Human Rights Roadmap for Transforming Finance

Priorities for Progress in the Next Decade for the Implementation of the UN Guiding Principles on Business and Human Rights

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About This Report

This report comes at a pivotal time for the global economy and the societies that drive and rely on it. Communities continue to battle the COVID-19 pandemic while confronting the resulting economic upheaval, a climate crisis, and geopolitical instability. This report reflects the need for urgent solutions and leadership to change the status quo and rebuild the global economy on a foundation of respect for human rights.

The financial services industry—from asset owners and managers to commercial and investment banks—has a catalytic effect on the behavior of business and the economy. The vast range of financial products, services, and client relationships has enormous potential to transform the economy and put people's lives and the health of the planet at the center. However, despite the need for this transformation, the financial services industry has been slow to recognize its responsibility to respect human rights under the UN Guiding Principles on Business and Human Rights (UNGPs) and is far from reaching its full potential.

The recent release of *UNGPs 10+: A Roadmap for the Next Decade of Business and Human Rights* by the UN Working Group on Business and Human Rights serves as a call to action for the financial services industry to drive positive change. This report reinforces that call and provides guidance on how the industry can advance respect for human rights—from adapting core business and driving respect for human rights in financial markets to engaging with people affected by financial value chains and enabling access to remedy for victims of harm. Its goal is to grow awareness of a better approach to doing business and build capacity within the industry in order to create a global economy that works for people and planet.

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Introduction

The financial services industry—from asset owners and managers to private equity, venture capital, and banks—has a catalytic effect on the behavior of business and the economy. Its vast range of financial products, services, and client relationships ripples through every industry, value chain, and transaction.

With this backdrop, the sector has enormous potential to create a global economy that puts people's lives and the health of the planet at the center, while contributing to the implementation of the United Nations Sustainable Development Goals.

Yet, we live in a time in which both people and the planet face severe and often interconnected challenges: the world's richest 1 percent has more than twice as much wealth as 6.9 billion people, and nearly 80 million children are subjected to hazardous work—a contemporary form of slavery. We are in the middle of the sixth mass extinction in terms of biodiversity and face catastrophic food and water shortages as well as displaced populations due to climate change. Technology poses threats to democratic systems.

For the financial services industry to transform the global economy to center people and planet, financial actors must work at every level to uphold human rights—a standard to which every individual is entitled in order to live life of fundamental welfare, dignity, and equality—and proactively address the social and environmental risks and opportunities associated with the business of finance.

The unanimous endorsement of the UN Guiding Principles on Business and Human Rights (UNGPs) by governments in 2011 clarified that all companies—including financial institutions (FIs)—have a responsibility to respect human rights. This requires conducting human rights due diligence to prevent, mitigate, and account for how they address the negative impacts (or externalities) of their business activities and value chains on human rights.

Since then, BSR has witnessed growing recognition among FIs of the importance of the UNGPs to the financial services industry. Spurred by the human rights and environmental

Adopting a human rights approach to finance can **strengthen** the impact of traditional ESG practices.

movements and reinforced by the rise of environmental, social, and governance (ESG) investing, a rapidly evolving regulatory landscape, the climate crisis, and shocks to the global economy due to the pandemic, FIs have become increasingly aware of why they must manage their human rights footprint.

Translating commitments to human rights into transformative action remains a challenge. In June 2021, the UN Working Group on Business and Human Rights (UNWG) found that while financial actors increasingly recognize their responsibility to respect human rights, a clear understanding of how human rights are defined, their relevance across ESG factors, and human rights due diligence remain limited.

Universal Declaration of Human Rights

Inconsistent and often weak integration of international human rights standards and frameworks across corporate reporting frameworks, benchmarks, and other ESG data and research products contributes to these challenges. In 2021, companies implicated in serious human rights abuses in Asia and Africa received high ESG marks and were included in key indices and funds.

