

Human Rights

Outlook 2021



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Executive summary



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Human rights do not exist in a vacuum. They are subject to the vicissitudes of governments, to poorly enforced and ineffectual laws, and the ebb and flow of market forces. At no point in recent times have these factors coalesced more than over the last 18 months. Add in the indirect impacts of a global pandemic – which has upended working practices, thrown supply chains into turmoil and amplified inequalities – and a troubling shift in the human rights environment was inevitable.

For 20 years, our aim has been to develop innovative solutions that make a tangible difference to the lives of people and workers around the world by helping companies operate more responsibly. Our focus on data means we are unique in having the ability to assess the trajectory of the global human rights landscape. Using our risk indices, subnational issue mapping and ESG commodities data, we've taken stock of the trends, the current state of play, the cross-cutting issues driving risk, and how and where human rights are intersecting with the world of business and finance.

The picture that emerges is complex and concerning.

“ human rights of citizens in 40% of the globe’s top 100 locations for FDI are at ‘high’ or ‘extreme’ risk

Labour rights on a global slide

Firstly, let’s take supply chains. Over the last 5 years, our labour rights indices show that modern slavery, child labour, discrimination, OHS and decent wages are just some of the issues that have seen a steady deterioration. We’re seeing these declines at a global level, but what’s notable is that they are worsening most where the bulk of global goods are manufactured.

For responsible sourcing departments, the challenge has no easy answers. For instance, a number of South East Asia’s primary manufacturing hubs have been downgraded to ‘extreme’ risk in our Modern Slavery Index. But as brands reassess their exposure to China, due to the forced labour practices taking place there, the irony is that these countries often constitute the only viable alternatives.

ESG credentials of 4 in 10 top cities for FDI in question

Zooming in to human rights at a more local level reveals an equally nuanced picture. Using our subnational human rights and poverty indices, we’ve evaluated the exposure of business and investors to a range of social risks in the world’s major cities.

We’ve found that the human rights of citizens in 40% of the globe’s top 100 locations for foreign direct investment (FDI) are at ‘high’ or ‘extreme’ risk, while overall, 75% of the 575 cities assessed also sit within the two highest risk categories. At a time when ethical investment is becoming more prominent, this brings into question the ESG credentials of a swathe of important commercial hubs that are home to some 1.4 billion people and at least one in every 10 dollars of FDI.

The S in ESG is about to hit the spotlight

Getting to grips with the S in ESG is going to be a particularly important theme for investors going forward. Under the Sustainable Finance Disclosure Regulation (SFDR), asset managers will soon need to report on human rights abuses in their sovereign portfolios, as well as explain how they address these abuses in any funds that they label sustainable.

Sovereign debt will be a key area of focus because governments are the ultimate guarantors of human and labour rights. But Brussels has set its sights on all asset classes. We explore how best to navigate this new reality and make real impact with a portfolio while minimising risk. The balance isn’t easy, but with the right inputs we think it’s achievable.

“ Our Judicial Independence Index has identified growing political interference in the legal systems of 45 countries

Nexus of risks tainting key commodities

The intersection of human rights, the destruction of natural capital and commodity production provides an important example of why corporates and investors can no longer look at risk in silos. Our analysis reveals clear links between land grabs and biodiversity loss; the poverty, corruption and weak rule of law that drive them; and how these issues enter our everyday lives.

Using our ESG data covering 170 hard and soft commodities, we identify the raw materials posing the highest risk of land grabs. What we've found is an outsized risk to indigenous peoples and natural habitats stemming from a surprising range of commodities that not only provide the food we eat, but also the materials needed to power the energy transition.

Separation of powers under threat in 25% of countries

Another key trend we are tracking is the interplay between political risk and human rights. A major battleground is the separation of powers.

Since 2017, our Judicial Independence Index has identified growing political interference in the legal systems of 45 countries. The consequences are double-edged. For companies in 'high' risk jurisdictions, this could mean a lack of recourse in contract renegotiations, or unfair legal sanctions imposed by governments to punish perceived slights or to achieve geopolitical aims. But it also undermines the protection of human rights by enabling states to pursue political opponents, activists and journalists with legal penalties, while removing access to remedy for victims of violations.

Final word

The issues covered here are not exhaustive, but they do show a direction of travel. It is difficult to say things are improving, but it is not all bad news. Investors have more opportunity to influence how governments and companies act than at any other time. The concept of ESG has gone mainstream and organisations are embracing the idea that managing these issues well will also drive better business performance. If matched by proactive efforts by lawmakers and regulators in key jurisdictions, this has the potential to achieve the more important aim of improving the lives of millions.

For now, understanding your risk is the first and most important step you can take. The rest will hopefully follow.

Worldwide decline in labour rights strikes at heart of global supply chains



Sofia Nazalya
Human Rights Analyst

Child labour, modern slavery and discrimination all on the rise in manufacturing hubs

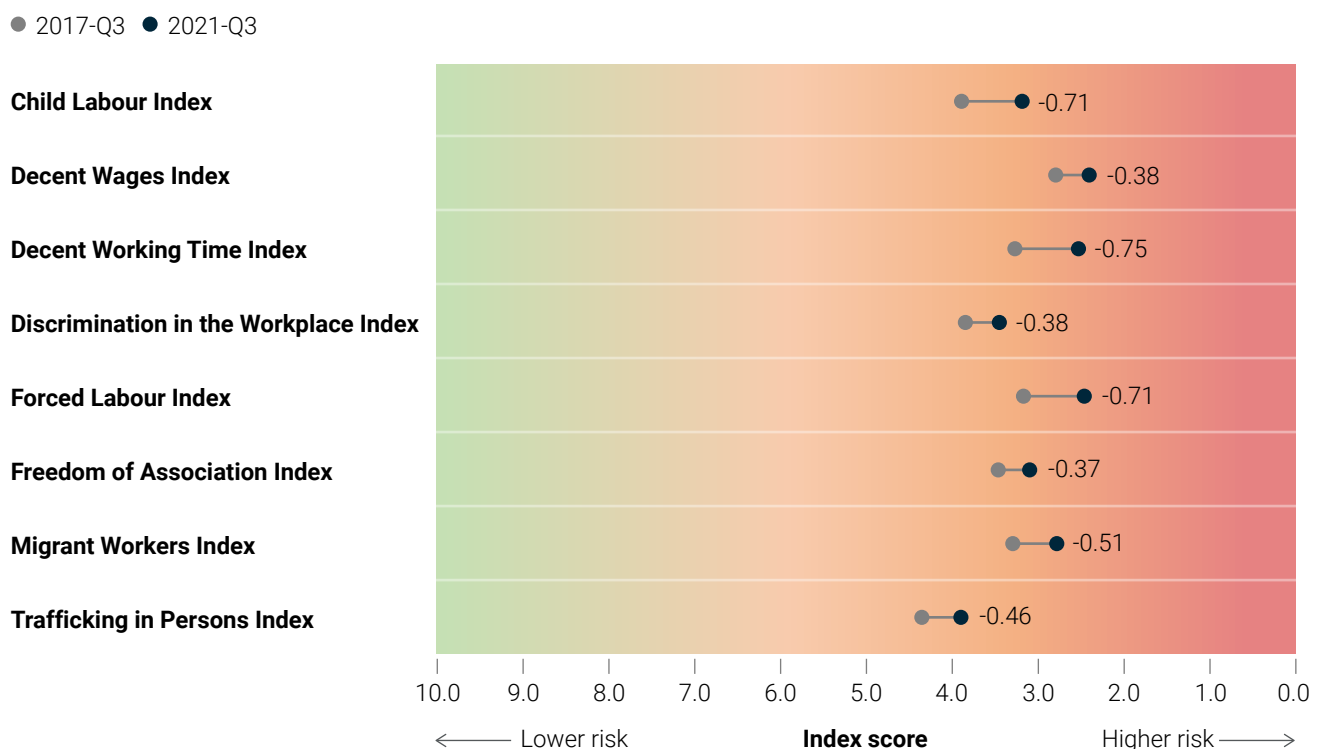


The last 18 months have seen health crises, disasters, conflict and widespread human rights violations flare up in the world's major sourcing countries, making the challenges of maintaining responsible supply chains more difficult than ever. However, according to our data, these recent events are more than an aberration. They form part of a sustained trend where the rights of workers are under increasing threat from multiple directions.

Across the board, our risk indices show that issues such as child labour, discrimination, forced labour, health and safety, and the exploitation of migrants in the workplace have worsened globally for the past five years. And nowhere is this happening more than within the world's manufacturing hubs. This decline, all taking place against the backdrop of a global pandemic, presents a set of dilemmas for ethical procurement for which there are no easy answers.

Figure 1: Verisk Maplecroft's data reveals decline in labour rights issues across key sourcing locations

The chart shows the average decline in risk score across 11 key sourcing countries: Bangladesh, Cambodia, China, India, Indonesia, Malaysia, Mexico, Pakistan, Philippines, Sri Lanka and Vietnam.



Source: Verisk Maplecroft

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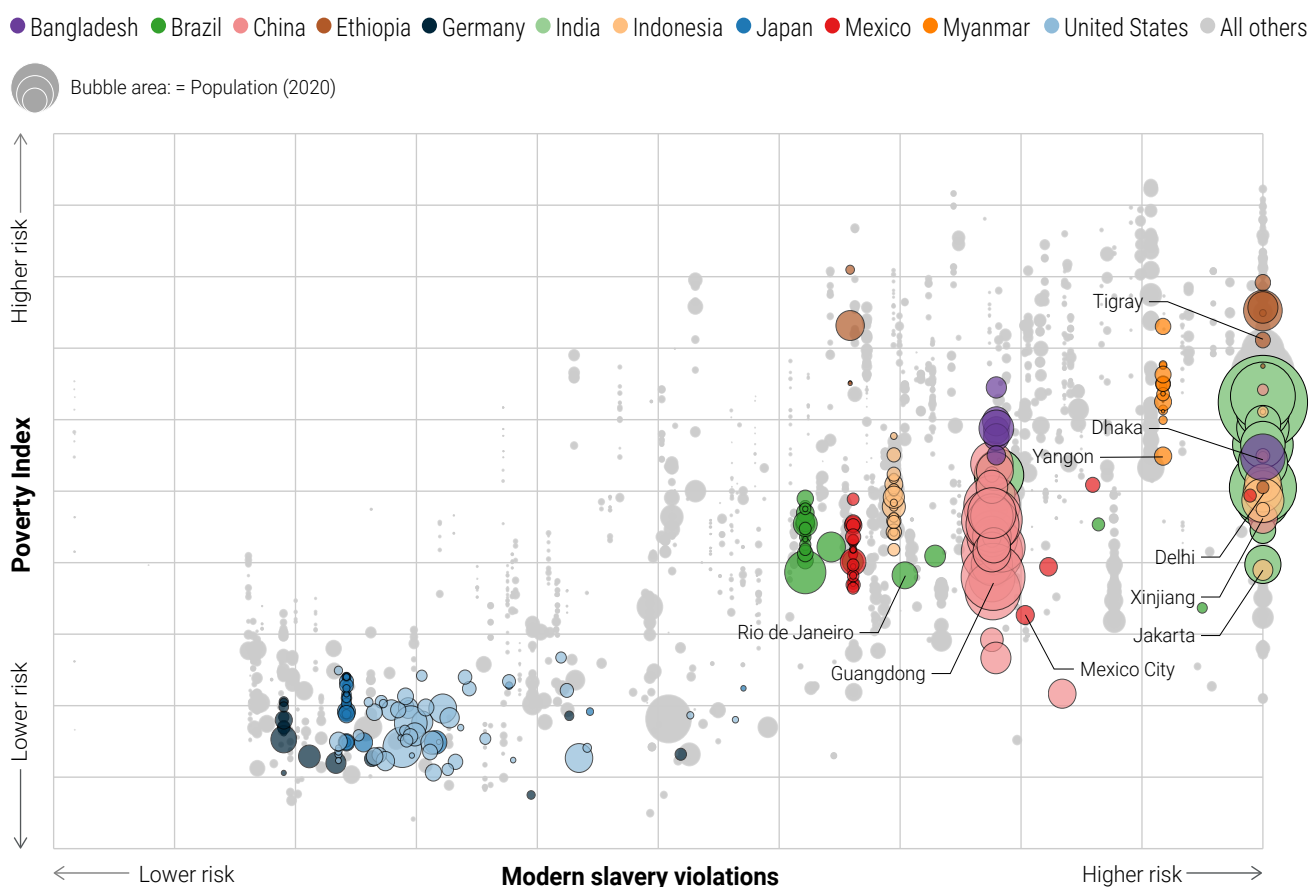
Myanmar, Bangladesh, Vietnam, Cambodia downgraded to 'extreme' risk for modern slavery

When you drill down into the individual issues making up the labour rights landscape, the complexities facing global supply chains are as varied as they are challenging. Let's take modern slavery.

The latest annual edition of our Modern Slavery Index shows that over the last five years Myanmar, Bangladesh, Vietnam and Cambodia have all plunged from 'high' to 'extreme' risk in the ranking of 198 countries to join the likes of China, Pakistan and DR Congo. Their inclusion means the number of countries in the highest risk category of the index has jumped to 30 since 2017, up from 25. In this period, Vietnam (ranked the 26th riskiest country globally) and Cambodia (28th) have seen the largest fall in rankings in Southeast Asia, dropping 53 and 36 places respectively; this is due to an intensification in violations and a deterioration in the enforcement of labour laws.

