Human Rights Metrics: Reaching scale through the sustainable finance agenda

On 25 September 2018, ShareAction and ACCA (Association of Chartered Certified Accountants) jointly organised a conference called Human Rights Metrics: Reaching scale through the sustainable finance agenda.

Catherine Howarth, CEO at ShareAction, gave a welcoming speech. Jimmy Greer, Head of Sustainability, ACCA, moderated the first panel on Barriers and opportunities for high quality human rights data. The panel was comprised of Michel Bande, Senior principal advisor, CSR Europe, Leslie Swynghedauw, Senior Associate - ESG Research, MSCI, Richard Karmel, Business and Human Rights Partner, Mazars UK, Mark Hodge, Senior Associate, Shift Project, and Danielle Essink, Robeco, Investor Alliance for Human Rights.

Anne-Marie Brook, Co-founder, Human Rights Measurement Initiative, gave a presentation on lessons from measuring government performance. Paul Tang, MEP gave a keynote speech.

Eleni Choidas, Senior EU Officer, ShareAction, moderated the first exchange of views on Civil society and independent initiatives. She was joined by Vaidehee Sachdev, Senior Research Officer, Workforce Disclosure Initiative, ShareAction, Filip Gregor, Head of Responsible Companies, Frank Bold, and Camille Le Pors, Corporate Human Rights Benchmark. Vaidehee Sachdev, Senior Research Officer, Workforce Disclosure Initiative, ShareAction, moderated the second exchange on Labour rights: Measuring impact in core workforce and supply chain, between Arvid Ahrin, General Secretary, Nordic Financial Unions, and Ben Vanpeperstraete, Lobby and Advocacy Coordinator, Clean Clothes Campaign.

The second panel on What role for human rights metrics in the EU's taxonomy for Sustainable Investments? was moderated by Vincent Papa, Director of Financial Reporting Policy, EFRAG. He was joined by Alyssa Heath, Senior Policy Manager, Principles for Responsible Investment, Carel Cronenberg, Associate Director - MRV Manager, European Bank for Reconstruction and Development, Bertille Knuckey, Sycomore Asset Manager, and Gianluca Manca, Head of Sustainability, Eurizon Capital.

Cristina Tébar Less, Head of Responsible Business Conduct Unit, Investment Division, OECD, gave a keynote speech and closing remarks were given by Nick Robins, Professor in Practice - Sustainable Finance, London School of Economics and Political Science ; Special Adviser on Sustainable Finance with UN Environment. Catherine Howarth, CEO, ShareAction wrapped-up the event.

Main highlights

Catherine Howarth, CEO, ShareAction

- About three years ago ShareAction has established the European Responsible Investment Network which is a network of 28 civil society organisations across 11 European countries. This network seeks to ensure that civil society organisations with the shared interest in sustainable finance are working together and sharing knowledge.
- ShareAction's mission is really about ensuring that sustainability is absolutely mainstreamed into our financial industry and beyond. It is very much about ensuring that ordinary savers have their interests looked after in a highly professional manner. It is important to ensure that those people have their voice and seat at the table.
- Incredible developments have been taking place at the EU level. The developments of last two years are very positive. There is an ambitious plan on the table but the work is not complete yet. The legislation is being subjected to the usual scrutiny of all parties interested in order to get the best possible outcome.
- There are a number of promising areas, for example the proposals around legal duties of investors. Integration of ESG factors into the core investment process is also very welcome, although there is room for improvements.
- It is fair to say that the recognition of human rights is probably a weak point in current proposals. It is important to ensure that this extraordinary opportunity that comes with the EU Sustainable Finance Action Plan incorporates what is needed to protect human rights.
- A series of open letter to EC Vice-President Dombrovskis have been requesting that in the group for taxonomy there need to be technical experts with strong human rights expertise. We have not been very successful on that, although there was some acknowledgement from the vice-president and senior official from the European Commission that have been working on the Sustainable Finance Action Plan.
- It is now time to sharpen the evidence base and show how human rights can be integrated in the financial analysis and investment process. It is not easy and there will be many challenges around it, especially around data and metrics, but it is not impossible.
- The opportunity we have in the upcoming months is extremely important. The five-year European Commission closes and finishes its business in upcoming months but there is political will to complete the legislative process around sustainable finance and all of us need to be involved in order to make sure we get the best possible outcome for human beings, communities and climate. Therefore, everyone should be very engaged in the next few months.
- The next European Commission should be encouraged to be closely involved and engaged with the sustainable finance agenda as well.
- Capital markets are there to invest assets managed by working people, real households and citizens – we must ensure that our financial institutions achieve the best interest in their decision making for those human beings. If we put the saver at the centre of the system, we will develop financial policies that serve the public interest for the long-term. This is not only about human rights but also about human whose assets are invested, and if we bring these two elements together, Europe wan be in the leading position. Civil society and all the sectors have a big role to play in the process.

Jimmy Greer, Head of Sustainability, ACCA, moderated the first panel on **Barriers and opportunities for high quality human rights data**.

- High quality information that comes from meaningful engagement and evaluation by business on human rights issues is a critical component of building better economies and an essential piece of making finance more sustainable.
- Activating all actors in this space involves getting to grips with wide-ranging human rights impact areas; making the most of the tools that exist to evaluate progress and coming together to form multi-stakeholder partnerships that find new ways to push this agenda forward.

