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OUTLOOK FOR ESG INVESTORS LOOKING TO ADDRESS HUMAN AND LABOUR RIGHTS IN THEIR INVESTMENTS IN INDIA

DISCUSSION PAPER AND PATH FORWARD



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GLOSSARY

ASSET ALLOCATION	Bifurcation of investment funds into broad categories based on asset types, geographies, instruments, sectors etc.
ASSET MANAGER	A company which manages assets / money for clients, offering a range of financial products
ASSETS UNDER MANAGEMENT (AUM)	Market value of assets that an investment company manages / invests
BRR (BUSINESS RESPONSIBILITY REPORT)	Is a standardized format for corporates to report on the actions undertaken towards adoption of responsible business practices. The format has been developed by the Ministry of Corporate Affairs, Government of India and is mandatory for top 1000 listed firms
BRSR (BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORT)	An updated version of BRR. Adopted by MCA in 2020. Mandated by SEBI to be applicable to the top 1000 listed companies for the reporting year in 2022-23 onwards.
DEVELOPMENT FINANCE INSTITUTIONS (DFI)	Financial institutions which provide financial services to the underserved markets
EQUITY INVESTORS	Investing in, and holding of, shares of stock on a stock market by individuals and firms
ESG	Environmental, Social and Governance information
ETHICAL FUNDS	Funds that follow an investment philosophy of screening out certain sectors and/or practices
MCA	Ministry of Corporate Affairs
NGRBC	National Guidelines for Responsible Business Conduct (successor of the NVG) released in 2019
NVG	National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business (NVGs) released in 2011
SEBI	Securities and Exchange Board of India
SOCIALLY RESPONSIBLE FUNDS	Funds that follow an investment philosophy that includes non-financial, ethical (e.g., social and environmental) objectives
SUSTAINABLE AND RESPONSIBLE INVESTING (SRI)	Investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management
XBRL (EXTENSIBLE BUSINESS REPORTING LANGUAGE)	An open international standard for digital business reporting that is being used by the Bombay Stock Exchange (BSE) to help improve the accuracy and utility of filings about corporate voting results

INFORMATION FOR THIS REPORT

This document captures human right and labor rights disclosure on 35 bellwether companies in India. The information was extracted from cKinetics' ESG database, which parameterizes the BRR disclosure of corporates.

In order to understand the ground realities around human rights and labour rights from investor's perspective, the draft discussion paper was shared with 80+ stakeholders across domestic investors, international investors and rating agencies. This was followed by individual consultations with 24 individuals across domestic and international investment community through in-depth interviews.

This report also synthesizes on-ground work done by Oxfam in tea plantations and the sugar industry.

SNAPSHOT

Oxfam and cKinetics have been working collaboratively on SRI (Sustainable and Responsible Investing) and ESG (Environment, Social and Governance) disclosures in India for several years and enhancing institutional investor understanding of SRI in India through the landscape report “Drops before the Rain”, which was released in 2017 and a follow-on dialogue in 2018 with stakeholders through the “White paper on using BRR 2.0 for investing in Indian corporates”¹. It has created the path for a longer-term engagement plan to work with corporates, investors and financial intermediaries and ESG data/service providers through an India SRI Working Group.

This document aims to help investors using ESG information to understand the compliance with human and labour rights in Indian corporates so as to plan their investment strategies. In corporates, the key risk of social non-compliance is linked to the human rights and labour rights practices exercised by the corporate and its supply chains.

The supply chains in India tend to be large and long at times connecting with semi-organized and unorganized sectors. This makes supply chains vulnerable to inadvertently being exposed to human and labour rights linked risks.

POLICY MANDATES

The Govt of India requires several disclosures by corporates in their Business Responsibility Report (BRR, which is soon being updated with the BRSR). **The BRR and BRSR have several tenets of Human and Labour Rights disclosures**, and link with several laws protecting human rights and labour rights. This report has enumerated these (Section 1) and also looks at corporate performance on these parameters (Section 2).

THE CORPORATE LENS

This report examines **35 shortlisted companies** which have a market capitalization of more than INR 40,000 billion (USD 572 billion), with aggregate investment of top 10 non-promoter shareholders being INR 4,853 billion (USD 68 billion).

The report analyses (Section 2) mandatory indicators and desirable indicators that corporates disclose on. Some of the key takeaways are:

More than 50 per cent of the shortlisted companies explicitly commit to respect human rights such as rights of all workers for freedom of association and collective bargaining. However, the enforcement or procedures for compliance to back the commitments are not mandated in the reporting requirements and therefore are not clearly laid out.

The public commitments in most cases are silent on the management of impacts/risks i.e., the corrective action that the company would take if a supplier is found in violation of the indicators.

Currently, there are few disclosure requirements of human rights indicators for the supply chain.

There are no evident linkages between foreign investment across sectors and the human rights performance.

Despite some gaps in the disclosure requirements and actual reporting, there are a handful of companies, which provide additional information pertaining to risk assessment of human rights issues, minimum wages, and enforcement mechanisms of child labour in supply chain, amongst others.

COMPARING CORPORATE DISCLOSURE WITH ON-THE-GROUND INFORMATION FROM SELECT SECTORS

The ground realities paint a contrasting picture for human rights scenario, especially in the food, beverages and personal care segment. The report (section 3) contrasts information from studies commissioned by Oxfam and outlines areas of disconnect. These could be areas of risk for investors.

INVESTORS EXPOSED MOST TO THE INADVERTENT RISK OF NON-COMPLIANCE OF LABOUR AND HUMAN RIGHTS IN THEIR INVESTMENTS

Section 5 examines investors, which have the most exposure in the companies in India. There are 57 domestic investors with a total investment of INR 3,766 billion (USD 53 billion²) and 47 foreign investments with a total investment of INR 1,086 billion (USD 15 billion). Some of the prominent investors include LIC, which is the biggest institutional investor both in terms of value as well as number of companies invested in. Key domestic investors include ICICI Prudential mutual fund, SBI Mutual Fund, UTI Mutual Fund, whereas Europacific Growth Fund, Government of Singapore, Arisaig, and Vanguard are amongst the prominent foreign investors.

INVESTOR VIEWS

Investors spanning across international investors, domestic investors and rating agencies were interviewed. Their key insights are:

- Incorporating overall ESG risks into investment decisions is a relatively new phenomenon in the Indian markets with prominence of ‘G’ more than ‘E’ and ‘S’.
- Investors adopt different approaches in managing human and labour rights risks – trigger based engagements with management, proactive assessment as part of ESG and excluding potential violators, amongst others.
- Investors primarily look for direct or proxy indicators, which can help them assess potential financial/reputational risks due to labour strikes or legal suites. Engagement with company management along with disclosures becomes the key source of the information.
- Several critical aspects do not get uncovered due to lack of transparency. Investors specially find finer aspects related to human and labour rights in supply chain, diversity, contractual employment, and wage parity missing from the corporate disclosures.
- On the policy front, investors are eyeing the new BRSR framework to bring in requisite data disclosure and standardization.

PATH FORWARD

The path forwards (Section 7) consists of:



¹ In 2020 the BRR 2.0 was formally released by the Ministry of Corporate Affairs as the BRSR (Business Responsibility and Sustainability Report) and in 2021 has been mandated by SEBI for the largest listed companies with effect from FY 2022-23

² Consider 1 USD= INR 71

01

HUMAN AND LABOUR RIGHTS FROM THE LENS OF BUSINESSES AND INVESTORS

1.1 HUMAN AND LABOUR RIGHTS AND THE LINK WITH HUMAN RIGHTS AND LABOUR RIGHTS

The ILO uses the terms forced labour, human and labour rights and human trafficking in close conjunction³. According to the “ILO Forced Labour Convention, 1930 (No. 29), *forced or compulsory labour is all work or service which is exacted from any person under the threat of a penalty and for which the person has not offered himself or herself voluntarily.*

The ILO goes on to further elaborate: “*traditional practices of forced labour, such as vestiges of slavery or slave-like practices, and various forms of debt bondage, as well as new forms of forced labour that have emerged in recent decades, such as human trafficking also called modern-slavery to shed light on working and living conditions contrary to human dignity.*

Forced labour can be imposed to adults and children, by State authorities, by private enterprises or by individuals. It is observed in all types of economic activity, such as domestic work, construction, agriculture, manufacturing, sexual exploitation, forced begging, etc. and in every country.”

Correspondingly, the topic of non-compliance with human and labour rights is a vast one and covers human bondage in a variety of settings.

In India, the state has been active in working on this issue. Justice D Murugesan stated: “the system of bondage in various forms is an outcome of certain categories of indebtedness, which have been prevailing since ancient time involving certain economically exploited hapless, helpless weaker sections of the Society. The system had originated from the uneven social structure, characterized by feudal condition based on the inter-relatedness between rituals and compulsions”.⁴

Beyond bonded labour there are numerous other forms of exploitation recognized by the Indian state, with acts and regulations in place to curtail them. These policies are described in subsequent sections.

In this document, we examine this subject from the lens of businesses and investors, and hence zoom in on situations

which lead to exploitation of labour or violation of human rights in the modern context. It is globally recognized the human capital is at the core of the ‘Social’ aspect for any company and impacts a company either positively or negatively, directly or indirectly at any stage of the value chain. In view of the criticality of humans and therefore human rights in any sector, businesses and investors are increasingly seen as having a responsibility to protect human rights and address adverse impacts that may arise from its operations and business supply chains. The rise of the Sustainable and Responsible Investing using ESG (Environmental Social and Governance) information is a response to the recognition of this responsibility.

Government policies define the minimum requirements from businesses and several progressive organizations operate beyond the minimum level, which set norms for others to follow. In India, the human and labour rights requirements are driven from:

- Policy requirements driven by the Government of India
- Norms and standard set by customers, investors and global institutions

1.2 POLICY REQUIREMENTS

In India, National Human Rights Commission (NHRC) as a statutory body is responsible for the protection and promotion of human rights in the country. Given the various facets of human rights including child labour, equal opportunities, health and safety of workers, gender inclusion, etc. the Ministry of Labour and Employment has taken formulated various Acts and laws in the past and continues to take a number of initiatives to bring accountability and transparency.

Through the recent labour reforms, the Ministry further seeks to streamline labour laws and subsume 44 prevalent labour laws (which have historically governed labour practices for establishments and factories) into four labour codes with the aim of strengthening the safety, social security, health of every worker.

³ <http://www.ilo.ch/global/topics/forced-labour/definition/lang-en/index.htm>

⁴ Quoted from the Handbook on Bonded Labor from the National Human Rights Commission of India. https://nhrc.nic.in/sites/default/files/Hand_Book_Bonded_Labour_08022019.pdf

Further, the business and human rights landscape has been inspired by the UN Guiding Principles on Business and Human Rights (UNGPs) and led to development of a zero draft on 'National Action Plans on Business and Human Rights'⁵ in India in 2018, after the National Voluntary Guidelines in India were revised and released as National Guidelines for Responsible Business Conduct (NGRBC). The Action Plan is expected to demonstrate how the UN Guiding Principles are being implemented, identify the gaps as well as recommend how the gaps can be addressed. This has also initiated discussions on an international legally binding treaty with regards to business and human rights.

1.2.1 ROLE OF THE NATIONAL GUIDELINES FOR RESPONSIBLE BUSINESS AND MANDATORY REPORTING

Investors are increasingly incorporating 'ESG' (Environment, Social and Governance) information in their financial decision-making process to frame a comprehensive perspective of the companies they intend to invest in. The **benefits of acting on ESG factors is high for companies;** and the corresponding cost of inaction is an increasingly high risk for investors (and companies). Globally, Sustainable Responsible Investment (SRI) has been led through a policy push or by investors asking for it. In India, the understanding with respect to SRI is evolving; only a miniscule INR 14 billion (USD 0.2 billion) capital allocation in Indian equities is screened through responsible investment strategies.⁶ Thus, in this context, the Business Responsibility Report acts as a key enabling policy, which provides a consistent format with measurable indicators for companies to incorporate. In India, the Ministry of Corporate Affairs (MCA) first issued the National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business (NVGs) in 2011 with the objective to make business more responsible and accountable to all its stakeholders.

In 2016, an Expert Committee was entrusted with the responsibility of updating the NVGs. Subsequently, the updated National Guidelines on the Economic, Social and Environmental Responsibilities of Business (referred to as NGs) were released in 2018 in draft form and adopted in 2020.

Additionally, the Securities Exchange Board of India (SEBI) has made it compulsory for the top 500 companies listed on Indian stock exchanges to publish annual ESG disclosures based on Business Responsibility Report, which has now been extended to top 1,000 companies. These guidelines and reporting requirements have been instrumental in enabling listed companies to adopt integrated reporting format. With on-going consultations, these guidelines are expected to be updated further, and that would improve and strengthen the framework, as well as have more companies adopt the same. This will help in increasing the company disclosures in an adequate manner, provide a quantifiable outcome that can then potentially help investors to incorporate this information in their financial decisions.

"We look at ESG from a sustainability risk adjusted returns perspectives. The ESG analysis is done as an overlay on top of the fundamental analysis. We apply a three-pronged strategy - Evaluation, Engagement and Exclusion. ESG evaluation is done for all funds. A quadrant view with ESG analysis score (x-axis) and fundamental analysis score (y-axis) is prepared for each company. The companies falling in top-right quadrant where both ESG evaluation and fundamental analysis have high scores, will automatically make the cut. In case of low ESG score - engagement is done to understand the issues and what initiatives are being taken up or commitments have been made by the management? Certain industries such as - tobacco, alcohol, adult entertainment etc. are excluded."

- Head, Equity research, Indian MF

1.2.2 CURRENT PREVAILING LEGISLATION SETTING THE MINIMUM BAR FOR HUMAN AND LABOUR RIGHTS

The table alongside highlights the laws, policies governing the labour practices in India and responsibility of the employer/ establishments as well as international standards and codes which set the benchmark for labour practices globally for organizations and governments.

Table 1: Key Laws in India impacting Human Rights and Labour Rights

POLICY DESCRIPTION	YEAR	NODAL AGENCY	KEY REQUIREMENTS	APPLICABILITY
Labour Code on Wages <i>(Replaces Minimum Wages Act, 1948; Payment of Wages Act, 1936; Payment of Bonus Act, 1965; and the Equal Remuneration Act, 1976)</i>	2019	MoL&E	<ul style="list-style-type: none"> No discrimination in any establishment or unit among employees on the ground of gender in matter relating to wages. No employer shall pay to any employee wages less than the minimum rate of wages notified by the appropriate government (not lower than the floor wage determined by central govt). Wages to be provided for overtime work at a rate not less than twice the normal rate of wages. 	Factory, Establishment, Contractor
Labour Code on Industrial Relations <i>(Seeks to Replace Industrial Disputes Act, 1947; Trade Union Act, 1926 and Industrial Employment Act, 1946)</i>	2020	MoL&E	<ul style="list-style-type: none"> Prohibits employers, workers, and trade unions from committing any unfair labour practices including (i) restricting workers from forming trade unions, (ii) establishing employer sponsored trade union of workers, and (iii) coercing workers to join trade unions. Provides for a negotiation union in an industrial establishment for negotiating with the employer. In case of only one trade union in an establishment, the employer is required to recognize such trade union as the sole negotiating union of the workers. Employers of industrial establishments such as mines, factories and plantations with at least 100 workers are required to take prior permission of the central or state government before lay-off, retrenchment or closure. Industrial establishments in which 50 to 100 workers are employed, are required to: (i) pay 50% of basic wages and dearness allowance to a worker who has been laid off, and (ii) give one month's notice and wages for such period to a worker who has been retrenched. Fixed-term employees to get all statutory benefits like social security, wages, etc. at par with the regular employees, who are doing work of same or similar nature. 	

⁵ http://www.mca.gov.in/Ministry/pdf/NationalPlanBusinessHumanRight_13022019.pdf
⁶ "Drops before the Rain". cKinetics, 2017

POLICY DESCRIPTION	YEAR	NODAL AGENCY	KEY REQUIREMENTS	APPLICABILITY
Labour Code on Social Security & Welfare <i>(Replaces nine laws related to social security, including Employees Provident Fund Act, 1952 and Unorganised Workers Social Security Act, 2008)</i>	2020	MoL&E	<ul style="list-style-type: none"> Various social security schemes (such as EPF, EPS) shall be financed through a combination of contributions from the employer and employee. All contributions towards payment of gratuity, maternity benefit, cess for building workers, and employee compensation will be borne by the employer. Every employer shall report every accident occurring in his factory or establishment. In case personal injury is caused by accident or occupational disease (as listed in the code), the employer will be liable to pay compensation in accordance with the provisions. 	Factory, Establishment, Contractor
Labour Code on Occupational Safety, Health & Working Conditions <i>(Subsumes and replaces 13 labour laws relating to safety, health and working conditions)</i>	2020	MoL&E	<ul style="list-style-type: none"> Manufacturers, importers, designers and suppliers must ensure that any article created or provided by them for use is safe, and provide information on its proper handling. No employment to a worker below the age of 18 or apprentice/trainee below the age of 16, in a mine. Adherence to working conditions notified by the central government including hygienic work environment, clean drinking water and toilets. 	Establishment (with at least 10 workers), all mines and docks
The Child Labour (Prohibition and Regulation) Amendment Act	2016	MoL&E	<ul style="list-style-type: none"> Blanket ban on employment of children below 14 years in all occupation except in "own account enterprises". Prohibition of employment of Adolescent in hazardous occupations (as specified mines, inflammable substances, and hazardous processes) No adolescent shall be required or permitted to work in an establishment in excess of such number of hours of work as is permissible under the law for the time being in force regulating the hours of work of the adolescent in such establishment. 	

POLICY DESCRIPTION	YEAR	NODAL AGENCY	KEY REQUIREMENTS	APPLICABILITY
The Protection Against Sexual Harassment at Work Place	2013	MoWCD	<ul style="list-style-type: none"> Constitution of an 'Internal Committee' that is empowered to independently conduct inquiries and report to relevant authorities. 	
Bonded Labour Systems Abolition Act (1976 and updated in 1985)	1976	MoL&E	<ul style="list-style-type: none"> Abolition of bonded labour system with a view to preventing the economic and physical exploitation of the weaker sections of the people 	
Contract Labour (Regulation and Abolition) Act, 1970.			<ul style="list-style-type: none"> Registration requirements/ licensing of contractors Provisions of welfare and health of contract workers (canteens, restrooms, first aid facilities, etc) Responsibility of payment of wages 	Establishment with 20 or more workmen employed as contract labour

1.3 GLOBAL NORMS

At an international level, human rights were first recognised globally by the United Nations in 1948. One of the key instruments governing international human rights law is the International Bill of Human Rights, which consists of Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, and the International Covenant on Civil and Political Rights, and its two Optional Protocols.

The United Nations Guiding Principles on Business and Human Rights, are a global standard adopted in 2011, based on a three-pillared “Protect, Respect and Remedy” framework. They establish the role of the businesses and governments to address human rights issues in own operations, supply chains and business relationships. These principles require

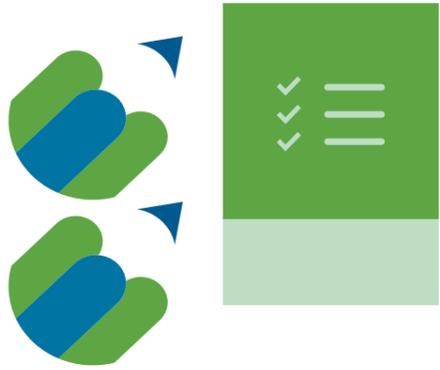
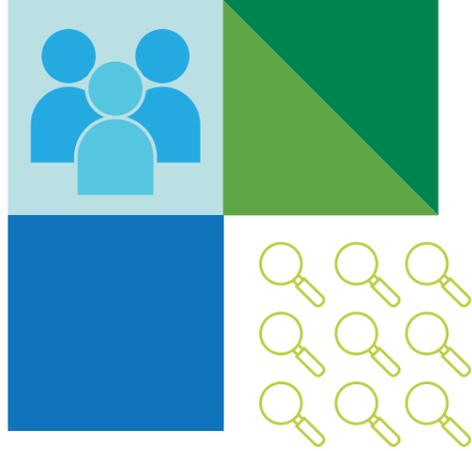
that the State and businesses should protect human rights against abuse by third parties, appropriate policies, legislation, regulations and adjudication. They also require effective rights (judicial and non-judicial), in case rights and obligations are breached.

There are also conventions identified by the International Labour Organisation (ILO), which are part of the international framework of human rights.

The table below highlights global norms and standards providing either legally binding or voluntary guidelines for stakeholders, particularly organisations for ensuring fundamental human and labour rights.

