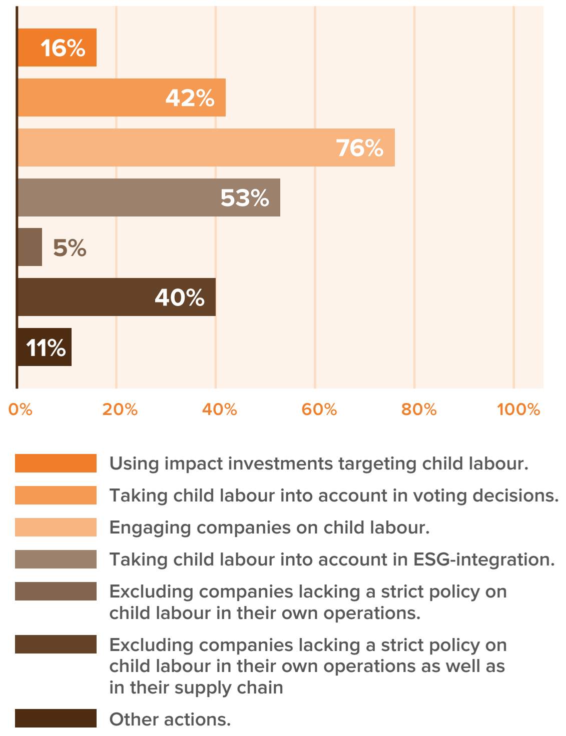
ACTIONS TO TAKE ON CHILD LABOUR THAT ARE RECOMMENDED BY INSTITUTIONAL INVESTORS

We asked institutional investors what they think are the best actions to take on child labour. Exclusion is one of the lower recommendations, probably because this is already the most used instrument and because investors indicated that they consider engagement to be the most effective and important tool to use when addressing child labour. This is clearly shown by engagement being recommended by 76% of investors who answered this question. This is followed by incorporating child labour into ESG integration (53%) and taking child labour into account in voting decisions (42%). As mentioned in the section on voting, shareholder resolutions centring on child labour are almost non-existent. Therefore, this would mean either filing your own shareholder resolution or having child labour factor into a decision to vote against management.

Excluding companies lacking a strict policy on child labour in their own operations and their supply chain is vastly preferred (40%) over excluding companies that do not have a strong policy on child labour in just their own operations (5%). This highlights the importance of supply chain transparency and accordingly data on the supply chain.

The least recommended RI instrument is impact investing. As was shown in the section on methods used to address child labour in investing activities, it is difficult to determine whether an impact investment does indeed address child labour (albeit indirectly) or not. In the 'other' category (11%), a combination of RI instruments was usually recommended, or it was stressed that in order to address child labour, other topics would need to be addressed as well, such as the right to education, the living wage and supporting families. Other topics deemed important are audits by issuers, ESG-focused due diligence of supply chains, on-the-ground inspections, and mandatory disclosure.

Figure 9 | **Actions to take on child labour recommended by institutional investors**



4. Conclusion

This report shows that although child labour is overall considered an important theme by the Dutch financial sector, investors struggle with how to approach this issue effectively. The most used instrument to tackle child labour is exclusion. At the same time, investors are aware that they are most likely exposed to child labour through the supply chains of many of their investee companies. Waiting for a controversy to happen before considering exclusion foregoes necessary due diligence. In addition, this reactionary approach does not take full advantage of the opportunities for active ownership that are available to investors. Exclusion is a powerful instrument, but due to the complexity of the topic and the lack of transparency in supply chains other instruments are needed to accomplish positive change as well. Investors and civil society organisations agree that engagement is the most effective instrument to act on child labour. Unfortunately, this report shows engagement is not yet broadly used. Instead of implying the prevention of child labour through adjacent topics like the living wage, it is important to substantially discuss child labour as a separate topic.

VBDO recommends to connect and collaborate with civil society organisations and other stakeholders on the ground in countries and sectors at risk. Supply chain transparency and lack of information on child labour were pointed out as the main obstacles preventing investors from, for example, explicitly including child labour in the RI policy. NGOs and unions can provide investors with valuable insights into how operations are run on the ground and on alleged human rights and labour rights violations. This will enhance engagement efforts as information provided by these stakeholders will prevent the company engaged with from placating shareholders with empty promises and greenwashing.

It is encouraging to see the recent developments in (international) legislation on child labour and legislation that would enforce due diligence by businesses on this matter. However, complying with legislation should be a baseline, not an end goal. Investors should not be afraid to take the lead by taking action beyond what is legally required of them and pushing companies to do the same. We are aware that this is not an easy endeavour but are confident that the willingness to act on child labour displayed by investors combined with the recommendations in this report will lead to fruitful actions and collaborations in taking next steps on eliminating child labour.

