



THE WORKING CAPITAL INNOVATION FUND

[2020 IMPACT REPORT](#)

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# WHAT WE HAVE DONE AND WHAT WE ARE LEARNING

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## EXECUTIVE SUMMARY

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The Working Capital Innovation Fund was established in 2017 with a unique mission and a highly differentiated thesis about how to support systemic improvements in the protection of labor rights. Supply chains are rife with labor risk, including widespread forced and child labor, underpayment of wages, unsafe workplaces, and restrictions on worker organizing. The private sector faces increasing pressure to understand and address these risks in direct operations and extended supply chains, largely driven by tightening legal requirements in the US and Europe. At the same time the toolkit available to brands, retailers and their suppliers is inadequate to this task. Social audits are the intervention most frequently arrayed at a large scale, yet they suffer from serious credibility and efficacy questions. The Working Capital Fund is uniquely suited to offer an alternative, as it invests in companies that provide tools which enable brands, retailers and suppliers to source responsibly, and which workers can use to their own benefit.

It is early in the Fund's ten-year term, but we see evidence that our investments are having traction. The availability of our investment capital and post-investment support has led our nine portfolio companies to a deeper and more effective engagement with labor rights than they otherwise would have undertaken. We have supported experimentation and innovation in a field that urgently needs alternatives to the status quo.

Our North Star remains a deep commitment to impact which is predicated on commercial success and the scaled adoption of the products and services in which we invest. We recognize that our work is only one part of a complex and challenging system of opaque and globally distributed production that enables the exploitation of vulnerable workers. Stronger government policies, better enforcement of existing labor laws, and the removal of restrictions on the activities of trade unions and labor NGOs are required to address the problem. But improved corporate practice has been, and can and must be, part of any meaningful sustained and scaled solution. The Fund's investments will enable corporate actions within their supply chains to be less exploitative and more equitable, ultimately benefitting hundreds of millions of workers.

While we are pleased with the Fund's progress since its inception, it is essential to recognize the tremendous uncertainty that engulfed the world in 2020 due to the global pandemic. We remain optimistic about the longer-term prospects for our scalable, digital portfolio companies to achieve sustained commercial success and significant impact against the long-standing risks workers face in global supply chains.

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### WE SEEK TO ACCOMPLISH THREE THINGS WITH THIS REPORT:

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- Outline our process for impact measurement and impact management
- Reflect on progress by investees and across the portfolio to date
- Share lessons on our approach, including opportunities and challenges.

We note that we are constrained in some cases by confidentiality and are not able to share all relevant programmatic and financial details.

## HIGHLIGHTS OF OUR LEARNING SO FAR INCLUDE:

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We have demonstrated the value of bringing together a unique coalition of committed parties who generously bring capital as well as varied expertise in impact investing (Open Society Foundations, Dolby Family Ventures), human rights and labor rights (Humanity United, the Children’s Investment Fund Foundation, Stardust Equity, and the Laudes Foundation) and global supply chains and responsible sourcing (Walmart Foundation, Apple, the Walt Disney Company and Zalando).

The Fund has evaluated over 400 separate potential deals, the largest set of market-based labor rights interventions of which we know. The size of this pipeline illustrates that there is significant interest among entrepreneurs in generating solutions to labor rights problems. There is particularly robust deal flow in supply chain traceability and transparency. We remain, as far as we know, the only impact fund focused on the massive and urgent problem of labor rights globally.

Our portfolio companies are making progress in answering some of the persistent long-term challenges in the supply chain labor rights space, including:

- How and where can technology used by workers lead to impact?
- How can we enhance the availability of data that accurately describes labor rights and working conditions at the vast number of workplaces in supply chains, ensuring that workers benefit and that their privacy is protected?
- What is the impact of consumers in driving labor improvements? and
- What role can emerging technologies like blockchain, the Internet of Things, and Artificial Intelligence/Machine Learning play in identifying and remedying labor rights violations?

With such a diverse portfolio -- one that includes solutions used directly by workers and those that operate at the highest levels within corporate procurement and risk management - impact management and measurement is a challenge and resists easy quantification. We benefit from the support and expertise of an external team of Developmental Evaluators generously funded by the Laudes Foundation who help us learn. (This ‘DE Team’ has contributed an independent view of the Fund’s work in a section beginning on page 7.)

We are committed to applying a gender lens. Our portfolio companies address the serious risks that women workers face in supply chains. We have demonstrated that we can find and invest in successful women-led businesses (five of our nine companies are founded and/or led by women). But portfolio companies are not seeing a ‘pull’ from their clients for gender-targeted efforts or data, limiting their ability to generate gender-related outcomes.

WE HOPE THAT THIS REPORT INITIATES A BROADER CONVERSATION ABOUT OUR WORK AND WHAT WE HAVE ACHIEVED, AND WE WELCOME INQUIRIES AND FEEDBACK.

## WHY DID WE START THIS FUND?

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### ADDRESSING AN URGENT ISSUE WITH A NEW TOOLKIT

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The Working Capital Innovation Fund (WCIF) offers a unique and timely approach to solving massive, urgent, and long-term problems. Unique, because we are the only labor-rights focused venture-style impact investing fund – leveraging capital from asset owners and corporations to build accountability for working conditions and the respect for labor rights in workplaces that reach hundreds of millions of workers worldwide. Urgent, because at this very moment there are an estimated 150M children working and as many as 12M people in conditions of forced labor. Hundreds of millions more suffer from wage theft and insecure employment. Disruptions caused by COVID-19 have, among other tragic outcomes, thrown millions of female garment workers out of work and threaten to drive 150M people into extreme poverty. Migrant workers in agricultural and food processing workplaces in the United States have been classified as ‘essential’ but left unprotected from the virus. A long-standing problem has only gotten more severe during 2020.

