Reframing child labour due diligence

for businesses and investors in increasingly regulated and resilience challenged supply chains

A learning paper on moving towards more impactful approaches while mitigating material risks to supply chains and investments

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Who is this for?

This paper is primarily targeted at those investing or managing investments in, or undertaking sourcing activities from, supply chains with a high risk of child labour, and concerned both about mitigating their risk while achieving positive impact. It will also be of learning value to those researching, analysing, monitoring, appraising, advising and otherwise supporting these stakeholders under the theme of child labour. While of specific relevance to the critical minerals sector, especially Tantalum, it draws out important principles that will be relevant across many sectors.

Introduction

For investors, analysts and companies, the complex nature of child labour - and supply chains that are affected by it - means that significant time and costs are being channelled into human rights due diligence strategies that are not effectively identifying, or meaningfully mitigating, a material risk to resilience and stability of supply chains. Evidence is growing that sustainability risks, including social factors such as child labour, in turn affects investment returns, especially for longer-term investments. As Mandatory Human Rights Due Diligence (MHRDD) or Forced Labour Import Ban requirements increase, so do the risks of supply chains being disrupted due to delayed or cancelled shipments, litigation associated with these regulations, or reputational risk from being associated with child labour. These factors, along with the imperative to protect children, mean it is critical to reconsider current approaches to due diligence to ensure the risks of child labour are eliminated within supply chains.

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Re-frame due diligence requirements

This paper summarises learning from an investor and company roundtable series exploring how due diligence, ESG data and analyst requirements can be re-framed in ways which will lead to faster and more sustainable actions for the elimination of the worst forms of child labour in supply chains - and enable investors and companies to better mitigate risk through engaging in these approaches while avoiding unintended consequences.

Click above to see the previous research and partners

Millions of children across the world are working today.

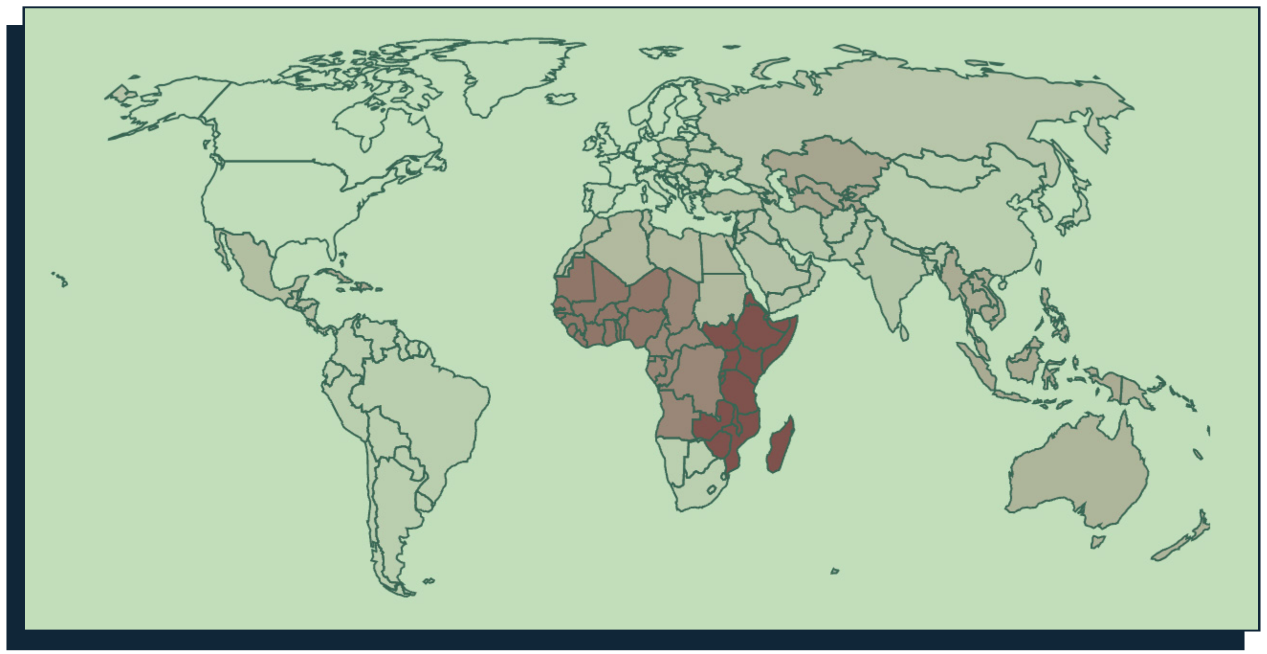
Much of this work — helping parents around the home or farm, earning money in school holidays, learning new skills through an internship — is a positive and normal part of growing up.

