PARTNERSHIPS FOR THE GOALS
This document summarizes the ideas and actions that emerged from Room 17, a working group for Sustainable Development Goal 17 on Partnerships for the Goals, that convened as part of the annual 17 Rooms global flagship process in 2021. The 17 Rooms initiative is co-hosted by the Center for Sustainable Development at The Brookings Institution and The Rockefeller Foundation. Each Room, one per SDG, was asked to identify actionable priorities that can be advanced by the end of 2022 to improve some component of 2030 outcomes for its respective Goal. Corresponding documents prepared by the other flagship Rooms are available here, alongside a synthesis report prepared by the 17 Rooms secretariat.

A forced labor risk estimation tool designed with and for institutional investors

Room 17: Project Concept Note

James Cockayne, Kristen Abrams, Carsten Stendevad, Daniel Hochman, Shawn MacDonald, Sharon Prince, Padmesh Shukla, Benjamin Skinner, Alison Tarditi, Agnes Terestchenko, Dan Viederman

Overview

This project aims to transform institutional investors’ access to and use of reliable forced labor risk data. Access to such data is crucial for two reasons: 1) to allow markets to better factor forced labor risks into capital allocation and management decisions, and 2) to allow regulators and standards-setters to calibrate expectations on market behavior to incorporate consideration of such risks. While some early movers are incorporating such data into decision-making, the lack of systematic access to reliable, comparable information has impeded system-level gains. In the spirit of Sustainable Development Goal (SDG) 17 of partnership for progress, we seek to address this through a partnership of institutional investors and forced labor experts to build and promote a differentiated forced labor risk estimation tool available as a financial utility.

The problem

The International Labour Organization (ILO) estimates that roughly 25 million people are trapped in forced labor conditions and $354 billion of imports into G-20 economies (e.g., computers, apparel, fish) are associated with modern slavery. Women and girls are disproportionately affected by all forms of modern slavery, accounting for 71% of total modern slavery victims. Women and girls represent 58% of forced labor victims, and 99% of victims in the commercial sex industry.

U.N. Member States committed to end forced labor by 2030 in SDG 8.7. Initiatives such as Finance Against Slavery and Trafficking (supported by the governments of Liechtenstein, Australia, Netherlands, and Norway) have long acknowledged the key role that investors can play in identifying and addressing business drivers of modern slavery and forced labor.

Exposure to forced labor arises in large, diversified investment portfolios. This happens because complex global value-chains utilize labor across regions with varying governance capabilities and varying risk profiles for their labor forces. Institutional investors have a baseline understanding of these issues. And there are several emerging investor alliances (Investors Against Slavery and Trafficking APAC; Votes Against Slavery; Find It, Fix It, Prevent It) that are seeking to strengthen investor understanding of and efforts to address these issues.

Yet investors are coming under growing pressure from governments to actively identify, account for and manage these risks. Parliaments and securities exchange regulators in several jurisdictions, including Australia, the United Kingdom, and others have adopted due diligence and/or reporting
requirements that oblige investors to identify and address forced labor risks in their portfolios. The EU is currently considering a range of related measures, and there are reports that the U.S. Securities and Exchange Commission (SEC) may also be contemplating such a move.

What investors lack, however, is cost-effective access to comparable, reliable data that provides information and insights about the exposure to forced labor at company or investment level. Forced labor is opaque, often hidden, and difficult to measure. For major institutional investors, there are material issues in approaching this comprehensively and effectively across tens of thousands of securities, across asset classes and geographies.

Some early movers, including environmental, social, and governance (ESG) risk analysis and business information providers, have begun to capitalize on this information asymmetry to convert their insights into value. This includes important partnerships with civil society and worker voice organizations that have access to forced labor risk information. Yet, widespread adoption of this approach is impeded by the lack of data standardization.

Other institutional investors have developed in-house solutions for portfolio risk analysis based on heat mapping; these often struggle to get below the country-level, because of difficulties accessing reliable, real-time sub-national data about forced labor incidence. Some other financial-sector entities, notably banks and financial service entities, have focused instead on working with technology companies to scrape open-source and media reporting to identify cases of forced labor and human trafficking, at the company level. This method struggles to estimate risk in sectors and jurisdictions where such reports do not occur, even where there is in fact forced labor taking place, creating false negatives and risking distortions if applied at the market level.

None of these approaches have yet provided a cost-effective solution to the underlying problem of information asymmetry, and none have emerged as a viable approach to rapidly scaling up action on forced labor by investors or market regulators. Scaled, systematic adoption is required to generate a material change in the flow of system capital, as opposed to private value capture through modern-slavery-risk reduction by a few, informed investors. Without such a widespread solution, investors and index providers cannot reliably incorporate forced labor risk into investment selection or management strategies, and regulators, standard-setters and other market stakeholders (such as exchanges) cannot legitimately expect investors to do so.

