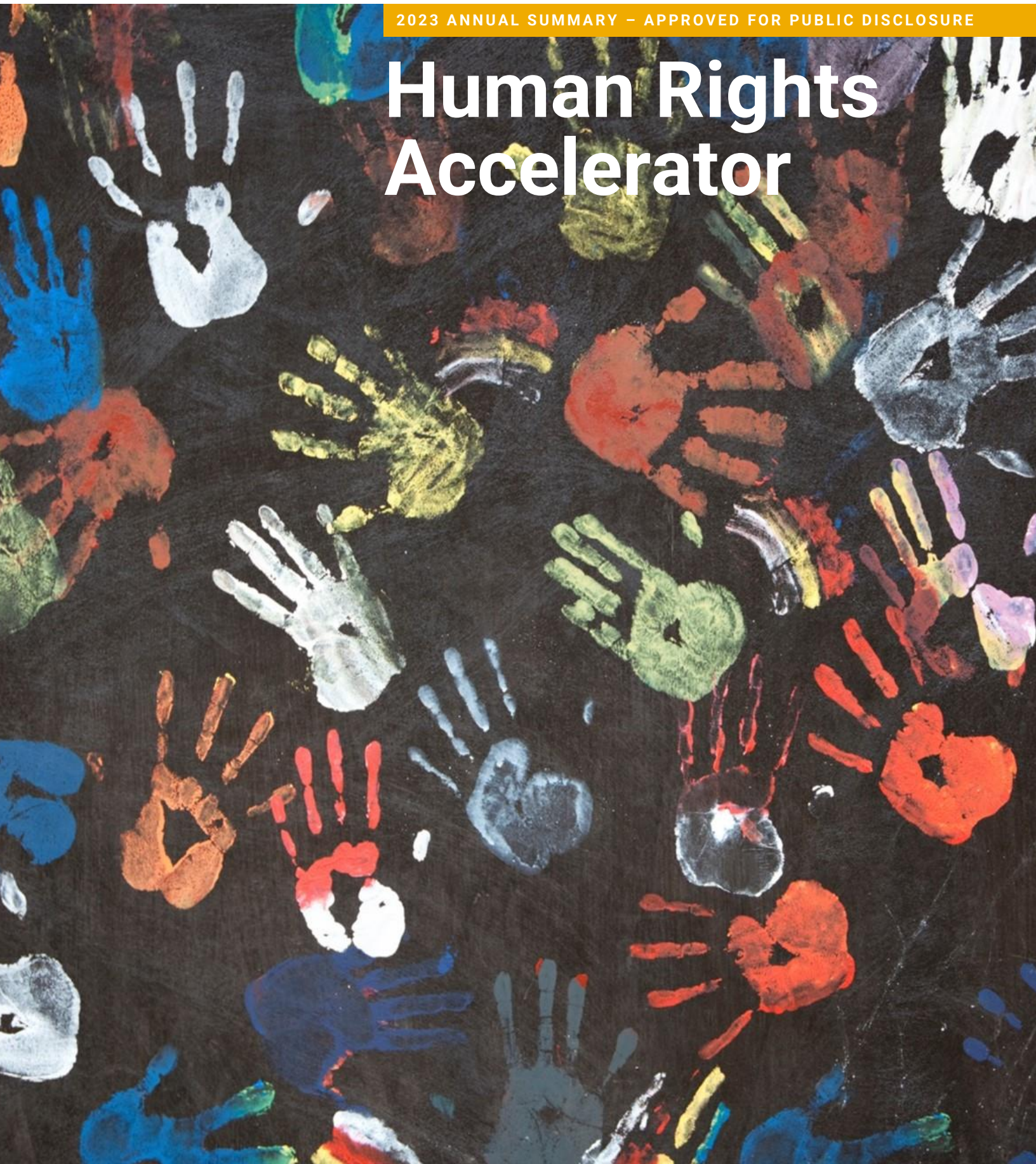


Human Rights Accelerator



Human Rights Accelerator Thematic Engagement

The primary objective of the Human Rights Accelerator (HRA) is for participating companies to adopt, integrate and implement the United Nations Guiding Principles on Business and Human Rights (UNGPs). These principles offer guidance for businesses to conduct human rights due diligence (HRDD), which is designed to prevent adverse impacts on people. It is essential to underscore that HRDD is focused on potential risks to people rather than business risks.

As human rights risks may evolve, the ongoing process of HRDD is crucial for companies. To achieve this, companies must engage meaningfully with their stakeholders, which include workers, their representatives, local organizations, and communities.

The HRA has commenced discussions with 19¹ companies operating in the mining, electronics, and cocoa sectors. These dialogues are intended to provide guidance and oversight for companies' efforts in addressing and mitigating sector-specific human rights risks. These risks encompass concerns such as child labour, livelihood, living income, living wages, and community rights. The HRA's involvement aims to support companies in navigating and improving their approaches to these critical human rights issues.