NORM/ STANDARD	DESCRIPTION	KEY REQUIREMENTS FROM BUSINESSES	REPORTING ENTITY
The UN Guiding Principles on Business and Human Rights	Set of guidelines for States and companies to prevent, address and remedy human rights abuses committed in business operations.	<ul style="list-style-type: none"> Business enterprise must fulfil its corporate responsibility through i) policy commitment to meet their responsibility to respect human rights ii) a human rights due diligence process to identify, prevent, mitigate and account for addressing impacts on human rights and iii) processes to enable the remediation of any adverse human rights impacts caused or contributed to. 	Business Enterprises
UN Global Compact Principles	Non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.	<ul style="list-style-type: none"> Businesses should support and respect the protection of internationally proclaimed human rights Businesses should make sure that they are not complicit in human rights abuses Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining Eliminate all forms of forced and compulsory labour Effectively abolish child labour Eliminate discrimination in respect of employment and occupation 	Businesses

NORM/ STANDARD	DESCRIPTION	KEY REQUIREMENTS FROM BUSINESSES	REPORTING ENTITY
SDGs (8)	Collection of global goals designed to be a “blueprint to achieve a better and more sustainable future for all”.	<ul style="list-style-type: none"> Prohibition of slavery, forced labour and trafficking of persons Prohibition of child labour Ensure protection of labour rights and provide for safe and secure working environment for all workers across the business and the supply chain No discriminatory employment Capacity building and training of the workforce 	Businesses
ILO Abolition of Forced Labour Convention, Minimum Age Convention, Worst Forms of Child Labour Convention	United Nations agency whose mandate is to advance social and economic justice through setting international labour standards and conventions	<ul style="list-style-type: none"> Freedom of Association and Protection of the Right to Organize as well as collective bargaining Abolition of forced labour and elimination of worst forms of child labour Abiding by minimum age for admission to employment or work (15 years) and the minimum age for hazardous work at 18 (16 under certain strict conditions). Equal remuneration for women and men workers for work of equal values Elimination of discrimination in respect of employment and occupation 	Businesses
OECD Guidelines for Multinational Enterprises	Non-binding principles and standards agreed multilaterally for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.	<ul style="list-style-type: none"> Avoid infringing on the human rights of others and address adverse human rights impacts (through legitimate processes) with which they are involved and which are directly linked to business operations, products or services. Have a policy commitment to respect human rights. Carry out human rights’ due diligence Respect the right of workers to establish or join trade unions and representative organizations of their own choosing for the purpose of collective bargaining. Contribute to the effective abolition of child labour and elimination of all forms of forced and compulsory labour in the operations. Take adequate steps to ensure occupational health and safety in business operations 	Multinational Enterprises



1.3.1 STANDARDS TO ASSESS BUSINESSES ON HUMAN AND LABOUR RIGHTS

SA 8000 is the most widely recognized standard (that can be certified), that involves the development and auditing of management systems that promote socially acceptable working practices bringing benefits to the complete supply chain. It requires businesses to:



BAN CHILD LABOUR AND FORCED LABOUR



ENSURE NON-DISCRIMINATION ON THE GROUNDS OF RACE, GENDER, OR RELIGION



HAVE HUMANE WORKING CONDITIONS



SYSTEMS FOR SYSTEMATIC IMPROVEMENT OF WORKING CONDITIONS



GUARANTEE A LIVING WAGE



HAVE A RIGHT TO FREEDOM OF ASSOCIATION, TO ORGANIZE IN TRADE UNIONS AND ENGAGE IN COLLECTIVE WAGE NEGOTIATIONS



ENSURE COMMITMENT TO A MAXIMUM WORKING PERIOD OF 48 HOURS PER WEEK WITH ONE FREE DAY.

“Any company’s focus on ESG is an indication that the company is looking at all risks to its operations comprehensively. It is just because these companies have better risk management, mitigation practices etc. they are potentially more resistant to the externalities.

A company might not be facing the issues related to human rights and labour rights on a daily basis and hence these issues were not top of the mind of management earlier. For example - a decade earlier, to a question of human rights and labour rights companies would say - we have good practices set-up and management is able to handle any issues if they at all occur. However now, companies have moved to having dedicated policies and code of conducts. The policy creation is the first step but institutionalizing the direction and making sure that at floor level these issues are recognized will only start making a difference. The HR department should also be very sensitive to these issues.”

- Principal Economist and Director Public Finance, Rating agency

02

HOW DOES INDIA INC FARE ON HUMAN AND LABOUR RIGHTS?

In order to build a perspective on India Inc, this report looked at disclosures and actions of the largest Indian firms (all listed). The logic is that these firms represent the best of Indian companies and would be bellwethers for others to emulate. Further, the performance (and deficiencies) in the human and labour rights handling by the companies would impact investors the most.

2.1 WHICH SECTORS IN INDIA INC HAVE THE MOST TO GAIN (OR LOSE) BY HOW THEY HANDLE HUMAN AND LABOUR RIGHTS?

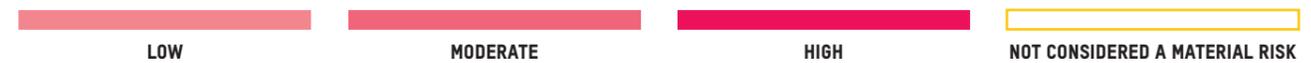
The focus has been on those sectors where human and labour rights are 'material'. As per Global Reporting Initiative (GRI) guidelines, 'material topics' are "those that have a direct or indirect impact on an organization's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large". Companies across sectors undertake materiality analysis to identify and prioritize issues (in order of magnitude) that are most relevant to the organizations and its stakeholders.

The table below maps material labour and human rights issues as per the degree of risk it poses across different sectors. It is based on mapping identified by

- (a) frameworks such as ESAT, Sustainability Accounting Standards Board (SASB), as well as
- (b) materiality issues identified by top companies in each sector in India in their public filings

Table 2: Material Human and Labour Rights factors for different sectors in India

SECTOR	EMPLOYEE HEALTH, SAFETY & WELL-BEING	CHILD LABOUR	TALENT & DEVELOPMENT	SUPPLY CHAIN/ RESPONSIBLE SOURCING	LABOUR RELATIONS	COMMUNITY RELATIONS	GRIEVANCE MECHANISM	FAIR WAGES AND COLLECTIVE BARGAINING
INFRASTRUCTURE, CONSTRUCTION & CONTRACTING	High	Low	Low	Low	High	Low	Low	Low
MINING & METALS	High	Moderate	High	Moderate	High	Moderate	Low	Low
OIL AND GAS	High	Low	Low	High	High	Low	High	Low
FOOD, BEVERAGES AND PERSONAL CARE	High	Low	Low	High	Low	Low	Low	Low
PHARMACEUTICALS AND CHEMICALS	High	Low	Low	Low	Low	Low	Low	Low
AUTOMOBILE AND AUTO ANCILLARY	High	Low	Low	Low	Low	Moderate	Low	Low



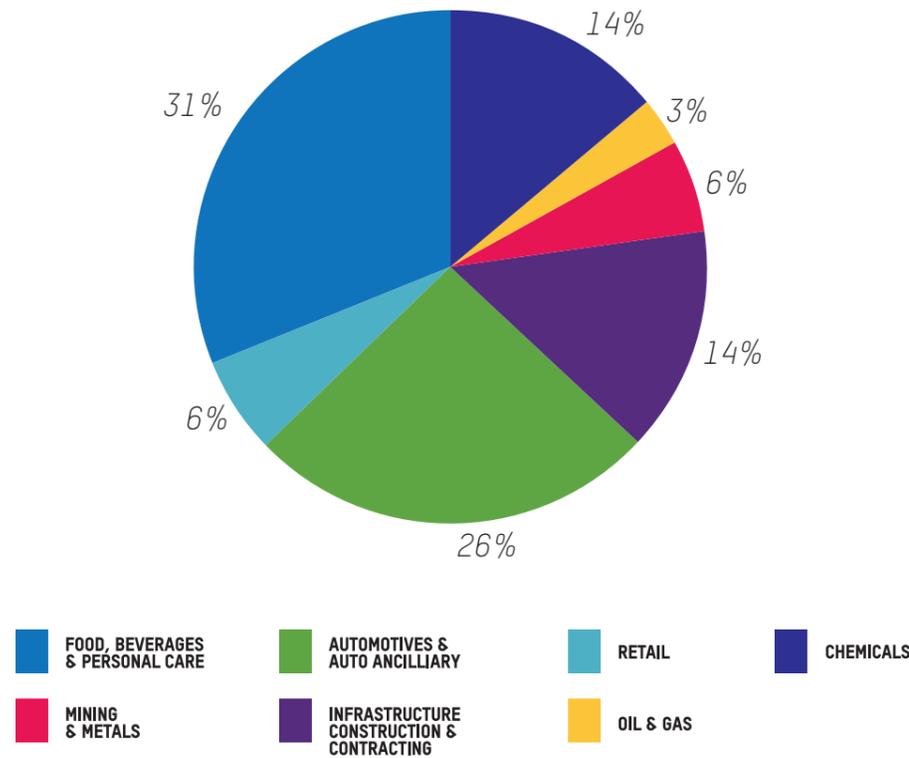
2.2 INDIA INC PERFORMANCE ON HUMAN RIGHTS AND LABOUR RIGHTS: AN ANALYSIS

The focus has been on those sectors where human and labour rights are 'material'. As per Global Reporting Initiative (GRI) guidelines, 'material topics' are "those that have a direct or indirect impact on an organization's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large". Companies across sectors undertake materiality analysis to identify and prioritize issues (in order of magnitude) that are most relevant to the organizations and its stakeholders.

2.2.1 WHICH COMPANIES WERE SELECTED?

A sample of 35 companies across different sectors where labour rights are expected to be material issues, have been shortlisted based on market capitalization (greater than INR 50 billion) for analysis of disclosures pertaining to human right indicators. As outlined earlier in this section, the largest companies were identified because of their greater disclosures. Hence, this is also a biased sample, where the performance on human and labour rights is likely to be better than others in the sector. Nevertheless, it would still be instructive for investors to understand performance in these bellwether companies.

Share of shortlisted companies across different sectors



Source: cKinetics analysis of annual reports of shortlisted companies

2.2.2 AGGREGATE IMPACT AND PERFORMANCE OF THE LARGEST SELECTED COMPANIES

These shortlisted companies alone are responsible for employment to more than 1 million employees, both permanent and contractual, wherein temporary/contractual employees account for 77 per cent of the total employment. In this context, it becomes critical to analyze the ESG disclosures by the companies from the lens of human rights.

To gauge the performance of the companies, the indicators are based on the Business Responsibility Reporting (BRR)

requirement of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR), which is now mandatory for top 1,000 listed companies as well as indicators which are desirable from international guidelines for human rights. The mandatory indicators include reporting on policies of labours, employee-well-being, complaints on human rights, child labour, etc.

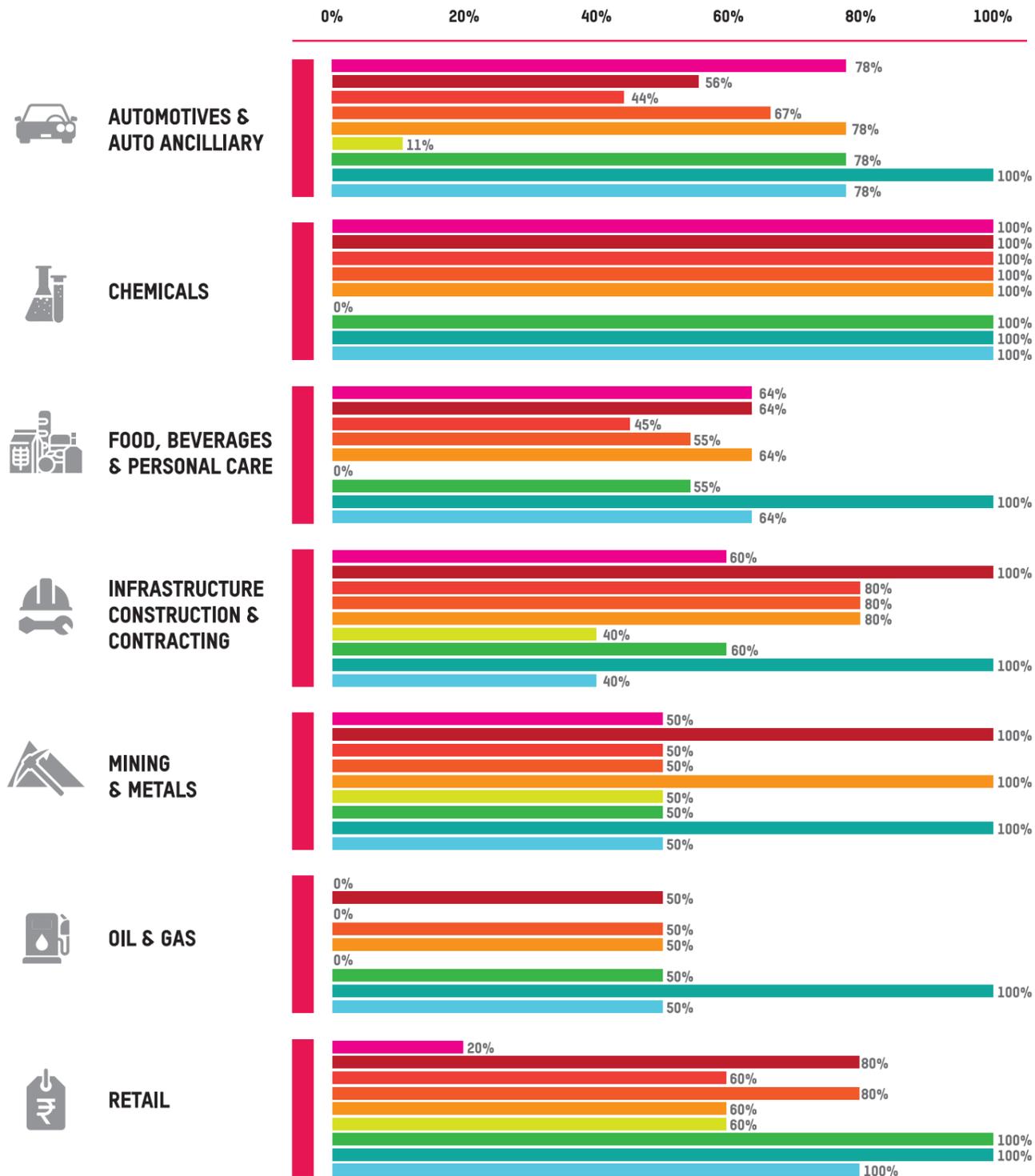


In our analysis, 33 out of 35 companies have stated they have incorporated human rights issues in either a standalone policy or in their code of conduct. While the voluntary indicators include reporting on collective bargaining, minimum wage compliance, and child labour prohibition in supply chain.

One of the key highlights is that none of the companies have reported any complaints on forced labour, child labour, or discriminatory employment. On the flip side, only 69% of

the companies extend their policies to all their associates, vendors, suppliers, subsidiaries etc. Further, for voluntary indicators such as compliance with minimum wage, only 20% of the companies have some or complete reporting on Minimum Wage. Out of all the companies, which have annual reports for 2019-20, TVS Motors is the only one to have provided complete information as it follows the latest NGRBC guidelines released by SEBI in 2019. The sectoral performance on human rights indicators is given overleaf.

Figure 1: Sectoral Performance on Human Rights Indicators (%age of companies surveyed reporting)



Out of all the sectors, oil and gas, and food and beverages seem to be high risk sectors based on reporting on various indicators. Chemical sector seems to be performing well because the largest company in this sector in India i.e., UPL Limited is a global company. The issue wise analysis for all the sectors is provided alongside.



Source: cKinetics analysis of annual reports of shortlisted companies

2.2.3 HUMAN RIGHTS AND LABOUR RIGHTS COMPLAINTS

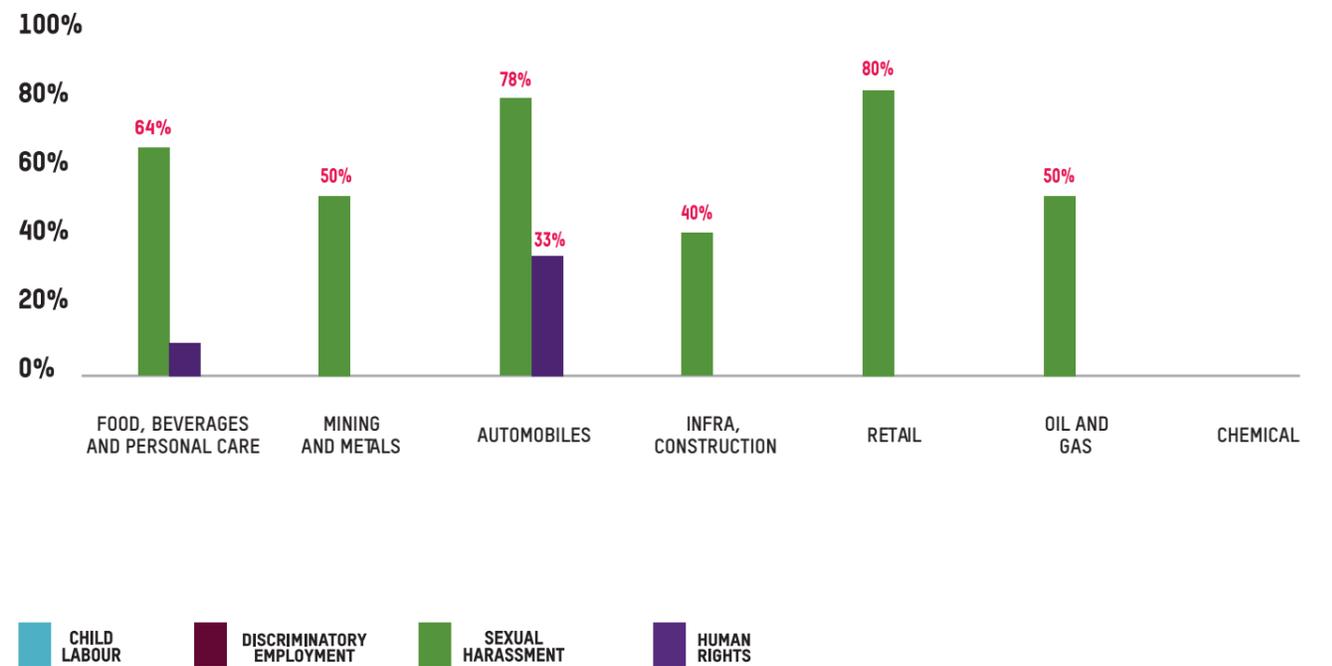
Out of 35 companies, only 1 company hasn't made disclosure on complaints pertaining to child labour and 3 companies have not made disclosure on discriminatory employment. Of the ones which have disclosed, none of the companies reported any complaints on Child Labour, forced labour or discrimination. However, 22 out of 35 companies have reported complaints relating to sexual harassment. A total 102 cases have been reported across these companies (with maximum by a retail company where ratio of women is relatively higher) of which only 7 are yet to be resolved. All these companies have instituted an internal committee as per the POSH requirements. Automotive and retail have reported relatively higher cases amongst the different sectors.

No complains reported for child labour/ forced Labour/ discriminatory labour

Meanwhile, for human rights under Principle 5 of NVGs, 4 out of 35 companies have not explicitly mentioned whether they have received 0 complaints for human rights. Only 4 companies report cases of human right grievances, of which 3 are from automobile and auto ancillary sector, indicating a high risk in this sector.

Further, only 5 companies report having cases of fatal accidents of which 2 are from infrastructure, construction and contracting sector, while 2 are from food, beverages and personal care.

Figure 2: % of Companies reporting complaints for child labour, discriminatory labour, sexual harassment and human rights



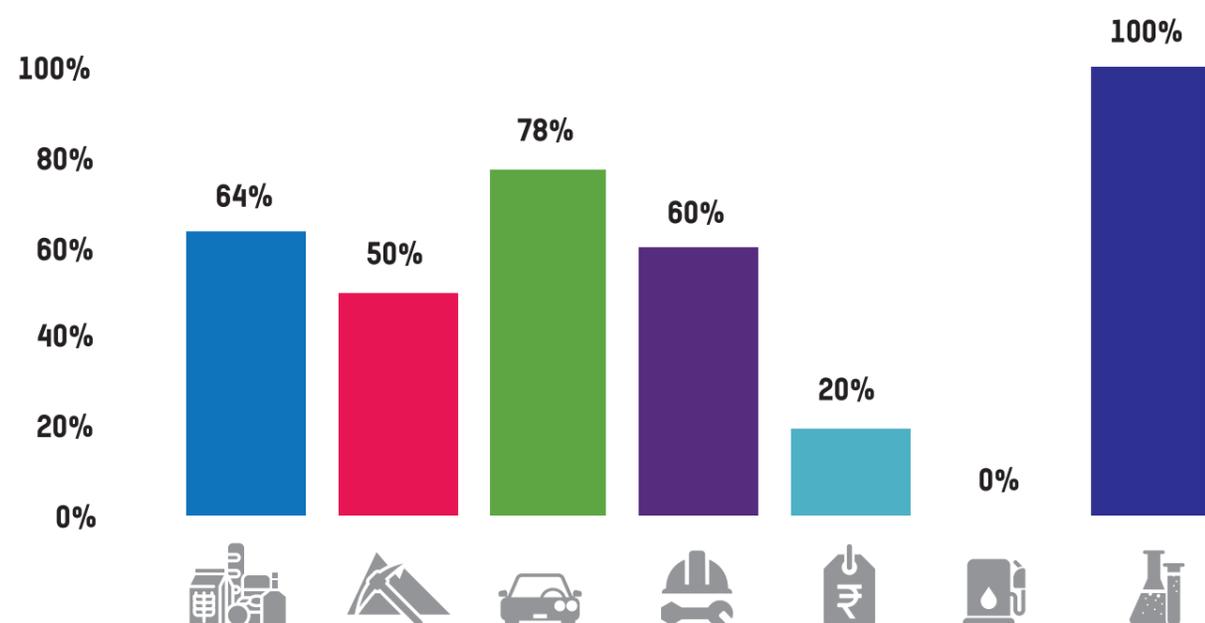
Source: cKinetics analysis of annual reports of shortlisted companies

2.2.4 DISCLOSURE AND ACTION ON TRAINING ON HUMAN RIGHTS RELATED ISSUES

On the training front, for safety and skill upgradation, while all the companies train their permanent and contractual employees, only 15 of the 35 companies have reported in the format as desired per SEBI regulations. Based on the same, on an average, 85% of permanent employees are trained for safety and skill upgradation while 81% contractual labour is provided this training. Surprisingly, one of the metals & mining company has trained only 33% of its permanent employees and 59% of the temporary staff reporting the highest loss injury rate⁷ of 6.14. Additionally, 15 out of 35 companies refer to ISO 14001 or OHSAS 18001 standard (or both) for EHS (Environment, Health and Safety). While assessment of suppliers for EHS auditing is not a mandatory requirement; 5 companies provide some disclosure on this indicator.

With respect to Adherence to International Standards, 21 companies refer one or more of international standards/ Guidelines/Act pertaining to human rights. These include ILO principles, UNGC, International Bill of Human Rights and other guidelines such as OECD, IFC and Human and labour rights Act.