Figure 2: A host of sourcing hotspots have worst possible modern slavery violations scores

Poorer locations exhibit higher risk of modern slavery.



Source: Verisk Maplecroft

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“...any dealings in Xinjiang are likely to create material risks.

Narrowing the focus even further, our subnational data reveals that pockets of ‘extreme’ modern slavery risks exist within 20 countries that otherwise score as ‘high’ risk on a national level. Furthermore, a third of all subregions in the world – 1,101 out of 3,338 – pose an ‘extreme’ risk to supply chains for modern slavery violations.

As shown in Figure 2, many key Asian manufacturing hubs – China, India, Vietnam, Indonesia, Cambodia and Bangladesh – are home to the riskiest subregions. Our data finds that approximately 2.2 billion people live in areas that record the worst possible score.

Xinjiang now a ‘no-go’ for responsible sourcing

Widespread reports of human rights violations against the Uyghur population in Xinjiang have turned the global court of public opinion against Beijing. Pressure on brands sourcing from the region is building, not least from US sanctions targeting raw materials and products produced there, but also from a range of international sanctions on Chinese officials and companies.

It is unsurprising to see that the region is one of two in China that is rated ‘extreme’ risk in our subnational Modern Slavery Index (see Figure 3) – the other being Tibet. The situation in Xinjiang has opened a Pandora’s box for companies, which must perform a delicate balancing act of remaining in-country on the one hand and meeting their responsible sourcing obligations on the other.

With no possibility of a resolution in sight, the reality for companies operating in China is that they will face an increasingly hostile political environment should they be seen by Beijing as divesting from Xinjiang. As the world ratchets up pressure on China, companies must also anticipate potential bans on additional products produced in the region, such as footwear, cell phones and other agricultural and food items. Nevertheless, even without explicit bans, the reputational risks of being linked to Xinjiang are likely now too great for companies to bear.

Additionally, as investors increasingly incorporate ESG strategies into their investment formulas, any dealings in Xinjiang are also likely to create material risks. To avoid rising scrutiny, many companies are now seeking alternative suppliers.

Pandemic exacerbates declining OHS for workers

Even as countries push to immunise their citizens, manufacturing will remain hindered by both slow vaccine rollouts and ongoing restrictions. As Asia continues to put out new fires arising out of COVID-19 variants, we expect intermittent lockdowns similar to those imposed in India and Myanmar. The absence of secure work will have long-lasting implications for workers. Factory closures put livelihoods at risk, with millions facing underpayment or non-payment of wages.

Figure 3: Modern slavery in Xinjiang affecting multiple sectors



Source: Verisk Maplecroft

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In Bangladesh, where the garment industry has previously been exempt from lockdown restrictions, workers have not been prioritised for inoculation, and have been left little choice but to work in conditions where the virus is likely to spread. The situation is broadly similar in Indonesia, Sri Lanka and Cambodia, where outbreaks in garment factories have been reported.

Even with increased vaccinations, the prospect of improved occupational health and safety (OHS) in Asia remains dire. Our data shows a steep decline in OHS in sourcing countries over the last five years (see Figure 4). High-profile disasters such as the Rana Plaza collapse in Bangladesh have failed to trigger more robust enforcement – as is evident in the July 2021 factory fire in Dhaka that killed at least 52 people.

Figure 4: Steep declines in Occupational Health & Safety Index puts Asian workers' lives at risk

Country	Score change from 2017-Q1*	Risk category
Myanmar	-1.45	Extreme
Sri Lanka	-1.23	High
Indonesia	-0.92	High
Bangladesh	-0.78	Extreme
India	-0.58	Extreme
Cambodia	-0.33	High

*Verisk Maplecroft considers change above 0.5 as significant. Countries are scored from 0-10. Source: Verisk Maplecroft

“ Investor backlash and consumer boycotts are likely to arise if manufacturers are seen to be associating with abusive regimes.

Spiraling humanitarian crises too big a price to pay for low labour costs?

It is not just labour rights that are stoking concerns for responsible sourcing departments though. The ongoing crisis stemming from the military coup in Myanmar and ethnic conflict in Ethiopia have dashed hopes of the two countries becoming major manufacturing hubs for the foreseeable future. Our Security Forces and Human Rights Index shows the severity of the situation, with both countries recording the worst possible score for violations. Investor backlash and consumer boycotts are likely to arise if manufacturers are seen to be associating with abusive regimes.

On the other hand, abandoning an existing workforce is unlikely to be seen favourably either. Myanmar has 700,000 garment workers, mostly women, while Ethiopia is home to 100,000. Many face unemployment in the event of a sourcing shift to South Asia – an option already taken by manufacturers directly impacted by the Tigray conflict.

While these emerging sourcing hubs were once attractive for their low labour costs, companies that choose to remain face heightened risks with continued destabilisation. The threat of new or increased economic sanctions on both countries further compounds the situation. Even if some semblance of political stability materialises in either country, and disruption is kept to a minimum, the ability to responsibly source there will still hang in the balance.

Companies must gear up human rights due diligence as pandemic winds down

The pandemic has not only upended traditional human rights due diligence, it has forced companies to rethink the fundamentals of sourcing low-cost labour from countries that have been devastated by the ensuing socioeconomic fallout. Add to the mix a political and human rights decline in key manufacturing locations and a perfect storm arises for responsible sourcing.

In a climate where volatility appears to be the norm rather than the exception, companies would do well to innovate human rights due diligence measures so that supply chains not only overcome the challenges of current restrictions but become future proof. With increasing expectations for companies to improve their ESG performance, erring on the side of caution is fast becoming the default state of play. Committing to and implementing best-practice responsible sourcing standards will be key to meeting this principle.

The small 's' in ESG is about to get a lot bigger



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Investors wanting to deliver social impact need to expand their data horizons



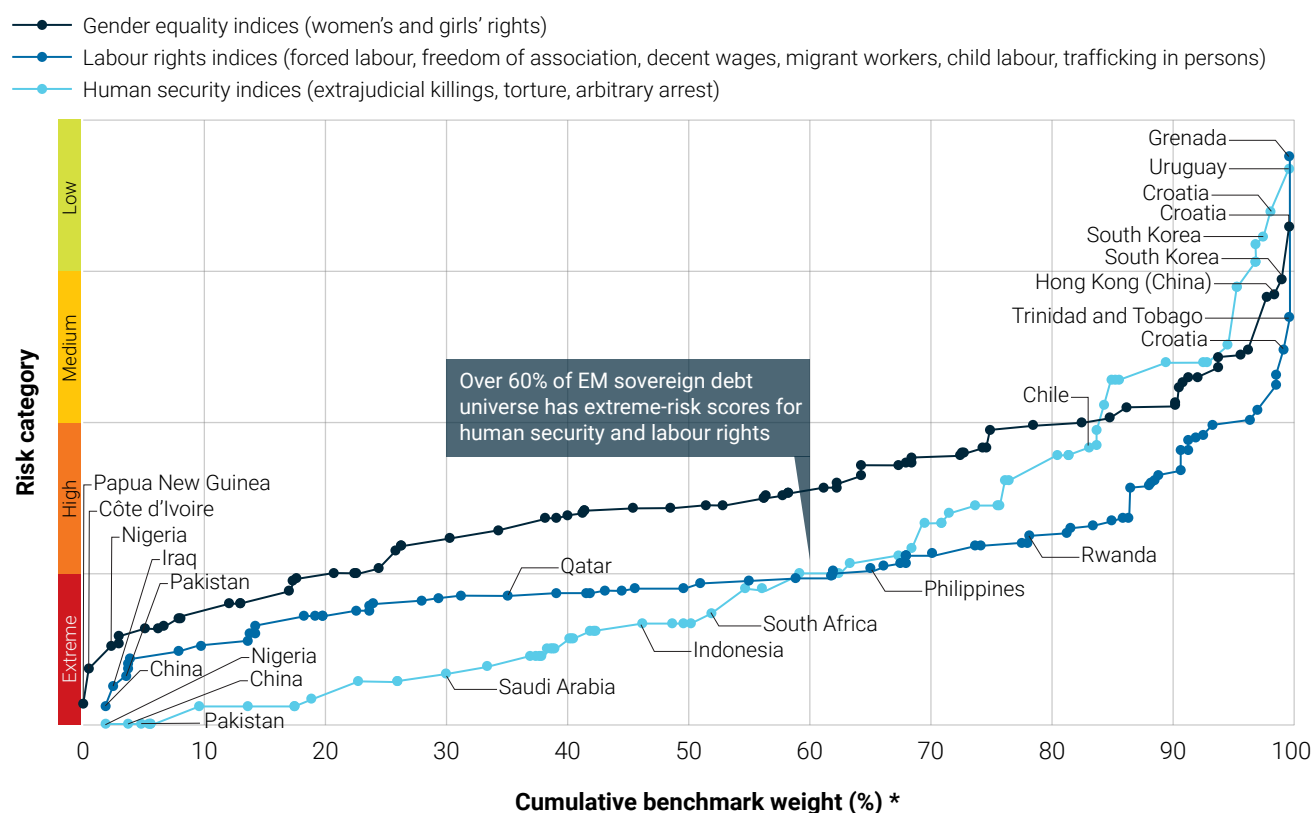
It's hard being an EM portfolio manager, at least when it comes to acting with integrity on social risk. While your employers have most likely signed you up to align your investment practices with ESG principles, most of the debt in your universe is issued by governments that aren't just lukewarm on gender rights and worker protection, but routinely use arbitrary detention, torture, and extrajudicial execution.

As shown in Figure 1, Verisk Maplecroft categorises over three-quarters of EM issuers as at least 'high' risk on these metrics, while 60% of issuers face an 'extreme' risk for labour rights and human security.

By way of example, the death of a bystander in protests in South Africa in March underscored the problem of police brutality that drives the country's 'extreme' risk score for human security. Equally, worker fatalities in the run-up to the Qatar World Cup underscore why the country still registers as 'extreme' risk across our Labour Rights indices.

Yet both countries are popular destinations for EM investment.

Figure 1: Extreme social risks remain pervasive in the EM sovereign debt universe



* Share or weight of EM issuers in overall EM sovereign debt universe. This rises as more countries are added to the sample, which allows us to understand how exposed the issuers are to various risk issues, and therefore how exposed the overall benchmark is.

Source: Verisk Maplecroft

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“ Investment remains heavily concentrated in the best SDG-ranked sovereigns – which invariably tend to be developed markets. And the needle has barely moved over the last decade.

In recent years, some asset managers have agreed how to square the circle: exclude from your portfolio the pariahs like North Korea that are largely un-investable anyway; pay attention to human rights concerns when they threaten returns; and ignore them when they don't. In short, tweak around the edges, but don't do anything to constrain your performance.

But regulators and asset owner clients have called time on this approach. Consequently, fund managers are going to have to work the 'S' in ESG a lot harder.

SFDR – driving social disclosure for investors

Firstly, Brussels is driving a paradigm shift on the 'S'. Under the Sustainable Finance Disclosure Regulation (SFDR), from 1 July 2022 asset managers will need to report on human rights abuses in their sovereign portfolios, as well as explain how they address these abuses in any funds that they label sustainable, before submitting reports by June 2023. The SFDR has extra-territorial reach beyond the EU, making it a de-facto global disclosure standard.

Sovereign debt will be a key battleground because governments are the ultimate guarantors of human and labour rights. But Brussels has set its sights on all dimensions of social risk in all asset classes. In July 2021, the EU Commission's Platform for Sustainable Finance issued a draft report on a proposed 'Social Taxonomy', heralding additional reporting requirements.

Secondly, the current generation of asset owners – and more progressive portfolio managers – want not merely to avoid negative impacts, but to direct and invest capital where it can have the most positive impact. And all while still achieving decent returns.

