

# **Racial Equity Pact**

## **Racial Equity in Brazil: Background and Goal**

### **Background**

- 1) **Social inequality is one of Brazil's most significant challenges. It is intrinsically related to racial issues, the main reason for the country's inequality.**
  - According to IBGE data from 2016, 78.5% of the poorest 10% of the Brazilian population are black (black and brown), and 20.8% are white. The opposite is true for the wealthiest 10%: 72.9% are white, and 24.8% are black.
- 2) **The absence of affirmative policies to include Blacks in the economy, the country's structural racism, and the low quality of public education are some of the main factors that cause high inequality and social instability in Brazil.**
- 3) **One of ESG's core principles is diversity in the workplace, both in gender and race. Companies have been working on gender diversity over the past few years, with some success.**
- 4) **However, in Brazil, where 56% of the population is black, we are far behind promoting racial diversity in the workforce of either domestic companies or multinational subsidiaries.**
  - Although some companies have affirmative actions in place, millions of qualified black professionals are still not absorbed by the job market. Even so, large companies still allege difficulties in hiring black employees and executives to reach a percentage equivalent to the economically active population of the region in which they operate.
  - One of the top obstacles to the training of black professionals is the low quality of public education, which is among the worst in the world according to OECD data (see the PISA report).
- 5) **Thus, having Brazilian companies adopt affirmative actions is not enough to meet the ESG agenda. Unlike other countries in the northern hemisphere, there is a need to train more technically skilled black professionals in Brazil. By doing so, companies will be able to mirror the population in the region in which they operate at all hierarchical job levels.**
  - The problem is even more significant at the top management levels of companies, which feature a low percentage of Blacks.
- 6) **Society as a whole, and not only of the Government, should be accountable to address social-racial inequality and black labor training. The historical moment we are going through demands that individuals, organizations, and companies take a leading role in anti-racism.**

## **Diagnosis, Affirmative Policies and Social Investment**

### **Goal**

**To propose and implement a Racial ESG Protocol for Brazil and promote its adoption by companies and institutional investors. The Protocol should comprise initiatives that encourage greater racial equity and focus on adopting affirmative actions, improving the quality of public education, and providing better training to black professionals.**

## What is it?

The **Racial Equity Pact** aims to **propose and implement a Racial ESG Protocol for Brazil**, bringing the racial issue to the center of the Brazilian economic debate and attracting large national and multinational companies, civil society, and the Government to the discussion.

In Brazil, investment in racial equity is essential to address the replication of structural racism in the country. One of the main tools for such is incorporating the racial issue into social, environmental, and governance parameters. The ESG (Environmental, Social, and Governance) criteria are today the most important international standards that guide institutional investors' on environmental, social, and governance issues. These criteria and metrics help recognize the level of sustainability of investments in certain activities of the real economy.

Given the direct relationship between sustainability and profitability, there is a growing demand from the private sector - particularly the financial market - to adopt such parameters and enforce compliance.

The **ESG Racial Protocol** will be governed by the terms described in this document and will have a specific regulation. By promoting the Protocol's adoption by institutional investors, the **Pact** will attract **voluntary companies** interested in meeting social demands for racial equity, social awareness, and transparency.

The **Pact** will also have governance rules that value the representativeness of the different stakeholders involved with racial issues and the ESG agenda. The **Protocol** will also include mechanisms to measure the racial balance (the Racial Balance Index - RSI) and results and certify independent organizations. The Pact will be managed by a private non-profit Association (see below).

The RSI (further details in this document) will provide shareholders, investors, and civil society with an instrument to measure racial inequality in companies. It will include clear and objective parameters of commitment to the Brazilian racial agenda and their collaboration to change the current background.

## Uniqueness and Importance

The **ESG Racial Protocol** is an unprecedented initiative worldwide. It has a high potential for short, medium, and long-term impact. Focusing on broad adoption, the Pact seeks the engagement of major institutional investors to motivate the **voluntary participation** of large Brazilian and multinational companies.

After centuries of slavery and lack of social and economic opportunities for the black population, Brazilian companies and civil society can (and must) attack the negative consequences of this historical problem.

The timing is especially right given the emergence and increased relevance of ESG metrics adopted by investors worldwide and the recent movements in the world and Brazil on racial inclusion and episodes of violence based on racial exclusion. The **Racial ESG Protocol** is an excellent opportunity for companies to develop a stand and a narrative consistent with this new demand from society and support greater social justice. As a result, they will be leveraging **their economic and social sustainability**.

This movement can change the Brazilian reality in just one generation: by promoting the productive inclusion of the black population through the implementation of affirmative policies by Companies and stakeholders and social investments in racial equity for the educational and professional training of black children and youngsters.

## How it works

The Racial Equity Pact proposes (through a **Racial ESG Protocol**) that companies work on their internal environment and, simultaneously, contribute to the transformation of the external reality. In other words, they invest in promoting racial equity among their employees and act on the community in which they operate.

### Voluntary Company Adoption

Companies will sign a Term of Partnership with the Racial Equity Association, expressing their interest in adopting the new ESG Protocol in Brazil based on the Racial Equity Pact.

After the signing, companies can disclose their participation in the Pact. Suppose the company does not wish to publish the Racial Balance Index (RSI) when they join. In that case, the Pact will guarantee the confidentiality of this data. The Pact will list the company as "Supporting Company in the Process of Adopting a Racial Policy."

Companies that do not disclose their RSIs will have 18 months to implement their affirmative actions and social investments in racial equity. After this period, the company may choose to (i) disclose the RSI on their website and on the Pact's platform; or (ii) withdraw from the Pact.

