

# WHY AND HOW INVESTORS SHOULD ACT ON HUMAN RIGHTS

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**United Nations**  
Global Compact

*An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact*

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## About this paper

Institutional investors have a responsibility to respect human rights – as defined by international standards – across all of their business activities. While this responsibility encompasses their own operational activities – for example in relation to employees, clients, contractors, and communities – this paper focus on investors’ role as key influencers in the investment chain, outlining how they should implement respect for human rights throughout their investment activities.

# EXECUTIVE SUMMARY

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# INTRODUCTION

Institutional investors' responsibility to respect human rights is defined in international human rights standards. It was formally and unanimously endorsed by the UN in 2011, and immediately reflected in OECD standards. The expectations of employees, beneficiaries, clients, governments and wider society have only increased – driven by growing visibility and urgency of many human rights issues, and by a better understanding of investors' role in shaping real-world outcomes.

Failure to respond to these expectations can erode trust, jeopardising the financial industry's social license to operate. The climate emergency, decades of widening economic inequality and the global COVID-19 pandemic are all drawing focus on investors' behaviour. Media, governments and citizens are questioning whether the global financial system serves its intended purpose, and the wider interests of society, if it fails to manage capital in a way that supports sustainable and inclusive economies. International human rights standards are the compass for such endeavours.

We have seen momentum from governments in championing human rights and embedding their expectations of investors into regulation. There is variation across jurisdictions in the extent to which human rights are protected by states and where they fall short, private actors' responsibility to operate to higher international standards remains.

Leading investors recognise that meeting international standards leads to better financial risk management and helps to align their activities with the evolving demands of beneficiaries, clients and regulators. PRI signatories highlight human and labour rights as a priority issue.<sup>1</sup> However, many institutional investors are either unaware or unclear on how to fulfil their responsibility to respect human rights.

To close the implementation gap, this paper sets out a framework for institutional investors on how to implement respect for human rights in their investment activities, and outlines a number of PRI initiatives to address challenges and further promote human rights in the financial industry. This is a key part of our work supporting investors in [shaping real-world outcomes in line with the Sustainable Development Goals \(SDGs\)](#), the overarching vision for sustainable development grounded in the Universal Declaration on Human Rights.

Ensuring respect for human rights is central to achieving our 10-year [Blueprint for responsible investment](#), which aims to bring responsible investors together to work towards sustainable markets that contribute to a more prosperous world for all.

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<sup>1</sup> PRI Reporting Framework 2019

## DEFINING HUMAN RIGHTS

The idea of human rights is as simple as it is powerful: that people have a universal right to be treated with dignity. Every individual is entitled to enjoy human rights without discrimination – whatever their nationality, place of residence, sex, national or ethnic origin, colour, religion, language or any other status. These rights are interrelated, interdependent and indivisible.<sup>2</sup>

Human rights are articulated and codified in the following legal instruments:

	<b>International Bill of Human Rights</b> (comprising the <i>Universal Declaration of Human Rights</i> ; the <i>International Covenant on Economic, Social and Cultural Rights</i> ; the <i>International Covenant on Civil and Political Rights</i> and its two <i>Optional Protocols</i> )	<b>International Labour Organization's Declaration on Fundamental Principles and Rights at Work</b>
<b>Examples</b>	<ul style="list-style-type: none"> <li>■ Right to non-discrimination</li> <li>■ Right to health</li> <li>■ Right to an adequate standard of living</li> <li>■ Right to freedom of expression</li> <li>■ Right to privacy</li> <li>■ Right to a living wage</li> </ul>	<ul style="list-style-type: none"> <li>■ Freedom from forced labour</li> <li>■ Freedom from child labour</li> <li>■ Freedom from discrimination at work</li> <li>■ Freedom to form and join a union, and to bargain collectively</li> </ul>

<sup>2</sup> OHCHR (2012): The Corporate Responsibility to Respect Human Rights: An interpretive guide, p. 9

# EVOLUTION OF A GLOBAL PRIVATE SECTOR FRAMEWORK ON HUMAN RIGHTS

The promotion and protection of human rights is articulated in international law. Initially the [Universal Declaration of Human Rights](#) sets out: “a common standard of achievement for all peoples and all nations, to the end that every individual and every organ of society [...] shall strive [...] to secure their universal and effective recognition and observance”. The [International Covenant on Economic, Social and Cultural Rights](#) and the [International Covenant on Civil and Political Rights](#) go on to codify this standard in legally binding agreements between states. Together these three documents constitute the [International Bill of Human Rights](#).