Our approach builds on the momentum that the labor rights and corporate responsibility communities have generated over the past fifteen years and aims for the transformation of a production and sourcing system that could provide safe, stable and prosperous work for hundreds of millions of people, but instead too often exploits them. Our intent is to build respect for labor rights and thereby improve the economic and social prospects for people in insecure, informal and dangerous employment around the globe.

There is a dearth of enterprise-level tools available for corporations willing to engage with these complex and persistent problems as they appear in supply chains. Traditional tools such as social audits, corporate codes of conduct, and voluntary reporting mechanisms are widespread and insufficient. They have neither led to a meaningful reduction of corporate risk exposure nor translated into real progress for vulnerable workers. The Fund aims to stimulate the market for the development of new tools and solutions, demonstrating the viability of these tools and catalyzing broader market adoption. While corporations and suppliers (who are the direct employers of vulnerable workers) are the primary customers for these tools, the ultimate beneficiaries of its investments will be the millions of vulnerable workers at the bottom of global supply chains, and their families.

### TAKING ADVANTAGE OF AND SUPPORTING SHIFTS IN THE LABOR RIGHTS ECOSYSTEM

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The Fund is founded on the understanding that multinational corporations and their suppliers are well-positioned to reform their supply chains, eliminate the most severe forms of labor exploitation, and improve workers’ prospects. Indeed, multinationals and their suppliers are essential to the eventual resolution of these systemic risks given their direct legal responsibility for employment conditions and their accountability under the United Nations Guiding Principles on Business and Human Rights. But the significant shifts in visibility and power between corporations and their stakeholders that will be required to address systemic labor risks at scale are driven more by external changes in the ecosystem than by internal business incentives. The private sector has long required a push to address the sensitive and challenging structural changes that will be needed to resolve labor vulnerability in the production of goods in global supply chains.

To this end, the Fund's investment approach relies on, and takes advantage of, momentum generated through legislation, investigative journalism, and the advocacy work of labor rights and human rights defenders. The Fund has seen a significant improvement in the attention paid by corporations to issues of labor exploitation and forced labor in supply chains over the past several years because a confluence of issues and trends are dictating that they have no choice.

MANY CORPORATIONS APPEAR WILLING TO RISE TO THE CHALLENGE AND ADDRESS FORCED LABOR AND OTHER EXPLOITATION IN THEIR SUPPLY CHAINS. THE RECENT GROWTH OF THE MARKETS FOR PRODUCT CERTIFICATION, PROCUREMENT, SUPPLY CHAIN MANAGEMENT SOFTWARE, AND ENTERPRISE RISK EVALUATIONS INDICATE CORPORATE WILLINGNESS TO INVEST IN SUPPLY CHAIN SOLUTIONS. DEMAND IS INCREASING, BUT EVEN COMMITTED CORPORATIONS CONTINUE TO LACK SCALABLE TOOLS TO COMBAT THE PROBLEM OF LABOR EXPLOITATION IN SUPPLY CHAINS.

## WHAT WE ARE LEARNING ABOUT IMPACT MANAGEMENT AND MEASUREMENT FROM THE WCIF DEVELOPMENTAL EVALUATION

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By the Developmental Evaluation Team: Karim Harji, Penny Hawkins and Zazie Tolmer

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### WHAT IS DEVELOPMENTAL EVALUATION?

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Unlike conventional program evaluation, [developmental evaluation](#) (DE) is distinguished by its emphasis on ongoing learning and adaptive management, suited for complex and dynamic contexts. We believe that this is the first time that DE has been applied to an impact investing fund, to support the Fund's impact measurement and management (IMM) strategy, and we believe it is particularly well-suited to its goals and context.

The DE team has supported the Fund to deploy a number of strategies and tactics which allow the Fund to understand and manage for impact. These include:

- Theory of Change (TOC) – we have continuously iterated and updated the theory of change to reflect changes in the Fund's approach and portfolio.
- Impact Due Diligence – we have integrated the TOC components into the impact due diligence process and co-developed an impact alignment rubric.
- Investee readiness – we have developed a draft tool to identify investee impact priorities and capacity to inform post-investment support activities.
- Evidence generation – we combine secondary data analysis from fund and investees, with primary data from the fund, investees, and external research.
- Learning reviews – we have collectively committed to a regular schedule of virtual and in-person meetings to stimulate reflection and learning.

At this stage we are able to share four emerging lessons on designing and evolving IMM practices:

1. *Progressively improve clarity and shared understanding of the impact thesis* – as noted above, we updated the theory of change regularly to reflect the latest thinking, assumptions, gaps and questions. This included soliciting individual team member and collective group feedback, posing critical questions, and drawing on external research and market data.
2. *Build discipline around impact-focused processes and learning practices* – we have developed a regular cadence of calls and in-person meetings to ensure process accountability so that impact considerations remain “top of mind”. Our experience suggests that a synergistic combination of strategies and tactics (described above) is necessary.
3. *Create trusted relationships and developmental protocols to support critical review* – our role as the “critical friend” involves asking direct questions on impact alignment, and occasionally pushing the fund team to explore deeper, for example how impact considerations and risks are being identified and valued within impact due diligence. These trusted relationships recognize our shared objectives, and distinctive strengths.