Michel Bande, Senior principal advisor, CSR Europe

- Human rights are first of all a responsibility for the states. The biggest problems faced by its stakeholders, in particular its employees in the past were caused by states and political parties. Solvay is ready to have a positive impact on Human Rights and help the states.
- In 2017, Solvay received 42 human rights complaints and 16 were considered to be of substance. Having the right due diligence process is important to make assertive statements.
- The chemical sector has reached a good reputation 30 years ago. Solvay, as a company of long traditions and values, has developed a due diligence process. A clear policy was defined based on materiality approach. KPI are audited internally and externally and there are procedures in place in order to solve any incident.
- Solvay also has Solvay Way - Corporate Social Responsibility approach. It lists 48 practices that reflects the Solvay's 23 commitments towards its stakeholders. This practical grid enables Solvay managers to assess each year their progress in sustainability. They identify directions and action plans for improvement by stakeholder.
- There are too many frameworks out there and it makes things more difficult in practice, especially because terminology is not the same.
- We must push the states to go in the right direction and do their job. It is essential to have consolidation of methodologies and the terminology. What we are publishing now is not comparable, which makes things difficult for investors and our own benchmarking.
- Solvay has signed an agreement few years ago with an international organisation of trade unions. It gives trade union representatives the possibility to visit at least two plants each year.
- Reporting is for the external world. What matters internally is best practices and having contact with stakeholders. Analysts must ask questions and push CFOs to address problems.
- Clear guidance is essential for materiality approach and methodology.

Leslie Swynghedauw, Senior Associate, ESG Research, MSCI

- MSCI is an ESG research provider – it collects and assesses ESG data from more than 6500 companies. MSCI provides a rating on how companies are performing on ESG risks. It is used by investors to inform their decision making.
- One of the key barriers we can identify is that generally investors express less interest in human rights issues than other ESG risks (such as carbon or governance) because the financial materiality of such issue is not as documented. Many investors are looking at ESG issues not only for ethical purposes but in order to broaden their risk management and eventually enhance their returns.
- Another challenge is the complexity of human rights risks and how you define a social or human rights taxonomy (diversity of interests in the investment community, regional differences).
- Typically, the other obstacle with human rights assessment is how do you obtain a relevant signal

based on public disclosure only. Based on our experience a lot of companies remain relatively silent on human rights risks and mitigation capabilities. In addition, even if companies provide sufficient reporting in order to assess a Human Right KPIs, it might only present a partial picture of what is actually happening on the ground and does not constitute a guarantee of positive outcomes. Comparable and quantifiable KPIs on Human Rights are also lacking, making the analysis more difficult.
- So how does MSCI overcome these barriers and capitalize on opportunities? Through its research, MSCI continuously explores and informs investors on how human rights may be financially relevant and can be a business risk. We address the lack of corporate disclosure by completing our research with third-party information (NGOs, academics, International Organisations) and finer exposure analysis of each company to identify their salient risks based on their activity and operations.
- To address the complexity of human rights issues, MSCI has developed specific methodology on each facet of human rights: for e.g. we have developed a specific and robust analysis on privacy risks only (as well as on labour rights, health and safety, supply chain risks, etc.).
- What MSCI can bring to the debate on human rights metrics is its experience on what can be scalable, comparable and enforceable given that we assess such metrics on a very large number of companies.
- Q&A: As regards to women's rights, some companies have implemented incentives for managers to enhance gender diversity. MSCI also looks at women's rights in the supply chain and how companies create initiatives to empower women's rights and engages with local stakeholder groups.
- We need to give more importance to social issues. Social taxonomy shouldn't only focus on opportunities but also on risk mitigation. MSCI is also cautious about the overarching approach towards complex issues such as human rights. A more thematic, activity and industry specific focus is sometimes needed to make the analysis more meaningful.

Richard Karmel, Business and Human Rights Partner, Mazars UK
- The world has acknowledged that the UN Guiding Principles are the most authoritative guidance for business. The Guiding Principles introduced the concept of human rights due diligence that many organisations have accepted and are following.
- When the Guiding Principles came out, most businesses seemed to understand them but had difficulty in implementing them. The UN Guiding Principles Reporting Framework was created for that reason and operationalises the UNGPs. Reporting is not the only aim of the Reporting Framework – it's a way to improve performance within business.
- The Reporting Framework is two pages long although there is a lot of depth behind it with 8 overarching questions and 23 underlying questions (www.UNGPreporting.org). In order to meaningfully address these questions, there is probably not much need for quantitative data – there is mostly a need for qualitative analysis.
- This is where respect for human rights differs from other areas of sustainability. With human rights, you have to talk to people and engage with different types of stakeholders. Numbers and data in human rights need a narrative for such data to be meaningful. But just because it is a complex area, doesn't mean we shouldn't strive for better reporting and disclosure of data. We also need to be smarter in the way we regulate and use legislation.
- For their reports to be meaningful, organisations should report on their salient issues – those human rights most at risk of a severe and negative impact.
- The related guidance to the UNGP Reporting Framework is the UNGP Assurance Guidance. This is primarily aimed at internal auditors to help professionalise and better understand what is required to provide assurance on human rights performance. The skills required can be different than those for financial assurance. A set of indicators has been produced for what appropriate and effective evidence would look like. These have been aligned with the Reporting Framework.
- Just because something is easy to measure, does not mean it should be measured or reported on.
- Business performance nowadays is becoming much wider than only about the numbers; it's also about behaviours. A more rounded accountant is the one that understands the wider business and related risks. The accountant training organisations have a big opportunity to make a difference in this area.
- The financial world needs to understand the impact on human rights. It is important to call out companies when the front ends of their annual reports are not meaningful. The UK Financial