Adopting the Pact is entirely voluntary and free of charge and generates no financial commitment among the organizations. To implement and control processes and calculate their RSI, companies will need to hire a Certifier. The Certifier will typically be an auditing or certification company that will meet the requirements defined in the ESG Regulation (see below). The analysts of the Certifier company responsible for calculating the RSI will necessarily be trained by an Approver Agency, duly qualified by the Association's Decision-making Body. Approver Agencies will necessarily be led by blacks.

### The Racial Balance Index

The goal is to maximize the company's **Racial Equilibrium Index (RSI)**. The RSI is an index that measures a company's racial imbalance, given the composition of the workforce by job, average wage, and the racial distribution in the region in which the company operates.

RSI can be improved by adopting affirmative policies and making social investments aimed at racial equity.

The flow chart below shows how the Racial Equity Pact process occurs, with calculations of a company's RSI at three different levels.

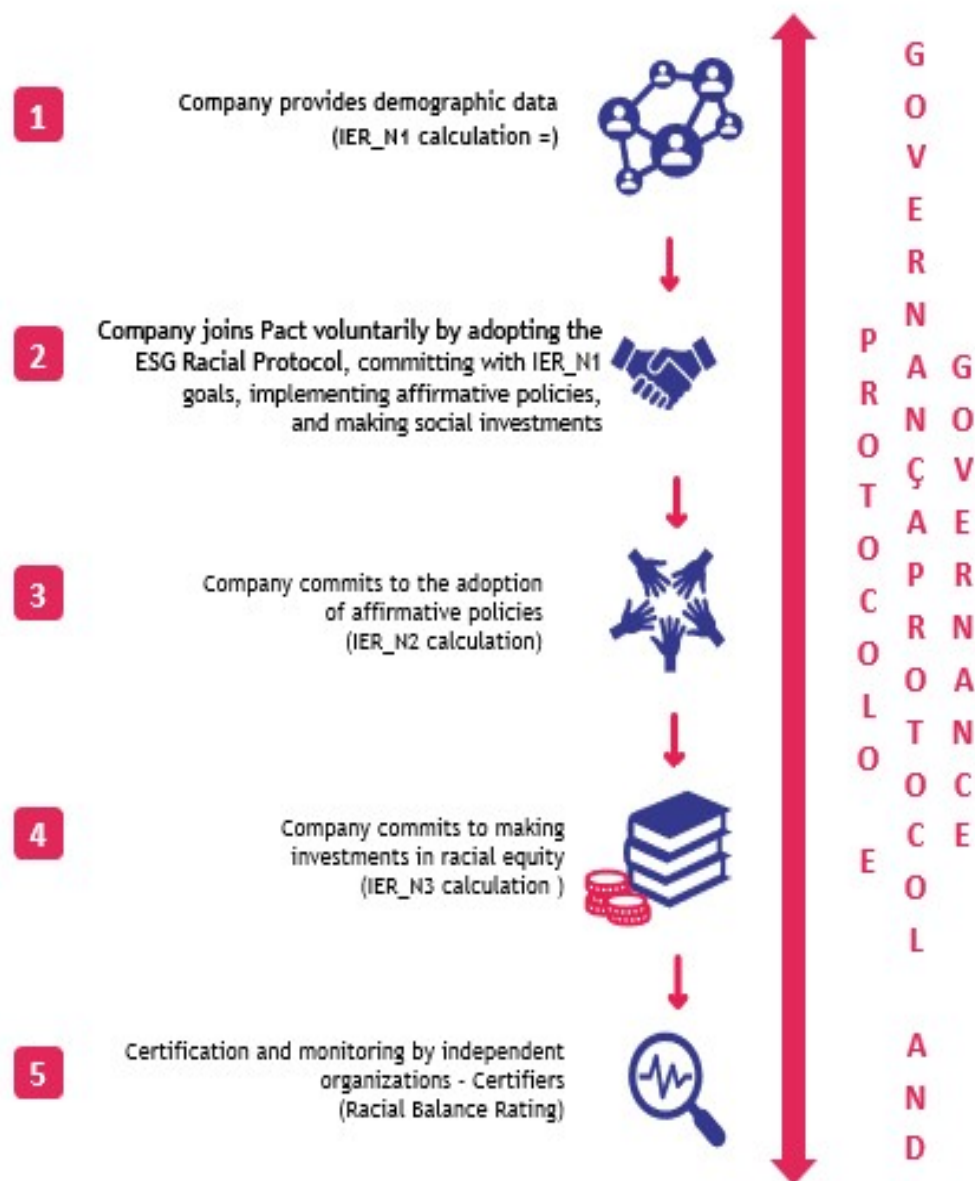
RSI\_N1 = reflects the current racial equity condition of the company, giving greater weight to the participation of blacks in leadership positions

RSI\_N2 = considers the adoption of affirmative policies, including recruitment, permanence, and promotion of black professionals, guaranteeing a systemic cultural change in companies

RSI\_N3 = considers, besides the adoption of affirmative policies, social investments aimed at racial equity, giving preference to organizations with black leaderships already active and encouraging the creation of new black organizations

**The company's Racial Balance Rating will be based on RSI\_N3.**

# Racial Equity Pact Flowchart





## RSI - Level 1

### How is the Racial Balance Index (RSI\_N1) calculated?

Understand how the RSI\_N1 is calculated, which will indicate the company's current status in racial equity.