4. *Embrace the iterative nature of experimentation, learning, and improvement* – this Fund and the DE are ambitious and complex undertakings. We have learned that the innovative and experimental nature of these investments requires a comfort with incremental learning and improvements as short-term effects, while always maintaining a line of sight towards the potential long-term transformative impacts.

Building on our initial DE phase and accrued learning, we have adjusted our next set of priorities. We are now spending more time working directly with selected investees to deepen our understanding of outcomes, and to strengthen investee internal capacity for measurement and use of impact data. We are exploring the different pathways of how the fund's investment and non-financial contributions are – both directly and indirectly – influencing behaviors, outcomes for workers, corporates, and impact investors. One of the next steps in the IMM journey is to explore portfolio-level lessons and outcomes beyond individual transactions.

## WHAT HAS THE PANDEMIC MEANT FOR OUR PORTFOLIO?

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We at the Fund remain convinced in longer-term shifts towards ethical supply chain practices, particularly those that are facilitated by digital interventions like those of our portfolio companies. However, the disruption to supply chains and labor markets caused by the pandemic make circumstances more dire and less certain.

The impact of the pandemic varies by business sector and geography. Some business persists as usual, some has been massively disrupted, and in some cases the pandemic has hastened a transition to digitally enabled supply chain engagement. Portfolio companies have reframed and restructured their plans for business success and impact in a changed economic and social context. Where necessary, portfolio companies put in place mitigation measures that embraced the uneven, still emerging and at times progressive response from corporate clients. When immediate constraints lift and the economy continues to recover there is a concern across the portfolio that social and environmental concerns will in some sectors remain a lower priority as many brands, buyers, and employers around the world struggle simply to stay afloat.

Several of our portfolio companies responded to the pandemic with useful offerings that responded to increased risks of supply chain disruption and concerns about worker health.

- QuizRR made its online worker health and safety training available for free.
- Ulula offered COVID-19 assessments, which measure the disruption of workforces through worker testimony.
- SupplyShift made a COVID-19 assessment available publicly.
- Phylagen has positioned its ability to detect the COVID-19 virus as useful for infection-sensitive workplaces.

Beyond these specific responses to the pandemic, portfolio companies are adapted to periods like the present with reduced face-to-face interaction and tighter budgets yet greater concern about supplier disruption and worker safety. WCIF investees fit well into a longer-term future where effectiveness and scalability are prioritized by corporations as they address labor rights in global supply chains. The cost-sensitive scalability inherent in QuizRR's training and Ulula's information gathering fits into a post-pandemic transition where more attention is paid to impact and where costs are a more significant concern. Provenance and OpenSC's ability to present verified claims within e-commerce makes them well-situated for a world that is shopping more online. Altana's broad but detailed picture of risk among business partners should direct buyers to responsible, low risk suppliers. Kenzen and Phylagen's ability to measure indicators of infection are invaluable for workers and their employers particularly in crowded workplaces. Many of the portfolio companies are well positioned should the world of consumption and commerce which emerges post-pandemic be more attuned to sustainability and equitability.

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## WHAT HAVE WE ACHIEVED?

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Our investments cover a range of different approaches to impact, making measurement a challenge. Portfolio companies include those that offer direct-to-worker interventions (QuizRR, Ulula and Kenzen); interventions that enable B2B and B2C claims (Provenance, OpenSC, SupplyShift and Sundar); and interventions that unearth hidden information (Phylagen and Altana) for brands, employers, investors and regulators. Some portfolio companies sell services directly to employers, others to brands, and a few to regulators and investors. With such a diverse portfolio, it is no surprise that measuring impact -- variously at the level of the intervention, the company and the portfolio -- remains complex and hard to quantify. This section aims to discuss achievements by investees and by the Fund.

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## EXPECTATIONS OF IMPACT

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We set out impact expectations for each investee during diligence and codify them through Program Related Investment (PRI) covenants and other reporting requirements. In almost all cases our PRI Covenants with portfolio companies commit them to implementing their product or services in sourcing locations which are at high risk for forced labor or child labor.

During the diligence process we evaluate the company against eleven components of impact including the directness of impact; the company's focus on vulnerable populations; the reach, breadth and depth of impact; the feasibility of impact measurement; and impact risk. The purpose is to fix a joint expectation of the impact that will emerge from the company, identify where there might be impact risk, and determine what information is needed that can tell us where progress has been made. We embrace the idea that impact performance can shift significantly as companies develop given the dynamic nature of the market into which they sell, the fact that they are early stage, and the potential (even likelihood) of significant changes in management teams, product development, customer relationships and business models.

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## MANAGING FOR IMPACT

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After investments are made The Fund works to prioritize, shape and help implement impact propositions. Three of the portfolio companies (Ulula, Quizrr and Kenzen) were founded explicitly to focus on one or more supply chain labor rights. For the other six portfolio companies, Fund involvement has shaped and strengthened the way in which the company applies itself to solving labor rights problems.

Fund staff serve as Board members for Provenance, Ulula, QuizRR, Phylagen, OpenSC, and Kenzen. The core of our Board service is to strengthen the focus on labor rights impact, but the role is broader too. As Board members Fund staff help portfolio companies to strengthen revenue, build product, refine product/market fit, improve human capital and talent, and navigate the competitive landscape among other value-adding efforts typical of an early-stage investor. If the companies are successful and remain focused, they achieve and sustain impact.