Reporting Council has a body called Financial Reporting Review Panel which reviews public sets of accounts in the UK and if they are not content with the quality of disclosure they write a letter to the Board asking in depth question about the disclosures; the Board is obliged to respond. This could create a meaningful change and raise awareness about the importance of non-financial information.

- If there was a magic wand, I would want there to be mandatory assurance of annual reports. Furthermore, to enhance the perception of independence, the assurance provider to the front end of reports could be appointed by an independent body.

Mark Hodge, Senior Associate, Shift Project

- Shift has launched a new project called Valuing respect. It intends to bring stakeholders together to figure out how to better evaluate business respect for human rights. Shift project does not intend to create a new set of metrics or indicators, the project is about bringing stakeholders together in order to do this more effectively.
- The early research, including analysis into ESG products and company disclosures, shows a strong prevalence of input and activity metrics, plus many descriptions of processes, systems and standing operating procedures. This is important information but it does not necessarily tell a lot about real business practices and behaviours, and is at best weakly indicative of outcomes for people. When numbers about impacts on people are used there is a lot of floating data (such as number of incidents of child labour or grievances resolved) which doesn't mean anything if no context is provided.
- Nevertheless, we have made a lot of progress. We should not reject or accept everything we have so far. We just need to be very surgical in order to identify what really is quality information.
- Shift project sees two domains where progress could be driven. One of them is developing new information and better data in certain areas where we have gaps at the moment. The other domain is moving from measurement to evaluation. This would mean moving away from "counting without context" and building robust indicators and metrics using proven methodologies.
- With regard to areas where we need better data and information, we need: a) better evidence about business practice and behaviours, not simply processes and systems. It is the individual actions of legal counsel, managers on the ground, factory owners, supervisors, and day-to-day choices and behaviours that impact lives of individuals. There is a lot we can learn from behavioural science; b) better data about the business case for respect for human rights. How does respect for people drive business value creation and erosion? And c) Better, even new, data sets about rightsholder perspective, voice and evaluation. This is a huge issue and the core of human rights movement. If we are trying to improve lives and outcomes for certain people, let's ask them directly if their lives are getting better. There are big opportunities –as well as challenges - in the use of technology here.
- We also need to develop credible ways of arriving at indicators. The solution is not about creating another list of indicators that have no context and meaning. We are looking to other fields for inspiration and guidance. For example, the development field uses "causal pathway" models" and the health and safety sector has great experience of looking at leading and lagging indicators and it has learned to work with these indicators. Lagging indicators, the harm as already occurred. Leading indicator is something that helps predict what is likely to go wrong. The health and safety field has moved beyond just counting incidents to looking at underlying governance, leadership and organizational disciplines. The parallels in the business and human rights space are not hard to see. For example, purchasing practices focused on lowest price can be leading indicators of adverse impacts on workers.
- We need both: we need better data in certain areas where there are gaps and we also need a stronger methodology and approach in building indicators.
- Policy makers should not see their role as providing answers and the set of metrics and indicators for all contexts and set in stone for the future. But policy makers can be part of shaping the market and practice through guidance about how to both build better quality data-sets and indicators. They need to invest in capabilities of all actor to do better. And this is not easy so let's not put off the social. Let's start now.

Danielle Essink, Robeco, Investor Alliance for Human Rights

- Taking human rights issues into account is about having positive impact on society and creating better risk return profile in order to make better investments for clients. For this reason, it is important to look what is happening on the ground.
- Robeco is mainly working with corporate disclosures. these are often very extensive and some are integrating that information in their corporate reporting. What investors really need is being able to compare company performance with their sector peers. That starts with solid data.
- Investors also need broad coverage and good ESG ratings that make sense. A lot of work still needs to be done in this area.
- The aim is to be more predictive. Investors do not want to look at an issue after the fact and figure out why it went wrong and see the losses on the ground. That is where the reporting framework and guiding principles is usually very helpful.
- The expectations towards companies centre around the Do No Harm principle. Investors are also very much in favour of SDGs, however many companies use them to show that they are doing something good but they often forget the Do No Harm principle. The combination of the two is what companies are encouraged to implement.
- Human rights are often very complex but it is really important to inform people how to integrate them. There are many initiatives out there that are going in the right direction.
- The Investor Alliance for Human Rights is a platform that provides investors learning and collective engagement opportunities. It was launched in May 2018 but has already received a lot of support which illustrated the growing interest of investors in human rights. We are all struggling with the same challenges and the Investor Alliance for Human Rights is trying to bridge the two worlds. There is a lot of good information in the NGO community that needs to be used. The Alliance is currently setting up two multi-year and multi-stakeholder campaigns that are going to be focussing on the ICT and banking sectors and asking them to pick up the due diligence approach from the UN Guiding Principles. The Alliance will also educate investors more on the Guiding Principles, what due diligence mean for them and how they can ask the right questions.
- Due diligence is key in order to achieve improvement in human rights issues. We need scalable and meaningful metrics.