Figure 3: Proportion of Companies providing Human Rights Training



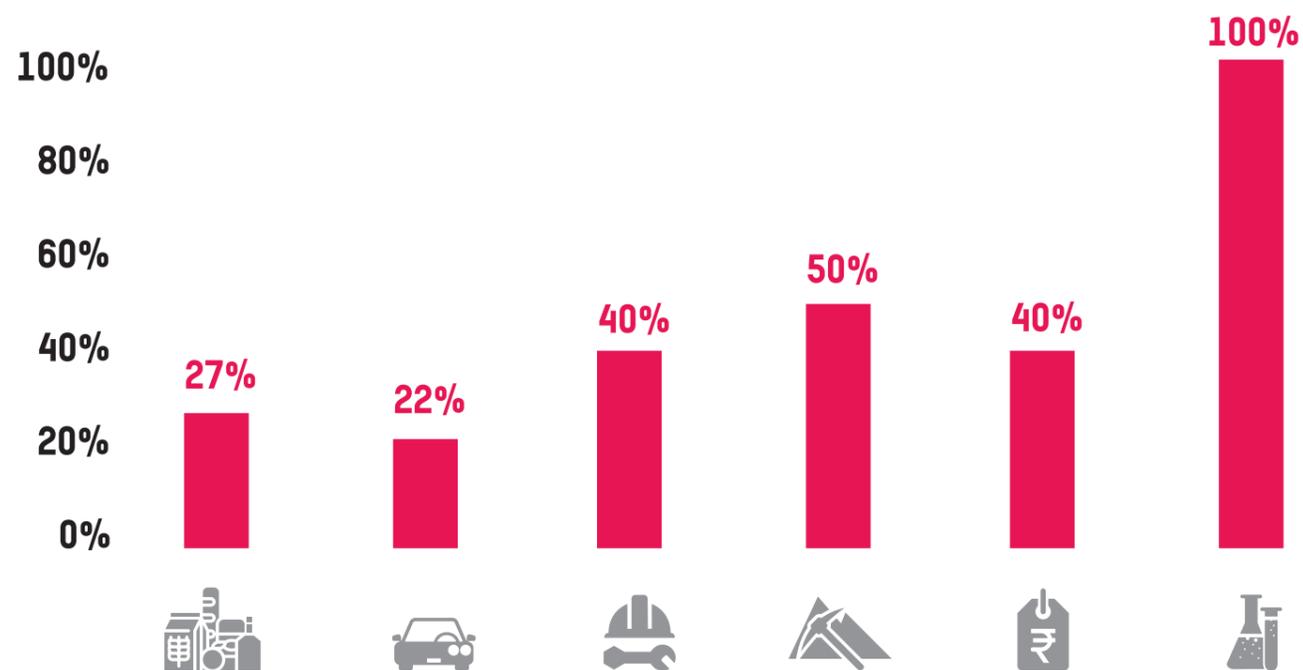
⁷ The number of lost time injuries occurring in a workplace per 1 million hours worked

2.2.5 DEVELOPING SPECIFIC POLICIES FOR HUMAN RIGHTS

While all the companies have a separate policy for human rights or have a human rights element incorporated in the Code of Conduct of the company, 3 out of 35 companies don't explicitly mention having a Supplier Code of Conduct.

Interesting, all except two companies state in the BRR that they have a policy for human rights, however only 11 companies have a standalone human rights policy rest have human rights aspects included in the Company Code of Conduct.

Figure 4: Number of Companies having Separate Human Rights Policy



Source: cKinetics analysis of annual reports of shortlisted companies

Counterpoint: "In the Indian context, we have found that on paper many companies recognize human rights, have interesting code of conducts, but - How those are implemented? How the violations are handled? How suppliers are engaged? - That information is limited or unavailable in company disclosures"

- Social Engagement Specialist, International investor

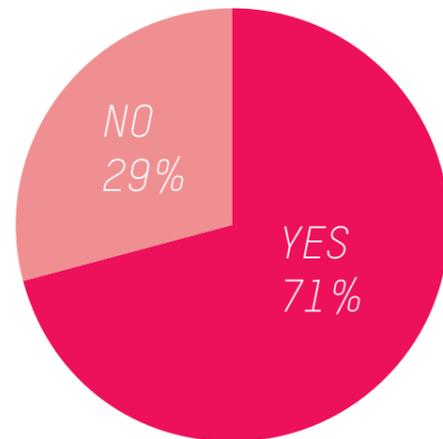
2.2.6 CHILD LABOUR IN SUPPLY CHAIN

On the front of child labour in supply chain, 25 companies explicitly mention in their Supplier Code of Conduct that child labour is prohibited, with oil and gas companies reporting the least on this front. However, even amongst these, in very few cases is it mentioned that it is part of contractual obligation and the compliance mechanism are stated to monitor adherence or enforcement of the same on ground.

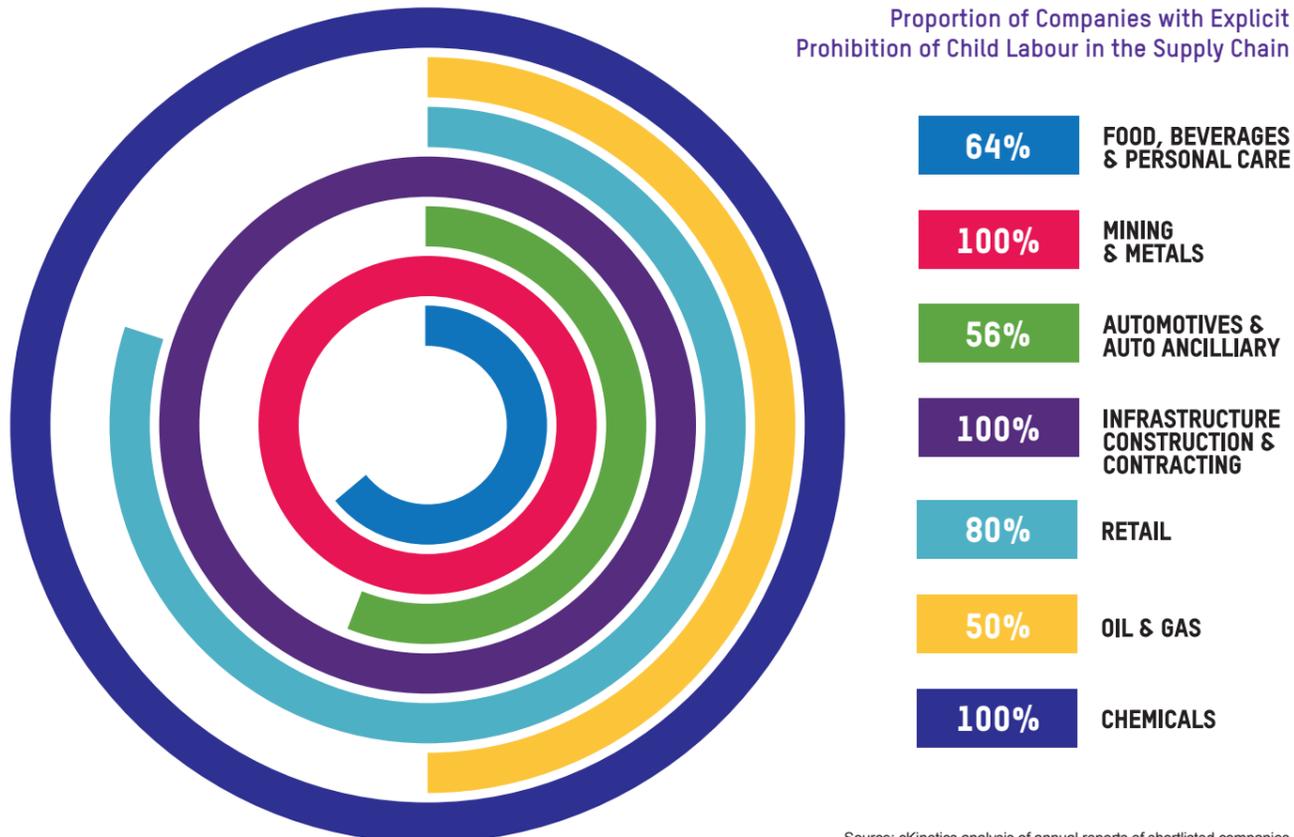
Some of the companies have a separate child labour policy or commitments such as Maruti Suzuki, Nestle and UPL Limited. Amongst all the companies, Godrej Consumer Products is the only company which explicitly states that timely assessment is done to ensure that there is no child labour on site. Given that child labour is a serious issue in India, the analysis suggests that the public commitments by the companies are not backed by compliance mechanisms for the same. Moreover, considering the nature of child labour, it is a more prominent

issue in the supply chain of the company rather than company's own operations. However, nearly 30 per cent of the companies do not state explicitly whether their policies for human rights are extended to all their suppliers, an indicator under Principle 5 of the BRR framework. Several companies state that the policies are applicable to subsidiaries, business partners but are silent on its applicability for the suppliers.

Child Labour explicitly Prohibited in Supply Chain



Proportion of Companies with Explicit Prohibition of Child Labour in the Supply Chain



Source: cKinetics analysis of annual reports of shortlisted companies

2.2.7 DISCLOSURE AND ACTION ON MINIMUM WAGES

The companies in India are expected to adhere to national and international laws for minimum wages. This indicator has now been incorporated in National Guideline on Responsible Business Conduct (NGRBC) and wasn't part of the National Voluntary Guidelines. As a result, thus far only 20 per cent of the companies have some reporting on this indicator which includes explicitly stating that the company is compliant with national laws such as those for payment of wages. As outlined in Fig 1, bellwether companies in some sectors are not disclosing action on minimum wages so far. Further, even in other sectors the disclosure so far is limited.

Meanwhile only TVS Motors has reported completely on this indicator as per the latest guidelines. Of the 13 companies, which have released their annual report for 2019-20, none except 1 has transitioned to the latest guidelines yet. Also, Glaxosmithkline is the only company to indicate compliance of minimum wage in the supply chain. Its risk assessment report stated that "Major labour rights non-compliances were found at five third-party suppliers of active pharmaceutical ingredients, intermediates and agro-commodities including India. The issues related to wages, working hours, regular employment, and policies/risk management systems".

As per global standards, companies are expected to undertake risk assessment in countries or for suppliers where there may be a high risk of child labour, or forced labour so as to monitor the same. However, Glaxosmithkline which is the only one to be displayed leadership amongst the shortlisted companies in this aspect.

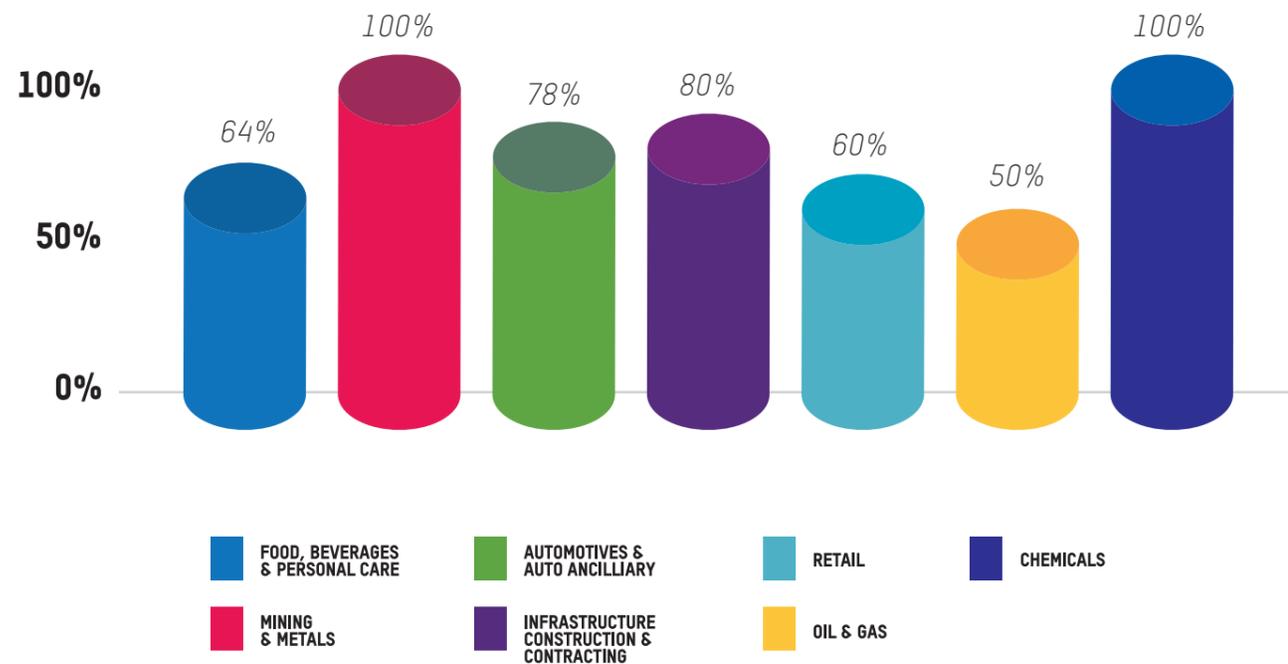
Counterpoint: "There is a lot of focus on the minimum wages specially in India. While we believe that the actual focus should be on living wages. There are a lot of states where minimum wages are not revised in time to catch-up with inflation, rapid urbanization etc. We believe that living wage is a local and more relevant indicator and hence we try to find whether the company undertakes a survey of living wages?"

- Head, ESG Research, Indian MF

2.2.8 FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

Every company is expected to respect the rights of the workers for freedom of association and collective bargaining. On an average, over 70 per cent companies do explicitly mention in their Code of Conduct that the companies respect the rights of the workers to collective bargaining. However, there is no indicator as to what proportion of the workforce is covered under the provision. Nonetheless, amongst the shortlisted, Reliance Industries and Hindalco have reported on this front to provide percentage of the workforce/non-supervisory staff which are covered under the collective bargaining agreements with the trade union.

Figure 5: Percentage of companies with explicit commitment to respect collective bargaining by workers



Source: cKinetics analysis of annual reports of shortlisted companies

In the current framework, the BRR requires the companies to disclose the percentage of permanent employees, which are part of the association. Key aspects of such associations are to agree upon fair payment and working terms, and ensure the interests of the workers. The criticality of such association increases as one moves towards the supply chain. The revised framework of NGRBC includes indicators w.r.t percentage of non-permanent staff, which is part of the employee association but does have a similar indicator for the supply chain.

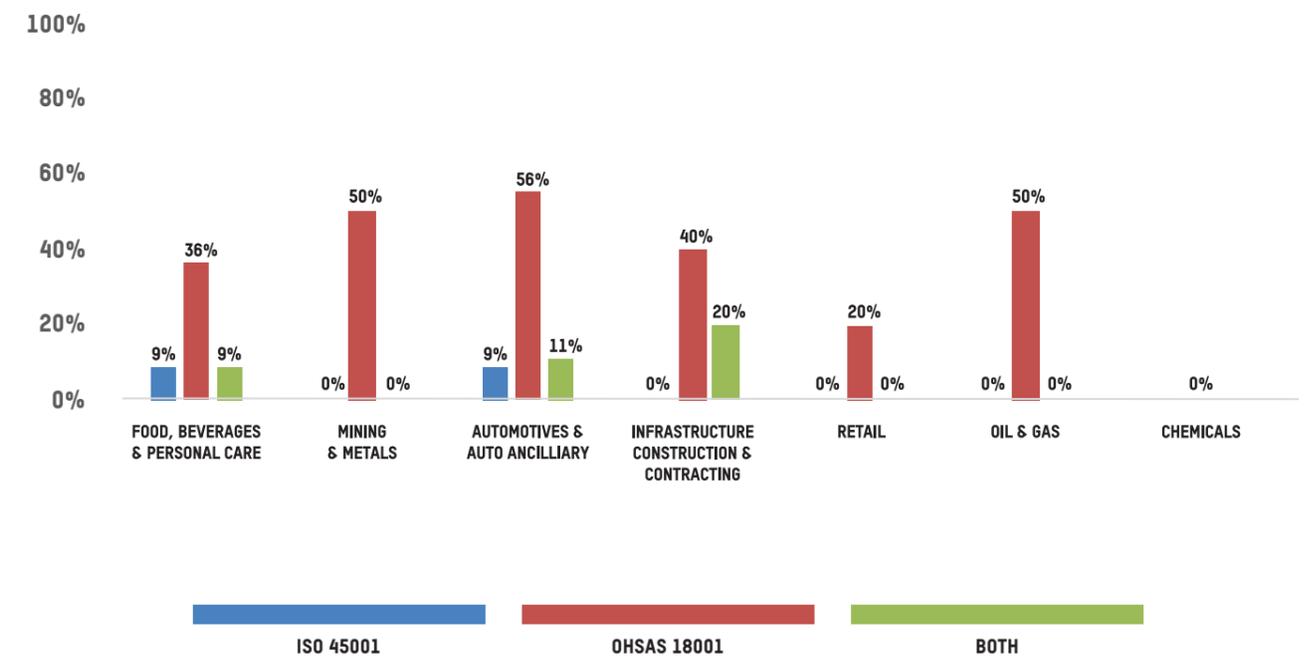
2.2.9 EHS STANDARDS BEING FOLLOWED

In order to improve employee safety, reduce workplace risks and creating better, safer working conditions, companies comply with Occupational Health and Safety Standards and have certification to ISO 14001:2015 and OHSAS 18001:2007 /ISO 45001:2018. ISO 45001 is to replace OHSAS 18001, which helps broaden the scope by including consequences beyond fatalities and drive for outcomes in line with modern workplaces. Organizations already certified to OHSAS 18001 will have three years to comply with the new ISO 45001 standard, although certification of conformity to ISO 45001 is not a requirement of the standard. However, as per the latest annual reports of the companies, 17 companies have certification to OHSAS 18001, while only 5 have certification to ISO 45001, indicating the need to be certified with the latest standards by 2021.

“Rate of unionization is amongst the most important indicators that investors should know about. It can simply indicate the health of labour-management relations. However, this is amongst the most under-reported indicators. Even if some information is reported, the critical factors like women’s participation in unions, unionization rates for contractual workers, information on free associations of supply chain are altogether missing.”

– Senior Manager, ESG Analyst, an Indian MF

Figure 6: EHS Standards Followed by Companies

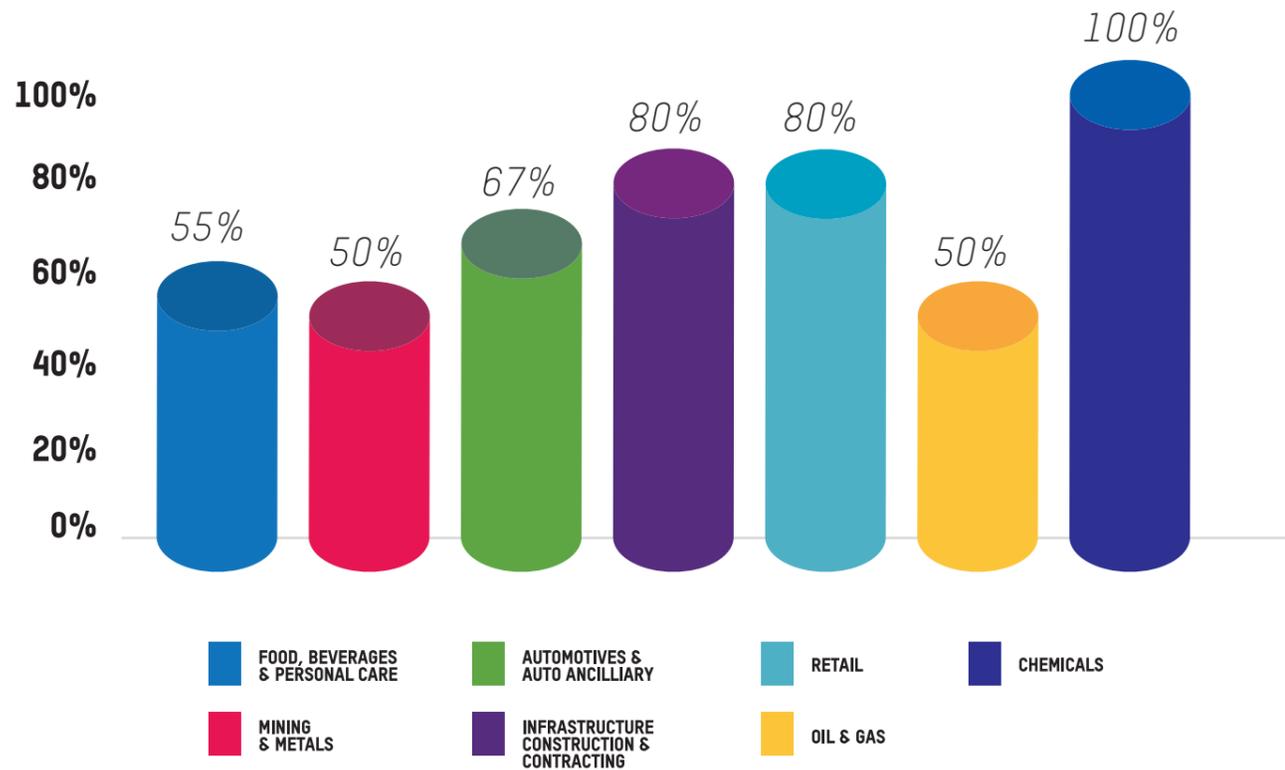


Source: cKinetics analysis of annual reports of shortlisted companies

2.2.10 SUPPLIER CODE OF CONDUCT

The graph below highlights the proportion of companies, which have a separate code of conduct or Policy for Suppliers.⁸ It indicates the company (specifically in mining & metals, and oil and gas) do not explicitly provide for the same.

Figure 7: Proportion of Companies having a Separate Code/Policy for Suppliers



Source: cKinetics analysis of annual reports of shortlisted companies

Counterpoint: "Just issuing a supplier code of conduct is not sufficient. The actual complexities related to the labour/human rights lie in supply chains. For example – The supply chain of tea manufacturing companies is very complex. There are third party certifications like Trustea, Rainforest Alliance etc. for assuring responsible sourcing. However, when a third party certifies the sites – the companies should also have some employees who can uphold the ratings provided by the third party. Essentially, more the detail about the supplier is the better. We need to know number of suppliers, their locations, what is being done there? To what extent does the company have traceability? Which are the suppliers where the company has taken up initiative to identify existing and potential negative impacts?"