Thus far, the Developmental Evaluation (DE) team has undertaken 'deep dives' to build impact management and measurement capability with five of the nine portfolio companies. As a result, each of them will be better able to understand and refer to an impact-focused theory of change; identify, capture

and report against metrics that are evidence of progress against the theory of change; and find the intersection between impact and commercial progress.

What follows is a summary of the reasons we invested in portfolio companies and one or more indicators of progress against the impact thesis.

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## WHAT HAVE INVESTEES ACHIEVED?

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### DIRECT TO WORKER INTERVENTIONS

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#### ULULA : INVESTMENT RATIONALE

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Technology can provide a real-time, two-way dynamic communications tool that enables workers to report on concerns and management to have greater visibility. Ulula enables scaled outreach while gathering granular information about working conditions at individual workplaces. Data gathered from workers can be used to motivate employers and brands to improve working conditions by businesses and by advocates.

#### PROGRESS AGAINST GOALS

Ulula has now deployed its system in twenty-two countries with high social and labor risks, including China, India, the Democratic Republic of Congo, and Indonesia. In 2019, Ulula partnered with a large business association to estimate worker wellbeing across China, India, Malaysia, Mexico, Taiwan and Thailand. Ulula gathered insights from almost 20,000 workers from 100 factories employing 115,000 workers over a two-month period. The data gathered in over ten languages provides a statistically representative sample of the millions of workers employed in the factories where members of the business association are sourcing from, including across gender and worker origin country.

Ulula helped identify and measure recruitment fees paid by Vietnamese migrants in Taiwan’s manufacturing sector. The platform provided a rapid assessment of the amounts paid by migrant workers and their welfare consequences to help support more effective remedy.

Ulula continues to work in the palm oil sector with the Round Table on Sustainable Palm Oil (RSPO), Cargill, Wilmar and PepsiCo in Malaysia and Indonesia. The platform has helped identify and support remediation of labor abuses on plantations.

Ulula and the International Peace and Information Service partnered to create more effective and human-centered due diligence systems in the minerals supply chain. Ulula, IPIS, and a coalition of 15 NGOs have been collaborating to support an SMS based grievance reporting mechanism around labor and human rights abuses in DRC. The platform has a public interface to enable a broader audience to access approximately 1,500 incidents reported through the system.

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#### QUIZRR : INVESTMENT RATIONALE

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When workers are engaged with content about their rights and responsibilities on the job, they can better protect themselves and engage with management, potentially reducing exploitation, turnover and

labor risks in the most vulnerable worker populations. Quizrr’s use of technology enables outreach to workers with high-quality information at unprecedented scale. Partnerships with impact-focused initiatives ensures that Quizrr’s information is delivered in a context that requires accountability.

PROGRESS AGAINST GOALS

Quizrr leverages ‘EdTech’ approaches to create engaging training with vulnerable groups including women and migrant workers. Collaborations with the International Organization for Migration and the UN Promise Program offer training to migrant workers, with key information on employment practices and health, safety & hygiene.

Quizrr is one of the founders of the multi-stakeholder initiative MOVE which has launched a multilingual mobile app containing information and training for migrant workers from Cambodia, Laos and Myanmar in Thailand about worker rights, ethical recruitment and how to stay safe during the pandemic. The smartphone app, developed by Quizrr, is available for free via UN IOMs website [mitrthai.com](http://mitrthai.com).

To date, 200,000 workers have been trained in nearly 800,000 training sessions in over 440 factories across China, Bangladesh, Thailand and Mauritius on topics ranging from health and safety to workplace dialogue. In a preliminary report on outcomes from Quizrr’s training at 19 suppliers in China, a large majority of workers interviewed expressed improvements in motivation, work environment and workplace dialogue after Quizrr’s training.

KENZEN : INVESTMENT RATIONALE

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Real-time monitoring of workers’ health conditions will mitigate risk at the workplace due to heat stress, exertion, and fatigue. Working Capital supports Kenzen to be at the forefront of worker rights and privacy while preventing risk of injury.

PROGRESS AGAINST GOALS

Kenzen is utilizing sensor technology to strengthen worker agency by providing personalized safety information to industrial and manufacturing workers who may not even know they are at risk, while protecting their privacy.

Kenzen has defined and implemented an industry-leading worker privacy protection policy. The policy details are easily accessible and understandable. It notes the type of information collected from a worker, how a worker can opt out of the system, how long the data is available, and who owns it. The company is aiming to ensure all workers know their rights when Kenzen is deployed at their worksite.

The Kenzen device measurements allow for an individualized understanding of the worker based on their unique physiology. It can inform personalized schedules for work, rest, and hydration for each worker optimized for heat and challenging work conditions. The platform triggers an alert if a worker's core temperature - that is individually calibrated against environmental context - reaches a point preceding heat injury and illnesses. If a worker can rest when they receive an alert, they will be able to continue at high productivity throughout the day.

Kenzen has been deployed with large industrial conglomerates across domains that include construction, mining, renewable energy, and field services related to oil and gas. Kenzen has begun to prove valuable in specific identifiable scenarios including:

- New Workers (where they have to acclimatize);
- Remote workers (drivers, lone technicians);
- High-Risk Environments (those in hot climates, around smelters, wearing substantial clothing to protect from the elements);
- Total Worker Health (heat flagged as a compounding health issue for workers).

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SUPPLIER RESPONSIBILITY & PROCUREMENT “INDIRECT” INTERVENTIONS

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PROVENANCE : INVESTMENT RATIONALE

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Brands and retailers are increasingly being held responsible for the risk of labor exploitation within their supply chains. Many are eager to communicate their progress to consumers. Provenance enables a brand or retailer to be transparent with integrity -- not only sharing production locations but also verified information about conditions at source, leading to a virtuous circle where information about labor protections is communicated to and rewarded by consumers.