The reference to “every organ of society” was however typically interpreted as referring only to the public sector, with the responsibilities of the private sector – including institutional investors – not clearly defined. This changed with the unanimous endorsement of the UN [Guiding Principles for Business and Human Rights](#) (UNGPs) by the UN Human Rights Council in 2011. The UNGPs establish that all business enterprises have a responsibility to respect human rights through a set of policy and process requirements. In 2013, the UN Office of the High Commissioner for Human Rights specifically [clarified that the UNGPs apply to institutional investors](#).

- Universal Declaration on Human Rights – 1948
- International Covenants on Economic, Social and Cultural Rights and Civil and Political Rights – 1966 (ratified in 1976)
- UN Global Compact’s ten principles (including human rights) – 2000
- UN Guiding Principles on Business and Human Rights – 2011
- UN Sustainable Development Goals – 2015

## UN GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS

The UNGPs are the authoritative standard on private sector conduct on human rights. This framework provides a basis for global consistency, enabling institutional investors to compare corporate practice across jurisdictions. The UNGPs are widely supported and adopted by states, regional institutions and multilateral organisations.

- Member states on the Human Rights Council at the time of endorsement of the UNGPs included China, Russia, Brazil, US, UK and Saudi Arabia.
- Colombia, Denmark, Finland, Indonesia, Netherlands, Norway, Italy, Spain, Tanzania, Thailand, Kenya, UK and the US have incorporated or started to incorporate the UNGPs in national action plans.<sup>3</sup>
- France has incorporated the UNGPs in its Duty of Vigilance Law.
- The European Union’s [CSR strategy](#), its [regulation on sustainability-related disclosures in the financial services sector](#) and its [Taxonomy for sustainable activities](#)’ minimum social safeguards, all reference the UNGPs.

<sup>3</sup> A national action plan on business and human rights is a policy strategy to ensure that the state adequately protects against negative human rights impacts by business enterprises

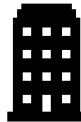
- The Association of Southeast Asian Nations (ASEAN) and the Organization of African Unity (OAU) are also working with the UNGPs in regional frameworks.
- The UNGPs are also integrated into other international standards and regulatory frameworks:
  - OECD Guidelines for Multinational Enterprises;
  - ISO 26000;
  - IFC Performance Standards.

### The UNGPs consist of three pillars



#### The state duty to protect

The state duty to protect emphasises that governments should consider private sector entities when regulating and legislating to protect human rights. This includes a specific obligation to ensure that government-controlled or government-backed financial entities – such as export credit agencies, development finance institutions, pension vehicles and sovereign wealth funds – are respecting human rights, as defined in the UNGPs.



#### The corporate responsibility to respect

The corporate responsibility to respect human rights exists independently from the state duty, and applies to all companies – including institutional investors – regardless of their size, sector, location, ownership and structure. Companies can cause negative outcomes across the entire spectrum of internationally recognised human rights.<sup>4</sup> Investors should refer, at a minimum, to human rights expressed in:

- the International Bill of Human Rights;
- the ILO's Declaration on Fundamental Principles and Rights at Work.



#### Access to remedy

Enabling access to remedy is an expectation of both states – through judicial and non-judicial mechanisms – and businesses – through grievance mechanisms. Its purpose is to allow affected people to seek redress for any harm that they have experienced as a result of business activities.

<sup>4</sup> [UN Human Rights Council - Corporations and human rights: a survey of the scope and patterns of alleged corporate-related human rights abuse](#) (2008)

## OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

In 2011, the same year that the UNGPs were unanimously endorsed, the OECD updated their [Guidelines for Multinational Enterprises](#) (Guidelines) to reflect this new technical, private sector standard on human rights.<sup>5</sup> Under the OECD Guidelines, businesses including institutional investors can be subject to complaint cases via an OECD National Contact Point (NCP) if they fail to meet the standards. This is a formal grievance process through which stakeholders may lodge allegations of non-observance of the guidelines. NCPs will first seek to facilitate a solution between the involved parties. If unsuccessful, the NCP will review the case and make a public statement about the extent to which the company or investor in question has failed to comply with the Guidelines.