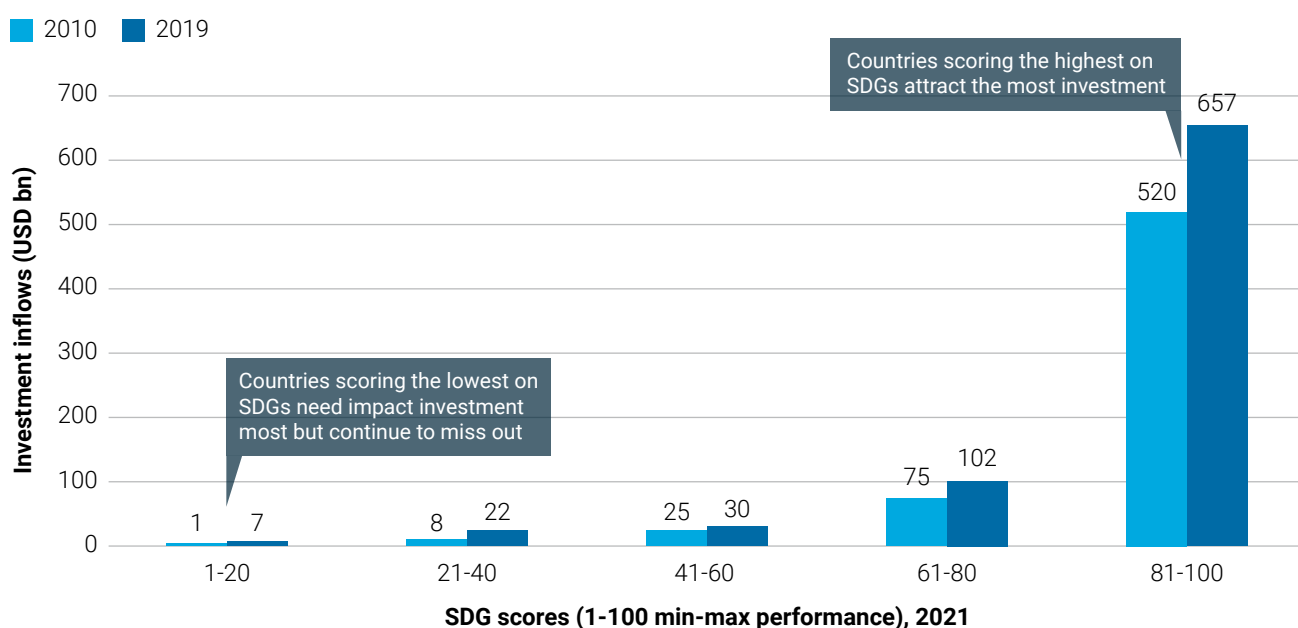
In one sense, this isn't news. Ever since the launch in 2015 of the UN's Sustainable Development Goals for 2030 (SDGs), alongside other impact investing frameworks since then, impact considerations have driven much of the sustainability buzz, with social and development issues playing a central role.

But outside smaller-scale targeted efforts in private markets and development finance, impact evangelists haven't yet had any systemic effect on capital allocation.

As Figure 2 shows, portfolio and foreign direct investment remains heavily concentrated in the best SDG-ranked sovereigns – which invariably tend to be developed markets.

And the needle has barely moved over the last decade. Poorer-scoring countries have enjoyed a modest increase in inflows since 2010, almost all likely driven by macro factors rather than investors' commitment to impact.

Now, however, asset owners want to see action; 2030 is looming ever closer, and the socio-economic devastation wrought by the pandemic in many emerging markets has underscored the urgency.

Figure 2: Global foreign and portfolio investment by SDG score, 2010 and 2019

Source: Verisk Maplecroft

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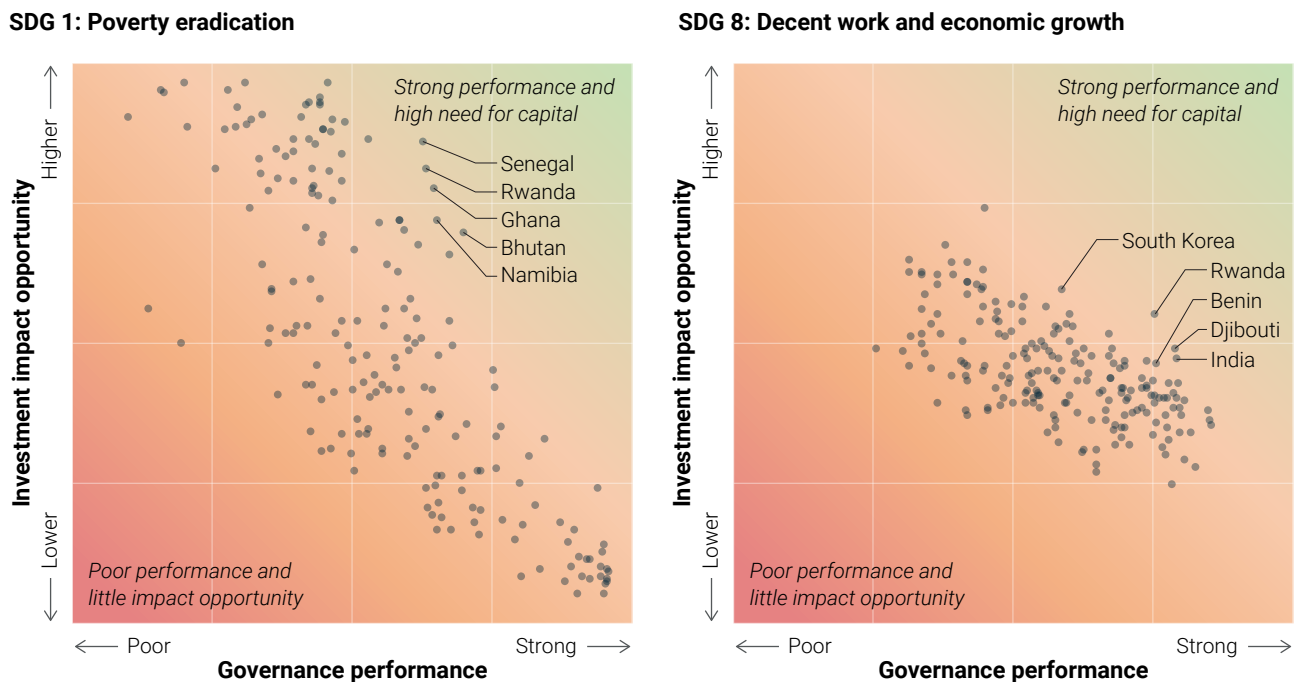
A fresh approach to ESG analysis is needed

The disconnect between rhetoric and reality on social impact is, of course, partly because the asset management industry is bound by fiduciary duty. Poorer countries with greater impact needs often imply higher risks relative to the returns they offer, and in some cases are technically un-investable for mainstream debt or equity managers.

But it is also about inadequate data. Traditional SDG scoring methodologies use a handful of structural KPIs to incentivise portfolio managers to reward those already doing well, while the weaker performers that need investment the most miss out.

Any impact investor in emerging or frontier markets, and especially in sovereign debt, has to answer two questions: which countries most need capital, and which governments are best positioned to use it to close the impact gap? Lending to countries with less need for support on an SDG will frustrate impact-focused clients. But so too will funding governments that need more help but aren't willing to reform or commit to improve on key areas of governance.

We can draw on our indices to help investors navigate the resulting trade-off.

Figure 3: Countries with large impact opportunities tend to perform weaker on SDGs

Source: Verisk Maplecroft

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Figure 3, for example, maps sovereigns on SDG 1 (poverty eradication) and SDG 8 (decent work and economic growth) across both the impact opportunity (how much of a gap there is to close in the first place) and governance performance (namely, the laws, institutions, policies and processes put in place to close that gap). Countries that score highest on both axes are best positioned to benefit from investment. While the negative correlations show just how fine a line managers have to walk, governments quickly become attractive targets for investment by taking the right steps.

Deploying this approach, Senegal, Rwanda and Ghana might be top of mind for investors looking to shift the dial on poverty eradication (SDG 1), both in terms of maximising their investment impact and SDG progress. In August, Rwanda saw a heavily oversubscribed issuance of only its second Eurobond since 2013, in a sign of already strong demand from investors.

Meanwhile, to invest appropriately in relation to decent work and economic growth (SDG 8), managers could consider channelling capital to the West African state of Senegal, which under President Macky Sall is something of an outlier in an otherwise volatile region in terms of making tangible governance progress (including against corruption) in recent years.

Ahead of a presidential election in 2024, the Sall government will need to uphold prudent fiscal management. But with cash-strapped state bodies remaining vulnerable, the sovereign could be a good opportunity for institutional investors wanting to have an impact on decent work and employment, potentially via the existing national development plan (PSE).

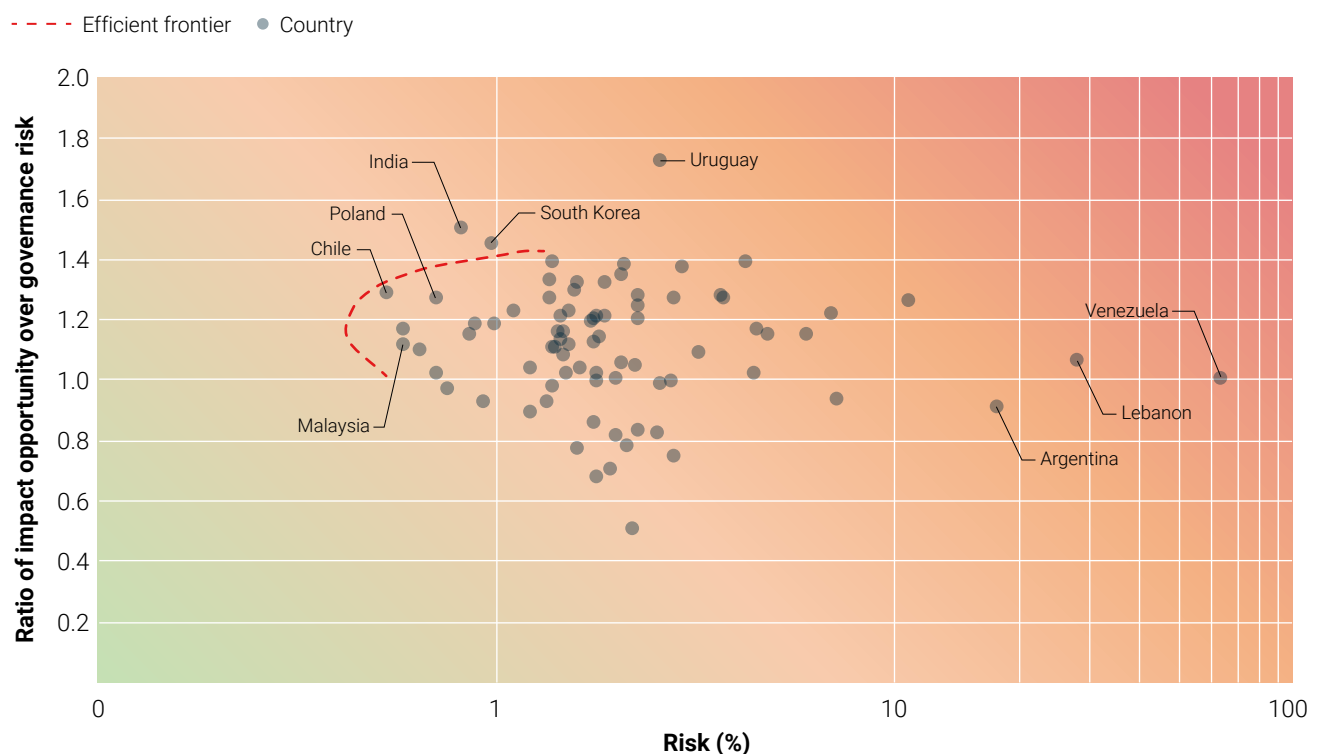
How to reach an optimal solution?

Nothing is risk free. Investments that are truly impact-aligned will not always achieve the best returns. But investors can use our two-dimensional approach as an input into their portfolio analytics to seek an optimal mix of both.

Figure 4 sets the ratio of impact opportunity over governance risk against conventional financial risk for EM/FM hard currency issuers. It shows, at a simple level, that an impact-seeking investor could use conventional portfolio analytics to optimise impact against risk. Country-level impact opportunities and risk data can also be applied in other asset classes with some adjustments, for example modifying country risks with firm-level performance data in equities.

Figure 4: Portfolio optimisation – balancing impact opportunity with risk for SDG 8 investment

This chart exemplifies an EM debt portfolio that balances risk (volatility of returns) against an optimal ratio of impact opportunity to governance risk for SDG 8, i.e. maximal impact opportunity and minimal governance risk. Successful risk-vs-return optimisation should place a portfolio along the efficient frontier line.



Source: Verisk Maplecroft

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Share the burden

To spread the risk burden, private investors can also collaborate with other stakeholders such as regional development finance institutions to partially de-risk investments in frontier economies with very shallow capital markets.

Alongside broader investor engagement with governments, sustainability-linked sovereign bonds are another option – and well suited for data that systematically offset impact opportunities against policy performance and governance.

Abandoning the easy win-win rhetoric of the past decade may prove too bitter a pill for some to swallow. But encouragingly, asset owners and leading asset managers are already beginning to move on these fronts. We also expect regulatory definitions of fiduciary duty to evolve to acknowledge the changing investment environment.