The UNWG's release of the *UNGPs 10+: A Roadmap for the Next Decade of Business and Human Rights (UNGPs 10+ Roadmap)* in late 2021 served as a call to action for the financial services industry to drive positive change. The report—intended to scale action in advancing corporate respect for human rights in the next decade—recognizes that while sustainability is increasingly at the core of the global agenda, the full potential of the UNGPs has not yet been seized. It follows the release of two UNGPs 10+ stocktaking reports assessing the uptake of the UNGPs among states, businesses, and financial actors, including institutional investors.

In this report, BSR provides an overview of key areas of progress to tackle global challenges and contribute to new systems grounded in respect for human rights. We highlight the materiality of human rights for FIs and argue that adopting a human rights approach to finance can strengthen the impact of traditional ESG practices. This report further elaborates on the call to action set out in the UNGPs 10+ Roadmap—from adapting core business and driving respect for human rights in financial markets to engaging with people affected by investment value chains and ensuring that victims of harm have access to remedy. The report concludes with next steps for transforming finance.

> Without urgent action by banks, institutional investors, development finance institutions and those that work with and influence them to embed respect for human rights in corporate ownership, finance and governance, business respect for human rights risks will be stymied in the decade ahead.
>
> *UN Working Group on Business and Human Rights, UNGPs 10+ Roadmap*

Respecting human rights also offers opportunities for increasing business success, not just reducing risks.

The Materiality of Human Rights for Financial Institutions

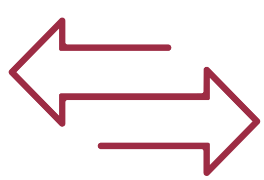
Respect for human rights is not just beneficial for people—it is also good for returns. Research has shown a positive correlation between attention to human rights risks and corporate financial performance.

The Sustainability Accounting Standards Board (SASB) Materiality Map identifies human rights risks, such as labor issues and privacy, as likely to affect business success. An example from a 2018 study found the cost for investors when companies fail to act with due diligence to respect the rights of Indigenous People in the Dakota Access Pipeline project was no less than US$7.5 billion.

FIs increasingly face accountability stemming from business relationships that undermine human rights, such as from lawsuits, complaints through the National Contact Point system of the Organisation for Economic Co-operation and Development (OECD), shareholder resolutions, social protests, or worse. Courts have started using the UNGPs to inform rulings and find companies liable for human rights impacts (e.g., a Dutch court ruling on human rights and climate change).

Financial System Benchmark

The World Benchmarking Alliance (WBA) has released a Financial System Benchmark methodology to assess the readiness of FIs to tackle the social and environmental transitions underway and contribute to the 2030 Agenda. In 2022, the WBA will assess 400 FIs at the group level and consider the spectrum of their financial activities, such as investing, lending, investment banking, insurance underwriting, and advising. The benchmark will measure FIs based on their governance and strategy, respect for planetary boundaries, and their alignment to societal conventions. Human rights due diligence is a key component of the methodology.