After a number of [cases against institutional investors](#), in 2017 the OECD (following extensive consultation and collaboration with the financial industry), released detailed technical guidance on [how institutional investors should comply with the Guidelines](#) including how to meet their responsibility to respect human rights.

## INVESTOR INITIATIVES

There is also emerging momentum, albeit by a minority group, among institutional investors themselves.

- In the past five years, approximately 115 institutional investors with more than US\$13 trillion of assets under management (AUM) have engaged with 100 companies through PRI-led collaborative engagements to improve human right practices and disclosure, using the UNGPs as the reference.<sup>6</sup>
- More than 180 PRI signatories apply to their investment portfolios some form of screening based on the UNGPs and/or the OECD Guidelines.<sup>7</sup>
- A growing number of companies (currently 152) are disclosing information through the [UN Guiding Principles Reporting Framework](#) – an initiative backed by 88 investors with US\$5.3 trillion in AUM.
- The [Corporate Human Rights Benchmark](#) – an investor- and civil society-led initiative – assesses the human rights performance of 200 of the largest publicly traded companies.
- [An investor call](#) for governments to legislate on mandatory due diligence for companies led by the Investor Alliance for Human Rights is currently supported by 105 investors with US\$5 trillion in AUM.

Since the UNGPs were endorsed in 2011, the PRI has applied them as the overarching framework for projects relating to social issues, including PRI-coordinated collaborative engagements. There has been significant progress made by companies in showcasing their commitment to human rights – through policies and due diligence. However, there is much further to go, and investors can reinforce the need for improved data collection and disclosure – in line with the UNGPs – to better inform investment decision-making, and ultimately lead to improved human rights performance.

<sup>5</sup> The OECD Guidelines for Multinational Enterprises also cover environmental issues and economic issues (such as tax)

<sup>6</sup> AUM figures are based on reported information at 2020, rather than at the time of engagement, and may include double counting of overlaps between asset owners' AUM and their investment managers'.