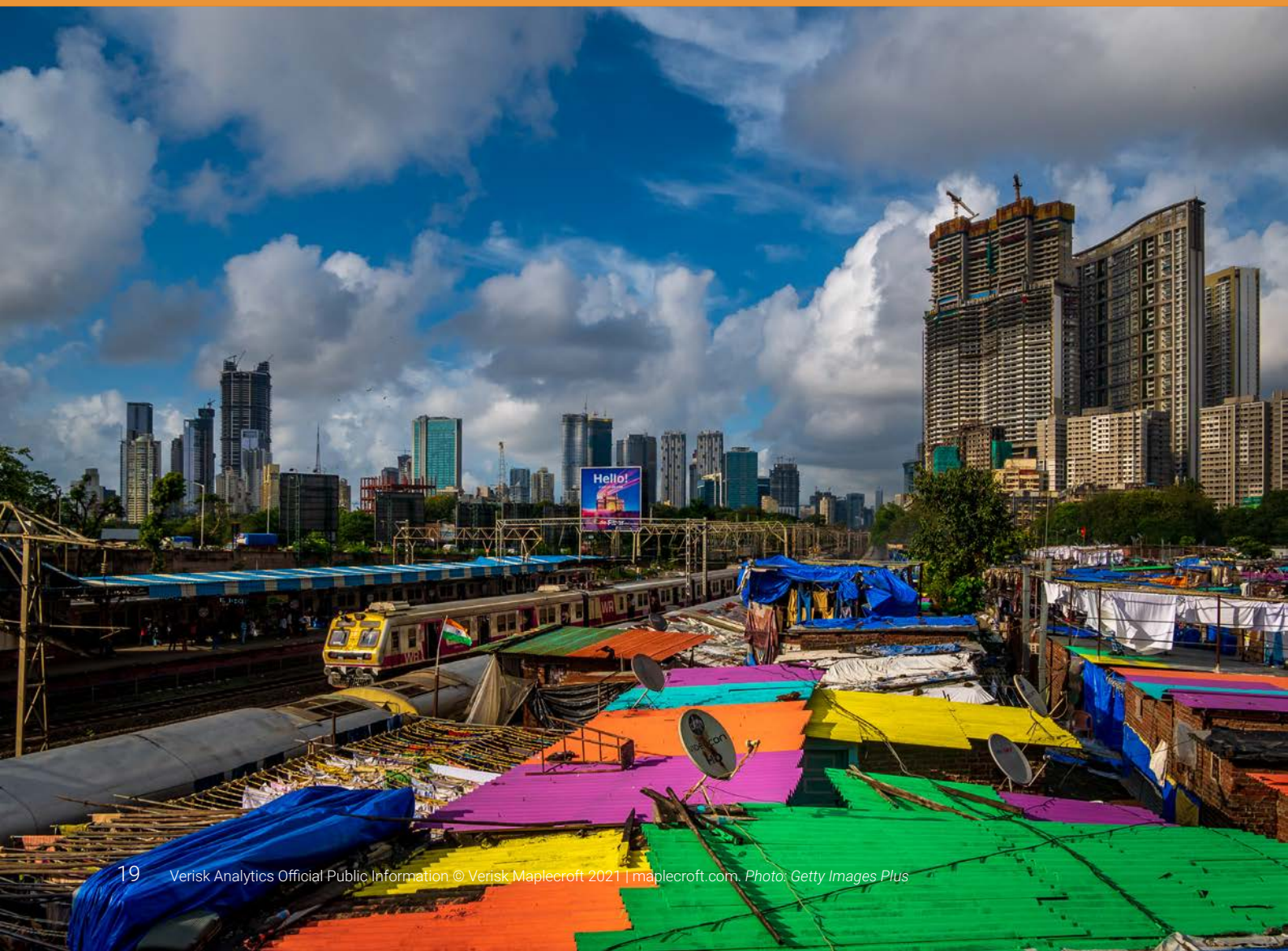
Ultimately, whatever approach an investor opts for, our advice is clear: SDG, impact need, and country ESG performance all have to be critical inputs if asset managers want to have systemic impacts on social risk.

40% of world's top FDI destinations rated 'high' or 'extreme' risk for human rights



Sam Haynes
Head of Risk Analytics

Ranking of 575 cities names Mogadishu, Aleppo, Pyongyang, Sanaa as worst human rights hotspots



Whether it's regional headquarters, tech hubs, finance centres, manufacturing hotspots or key real estate markets, multinational companies and investors are going to have a footprint in many of the world's major cities. Most organisations will have assessed their exposure to climate-related or political risks, but not enough will be paying close attention to the human rights environment, which could be just as damaging to their interests if they are caught up in abuses against citizens or workers.

Using our subnational data to assess the social risk landscape of the world's 575 cities with a population over 1 million, we've found that the human rights of citizens in 38 of the top 100 locations for foreign direct investment (FDI) – including Shanghai, Beijing, Abu Dhabi, Dubai and Jakarta – are at 'high' or 'extreme' risk.

The Cities@Risk Social Index measures risk across three pillars – civil and political rights, labour rights and poverty – and covers human rights issues such as the right to protest, security force abuses, child labour, modern slavery, and health and safety. The index identifies Somalia's Mogadishu as the worst performing city globally overall, while Pyongyang in North Korea has the world's highest levels of state oppression and the worst labour rights. However, more importantly for business, 75% of the cities assessed, 426 in total, sit within the two highest risk categories, bringing into question the ESG credentials of a swathe of important commercial hubs that are home to 1.4 billion people and at least one in every ten dollars of FDI.

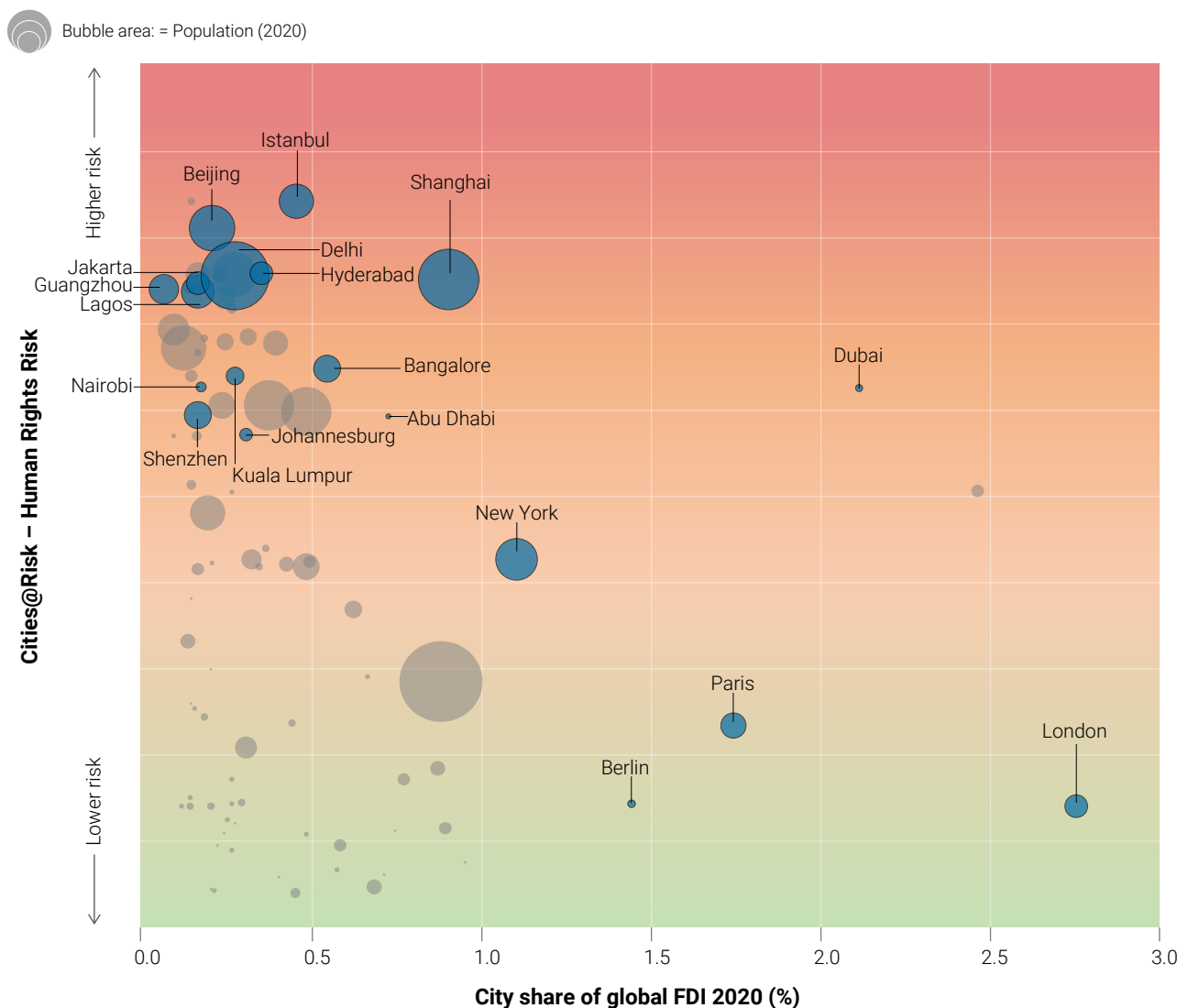
FDI into major cities presents reputational risks

Looking at the top 100 cities for foreign direct investment in 2020 (data courtesy of fDi Markets, the foreign investment monitor of the Financial Times), we've examined the relationship between top FDI destinations and their social risk.

In all, 33 of these cities, representing USD71 billion of inward investment, are classified as 'high' or 'extreme' risk in the Cities@Risk Social Index. However, when just focusing on human rights issues, where poverty is excluded, we see that number jump to 38, nine of which are rated 'extreme'.

This doesn't mean that organisations investing in these locations will be complicit in any human rights abuses, but it does raise their risk exposure and the chances of reputational, legal and financial damage if violations are linked to their investments, operations or suppliers.

Out of the top 100 FDI locations, it is Turkey's Izmir and Istanbul that pose the greatest risk to human rights. While this might seem surprising, their performance on labour rights is especially dire, with the exploitation of refugees and migrants a major problem that should be noted by firms with manufacturing supply chains there.

Figure 1: Billions of FDI dollars going to cities with 'high' or 'extreme' human rights risks

Source: fDi Markets

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In contrast, the Chinese capital Beijing, which comes in a close third, poses the highest risk among the group for civil rights. Elsewhere in the country, the commercial hub of Shanghai, which is the 8th highest recipient of FDI globally at around USD8 billion, also poses an 'extreme' risk to the civil rights of its citizens and a 'high' risk for labour rights. That picture is similar, if not worse, across other Chinese investment hotspots, including the important manufacturing hub of Guangzhou.

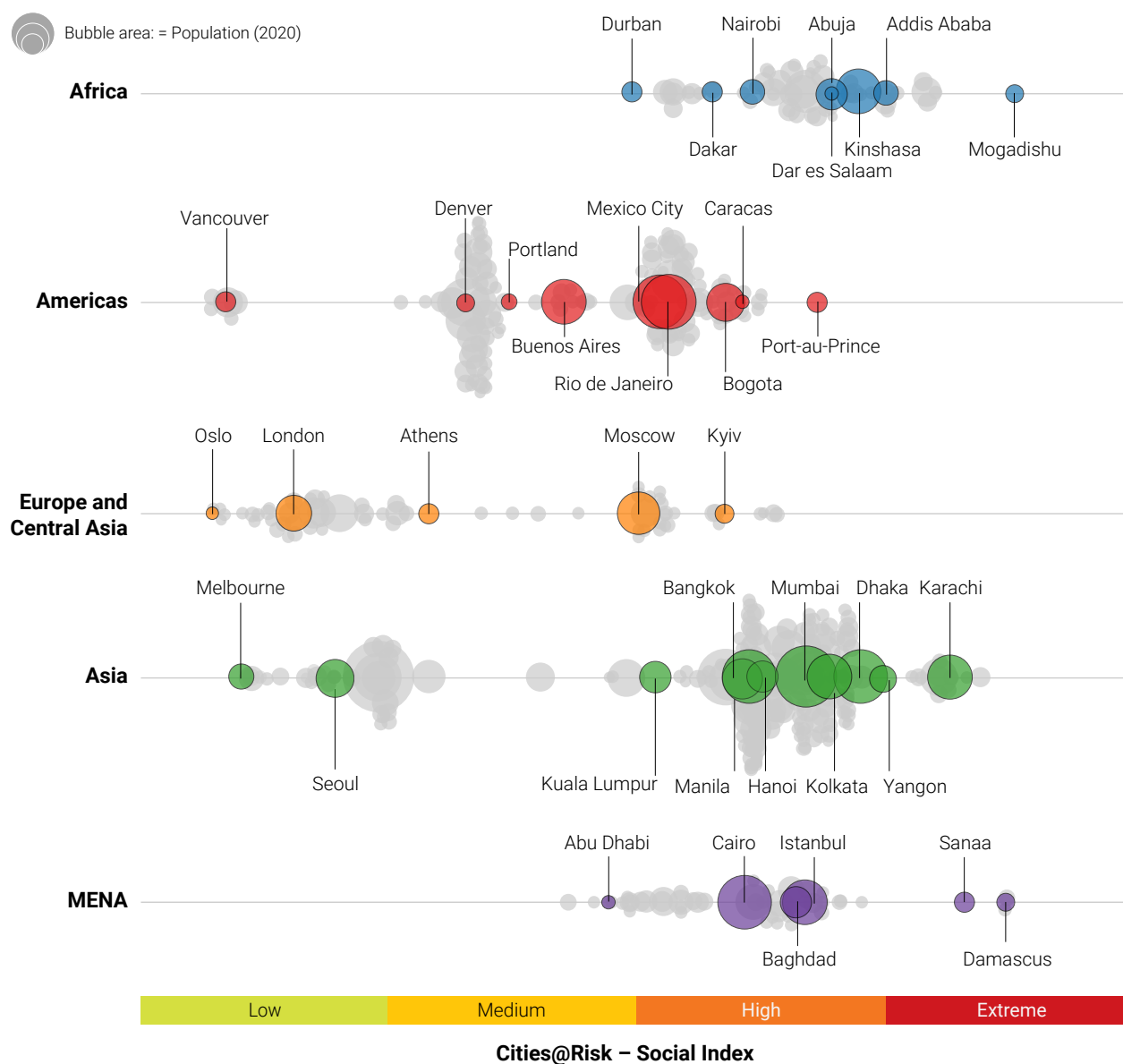
When including poverty alongside the human rights indicators, the five riskiest cities within the top 100 FDI destinations are India's Hyderabad, Pune and Mumbai, Izmir and Nigeria's financial centre, Lagos. Together, these cities attracted 1.15% or USD10 billion of global FDI in 2020. At the other end of the scale, London, the world's most attractive investment destination according to the fDi Markets data, is also among the lowest risk cities globally, ranking 544th in the study.