Although this much information is absolutely necessary for us to be sure about the companies approach to supply chain workers, very few corporates know this much about their supply chain."

– Senior Manager, ESG Analyst, an Indian MF

⁸ Note: In case the same is not mentioned explicitly in the annual report or published on the website, it is not considered.

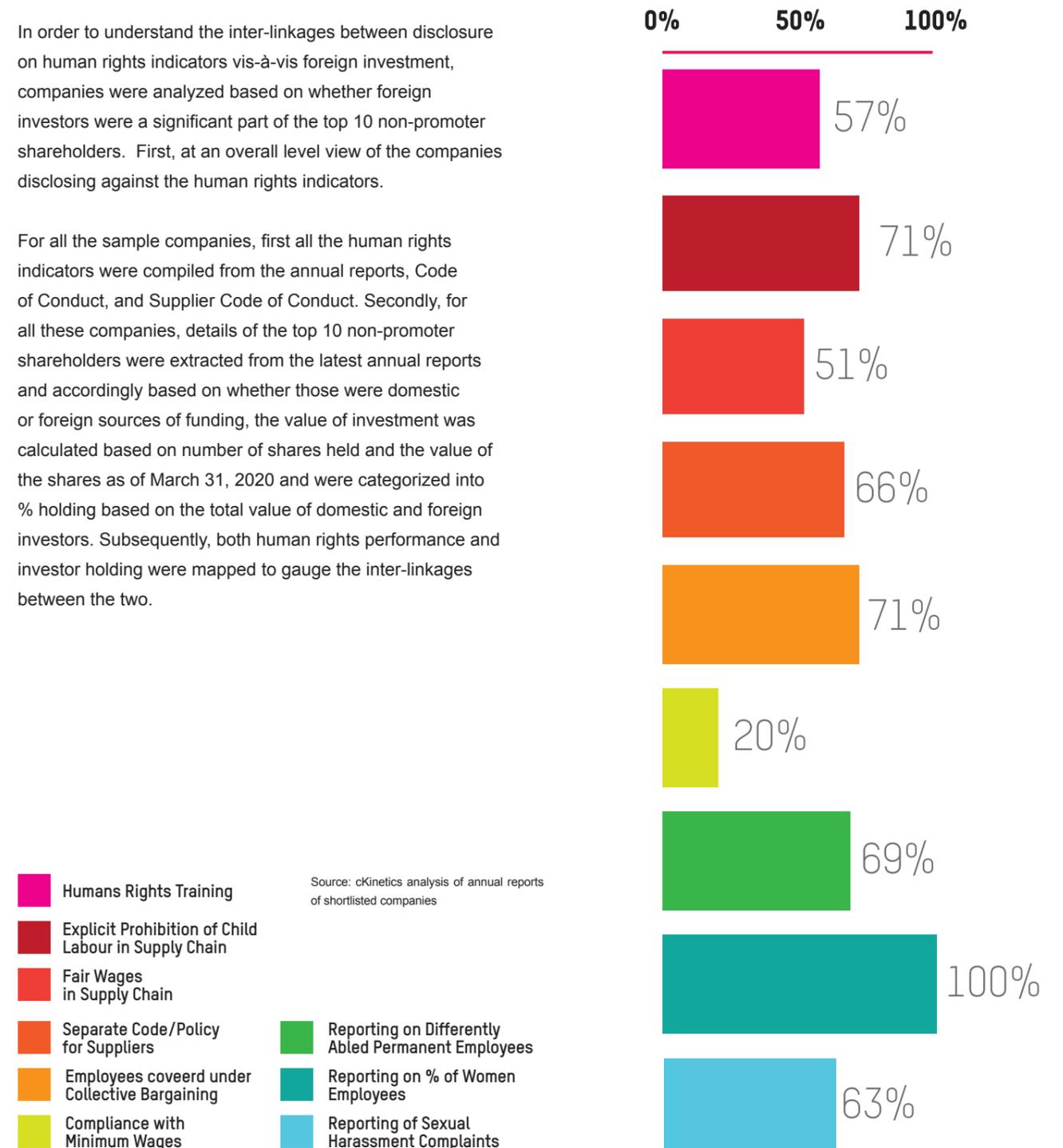
2.3 IS COMPANY DISCLOSURE ON HUMAN AND LABOUR RIGHTS INFLUENCED IF THEY HAVE LARGE FOREIGN INVESTORS?

APPARENTLY, THE ANSWER IS NO.

In order to understand the inter-linkages between disclosure on human rights indicators vis-à-vis foreign investment, companies were analyzed based on whether foreign investors were a significant part of the top 10 non-promoter shareholders. First, at an overall level view of the companies disclosing against the human rights indicators.

For all the sample companies, first all the human rights indicators were compiled from the annual reports, Code of Conduct, and Supplier Code of Conduct. Secondly, for all these companies, details of the top 10 non-promoter shareholders were extracted from the latest annual reports and accordingly based on whether those were domestic or foreign sources of funding, the value of investment was calculated based on number of shares held and the value of the shares as of March 31, 2020 and were categorized into % holding based on the total value of domestic and foreign investors. Subsequently, both human rights performance and investor holding were mapped to gauge the inter-linkages between the two.

Figure 8: Disclosure by human rights indicators (%age of companies disclosing within a sector)



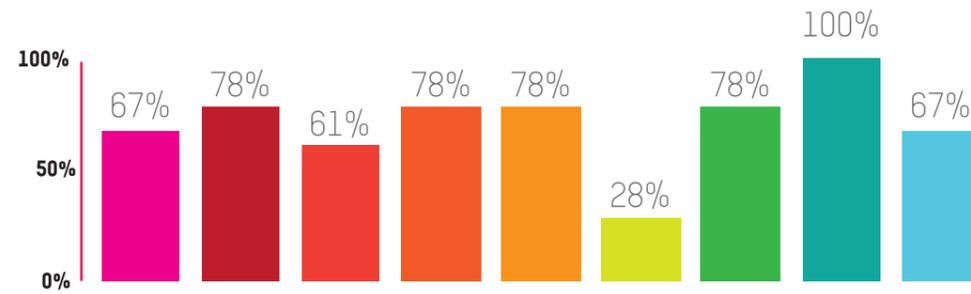
Source: cKinetics analysis of annual reports of shortlisted companies

Interestingly, no linkage is evident between foreign investment across sectors and the human rights performance.

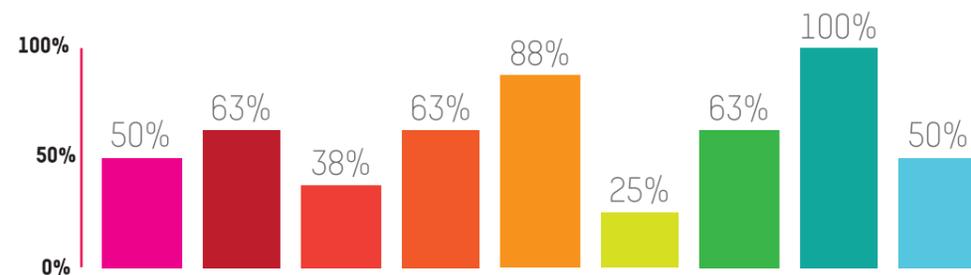
The lack of correlation between foreign investment and reporting on human rights indicators, indicates the need to engage with all the top investors in these companies and understand to what extent does 'ESG' form a part of their criteria while making these investment decisions. An overview of top investors across the sectors is provided in section 4.

Disclosure on the human rights indicators: varying ownership of foreign investors
PERFORMANCE ACROSS HUMAN RIGHTS INDICATORS WITH FOREIGN OWNERSHIP

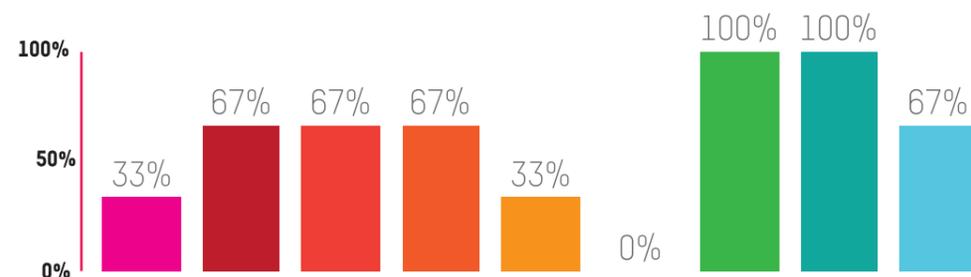
FOREIGN OWNERSHIP
0-20%



FOREIGN OWNERSHIP
20-40%

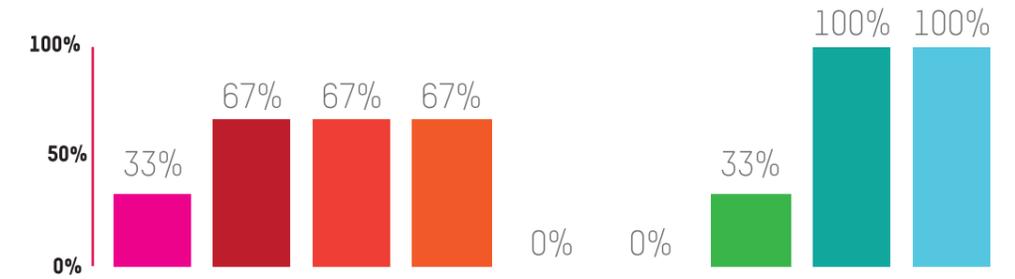


FOREIGN OWNERSHIP
40-60%

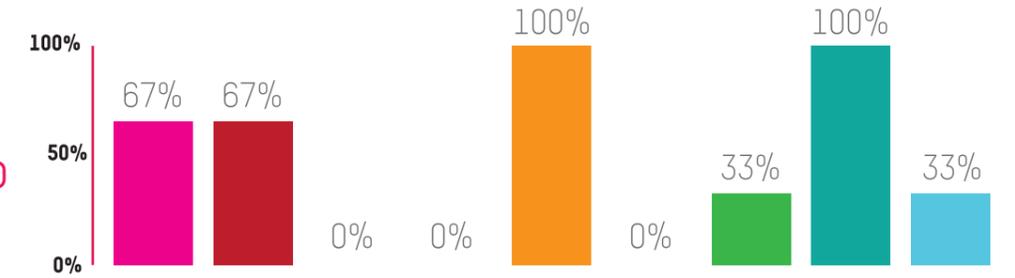


Source: cKinetics analysis of annual reports of shortlisted companies

FOREIGN OWNERSHIP
60-80%



FOREIGN OWNERSHIP
80-100%



Source: cKinetics analysis of annual reports of shortlisted companies

- Separate Code/Policy for Suppliers
- Humans Rights Training
- Reporting on Differently Abled Permanent Employees
- Employees covered under Collective Bargaining
- Explicit Prohibition of Child Labour in Supply Chain
- Reporting on % of Women Employees
- Compliance with Minimum Wages
- Fair Wages in Supply Chain
- Reporting of Sexual Harassment Complaints

"We have never believed it is ethical or good business sense to buy a terrible company and then write 'ESG engagement letters' to a recipient who won't care. We believe in engaging with companies but we are not so deluded as to think that every company wants to listen. India has many promoter-controlled companies – some of them are amongst the most ethical people we have encountered; others are less so but due to their controlling stakes, we would be telling untruths to clients if we thought we could have any influence."

– Portfolio Manager and Analyst, International investor

"The reason for non-influence of foreign investors on performance issues can be related to a lag effect. Since, the investors have started engaging with the companies on social aspects for just the last 5 years, it might take some more time for the behavioral change to be evident. Lack of disclosures from the companies could also be another reason why the foreign investors are not even aware about the issues and hence are not effective at creating any influence."

– Impact and Engagement Director, International investor

03

GAPS: COMPARING CORPORATE DISCLOSURE WITH ON-THE-GROUND INFORMATION FROM SELECT SECTORS

Given the limited current scope of disclosure requirements by the companies, there are bound to be gaps at the ground level. While there are no complaints reported for child labour, forced labour or discriminatory employment, the lack of stringent enforcement of human rights in the supply chain translates into a reality which is in stark contrast to the one reported. There are human rights violations, particularly in the food and beverages industry (specifically for tea and sugar).



CASE EXTRACT FROM OXFAM'S REPORT "ADDRESSING THE HUMAN COST OF TEA" ESTATE CLOSURES HIGHLIGHT THE DEPENDENCE OF TEA WORKERS ON THEM

On 13 December 2017, the workers of Bogidhola tea estate protested in front of the owner's bungalow against the non-payment of their provident funds, gratuities and bonuses, to which they were entitled. The owner opened fire on the workers, injuring 14 of them. The owner was subsequently arrested, and on 3 February 2018 the district administration closed the estate.

The workers now struggle to earn enough for two meals per day. They have lost all the other benefits they used to get from the estate, including rations and a medical allowance.

One of the interviewees said he often travels the 21km to the main town to find work as a daily labourer, only to return without having found any. Another was just returning from working in a stone quarry two hours' walk away. The commute is particularly hard for him as he has to get home before dark because of an eye condition that causes low visibility at night. He has not been able to access medical help because the hospital has been shut down. He also described how he and his family sit up all night when it rains because rain pours in through the holes in the roof.

Source: TISS. (2019). Decent Work for Tea Plantation Workers in Assam: Constraints, challenges and prospects

3.1 SOME ON-THE-GROUND REALITIES IN TEA PLANTATIONS

As per a study⁹ commissioned by Oxfam, workers on tea plantations in the Assam region of India are systematically denied their rights to a living wage and decent working and living conditions. This is important because tea plantations are part of the extended supply chains of several corporates in the beverage sector.

Indian tea workers' wages are set by tripartite negotiations involving tea companies, government and trade unions, yet they remain an ongoing topic of contention and protest. Further, there is evidence that women – who form most of the lowest paid sector of the workforce – are not well represented by workers' unions. The report also states that "for more than a third (37%) of the households surveyed on the tea estates visited, their expenditure exceeds their income, which means that they have recurrent debt". Wage rates are hence are insufficient: an indicator of breach of workers' rights.

Another study done conducted by TISS in 2019¹⁰ found that 52% of the workers in tea plantations in Assam do not receive pay slips and 75% workers suffer from monthly wage gap between what they are supposed to and what they actually receive after written and unwritten deductions.

9 Addressing the Human Cost of Assam Tea", Oct 2019 <https://oxfamlibrary.openrepository.com/bitstream/handle/10546/620876/bp-human-cost-assam-tea-101019-en.pdf>

10 "Decent Work for Tea Plantation Workers in Assam", Oct 2019, https://tiss.edu/uploads/files/TISS_Study_2019_Decent_Work_for_Tea_Plantation_Workers_in_Assam_Web.pdf

3.2 ILLUSTRATIVE ON-THE-GROUND REALITIES IN SUGAR INDUSTRY

The sugar industry is also part of the supply chain of all the corporates in the food sector. And similar to the case above, in the case of sugar, a primary survey¹¹ by Oxfam found that only 15% of the farmers were aware of trade unions. Further, it was found that farmers generally do not practice any documentation for the farm workers they employ. Wages vary between INR 200 to INR 400 for men and INR 80 to INR 200 for women as against the state government specified minimum wages of INR 293, INR 322 and INR 361 for unskilled, semi-skilled and skilled workers respectively. In addition, conditions of forced labour, non-payment of wages at the end of the season (6-8 months) were reported to be prevalent. While some food and beverage companies have supplier codes and guidelines on sustainability as well as procurement policy for certain commodities, its implementation

is only limited up to the level of the suppliers (in case of sugar, it's case the sugar mills). The study shows that in the farm to mill segment there are severe violations associated with farmers, workers, women and children.

It is definitely a mammoth task for companies to have traceability of the entire supply beyond their Tier-1 suppliers. However, there does need to be engagement and initiative by companies with their suppliers at policy and implementation level to ensure adoption of fair practices throughout the supply chain. Companies need to engage with their suppliers at policy and implementation level to ensure adoption of fair practices throughout the supply chain or have third party verification for products. There is also a critical role of industry associations such as ISMA and NFCSF to promote fair practices in line with growing demands on supply chain transparency among international companies and investors. Moreover, even at a state level, these gaps also reinforce the need for monitoring and compliance mechanisms which are provided in the policy to be followed at a farm level.

"The most useful information that we get from the managers of the companies is the implementation roadmap and plan for the best practices to be applied in the supply chain. The exhaustiveness of such a roadmap itself speaks a lot about how serious the company is in terms of extending the human rights/labour rights policies to the supply chain. For example – We engaged with an FMCG giant who gave us a detailed plan on how it has categorized its suppliers in A, B, C and D and what is the roadmap for best practices implementation for each category."

– Fund Manager, Indian MF



CASE OF LOW WAGES FROM OXFAM'S REPORT: HUMAN COST OF SUGAR- LIVING AND WORKING CONDITIONS OF MIGRANT CANE-CUTTERS IN MAHARASHTRA

Workers migrate from source to destination spending 2-3 days. Mukkadams (labour contractors) usually hire people from different villages based on his negotiation power and prefers creating a random group often comprising people who are complete strangers to each other, thus limiting their collective bargaining power. A jodi (a pair of worker) cuts approximately 2 - 3 tonnes of cane in a day for which they are paid between INR 200 - 250 (as a couple) per ton of cane harvested by them.

Wages vary between INR 200 – INR 375 per day. The minimum wage is at INR 300 per person for a day's work fixed by the Government of India for agricultural labour including those hired on contract in category C towns.

Cane-cutters work for almost 12-15 hours in a day to earn an amount equivalent for 8 hours work. Workers are not eligible for any leaves during their work and face unexplained wage deductions for any leaves. Wage deductions from a day or half-day's leave can vary from INR 500 - 1000 per day. Workers complain of unjustified

adjustments to their wages and/or advances. Workers feel that their advances are never settled despite working hard to repay. Often the total amount of cane harvested by them gets underwritten leading to further deductions from their salary. Sugar mills that are the original employers of contracted cane harvesters do not take the responsibility of overseeing wage payments; contractors never fully settle dues, by indulging in unexplained wage deductions. The only livelihood progression for workers is to switch to another contractor. However, this does not change their financial situation and continue being trapped in a debt cycle.

3.3 BEYOND TEA AND SUGAR?

Systematic data in many of the sectors covered in this report and in the extended supply chain is sparse. Information tends to be more anecdotal than comparable. It is only when incidents flare up that they catch the attention of the public and of investors; and in many cases the attention of the companies themselves.

Additional work with coalitions is necessary to bridge these gaps, as outlined in the next section.

11 "Human Cost of Sugar". October, 2018 - https://www.oxfamindia.org/sites/default/files/2018-11/HUMAN%20COST%20OF%20SUGAR-A%20FARM%20TO%20MILLS%20ASSESSMENT%20OF%20THE%20SUGAR%20VALUE%20CHAIN%20IN%20U.P.%2020_0.pdf

04

SOURCES OF INFORMATION AND DIALOGUE THAT CAN STRENGTHEN DISCLOSURE



It is clear that given the large size of some of the industries and their extended supply chains, there will be gaps.

There are several businesses (including many that are sampled in this report), which go over and beyond to lead the responsibility for incorporating sustainable business and human rights practices and it is through various coalitions that help in the same.

There are various initiatives globally and in India which are dedicated to achieving human rights standards through alliance with various stakeholders such as companies, civil societies, and government etc. These are given as below.

INITIATIVE	DESCRIPTIONS	KEY STAKEHOLDERS
FAIR FINANCE INDIA	A civil society led coalition working towards ensuring a sustainable financial sector in India. The initiative aims to stimulate greater transparency and accountability in the financial sector in India, by encouraging the integration of human rights standards and ESG criteria in their policies.	<ul style="list-style-type: none"> • Cividep India • Partners in Change • Environics Trust • Oxfam India • Open Space • Praxis • Land Conflict Watch • Traidcraft Exchange • HRF
ETHICAL TRADING INITIATIVE	Alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. The vision is to create a world where all workers are free from exploitation and discrimination, and enjoy conditions of freedom, security and equity.	<ul style="list-style-type: none"> • Companies (such as ASOS, BBC Studio, Burberry) • Trade unions (ITF Global, IUF, International Trade Union Confederation) • NGOs (Anti-Slavery International, Oxfam, Hope for Justice)
FAIR LABOUR ASSOCIATION	International collaborative effort of universities, civil society organizations and socially responsible companies dedicated to protecting workers' rights around the world	<ul style="list-style-type: none"> • Companies (Adidas, Suppliers) • Civil Society Organizations • Universities (American University, Arizona State University)
RESPONSIBLE BUSINESS ALLIANCE	World's largest industry coalition dedicated to corporate social responsibility in global supply chains	<ul style="list-style-type: none"> • Electronics, retail, auto and toy companies (such as 3M, Apple Inc, Cisco, BMW Group, etc.)