Appendix I - Methodology

This thematic study aims to provide an overview of how child labour is currently incorporated in the RI policies and RI instruments of Dutch institutional investors, and to recommend steps to take in order to advance on this topic. VBDO approached the 50 largest Dutch pension funds, 24 largest Dutch insurance companies and 5 largest Dutch banks and asked for their voluntary participation in this study. The questionnaire on which this report is based focused on how child labour has been captured in policies and RI instruments. Data derived from these questionnaires is self-reported by respondents and has not been validated by VBDO. Responses have been aggregated and processed anonymously. The response rate for this study is 81%. This represents over €1.442 billion in combined assets under management. For more information, please contact VBDO at info@vbdo.nl.

The questionnaire included the following topics:

- Inclusion of labour rights in the RI policy
- Inclusion of child labour in the RI policy
- Elements needed to more substantially include child labour in RI
- Methods of information gathering on child labour
- Inclusion of child labour in RI instruments
- Recommended actions for investors to take on child labour

THE FOLLOWING RESPONDENTS AGREED TO BE LISTED:

- a.s.r.
- ABN Amro
- Achmea
- Ahold Delhaize Pensioen
- Allianz
- ASN Bank
- Athora Netherlands
- Bedrijfstakpensioenfonds voor het Levensmiddelenbedrijf
- BNP Paribas Cardif
- bpfBOUW
- Bpf Schoonmaak
- BPL Pensioen
- CZ Groep
- De Goudse Verzekeringen
- DSW
- ING Bank
- Menzis
- NN Group
- Pensioenfonds Achmea
- Pensioenfonds Horeca & Catering
- Pensioenfonds IBM Nederland (SPIN)
- Pensioenfonds KPN
- Pensioenfonds Medewerkers Apotheken (PMA)
- Pensioenfonds PNO Media
- Pensioenfonds PostNL
- Pensioenfonds TNO
- Pensioenfonds voor Fysiotherapeuten (SPF)
- Pensioenfonds UWV
- Pensioenfonds Vervoer
- Pensioenfonds Wonen
- Philips Pensioenfonds
- PME
- PMT
- PWRI
- Rabobank
- Rabobank Pensioenfonds
- SBZ Pensioen
- SPW
- Stichting Algemeen Pensioenfonds KLM
- Stichting Algemeen Pensioenfonds Unilever Nederland kring 'Progress'
- Stichting Bedrijfspensioenfonds voor het Bakkersbedrijf
- Stichting Bedrijfstakpensioenfonds voor de Meubelindustrie en Meubileringsbedrijven
- Stichting Bedrijfstakpensioenfonds voor Vlees, Vleeswaren, Gemaksvoeding en Pluimveevlees (Pensioenfonds VLEP)
- Stichting Pensioenfonds ABP
- Stichting Pensioenfonds Huisartsen (SPH)
- Stichting Pensioenfonds KLM - Cabinepersoneel
- Stichting Pensioenfonds PGB
- Stichting Pensioenfonds SNS Reaal
- Stichting Pensioenfonds Vliegend Personeel KLM
- Triodos
- Univé Groep
- VGZ
- ZLM

Appendix II - VBDO's activities

About VBDO

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

Engagement

For more than 25 years, the core activity of VBDO has been engagement with 40+ Dutch companies listed on the stock market. VBDO visits the annual shareholders' meetings of these companies, asking specific questions and voting on environmental, social and governance (ESG) themes. The aim of this engagement is to promote sustainable practices and to track progress towards the companies becoming fully sustainable, thereby providing more opportunities for sustainable investments.

Thought leadership

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

Benchmarks

Benchmarks are an effective instrument to drive sustainability improvements by harnessing the competitive forces of the market. They create a race to the top by providing comparative insight and identifying frontrunners, thus stimulating sector-wide learning and sharing of good practices. VBDO has extensive experience in developing and conducting benchmarking studies. VBDO has conducted annual benchmarking exercises, for example, since 2007 on responsible investment by Dutch pensions funds, and since 2012 responsible investment by Dutch insurance companies.

This has proven to be an effective tool in raising awareness of responsible investment and stimulating the sustainability performance of pension funds and insurance companies. VBDO is one of the founding partners of the Corporate Human Rights Benchmark, which ranks the 500 largest companies worldwide on their human rights performance and makes the information publicly available in order to drive improvements. VBDO's Tax Transparency Benchmark ranks 64 listed multinationals according to the transparency of their responsible tax policy and its implementation.

For more information about VBDO, please visit our website: http://www.vbdo.nl/en/