<sup>7</sup> As reported through the PRI Reporting Framework

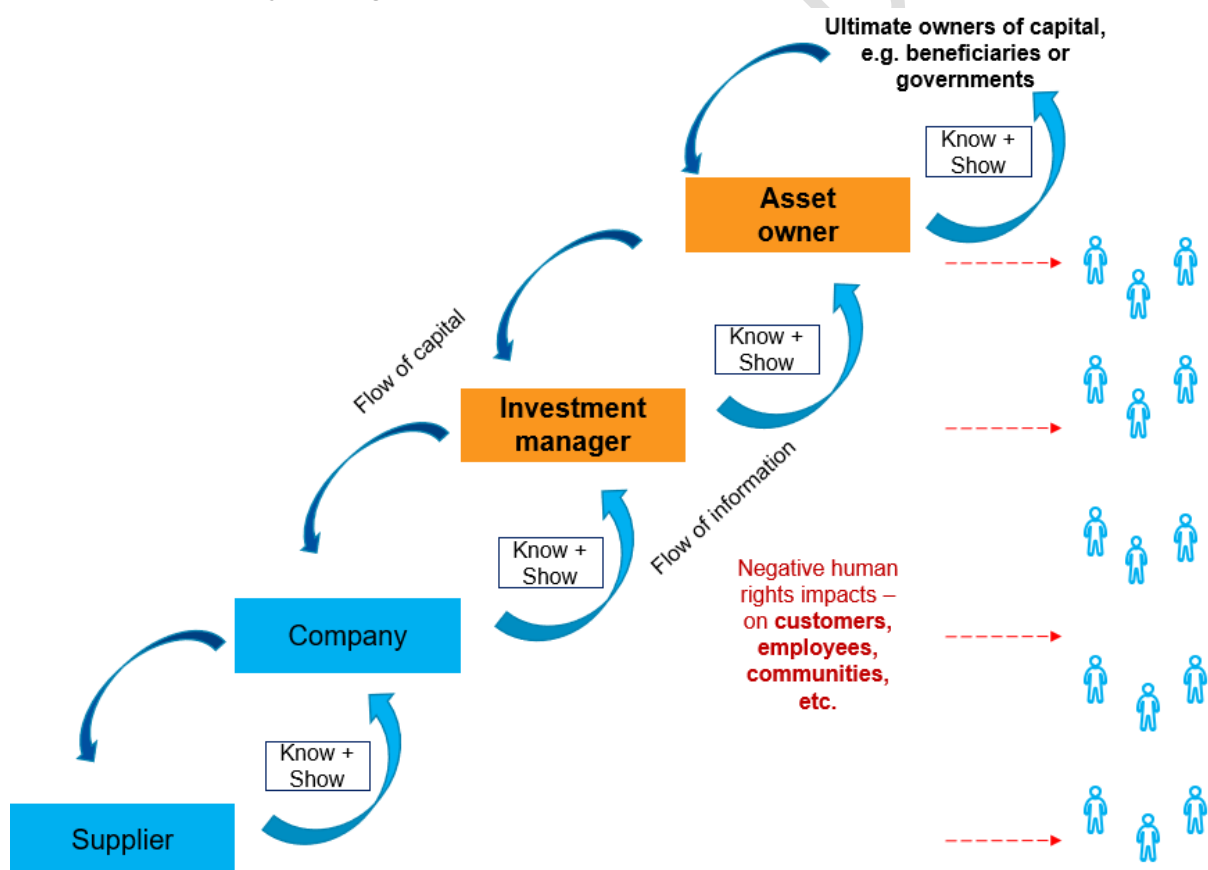


# HOW INVESTORS CAN RESPECT HUMAN RIGHTS

All entities in the value chain can cause negative human rights outcomes, and therefore have a responsibility to respect human rights. For this to happen effectively throughout the chain, each entity must a) identify negative human rights outcomes, and b) communicate what they're doing to others – to those above them in the value chain, governments, business partners, clients and beneficiaries.

To understand exposure and actions required, an entity in the value chain needs to request information from the entity below them. This flow of information allows, for example, a pension fund with outsourced investment management to be aware of the human rights outcomes they are linked to through their portfolio. As due diligence is often lacking, alongside seeking information from further down the chain, investors should actively work to fill potential information gaps, through service providers, NGOs, governments, media and affected rightsholders themselves.

**Know and show: all entities in the value chain need to a) identify negative human rights outcomes and b) communicate what they're doing to others**



While in practice the value chain – and the flow of information and capital along it – is often further complicated through the use of fund-of-funds, benchmark administrators, engagement providers, stock exchanges or other financial intermediaries, institutional investors retain the influence to obtain information, identify adverse human rights outcomes and address these issues.

Investors' responsibility to manage negative human rights outcomes in their portfolio does not limit the responsibility of the companies themselves. While investors can cause negative human rights outcomes through their own operational activities (e.g. outcomes on their own employees or customers), primarily companies will be the ones directly causing or contributing to negative outcomes, with investors linked to them through their holdings.

Investors, on their own or collectively, should therefore exercise their influence to ensure that the companies prevent and mitigate those negative outcomes and provide access to remedy where the harm has already occurred.

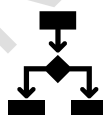
## A SIX-STEP FRAMEWORK

Institutional investors should have a policy commitment, a due diligence process and – where the investor is directly causing a negative outcome – must enable access to remedy for those affected. The policy and due diligence process should cover the human rights included in the international legal instruments listed previously. The due diligence system is the backbone of day-to-day management of activities. Unlike investors' traditional risk management systems – which focus on business risk, operational risk or financial risk – the core component is a focus on the risk of negative outcomes for people.

**Investors should have/provide:**



**Policy**



**Due diligence process**



**Access to remedy**

Institutional investors should embed their human rights policy commitment into their investment governance framework. They can then use their investment decisions, stewardship of investees and dialogue with policy makers and other stakeholders to effectively implement the due diligence and access to remedy requirements, in line with the UNGPs.

