CCLA

GOOD INVESTMENT

Submission from CCLA Investment Management to the Home Affairs Committee inquiry into Human Trafficking in the UK

Introduction

The latest Home Office statistics show that forced labour is the most common form of exploitation in the UK and it is therefore vital that the Home Affairs Committee includes it within this important inquiry. Slavery and trafficking are the most serious crimes of exploitation, but they are also economic crimes. Financial Services therefore have a key role to play.

- They can protect survivors by providing banking services. For example, the Tribe Financial Empowerment Hub launched in 2022 in conjunction with Nasdaq promotes financial inclusion by supporting survivors to set up a bank account and take control of their money.
- They can track the illicit money flows, report suspicious activity and partner with law enforcement to pursue criminal exploiters.
- They can use their influence as both lender and investors to prevent slavery and trafficking.

This submission addresses questions two and five as they are most relevant to the work of CCLA Investment Management.

Background

The purpose of CCLA Investment Management is to help its clients maximise their impact on society by harnessing the power of investment markets. Through Good Investment it carefully selects assets that add longterm value and act collectively to encourage systemic change. Following on from its work with hotels to raise awareness and prevent child sex trafficking in 2012 and subsequent engagement work with investee companies and policy makers, in 2019, CCLA established Find It Fix It Prevent It, an investor collaboration supported by over £13.4 trillion of assets, aimed at combatting modern slavery in companies' supply chains. CCLA has also successfully engaged with companies in its investment portfolio around various labour market issues including paying a living wage, addressing diversity and appropriate executive pay. Founded in 1958, CCLA has £13.8 billion of assets under management as at 31 January 2023.

Question 2 - How effective is the UK's approach to discouraging the demand that leads to trafficking?

Insufficient focus on prevention

Anti-trafficking work focuses strongly on protecting victims and pursuing offenders, but the third element of prevention is often overlooked. Previous Home Office Ministers had agreed that the proposed Modern Slavery Strategy should have a strong – and welcomed - emphasis on prevention. However, while the strategy was scheduled for publication in spring 2022 this has not happened and must be regarded as unlikely. Prevention is about both reducing vulnerability and reducing demand.

- Reducing vulnerability by supporting international development in source countries, by making early interventions with those we know are at risk, by protecting survivors from re-trafficking or educating workers about their rights.

- Reducing demand and opportunity by raising awareness among the public, by upholding labour market standards, by enforcing laws on sexual exploitation or by encouraging businesses to identify and address slavery and trafficking.

Business must do more to prevent trafficking

The United Nations Guiding Principles on Business and Human Rights sets out the responsibilities of businesses to respect human rights. They should avoid causing adverse human rights impacts and they should have processes in place to enable remediation in any adverse human rights impacts they cause or to which they contribute. The Global Slavery Estimates published in 2022 suggested that there were 27.6 million people in forced labour – and 86% of forced labour cases were imposed by private actors. Given the scale of forced labour in the private sector there is so much more that can be done both voluntarily by businesses and through changes in legislation to prevent this egregious harm.

Investors must do more to reduce the harm caused by business

Investors can be influential in focusing businesses on slavery and trafficking risks and the Find It Fix It Prevent It initiative brings together investors to do this collaboratively. The focus of investor engagement has been on the hospitality sector and now the construction sector – both regarded as being at high risk of forced labour. The growing importance of Environmental Social and Governance (ESG) investing illustrates the important role of investors in protecting both the climate and human rights. Slavery and trafficking, as gross violations of human rights, are part of this overall drive to improve sustainability but along with other social issues have traditionally been undervalued by investors. While investors are taking steps in this direction there is so much more that can be done. This inquiry provides a good opportunity to amplify the role that investors can play.

For example, in December 2022 CCLA, working with other investors, published an investor statement on the Seasonal Worker Scheme. The investors with £806 bn assets under management were concerned that migrant workers in the UK recruited and employed through the Seasonal Worker Scheme were being obliged to pay excessive fees to agents as well as other fees, travel and visa costs. This was resulting in a high risk of debt bondage and experts identified many of the International Labour Organisation's indicators of forced labour were present. The investors agreed a set of practical outcomes including the repayment of the costs incurred by vulnerable workers and a commitment to the principle that no worker should pay for a job. While it is too early to assess impact, the investment statement certainly escalated concerns beyond the sustainability team to the C suite.

Question 5 - How can legislation, including the Modern Slavery Act 2015, policy and criminal justice system practice be improved to prevent and address human trafficking?

The Find It Fix It Prevent It initiative is a good example of voluntary activity by the financial sector and Rathbones lead a similar initiative, 'Vote Against Slavery'. However, changes in legislation are also needed.

- The requirements of s54 of the Modern Slavery Act 2015 need to be toughened up and tightened up. Legislation to extend modern slavery reporting to the public sector, introduce mandatory topics and an annual reporting deadline and fines for non-compliance needs to be brought forward. These are ministerial commitments and legislation was promised in the Queen's Speech in 2022 but has yet to materialise.
- Section 54 of the Modern Slavery Act should also mandate financial institutions to report on their investing and lending portfolios. The inclusion of portfolios was regarded as a grey area but research by Walk Free, WikiRate and the Business and Human Resource Centre in 2021 showed that of 79 asset managers only 27% disclosed that they had carried out due diligence on modern slavery and human rights in their portfolios. Reporting would both provide transparency and incentivisation for investor engagement with investee companies.

- Lastly, government needs to monitor closely developments in policy on Corporate Sustainability Due Diligence in Europe and import bans in the United States and Europe. There is great reluctance to consider either, but the resulting lack of harmonisation is challenging for businesses and risks making the UK an attractive market for goods made with forced labour.

It is often said that businesses want fewer burdens, fewer regulations, fewer reporting requirements. However, the reality in respect of slavery and trafficking is that businesses want a level playing field. Businesses that tolerate or generate slavery and trafficking have lower labour costs and unfair competitive advantage over those who do not. They enjoy unfair and unsustainably reduced costs of capital. Legislation is needed to address the failures in under regulated labour markets where exploitation can flourish.

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