$RSI_{j,i} = \left( \frac{b_{j,i} - p}{p} \right) \times \left( \frac{p}{1 - p} \right)^{b_{j,i}}$	$i = \text{company}$ $j = \text{job / job group (by CBO) in a company } i$ $b_{j,i} = \text{proportion of blacks in job } j \text{ in company } i \text{ (according to RAIS)}$ $p = \text{proportion of blacks in the region of company } i \text{ (according to EAP)}$ $W_{j,i} = \text{job wage total } j \text{ in firm } i$
$RSI_{\text{job\_group}} = \sum_j RSI_{j,i} \times \frac{W_{j,i}}{W_i}$	

**Company RSI = arithmetic mean of the RSI at Top Management, Management, and Non-Management level.**

$$RSI_{\text{Company}} = \frac{(RSI_{\text{TopManagement}} + RSI_{\text{Management}} + RSI_{\text{Non-Management}})}{3}$$

### RSI\_N1 properties:

- Ranges from -1.0 to +1.0
  - -1,0 1.0 being a very racially unbalanced company (as to blacks)
  - 0.0 being a company balanced with the racial distribution of the region.
  - +1.0 being a very racially unbalanced company (as far as whites are concerned)
- Use of public data from companies (from RAIS) and the population's racial distribution in the state (based on the EAP measured by IBGE/PNAD)
- Greater weight is given to better-paid jobs and managerial and executive levels to generate incentives for the inclusion of blacks in jobs that require higher qualifications and in leadership positions.
- Considers racial differences per state base on the EAP - Economically Active Population

Important: To have RSIs calculated, companies must certify that their data in RAIS roughly reflect their racial composition in the different job groups (Top Management, Management, Non-Management). In addition, the Pact Council may request that a racial census be carried out by the company, after recommendation by Association's Executive Board.

Example: a company with 10% black people operating in Bahia, where more than 80% of the population is black, will present a worse RSI\_N1 than a company with 10% black people located in Santa Catarina, a state where only 18% of the population is black.

Access the Working Paper on RSI by clicking here or go to:

[https://www.insper.edu.br/wp-content/uploads/2020/12/RSI\\_Firpo\\_Franca\\_Cavalcanti\\_.pdf](https://www.insper.edu.br/wp-content/uploads/2020/12/RSI_Firpo_Franca_Cavalcanti_.pdf)



## Affirmative Policies | RSI - Level 2

After committing to increase its RSI\_N1, the company will be recommended to adopt affirmative policies with the potential to improve the RSI\_N1 in the short, medium, and long term.

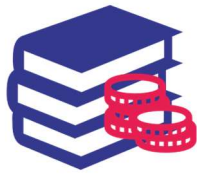
For each affirmative policy adopted (among those listed below), **+0.04 points** will be added to the company's RSI\_N2, being limited to **+0.20 points or 1/3 of the RSI\_N1 deficit (whichever is smaller)**.

Suggested affirmative policies include:

- i. Human resources and hiring policy focused on increasing racial equity (e.g., exclusive selection processes or quotas for black people), prioritizing the hiring, retention, and promotion of qualified black professionals already available in the company or the market (up to 0.04 points)
- ii. Adopting racial equity criteria and policies for the selection/exclusion of partners (suppliers, distributors, service providers, third sector, and community) (up to 0.04 points)
- iii. Adopting administrative practices and cultural change projects to value diversity and eliminate sources of direct and indirect discrimination, with mandatory implementation of a self-report internal racial census for all employees (up to 0.04 points)
- iv. Establishing goals, indicators, and metrics that enable monitoring the impact and effectiveness of diversity policies (up to 0.04 points)
- v. Creating reporting channels for situations of bullying and discrimination based on race, gender, disability, and affective-sexual orientation (up to 0.04 points)

$$\begin{aligned} \text{RSI\_N2} &= \\ \text{RSI\_N1} + 0.04 \times (\text{number of policies adopted}) & \\ \text{limited to} & \\ \text{RSI\_N1} - (1/3) \times \text{RSI\_N1} & \end{aligned}$$

Thus, if the company adopts 3 of the suggested affirmative policies, it will increase scores up to +0.12 (that is, 3 x +0.04) in its RSI\_N2. The number is limited to **1/3 of the gap** between the RSI\_N1 and "0" (which indicates the company's racial balance).

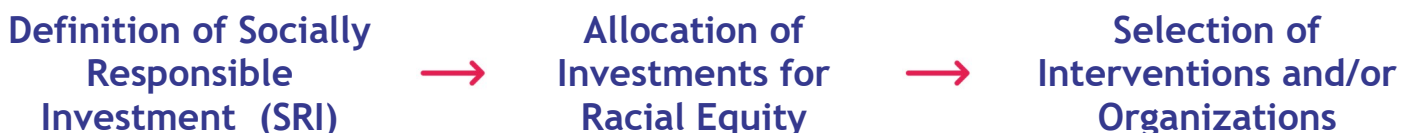


## Social Investment in Racial Equity | RSI - Level 3

Points got on RSI\_N3 will be limited to **+0.20 points or 1/3 of the RSI\_N1 deficit (whichever is smaller)** and are conditional to establishing goals for the RSI\_N1 improvement and adoption of affirmative policies (see RSI\_N2).

$$\begin{aligned}
 \text{RSI\_N3} &= \\
 &\text{RSI\_N2} + \mathbf{0,20} \times (\% \text{ of actual SRI}) \\
 &\text{limited to} \\
 &\text{RSI\_N2} - \mathbf{(1/3)} \times \text{RSI\_N1}
 \end{aligned}$$

Additional points will depend on the social investment to fight racial equity, focusing on education and the labor market. Thus, if the company makes 100% of the social investment calculated based on the reference value, it will increase scores **+0.20** in its RSI\_N3. If it makes, for example, 40% of the expected investment, the increase will be proportional, of +0.08 points.