Developments in 2023

In the legislative realm, substantial advancements have been made in mandatory due diligence through the Corporate Sustainability Due Diligence Directive (CSDDD). The EU is now poised to enter the final negotiation phase. Upon the formal adoption of this proposal, member states of the EU will be given a two-year window to integrate the directive into their national laws. Additionally, they will be required to establish a regulatory authority tasked with overseeing, enforcing, and imposing sanctions, which could encompass fines and compliance orders.

The CSDDD requires companies to identify, prevent, mitigate, and address both actual and potential environmental and human rights risks arising from their activities. This obligation extends beyond a company's own operations to encompass subsidiaries, suppliers and even customers throughout their entire value chains. Companies are required to implement robust preventive measures, secure commitments from business partners to adhere to these requirements, and subsequently verify compliance. Many companies participating in the HRA

¹ In 2024, Sustainalytics extended invitations to 21 companies to participate in the HRA. However, two of them declined the invitation, despite persistent efforts including investor letters.

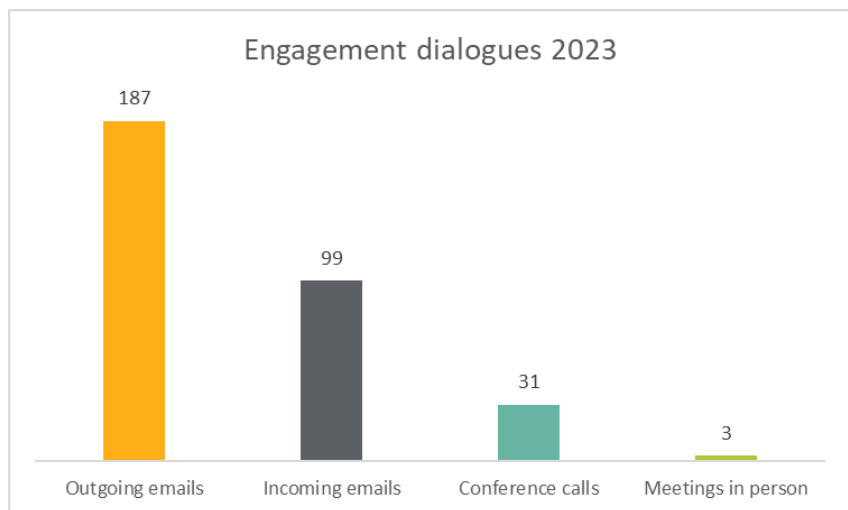
fall within the scope of the CSDDD. For companies that are not in-scope, they would most likely be impacted as well by in-scope companies through business relationships.

Another noteworthy development is the enforcement of the Corporate Sustainability Reporting Directive (CSRD) in January 2023. In-scope companies must produce disclosures in line with the European Sustainability Reporting Standards (ESRS). These disclosures cover a wide range of sustainability topics, employing a "double materiality" approach. In the realm of human rights, double materiality acknowledges the potential impact of business on people, recognizing that such impacts can pose risks to the business, such as reputation risk. The concept of double materiality strives to integrate both business materiality and human rights saliency.

The regulatory changes are beneficial for the HRA. With the introduction of CSDDD requirements, companies will now have the motivation and obligation to go beyond the bare minimum to align with the UNGPs. Furthermore, the CSRD mandates companies to share information, fostering greater willingness among companies to disclose information in our engagements.

Engagement Update

The Human Rights Accelerator (HRA) currently includes 19 companies spanning across three industrial sectors: cocoa, electronics, and mining. In 2023, our communication efforts involved the exchange of 334 emails and the hosting of 34 meetings. Among these meetings, 31 were conducted via conference calls, and three were held in person.



Additionally, we utilized phone calls and investor letters to encourage companies to actively participate. One vote recommendation was organized to escalate the case.

With regard to the collaboration with the UNPRI Advance program, the HRA is actively engaging with five companies in the mining sector. Over the past year, we participated in discussions with collaborating investors and the UNPRI during stakeholder meetings. These gatherings

focused on drafting engagement strategies and analyzing the risks associated with the companies. Throughout 2023, a total of 10 stakeholder meetings took place.

Beyond interactions with companies, the HRA has initiated contact with the International Labour Organization and various civil society organizations operating in these sectors to enhance our understanding of relevant issues. We sought input from organizations such as the Rainforest Alliance, Oxfam Novib, and the Business and Human Rights Resource Centre, leveraging their expertise to gain insights into the contexts of our engagement efforts.