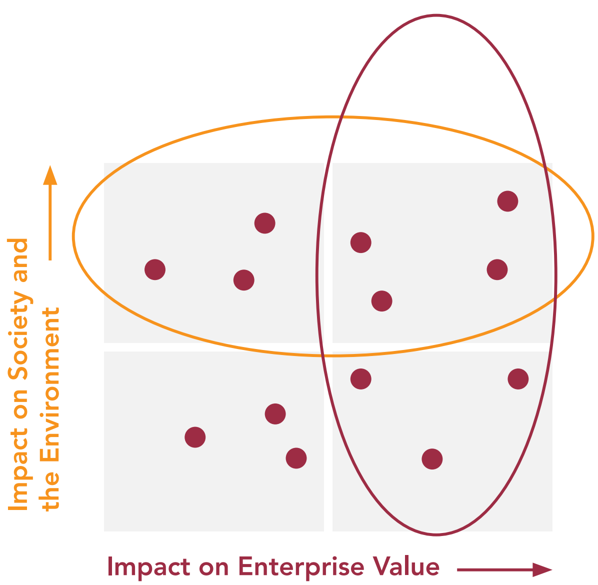


How a company impacts people often affects its own financial success

This trend will continue in the face of a wave of legislative developments across Europe and beyond that makes human rights due diligence mandatory for FIs and their portfolio companies. This includes the French Duty of Vigilance law, German Supply Chain Due Diligence Act, the Norway Transparency Act, as well as the proposed EU mandatory human rights and environmental due diligence law. The EU Sustainable Finance Disclosure Regulation (SFDR) also requires FIs to disclose the impacts of their ESG-labeled investments, independent of financial materiality and their due diligence in addressing impacts. The minimum safeguards of the EU's Green Taxonomy and the proposed Social Taxonomy also reflect business and human rights standards, as do a wide range of issue and context-specific laws on human rights issues, such as forced labor, privacy, and conflict minerals.

Similarly, the concept of "double materiality," which features prominently in proposals for a new EU Corporate Sustainability Reporting Directive (CSRD), makes clear that businesses are accountable not just to investors, but to society at large for impacts on people and the environment.

Double Materiality Matrix



- Considers the company's impact outwards
- Uses the GRI definition: "topics that reflect its most significant impact on the economy, environment and people, including impacts on human rights."
- Presented in the sustainability report
- For multiple stakeholders

- Considers the company's impacts inwards
- Uses the SASB definition: "expected to influence investment or lending decision that users make on the basis of their assessments of short-, medium-, and long-term financial performance and enterprise value."
- Presented in the annual report
- For investors, lenders, and other creditors

Smart financial actors recognize that any association with harmful practices that either actively or passively undermine human rights is not worth the cost. Some investors have publicly stated that the risk management framework set out by the UNGPs—human rights due diligence—is key for managing risks to business, including operational delays, reputational harm, financial loss, and legal liabilities of portfolio companies and clients. They have also called on governments to help level the playing field by making due diligence mandatory for all companies.

Respecting human rights also offers opportunities for increasing business success, not just reducing risks. For example, reports have demonstrated that businesses with human rights due diligence procedures in place were able to react more effectively to the COVID-19 crisis. By providing decent work in line with the standards set out by the International Labour Organization (ILO), companies can also enhance the well-being of employees and become competitive employers.

> Our research shows that companies who forged strong bonds with their employees have seen lower levels of turnover and higher returns through the pandemic.
>
> Larry Fink, BlackRock, 2022 letter to CEOs

ESG 2.0: A Human Rights Approach

The astonishing growth of ESG has been an important and valuable development in efforts to advance responsible business.

It has helped raise awareness and mobilize capital for ESG issues among companies, and paved the way for regulatory action on material ESG disclosure. At the same time, the ESG movement has notable blind spots and opportunities to improve, particularly in how it addresses social topics.

BSR seeks to build on the successes of the ESG movement and contribute to the sustainable transformation of the financial services industry by synthesizing ESG and human rights approaches that help deliver more strategic value to investors—and most importantly—to build a financial system that respects human rights.

Achieving this transformation requires aligning ESG efforts with the approach set out by the UNGPs. The UNGPs provide a roadmap for FIs to identify, prevent, mitigate, and account for how they address human rights impacts in their own operations and connected to their activities, products, or services through business relationships, including clients and portfolio companies.