### Socially Responsible Investment (SRI) Benchmark

The Socially Responsible Investment (SRI) Benchmark is calculated based on the cost spent by the company in annual training of enough young black people to reach racial balance (RSI\_N1 = 0). It is limited to **R\$50 million/year per economic group**.

$$SRI = \alpha \left[ \sum (p - b_{EM}) \times n_{EM} \times 6.000 + \sum (p - b_{ES}) \times n_{ES} \times 12.000 \right]$$

**$\alpha$  = fixed parameter (estimated)**

$p$  = proportion of Blacks given based on EAP in the regions where the company operates (weighted average)

$b$  = proportion of Blacks in jobs that have Primary/Secondary Education (SE) or Higher Education (HE) as a qualification requirement

$n$  = number of employees in jobs that have Primary/Secondary Education (SE) or Higher Education (HE) as a qualification requirement - based on the 75% prevalence cutoff according to RAIS

The formula considers the estimated average costs of quality educational training in Brazil for:

**Primary/Secondary Education:** approximate annual cost of R\$ 6K/student based on a study by Todos pela Educação<sup>1</sup> that - with data from 2015 - estimates the Annual Value per Student (AVS) of basic public education at R\$ 4.3K. From this amount on, there is no evidence of marginal gains in IDEB scores. The AVS amounts to approximately R\$ 6k when we calculate interest rates YTD 2021 (INPC) over R\$4.3K. It is close to the effective AVS of important basic education networks such as Ceará, Espírito Santo, Goiás, and São Paulo (see SIOPE-FNDE data for 2018 and 2019).

**Higher Education:** approximate annual cost of R\$ 12K/student based on the tuition of Brazilian private and philanthropic colleges ranked in THE - Times Higher Education 2021.

## Social Investment Allocation in Racial Equity

Social investment allocation in racial equity aims at producing skilled black professionals over the period of one generation. It focuses on actions that support the **comprehensive training** of black labor and their insertion into the job market.

It can include initiatives numbers 4 (Education), 8 (Decent Work and Economic Growth), and 10 (Reduce Inequalities) of the SDG Framework (Sustainable Development Goals) and focus on guaranteeing rights and anti-racism.

The Protocol defines the ranges below for social investment allocation in racial equity by area. Companies will determine where and how to allocate investments in each area, following the assumptions of the Racial Equity Pact. Investments will, by definition, be made outside the organization, respecting the Pact expectations, which encourage projects and programs to promote racial equity through education, citizenship, and black entrepreneurship.

SOCIAL INVESTMENT AREAS	suggested%	Description
Technical and Higher Education	20-40%	Resources directed to black students, with a higher percentage than the target region
Secondary Education	15-35%	
Primary Education	15-30%	
Early Childhood Education	10-20%	
Rights, Life, Actions against Racism, Entrepreneurship and Labor Market	20-30%	Exclusive for black organizations

<sup>1</sup> Todos Pela Educação (2019) *Technical Note: Analysis of the relationship between investment per student and the quality of education*. Available on: [https://www.todospelaeducacao.org.br/\\_uploads/\\_posts/319.pdf?477736800](https://www.todospelaeducacao.org.br/_uploads/_posts/319.pdf?477736800)



## Selection of Interventions/Organizations

Companies must make interventions or support organizations that carry out projects that meet the following eligibility criteria:

### EXAMPLES OF POSSIBLE INVESTMENTS

- **Public and private schools:**
  - Training managers and leaders
  - Teacher training
  - School flow correction actions
  - Scholarships
  - Anti-racist awareness in schools
  - Racial equity among teachers
  - Creation of materials and enforcement of Law 10.639/2003 (Afro-Brazilian History and Culture)
- **Job Market:**
  - Development of hard and soft skills (e.g., languages, leadership) for young black men
  - Black employability initiatives
  - Black entrepreneurship
  - Inclusion of black professionals in strategic, productive chains such as technology, medicine, culture, creative industries, and the public sector

<b>Target Audience</b>	All or primarily black (in a proportion greater than regional representation)
<b>Geographic Scope</b>	Companies should balance their investments according to the geographical distribution of their units/plants, giving preference to black organizations already operating in the geography.
<b>Document and governance/compliance validation</b>	Bylaws, financial statements, debt clearance statements, and others.
	Social Organizations would go through a phase-in, with new criteria being included little by little (e.g., auditing, technical visits)
<b>Monitoring and Transparency</b>	Periodic accountability and results monitoring, through the mandatory publication of Annual Reports by the adopting companies
<b>Impact</b>	Interventions with evaluated effectiveness either through internal or external evaluations
<b>Performer</b>	<p>Civil Society Organizations registered as Associations.</p> <p>Civil Society Organizations registered as Foundations.</p> <p>Civil Society Organizations registered as Cooperatives.</p> <p>Businesses of socio-environmental impact</p> <p>Cooperatives</p> <p>System B Companies</p> <p>Other initiatives outside the Company</p>
<b>Priorities</b>	<p><b>Grassroots organizations and with black leaderships, ensuring a leading role and fostering the emergence of new black organizations.</b></p> <ul style="list-style-type: none"> <li>• Law, Life, Fight against Racism, Entrepreneurship and Labor Market": <b>exclusive (100%)</b></li> <li>• Other topics: gradual increase, with a minimum participation of <b>15% in 2023, 20% in 2024, and 30% from 2025 onwards</b></li> </ul>
	Replicable or scalable interventions (volume and rollout), with the potential to leverage public investments in education
<b>Selection Process</b>	Companies can select the organizations and projects to be supported through active prospecting or other selection methodology of their own.



## Certification and monitoring | Racial Balance Rating

A rating system will be adopted to simplify communication to the general public and investors. It will follow a model widely recognized by companies and asset managers.

It establishes that a company RSI\_N3 converts into a letter and a sign, ranging from H to A++ (see table below). Rating limits will depend on where the company starts from (RSI\_N1).