Anne-Marie Brook, Co-founder, Human Rights Measurement Initiative, gave a presentation on lessons from measuring government performance

- Europe is leading the world in terms of reorienting capital flows towards sustainable investments. However, there is a long way to go.
- It is disappointing that the Commission has used a lack of available human rights metrics and data as part of the rationale for relegating social factors to second place after environmental objectives.
- It is true that there have been some gaps in the available human rights metrics, and these gaps are being quickly filled.
- The Human Rights Measurement Initiative is a relatively new global collaborative project based in New Zealand but in close collaboration with world-leading academics and human rights experts and practitioners on the ground in countries around the world.
- The Human Rights Measurement Initiative is sticking closely to measuring progress on human rights that are defined in international human rights law. The International Bill of Rights set out very clearly what the vast majority of countries around the world have agreed represents the human rights that states should be doing their best to realise.
- For example, the data for Kazakhstan demonstrates 12 axes which represent the 12 rights that have been measured for so far. The green axes show the country scores for 5 economic and social rights, and the blue axes show Kazakhstan's scores for 7 civil and political rights. The area where Kazakhstan is performing most poorly is in the bottom left side of the chart. The rights to freedom of opinion and expression, assembly and association and participation in government are all being heavily violated in Kazakhstan.
- So far the Human Rights Measurement Initiative has data on the green ones in this chart for more than 160 countries going back 10 years but the data on civil and political rights (the blue ones)

are so far available for only 13 countries. It plans to expand coverage to the rest of the world within the next few years, funding permitting.

- The Human Rights Measurement Initiative has learned 3 main lessons:
- Collaboration & co-design: A co-design workshop was co-hosted with Amnesty International in Johannesburg two weeks ago. The focus of this workshop was on co-designing ways of using data in order to maximise its usefulness. Everyone should be urged to adopt real collaboration and human-centred design principles in their work as much as possible.
- Transparency and honesty: The country scores for 13 countries for measure of freedom of assembly and association show that each country's score is expressed in the form of an uncertainty bar. As regards to the score for Saudi Arabia, the best guess of Saudi Arabia's true score is shown by the white line across the middle of the blue bar and the bar height represents how much uncertainty there is around it - there is not much uncertainty. The expert survey respondents for Saudi Arabia were obviously in a high level of agreement that this country deserves a very poor score. By contrast, the scores for other countries demonstrate wider uncertainty bands. Being transparent about uncertainty in this way helps building credibility – with both academics and practitioners. The more transparent we are about our methodologies and processes, the more likely people will use the data appropriately and will be able to suggest improvements.
- Independence: Many have heard stories about Greek statisticians fudging the fiscal numbers. Everyone accepts that statistics agencies need to be free to do their job without political interference. This is even more true when developing human rights metrics, which are so much more politically sensitive. Metrics should be produced or at least evaluated independently as much as possible.
- Leaders find it easy to ignore human rights advocates but much harder to ignore capital flows. This is probably true just as much for companies as for countries. If you are a private firm building a biofuel plant and you know that it will easier to find finance if it meets "green" criteria, then chances are you will build a more environmentally friendly plant. If those same investors choose to ignore the fact that the land the plant is built on was not acquired legally, or that the workers don't have good work conditions, then chances are you'll ignore those issues too.
- These issues are vitally important and as the world leader in this space, Europe's Sustainable Finance Agenda is an opportunity to make a huge difference to the lives of billions of people.
- Human rights movement sometimes is slipping behind the environmental movement, which is much more advanced, and that should be challenged. The term "green investment" is now well established and people are not surprised to hear that investors are increasingly demanding that their money would not be invested in companies that are not sufficiently green. Maybe the term "Humane Investment" could take off.

Paul Tang, MEP

- It is important to take sustainable finance out of the "green corner" and make it mainstream. Stakeholders in Brussels have been very involved and helpful in drafting legislation but it is equally important to engage the member states on these issues.
- In the report, disclosure has been complemented by due diligence. Every investor needs to have a duty to take ESG factors into account, not just for the financial but also non-financial impact. This should apply for every participant of the financial market and every product, not just for products with labels. The European Central Bank should also be included. Supervisors have a crucial role to play in the transition of the market.
- Risk management is often backward-looking and based on data. We want risk management that is forward-looking and broader. It is key to use common sense. Financial sector needs to move from narrow minded short-termism to long-term view.
- Government owned institutions can make mistakes but people are the ones paying the price. Therefore, we need to continue the fight to move away from the short-term approach.
- It is very possible to achieve majority in the European Parliament but it will require hard work in the Council.
- We need for people to show the way. We can help the transition by showing the way forward and organising the race to the top.

Eleni Choidas, Senior EU Affairs Officer at ShareAction, moderated an exchange on **Civil society and independent initiatives**

- We need to be very clear on how important it is to be fostering civil society initiatives in the area of corporate reporting.
- Civil society initiatives in the area of corporate reporting have their own specific characteristics, challenges - but also, added value, which merit special consideration.
- Many civil society initiatives in corporate reporting are human rights-focused, which is crucial considering the proximity many CSOs have to the communities affected by corporate activity.