No region free from social risks

Zooming out to look at the overall ranking of 575 cities shows that 26 are classified as 'extreme' risk, meaning there are widespread violations across multiple human rights issues, alongside pervasive poverty. Outside top-ranked and highest risk Mogadishu, the worst performing cities include Damascus, Aleppo and Homs in Syria, followed by Pyongyang, Yemen's Sanaa, the Pakistani hubs of Quetta, Karachi and Lahore, and Hyderabad in southern India.

Of the 426 major cities that fall into the 'high' or 'extreme' risk categories, Asia is home to 240. But as figure 2 shows, the risk is spread globally, with investors and companies widely exposed to social risks in the metropolises of nearly all regions.

Figure 2: 426 cities, home to 1.4 billion people, are rated as 'high' or 'extreme' for social risks



“Our data shows that over 98% of residents in major African cities live in locations where poverty, exploitation or oppression are present...

The exception is Europe and Central Asia, which doesn't feature at all in the global top 100. Kharkiv, Ukraine, is the region's worst ranked city at 182nd, while Kyiv and Moscow come in at 327th and joint 422nd respectively. Their 'high' risk categorisation is largely due to a poor performance on the civil rights and labour rights pillars.

Our data shows that over 98% of residents in major African cities live in locations where poverty, exploitation or oppression are present in varying degrees, with South Africa's Durban the region's sole metropolis in the 'medium' risk category, and even then, only just. Africa's population is expected to rise by 70% by 2035 and, along with Asia, will be responsible for most of the growth in global population in the coming decades. By 2035, if nothing changes, a further 120 million people in Africa and 270 million people in Asia could be living in cities with significant levels of social risk.

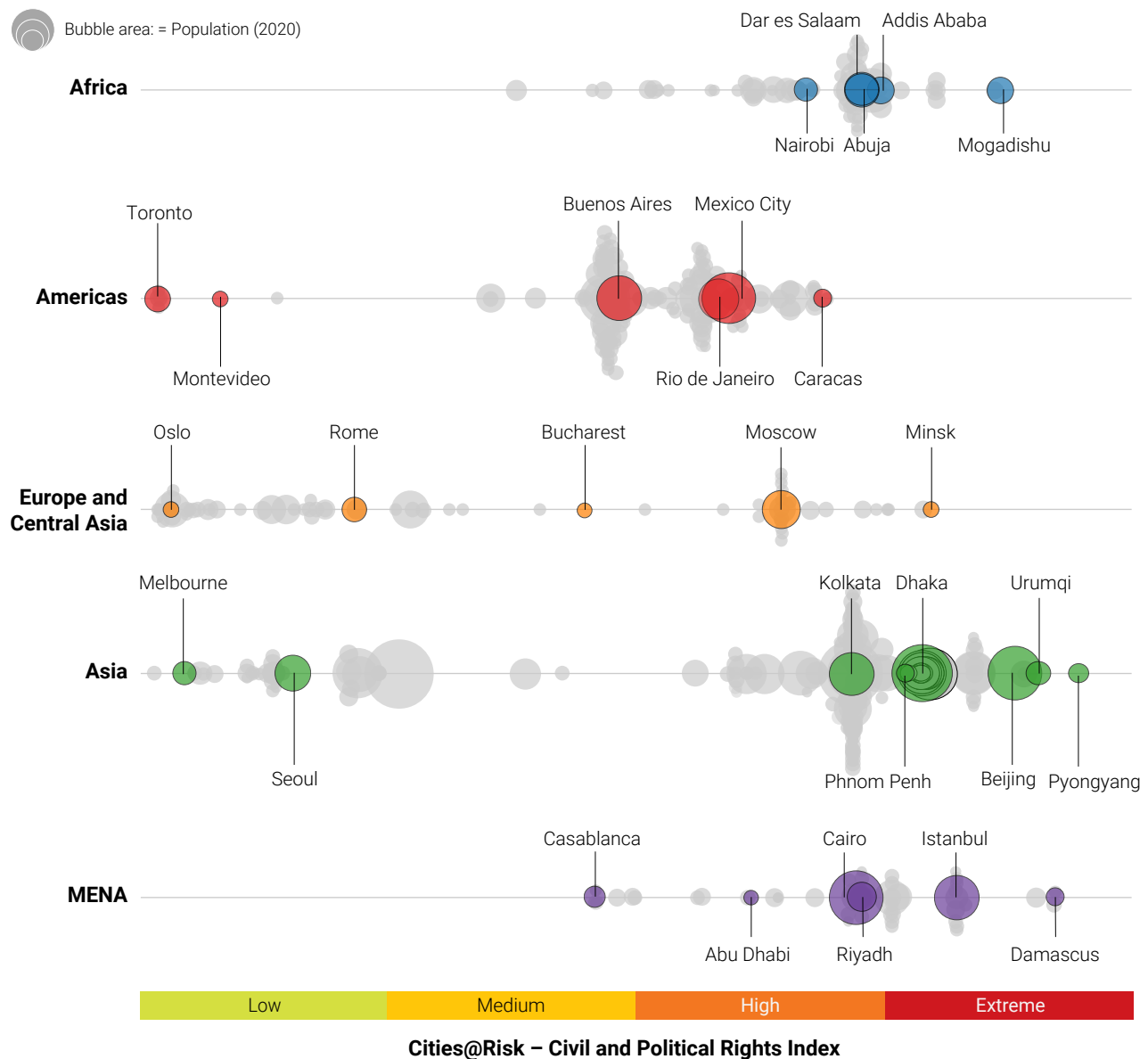
Civil rights under threat

While Minsk is ranked 334th in the overall index, it is rated as 38th highest risk in the section of the study measuring civil rights – the worst of any major city in Europe and Central Asia (see Figure 3). Look no further than the Belarusian state's response to recent anti-government protests, where hundreds were injured and tens of thousands arrested, to see why. Azerbaijan's Baku comes in second place in Europe and Central Asia, and 56th globally.

Like Minsk, Beijing's apparently strong showing of 303rd on the overall Cities@Risk Social Index masks a worrying performance on the civil and political rights pillar, where it is the 9th highest risk city globally.

China's civil and political rights landscape has the potential to affect local and foreign employees. Extreme measures, such as arbitrary arrest, are still rare but do pose a risk for the staff of Western companies from countries embroiled in geopolitical disputes with China. Other actions, such as politicised investigations, which can include breaches of privacy, are becoming an increasing threat, while the curtailing of freedom of speech poses a widespread risk to the rights of domestic and international residents.

Within China, only Urumqi performs worse than Beijing for civil rights. The provincial capital of Xinjiang, and home to a host of Uyghur detention camps, is the 5th highest risk major city globally behind only Syria's Homs, Aleppo and Damascus, and the global capital of oppression: Pyongyang.

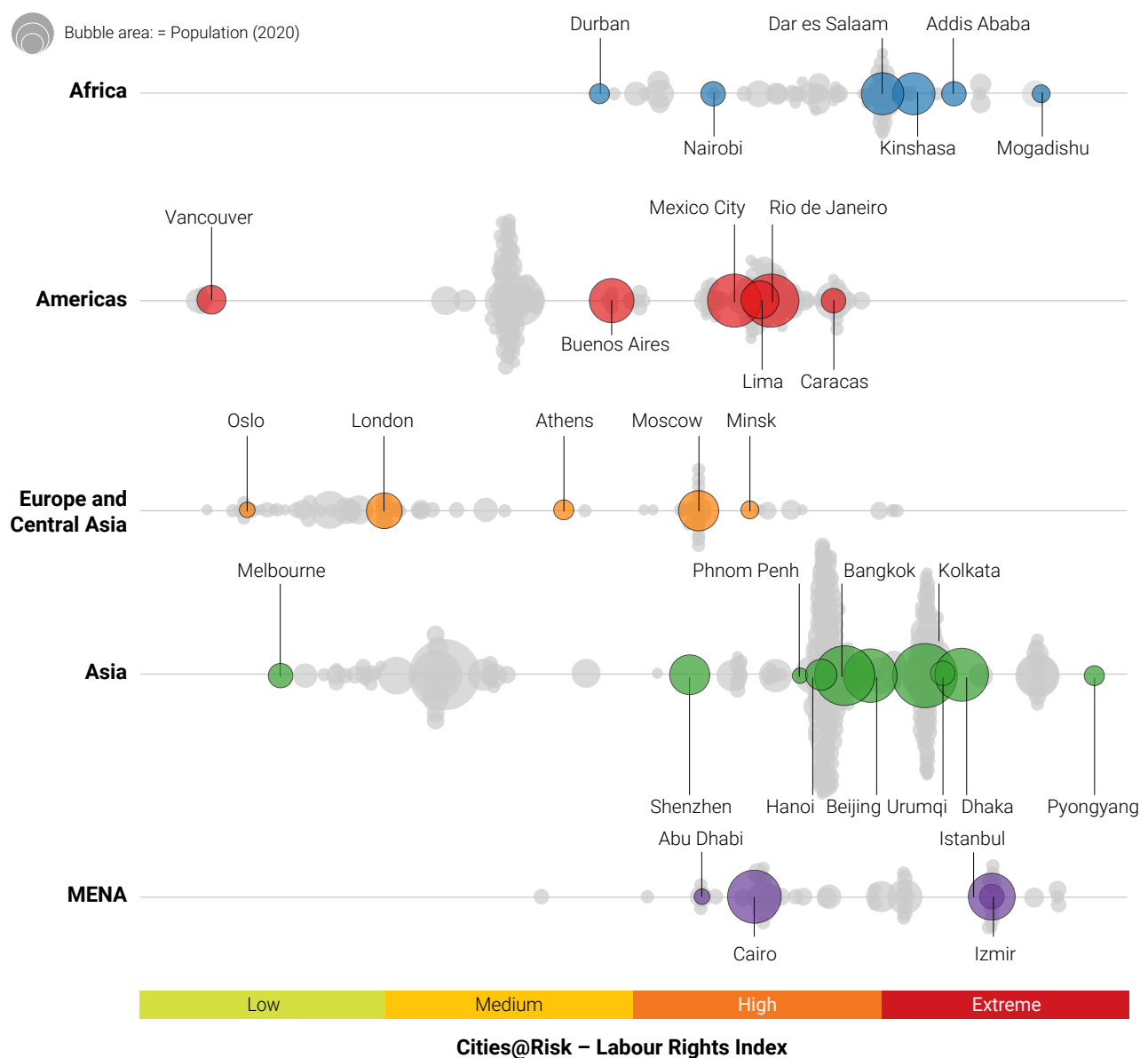
Figure 3: Cities where dissent can be met with repression and violence

Source: fDi Markets

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Supply chain hubs present pervasive labour rights risks

Across 10 major sourcing economies, mostly located in Asia, we rate 248 out of 250 major cities as 'high' or 'extreme' risk for labour rights (see Figure 4). Cities in Pakistan and India, as well as Bangladesh's Dhaka and China's Urumqi, make up the top 20. We've identified child labour, migrant worker exploitation and modern slavery as persistent problems across all the region's 250 major cities, and every single one performs poorly in our occupational health and safety ranking.

Figure 4: The global view of worker exploitation

Source: fDi Markets

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These risks are not confined to the major sourcing countries though. Overall, 441 out of the 575 cities assessed are rated as 'high' or 'extreme' risk for labour rights, including almost half the cities in Europe and Central Asia.

Cities an important piece of the ESG landscape

Cities are often beacons of growth and progress, but investment strategies that ignore social risks can impact the lives of millions by perpetuating negative human rights outcomes. A surging focus on ESG risks, alongside new and emerging legislation governing human rights, supply chains and the sustainability of investments, is also placing companies and financial institutions under the microscope.

Whether you are investing in infrastructure or real estate, sourcing from a local supplier, or bringing a new office or factory online, social risks are going to have to play an increasingly prominent role in your decision making. Screening for social risks is the first step in ensuring you understand your risk exposure – otherwise you are flying blind and open to unwelcome surprises.

Palm oil, cobalt highest risk for commodity-linked land grabs



Will Nichols
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Expropriation of land is inseparable from biodiversity loss, weak governance and corruption



As the world's population expands, the demand for more land to produce the commodities we need grows with it. This comes at a cost. The reality on the ground is that thousands of people are illegally forced from their homes each year so miners and farmers can move in. What is produced on this land can, and does, find its way into the vast volumes of commodities traded by investors – and then into the food and the goods we consume.

Analysing over 170 commodities using our ESG risk data shows that palm oil and cobalt are the two raw materials posing the greatest risk of land grabs globally. But minerals critical to the energy transition – silicon, zinc, copper and rare earths – in addition to less obvious commodities like coconuts, garlic and yams, are highly associated with the practice as well.