Rating based on IER_N1	IER_N1	IER_N3 (max)
A++	>0.0	A++
A+	-0.05 to 0.00	A++
A	-0.10 to -0.05	A++
A-	-0.15 to -0.10	A+
B+	-0.20 to -0.15	A
B	-0.25 to -0.20	A
B-	-0.30 to -0.25	A
C+	-0.35 to -0.30	A-
C	-0.40 to -0.35	A-
C-	-0.45 to -0.40	A-
D+	-0.50 to -0.45	B+
D	-0.55 to -0.50	B+
D-	-0.60 to -0.55	B+
E+	-0.65 to -0.60	B
E	-0.70 to -0.65	B-
E-	-0.75 to -0.70	C+
F+	-0.80 to -0.75	C
F	-0.85 to -0.80	C-
F-	-0.90 to -0.85	D+
G	-0.95 to -0.90	D
H	-1.00 to -0.95	D-

Finally, we list some important properties of the Pact, provided by its calculation methodologies and planned governance:

- Voluntary adoption.
- We expect that voluntary Pact adoption by leading companies will generate awareness in the civil society (consumers, social movements, investment funds) and pressure competition and *peers*.

- Private Approvers and Certifiers (profit and non-profit) bring a component of self-regulation to the Pact. It does not depend, therefore, necessarily on the public initiative and no other sphere of power, for that matter.
- The demand for social investment by companies will foster the supply of services by social and private organizations.
- The company certification process will be carried out by duly accredited Certifiers and under the supervision of the Pact's governance mechanisms. This will guarantee impartiality and transparency in implementing affirmative actions, investing in racial equity, measuring results, and producing reports within the framework of the New ESG Protocol for Racial Equity in Brazil.
- Prevents '*Black Washing*': higher social investment scores are conditional on adopting affirmative policies and improvements in RSI\_N1 observed in the following period.
- Certifiers will be responsible for validating RSI\_N1 goals and company commitment to affirmative policies and Social Investment (to improve RSI\_N2 and RSI\_N3, respectively).
- Companies that join the Pact must define goals to increase RSI\_N1, targeting an RSI\_N1 close to zero in up to 20 years. If a company does not reach the proposed RSI\_N1 goals, maximum scores earned on RSI\_N2 and RSI\_N3 will be reduced by 10% p.a., resulting in a worse rating for the company.



## Background: Racial Equity and Affirmative Actions

One of the biggest challenges of the economic sector in Brazil is to create a truly diverse, inclusive, and equitable environment that includes the dimensions of race and gender in organizational culture and strategic management, enabling new relationships with society: citizens, clients, consumers of products and services, and with the environment, ensuring the participation of all people in decision-making processes that affect the daily life of society.

The pressure to develop actions aimed at racial and gender equity is a growing trend concerning the diversity and inclusion agenda in companies and other employing organizations. Although the black population is the majority in Brazil, 56.1%<sup>2</sup>, black people are underrepresented in companies, especially at the top of the hierarchy. In 2019, according to IBGE<sup>3</sup>, 68.4% of managerial positions were occupied by white people, while only 31.6% were occupied by black people (black and brown). According to data from the Ethos Institute, black people had a share of only 34.4% in the workforce of the 500 largest companies in the country. When we intersect race and gender, black women occupy an even more unfavorable position: 10.3% of functional roles, 8.2% supervision, and 1.6% management. In executive ranks, their presence reduces to 0.4%. There were two black women in the 500 companies that made up the universe of the survey.

The underrepresentation of black women, black men, and women in general in management positions of large corporations must be addressed for Brazilian development. The country loses talents and gives up different perspectives, complementary to the hegemony of large companies.

Massive investment in affirmative action policies is a possible and concrete way to change exclusion and inequality. Although still incipient, it has been implemented in public and private institutions for some years now.

The term affirmative action, or positive action, refers to an institution's orientation or active behavior to ensure, foster, and promote equality. It counterposes a negative, passive attitude, limited to the mere intention of not discriminating. Therefore, affirmative action means active behavior focused on substantive equality. It enables everyone to benefit from equal opportunities and treatment, eliminating any source of direct or indirect discrimination.<sup>4</sup> The term antidiscrimination policy also stands out when talking about policies to promote equity.

Celso Prudente points out that affirmative actions are a direct result of the intense struggle and political action of Black and Black Women's Movements. One example is the quotas in public service at the federal, state, and municipal levels.<sup>5</sup>

More recently, the Brazilian Supreme Court determined that, as of the 2020 election, Campaign Finance Fund (the electoral fund) resources must be proportional to the number of black and white candidates in each party. The measure also requires the equal distribution of free advertising time on TV and radio.

Affirmative actions can contribute to change if they genuinely connect with diversity policies focused on promoting racial and gender equity.

The theme of "diversity," associated with the promotion of equity, has gained visibility since the 1960s. At the time, the United States witnessed a series of social demonstrations marked

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2 Pesquisa Nacional por Amostra de Domicílios (Pnad), IBGE, 2019.

3 Pesquisa Nacional por Amostra de Domicílios Contínua, IBGE, 2019.

4 SILVA JR., Hédio; BENTO, Maria Aparecida da Silva; SILVA, Mário Rogério (Org.). *Políticas Públicas de Promoção da Igualdade Racial*. São Paulo: CEERT, 2010.

5 Act 12,990, June 09, 2014.

by racial conflicts, known as the "civil rights movement." They led to the passing of laws that sought to minimize unequal opportunities among segments of society.<sup>6</sup>

This process of social articulations aimed at defending human rights and establishing equal opportunities occurred in parallel with the geographic expansion of several companies.

According to Muniz Sodré<sup>7</sup>, *diversity* is more than a variety of appearances, histories, and cultures: it is the existence of values attributed to specific groups, generating stigma, stereotype, prejudice, and discrimination; that is, it presupposes value judgment. Definitions of "diverse" and "different" are made by comparison with what is considered "the reference" and "universal," which are deemed superior since they are the "model."