For many children, however, the experience of work is not a positive one. 'Child labour' in this report refers to the ILO definition of the worst forms of child labour[1] - work that is 'exploitative, hazardous and dangerous'. Work that deprives children of their childhood, their potential and their dignity, and is harmful to their physical and mental development.

1. See ILO Conventions on Child Labour, ILO 138 and 182

160 million children

estimated globally to be involved or affected by child labour.



79 million children

are in work that is **hazardous** or **harmful** to their health and wellbeing.[2]

Child labour is largely a geographical challenge, with deeply intertwined, systemic factors which make it challenging to address.

2. ILO Global Estimates on Child Labour (2020)

One of the key challenges investors and companies alike face is that significant time and cost is going into activities that have little material impact on reducing or mitigating the risks faced by children and therefore the risks to business.

A 2021 OECD study on the Costs and Value of Due Diligence[3] found that the majority of due diligence investment is spent on risk assessment, training, auditing and management systems - with very little applied at the furthest upstream reaches of the supply chain where children are working. In many cases, supply chain due diligence requirements are resulting in unintended consequences for commodity origin communities, including increasing child labour.

As mandatory due diligence requirements including the EU CSDDD, CSRD and others increase, there is the potential that identifying and assessing risks will take the majority of attention and funding, meaning that interventions and activities which have potential to positively impact outcomes for children will likely be delayed pending insights from risk assessments.

3. **OECD (2021), Costs and Value of Due Diligence in Mineral Supply Chains - OECD Position Paper**

There is an urgent need to reframe due diligence requirements.

To start to effectively address the issue of worst forms of child labour in supply chains, there is an urgent need to ensure due diligence requirements are framed in ways which encourage the majority of ESG related resources and activities towards collective action which can holistically address the risks to children in commodity source countries.

Tantalum is a critical mineral used in semi-conductors as well as other applications in the electronics, aerospace, automotive and medical sectors.

MINI CASE STUDY

Tantalum

Democratic Republic of Congo

(DRC) is the leading producer of tantalum, accounting for over

40%

of global output.[4]

Tantalum has the highest share of

Artisanal and Small-scale Mining

(ASM) compared to other commonly extracted minerals, an estimated

64%

globally.[5]

ASM has strong links to

child labour, hazardous child labour, wide-ranging environmental and social issues.

The combination of these factors presents both a unique challenge and opportunity to identify and implement interventions to address child labour.

4. **U.S. Geological Survey, Mineral Commodity Summaries, January 2024** (Note: DRC figure is conservative as Rwanda has second highest production, but a proportion of this will be smuggled across the border from DRC)
5. **Tantalum supply from artisanal and small-scale mining, 2020** (Most recent figures available)

