Tool for Investors on Integrating Children's Rights Into ESG Assessment

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Acknowledgements

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Foreword

Children are everyone's business – this has been UNICEF's motto in engaging with the business world since the launch of the Children's Rights and Business principles in 2012. Children are a key stakeholder both today and tomorrow, as they also represent the future workforce, consumers and community members. As such, by definition, business practices cannot be sustainable if they do not address their impact on children.

This is truer now than ever before. The COVID-19 pandemic has had a significant impact on children and their rights, with the emergence of massive challenges related to school closures and increased time spent online, along with threats to hard-won progress given the reprioritization of government resources to address the pandemic.

With household income hit hard by the closure of workplaces, making it difficult to buy food or pay for basic healthcare, child rights risks to businesses also increase. Where schools are shut, but parents still work, not only is children's education being affected, but many are left with inadequate or no care.

The global pandemic has also created an opportunity to build a next and better normal and to reshape the world for children and implement better policies and practices to ensure that children's rights are protected and respected. For example, businesses implementing family-friendly policies and practices can provide working parents with the support needed to cope with the crisis and prevent the pandemic from becoming a lasting crisis for working parents and their children. The increased focus on the social aspects of sustainable business from governments, investors and businesses themselves, is a recognition of the need to accelerate this shift.

Building on UNICEF and Sustainalytics' 2019 "Guidance for Investors on integrating Children's Rights into Investment Decision Making", we are pleased to now launch this "Tool for Investors on integrating Children's Rights into ESG analysis". We hope that this will highlight, in a very practical way, what integrating children's rights beyond child labour into investment decision-making entails, and provide the guidance needed to address what still remains a blind spot for many investors.

We encourage investors to use the indicators and other resources in this tool to elevate children's rights within ESG assessment as an area of focus. Children's rights can form its own engagement theme for some investors, but a child rights lens should also form part of investors' overall ESG analysis. Although children's rights are part of, and often key to addressing, other sustainability topics such as human rights, decent work, gender and diversity, what we have seen in UNICEF's work with business is that without taking a specific child rights lens to sustainability, the children's rights dimensions are often missed.

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Introduction

Children (defined as anyone under the age of 18)[1] make up one third of the world's population--over a half of the population in many of the poorest countries.[2] They are an important if often not fully visible stakeholder group for any business, being impacted by business activities as consumers, workers, community members and dependents of employees. Children are also future adults, whose health, capacities, skills and aptitudes will have been significantly shaped by what happened to them as children.

However, children are too often overlooked in corporate human rights policy, due diligence and reporting, beyond a singular focus on child labour – and therefore, they are often left out of investors' ESG and sustainability strategies.

Sustainability and responsible business strategies are incomplete if children's considerations are not embedded in them. Childhood is a unique period of physical, mental, and emotional development. Positive intervention to support children can have long lasting beneficial impacts on society, improving socio-economic outcomes and enhancing societal progress. By the same token, adverse impacts can have lifelong, irreversible and even transgenerational consequences. Because children are growing, practices that are not harmful for adults can have significant adverse impacts on the rights of children. At the same time, children are dependent on parents, family and caregivers, and practices that directly affect adults (e.g., working conditions for parents) can have indirect but immediate impact on children.

Under the UN Guiding Principles on Business and Human Rights (UNGPs), companies and investors have a responsibility to respect human rights in their investment activities. Investors may be directly linked to harms through their investments in companies who business practices, operations and relations have caused, contributed to, or are directly linked to harms to children. This responsibility is confirmed in the OECD Guidance on Responsible Business Conduct for Institutional Investors ('OECD Guidance'). And pursuant to the UNGPs and the Children's Rights and Business Principles (CRBPs), this responsibility should include the rights of children

In undertaking their responsibility to respect human rights, investors can use their leverage to improve the situation of children by influencing the practices of companies in which they invest. To help investors harness this opportunity, this tool has been designed to guide investors on integrating children's rights into the evaluation of ESG opportunities and performance of investee companies. It builds on the 2019 *Investor Guidance on Integrating Children's Rights into Investment Decision Making*[3], developed by UNICEF and Sustainalytics, which sets out a number of practical actions that investors can take to integrate children's rights into their own policies and investment activities.

The indicators and guidance in this tool have been developed with good corporate practices on children's rights management in mind, in line with the UNGPs, OECD Guidance, and CRBPs. In order to ensure that the guidance and assessment indicators contained in this tool are practical for investors, UNICEF worked with Sustainalytics to ensure compatibility with prevailing approaches to ESG assessment. In particular, the indicators in this tool have been tested by Sustainalytics to confirm that they are fit for purpose, and possible to be scored based on publicly disclosed corporate data available at the time of writing.

About This Tool

The Tool for Investor on Integrating Children's Rights in ESG Assessments (the tool) is designed to complement and build upon the UNICEF and Sustainalytics *Investor Guidance on Integrating Children's Rights into Investment Decision Making*. The Guidance sets out a number of actions that investors can take to integrate children's rights considerations into investment decision making and throughout investment stewardship. These include using children's rights indicators in risk screening prior to investing in a company and when evaluating ESG performance of investee companies.