Diversity refers to immediacy, to proximity, so it is also physical. It is the coexistence between human groups with different stories, backgrounds, religions, cultures, and languages.

It is recognition that white and black people, men and women, LGBTQIA+ or not, people with and without disabilities, experienced very different journeys and inherited benefits or accrued losses (concrete and symbolic) in the same historical process. This inheritance reflects objectively in the different conditions of the various segments and subjectively, in how they see themselves or are seen, and how they feel about themselves and other people, impacting their identity.

Equity and value diversity policies refer to a set of measures to promote inclusion and equal opportunities and treatment to members of groups discriminated because of color, race, ethnicity, origin, gender, disability, age, belief, affective-sexual orientation, gender identity, and other identity markers.

As mentioned before, equity and value diversity policies require the adoption and/or improvement of some fundamental guidelines to be viable.<sup>8</sup>

- Identifying and repealing administrative practices incompatible with the valuing of diversity, as well as the elimination of sources of direct or indirect discrimination;
- Implementing written guidelines and standards aimed at valuing diversity, with the ultimate goal of inscribing such a policy as a core value of the organizational culture;
- Establishing objectives and indicators that enable monitoring the impact and effectiveness of policies that value diversity;
- Enforcing policies in the relations with the productive chain, community, third sector, etc.
- Creating whistleblowing channels for bullying and racial, gender, disability, and affective-sexual orientation discrimination.

Policies to promote equity and value diversity must be based on ethical values founded on equality and justice, strongly connected to social responsibility, corporate interest, and organizational sustainability.

Sustainability presupposes combining business success with initiatives that contribute to the community's economic and social development, a healthy environment, and the consolidation of public institutions and democracy.

Solid legal frameworks already support the collection of this information, primarily to support measures to promote equity. In practice, however, there is much to advance and recognize and give visibility to what is already being done.

Thus, diversity and inclusion programs can have as a starting point a diagnosis of the company based on research into human resources processes, a census of male and female

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<sup>6</sup> Text produced by CEERT, in consultancy for FUNDAP - 2008, São Paulo

<sup>7</sup> SODRÉ, Muniz. *Invenção do contemporâneo: a ignorância da diversidade*, 2007.

<sup>8</sup> *Diversity in Business and Racial Equality*, CEERT, 2016.

employees, a survey of the organization's good practices, as well as research into the profile of customers, suppliers, services provided, and products offered.

It is also important to highlight that the action plan must address the codes of conduct, company mission, and principles; in short, how the company positions itself internally and externally. Only in this way can we have an actual policy and, consequently, practices that promote equity and value diversity.



## Governance

### IMPORTANCE AND PRINCIPLES

In the world of social initiatives, it is common for founders, associates, or leaders to present or develop a deep attachment to the entities in which they participate. Egocentrism can sometimes lead to a lack of discipline and definition in how players participate in the organization. In this context, Governance plays a relevant role in formalizing and professionalizing initiatives.

good governance practices should always take into account some aspects to remember and continuously exercise:

- ❖ Understanding the different stakeholders;
- ❖ Understanding the different roles, assignments, and responsibilities (the Board governs; the Management Team manages);
- ❖ Respect for diversity (opinions, skills, experiences, and knowledge);
- ❖ Establishing clear decision-making processes and defining clear measures for monitoring and evaluating success.

In addition, one must observe basic principles to build a reliable governance structure that guarantees the longevity of social initiatives:

#### Transparency

- The right transparency leads to an atmosphere of trust, both internally and when relating to third-

#### Equity

- Governance agents should treat all *stakeholders* with fairness and equality.

#### Accountability

Governance members should always render account of their efforts, being fully accountable for the consequence of their actions and omissions.

#### Responsability

- Company members should always care for sustainability, incorporating social and environmental mechanisms in their programs, projects and processes.



## PACT FOR RACIAL EQUITY LEGAL CONSTITUTION AND GOVERNANCE

The Racial Equity Pact will be legally organized as a Non-Profit Association, called **Racial Equity Association**, whose governance is summarized in the following chart:



### 1. MEMBERS

#### Composition

A group of organized individuals and companies joined together to introduce and disseminate a Racial ESG Protocol in Brazil.

**Founding Members:** those willing to sign the Pact founding document, containing the ESG Racial Protocol, regulations, and Racial Balance Index technical description, as well as governance rules.

- Individuals
- Civil Society Organizations
- Companies
- Institutional Investors

**Associate Members:** new members approved by a majority of members gathered in a General Assembly.

## 2. GENERAL MEMBER ASSEMBLY:

**Composition:** All Founding Members and Associate Members have one vote at the General Assembly

### Duties

- Approve changes to the Bylaws of the Pact Association and its governance rules.
- Approve the ESG Racial Protocol, which will include the RSI - Racial Balance Index
- Approve changes to the Protocol and its regulations, following recommendations by the Decision-making Body.
- Elect and remove members of the Advisory Board, respecting the multi-stakeholder composition.
- Terminate the Pact (and its Association)
- Approve (by majority vote) new Pact members.

### Assembly Operations

Decisions made by a simple majority of attendants.

- **Ordinary:** once a year, in-person, remotely or hybrid, called by the Chair of the Decision-making Body, 10 days in advance, to deliberate on (i) the activities report and (ii) the rendering of accounts;
- **Extraordinary:** whenever necessary, in-person, remote or hybrid, called by the Chair of the Decision-making Body, ten days in advance, to deliberate on (i) admission of new Members; (ii) election of members of the Decision-making Body (when applicable) and (iii) other topics related to the Pact governance.