PROGRESS AGAINST GOALS

*NAPOLINA*

Napolina has been addressing illegal labour in their Italian tomato supply chain for years. They are now using Provenance to communicate on their first-mile progress and providing a layer of proof that backs up corporate efforts, demonstrating how brands can be transparent with integrity.

*PRINCES TUNA*

Building trust in sourcing across a product range: Princes aimed to better leverage their existing fish traceability data to demonstrate their approach to responsible sourcing. Using Provenance, they now offer customer-facing transparency messaging across their product range online and in-store. This enables them to share open, proven information with their customers and shoppers about their initiatives in canned fish from source to store.

PHYLAGEN : INVESTMENT RATIONALE

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Phylagen’s ability to trace products with an extreme degree of accuracy is a cost-effective way to ensure that a brand or retailer’s production locations match their approved locations. Suppliers which outsource work without authorization are often at greater risk for labor rights violations, and may be hiding these risks from a brand.

PROGRESS AGAINST GOALS

Phylagen applied its OriginTest® to four high-risk products in three high-risk geographies, and supported a major multinational brand to use the OriginTest® to evaluate which products came from unauthorized sources. Phylagen was able to demonstrate that some products came from unauthorized sources, some components of products came from outside the authorized facilities and some errors were present in

corporate record keeping - problems that surfaced overall in 15% of the 300+ facilities sampled across over 10 countries.

ALTANA : INVESTMENT RATIONALE

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As legislation and enforcement around forced labor in supply chains increases, buyers and retailers need more timely, relevant, and granular information about the labor rights risks that their suppliers pose, particularly when there’s a risk of forced labor. This can happen at a scale commensurate with the problem only when sophisticated data analytic techniques are applied, including Artificial Intelligence (AI) and Machine Learning (ML).

PROGRESS AGAINST GOALS

Altana (and others who are undertaking similar efforts) face limits in exploiting the potential of their data analytic systems due to a dearth of high-quality, widely available data about working conditions at individual workplaces. Working Capital Fund has introduced Altana to organizations that hold data and can help Altana develop the right approach to identifying forced labor risk.

Altana has, through a pilot, demonstrated the feasibility of identifying a ‘signal’ of forced labor through automated analysis by linking data sets. Altana evaluated data from a global organization about forced labor in an apparel supply chain in Tamil Nadu, seeking to identify multinational enterprises which were likely to employ forced labor in production of textiles. Altana fused the list of nearly all 700 textile manufacturers in the state of Tamil Nadu to 21 million Indian export declarations (one full year of export data) which showed that 57 of the companies present in the business registry filings were connected to 94,499 shipments from trade data. The top two companies present in the data were responsible for 54,905 shipments, and in 2011 both had been identified by Anti-Slavery International as employing workers “under circumstances of forced labor.” These two companies have shipped to 66 countries around the world including sending 10,455 shipments to the United Kingdom and 5,284 shipments to the United States. Some US consignees of shipments in question include major US apparel brands.

By programmatically fusing companies engaged in textile production with their export declarations, Altana has set the framework for a system to identify specific shipments of textiles produced at compounds using forced labor and exploitative labor practices. If Altana is able to secure additional data access on the incidence of forced labor in global supply chains, the company will be in a position to help flag these shipments and networks for regulators, financial institutions, and global enterprises. This has the potential to eliminate these materials from global supply chains and begin the process of divestment to dismantle the networks that engage in forced labor.

SUPPLYSHIFT : INVESTMENT RATIONALE

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Identifying and engaging lower-tier suppliers is a challenge for many brands and retailers. Automating information gathering through surveys and facilitating sharing of that information across shared supply-bases enables businesses and multi-brand collaborations to take steps to improve working conditions and respect for labor rights.

PROGRESS AGAINST GOALS

SupplyShift has enabled assessments of labor and working conditions in various areas, through multi-stakeholder partnerships with The Sustainability Consortium, supporting multiple customers in on-the-ground and remote labor assessments, and offering the Labor and Modern Slavery essentials packages at no additional cost to existing customers.

During the time of investment 12 customers have engaged with their suppliers on issues that included labor, modern slavery, and other worker issues across 16 different assessments and the set of 400+ product categories defined by The Sustainability Consortium. Over 11,000 assessment submissions from 5,642 companies and farming co-ops were collected that focused on worker issues, and 5,352 of the assessments were 2<sup>nd</sup> tier supplier submissions, enabling SupplyShift customers to gain visibility and actionable insights deeper in their supply chains.

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### OPENSC : INVESTMENT RATIONALE

Most multinationals have limited visibility into the location of production facilities in lower tiers of the supply chain, which can result in higher risk of forced labor or labor exploitation. OpenSC enables a brand to trace its products throughout the supply chain and know more about labor risks at various tiers. OpenSC aims to automate the verification of claims thereby making it easier to capture data at scale.

### OPENSC : PROGRESS AGAINST GOALS

OpenSC is exploring social claims that can be amenable to automated, data-backed verification, and is piloting three:

- Hours of Rest, e.g., verifying that each crew member has received the minimum guaranteed amount of rest onboard a fishing vessel.
- Employment Contract in Place, e.g., verifying the existence of an accessible, own-language contract for each worker in a factory or on a farm.
- Safe (non-violent) Workplace, e.g., verifying that violent acts are not happening in a particular workplace.