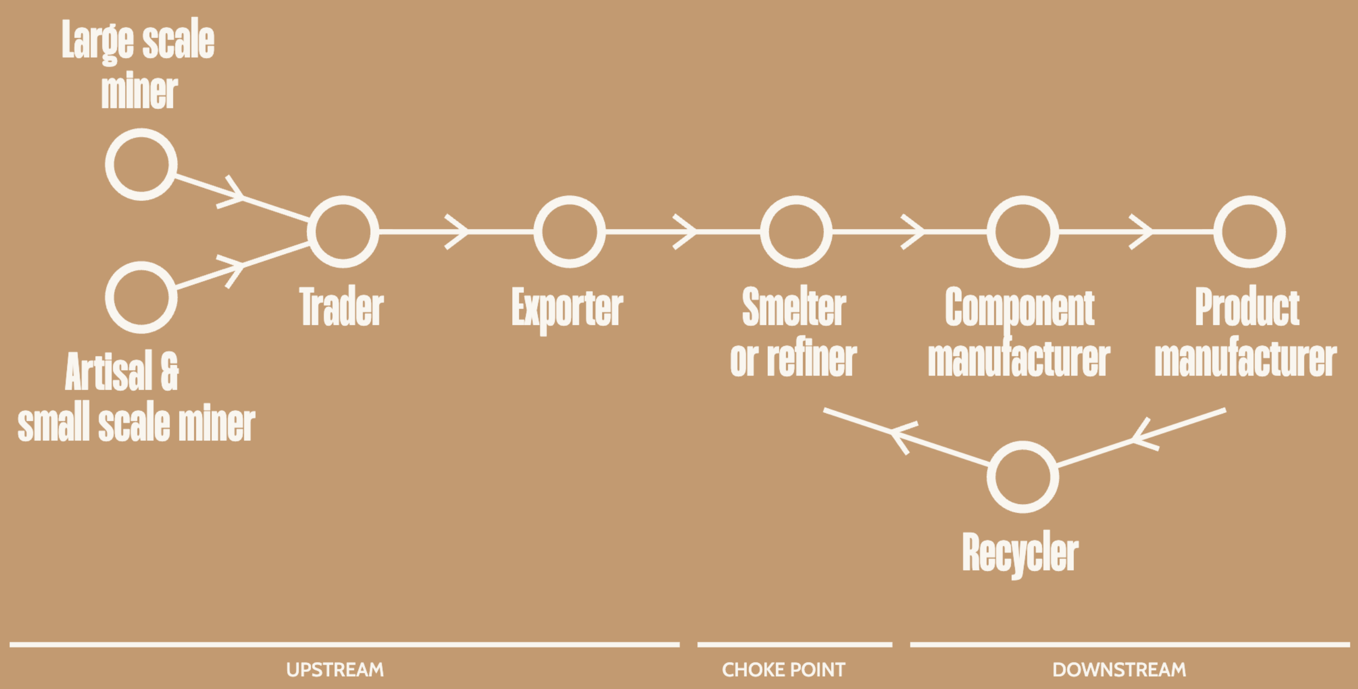
Tantalum in the DRC

DRC has seen a number of unintended consequences from the implementation of due diligence requirements related to conflict minerals, which are further exacerbated by the impact of corruption and ongoing conflict in the region:

A. Incomes of local miners have collapsed due to high participation fees in due diligence and traceability schemes — which get passed upstream and sometimes exceed the total of all other taxes and exacerbates the most prominent root cause of child labour - poverty.

B. Negligible material impact of due diligence schemes on improving livelihoods, or reducing child labour (in some cases implementation of dd is increasing it).

C. Conflict minerals legislation i.e. Dodd-Frank Act has seen armed groups changing modus-operandi to become formal supply chain actors — thus maintaining control and income, whilst remaining invisible to monitoring.



Challenge with the supply chain model

Typically, the mineral supply chain is understood as a linearly connected set of actors, looking top-down through the supply chain for due diligence activities and monitoring, with the origin or mine level at the furthest point of the supply chain.

For commodity supply chains, there is typically a “choke point” — in the case of Tantalum, this is where the raw commodity is refined or smelted before moving to manufacture and assembly. The choke point is a key point of both focus and challenge in mineral traceability and due diligence. Supply chain visibility, auditing and data is usually significantly reduced beyond this choke point.