INITIATIVE	DESCRIPTIONS	KEY STAKEHOLDERS
GLOBAL BUSINESS COALITION AGAINST HUMAN TRAFFICKING	Coalition of businesses committed to combating human and labour rights in company operations and supply chain	<ul style="list-style-type: none"> Amazon Boost Engagement Carlson The Coca Cola Company Google Kering Microsoft
THE RESPONSIBLE AND ETHICAL PRIVATE SECTOR COALITION AGAINST TRAFFICKING (RESPECT)	The initiative aims to assemble key thought leaders, practitioners, and policy makers to identify solutions to public and private sector challenges surrounding human and labour rights.	<ul style="list-style-type: none"> Business for Social Responsibility The Social Responsibility Alliance Verité Liberty Shared Freedom Collaborative
THE SOCIAL RESPONSIBILITY ALLIANCE (SRA)	Initiative focused on providing companies with the open-source tools, resources, and support they need to build socially responsible supply chains through the collection of responsible sourcing data. It seeks to more broadly facilitate the collection of human and labour rights data to spark change in global supply chains and improve the lives of those impacted by human rights violations.	<ul style="list-style-type: none"> Industry Academia Legal firms, audit firms and other service providers Civil Society
GLOBAL IMPACT SOURCING COALITION	A collaboration between leading companies to build more inclusive global supply chains.	<ul style="list-style-type: none"> Companies (Tech Mahindra, Google, Microsoft, Bloomberg, etc.)
INVESTOR ALLIANCE FOR HUMAN RIGHTS	A collective action platform for responsible investment that is grounded in respect for people's fundamental rights	<ul style="list-style-type: none"> Asset management firms Trade Union Funds Public Pension Funds Endowments Faith-based organizations Family funds

INITIATIVE	DESCRIPTIONS	KEY STAKEHOLDERS
ALLIANCE 8.7	global partnership committed to take immediate and effective measures to eradicate forced labour, human and labour rights, human trafficking and child labour, in accordance with Target 8.7 of the 2030 Agenda for Sustainable Development.	<ul style="list-style-type: none"> Academic Institutions and think tanks International or regional organizations Survivor Networks Employer and/or Business Membership organizations Government Institutions Civil society organizations (including foundations) Workers' organizations
BUILDING RESPONSIBLY	Group of engineering and construction companies working together to raise the bar in promoting the rights and welfare of workers across the industry.	<ul style="list-style-type: none"> Companies from the engineering and construction sectors (Such as Bechtel, Worley, Acciona Infrastructures, etc.)
THE COALITION FOR HUMAN RIGHTS IN DEVELOPMENT	The Coalition for Human Rights in Development is a global coalition of social movements, civil society organizations, and grassroots groups working together to ensure that development is community-led and that it respects, protects, and fulfills human rights.	<ul style="list-style-type: none"> Not-for-profit civil society organizations Social movements Community Groups
INTERNATIONAL CODE OF CONDUCT ASSOCIATION	A set of standards for security companies to respect human rights and humanitarian law.	<ul style="list-style-type: none"> Governments Private Security Companies Civil Society Organizations Observers

05

TO WHOM DOES THIS MATTER: KEY INVESTORS WITH EXPOSURE TO SECTORS WITH HIGH HUMAN RIGHTS RISK

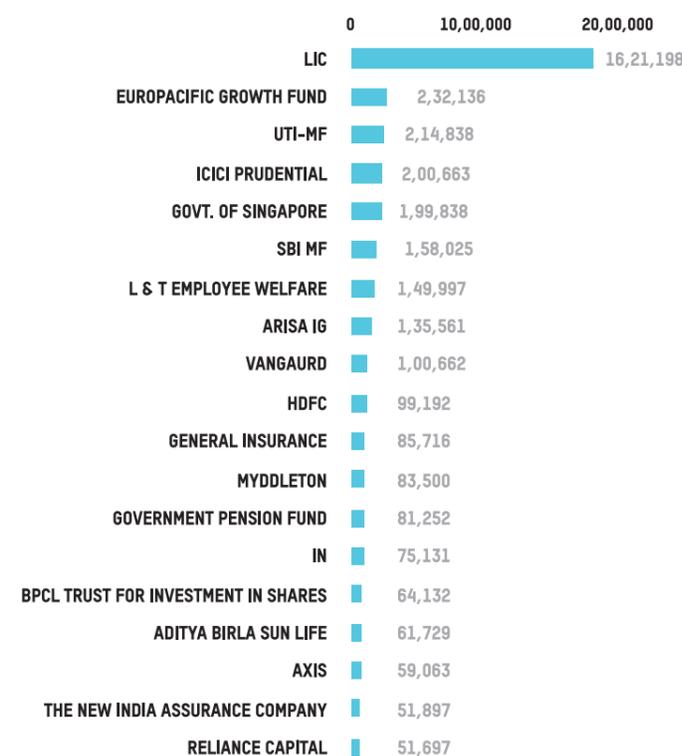


Based on top 10 shareholders across the companies, there are over 100 investors/asset management companies which have the largest investment across the sectors. Of these, there are 57 domestic investors with a total investment of INR 3,766 billion (USD 53 billion) and 47 foreign investments with a total investment of INR 1,086 billion (USD 15 billion) i.e., the quantum of domestic investors is three times that of a foreign investor.

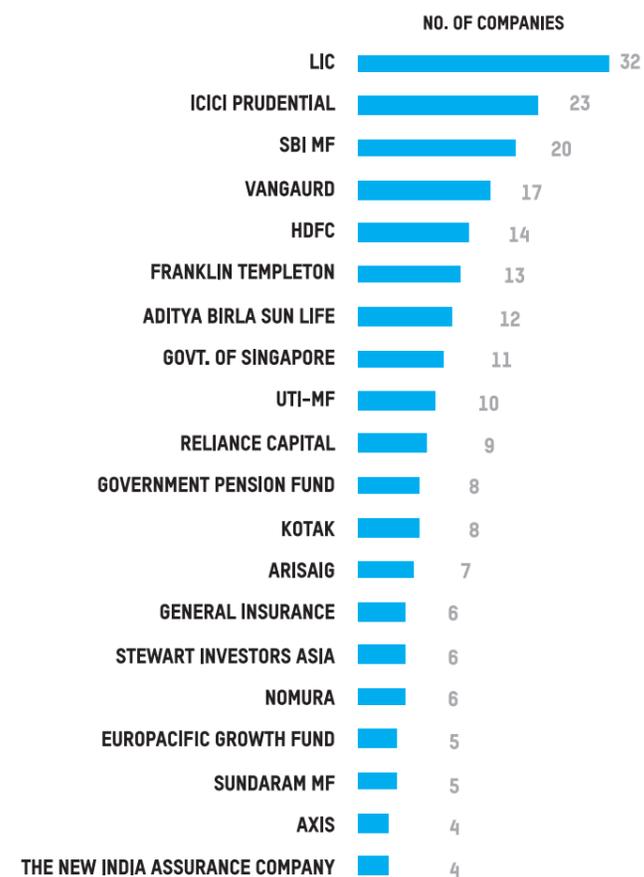
Some of the prominent investors include LIC, which is the biggest institutional investor both in terms of value as well as number of companies invested in. Key domestic investors include ICICI Prudential mutual fund, SBI Mutual Fund, UTI Mutual Fund whereas Europacific Growth Fund, Government of Singapore, Arisaig, and Vanguard are amongst the prominent foreign investors.

Figure 9: Top Investors by Value and Number of Companies

Top 20 Investors by Value as on March 31, 2020 (INR mn)



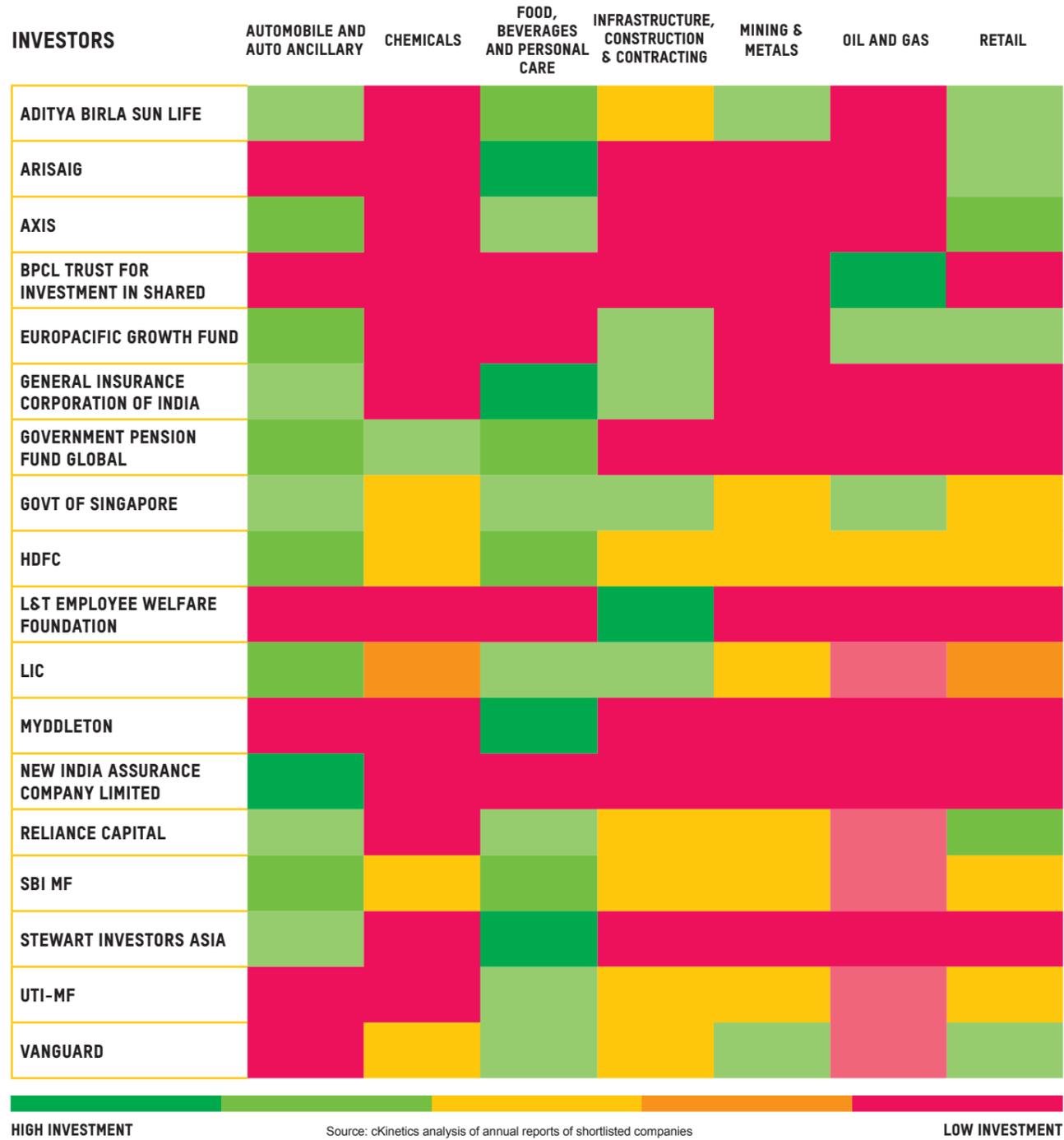
Top 20 Investors by Number of Companies as on March 31, 2020



Source: cKinetics analysis of annual reports of shortlisted companies

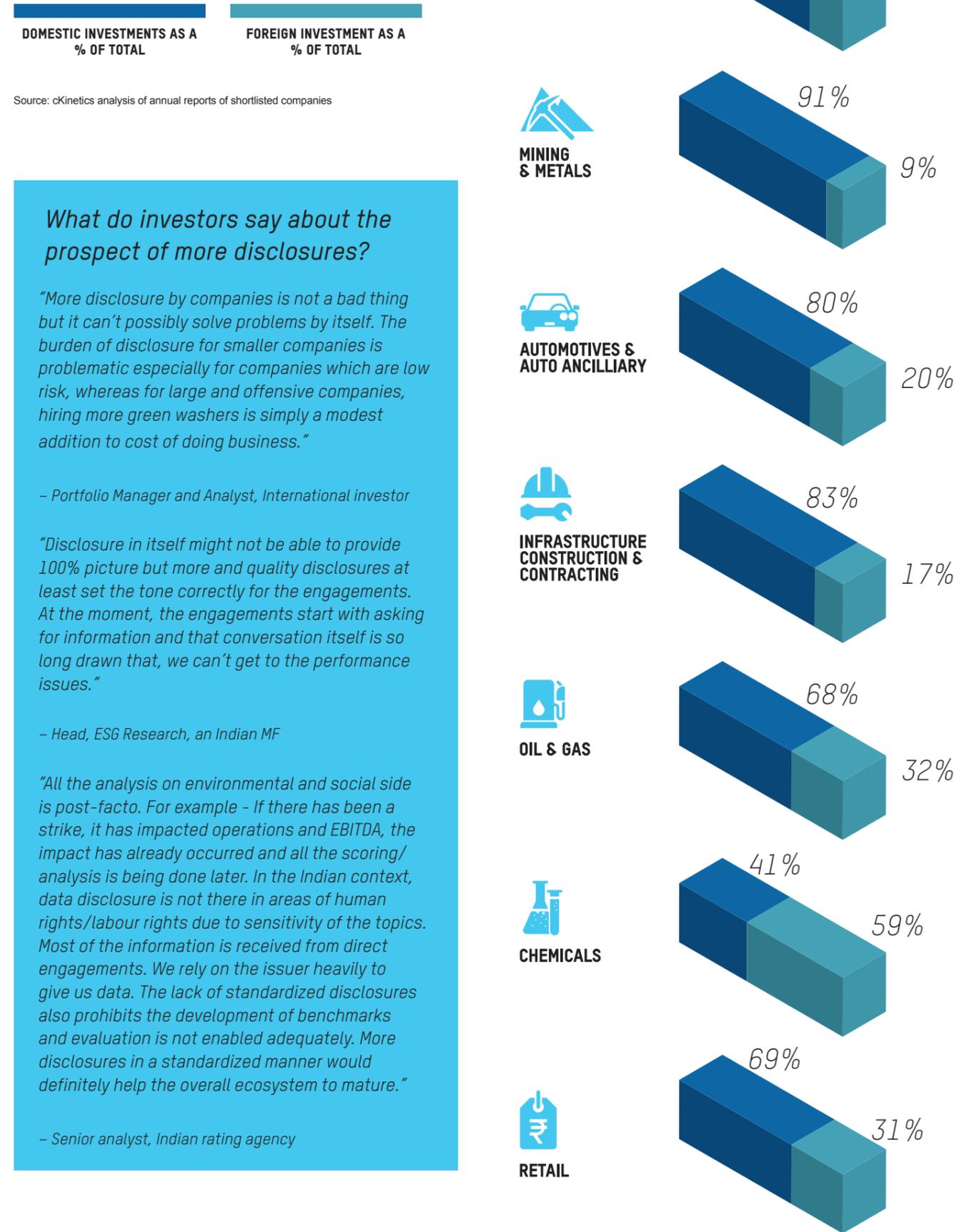
The individual view of top 20 shareholders by value indicates the investors such as Government of Singapore, HDFC, SBI and Vanguard have a balanced portfolio across sectors with a relatively higher proportion accorded to Food, beverages and Personal Care as well as Automotive and Auto Ancillary. Based on primary data in the previous section investors such as Myddleton, Stewart Investors Asia and Arisaig, which have higher risks due to skewed exposure in Food, Beverages and Personal Care sector.

Figure 10: Sectors wise exposure of Investors as a % of their total Investment



In terms of proportion of domestic and foreign investment across different sectors (considering only top 10 non-promoter shareholders for every company), i.e., Mining & Metals, which is dominated by Public Sector Undertakings in India has the lowest share of foreign investment. The share is higher in case of Chemicals because the largest company in the sector in India i.e., UPL Limited is a global company which has the same number of foreign and domestic investors amongst the top shareholders.

Figure 11: Share of Domestic and Foreign Investments across sectors for Top 10 Non-Promoter Shareholders for every Company



What do investors say about the prospect of more disclosures?

“More disclosure by companies is not a bad thing but it can’t possibly solve problems by itself. The burden of disclosure for smaller companies is problematic especially for companies which are low risk, whereas for large and offensive companies, hiring more green washers is simply a modest addition to cost of doing business.”

– Portfolio Manager and Analyst, International investor

“Disclosure in itself might not be able to provide 100% picture but more and quality disclosures at least set the tone correctly for the engagements. At the moment, the engagements start with asking for information and that conversation itself is so long drawn that, we can’t get to the performance issues.”

– Head, ESG Research, an Indian MF

“All the analysis on environmental and social side is post-facto. For example - If there has been a strike, it has impacted operations and EBITDA, the impact has already occurred and all the scoring/ analysis is being done later. In the Indian context, data disclosure is not there in areas of human rights/labour rights due to sensitivity of the topics. Most of the information is received from direct engagements. We rely on the issuer heavily to give us data. The lack of standardized disclosures also prohibits the development of benchmarks and evaluation is not enabled adequately. More disclosures in a standardized manner would definitely help the overall ecosystem to mature.”

– Senior analyst, Indian rating agency

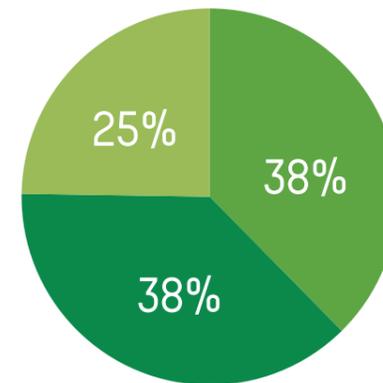
06

INVESTOR VIEWS

In order to understand the ground realities around human rights and labour rights from an investor's perspective, the draft discussion paper was shared with 80+ stakeholders across domestic investors, international investors and rating agencies. This was followed by individual consultations with 24 individuals across the domestic and international investment community through in-depth interviews. All the investors consulted agreed on the findings of the report regarding the gaps in corporate performance, lack of disclosures on the ground level important indicators, further lack of access to data on supply chain, non-standardized data etc. The brief profile of the interviewees can be seen below:

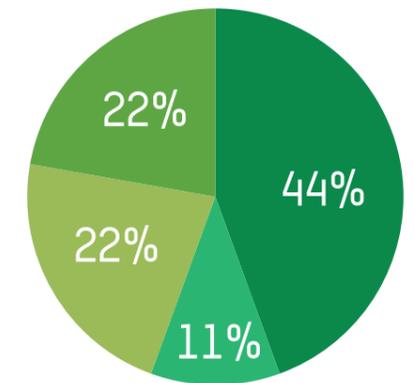
The key insights from these interactions are detailed out in the further subsections.

TYPE OF ORGANISATION



- Interantional investor
- Domestic investor
- Rating agency

PROFILE OF INTERVIEWEES



- ESG Research leader
- Equity research leader
- Fund/Portfolio manager
- Rating agency research team

Incorporating overall ESG risks into investment decisions is a relatively new phenomenon in the Indian markets with prominence of 'G' more than 'E' and 'S'.

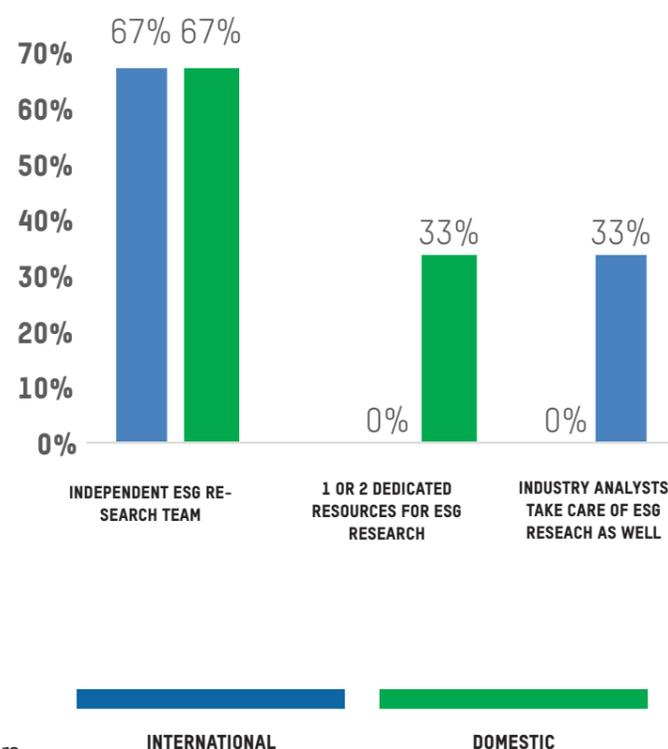
In India, ESG funds have started getting launched only from 2018, when SBI Mutual fund reoriented its SBI Magnum Equity fund to conform with ESG principles. Since then, several domestic investors have launched ESG funds and also started building ESG assessment structures and ESG analyst teams. These funds are gradually increasing their scope of evaluation by incorporating ESG scores for evaluation of the entire portfolio.

However, all domestic investors agreed that amongst the 'E', 'S' and 'G' – 'Governance' is the most mature area where data disclosure from corporates, as well as norms around standardization, benchmarking and evaluation have evolved enough. On the other hand, 'environmental' and 'social' factors are relatively new for Indian corporates to disclose and hence data availability becomes a challenge for robust framework development. This is also part of the reason why most of the ESG funds launched in India, primarily invest in Industries such as IT, banking or financial sector.

Several fund houses such as SBI MF, Kotak MF, Quantum AMC etc. who have dedicated ESG funds already operating in the market for more than 2 years, have set-up in-house risk analysis frameworks and teams specifically strengthening their risk evaluation on 'E' and 'S'.

International investors though, have relatively mature risk assessment frameworks which get extended to their Indian investments as well. However, they also suffer from the problem of lack of disclosures and standardization of data in the environmental and social aspects.