Same responsibility, different tools

While the underlying responsibility to respect human rights is the same for all FIs, the means through which the responsibility is met may vary—at times significantly. This is because the scale and complexity of the leverage tools and strategies available to diverse FIs, e.g., commercial banks, asset managers, private equity firms, venture capital, and pension funds, differ. Leverage tools may include:

- Incorporating human rights expectations into client contracts
- Engaging companies in constructive dialogue and capacity building efforts
- Filling shareholder proposals and proxy voting
- Participating in peer-to-peer and multistakeholder platforms that promote responsible business conduct
- Engaging policymakers and standard-setting bodies to create environments that enable responsible business conduct
- Providing space and resources for start-up entrepreneurs to conduct due diligence

In practice, it means adopting human rights policy commitments and carrying out ex-ante and ongoing human rights due diligence to know if they are connected to human rights risks and show the steps they take to address these risks. It calls for applying their leverage to ensure clients and portfolio companies also respect human rights.[1]

Embedding human rights standards in ESG efforts provides a consistent and comparable framework for assessing the full spectrum of risks to people in investment portfolios and across the three ESG pillars, which provides navigation across the constantly evolving landscape on topics like diversity, equity, and inclusion (DEI), labor, data privacy, and the just transition.

Rights-Respecting Finance

A human rights approach involves engaging a broad group of stakeholders, including rights-holders and those who legitimately represent them, such as civil society organizations, human rights defenders, and trade unions—all of whom can illuminate the real-world impacts of business on people. Such engagement provides valuable qualitative data on corporate conduct that FIs often lack. It also helps create solutions that meaningfully address rights-holders' concerns and builds trust with stakeholders.

Unlike ESG, a human rights approach is agnostic about whether human rights impacts are financially material to a business and instead requires that all adverse human rights impacts are prevented and addressed. Human rights due diligence is a holistic, forward-looking, and process-based framework that helps FIs proactively and systematically identify risks that are or may become material over time (i.e., dynamic materiality).

Rights-holders are those stakeholders whose individual human rights or collective rights, such as those of Indigenous Peoples, are or could be affected by business.

While it is essential that ESG activities integrate a human rights lens, the responsibility to respect human rights applies to all the activities, products, and services of an FI whether or not these carry an ESG label. Not only do impact funds that seek to create innovative solutions for sustainability challenges need to address the potential risks to people created by these business activities, this responsibility also applies to other types of financial products and services.

ESG through a Human Rights Lens

	Issue Examples	Human Rights Impacted
E	Biodiversity	Right to a Healthy Environment, Right to Food, Right to Health, Cultural Rights
	Climate Change	Wide Range of Human Rights, e.g., Rights to Life, Water and Sanitation, Food, Health, Housing, Self-Determination, Culture, and Development
S	Data Privacy	Right to Privacy
	Human Capital	Labor Rights, including Freedom of Association and Collective Bargaining, Decent Working Hours, Living Wage, Freedom from Forced and Child Labor
	Diversity, Equity, and Inclusion	Right to Equality and Non-Discrimination, Right to Effective Remedy
G	Lobbying Corruption	Right to Equal Participation in Political and Public Affairs; Realization of Economic, Social, and Cultural Rights

The following table provides an overview of the key challenges in current ESG practices and methods alongside some of the strengths of the UNGPs approach to respecting human rights. By aligning ESG practices with a human rights approach, FIs can enhance the effectiveness of ESG efforts and achieve their underlying sustainability goals.