### New Member Approval Rules

- Member candidates must submit an application to the Decision-making Body upon the formal nomination of up to five members.
  - The request must be in the appropriate form, made available by the Decision-making Body.
- A member consultation process will start, lasting 15 days after the request is received. Members will have the opportunity to speak up on the applicant's submission to the Decision-making Body.
- The Decision-making Body will collect all manifestations. After verifying the applicant's irreproachable conduct and reputation, it will submit the name to the first subsequent General Assembly, called according to the applicable rules. It will then be submitted to vote. Approval or rejection will be decided by a majority of attendants, excluding abstentions.

The General Assembly is the highest instance of an Association. It can change Bylaws and elect and dismiss the Decision-making Body. However, the Decision-making Body will be responsible for the Pact strategic management.

### 3. DECISION-MAKING BODY

#### Rules for election

The first Decision-making Body will comprise a group of supporters to guarantee formalization and the beginning of the Association's activities. Subsequent members will be elected following the instructions and assumptions established below.

- The first Decision-making Body composition will observe the following:
  - At the end of the third year, the terms of four members (decided by drawing lots) will expire. The Annual Assembly will elect their replacements. There shall be only one reelection.
  - At the end of the subsequent years, the terms of 4 more members will also expire (excluding those who have not yet completed their three-year period). The Annual Assembly will elect their replacements. There shall be only one reelection.
- In case of vacancy, the Decision-making Body will call, within 90 days, a General Assembly for the election of a new member until the end of the replaced member's term, following the parity criteria.

#### Duties

- Approve the annual budget and action plan of the Management team, as well as decide on adjustments in the allocation of resources, whenever deemed necessary;
- Monitor and supervise the work of the Management teams;
- Approve and raise, with the support of the Management, the necessary resources for the good progress of the Pact;
- Decide on changes to the ESG Racial Protocol and the RSI that do not require approval by a majority vote of the Members in Assembly;
- Decide on RSI-related issues, including those related to the suspension or modification of the RSI assigned to a company;
- Recommend a racial census by companies, when so suggested by the Management.
- Hire or establish partnerships, covenants, and agreements with civil society organizations, academic institutions, and other entities, to develop the commitments signed in the Pact and its Protocol;
- Appoint, dismiss and define the rules for hiring the Pact's Managing Director.

#### Operation

- Four meetings per year, in-person, remote, or hybrid
  - The members will elect the Chair and Vice-Chair at the first meeting after the election;
  - Meetings are convened by the presence of a simple majority of its members;
  - Attendance counted even if the legal representatives are not physically at the venue, as long as they can, by telephone, videoconference, or other suitable means of communication, remain in direct contact with the other members, expressing their will clearly and unequivocally.
- Decisions made by a simple majority of member votes.
- Minutes taken and filed at each meeting.

- Minutes concerning relevant topics will be submitted to resolution by the General Assembly.
- Members of the Decision-making Body shall adopt management practices necessary and sufficient to restrain anyone, individually or collectively, from obtaining personal benefits or advantages due to their participation in decision-making processes, including individual benefits to the party they represent.

The Pact aims at promoting equity, representativeness, and dialogue among the different stakeholders involved with the ESG and Racial Equity agendas. The Decision-making Body establishes composition and participation requirements that reflect these principles and concerns.

### **Decision-making Body composition requirements**

- Racial equity (50% or more black members);
- Gender parity (50% or more women members);
- Regional diversity (representatives from various macro-regions of Brazil);

### **Requirements for participation in the Decision-making Body**

- Representatives of the organized civil society, active in the black movement, duly recognized as non-governmental civil society organizations **(minimum of 3)**;
  - a. Must be in place for more than five years, counted as from the date of the election;
  - b. Some of the organization's institutional objectives established in the Bylaws must be (i) promoting racial equality; (ii) fighting against racial discrimination and/or other related purposes;
  - c. Must have a minimum governance structure, with a Board of Directors and/or Executive Management elected by the General Assembly, with a fixed term;
  - d. Must have recommendations from two other Black movement organizations, also established for at least five years;
  - e. The three entities must include representatives from at least two of the five Brazilian macro-regions;
  - f. Must be led by a person of black ancestry;
  - g. At least one of the three representatives must be a woman to promote gender equity.
- Representatives of the business sector, indicated by legal entities that participate in the activities of the Pact as members and members of internal diversity committees **(minimum of 3)**;
  - a. Must have more than 5,000 registered employees;
  - b. Must have branches or establishments in more than 5 Brazilian states;
  - c. Must have an area dedicated to diversity in the organization chart, even if not exclusively dedicated to the theme;
  - d. Must have an RSI greater than C.
  - e. At least one of the three representatives must be a woman to promote gender equity.
- Representatives of institutional investors, nominated by legal entities that participate in the Pact activities as Members, responsible for ESG and/or diversity issues **(minimum of 3)**;
  - a. Must manage more than R\$1 billion in financial assets;
  - b. Must be in operation for at least five years, counted as from the date of the election;

- c. Must have a specific policy for ESG issues, with the indication of diversity issues.
  - d. One out of the two representatives should be a woman to promote gender equity.
- Representatives of non-profit entities - association, foundation, or other - specialized in public education and certified by the due agencies **(minimum of 2)**;
  - a. Must be in place for more than five years, counted as from the date of the election;
  - b. The institutional objectives of the organization, set forth in its Bylaws, must include (i) promotion of education; and/or (ii) promotion of initiatives aimed at employability and professional training and/or other related purposes;
  - c. Must have a minimum governance structure, with a Board of Directors and/or Executive Management elected by the General Assembly, with a fixed term of office;
  - d. Must be recommended by two other civil society organizations established for at least five years;
  - e. Together, must include at least two representatives of the five Brazilian regions;
  - f. One out of the two representatives should be a woman to promote gender equity.
- Independent members of unrepachable reputation and commitment to the cause **(minimum of 2)**:
  - a. Individuals with a history of unrepachable reputation and commitment to the cause. For the second term-in-office, must be nominated by the Governance Council.
  - b. One out of the two representatives should be a woman to promote gender equity.
- Government representatives sitting in racial equality councils in the municipal, state, or federal spheres, such as the Labor Prosecutor's Office;
- Representative of certifying companies, member of the internal diversity committee, and with experience in racial equity issues in large partner organizations;
- ESG specialist with experience in managing the stock fund of Brazilian companies. Focused on companies with social responsibility and compliant with global ESG best practices;
- Black communication and marketing specialist, nominated by coalition founder, with services to the black community and movement and with public recognition;
- Specialist in economics, representative of a civil organization active in designing, assessing, and monitoring social indexes and indicators.