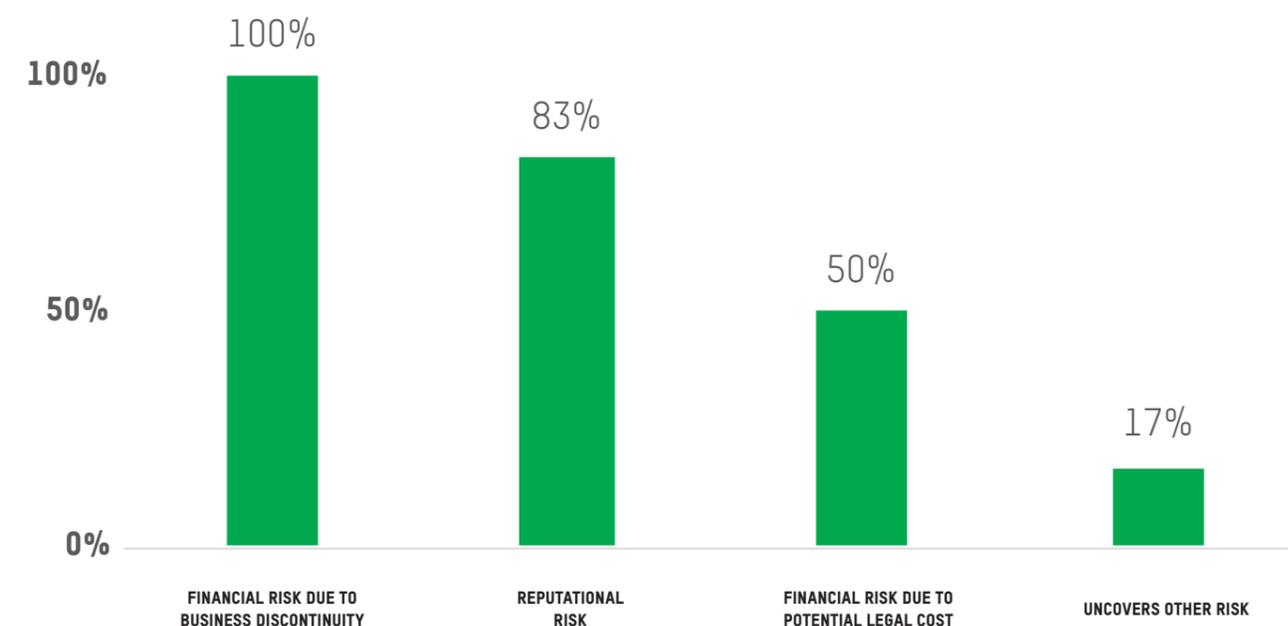
ESG RESEARCH TEAM STRUCTURE



Incorporation of environmental issues into investments is growing in maturity at an accelerated pace due to - international social/political pressure, amount of guidance available in the form of frameworks/standards, and objectivity of measurement. However, social aspects especially those related to human rights and labour rights are seen as sensitive and controversial with limited availability of performance benchmarks. Hence, transparency and standardization on human rights and labour rights, is a challenge faced across the board by investors.

For investments in Indian corporates, risks of human and labour rights non-compliance are recognized by investors as having both reputational and financial repercussions.

REASONS FOR MANAGING MODERN SLAVERY RISK (% INVESTORS)



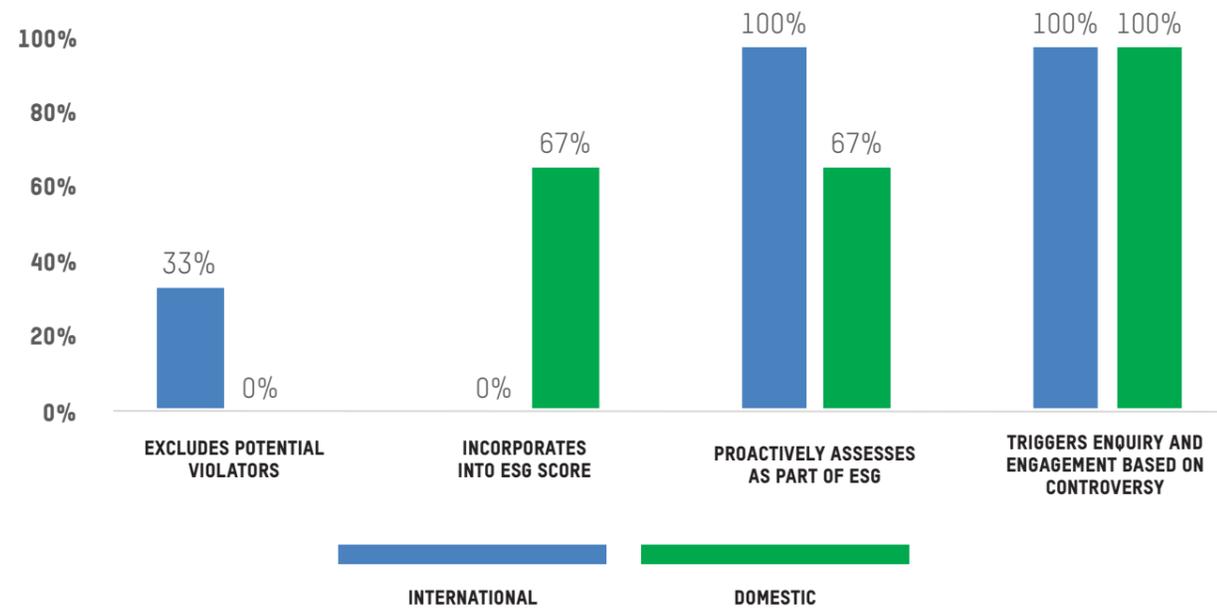
It is well understood among Investors, that the wide and long supply chains in India warrant a closer scrutiny at the issues of human rights and labour rights.

Amongst the international investors, these issues are considered as significant reputational risk which can also attract legal action from regulators or clients leading to financial repercussions. However, domestic investors appear to be more concerned about operational risks related to business continuity. Regardless, the issues are recognized as very important indicator to not only assess the health of an organization from a social responsibility perspective but also as leading indicators for uncovering risks related to other aspects of the organization as well.

Investors adopt different approaches in managing risks of human and labour rights non-compliance – trigger based engagements, proactive assessment as part of ESG and excluding potential violators are some of these

The first step in ESG assessments is to consider materiality for each industry to identify which issues have financial implications. As discussed earlier, certain industries such as auto, apparel, oil & gas, mining, manufacturing etc. have higher risks for human rights and labour rights.

Approaches of incorporating human and labour rights risks in Indian investments (% investors)



Most International investors utilize in-house frameworks to evaluate these risks proactively i.e., they evaluate it as part of ESG score evaluation. These scores are typically updated every 6-12 months or earlier, if a trigger such as a labour strike takes place. Indian fund houses are also catching up to create the ESG score for their portfolio. The frameworks are typically developed for their ESG funds and then extended to the rest of the portfolios. Amongst the investors engaged – SBIMF and Kotak MF have already built such frameworks.

International investors specially located out of Europe are known to be excluding or dropping the investments in light of a human rights or labour rights violation issue. Domestic funds however, approach a highlighted human rights/labour rights violation through engagements with the management, labour unions, giving them mandates to improve. In some cases, if the firm is unable to produce sufficient data/evidence/plan to provide confidence on improvements, the investors also penalize the companies by divesting.

Investors primarily look for direct or proxy indicators which can help them assess the potential financial/reputational risks due labour strikes or legal suits. Engagement with company management along with disclosures becomes the key source of the information.

The table below provides an indicative synthesized view of what quantitative and qualitative indicators are utilized by investors to assess human and labour rights risks, what is the prominent data source for this information and how does this map to the latest NGRBC indicators:

ASPECT	INDICATOR	TYPE OF INDICATOR FROM INVESTOR'S PERSPECTIVE	QUANT OR QUAL	PRIMARY DATA SOURCE	NGRBC TYPE OF INDICATOR
Policies and diligence	How Human rights due diligence taken up?	Basic	Qual	Disclosure	Essential & Leadership
Policies and diligence	What kind of labour rights are upheld and how?	Basic	Qual	Disclosure	Essential & Leadership
Policies and diligence	Whether there are Human Rights policies laid out for all types of workers and if they are different for contractual and permanent employees?	Basic	Qual	Engagement	Essential
Policies and diligence	If the companies have statement on forced labour and what does the company to do monitor that?	Basic	Qual	Disclosure	Management and process Essential
Policies and diligence	Whether the company has commitment/measures set-up to eradicate child labour?	Basic	Qual	Disclosure	Essential & Leadership
Policies and diligence	Does the company adhere to the ILO convention provisions?	Basic	Qual	Disclosure	Essential & Leadership
Policies and diligence	Has the company adopted UNGC disclosure?	Basic	Qual	Disclosure	General disclosure
Policies and diligence	Has the company performed materiality analysis? Are human rights and labour rights recognized as one of their material issues?	Basic	Qual	Disclosure	General disclosure
Trade Unions	Whether companies promote free association and collective bargaining?	Basic	Qual	Engagement	Essential & Leadership
Trade Unions	% Workers who are part of a worker union	Basic	Quant	Disclosure	Essential
Trade Unions	% suppliers that have unions set-up	Advanced	Quant	Engagement	Leadership
Trade Unions	How does management interact with the labour union?	Basic	Qual	Engagement	None
Trade Unions	# and frequency of labour strikes	Basic	Both	News Tracking	None

"When it comes to evaluating emerging market corporates for human and labour rights risks, we start with basics. For example – We ask whether the company adopted UNGC disclosures or not? Similarly, if a company has done materiality matrix and recognized human rights as a risk or an opportunity, then it is likely that they will put-together a human rights policy if they have not already done it."

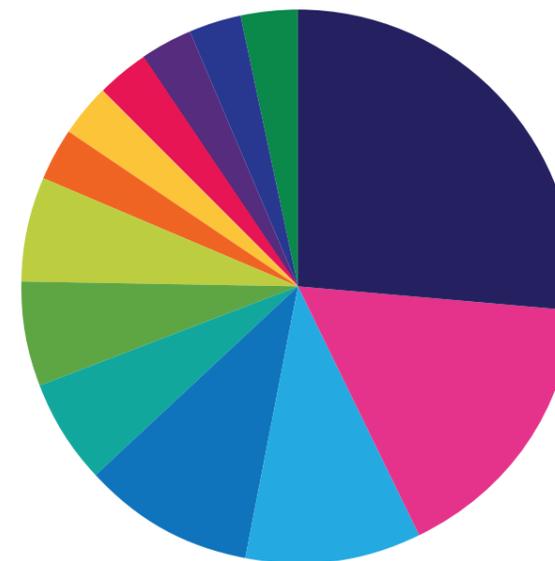
– Impact and Engagement Director, international investor

13 This list can be considered as a top of the mind indicators recall list and does not represent an exhaustive list of indicators utilized by investors interviewed.
14 https://www.mca.gov.in/Ministry/pdf/NationalGuideline_15032019.pdf

ASPECT	INDICATOR	TYPE OF INDICATOR FROM INVESTOR'S PERSPECTIVE	QUANT OR QUAL	PRIMARY DATA SOURCE	NGRBC TYPE OF INDICATOR
Wages	Do companies know about the wage management systems of the suppliers? Do they know about the benchmarks?	Advanced	Qual	Engagement	Leadership
Wages	Ratio of the highest salary paid to the lowest salary paid amongst your permanent employees?	Advanced	Quant	Engagement	Essential
Wages	% workers who are paid below minimum wages	Basic	Quant	Disclosure	Essential & Leadership
Grievances	What types of grievances are tracked and how is it remediated?	Basic	Both	Engagement	Essential
Grievances	Number of grievances for human rights and labour rights and how are they resolved?	Basic	Both	Engagement	Essential
Diversity	% Women employees in the workforce	Basic	Quant	Disclosures	Essential
Diversity	What is the diversity ratio amongst the employees at all levels or functions?	Advanced	Both	Engagement	General disclosures
CSR	How the CSR projects are directed, who is monitoring the projects, what is the outcome of the projects?	Advanced	Qual	Engagement	None
Contractual workers	% of workers who are contractual	Basic	Quant	Engagement	General disclosures
Contractual workers	What are the differences between contractual and permanent workers in terms of facilities, wages, working hours, trainings etc.	Basic	Qual	Engagement	Essential & Leadership
Management plan	What are the timelines and plans for the implementation of best practices in their establishments and supply chain?	Advanced	Qual	Engagement	Management and process Essential
Employee turnover	Employee turnover rate	Basic	Quant	Disclosure	None
POSH	Is the company POSH certified?	Basic	Qual	Disclosure	None
Child labour/ forced labour issue	Have there been issues of child labour or forced labour? How have they been resolved?	Basic	Both	Engagement	Essential & Leadership

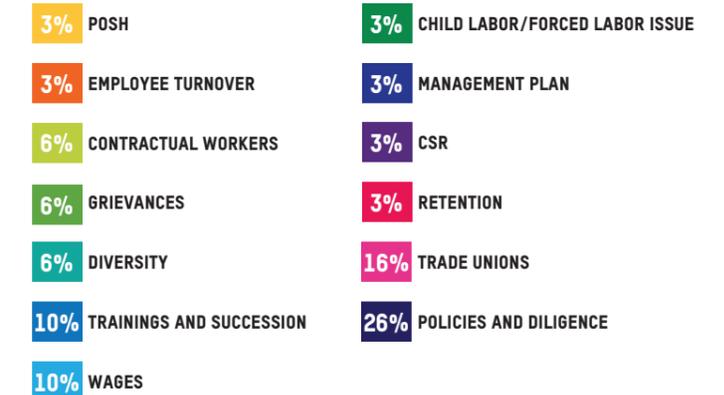
Trainings and succession	% employees who are provided trainings on human rights	Basic	Quant	Disclosures	Essential & Leadership
Trainings and succession	% employees provided with skill-sets training	Basic	Quant	Disclosures	Essential
Trainings and succession	What is the succession planning of the workers?	Advanced	Qual	Engagement	None
Retention	What does the company do to retain the workers/employees?	Advanced	Qual	Engagement	None

The above table presents interesting insights about the indicators that are most important to the investors and the data sources through which they receive this information. Some notable insights are as detailed in the analysis below.



Investors find information related to - human rights and labour right policies and due diligence mechanism, trade unions, trainings and successions, wages, conditions of contractual workers, grievances and diversity as the most important to ascertain the risks of human and labour rights non-compliance.

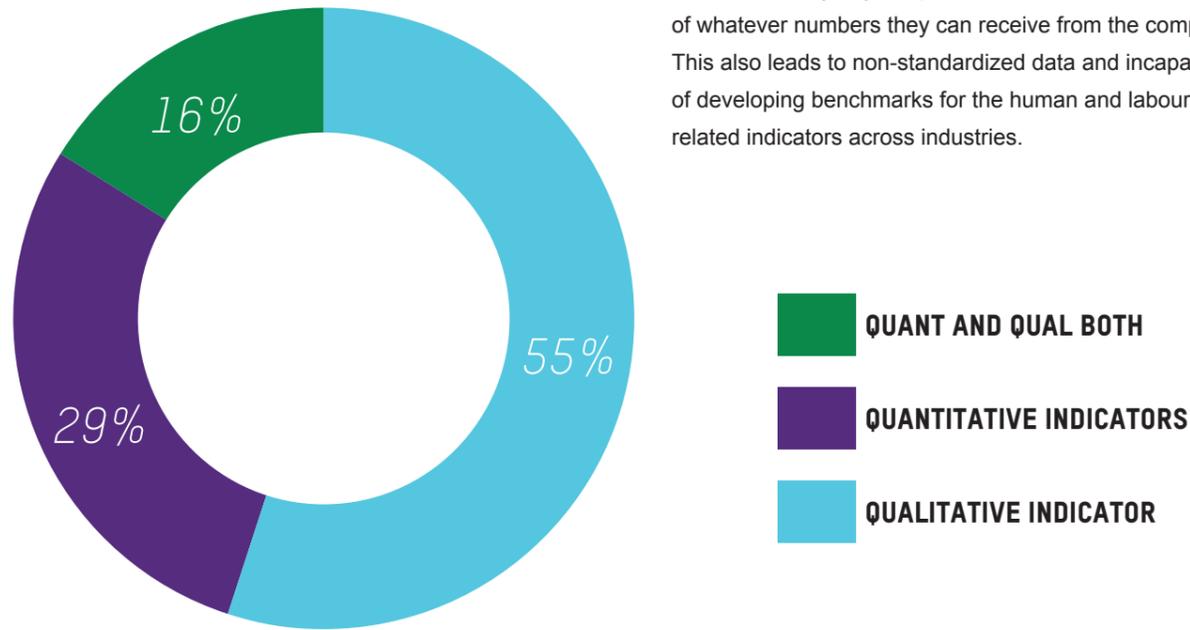
Indicator distribution by topics



"One of the issues that is largely not covered from any of the data sources is - Political influence which is very critical when it comes to labour relations. For example - in 2012, an Auto major faced a huge labour strike in north. In this particular case, we spoke to the company managers, journalists, competitors in the same belt, workers - to be able to ensure that the investment is right. We found that the strikes were politically motivated and the whole belt had similar issues. In such scenarios, we are not able to advise management on how to manage the political risks. To repair the damage, the company has converted a lot of contractual labour to fixed workforce, they built housing projects for labour as well - but even after 10 years, rating agencies are still considering those incidents. The companies are not able to change the perception once tainted by such incidents"

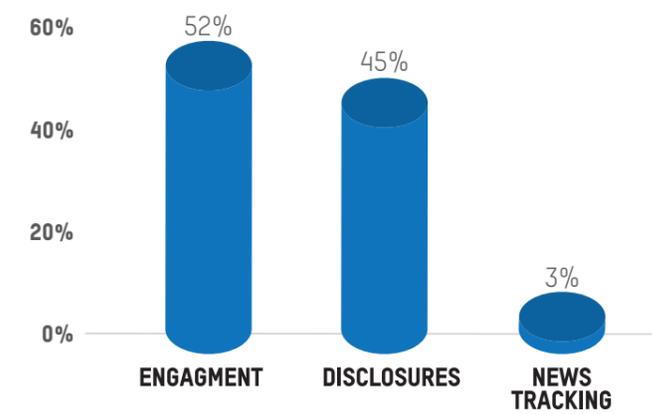
- Senior Manager, ESG research, Indian Mutual Fund

Indicator distribution by type



In absence of concrete standardized quantitative data, investors mostly rely on qualitative information in combination of whatever numbers they can receive from the companies. This also leads to non-standardized data and incapability of developing benchmarks for the human and labour rights related indicators across industries.

Indicators by primary data source



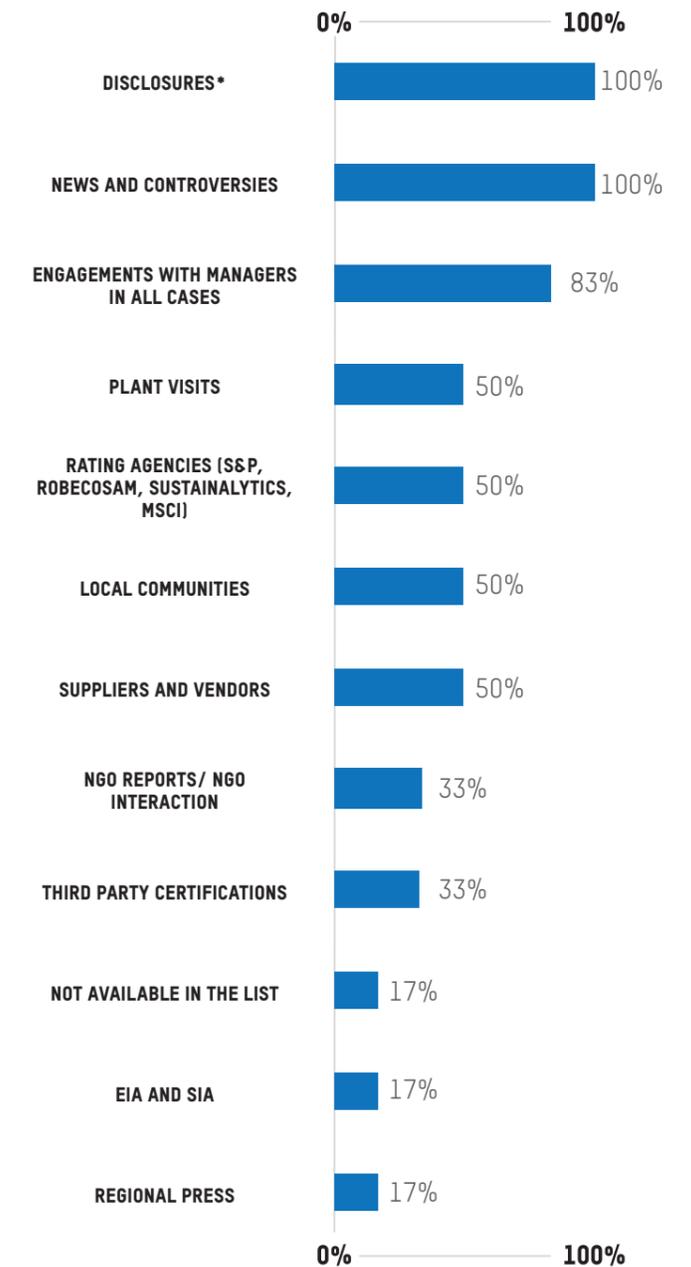
As can be seen from the chart alongside, investors utilize innovative data sources like NGO reports, news tracking, talking to suppliers and vendors, EIA/SIA, regional press etc. to keep themselves abreast with the ground realities.

Apart from using innovative data sources, investors also need to be innovative in the kind of indicators they are using and interpretation of them in conjunction with other information available. Some examples of proxy indicators utilized by investors instead of the standard indicators are:

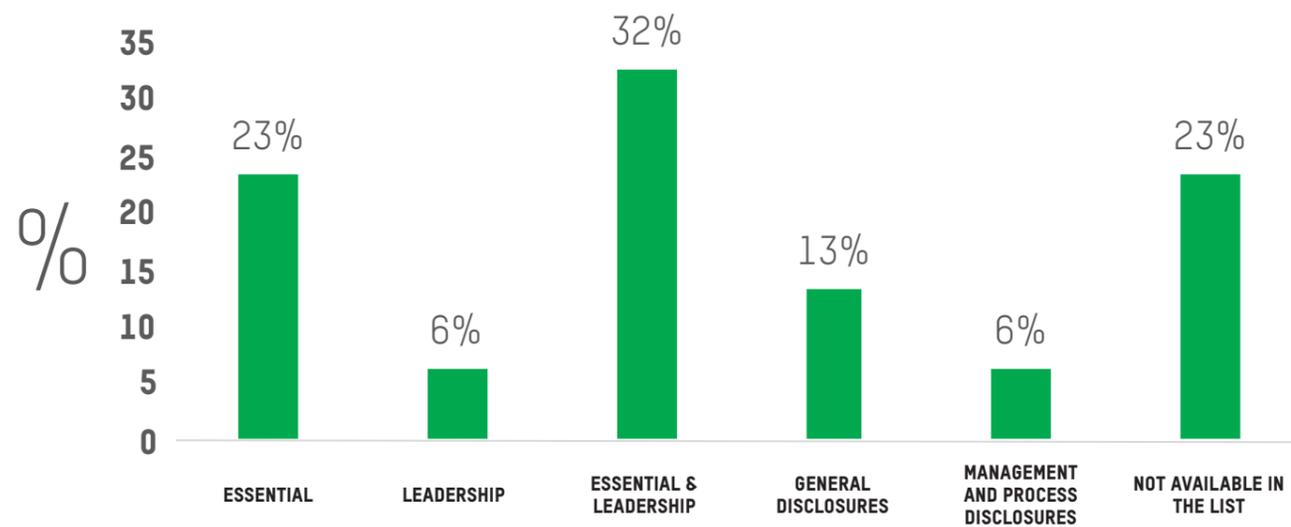
Size of contractual workforce

What size of contractual workforce can be considered as large differs by industry but a large contractual workforce is an indicator that raises a red-flag. In such cases, it is very important to ascertain - Whether contract employees are being asked to perform all functions similar to permanent employees? Has there been any timeline promised in the contract for the term after which an employee will be part of the fixed workforce? Is there a recognition of unions and if yes, are contractual employees represented appropriately?