OpenSC has been executing work with two leading companies on four different commodities. Three of these commodities are 'High Risk' from a labour rights perspective: palm oil, coffee and seafood.

OpenSC has partnered with Austral fisheries (part of Maruha Nichiro, one of the world's largest fishing conglomerates). Key achievements to date include:

- On-boarded two seafood supply chains: Chilean Seabass (also known as Patagonian Toothfish) and prawns.
- Implemented solution at scale, with 19,396 Chilean Seabass traced (~174,564 kg), approximately 10% of the global Chilean Seabass market.

OpenSC has researched, designed, and begun to pilot technology-enabled transparency solutions for two other commodities which are 'High Risk' (from a labor rights perspective): palm oil (in Mexico initially and subsequently in Southeast Asia) and coffee (in Democratic Republic of Congo with a likely extension to Central America). A key focus of the ongoing palm oil work has been on solving challenges that

responsible smallholder palm producers face when trying to access the market. The ongoing coffee work focuses on fair payments to smallholder coffee growers, and issues of child labour.

#### SUNDAR : INVESTMENT RATIONALE

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Sourcing decisions are not yet made with the benefit of digital tools which increase efficiency, speed and visibility. Buyers in the apparel sector generally make sourcing decisions with limited ability to evaluate the sustainability practices of their potential suppliers, including those around labor rights. Sundar makes high-quality environmental and social claims visible to buyers thereby elevating social and environmental outcomes into key components of sourcing.

#### SUNDAR : PROGRESS AGAINST GOALS

Sundar built an ethical sourcing platform predicated on responsible sourcing benchmarks metrics and data using a proprietary data collection methodology and populated it with information of over 15,000 vendors.

## WHAT HAS THE FUND LEARNED?

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We designed the Fund to invest in categories of intervention where there is significant opportunity for impact, some existing corporate expenditure, and deal flow from impact-oriented entrepreneurs. These include Transparency and Traceability, Risk Assessment, Ethical Sourcing, Responsible Recruitment, and Worker Engagement. Our intent is to create a portfolio that generates evidence for the effectiveness and impact of these various types of interventions, and thus helps build a market for impactful companies. We have found after three years that investment opportunities vary among these focal areas. Traceability and Transparency interventions are plentiful for example and represent four of our nine investments. On the other hand, we have not yet been able to make an investment in a Responsible Recruitment company.

As a portfolio, our investments allow us to test interventions and gather data that can answer long-standing questions and challenges which will be familiar to practitioners of supply chain responsibility and responsible sourcing, including:

.....  
HOW CAN CONSUMERS BETTER UNDERSTAND THE VALIDITY OF CLAIMS  
ABOUT SOCIAL/LABOR AND ENVIRONMENTAL CLAIMS?  
.....

Provenance is making progress through its collaborations with Prince's and Cult Beauty.

.....  
HOW CAN SENSORS AND THE INTERNET OF THINGS BE APPLIED TO  
IMPROVE TRANSPARENCY AND RESPECT FOR LABOR RIGHTS?  
.....

OpenSC and Kenzen are exploring how automated information gathering can increase visibility into and accountability for workplace labor conditions. Kenzen's personalized application of safety-focused sensors enhances safety even for those workers who do not know they are at risk.

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HOW CAN TECHNOLOGY IMPROVE VISIBILITY INTO THE LOWER TIERS OF  
SUPPLY CHAINS?  
.....

SupplyShift and Phylagen undertake different approaches that connect buyers and suppliers including sub-tiers, at scale. OpenSC and Provenance have both demonstrated that technology can allow a fish to be traced from sustainable harvest to plate.

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HOW CAN TECHNOLOGY IN THE HANDS OF WORKERS LEAD TO BETTER RESPECT FOR LABOR RIGHTS, FEWER INSTANCES OF EXPLOITATION AND BETTER BUSINESS PRACTICES OVERALL?

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Ulula, Quizrr and Kenzen offer technological platforms that reach workers directly with information and opportunities to learn, and with the ability to express their opinions, concerns and grievances. These companies provide an avenue as well for improved worker-management communication around labor rights and other workplace issues. Technology enables these interventions to happen at the scale of supply chains – which has been an on-going challenge.

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HOW CAN DATA ABOUT WORKING CONDITIONS BE MADE GRANULAR AND ACCURATE ENOUGH TO ENABLE BUYERS TO EXERT EFFECTIVE MARKET PREFERENCES IN FAVOR OF SUPPLIERS THAT PERFORM WELL ON LABOR RIGHTS?

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WCIF portfolio companies are generating new sources of data that can be useful to workers and businesses alike. Altana’s work at the intersection of trade and ESG illuminates risks that accrue to individual supply chain businesses and transactions. Ulula has demonstrated a scalable approach to engaging workers about their experiences in a wide range of workplaces. Kenzen generates data specifically relevant, in different ways, to workers and their employers about heat stress and injury risk, perhaps pioneering how sensors can be applied to labor rights. SupplyShift is making available actionable information about sub-tier suppliers.

These and other priority questions will be a focus for the Fund’s learning and communication going forward.