## Steps to implement respect for human rights

POLICY COMMITMENT	<p><b>Step 1</b> Adopt a policy commitment to respect human rights</p>	<p>Embed the policy commitment, approved at the most senior level, throughout the organisation, including by integrating it in investment beliefs, policies and strategy to inform <b>investment decisions, stewardship of investees</b> and <b>policy dialogue</b>.</p> <p>Investors should engage with their investment managers and service providers – including data providers and engagement firms – to ensure that their services align with UNGP standards.</p>
	<p><b>Step 2</b> Identify actual and potential negative outcomes for people in investment portfolio by requiring investees to show their management of negative outcomes</p> <p><b>Step 3</b> Use influence to act upon actual and potential negative outcomes identified</p> <p><b>Step 4</b> Track ongoing management of human rights outcomes by investees</p> <p><b>Step 5</b> Communicate to clients, beneficiaries and other stakeholders about outcomes and actions taken</p>	<p><b>Investment decisions</b> The management of negative human rights outcomes should be reflected in the investment decision-making process, including in portfolio construction, security selection and asset allocation, and/or in selecting, appointing and monitoring external managers/funds.</p> <ul style="list-style-type: none"> <li>■ <i>Pre-investment:</i> Investors should identify negative human rights outcomes of potential investees and set clear expectations including with third-party investment managers; this is particularly important for illiquid assets as the investor will have limited opportunities to exit investments without experiencing financial loss and for index investing due to inability to sell specific shares.</li> <li>■ <i>Post-investment:</i> Investors should regularly assess and manage negative human rights outcomes of investees.</li> </ul> <p><b>Stewardship of investees</b> Using the rights and/or position of ownership in an asset – individually or in collaboration with other investors – to influence the activity or behaviour of existing or potential investees is necessary to prevent and mitigate negative human rights outcomes, and to encourage access to remedy when an actual negative outcome has occurred. Engagement and voting are the key tools for stewardship.</p> <p><b>Dialogue with policy makers and key stakeholders</b> Preventing and mitigating negative human rights outcomes in specific industries and/or geographical contexts can require policy interventions, ranging from regulation on human rights performance and disclosure to specific socio-economic policies. Investors can work with others (e.g. policy makers, regulators, multilateral organisations and stock exchanges) to develop or influence market and industry standards that foster an enabling environment for investment that respects human rights.</p> <ul style="list-style-type: none"> <li>■ Investors should consider whether dialogue and engagement – with investees or other stakeholders – are best undertaken individually, or in collaboration with other investors.</li> </ul>
ACCESS TO REMEDY	<p><b>Step 6</b> Use or build influence to ensure that investees enable access to remedy for people affected when a negative outcome has occurred (or provide access to remedy directly if the investor is causing a negative outcome themselves)</p>	

Portfolio complexity – for example in terms of concentration and holding periods – will affect the approach required for each step above.

## UNDERSTANDING SALIENCE, LEVERAGE AND INVESTOR ROLES IN OUTCOMES

The UN and the OECD [use the concepts](#) of “**salience**” and “**leverage**” (meaning influence, rather than debt), which can help guide investors on where to focus. Investors should also consider to what extent they, or any other entity in the investment chain, have a **role** in causing, contributing or being linked to adverse human rights outcomes.

### SALIENCE

*Relates to steps 2 and 3 above*

While human rights cannot in themselves be ranked<sup>8</sup>, assessing which human rights issues are at risk of the most severe negative outcomes – in the context of specific business activities or investments – can help prioritise which issues to deal with first. (This does not limit the overall responsibilities to manage all adverse human rights outcomes over time.)

A severity assessment to identify the most salient human rights issues will include a review of three characteristics related to the actual or potential impact on a person’s human rights:

- the scale of the impact on an individual;
- the number of individuals affected;
- the ease or not of remediating the impact.

Although salient human rights issues are not necessarily the same as the most financially material issues, there are often clear overlaps. While the focus of a human rights due diligence process is the risk to people, it will often pick up issues that, left unaddressed, would go on to become financially material. Assessing a company’s human rights due diligences process can therefore also be a good way to assess its overall governance and potential future financial risk.