Data sources utilized by investors (% investors using the data source)



Indicators by NGRBC categorization



Over 40% indicators considered important by investors are categorized as 'Leadership' indicators by the government under NGRBC which are not mandatory to report. All the indicators related to suppliers are categorized under 'Leadership'. This does not provide an essential trigger for reporting supplier related information. Moreover >20% of indicators do not feature in the NGRBC list at all.

Most investors rely on engagements for more than 50% indicators rather than disclosures. For controversies like strikes, labour-management disputes etc. all investors keep tracking the news around the human rights and labour rights issues. This is done through dedicated ESG analysts and/or with the help of automated algorithms.

Frequency of strikes

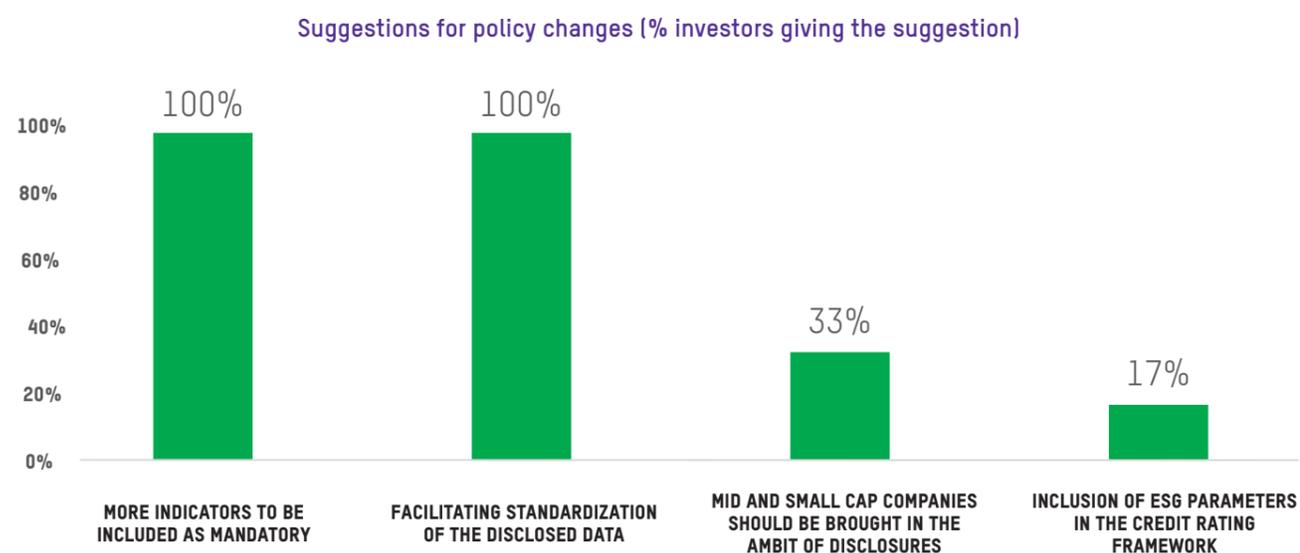
This is one indicator that most of the corporates do not report but all investors want to have their keen eyes on. Fewer the strikes, better the management-labour relations. More frequent strikes probe further questions like – What are the channels through which labour reaches the management? How are the grievances heard and how are they resolved? Have there been complaints on issues like wages, working hours, working conditions etc.?

Middle Management perspective

It is very important to gauge the perspective of middle management when it comes to labour rights. The most important information received from management is the timeline for the implementation of best practices in their establishments or supply chain. This provides an idea on how seriously these issues are taken at the firm.

*Disclosures include – sustainability reports, annual financial reports and any other public disclosure done by the corporate

Investors are eyeing on new BRSR framework to bring in requisite data disclosure and standardization but also look for other long-term changes on the policy front.



Several critical aspects do not get uncovered due to lack of transparency. Investors specially find finer aspects related to - human and labour rights in supply chain, diversity, contractual employment and wage parity missing from the corporate disclosures.

Despite using innovative data sources and proxy indicators, investors across the board do not find the information available to them enough for making a good judgement on the ground realities. The following table alongside summarized investor's 'asks' around enhanced disclosures.

"It is important to understand how the corporates are incentivizing their supply chain to comply with the aspects of human rights and labour rights. For example - A tea manufacturing company in our portfolio reported that 60% of their raw material is sustainably sourced. Then the follow-up questions were - What happens to the rest 40%? Is there a timeline till when the rest of the raw material will also be sustainably sourced? The response received in this particular case was that - there is resistance from small plantation owners due to cost implications. This is a commonplace problem. In such scenarios, investors need to know if the company has an incentive system to the supply chain to promote the best practices?"

- Head of ESG research, fund manager, Indian Mutual Fund

"One of the most fundamental issue that can move the needle on corporates adhering to the human rights and labour rights principles is whether companies are rewarded by the market place or not. The companies raise the issue that there is a cost involved in measuring/ monitoring against ESG. If the investor community does not differentiate between their effort and other companies then the cost cannot be justified."

- Principal Economist and Director Public Finance, Indian rating agency

ASPECT	FOCUS AREA	INDICATOR	CURRENT MECHANISM
Supply chain	Negative impact of supply chain operations	Who are the suppliers? What are their locations? To what extent does the company have traceability in the supply chain? Which are the suppliers where you have taken up initiative to identify existing and potential negative impacts?	Trigger based engagements with management
Supply chain	Incentive system for supply chain	What are the incentive systems for suppliers to adhere to the human rights and labour rights policies of a corporate?	Trigger based engagements with management
Supply chain	Trainings for supply chain	Does the company provide any training to suppliers regarding Human rights/labour rights issues? How is the effectiveness of such training gauged?	Trigger based engagements with management
Supply chain	Pain points in Supply chain	What are the critical pain points in the supply chain and what are the remediation steps taken by corporate to resolve them?	Trigger based engagements with management
Diversity and Wages	Gender pay gap	What is the pay gap between men and women workers at the same level? How is the gender pay gap being addressed?	Trigger based engagements with management
Diversity	Equal opportunity across all functions	What are the steps taken up by the corporate to make itself an equal opportunity employer? How is it ensured that functions such as sales where conventionally women are not preferred, are complying with the equal opportunity clauses?	Trigger based engagements with management
Wages	Minimum wages vs living wages	What does the company do to ensure that they are paying living wages required to survive at the location? Has there been any survey that has been conducted to find out living wages?	None
Local community	Reputation with the local community	What has the company done for the local community? Especially for land extensive sectors such as mining and metals, how is the company's reputation among the local community members?	Community survey and site visits
Contractual employees	Non-financial benefits to contractual employees	What are the non-financial benefits (i.e., health insurance, paid days off etc.) provided to the contractual employees?	Trigger based engagements with management
Contractual employees	Unionization levels	What are the unionization levels amongst the contractual employees?	Trigger based engagements with management

07

PATH FORWARD

ADDRESSING GAPS IN DISCLOSURE REQUIREMENTS

PROMOTING COMPLETENESS OF REPORTING

ASSUREDNESS OF THE INFORMATION

STRENGTHENING THE BRSR

ONGOING DIALOG BETWEEN INVESTORS, CORPORATES, CIVIL SOCIETY ORGS, POLICY MAKERS AND OTHER STAKEHOLDERS

7.1 ADDRESSING GAPS IN DISCLOSURE REQUIREMENTS

Majority of the companies have public commitments to prohibit child labour, which is subsumed under the Supplier Code of Conduct or Responsible Business Policy and sets expectation for suppliers, business partners and others who are linked to business operations, products and services. Similarly, more than 50 per cent of the companies explicitly commit to respect the rights of all workers for freedom of association and collective bargaining.

However, the enforcement or procedure for compliance to back the commitments are neither mandated in the reporting requirements and therefore are not clearly laid out. While there are companies which state that child labour is stipulated as a compulsory clause under agreements with suppliers or is enforced through stringent site visits, the enforcement mechanism is not consistently and explicitly mentioned in most of the code/policies for suppliers published on the company's websites.

Further, the public commitments in most cases are silent on the management of impacts/risks i.e., the corrective action company would take if a supplier is found in violation of the indicators. Also, the current disclosure requirements do not require the companies to report what is the representation of women in the employee association.

7.2 PROMOTING COMPLETENESS OF REPORTING

In the study, investors unanimously agree that the current level of reporting is not sufficient for them to assess the ground realities. They utilize innovative data sources like engagements not only with management but also with NGOs, local communities, suppliers, vendors, competitors, certification agencies etc. to plug these gaps in the reporting and many times use proxy indicators.

Several discrepancies are observed wherein the reporting is either not done or is not reported as per the desired format required (by the BRR). The table below highlights some examples.

INDICATOR	INCOMPLETE REPORTING
What percentage of permanent employees are part of the employee association(s) recognized by the management?	While additional information is helpful, few companies provide the number of associations and not the % of employees covered under them.
What percentage of employees were given safety & skill up-gradation training?	Nearly 25% of the shortlisted companies have not reported this information in the desired format i.e., instead of % of employees covered, information is pertaining to number of the hours spent on safety and skill upgradation training.
Extension of Policy to Suppliers	While most of the Companies have provided information against this indicator, in several cases it only mentions that the Policy is applicable to business partners, subsidiaries but does include suppliers. Nearly 30 percent of the Company do not extend their human rights policy or code covering human rights principles to suppliers.
Number of Employees with Disabilities	Over 10% of the Shortlisted Companies have not reported or tracked against this Indicator

7.3 ASSUREDNESS OF THE INFORMATION

Even as several companies report on the indicators, for nearly 30 per cent companies, either the report is not audited by an internal or external agency or it is not explicitly marked in the desired manner.

Requiring the information to be assured will go a long way in strengthening processes and enhancing quality of disclosure.

7.4 STRENGTHENING THE BRSR

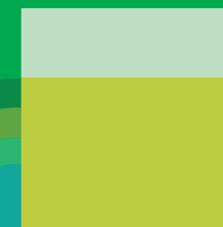
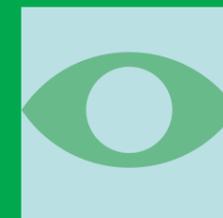
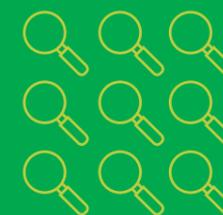
The table overleaf suggests additional indicators which can be included in subsequent changes to the BRSR format gathered from the industry analysis and investor interactions.

INDICATOR	INCOMPLETE REPORTING	TYPE OF GAP ADDRESSED
PRINCIPLE 3: BUSINESSES SHOULD RESPECT AND PROMOTE THE WELL-BEING OF ALL EMPLOYEES, INCLUDING THOSE IN THEIR VALUE CHAINS		
Indicators that can be added	% of Women employees that are represented in the employee association	Freedom of Association
	Whether child labour/forced labour are included as a requirement in contracts with suppliers and contracts	Commitment
	What percentage of your establishments / value chain has been inspected for child labour in the last year?	Monitoring of Child Labour
	% of workforce covered under the Provision of collective Bargaining	Collective Bargaining
	% of suppliers who are Unionized or % of supplier workforce covered by collective bargaining agreements	Freedom of Association
	Ratio of avg. salary of men workers and avg. salary of women workers of the same level	Gender pay gap
PRINCIPLE 5: BUSINESSES SHOULD RESPECT AND PROMOTE HUMAN RIGHTS		
Indicators that can be added	Whether the company has established a team/committee in charge of managing and implementing the human rights practices.	Governance
	Number of business agreements and contracts with third party partners that were reviewed in the year, to avoid complicity with adverse human rights impacts in the previous year.	Compliance Monitoring
	Is the Grievance Mechanism applicable for workers in the supply chain?	Grievance Mechanism

7.5 NEED FOR GREATER DIALOG TO ACCELERATE PATHWAYS FOR ACTION

Dialog with investors will encourage companies to upgrade the quality and consistency of human and labour rights indicators. At the same time, investors need to communicate their information needs more emphatically; which in-turn will improve accountability on managing the risks in their portfolio w.r.t to human and labour rights issues. Studies such as these, need to morph into continuous or periodic engagement between investors, businesses, policy makers, civil society organizations and other important stakeholders. One off studies are handicapped by their nature: they are not a direct dialog; and they get dated soon. India is perhaps the largest capital market in the globe without an Investor-corporate ESG forum. That could be one mechanism to facilitate ongoing dialog.

ANNEXURES



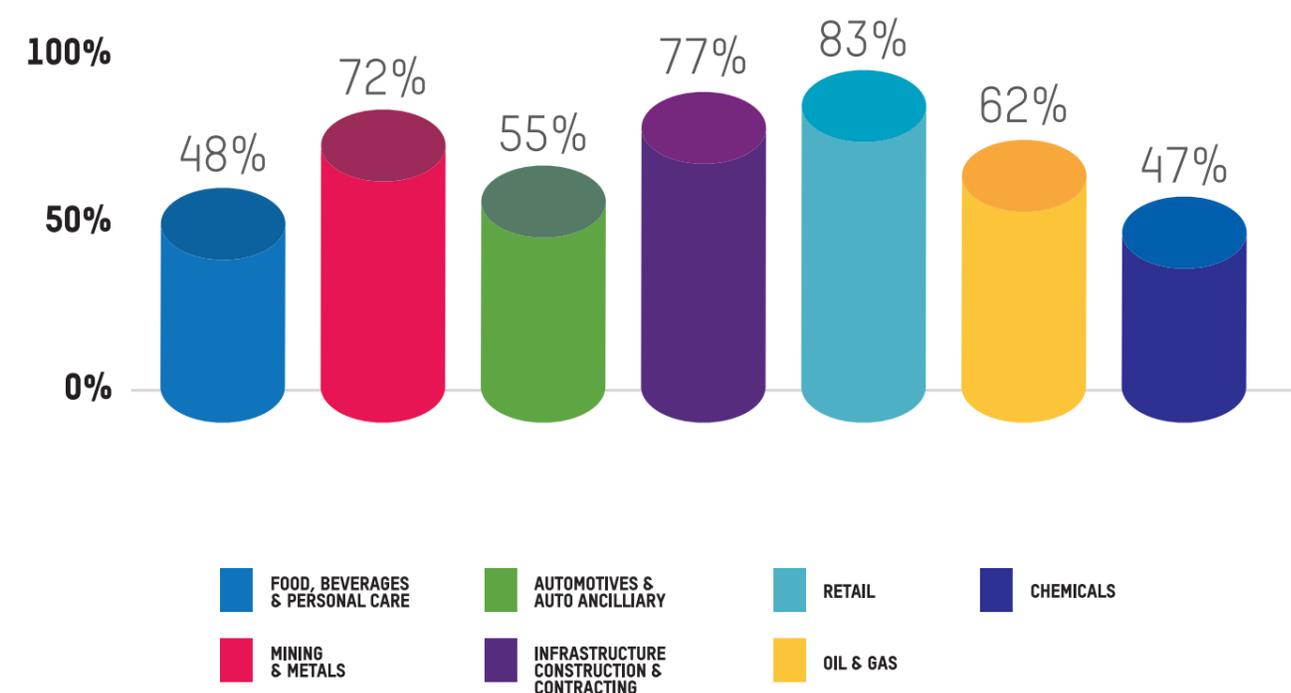
ANNEXURE:

List of companies shortlisted along with their sectors and market capitalization

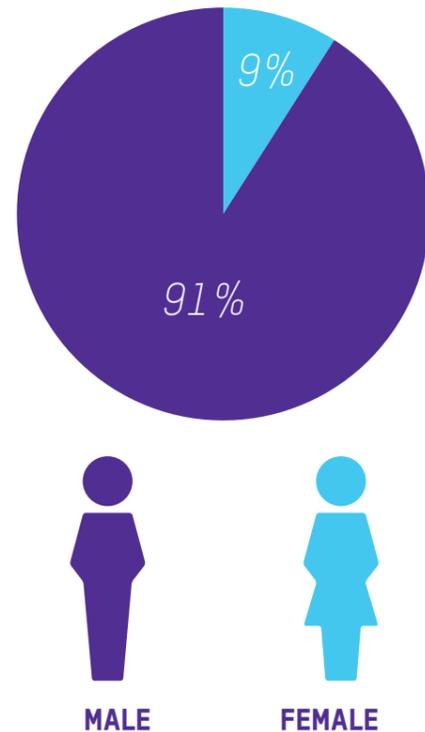
COMPANY	SECTOR	MARKET CAP. AS OF MAR' 20 (INR MN)
Reliance Industries Ltd	Oil and Gas	706,036
BPCL	Oil and Gas	687,436
Hindustan Unilever Ltd	Food, beverages and personal care	497,584
UPL Ltd	Chemicals	249,460
NMDC	Mining & Metals	244,948
ITC Ltd	Food, beverages and personal care	211,058
ACC	Infrastructure, Construction & Contracting	181,872
D-Mart	Retail	141,701
Maruti Suzuki India Ltd	Automotive and Auto Ancillary	129,541
Larsen & Toubro Ltd	Infrastructure, Construction & Contracting	113,493
UltraTech Cement Ltd	Infrastructure, Construction & Contracting	93,654
Dabur India Ltd	Food, beverages and personal care	79,527
Britannia Industries Ltd	Food, beverages and personal care	64,661
Bajaj Auto Ltd	Automotive and Auto Ancillary	58,520
Godrej Consumer Products Ltd	Food, beverages and personal care	53,247
GlaxoSmithKline Consumer Health-care Ltd	Food, beverages and personal care	41,947
Eicher Motors Ltd	Automotive and Auto Ancillary	35,758
Marico Ltd	Food, beverages and personal care	35,482
Mahindra & Mahindra Ltd	Automotive and Auto Ancillary	35,425
Colgate Palmolive (India) Ltd	Food, beverages and personal care	34,072
DLF Ltd	Infrastructure, Construction & Contracting	34,023
Procter & Gamble Hygiene and Health Care Ltd	Food, beverages and personal care	33,335
Hero MotoCorp Ltd	Automotive and Auto Ancillary	31,887
Grasim Industries Ltd	Retail	31,318
MRF Ltd	Automotive and Auto Ancillary	24,668
Vedanta Ltd	Infrastructure, Construction & Contracting	24,050
Tata Motors Ltd	Automotive and Auto Ancillary	21,947
Hindalco Industries Ltd	Infrastructure, Construction & Contracting	21,495
Jubilant Foodworks Ltd	Retail	19,419
Tata Consumer Products Ltd	Food, beverages and personal care	18,609
Trent Ltd	Retail	17,218
Balkrishna Industries Ltd	Automotive and Auto Ancillary	15,304
Varun Beverages Ltd	Food, beverages and personal care	15,285
TVS Motor Company Ltd	Automotive and Auto Ancillary	14,136
Aditya Birla Fashion and Retail Ltd	Retail	11,829
Cummins India Ltd	Automotive and Auto Ancillary	9,056

ANNEXURE: PROFILE OF THE SAMPLE COMPANIES

Share Of Contractual Employees As a % Of Total Workforce



% of Permanent Women to Male Employees

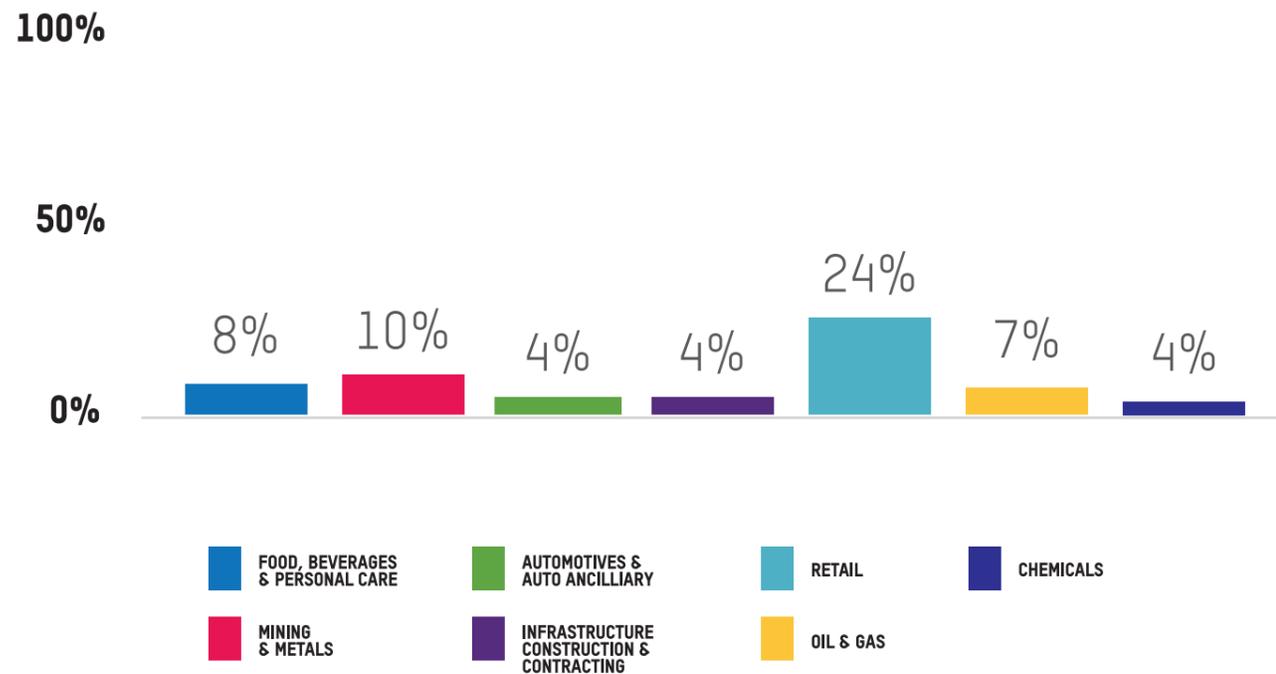


GENDER DIVERSITY

As highlighted in the graphs below, of the total number of permanent employees across the sectors in the companies, the permanent women employees form only 9% of the total despite increasing recognition of gender diversity in the workspace. Not surprisingly, this ratio is more skewed in sectors such as automobiles, infrastructure, construction and contracting and retail is the only sector where the ratio of woman to male employees is more than 30%.