Our research also makes a clear link between land grabs and the loss of natural capital, an increasingly popular term covering the services provided by nature, such as clean air and water, pollinating insects, and soil quality. Both land grabs and natural capital degradation are influenced by poverty, corruption and weak rule of law. Failing to understand these interconnections leaves corporates and investors exposed to reputational, regulatory and potentially legal threats that a more holistic view of the risks involved in commodity production might avoid.

Key commodities most at risk

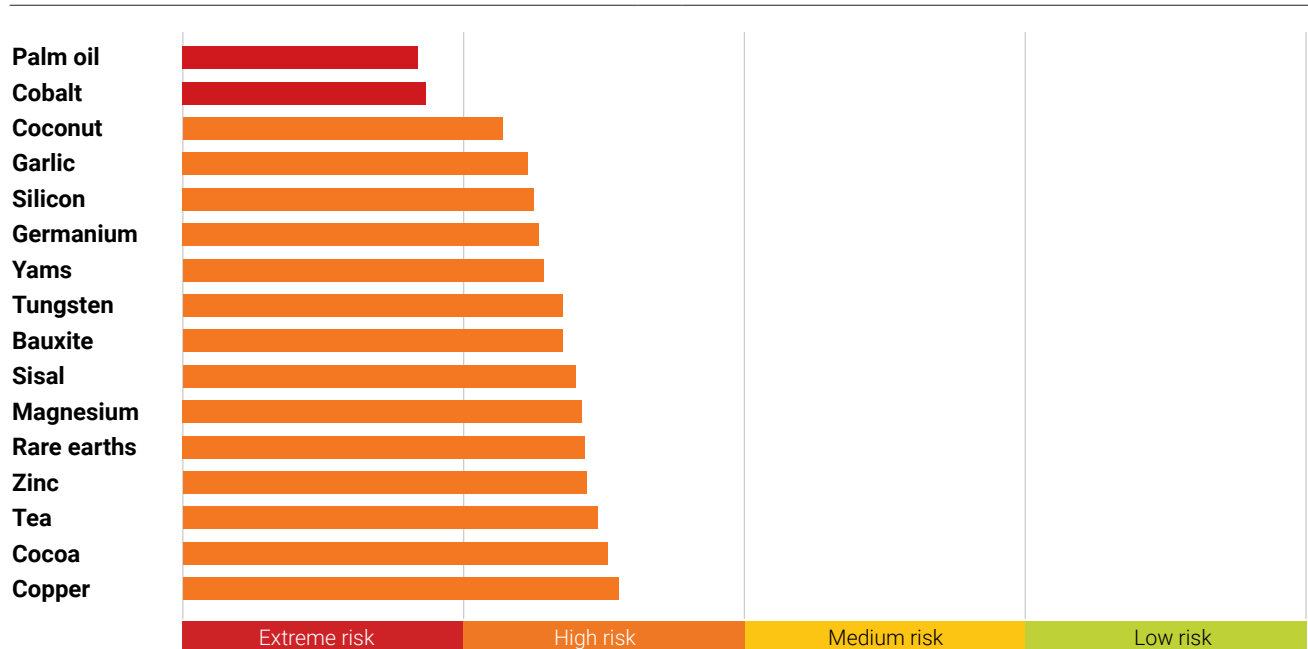
Unsurprisingly, palm oil is ranked highest risk for land grabs of all the hard and soft commodities our data covers. As shown in Figure 1, this is largely because the greatest risk lies in its biggest producer – Indonesia. The country produces more than half the world's palm oil and land conflicts are on the rise. One NGO, the Consortium for Agrarian Reform (KPA), recorded 241 land conflicts across Indonesia in 2020, 10 times the 24 reported during the last global recession in 2008.

Alternative sources of palm oil that avoid the risk of land grabs entirely are hard to come by though. Malaysia, the next largest producer, is rated as 'high' risk for the issue by our commodities data. Together, the two countries account for around 85% of global production.

Cobalt, the only other commodity to be rated 'extreme' risk for land grabs in our commodities data, has long been linked with child labour and unsafe working conditions, particularly in DR Congo. But the country also has a poor record of land expropriation. On-the-ground studies report communities face frequent evictions, derisory compensation, and almost non-existent consultation at the hands of negligent mining companies and corrupt officials. Our commodities data rates DR Congo's copper, gold, tantalum and diamond industries as 'high' risk by weighted volume.

Figure 1: Commodities most exposed to land grabs, weighted by volume

Risk scores are highest in commodities with significant production in countries with the greatest threats.



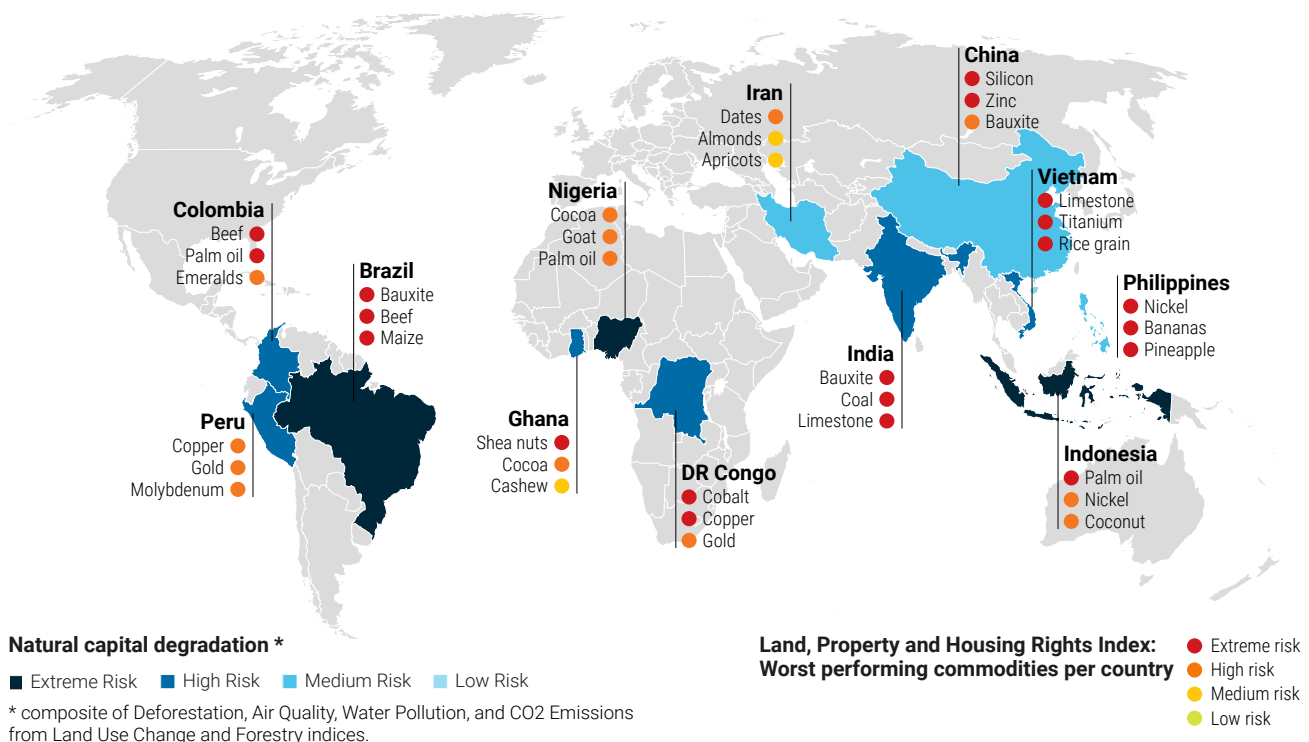
Source: Verisk Maplecroft, FAO, US Geological Survey

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These hidden ESG threats also impact materials other than cobalt that are crucial for the energy transition, including silicon, zinc and bauxite, which all originate from a small number of ‘extreme’ risk suppliers. Unless threats to human rights in the supply chain like these are addressed by companies and investors, it will be increasingly hard to justify labelling the likes of EV’s, lithium-ion batteries and solar panels as ‘clean’ technology’.

The breadth of raw materials associated with land grabs is surprisingly wide, as illustrated in Figure 2, which features data from our Land, Property and Housing Rights Index. This index measures the risk of land expropriation across 198 countries and 170 commodities by assessing the legislation protecting citizens, adherence to international structures, enforcement of laws, and the severity and frequency of violations. The map shows the three highest risk commodities for the 12 highest risk countries. Among these are a host of metals – cobalt, copper, bauxite, gold, molybdenum – and agricultural goods, led by palm oil, but also including cocoa, maize, rice, bananas, cashews and coconut.

All but three of these 12 highest risk countries are also considered ‘high’ or ‘extreme’ risk in terms of natural capital degradation, measured by using a combination of four of our indices: Deforestation, Air Quality, Water Pollution, and CO2 Emissions from Land Use Change and Forestry.

Figure 2: Land grab-linked commodities derive from countries with significant natural capital loss

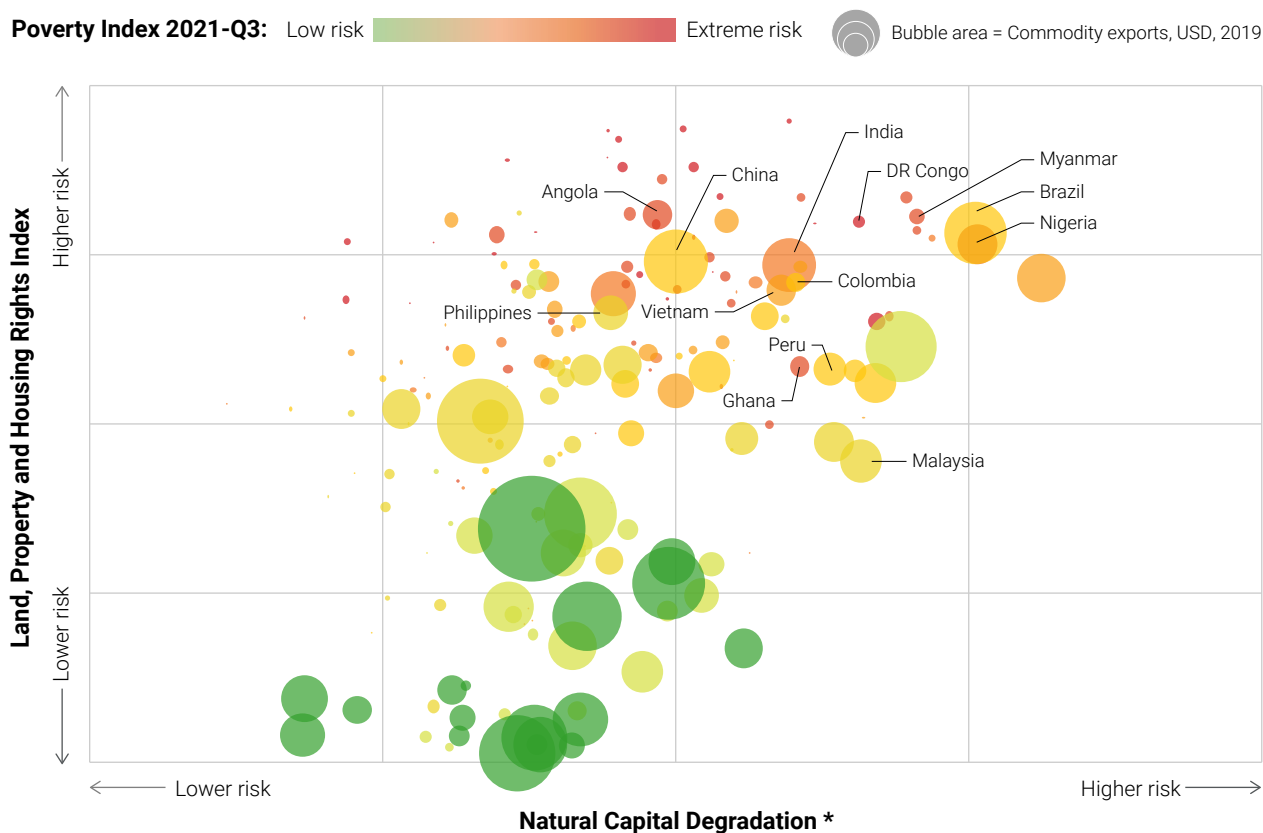
Source: Verisk Maplecroft

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Clear the people, then clear the forest

The loss of biodiversity sits hand-in-hand with land grabs, and the intersection of these two different risks can be seen in our data. Countries in the top right of Figure 3 show higher levels of both natural capital degradation and land grabs. Typically, they are also higher risk in our Poverty Index, as shown by the bubble colour. Where it is harder to make a living – in India, in Myanmar, in Angola – there will be significant appeal in felling forests if it is lucrative enough.

Picking out a few commodity exporters, highlighted by bubble size, Brazil and Indonesia are notable examples of countries with huge agricultural sectors and poor reputations for land grabs and social rights abuses. In these countries, dependence on agricultural revenues literally adds fuel to the fire when it comes to land clearances and razing forests.

Figure 3: Destruction of nature and theft of land: an unholy alliance

* composite of Deforestation, Air Quality, Water Pollution, and CO2 Emissions from Land Use Change and Forestry indices.