### LEVERAGE

*Relates to steps 3 and 6 above*

Institutional investors need to be able to influence investees and other stakeholders to change the wrongful practices of another party that is causing harm. The UN and OECD refer to this as leverage. Investors can exercise, and build, leverage through all of the actions in the table above – through their investment allocation, stewardship of investees and dialogue with policy makers and key stakeholders. If an investor lacks leverage, it should seek ways to increase it, including through collaboration with other investors.

While stewardship is just one way that investors can exercise and build leverage, investors that are used to engaging – individually or collectively – with companies on environmental, social or governance (ESG) issues will be familiar with the mechanisms.

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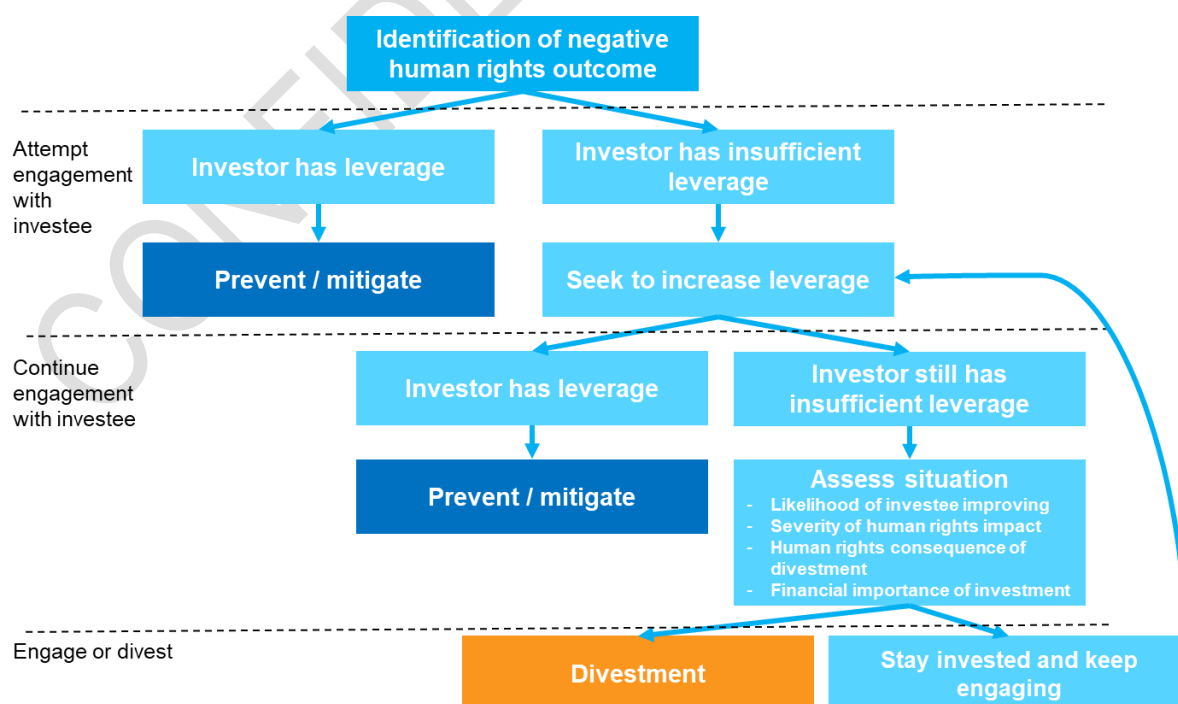
<sup>8</sup> The Vienna Declaration and Programme of Action (1993) states human rights globally should be treated “in a fair and equal manner, on the same footing, and with the same emphasis”.

Options to influence an investee while invested vary across investment instruments. For some financial instruments, leverage can (and therefore should) be applied both pre- and post-investment.

- Equity investors will have more direct mechanisms for influence through stewardship activities and proxy voting rights.
- Private equity investors with board positions and negative control rights will have greater direct influence, including the option to replace management.
- Sovereign bondholders often have limited influence and are restricted by the fact that sovereign entities are principally accountable to their citizens.
- Investors in illiquid assets (except where strong ownership mechanisms exist such as in private equity) will often have limited leverage even once invested, so should pay closer attention to identifying human rights risks and articulating expectations pre-investment.

If the investor is unable to establish enough leverage to alter the behaviour of the investee sufficiently to prevent or mitigate a negative outcome, and there is no prospect for improvements, they could consider whether they can justify staying invested. The severity of negative human rights outcomes and the human rights consequence of divesting should, however, always be considered first.