Vaidehee Sachdev, Senior Research Officer, Workforce Disclosure Initiative, ShareAction

- Workforce Disclosure Initiative is still fairly young – it was launched in 2016. The objective of the project is to collect quantitative and qualitative human and labour rights information for investors. It is premised on two things, one being that poor quality jobs are bad not just for workers but also for business. Second, increased transparency can help investors drive improvements that can benefit not only workers but also business. The Initiative tries to create a common standard for reporting on decent work. The ultimate objective is to increase the amount of data that is in the public domain, not just the quantity but also the quality of information.
- In 2017, 75 companies were asked to participate in the pilot year. Most of them were UK-based. The Initiative was then backed by 76 investor signatories.
- In 2018, after consultation to evolve the pilot year survey, another survey was sent 500 globally listed companies. The Initiative is now supported by 111 investor signatories with $12 tn AUM. That speaks to the appetite that there is in the investor community for comparable data on the workforce.
- The survey is not creating new questions or indicators for the sake of it; it is building on whatever is out there. It uses a lot of frameworks and principles that have been developed in the last few years from the likes of the PLSA, IA, HCMC, CWC as well as a number of international frameworks and principles on human and labour rights.
- The key learnings from the project:
    1. While we all want a perfect metrics, it is ok to admit that it is very unlikely to achieve the perfect metrics. It is important that we drive for improvements in metrics but not having a perfect metrics is ok. The data that companies disclose are the start of the conversation that will take place between investors and companies. That conversation needs to involve unions and worker organisations because they are the validators of the data and often keys to solutions of problems that we see emerging from companies' disclosures.
    2. The challenge of marrying the interests of different stakeholders. The initiative is investor led and focussed, the collected data needs to be financially material. However financial materiality isn't often the most appropriate lens to evaluate the risks. If we are really serious about tackling negative social outcomes, it is important to continue to question the social and economic infrastructure that resulted in those outcomes. A part of the WFI process is to expand and redefine what financial materiality is.
    3. People often complain about civil society initiatives and new reporting frameworks but the reason these initiatives are here is because corporate reporting has become excessively bloated, it is a commercial activity in itself. This is a serious problem and we need to rethink the way information needs to be shared.
    4. Huge time and resource is invested in producing large reports with very little meaningful data. Unless we fix this – we'll continue to see a proliferation of data requests to companies. One way to fix this is through regulation.
- The objective of the project is for more data to be brought out in the public domain. The WDI is not a ranking or a benchmark, it is not scoring companies because it is too early for the project

to put a number or value of some of the information it is getting back. There is such nervousness around sharing human rights and labour data, therefore a step by step approach is needed. We want this information to be reported publically but we also have to recognise that there are immense practical challenges for companies in collecting this information. We need to be able to hear the concerns but also provide an incentive to get more of that information out.
- Last year, 7 of 34 disclosing companies reported publically, which is a small number. Giving them topic by topic option might increase the amount of public data.

Camille Le Pors, Corporate Human Rights Benchmark
- The Corporate Human Rights Benchmark is a multi-stakeholder initiative and it is led by investors, civil society organisations and independent human rights experts. It currently benchmarks 100 of the largest global companies by using detailed methodology which was developed in the course of two years with extensive multi-stakeholder consultations. It looks at company policy commitments, how they are embedded into their management systems, and how it translates into practice. The Corporate Human Rights Benchmark exclusively relies on publicly available information.
- One thing to keep in mind when developing methodologies is the fact that it is going to be applied in practice.
- Another challenge is related to reliance on publically available information because it is difficult to ensure that companies are disclosing the truth. It is also an opportunity because it creates incentives for companies to disclose more information which creates more transparency and corporate accountability.
- Regarding investors need for large data sets, however, when it comes to assessing human rights, the assessment is qualitative, very complex and therefore resource intensive. The use of artificial intelligence could potentially help solving this issue. However, with human rights being such complex issue, we are not quite there yet.
- Initiatives are very welcome as regards to regulatory framework increasing the amount of data disclosed. At the same time, public assessments of human rights performance can help guide regulatory efforts where they are most needed by identifying gaps in the disclosures.
- As regards to added value of civil society initiatives, in the case of public assessments, the aim is to create a positive competitive environment encouraging race to the top. The Corporate Human Rights Benchmark discloses all its findings and assessments which creates a pool of data for companies to look at what their peers are doing, learn from that and hopefully replicate it.
- Another added value is equipping investors with tools to incorporate social costs into their capital allocation decisions. It is also about equipping investors with information that they can use in their engagement with companies.
- One of the added values is to guide regulatory efforts to where they are most needed.
- The methodologies are often a proxy of performance but it’s the best we’ve got. Human rights are hard to quantify but it does not mean we should not do it; we just need to be extra cautious on how we do it. It is important to have a multi-stakeholder approach.
- One of the risks of having specific indicators is that they can become overly prescriptive and restrict companies in how they tackle the issues.