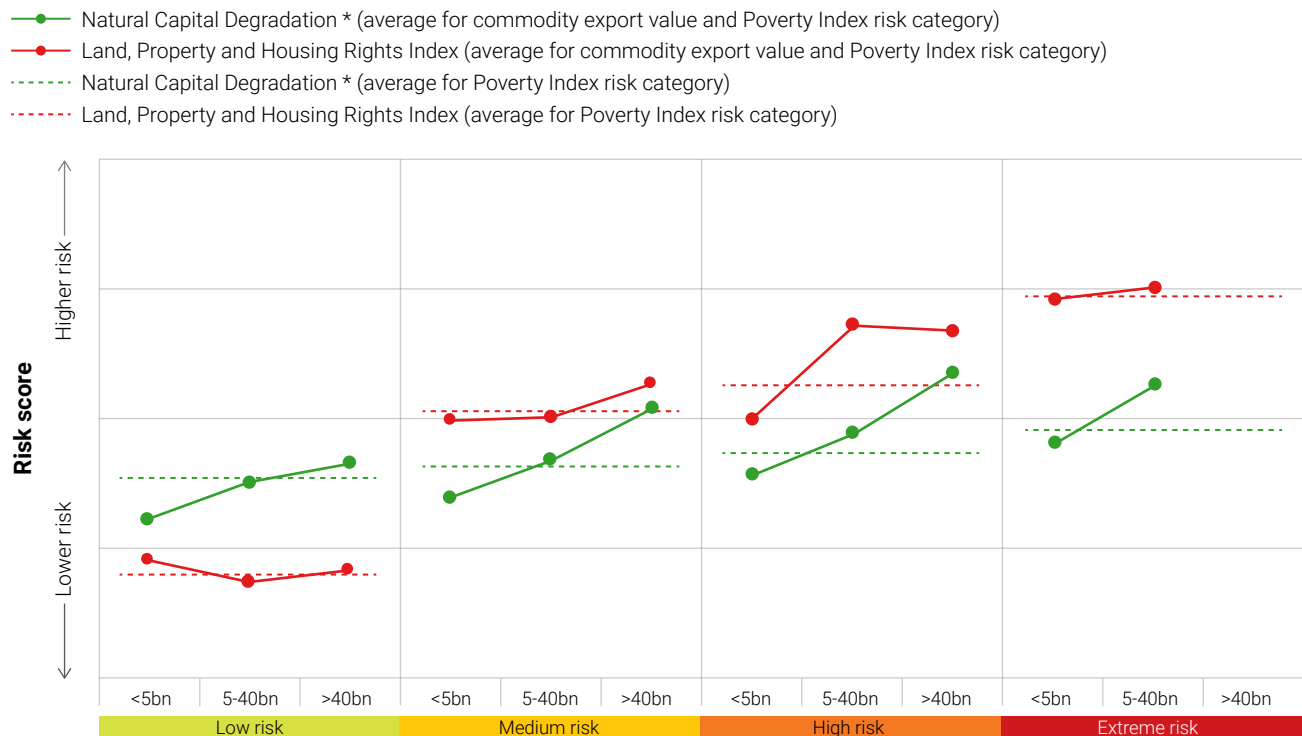
Sources: Verisk Maplecroft, UNCTAD

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Figure 4 confirms that in each category of the Poverty Risk Index, countries' levels of natural capital degradation and land grabs go up the more commodities they export. Their dependence on fluctuating export markets could put nations in the two highest risk groups, such as Brazil, DR Congo, India and Indonesia, firmly in the sights of sovereign investors, who are increasingly looking to influence governments by making finance debt restructuring contingent on ESG performance.

It would be wrong to suggest that poverty is alone in influencing land grabs and natural capital losses: poor governance and corruption are also key drivers, while simultaneously playing a contributing role in solidifying that poverty in the first place. Across the globe, governments lose USD7 billion to USD12 billion per year in potential fiscal revenues from illegal logging, fishing and wildlife trade.

The connection with abuse of indigenous peoples' rights is also undeniable. Indonesia, Brazil, India, Myanmar and Angola all feature in the risky top right of Figure 3 and are also considered 'extreme' risk in our Indigenous Peoples' Rights Index.

Figure 4: Large exporters have greater risks of land grabs and natural capital degradation**Country groups by value of annual commodity exports (USD, 2019) and Poverty Index risk category**

* composite of Deforestation, Air Quality, Water Pollution, and CO2 Emissions from Land Use Change and Forestry indices.

Sources: UNCTAD; Verisk Maplecroft

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Rooting out natural capital threats to organisations

Billions of dollars' worth of illegally produced commodities tainted by land grabs and the destruction of natural capital are washed into global supply chains each year. Corporates, investors and banks must be prepared to determine if their purchases of these goods are linked to expropriated land or trashed ecosystems, otherwise the backlash could be considerable.

Organisations and investors can mitigate risks by working within frameworks like the forthcoming Taskforce for Nature-related Financial Disclosures (TNFDs) to identify natural capital risks and then integrate those findings into corporate strategies. A more proactive approach would see sovereign investors using capital to persuade governments to improve their ESG performance through policies that create jobs and alleviate poverty, which would have the knock-on effect of addressing land grabs and natural capital risk.

As the pandemic continues to roil national finances, these investors may never have a better opportunity to embed a far-reaching, holistic ESG agenda in government policy.

Separation of powers under attack in 45 countries



Capucine May
Political Risk Analyst

Risks to judicial independence increase most in Poland, China and Russia

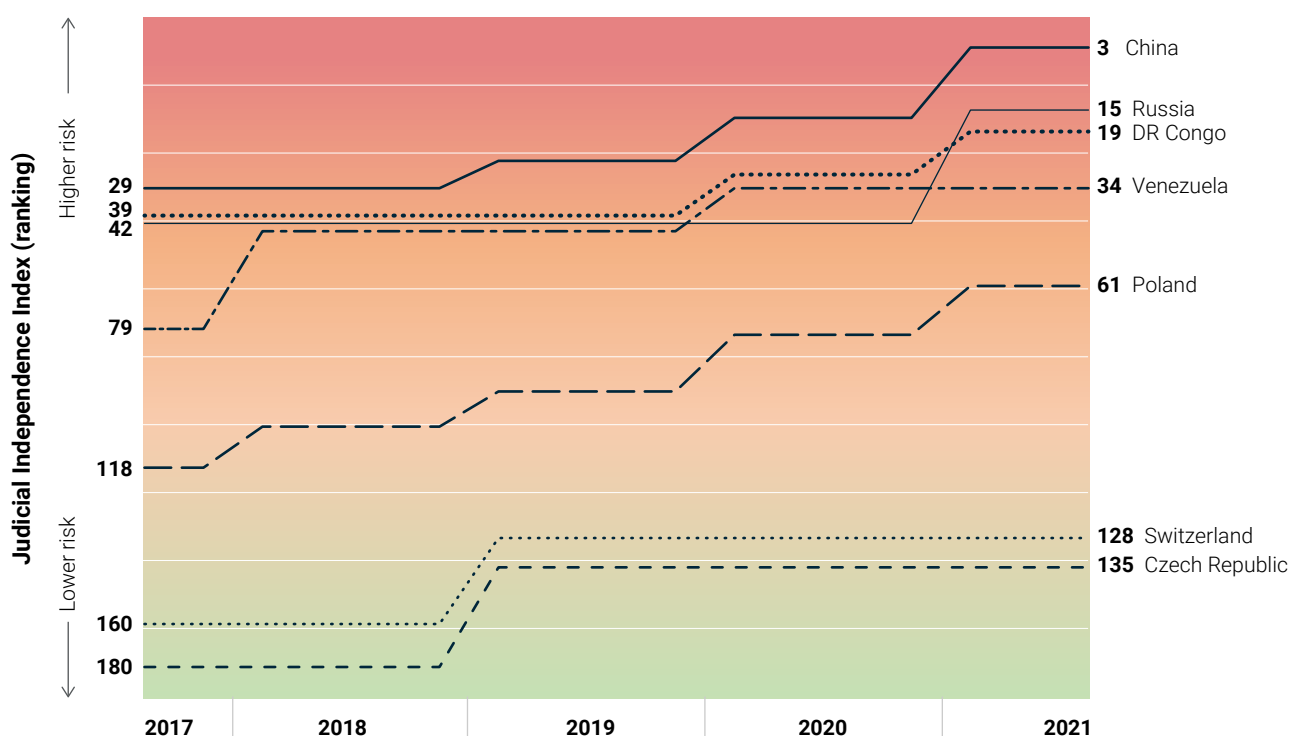


The independence of law courts around the world is coming under increasing threat from governments willing to eschew the separation of powers in favour of a politicised judiciary. Our Judicial Independence Index has identified growing government interference in the legal systems of 45 countries since 2017, a trend which is undermining the rights of citizens and comes at the expense of a level playing field for businesses.

Significant increases in the risk to the independence of the judiciary have been witnessed across all continents, but the situation has deteriorated most rapidly in Poland, Venezuela, China, the Czech Republic and Russia, as shown in Figure 1.

Figure 1: Countries showing largest fall in rankings in Judicial Independence Index since 2017

Threats to judicial independence increase most in Poland.



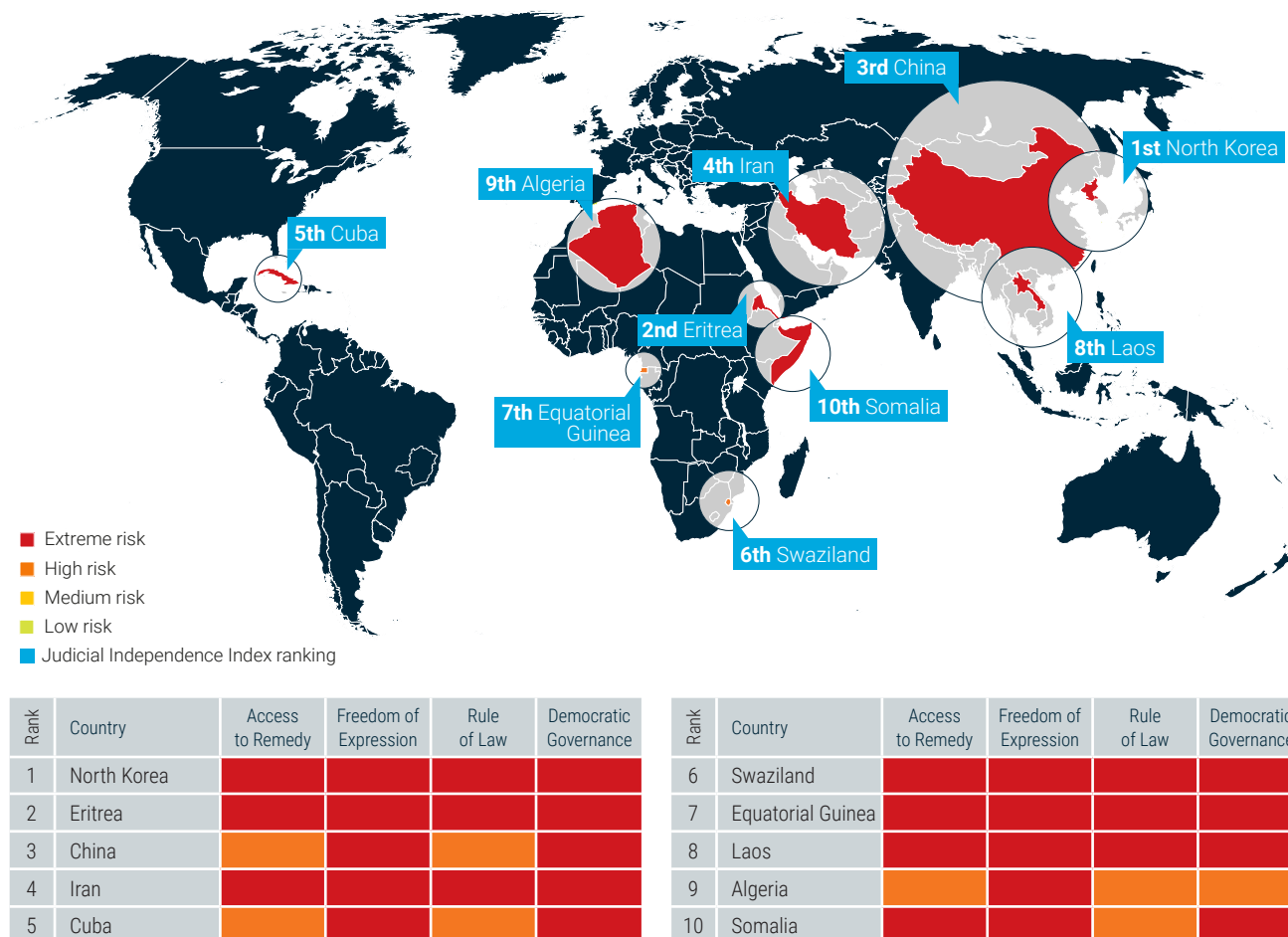
Source: Verisk Maplecroft

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Declining judicial independence is a cross-cutting risk. Firstly, it threatens the fair application of commercial regulations and the maintenance of a healthy, competitive business environment. For companies operating in 'high' risk countries this could mean a lack of recourse in the event of contract renegotiations, or the expropriation of property; or even unfair legal sanctions from host governments imposed to punish perceived slights or to achieve geopolitical aims. Secondly, it undermines the protection of human rights by enabling states to target political opposition groups, activists and journalists with legal penalties, and removes access to remedy and justice for victims of violations.