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## EMERGING TECHNOLOGY

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The Fund’s portfolio has several instances where we have explored the application of emerging technology to labor rights in supply chains. Including grants from the philanthropic ‘Sidecar Innovation Fund’ and the Fund’s investment portfolio, we have provided support to companies and organizations that are applying a range of technologies to the problems we aim to solve, including:

- Artificial intelligence and machine learning to understand trade flows (Altana)
- DNA ‘fingerprinting’ for product traceability (Phylagen)
- Blockchain for product traceability (Provenance, OpenSC)
- Virtual reality training for health and safety (a grant to Simulanis)
- AI and natural language processing to improve women worker health (a grant to Maya Apa)
- Mobile and other technology that reaches workers with a variety of approaches to two-way information sharing (grants to GetKno, Kutumbita, Gram Vaani, and Ulula)

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## RESPONSIBLE RECRUITMENT

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We have continued to push to invest in focal areas that were part of our original conception of the portfolio but for which it has been difficult to find investible ventures. The best example of this is Responsible Recruitment which addresses the systemic risks of debt-bondage and forced labor faced by migrants in supply chains. While demand for responsibly recruited workers has increased due to the work of a coalition of private, public and civil society actors, this is still an emergent market. With Sidecar grants we supported new entrants including BRAC's subordinate social enterprise BRAC Probashbandhu Limited (BPL) and Honest Jobs, and note several other commercial and non-profit enterprises exploring the responsible recruitment space. The Fund continues to evaluate new Responsible Recruitment opportunities as an avenue of direct impact on the problem of forced labor that is appropriate for an impact-first fund.

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## SENSORS AND THE INTERNET OF THINGS (IOT)

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During 2018-19, WCIF explored the potential application of sensors and the Internet of Things (IoT) to increase visibility into labor conditions, reduce vulnerability, and improve conditions for workers. Sensors are widely being applied to business processes, including by multinationals and suppliers, and are increasingly generating useful information on environmental sustainability issues. However, they have yet to find effective use in support of labor or human rights outcomes.

Implementations of IoT and sensors can support two approaches to WCIF's theory of change. Data gathered by IoT and sensors can be deployed in scalable, cost-effective ways to provide traceability and transparency into supply chains for buyers and suppliers. Workers can benefit from the deployment of sensors to generate knowledge or understanding which they can use to protect themselves or more deeply understand risks at their workplace.

In addition to adding worker-focused outputs from sensors designed for industrial use, there are a host of sensors used directly by people in work settings which could prove useful to understanding worker contexts with more nuance and on a consistent, comparable basis. Particularly in the health and safety realm, workers can use IoT devices to help better understand risks and prevent injuries or death. This Smart PPE (Personal Protective Equipment) category includes body sensors (like Kenzen), as well as smart hardhats, air quality and chemical detectors, and repeated motion sensors.

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## PRIVACY AND SENSORS AND THE INTERNET OF THINGS

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Privacy remains a substantial concern where data is collected about workers, and there is a debate about whether informed consent is possible on a large scale. WCIF chooses to engage in this space so as to be present and potentially influential as the problems of applying sensors in accord with privacy obligations are being worked out. The sensor/IoT space as it relates to worker protections and labor violations remains poorly defined, and the Fund sees an opportunity to lean in and help structure responsible data practices and expectations.

## HOW DO WE HOPE TO INFLUENCE THE FIELD OF IMPACT INVESTING?

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Working Capital has evaluated the largest ever set of supply chain labor rights-focused interventions, whittling this universe down to the relative handful of those companies that have substantial potential for impact, growth to scale and sustained revenue. The scope of this endeavor demonstrates that there is ample innovation in the supply-chain labor rights space, but it requires careful assessment. Over the past three years, the team has evaluated nearly 400 companies, seeing an acceleration in deal flow in recent years. This unprecedented perspective on the world of supplier responsibility allows the Fund team and its partners to exploit areas of particular promise, shape the market where impact still needs to emerge, and identify the promises and perils of new technologies as they might be applied to labor rights.

OF NOTE IS THE PREPONDERANCE OF TRANSPARENCY AND TRACEABILITY AND RISK ANALYTIC INTERVENTIONS. OVER HALF OF THE DEALS WE EVALUATED WERE FOCUSED ON PROVIDING GREATER VISIBILITY INTO SUPPLY CHAINS AND SUPPLY CHAIN RISKS FOR BRANDS AND BUYERS. ONE QUARTER OF DEALS EVALUATED WERE FOCUSED ON WORKER ENGAGEMENT.

In our search for the intersection of impact and financial sustainability, the Fund has passed on numerous commercially attractive deals due to the lack of an impact fit or questions about the depth of a company's approach to impact. For those in which we have invested, every \$1 of Fund investment into portfolio companies has leveraged almost \$4 of outside investment. This growth capital allows our early-stage companies to innovate in finding solutions and paths to impact.

We have been able as well to maintain impact alignment from our portfolio companies despite the challenges of the market. Our investments are individually and collectively progressing towards scale and sustainability. Companies that we have invested in have shown improvement in financial performance. Revenue, contract value and bookings have all grown since inception. Where companies find sustained, scaled revenue they can also deliver sustained, scaled impact.

The Fund is the first of its kind which uses venture-capital approaches specifically to achieve positive impact for vulnerable workers through supply-chain tools. Our progress towards impact and positive financial performance demonstrates that investments with this focus can be, and often are, successful. We hope that our model will attract other funders to address this issue.

## HOW ARE WE IMPLEMENTING A GENDER LENS ACROSS THE PORTFOLIO?

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The Fund is committed to applying a 'gender lens' to its investments. The consideration of gender is a part of all pre-investment diligence, integrated into impact obligations and PRI covenants, and is a focus of reporting wherever possible. At the same time significant challenges exist including limited capacity

among investees to implement gender-focused programming, and low interest among clients for gender-disaggregated data or gender-focused services. Portfolio companies whose products are primarily used by other businesses as opposed to by workers (like the traceability companies we have invested in) have a difficult time gathering information about the gender impacts of their work. Gender considerations do not at this point seem to drive clients, requiring the portfolio companies to expend their own resources on gathering gender-related data, which some do, and some do not.