As a last consideration, the investor will need to consider how crucial the investment is for their investment strategy or portfolio from a financial perspective. In cases where an investor might not be deemed able to fulfil their given mandate – for example pension provision – if they divest or exit, or where they are subject to asset allocation requirements, it might be challenging to do so. If the investor cannot establish enough leverage to address a negative human rights outcome and the investment is considered crucial, they should document the steps taken and their reasoning for continuing to stay invested, and communicate this to clients and beneficiaries. They should be ready to justify their approach and their ultimate decision, and to accept the potential consequences – reputational, financial and legal – of their continued investment.



## INVESTOR ROLES IN OUTCOMES

*Relates to step 3 and 6 above*

There are three ways in which an institutional investor can be related to a negative human rights outcome. There are outcomes that an investor:

- has *caused* – through its own business activities\* (e.g. outcomes on its own employees);
- has *contributed to* – through a business relationship or investment activity\* that induces or facilitates an outcome from an investee company or project;
- is *directly linked to* – through the activities\*, products or services of an investee company or project.

\*Activities includes both actions and omissions to act.

There is a continuum between each. A variety of factors can determine where on that continuum a particular instance sits. They include:

- the extent to which an investor facilitated or incentivised human rights harm by another;
- the extent to which it could or should have known about such harm;
- the quality of any mitigating steps it has taken to address it.

An investor can cause negative human rights outcomes where its own activities remove or reduce someone's ability to enjoy a human right. This will typically be in relation to their operational activities, but where the investor holds a controlling stake in an investee company, it will sometimes also occur in their investment activities.

## USEFUL RESOURCES

As the framework in this paper builds on recognised international standards such as the UNGPs and the OECD Guidelines, relevant additional detail and examples are available in existing guidance. We particularly recommend two resources:

- Organisation for Economic Co-operation and Development (OECD)'s [Responsible Business Conduct for Institutional Investors](#) helps institutional investors implement the due diligence recommendations of the OECD Guidelines for Multinational Enterprises, in order to prevent or address adverse outcomes related to human and labour rights, the environment and corruption in their portfolios.
- The Investor Alliance for Human Rights (IAHR)'s [Investor Toolkit on Human Rights](#) guides institutional investors in applying the UNGPs throughout their risk management systems, to assess and address risks to people posed by their investments.

## NEXT STEPS

In the midst of a global climate emergency, escalating inequality and the COVID-19 pandemic, [many voices](#) are calling for a more people-focused economic and societal model, or a “[new social contract](#)”. This is paramount to address the inadequacies and unsustainable nature of our current financial and economic system. International human rights standards, the SDGs and the Paris Agreement are the universal frameworks that must shape the sustainable economic recovery and the reform that the world needs.

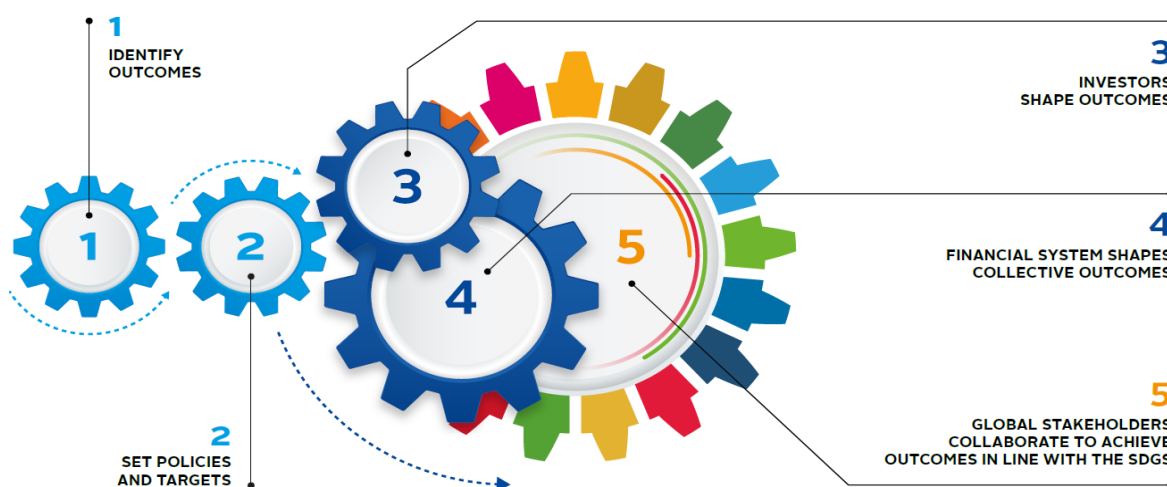
### Respecting human rights is core to investing with SDG Outcomes