Filip Gregor, Head of Responsible Companies, Frank Bold
- The Alliance for Corporate Transparency project is a Frank Bold initiative, supported by several NGO partners. This project has been set up to look at the implementation of the EU Non-Financial Reporting Directive by companies. It aims at answering two questions: what is the impact of the new legislation and how can we further enhance this legislation to contribute to standardisation of corporate disclosure on key ESG issues.
- The Directive requires largest companies in Europe to report on information of their impact on society and environment. There is a guidance produced by the European Commission which explains what these issues might be, but it doesn’t specify which issues are material for which industry sectors.
- In order to be able to carry out the assessment, The Alliance for Corporate Transparency project had to first determine what the key material issues for different industries are and what information is crucial.
- The project took all the reporting frameworks that were relevant and compared them together with the directive requirements.

- For the human rights area, the project is checking whether companies are reporting the most important information on their conduct of human rights due diligence in line with the methodology of the UN Guiding Principles Reporting Framework.
- It is impossible to develop human rights metrics that is applicable to every industry that captures every possible risk. The assessment of salient risks has to be done at company level. However, it is possible to assess general robustness of company's human rights due diligence and risk management.
- As regards to specific issues such as human rights risks in supply chains, conflict minerals or data privacy, it is possible to come up with more detailed questions if there is a consensus on what are good proxy indicators. It very much depends on the issue and the sector.
- Building the methodology for human rights assessment tool has not been easy but also not impossible. It is not possible to track every single issue and determine every possible important piece of information for each industry, but it is possible to identify quite a lot by just using what is already out there in the reporting frameworks. There is a great deal of convergence.
- There is definitely an issue with terminology and with having too many frameworks, but there is a silver line going through all of them.
- The objective of the research is to contribute to standardisation of corporate reporting. Legislation plays an indispensable role in that respect and we have to be smart in the way we use it. It is therefore important to produce hard data on the impact of legislation and recommendations.
- The research project is not meant to be a reporting framework. The aim is rather to feed into the development of the legislation and contribute to simplification of disclosure.
- Disclosure regulation is essentially outsourcing the regulation of corporate accountability to the market by providing market actors with information on corporate conduct. This cannot by design address some of the most important human rights issues. There are no clear responsibility or liability standards. Legislative developments in France and Switzerland are leading the way in bridging this gap.
- As regards to the proposal for Disclosure Regulation that is currently being discussed in the European Parliament, we can and should have a discussion about the human rights due diligence in the investors duties, but this will be only as strong as the analogous duty placed on companies. Trying to address the problem at the very end of the chain is not going to work on its own.
- On the issue of costs, if we have a clear standard for corporate disclosure, it will bring costs down for everybody, especially for investors who use the information, as well as for companies because it will be clear what they are asked for.

Vaidehee Sachdev, Senior Research Officer, Workforce Disclosure Initiative, ShareAction, moderated second exchange on **Labour rights: Measuring impact in core workforce and supply chain.**

Arvid Ahrin, General Secretary, Nordic Financial Unions

- There is no lack of anti-labour and anti-union action being taken, also here in the Union. There is a pressing need to prevent investment from harming social rights. Getting reliable data is a challenge, and once we get that data we need to figure out how to promote sustainable investment based on that data. If we do get reliable data, how do we know that this is enough?
- A research from Philipp Krueger from the University of Geneva, assesses sustainability characteristics of a number of institutional investors and relates these characteristics to risk adjusted investment performance. The research finds that institutions with the best social footprint exhibit non-significant or even slightly negative relation to performance, compared to environmental profiles which tend to have positive effect. Krueger also finds strong negative relation between portfolio risk and both, social and environmental footprint of investors. Sustainability analysis functions more as a risk management tool in this context, especially when it comes to long-term investors. These are important indications to keep in mind when considering taxonomy for socially responsible investment.
- Increasing transparency in disclosure is key. Unions have a central role in engaging with investors.

Union organisations need to continue pushing relevant cases in order to create pressure companies to behave.

- Laura Starks from the University of Texas has shown there is extensive governance driven interventions taken behind the scenes by institutional investors. There is some untapped potential here for unions.
- As regards to concrete work to taxonomy of responsible investment, trade union representatives are often not seen as experts in their own right. There is a need to make expert groups more representative.
- We do have a problem with social dimension. As social sustainability profiles seem to be negatively correlated to returns, we need to think how to frame and design this aspect of sustainable investing. Active dialogue with qualitative approach is needed in addition to basic quantitative measures. Of course, we need to work on legal incentives for investors and firms.

Ben Vanpeperstraete, Lobby and Advocacy Coordinator, Clean Clothes Campaign

- The goal of the Clean Clothes Campaign is to address violations that happen in the supply chains and proactively push brands to take their responsibility to prevent issues from arising rather than fixing them when they arise.
- When we look at how brands are performing, we need to look at how data points and narratives are getting produced. We often see more support on supply chain that directly on employees. Although, in a number of sectors, a lot of more salient risks are not necessarily in operations but in the supply chain. We first need to look at what companies are doing and whether they are mapping.
- There is a very diverse picture: from companies publicly disclosing supplier-level information to companies that don't even know where they are producing. If you don't have good mapping, you can't have good assessment.
- There are also quite a few problems regarding assessment, such as assessors not always having the time, independence or expertise to look at the most salient issues.
- Identification is a big problem because if you don't have the mapping and identification, everything else fails. If issues are not identified, it is impossible to document, stop, mitigate, track and report them.
- Many tend to measure and report what is convenient. If we acknowledge that it is ok not to have the perfect metrics, we still need to have a plan how to move forward and address uncertainties.
- We need to have more conversations on what is meaningful and robust.
- There is an agreement on the lack of consistency of standards. It is important to focus on effect – what our actions and contributions lead to.
- There are also some opportunities in this debate. Effective solutions will start emerging the moment we agree on a more robust regulatory standard.