Our theory of change

We aim to address the underlying information asymmetry that currently prevents widespread consideration of forced labor risks by institutional investors and market standard-setters and regulators. Our hypothesis is that filling this information gap will require direct collaboration between investors and forced labor experts to design a risk estimation tool that allows investors to efficiently, robustly, and at scale, incorporate systematic assessment of modern slavery risk into their analysis of investments.

By creating a forced labor risk estimation tool that is widely available, easily integrated with institutional investors’ existing systems, and can deliver risk estimates at the company level across a wide universe of companies, we aim to remove the current barriers to uptake.

An easily accessible, easy-to-use and high-quality forced labor risk estimation tool would reduce the friction costs of discovery and make the data credible information for integration into investors’ business systems. Operating from a higher shared base of quality information would support several different potential use cases:
- **Analysis**: enable institutional investors to robustly assess and systematically incorporate consideration of forced labor risk in their investment processes and decision-making;
- **Due diligence**: equip investors to challenge for in-depth, on-the-ground due diligence in sectors, value chains and companies that emerge as sources of heightened forced labor risk requiring priority attention;
- **Active engagement**: support both investors and investor groups (such as U.N. Principles for Responsible Investment, Investors Against Slavery and Trafficking Asia-Pacific, Find It Fix It Prevent It, and Votes Against Slavery) to undertake credible, constructive dialogue with companies to support them to invest in business practices and infrastructure that reduces forced labor risks and addresses resulting harms;
- **Regulatory requirements**: allow markets and regulators to incorporate forced labor risk into ESG regulatory, benchmark and reporting systems, including emerging human rights due diligence frameworks.

**How our solution is differentiated**

To achieve that result, our solution is differentiated from existing approaches in 3 key ways: design process; analytic method; and delivery model.

**1. Design: with and for institutional investors**

The tool is likely to take the form of enterprise-grade technology providing best-in-class, automated analysis of modern slavery risks. But within those broad parameters, there are numerous questions about design, function and format that only institutional investors can reliably answer. Our tool will therefore be the product of ongoing partnership between a group of institutional investors, forced labor experts, and research organizations, including:

- Institutional investors: Bridgewater Associates, CSC, Transport for London Pension Fund
- Forced labor experts: Humanity United, Transparentem, Verité
- Research organizations: McCain Institute

We will also continue to coordinate with colleagues at The Brookings Institution and The Rockefeller Foundation to explore opportunities for amplifying impact. Investor participation in the design and build of this tool is integral to ensuring it is fit-for-purpose, and to optimizing for uptake.

The close collaboration between investors and anti-trafficking experts also allows us to take a ‘minimum viable product’ to design—delivering what the market needs to add value, rather than what regulators or civil society might perceive as the optimal approach—while also ensuring the product reflects the state of scientific knowledge regarding forced labor risks. Importantly, the partnership approach also provides the framework for ongoing collaboration, meaning that the product can be iterated over time, and potentially adapted for new business and regulatory use cases.

**2. Analysis: using available data to estimate risk**

Unlike some of the cognate solutions under development, our approach does not initially rest on developing new incidence data sources (through worker voice tools, audit or open-source scraping), nor on open-source reporting (“controversy data”) that provides only partial coverage because it is selected on the dependent variable (i.e., it includes only reported risks, not unreported risks).
Instead, we see those incidence datasets as potentially useful ways to test and validate a proprietary risk estimation algorithm.

This algorithm, developed through the expertise of the actors developing the tool, uses available business information data to estimate the risk of a particular company’s connection to forced labor risk. Our risk model will tie the company’s risk score to underlying risk factors based on more easily-assessed objective characteristics of the company.

The “objective” factors that underpin this risk score include factors relating to the company’s business inputs (e.g., which raw materials go into the business’ output, demographic characteristics of its workforce), its position in and the characteristics of its value-chain, or location (with associated social, economic, legal and political characteristics—for example, operation of highly isolated production facilities hosting vulnerable populations). Risk-scores will be networked so that when one entity in the value-chain becomes high-risk (for example because it is placed on a sanctions list) this cascades through the scores of all companies in its value-chain, depending on their proximity and dependency.

3. Delivery: a financial utility model

The aim of this partnership is not to capture value by addressing the forced labor information asymmetry in capital markets, but rather to remove that asymmetry as quickly as possible. Accordingly, the partnership is committed to developing a business solution for delivery of the forced labor risk estimation tool that is optimized for wide and rapid uptake.

Our initial assessment is that this is likely to be a financial utility model: the tool will be made available to users either free, subsidized by third parties, or at cost, to promote rapid adoption. (Cost, in this case, meaning the cost of running non-profit organizational infrastructure needed to deliver, maintain and improve the tool.)

Users may however be required to accept certain terms and conditions of use, including liability limitation and, potentially, participation in a federated learning system—i.e., sharing of anonymized data back to the parent organization that provides the tool. This federated learning / distributed computation approach will allow the development of pattern analysis over larger datasets (which may however remain with the owning investor). This can then be used to iterate and strengthen the accuracy and utility of the risk estimation tool, or even more broadly to strengthen awareness of the system-level drivers of modern slavery risks and the need and options for system-level response.