While there is some good work happening with industry standard bodies - for example RMI (Responsible Minerals Initiative) and ITSCI (International Tin Supply Chain Initiative) in mineral value chains — there is a salient risk from lack of insight and data to the origin community level.

Possible ways forward

Is it useful to increase awareness and action by assuming all tantalum end-users are exposed to child labour in their supply chain (64% of Tantalum comes from artisanal mining) - reducing the need for individual supply chain tracing or risk assessment?

How can we engage industry outliers i.e. the medical sector which utilises 20% of Tantalum but which is relatively unengaged in most efforts to develop Tantalum due diligence to-date?

Learn more about the Tantalum value chain atvaluechains.pace-consortium.org.

Key Learnings

"Risk management structures for child labour are not fit for purpose. Investors are locked into the top-down approach to due diligence as we primarily engage with large companies and the leaders of those companies."

Roundtable 1 Participant

"We need to find a way to address the child labour challenge in a systemic way across all of our portfolio companies."

Roundtable 2 Participant

Roundtable Highlights

- There is a significant gap between current models of due diligence, and where we need to get to to achieve the Sustainable Development Goals aim of ending child labour in all its forms.[6]
- There is broad agreement that we are not solving an urgent and material problem for children, companies and investors alike.
- There are currently more questions than answers on the best way forward due to a general lack of real-time, bottom-up data and insight. Commodity origin perspectives are needed to understand the true nature and scale of the challenges, the interventions and the stakeholders required to address them.
- What analysts really want, but can't find, is data on outcomes. A large part of the data regarding child labour focuses on controversies, but this is not complete and tends to focus on companies with high levels of public attention
- There is a need for more holistic and collaborative approaches, involving governments, civil society, and the corporate sector. Emphasis should be placed on initiatives that aim to understand and improve the local context and a collective theory of change is needed to measure progress.

6. **SDG 8.7** aims to "secure the prohibition and elimination of the worst forms of child labour ... and by 2025 end child labour in all its forms."

Systemic Child Labour Risk

Systemic child labour is a long-term material risk for all companies and investors, not just those focused on ESG. It affects the resilience of investment returns, especially for longer-term investments. As Mandatory Human Rights Due Diligence (MHRDD) or Forced Labour Import Ban requirements increase, so do the risks of supply chains being disrupted due to delayed or cancelled shipments, litigation associated with these regulations, or reputational risk from being associated with child labour. These factors, along with the imperative to protect children, mean it is critical to reconsider current approaches to due diligence to ensure the risks of child labour are eliminated within supply chains - and identify deeper and faster collaboration to achieve outcomes which no one investor or company can achieve alone.

Next Steps

For investors:

- **Reverse assumptions on the presence of child labour**
  Assume that child labour is present in high risk supply chains of investee companies.
- **Engage more directly with investee companies about child labour**
  Fully integrate child labour as a specific topic in engagement strategies.
- **Engage with a long-term perspective with a focus on impact as well as risk identification**
  Changes require long-term, systemic change with long-term milestones.
- **Leverage ESG Data Providers**
  Rebalance ratings to better incorporate a focus on child labour.
- **Work with other investors to collectively influence change**
  Engage with and support collective initiatives to speed up systemic interventions.

For companies:

- **Revise Risk Assessments for more efficient due diligence**
  Identify and engage with collaborative efforts above individual company assessments.
- **Promote impact-focused and community-centred approaches**
  Emphasis should be placed on initiatives that aim to understand and improve the local context with a collective theory of change.

Read the full report

If you have questions or would like to get involved with future discussions, research and actions building on this learning paper, please contact **information@churchinvestorsgroup.org.uk**

This material was funded by UK International Development funding from the UK Government, the views expressed do not necessarily reflect that of official UK Government policy.

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