Phases	Challenges of an ESG Approach	Benefits of a Human Rights Approach
General	• No globally agreed upon standards defining ESG factors • "S" is the weakest link, often seen as a narrow set of topics, such as DEI or certain labor issues • Issues-based approach to addressing ESG contributes to siloes between E, S, and G efforts • Scope of attention to and action on ESG is determined by business and by regulatory requirements	• Universally agreed upon set of standards and frameworks defining the S as well as many E and G topics • Process-based approach to doing no harm and managing risks across the full spectrum of impacts on people • Cross-cutting nature of human rights supports integration, coherence, and effectiveness of E, S, and G efforts • Scope of responsibility extends to all human rights and includes business activities and business relationships across the value chain, regardless of regulatory requirements
Screening	• Benchmarks against stakeholder interests, which often differ, and focus on shareholder perspectives that are far removed from the real-world impacts of business • Traditional materiality assessments center financial risks and opportunities for business success rather than risk to people, which often misses real or potential material risks • ESG data lacks consistency and comparability as it relates to issues affecting people • Aggregation of ESG data limits visibility of corporate governance and performance on human rights • Focus on quantitative data can exclude qualitative context and related issues • Impact investing focus on assessment of positive impacts, yet misses risks and negative impacts	• Standards and process-based approach to screening for risks and adverse impacts • Benchmarks against globally agreed upon human rights standards, principles, and UNGPs framework • Focus on actual and potential negative impacts of business and finance on people, which are or may become material over time • Identifies root causes of impacts as well as cumulative or systemic impacts of business and finance • Assessment prior to entering a business relationship and on ongoing basis. The full realization of human rights is not static, conditions change over time, and respecting human rights is a process of continuous improvement • Consistent global standards provide consistent metrics for evaluating corporate human rights performance within a constantly evolving landscape • Focus on qualitative data, supplemented by quantitative metrics, due to the nature of impacts on people

Phases	Challenges of an ESG Approach	Benefits of a Human Rights Approach
Leverage	• Businesses choose which material issues to prioritize and address as opposed to a principled decision-making approach • No set criteria for determining what constitutes appropriate or effective action on material issues • Use of negative/positive screens in investment decision-making meant to exclude certain known severe risks from portfolios may fail because companies of all sectors and sizes and in all operating contexts may be connected to severe human rights harm	Standards and process-based approach for determining appropriate action: • All human rights risks and negative impacts in own operations and value chains must be addressed • Principled-based approach to prioritizing action where necessary—act first on salient issues—those issues at risk of most severe harm[2] • Set criteria for determining whether a business causes, contributes to, or is directly linked to human rights risks or impacts, and guidance on appropriate action • Focus on use leverage to address human rights risks associated with business relationships • Standards for responsible exit, divestment, and ending business relationships
Remedy	• Relatively weak accountability framework primarily centered on voluntary use of shareholder leverage • Traditional ESG approaches do not address remedy for victims of harm or effectiveness of corporate grievance mechanisms	• The right of those who have suffered human rights abuses to access remedy is a central component • Robust accountability framework for business impacts that recognizes the complementary role of government and the judiciary • Clear criteria for ensuring business grievance mechanisms are effective
Disclosure	• Expected disclosure on the management of financially material risks and opportunities for increasing business value • Format primarily intended for investor audience	• Expected disclosure on the management of salient human rights issues • Format of disclosure appropriate for stakeholders, including potentially impacted rights-holders
Stakeholder Engagement	• ESG stakeholder engagement is rare in certain subsectors of the financial services industry • Limited group of stakeholders typically engaged and rarely rights-holders affected by business • Engagement is weighed toward business and shareholder voices • Engagement generally takes place during assessment and disclosure phases • No guidance or uniformity of stakeholder engagement process	• Broad group of stakeholders engaged, including rights-holders • Engagement centers on impacts on and concerns of rights-holders • Stakeholder engagement cuts across all steps of due diligence • Considers not only who to engage, but also how to engage

The responsibility to respect human rights applies to all the activities, products, and services of an FI whether or not these carry an ESG label.

The Call to Action

The UNGPs 10+ Roadmap puts forward a resounding call to action for the financial services industry. The priorities and recommendations expand on the implications of the UNGPs, while focusing attention on issues for progress to achieve transformative change in the next decade.

In the following section, we unpack and elaborate on these recommendations for an FI audience. Although there is no one-size-fits-all approach for the entire industry, the Roadmap and BSR's experience show that there are several core and interrelated areas that are fundamental to deepening respect for human rights.