#### 4. MANAGEMENT TEAM OBJECTIVES AND DUTIES

##### Goals:

- Promote the Racial ESG Protocol (RSI and Technical Article) in Brazil among institutional investors, financial market, companies, and the general public;
- Promote and monitor the companies joining the Racial ESG Protocol and the Association;
- Compile, monitor, and store data related to the Pact, including the maintenance of a technological platform for program dissemination and implementation;
- Offer companies a system to calculate their respective RSIs;
- Advise, coordinate, and monitor the implementation of Racial Equity projects in the organizations together with the certifying organizations;
- Promote discussions for the constant improvement of the Pact, the Protocol and its norms, and the RSI;

- Carry out and sponsor research and data and information gathering for the development of the Pact and the decisions of the Decision-making Body;
- Propose to the Pact's Decision-Making Body a racial census in a specific company based on self-declaration of employees;
- The Management will be led by a Managing Director elected by the Decision-making Body.

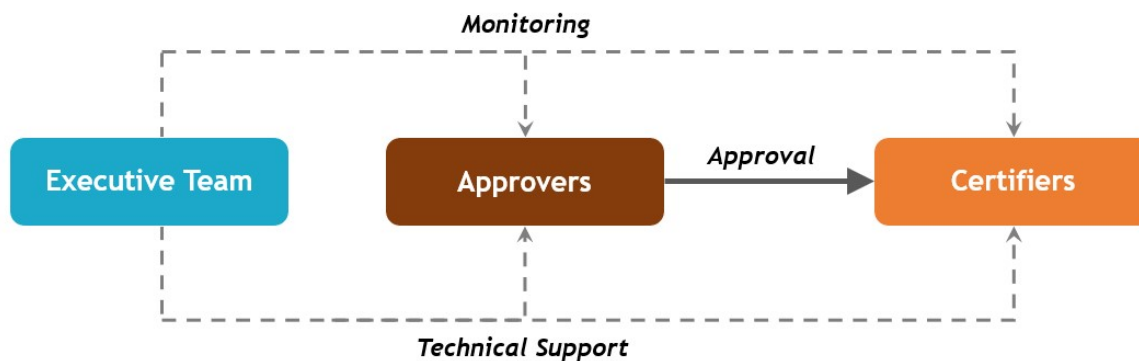
#### **Duties of the Managing Director:**

- Carry out the Association's administrative management, aiming to reach its objectives, in light of the guidelines offered by the Decision-making Body;
- Create specific work commissions and committees and appoint their members;
- See to the making of periodic activity reports and accounting/financial statements, submitting them to the Decision-making Body;
- Prepare the activities report and submit it to the Decision-making Body;
- Hire and dismiss employees, as well as allocate the Association's administrative management tasks and functions among them, as per the labor legislation and, also, in the form of volunteer contracting, as per Act nº 9.608/1998
- Propose and submit the Association's annual budget for approval by the Decision-making Body.
- Authorize the movement of financial resources aiming at its efficient, transparent, and adequate allocation to the execution of the annual planning of activities and the annual budget of the Association;
  - Adopt management practices that are necessary and sufficient to restrain anyone, individually or collectively, from obtaining personal benefits or advantages due to participation in decision-making processes, including individual benefits.

#### **5. ASSOCIATION BUDGET**

- Fundraising: through membership dues and sponsorships
  - The Management will be responsible for raising funds under the coordination of the Decision-making Body.

## ATTACHMENT 1: APPROVERS AND CERTIFIERS



### APPROVER COMPANIES

Approver Companies will train, qualify, and approve auditing, consulting, and certifying institutions on implementing, monitoring, and defining the Racial Balance Index (RSI) in companies and organizations according to the New ESG Protocol for Racial Equity in Brazil.

#### **Requirements:**

- To be a formal non-profit organization, established for more than five (5) years, that generates knowledge and experience for the development of programs and projects to promote racial equality;
- To be an institution recognized by black movement entities through actions in the promotion of racial equality;
- To fight against racial inequality through partnerships with social movements, private and governmental organizations nationwide;
- To have the expertise as advisory/consulting, research development, and training in the areas of education, human rights, professional training, and racial equality;
- To be led, even if partially, by black managers.

### CERTIFIER COMPANIES

Certifier Companies will act as auditors and/or certifiers of RSI implementation, follow-up, and definition by companies, by monitoring the affirmative actions developed and verifying the commitments of Investment in Racial Equity established in the New ESG Protocol for Racial Equity in Brazil.

#### **Requirements:**

- To have been trained and validated by one of the accrediting organizations of the New ESG Protocol for Racial Equity in Brazil;
- To be an organization in place for more than five years, with proven experience in providing quality services in human resources or certification of other quality or management indexes, or ESG protocols;
- To have initiatives to consolidate measurement standards and ESG information disclosure, following the new ESG Brazil protocol;
- To attest and prove performance and commitment to good diversity practices in their organizations and their stakeholders;
- To prove **score X** achievement in the Racial Equity Index and ensure black consultants for the companies assisted by the Pact.