In 2020, the PRI published [Investing with SDG outcomes: a five part framework](#). This report provides a high-level framework for investors looking to shape real-world outcomes in line with the Sustainable Development Goals (SDGs). As the SDGs are grounded in the Universal Declaration on Human Rights, the five-part framework seeks to integrate a number of key elements of the UNGPs.

- The UNGPs and the OECD guidance for institutional investors have a key role in SDG-focused work as tools for identifying and shaping human rights outcomes (see parts 1 and 3 of the figure below).
- When investors set policies and targets to shape outcomes in line with the SDGs, they should focus first on the most important negative and positive outcomes (see part 2 in the figure below). This builds on the concept of salience within the UNGPs, i.e. that a focus on outcomes should aim at shaping the outcomes that are most important to people and the planet, rather than to the business.
- Investors can have different roles in relation to outcomes (i.e. causing, contributing to or being directly linked to, positive and negative outcomes), and an investor – through its investments, and acting alone or in collaboration with others where appropriate – is in a position to use its leverage to influence the entity, with the aim of decreasing negative and increasing positive outcomes (see parts 3, 4 and 5 of the figure below).

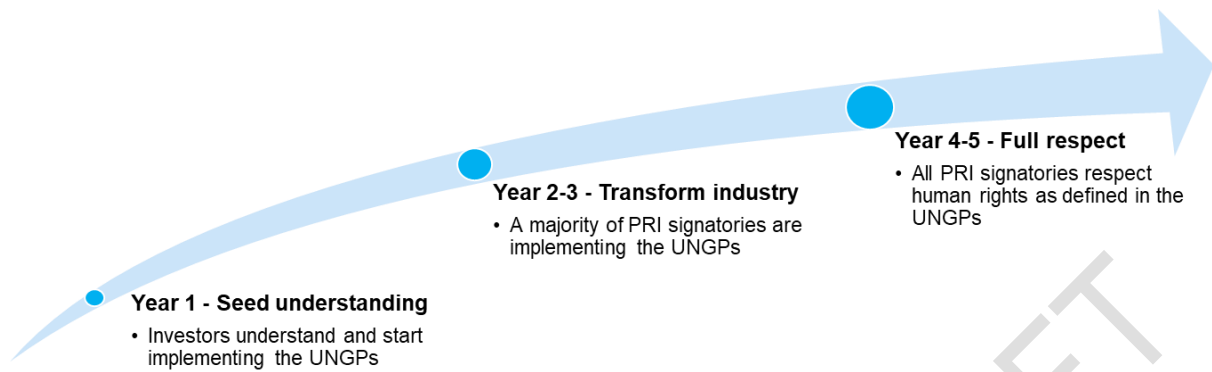
### A FIVE-PART FRAMEWORK FOR INVESTORS

The PRI proposes a five-part framework for investors that are seeking to understand the real-world outcomes of their investments, and to shape those outcomes in line with the SDGs.





We are therefore setting out a five-year agenda for our work towards respect for human rights being implemented across the financial system.



The PRI will:

- raise awareness and build understanding of human rights among institutional investors;
- increase accountability among signatories by introducing human rights questions into the PRI Reporting Framework;
- facilitate collaboration to address industry challenges to implementing respect for human rights;
- promote policy measures that enable investors to manage human rights issues;
- drive meaningful data that allows investors to manage risks to people.

We will work with signatories and key partners to deliver on this work programme to ensure that our financial and economic system respects both the boundaries of the planet and the rights of its people. The financial industry must play a critical role in facilitating sustainable development and growth, and in ensuring that people's fundamental dignity and rights are upheld.

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