Company Performance

The most visible improvement among the engaging companies is the commitment to human rights due diligence and the establishment of various policies to support that. All companies in the HRA have a publicly displayed human rights policy. Around 80% of them established structures at the board or executive level to deal with human rights issues. At the same time, we also identified gaps in the implementation side of the policies. For example, the majority of the companies have not communicated to the public about the specific policies and procedures to put their human rights due diligence commitment into practice. Only a handful of companies have a grievance mechanism that is in line with the criteria of the UNGPs. While all companies have complex supply chains, they seldom discuss purchasing practices and how these practices are linked to labour rights at the supplier level.

In the cocoa sector, human rights risks for companies primarily revolve around issues such as living income for farmers, child labour, and forced labour risks. Companies often provide limited disclosure regarding the specific amounts contributed to farmers to enhance their income. While many companies reported activities aimed at training farmers to diversify income and boost productivity, the exact premium paid by the company is seldom specified. Moreover, there is a lack of detailed information on how companies address and remedy instances of child labour. Generally, companies in this sector tend to focus more on reporting their activities rather than highlighting the impact of their efforts.

In the electronics sector, companies are at varying stages of implementing HRDD. Some are just beginning the HRDD process and conducting on-site audits, while others have established fully-fledged compliance teams and collaborate with third-party initiatives to audit suppliers. The complex and rapidly changing nature of the supply chain poses a significant challenge for the electronics sector in addressing human rights risks. Besides addressing the risks in their direct suppliers (downstream supply chain), electronics companies have to report on their work with upstream suppliers. Approximately half of the electronics companies in the HRA indicated

that they prioritize complying with regulatory requirements while finding it challenging to allocate significant resources to assess and address risks comprehensively. One general gap within this sector is the limited discussion and reporting on living wages and the freedom of association for workers throughout the supply chain.

In the mining sector, we interact with several companies through the UNPRI Advance programme, while engaging directly with others. Criticism from civil society organizations toward mining companies often revolves around the practices that may influence the life and livelihood of local communities, as well as their relationships with local communities. Despite having comprehensive policies, procedures, and systems in place, mining companies encounter difficulties in translating their corporate commitments into actionable plans and conducting thorough due diligence with meaningful local stakeholder participation. Moreover, mining companies face challenges and risks related to workers' health and safety, and gender-based discrimination and sexual harassment.

Case Study: Living wage, collective bargaining and purchasing practices

Living wage and living income are crucial indicators in the HRA. Living wage or living income is commonly understood as an income that allows an individual and their family to maintain a decent standard of living in a location. Living wage applies to workers hired in an organized industry such as the electronics and mining sectors. Living income applies to the context of an income earner such as self-employed cocoa farmers. It is considered a fundamental human right and an essential element of social justice by the International Labour Organization and other organizations for people to earn a living income.

While the legal minimum wage theoretically should serve the same purpose, in many countries, it falls below the estimated living wage, leading to a substantial population of working poor. This condition also exists in the global supply chains of multinational companies.

Although companies generally acknowledge the importance of living wage at a conceptual level, there is often debate about the responsibility to cover these costs. Some argue that employment relationships lie with the supplier, making it the supplier's responsibility to pay. Others believe that the government, responsible for protecting its people, should increase the minimum wage to match living wages. Furthermore, there is no consensus on how living wages should be calculated.

Thinking about living income is even more complex when it comes to who should pay, as farmers do not have an established business relationship with multinational companies. Some may argue that farmers are self-employed and, therefore, responsible for the revenue of their own businesses.

Addressing the issue of living wages and living income involves two essential steps. First, the right to collective bargaining can empower workers to negotiate better terms with their employers. In the cocoa sector, the collective voice of cooperatives can also enhance the bargaining power of farmers to increase their income. Second, responsible purchasing practices by companies, which consider the needs of both the company and the supplier, can help create a sustainable, fair, and mutually beneficial partnership. Responsible purchasing practices focus on enabling suppliers to pay living wages rather than pressuring them.

Implementing these strategies is challenging. In the Human Rights Accelerator Thematic Engagement, apart from encouraging companies to enhance transparency in reporting on living wages, we also urge them to engage in discussions about unionization, collective bargaining, and responsible purchasing practices.

The Year Ahead

In 2024, our focus will centre on thorough risk scoping and assessment, the establishment and management of grievance mechanisms, and engaging stakeholders to provide remedies for affected workers and communities. Within the cocoa sector, engagement with companies will aim to enhance transparency in living income and address the risks associated with child labour and forced labour. In the electronics sector, our efforts will concentrate on addressing living wages at supplier facilities, preventing forced labour, and improving transparency in the supply chain. In the mining sector, we will underscore the importance of stakeholder participatory human rights impact assessments and offer guidance on their proper execution.

To exemplify effective strategies and showcase the potential for positive outcomes, we will develop and share good practice examples. Furthermore, ongoing consultations with key stakeholders will remain a priority. This practice ensures that we stay informed of emerging trends, continuously update our knowledge base, and gain valuable insights from diverse perspectives.

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