The tool sets out a framework for assessing how well companies identify and manage impacts on children as part of their approaches to human rights due diligence and corporate responsibility. Investors can also use this tool to identify opportunities to make positive impact and engage with companies on their child rights impact. Encouraging enhanced disclosure on child rights would also enable investors to include children's considerations more comprehensively in their decision-making, reducing risk and strengthening responsible conduct, enhancing resilience and long-term value. The tool provides guidance on assessing salient or material children's rights risks and on data sources and collection methods.

This tool is not intended to create a set of new obligations or standards for investors or companies in relation to children's rights. It builds on existing principles, especially the UNGPs, OECD Guidance and CRBPs). The intention is to support investors and related actors to integrate children's rights considerations when assessing corporate ESG performance.

The tool is divided into three parts. The first section contains guidance on identifying salient or material children's rights risks and includes an analysis of how children's rights relate to existing sustainability topics and materiality analysis in certain industries or for certain business activities. This section helps investors to understand how companies can impact children's rights and includes guidance on children's rights issues that are known to be salient or material to companies in different industries.

The second section sets out indicators for measuring corporate performance on managing children's rights impacts. To aid integration, the indicators are aligned as much as possible with existing reporting standards and initiatives, while also reflecting good practices in managing impacts on children's rights. Investors can integrate the indicators into broader approaches to ESG measurement, but the indicators can also be used for child rights-specific analysis (for instance, as part of building a portfolio focused on children's rights in a financial product or to develop a child rights benchmark).

The third and final section of the tool provides guidance on data collection and available data sources, including a matrix of data sources to assess each indicator in Part 2.

How the indicators were selected

The indicators were selected based on internationally accepted standards on children's rights and corporate responsibility, including the UNGPs, OECD Guidance and CRBPs. The approach to selecting indicators recognised the multiple ways in which businesses can impact children as workers, dependents of workers, direct or indirect consumers of products and services, and community members.

The issues and indicators in this tool were selected based on desk research, and refined based on interviews with selected investors, ESG researchers, and children's rights and business experts. As a first step, a literature review was

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undertaken to inform the saliency and materiality guidance. The review also served to identify indicators and define scoring options. Indicators on corporate performance were selected based on a two-pronged approach:

i. A review of indicators covering children's rights topics in existing research, standards and benchmarks. The review covered reporting standards, such as the Global Reporting Initiative (GRI) Sustainability Reporting Standards and Sustainability Accounting Standards Board (SASB) Standards, and good practice initiatives and tools, such as the Corporate Human Rights Benchmark, Danish Institute's Human Rights Indicators for Business and the Global Child Forum's Children's Rights Benchmark.

ii. Where there were gaps, indicators were selected from guidance on children's rights and business good practices, such as UNICEF's Children's Rights in Impact Assessments and other industry-specific tools such as the Children's Rights and Mining Toolkit and Children's Rights in the Garment and Footwear Supply Chain.

To ensure the indicators capture measurable aspects of business respect for children's rights, after the review and selection of a set of preliminary indicators, Sustainalytics was engaged to test scoring, data availability and to better understand data limitations. An external consultation was then conducted with a select group of institutional investors, asset managers, ESG researchers, sustainability reporting organisations, and children's rights and business experts. Based on feedback received during the consultation process, the indicators were further refined.

Availability of data sources was a factor, but not the determining factor, in the selection of indicators. This is to ensure that best practices in management of children's rights impacts are captured, with a view towards encouraging the improvement of data collection and reporting over time.

PART 1

Assessing the Saliency and Materiality of Children's Rights Issues

A critical first step to evaluating company performance on children's rights is understanding the degree to which companies are disclosing and acting on their most salient or material impacts on children. Materiality is an evolving and dynamic[4] concept that is increasingly becoming a pillar of corporate sustainability and social responsibility efforts, and it is becoming increasingly common to see human rights issues in company sustainability reporting and materiality matrices.

Saliency versus materiality

Traditionally, materiality refers to sustainability issues that affect the financial condition or operating performance of a company.[5] However, most business and human rights frameworks take a risk-to-people approach, emphasising the importance of identifying the company's most salient impacts.[6] A company's salient human rights issues are those where people are at risk of being impacting by the company, whether through its business activities or business relationships.

With children's rights, as with other human rights issues, materiality and saliency are distinct

However, children's rights are often overlooked in materiality and saliency assessments or reduced to an exclusive focus on child labour. This is attributable to a number of factors. Firstly, according to research by GES (now Sustainalytics) and Global Child Forum, there is a lack of awareness of children's rights issues among investee companies, and a lack of disclosure of children's rights risks beyond child labour.[7] There is also a lack of reporting standards (voluntary or mandatory) that require companies to report on children's rights risks beyond child labour. Investors (and companies) therefore pay little attention to children's rights risks as potential salient or material issues.[8]

Furthermore, limited conceptualization of how children's rights relate to or overlap with other sustainability topics – such as labour practices, human rights in communities, consumer protection and privacy – means that children's unique considerations are rarely brought to the fore. Investors may assume that children's rights are adequately covered by human rights issues. However, children are more than small adults, and business activities that have little to no impact on adults can have serious and irreparable consequences for children. Children's rights therefore