The second panel on **What role for human rights metrics in the EU's taxonomy for Sustainable Investments?** was moderated by **Vincent Papa**, Director of Financial Reporting Policy, EFRAG

- EFRAG mainly advises the European Commission on the IFRS endorsement within the EU. The sustainable finance action plan has indicated that EFRAG will be responsible for the corporate reporting lab. EFRAG will be looking at wider corporate reporting and extend its activities beyond the mainstream financial reporting standards.

Alyssa Heath, Senior Policy Manager, Principles for Responsible Investment

- The mandate that the Taxonomy subgroup of the technical expert group on sustainable finance has been given is focussing on economic activities in respect to environmental performance. The expectation is that by setting out this common framework on green economic activities, the market will then step in and do the extra level of analysis to understand how financial instruments and tools can be provided to investors.
- The ambition is to extend the taxonomy to social issues. The focus so far has been on environmental issues because it was felt there were more metrics available to take the first steps. This is outside the mandate that the group was given, however, the High Level Group itself has obviously recognised that you cannot consider sustainability without thinking about the social dimension.
- The issue of human rights safeguards is one that co-legislators need to consider.
- The PRI has recently taken very strong views on climate issues. There is an increasing awareness that you cannot separate the climate transition from the impacts on communities and people. This is an area where a rapid increase of awareness and sophistication from members has been noticed.
- There are a number of collaborative engagements that the PRI members are currently working on. There are groups of investors who actively engage on human rights issues. There is also an expectation statement from investors on labour standards in agricultural supply chains.

Bertille Knuckey, Sycomore Asset Manager

- Sycomore is a French asset manager whose mission is to make investment more humane. This means going on the ground when assessing companies and talking to CEOs, CFOs and employees.
- A company will only create value in the long term if it creates value not only for its shareholders but also for the workers and all the other stakeholders gravitating around it – clients, society, suppliers and the environment. Human rights are part of the assessment in investing decisions. When carrying out company analysis, Sycomore also looks at gender diversity, pay, health and safety, digital rights and others.
- Not everything that counts can be counted and not everything that can be counted counts. Must deconstruct the myth that environmental data is perfect. Even environmental data is far from perfect. Carbon footprinting as it is assessed today can have many flaws: carbon-only, focused on scope 1 and 2 emissions, not taking into account avoided emissions. What needs to drive the political agenda is not data only. It is true that investors love data as it is easy to put numbers in a model and not to have a conversation with people which is more difficult and resource-intensive.
- A lot of investors think that it is ok to say that climate change is the most pressing issue. And climate change is indeed an urgent issue but it shouldn't be looked at without having social underpin. When you talk to citizens, they all emphasize human rights issues (see French SIF 2018 survey).
- There is appetite for ESG integration and SRI label products in France.
- Investors need to focus on long-term financial performance. The European Commission's plan to build a more sustainable financial system is not addressing this point yet which is absolutely key.
- According to the latest survey, very few French people (5%) are being offered SRI products. There is also a lack of financial education in certain places. Intermediaries play an important role here.

Gianluca Manca, Head of Sustainability, Eurizon Capital

- Eurizon Capital has a long history of sustainability that started more than 20 years ago. When the ESG was born in 2005, there was an urgency to put governance at the centre of the game because no one would consider it. Now it is an outdated thought. It is not an issue of sustainability anymore; it is simply the way money is managed.
- Accessing data is an issue and many were hoping that the legislative proposal would include

requirements how data should be built in order for it to be reliable and used by everyone. The attempt to put the credit sector in the scope of the legislative proposal is applauded; however, banks need more time to assess what they need and why they need it. Banks have not been invited to discuss these issues.
- As regards to application of taxonomy, the expectations are high and there are concerns around the timetable that is really tight. The first taxonomy work might not be accepted by all the European countries in the same way. More time might be needed to apply the taxonomy in the day to day work.
- The fact that it has been cantered on the capital markets, gives a bit of flavour on what insurance and banks should do but it is not precise enough. We might need to wait for the next vote in the Parliament to see how this carries on.
- A reference to the remuneration, included in the proposal by Paul Tang, is appreciated because everything starts with that.