Figure 2: The 10 highest risk countries in the Judicial Independence Index

These countries score poorly in our human rights and political risk indices.



Source: Verisk Maplecroft

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Threats to judicial independence seen across all political regime types

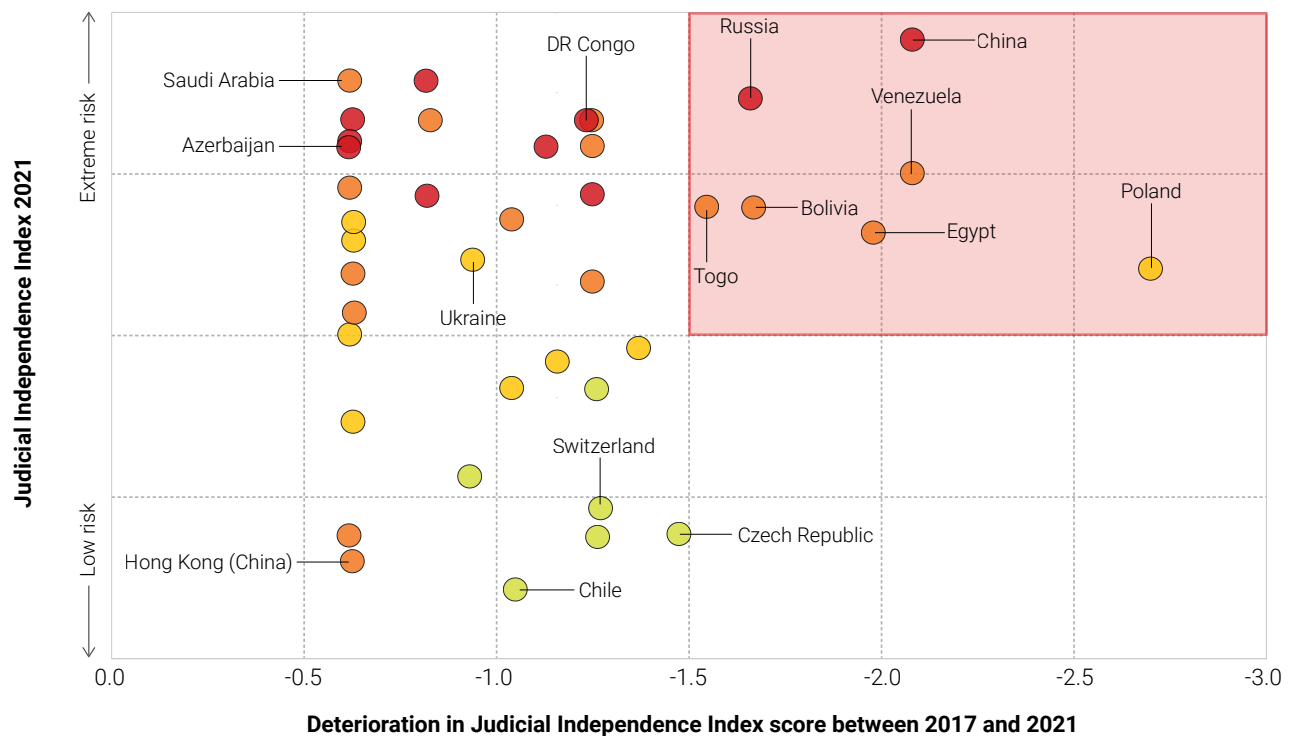
In the latest iteration of the Judicial Independence Index, which assesses the separation of powers, appointments of judges, and improper influence in legal rulings, the 10 highest risk countries primarily feature authoritarian states (see Figure 2). These include North Korea (ranked 1st of the 198 assessed), Cuba, Laos and, perhaps most significantly, China, which has replaced Iran as the third riskiest country globally in 2021.

Concerningly, rising threats to judicial independence have been witnessed across all regime types. The data identifies negative trends in traditional authoritarian countries, such as China and Russia, as well as in semi-consolidated democracies like Poland, and even consolidated democracies such as the Czech Republic and Switzerland (see Figure 3).

Figure 3: Erosion of judicial independence occurred across all regime types between 2017 and 2021**Democratic Governance Index**

● Low risk ● Medium risk ● High risk ● Extreme risk

■ Countries with largest deterioration in the Judicial Independence Index



Source: Verisk Maplecroft

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For authoritarian countries, such as Russia and China, the decline points to a consolidation of power by political leaders. Russia's poor performance was exacerbated in August 2020 by the introduction of a legal modification that gave the president authority to request the termination of judges' tenures – placing foreign businesses, NGOs and opposition activists at the mercy of politically biased courts and prompting Russia's drop from 44th to 15th on the global ranking. The detention of US investor Michael Calvey following a trial regarded as deficient by international standards is perhaps the most prominent example of the consequences this can have for business and investors.

Rather than a single event, the independence of courts in China has been consistently ground down since a 2018 constitutional amendment that saw the Chinese Communist Party (CCP) strengthen its already tight grip on the judiciary. Although the Chinese constitution still technically mandates that the courts should be independent, judges are expected to align with and submit to the Party's dictates. This ensures that the legal system remains firmly subservient to the CCP and leaves businesses in a precarious position if they do not toe Beijing's political line.

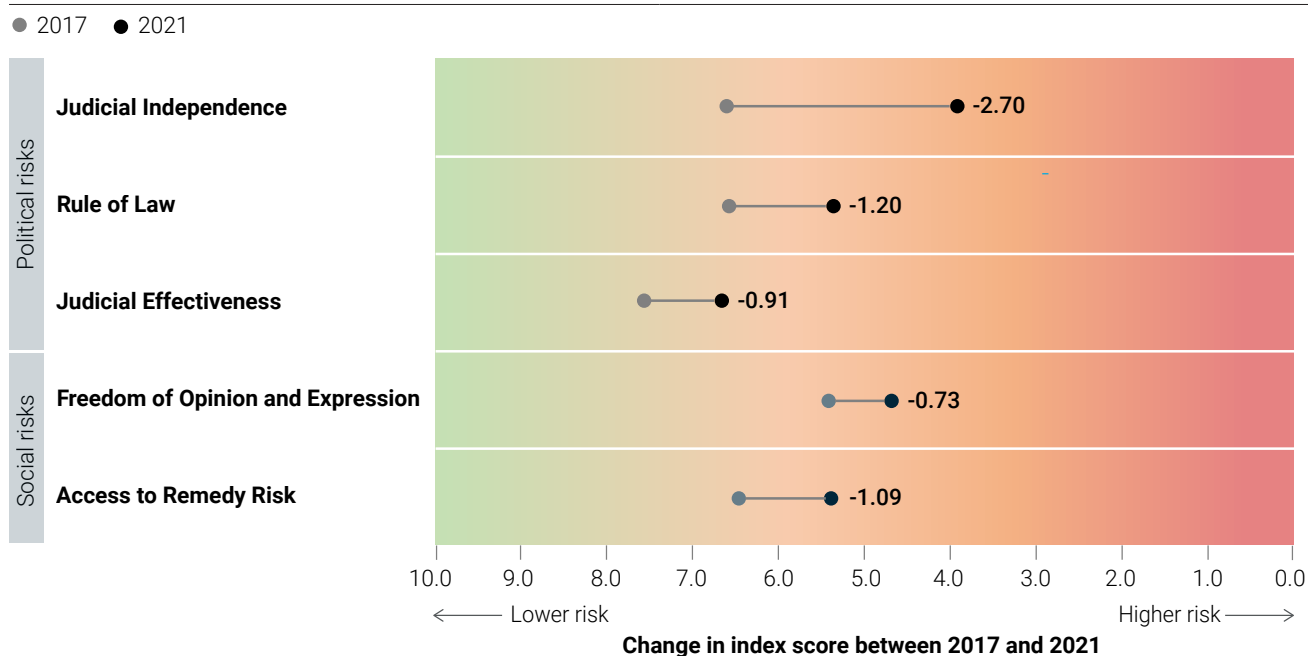
China has also eroded judicial independence in Hong Kong to tighten its hold over the special administrative region. The National Security Law that Beijing imposed on Hong Kong in June 2020 drastically increased the mainland authorities' control over judicial proceedings in the territory, which explains Hong Kong's severe drop in the index in 2021.

The forced shuttering and seizure of assets from pro-democracy newspaper Apple Daily was an example of the hot water investors could find themselves in under the auspices of Hong Kong's National Security Law. In addition, hundreds of members of Hong Kong's pro-democracy movement have been arrested on national security grounds, underscoring the human right risks that a lack of judicial independence creates.

Democracies, though still robust, also experience deterioration

More surprisingly, while democratic states on the whole remain sturdy, some have seen their judicial independence scores drop. Poland, a fragile and backsliding democracy, has witnessed the steepest decline in judicial independence of any country in the last four years, dropping from 118th to 61st in the global ranking, overtaking Hungary as the worst performing country in the EU.

Figure 4: Roll-back of political safeguards in Poland has driven deterioration in social rights



Verisk Maplecroft considers change above 0.5 as significant

Source: Verisk Maplecroft

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“Threats to the independence of the courts come at the expense of checks and balances...

Since 2018, the ruling Law and Justice party's judicial reforms have heightened the risk of political intervention in the selection and dismissal of judges. The reforms have been denounced as illegal by the EU Court of Justice and driven Brussels' recent decision to withhold energy transition funds from Poland. Moves such as the politicised targeting of foreign-owned media companies, most notably TVN24, are indicative of negative shifts across a whole range of political and human rights indicators in Poland, as shown in Figure 4.

In established democracies, the decline is driven primarily by ties between business and politics, where judicial independence is challenged in an attempt to protect politically important corporate interests.

In Switzerland, which fell from 160th to 128th in the global ranking, the separation of powers is fragile as judges on its top court are elected by their political party. In 2019, the Swiss Peoples' Party endangered judicial independence when it threatened not to re-elect Yves Donzallaz for voting against the party line on the release of UBS data to French authorities for a tax evasion case. Although Donallaz was re-elected in 2020 in a move widely perceived as an endorsement of judicial independence, the event reflects the Swiss system's potential to backslide on separation of powers.

Likewise, in the Czech Republic, which is ranked 135th, down from 180th in 2017, Prime Minister Andrej Babis has threatened judicial independence in the fight to protect his personal assets. The country's justice minister was swiftly replaced when the police launched fraud investigations against the PM in 2019.

Companies must remain vigilant in the global business environment

Threats to the independence of the courts come at the expense of checks and balances that remain vital to the rights of citizens and the interests of the business community.

Motivations for eroding the separation of powers may vary across different countries, but the results for societies are broadly the same. As judicial independence comes under threat, so too do the predictable freedoms of those who are not aligned with the stance of the state, including opposition activists, reporters, political figures and judges. Companies on the wrong side of the political or geopolitical fence in 'high' risk countries will certainly be at a disadvantage, while deteriorating human rights conditions pose real risks to the operating environment and the ESG profiles of companies deemed to be working alongside the worst performing governments.

Human Rights Risk Solutions

Simplifying the complexities of managing human rights risks

There is no one-size-fits-all approach to addressing human rights risks. Many companies don't know where to begin or what actions are most pertinent to their organisation when tackling these very material issues. By combining our world-leading national and subnational data with expert analysis and advice, we equip you with the insight you need to make more effective decisions, target resources where they are most needed and reduce your ESG impacts.

Our specialist consultants and human rights experts have decades of field experience to offer you the highest level of assurance. They work side-by-side with you to understand your challenges across the entire due diligence cycle, from policy and assessment through to training and reporting, and develop industry-leading solutions.

Whether you're taking the first steps in identifying your human rights risk exposure or leading the way in your field, we are here to help you develop and execute human rights due diligence strategies that will deliver your strategic goals.

Building transparency and accountability in human rights due diligence



Unlock the power of subnational data

With Verisk Maplecroft's unique subnational Human Rights Risk data you can map, monitor and prioritise risks across your supply chain and operations, adjusted to your industry or portfolio for a personalised view.

Benchmarking and gap assessments

Identify areas of strength and weakness in your policies and processes, resulting in tangible actions for improvement.

Due diligence

Review and implementation of effective and appropriate due diligence processes for your business, suppliers and partners. This can be aligned to international standards or frameworks, such as the UN Guiding Principles, GRI standards or OECD Guidelines for multi-national enterprises.

Impact assessments

Understand your impacts on human rights and modern slavery throughout your business activities, including whether you could be seen to cause, contribute to or are connected to any violations.

KPIs and targets

Systematic and objective monitoring and evaluation of your approach.

Risk assessments

Identify your risks by country, industry, commodity or product. Made-to-measure risk assessments find your human risks and can be combined with spend, relationship knowledge and brand proximity to identify the greatest risks to your business.

Management proficiency

Assess your policies and procedures against international best practice and your peers.

Policy and contract guidance

Expert advice bringing your company's values to life through tangible policies and contracts, and compliant, market-leading modern slavery statements.

Remediation

Find effective remediation methods and understand responsibilities.

Strategy development

Focused and implementable strategies to suit your business and future aspirations.

Training

Build internal capacity, capabilities and buy-in.

Contact us: email info@maplecroft.com



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