We continue to source deals where implementation will take aim at problems uniquely or disproportionately faced by women. Of the nine companies in which the Fund was invested at the middle of 2020, five have women CEOs and were founded or co-founded by women (Provenance, Quizrr, Sundar, Phylagen, Kenzen).

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## THE CHALLENGE OF MEASURING IMPACT

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The Fund's portfolio is diverse, containing companies with a range of impact and business models. As we track progress it remains important to note that characterizations of impact resist a one-size-fits-all characterization.

Currently only three of nine portfolio companies offer products or services that are used directly by workers. A majority of our investees drive impact indirectly by highlighting risks, providing visibility, and/or creating incentives. Most portfolio companies will sell to multinational enterprises. Virtually all hope to interact with procurement or marketing functions. Some of the portfolio companies have revenue models which should be appealing to employers (suppliers), while others might find traction selling to regulators or investors. Some companies rely on innovative and even patented technology, while others leverage widely available technology to reach scaled delivery.

Such a diverse set of impact pathways and revenue models presents challenges to apply a one-size-fits-all impact model. Impact for workers is the purpose of the Fund, but to achieve it the Fund embraces innovation and experimentation across a number of impact, market, and technology pathways.

Portfolio companies are for the most part in the early stages of understanding, tracking, and measuring impact, because they themselves are at an early stage of development, still seeking product-market fit, and indeed building a market that cares about impact. The supply-chain labor-rights space, and particularly the fee-for-service part of it, has experienced precious little impact measurement. The Fund's focus on understanding how impact emerges will offer lessons for the space in general – including highlighting the paucity of impact efforts within other initiatives, as well as demonstrating 'how' it can be done. The focus on IMM and the involvement of the DE team mean our portfolio will serve as a model, demonstration zone, and test case for measuring impact on supply chain labor rights at scale.

## REFLECTIONS & WHAT'S NEXT

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We are pleased with the progress demonstrated by the Fund and our portfolio companies thus far. We have evaluated hundreds of deals to find those most likely to achieve three essential characteristics

- Impact on Working Conditions
- Scaled and Cost-Effective Implementation
- Sustained Revenue

Fund staff have and will continue to offer varied support for interventions that would otherwise not as effectively focus on labor rights as experienced by workers in global supply chains.

The COVID-19 pandemic has slowed progress and exacerbated vulnerability for many workers. It has also highlighted the need for more agile, flexible, and cost-effective digitized solutions, like those represented in the Fund's portfolio. We at the Fund remain convinced in longer-term shifts towards ethical supply chain practices, and therefore we continue to believe in the prospects of our portfolio companies.

The future we believe in is more likely to come true if brands and retailers make further efforts to escape from the ineffective 'social audit paradigm'. We encourage multinationals and suppliers to explore the extraordinary range of early-stage innovation occurring in the supply chain transparency, risk analysis and worker engagement spaces particularly.

At the Fund we will deepen our understanding and strengthen our approach to several key topics at the intersection of impact and commercial success.

- The DE team will dive deep with five portfolio companies to develop and share a more nuanced understanding of the pathways to worker- and investee-level impact.
- WCIF itself and our portfolio companies face a challenge applying a gender lens consistently and deeply. WCIF will engage with portfolio companies to strengthen gender as a component of decision-making, partnering with LPs and others to raise the priority of the topic.
- WCIF will focus on learning from two investments in sensors, one from the Fund (Kenzen) and the other from the Sidecar. The promises and perils of large-scale, sensor-driven data gathering remain sharp.
- WCIF will continue to search for effective investments to make in the responsible recruitment space.
- Now that the initial portfolio selection is mostly complete, WCIF will continue to explore how to integrate impact into follow-on investments and exits.
- WCIF will share lessons from individual portfolio members with others across the portfolio about a range of urgent topics including how to position the company for a future in which innovation is yet more important, and the problems of supply chain vulnerability likely exacerbated.

WCIF and the DE team will, supported generously by the Laudes Foundation, focus increasingly on sharing lessons publicly and with interested stakeholders, including among impact investors. We will explore

opportunities to communicate jointly together with our LPs to find new audiences for our learning in the corporate, human rights and impact investing spaces. The Fund’s model remains unique in its focus on supply chain labor rights by leveraging innovative technology as an avenue to scalability and partnering with thoughtful private sector actors. Sharing learning about the strengths and challenges of this model remains vital.

The supply chain space remains tied to social audits which have proven to be inadequate to the task of ensuring workers access and enjoy their rights. The solutions we invest in offer the potential for a different future: one where workers are engaged and have access to tools that support their voice, at scale; where businesses provide preferences to suppliers that can verify that they respect labor rights; where brands and retailers have a risk-informed picture of their entire supply chains; where consumers have access to trusted transparency enabling them to exert their preferences for responsibly made goods.

We will continue to track and report on our learning and hope that it becomes a dialogue with other concerned stakeholders.

WE HOPE THAT THIS REPORT INITIATES A BROADER CONVERSATION ABOUT OUR WORK AND WHAT WE HAVE ACHIEVED, AND WE VERY MUCH WELCOME INQUIRIES AND FEEDBACK.