Carel Cronenberg, Associate Director - MRV Manager, European Bank for Reconstruction and Development
- Like other multilateral development bank, the EBRD has a substantial environmental and social department with around 70 people working on environmental and social safeguards. Every project is being assessed against the EBRD environmental and social policy. Given the special shareholder situation and public purpose of MDBs, they are generally required to be highly transparent. For that reason, MDBs have a more extensive level of reporting than one would usually see in a commercial organisation.
- However, sustainability is more than just about maintaining safeguards. The key is not just to prevent risks but also to promote the transition to a sustainable economy. This is very relevant for the EBRD with its market transition mandate that dates back to the foundation of the Bank. It has the commitment to transform economies by creating better functioning markets. Lack of sustainability is considered as a market failure.
- This is one of the reasons why the EBRD has revisited its transition impact approach two years ago. It now has recognised six key transition qualities that have strong connection with the Sustainable Development Goals and consequently with human rights.
- As one of the most active members of the joint MDB group for Climate finance tracing EBRD has implemented a taxonomy for climate activities in 2011 and has since then gone a step further by adding environmental elements in its taxonomy.
- As regards to risk, banks are risk-averse, while as a multilateral development bank you may want to take risks where other don't want or are not able to. A careful job needs to be done in interpretation of risk metrics, in particular climate and environmental risks.
- The EBRD receives a lot of request from NGOs for data. Many question fossil fuel industry related projects. The reason for these projects is this industry is very difficult to decarbonise and it makes sense to channel financial flows to this sector.
- At the moment the EBRD is focused on two parallel streams of work: business development (I.e. the implementation of the Green Economy Transition Approach) and strong need for a strict application of environmental and social policy (given the climate change objectives) that at the moment is being updated. All business is being done on commercial terms – a project that is not economically viable is not a sustainable project.
- Taxonomy and metrics are just tools, internal processes are most important and we should focus more on that.

Cristina Tébar Less, Head of Responsible Business Conduct Unit, Investment Division, OECD, Investment Division, OECD
- What this event shows is that we all want to change behaviour and to achieve engagement around respect for human rights. Risk management needs to open up to new risks and we need to move away from traditional views of materiality. All actors should be included in this debate but it is even more important to talk to the "non-converted" ones - we need to talk to those who don't understand or don't believe in the human rights agenda.
- OECD has addressed this challenge and is working with many policy communities. The objective is to develop better policies for better lives.

Metrics and indicators are extremely important in this process – when we talk without having evidence, we are expressing opinions, when we have data and comparability, that's when things can really change.

- Key factor for good metrics is independence. It needs to be developed based on a solid methodology and by independent actors. It should also be done in multi-stakeholder settings.
- We don't need the same data to change the behaviour of different actors. What counts is that the data we collect is meaningful for those meant to use it. We can also build on existing data, such as FDI and trade flows to support evidence on human rights impacts.
- We should not take anything for granted. There are many ESG indexes that are built on solid methodologies but they should be questioned from time to time because at their origin they may not take issues into account that are important today.
- Moreover, metrics that were relevant ten years ago might be secondary today. An example is climate change data; 10 years ago it was all about measuring GHG emissions, today what counts is how companies engage in addressing climate change. It is about what is done with the data and how it is integrated into decisions.
- To finish, some words on what OECD is doing on human rights metrics. Based on the OECD Guidelines for MNEs, which are broad recommendations to business on how to behave responsibly, the OECD the developed guidance for business on how to integrate due diligence into their risk management system, to also identify human rights, social and environmental risks. OECD is now working on developing a methodology to build indicators to measure the impact of due diligence on the ground, starting with one sector (minerals), to be followed by the garment sector.

Nick Robins, Professor in Practice - Sustainable Finance, London School of Economics and Political Science; Special Adviser on Sustainable Finance with UN Environment

- We are living in extraordinary times. It was only in September 2016 that Vice-President Dombrovskis has announced that he was going to launch a High Level Expert group on Sustainable Finance. We now have sustainable finance being led by the Financial Services directorate which was completely unthinkable a couple years ago.
- We are moving from green to sustainable finance which is a very big change and many people have not yet understood what the implications of that are. We are also moving from the focus on risk to one on alignment.
- We have definitely moved a long way in last years but now we have the hard work ahead of us. We have to move beyond binary measures (green/non-green) to spectrum of performance (such as energy labels on products). We also need to think of the range of outcomes for economic activities: positively green and positively social; positively green and not so social; which are negatively green but positively social; which will be negative on both parts.
- One way of overcoming the traditional separation between the environmental and social dimensions is to look at the imperative of the just transition. LSE and Harvard Kennedy School have just produced an investor guide in partnership with the PRI and the ITUC on climate change and the just transition. We need to recognise that there are multiple transitions going on (including technology) and we need to think of a just transition that applies to all of these transitions. The investor guide tries to explain why investors should think about the social dimension in climate change. The human has been missing in the investors work on climate change and yet we know that companies state that their human resources are their greatest asset. We need a broader approach to climate change with a social dimension as we move towards sustainable development. Along with the guide, the PRI has launched the Investor Statement.
- Part of the problem lies in the reality that ESG is often seen as three separate silos. This has to end to develop an integrated approach: it is critical to connect ESG factors to avoid stranded assets as well as stranded communities and deliver a just transition. This does not mean reinventing the wheel. There is considerable established experience with human rights: this now needs to be applied by financial institutions to the climate and broader environmental agenda.
- Importantly, we need to recognise that human rights issues are place based – they happen in real places and to real people. This is an issue that is often hard for financial institutions to deal with.
- Finally, despite all the problems, this is an area where Europe can show some real leadership.

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Disclaimer

About ShareAction

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices by pension providers and fund managers. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits

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