Women form only 9% share of total permanent employees; While retail has a relatively higher share in comparison to other sectors yet the gender disparity is significant across all sectors

Women Employees as a % of Total Permanent Workforce

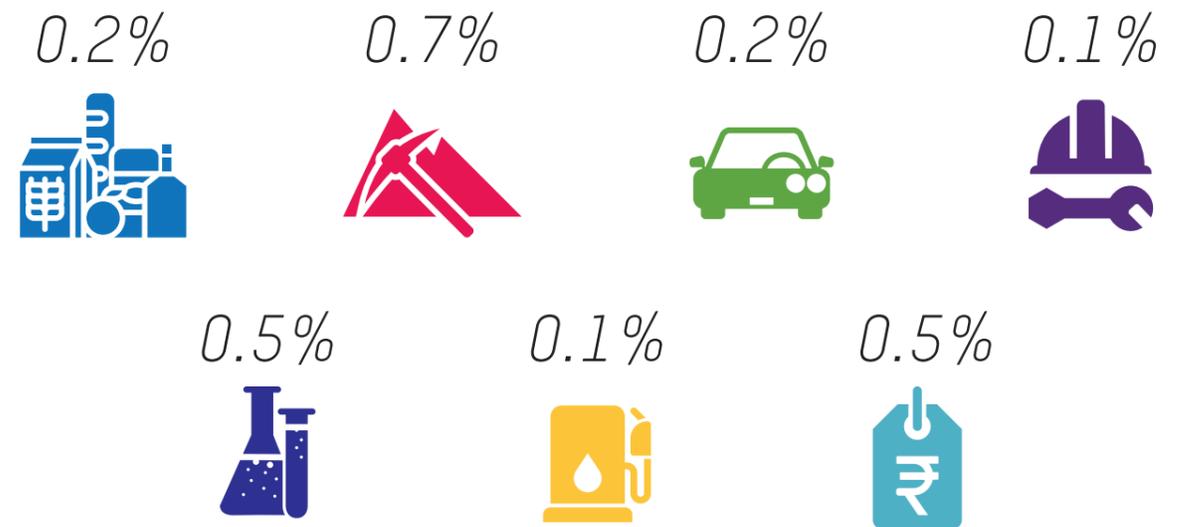


EMPLOYEES WITH DISABILITY

Overall, 29 out of 35 companies disclosed/tracked the number of differently abled employees. However, across all the sectors, the number of such employees is less than 1 percent as a share of total permanent employees. Amongst the companies, L&T is the only one that also provides disclosure on the number of differently abled employees in the supply chain.



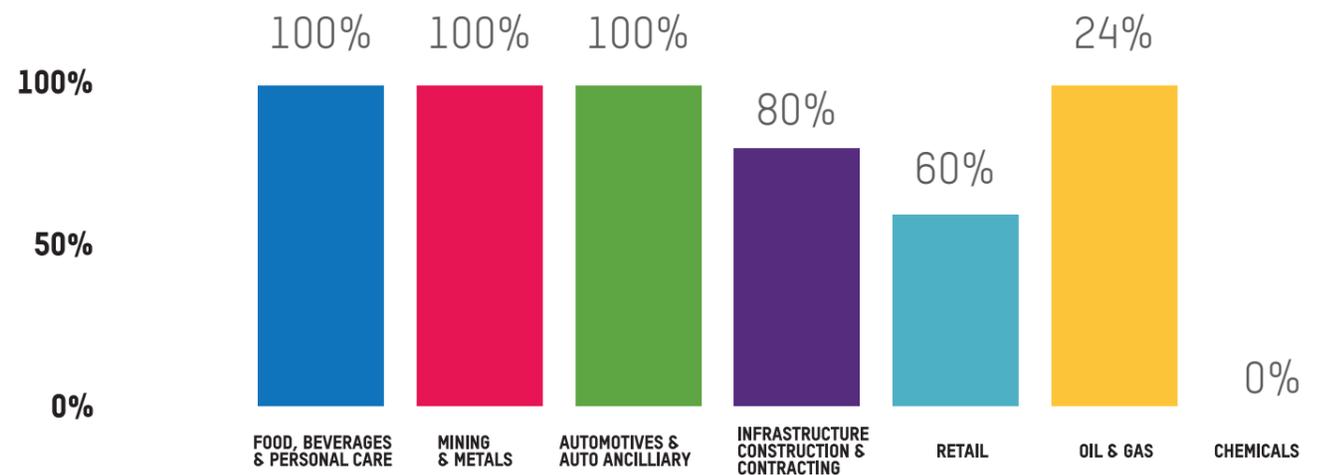
Share of Differently-abled Employees as a % of Total Permanent Employees



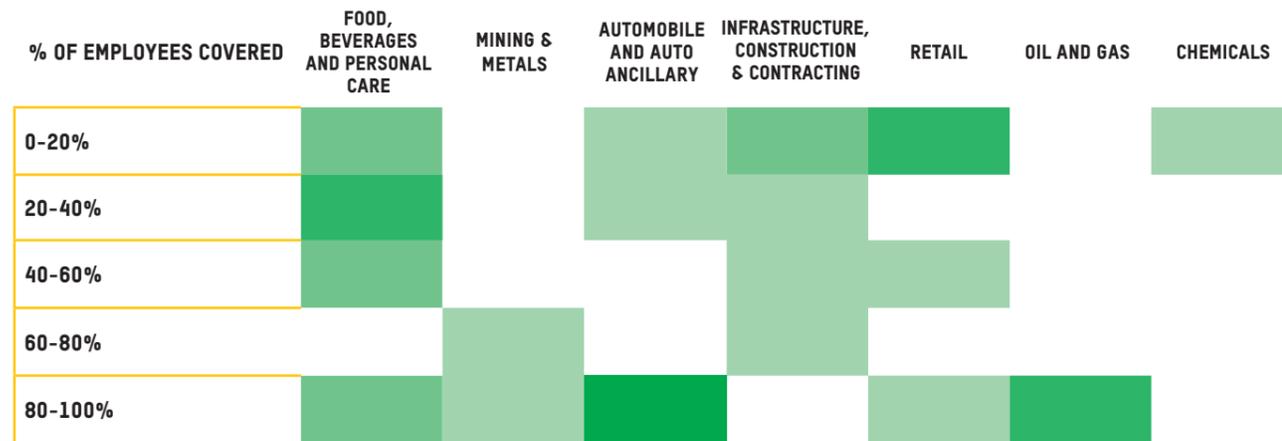
EMPLOYEE ASSOCIATION

Of the total 35 companies, 31 companies have a recognized employee association. However, 2 out of 3 retail companies don't report one, perhaps because of the nature of the sector. Interestingly, the UPL Limited, which is a multinational chemical industry company does have any recognized employee association despite being in an industry which often does have fatal accidents. Further, 77% of the Automobile companies and 100% of the Oil and Gas have 80-100% of the employees covered under a recognized association. Meanwhile, 7 out of 11 Food, beverages and personal care companies have a coverage of less than 50%.

Proportion of Companies having Recognised Employee Association



PROPORTION OF EMPLOYEES COVERED BY RECOGNIZED ASSOCIATION ACROSS SEGMENTS

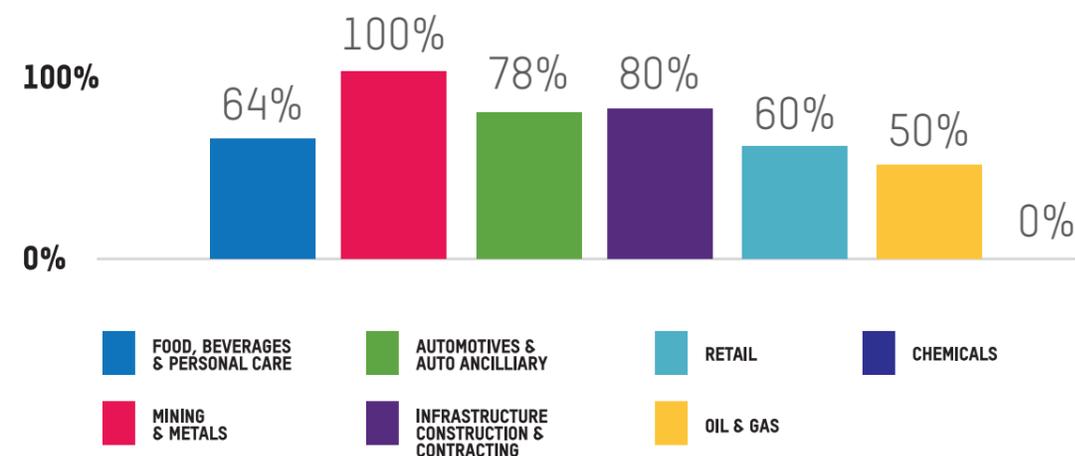


(The gradient in the cell represents the likely concentration of the firms for this indicator. E.g. In a sample of large firms, automotive firms are most likely to have Employees covered by Recognized Association and the participation is likely to be 80-100%)

COLLECTIVE BARGAINING

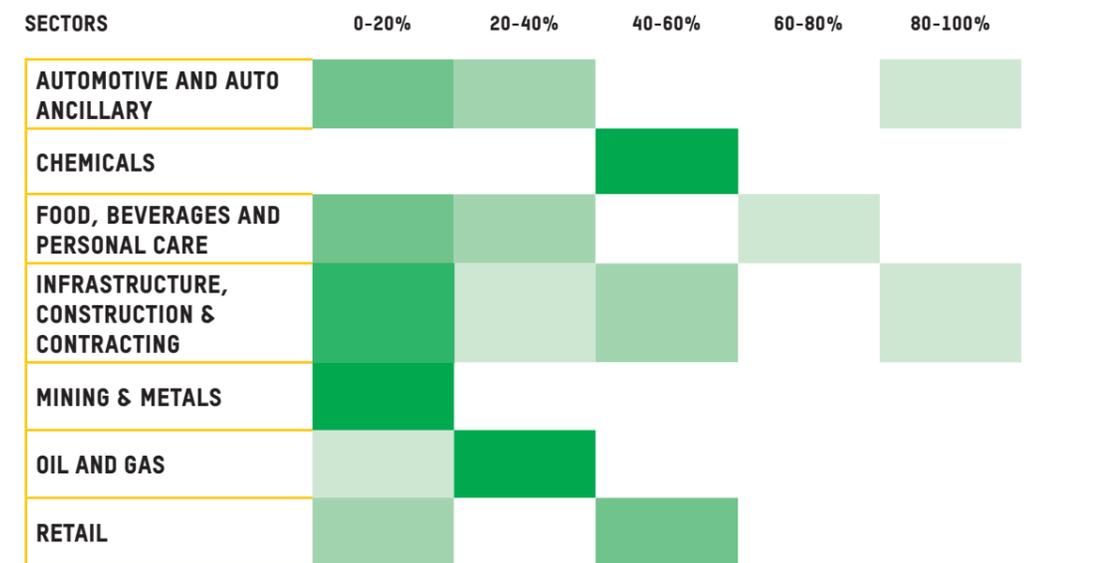
On an average, 62% of the companies have explicitly stated in their Human Rights Policy/ Code of Conduct or the annual report that Company recognizes the employee's rights to freely associate and collective bargaining. However, only a few companies like Hindalco, Tata Consumer Products and Reliance Industries have disclosed % or number of employees who are covered under collective bargaining.

% of Companies explicitly covering Fair Compensation under Collective Bargaining



The sectors have further been analyzed with respect to proportion of foreign investment (considering only top 10 non-promoters shareholders) across all the sample companies for that sector and have been presented in the heatmaps displayed below. Only 8% of the companies have non-promoter shareholding dominated by foreign investors (in value terms) wherein DLF Limited has 100 per cent of its non-promoter shareholding pattern dominated by foreign investors. In terms of value, sectors with lowest share foreign investment include Mining & Metals as well as infrastructure, construction and contracting.

Figure 12: Heatmap of Foreign Investor Shareholding Percentage (Within top 10 non-promoter Shareholders in Companies) across sectors by Value



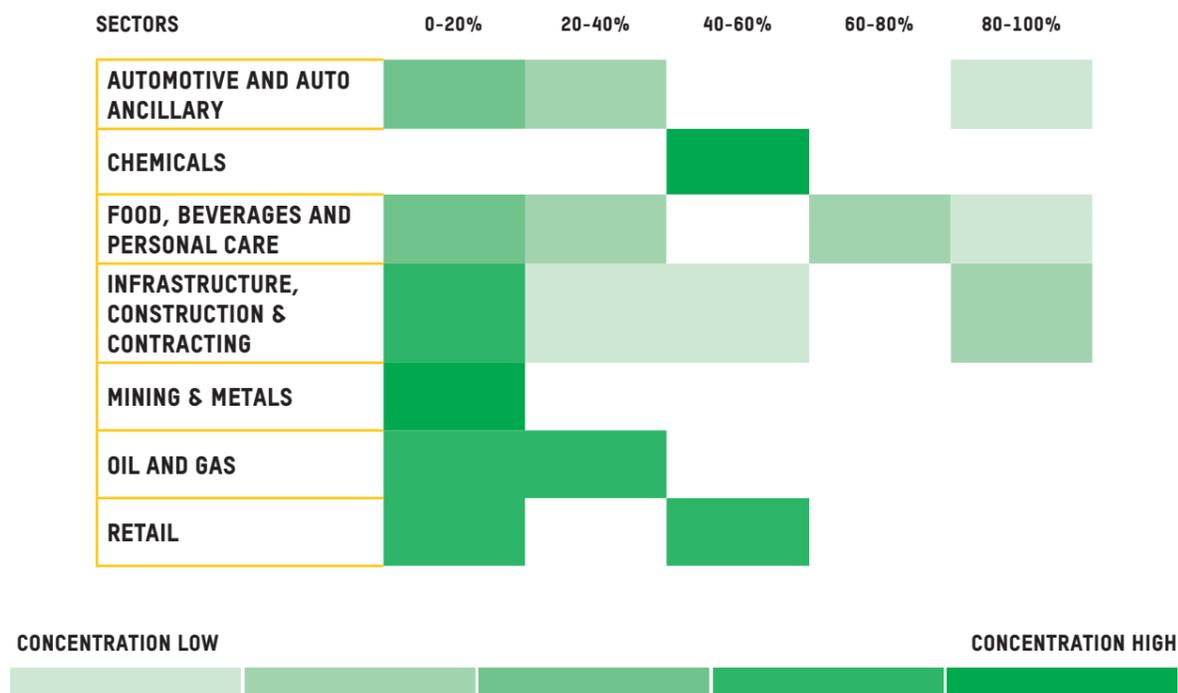
The gradient in the cell represents the likely concentration of investor shareholding by value. E.g. In a sample of investments by Foreign Investors in large firms, their value of holding is likely to be concentrated in Chemicals (owning 40-60% of the company), mining and metals (owing 0-20% of the company) and Oil and gas (holding 20-40% of the company)

In terms of numbers, the smajority of companies in Food, Beverages and Personal Care, Metal and Mining as well as Automotive and Auto Ancillary sectors have a low percentage of foreign investment in their portfolio.

ANNEXURE:

List of largest investors in the companies

Figure 13: Heatmap of Foreign Investors Holding (Out of top 10 non-promoter Shareholders in Companies) across sectors by Number of Companies



The gradient in the cell represents the likely concentration of investor shareholding by number. E.g. In a sample of investments held by Foreign Investors in large firms, they are most likely to be holding Chemicals (owning 40-60% of the company), and mining and metals (owing 0-20% of the company).

The analysis does highlight that while there is the ownership of foreign investments is restricted in a few segments, which are also likely to be the ones associated with high risks. As consideration of ESG continues to gain more prominence, it is but certain that there is a need to close gaps in disconnect between flow of investments in sectors and human rights indicators. There are various incidents of E&S accidents, labour rights violations particularly during the last few months which expose the risks forced upon by such violations on the business operations. Thus, action to inter-link investors in a way that promotes responsible business conduct and human rights is paramount.

INVESTOR	VALUE OF INVESTMENT AS ON MAR' 20 (INR MN)	
LIC	1621198	Domestic
SBI MF	232221	Domestic
Europacific Growth Fund	232136	Foreign
UTI-MF	214838	Domestic
ICICI Prudential	200663	Domestic
Govt of Singapore	199838	Foreign
L&T Employee Welfare Foundation	149997	Domestic
Arisaig	135561	Foreign
Vanguard	100662	Foreign
HDFC	99192	Domestic
General Insurance Corporation of India	85716	Domestic
Myddleton	83500	Foreign
Government Pension Fund Global	81252	Foreign
BPCL Trust for Investment	64132	Domestic
Aditya Birla Sun Life	61729	Domestic
Axis MF	59063	Domestic
The New India Assurance Company Limited	51897	Domestic
Reliance Capital	51697	Domestic
Stewart Investors Asia	44986	Foreign
Franklin Templeton	44126	Domestic
Kotak MF	30433	Domestic
MOWI Foundation	29547	Domestic
Oppenheimer	29475	Foreign
Rothmans	26606	Foreign
Nomura	25657	Foreign
The Oriental Insurance Company Limited	23407	Domestic
Jaya Hind Industries	19613	Domestic
Morgan Stanley	16972	Foreign
People's Bank of China	16433	Foreign
Mirae Asset	15551	Foreign
Mahindra and Mahindra Employees Stock Option Trust	14705	Domestic
Sundaram MF	13376	Domestic
Baytree Investments (Mauritius) Pte Limited	13113	Foreign
Matthews Asia	12994	Foreign
Niraj Bajaj	11819	Domestic
Enam Securities	10073	Domestic

INVESTOR	VALUE OF INVESTMENT AS ON MAR' 20 (INR MN)	
Aberdeen	9370	Foreign
Jwalamukhi	8765	Domestic
Amansa Holdings Private Limited	8360	Domestic
WGI	8120	Foreign
Stitching Depository	7786	Foreign
Pilani Investment and Industries Corporation Ltd	7426	Domestic
Evertrue Charitable and Educational Foundation	7378	Domestic
Dodona Holdings Limited	6947	Foreign
Prazim Trading and Investment Company Private Limited	6525	Domestic
Derive Trading and Resorts Private Limited	6342	Domestic
Lazard	6034	Foreign
New Perspective Fund	5954	Foreign
Governor of Kerala	5915	Domestic
LST MF	5500	Domestic
New India Assurance Company Limited	5237	Domestic
Investor Education and Protection Fund Authority	5210	Domestic
Nippon	4873	Domestic
Kuwait Investment Authority	4620	Foreign
Capital World Growth and Income Fund	4584	Foreign
Cartica	4436	Foreign
Blackrock	4299	Foreign
DSP	4056	Foreign
Robeco Capital Growth Funds	3942	Foreign
JP Morgan	3845	Domestic
Abhay Firoodia	3506	
Motilal Oswal Most Focused Multicap 35 Fund	3360	Domestic
Hermes	3325	Foreign
WF Asian Smaller Companies Fund Limited	3114	Foreign
Universities Superannuation Scheme Limited	3100	Foreign
Tata MF	2947	Domestic
Ishares India Index Mauritius Company	2837	Foreign
Goldman Sachs	2799	Foreign
PTC Cables Private Limited	2765	Domestic
IDFC	2660	Domestic
New World Fund Inc	2650	Foreign
Cophall	2291	Foreign
Valiant Mauritius Partners Offshore Limited	2274	Foreign
Societe Generale	2246	Foreign
Mawer International Equity Fund	2129	Foreign
BNP Paribas	2100	Foreign
Malabar	2026	Domestic
Tree Line Asia	1964	Foreign

INVESTOR	VALUE OF INVESTMENT AS ON MAR' 20 (INR MN)	
Edgbaston Asian Equity Trust	1928	Foreign
Target Value	1897	Foreign
TVF	1884	Domestic
Arohi Asset Management Pte Ltd	1741	Foreign
Abu Dhabi Investment Authority	1703	Foreign
Baj aj Allianz Life Insurance Company	1597	Foreign
HSBC	1492	Foreign
Causeway Emerging Markets Fund	1441	Foreign
India Opportunities Growth Fund Ltd	1350	Domestic
Invesco Mutual Fund	1100	Domestic
Verlinvest S.A.	1026	Foreign
Canara Bank-Mumbai	862	Domestic
Ravi Kirti Shah	823	Domestic
Raju Kirti Shah	816	Domestic
VV and sons Edible Oils Ltd	699	Domestic
BMO Investments II Public Limited Company	659	Domestic
National Insurance Company Ltd	576	Domestic
KST Madhumathi	374	Domestic

ANNEXURE:

List of investors and rating agencies with in-depth conversations

NAME	ORGANIZATION
Lillian W.	Arisaig Partners
Laura Bosch	Robeco SAM
Shibani Sircar Kurian	Kotak MF
Karl Karkaria	Quantum Advisors
Chirag Mehta	Quantum AMC
Priyanka Poddar	India Ratings
Sunil Sinha	India Ratings
Priyanka Dhingra	SBI MF
Tom Prew	Stewart Investors



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