Getting started on human rights in finance

Several resources provide guidance on the broad application of the UNGPs to diverse institutions and asset classes for FIs starting on their human rights journey:

- The application of the UN Guiding Principles on Business and Human Rights in the context of the banking sector, UN Office of the High Commissioner for Human Rights (OHCHR)
- Taking stock of investor implementation of the UN Guiding Principles on Business and Human Rights, UNWG
- Responsible business conduct for institutional investors, OECD
- Due Diligence for Responsible Corporate Lending and Securities Underwriting, OECD
- Investor Toolkit on Human Rights, Investor Alliance for Human Rights
- Rights-Respecting Investment in Technology Companies, OHCHR
- Human Rights in Sovereign Debt: The Role of Investors, UN Principles for Responsible Investment (PRI)

The Call to Action

01 Adapt Core Business Activities to Respect Human Rights

Adopt a human rights policy. Establishing robust human rights policies applicable to all business lines is a critical first step for many FIs. While bank and investor human rights policies exist, they remain limited. Responsible investment policies are often framed around ESG and sustainability, with only occasional reference to specific human rights issues, as opposed to robust commitments to respect internationally recognized human rights and conduct human rights due diligence. Policy commitments may be stand-alone or integrated into broader ESG policies. In both cases, it is essential that they align with the expectations of the UNGPs.[3]

Embed human rights into corporate governance and business strategies. The UNGPs should be the north star for not only achieving ESG goals, but also for guiding the design of FI business models and business strategy, as they may carry inherent human rights risks. Human rights respect needs to be at the heart of an FI's culture, from the board of directors and C-suite to deal teams, investment portfolios, environmental and social risk management, public policy, human resources, and procurement. It means having proper incentives and checks to make sure human rights risks are addressed swiftly and appropriately. Where investors sit on portfolio company boards, such as general partners in private equity, it also means using leverage so that board committees have in place explicit human rights mandates, executive pay is tied to corporate human rights performance, and human rights respect is embedded in the corporate business model and strategies.[4]

Illustrative actions set out by UNGPs 10+ Roadmap

"Adopt human rights policies and embed human rights due diligence and develop grievance management approaches in line with the UNGPs in their own governance frameworks and in the investment decision-making process."

Challenge financial and business practices that are inconsistent with respect for human rights. All business functions and relationships must respect human rights. Lobbying—including through trade associations—at the expense of human rights is inconsistent with the UNGPs. So is financing companies that may be involved with attacks against human rights defenders, as well as overlooking human rights risks in green transition investments. Standing up to such practices can be difficult for any company or individual. It is crucial to set clear, consistent expectations for all employees and business relationships, including via strategies, protocols, and contract clauses that can help guide tough decisions, like when to refuse a deal, exit a trade association, or responsibly divest.[5]

Illustrative actions set out by UNGPs 10+ Roadmap

Financial institutions should "publicly disclose how the institution is addressing salient human rights risks and impacts connected with investment activities."

States should "ensure greater transparency and accountability of human rights performance of private capital market actors, including private equity firms."

Publicly disclose how to manage salient human rights issues. Calling on companies to disclose human rights risk management is key, but so is transparency and disclosure among FIs. While good examples are emerging (e.g., Swedish AP2 fund's Human Rights Report), transparency remains limited. The UNWG notes that "insufficient reporting from asset managers leaves clients unclear about the degree to which human rights policy commitments are translating into action" and that the transparency problem is "especially pronounced in private equity."

The Call to Action

02 Drive respect for human rights in financial markets

Use people-centered tools and approaches that translate commitments into action. Real progress requires human rights due diligence prior to deal-making, lending, or investment and on an ongoing basis. FIs should conduct stand-alone human rights assessments of their activities, products, and services or as part of double materiality and impact materiality assessments.[6]

Use leverage to embed respect for human rights among clients and portfolio companies. Use and maximize leverage to require, facilitate, and/or incentivize respect for human rights. For example, FIs should ask meaningful questions to portfolio companies (and verify responses when necessary), file shareholder proposals with listed companies, include human rights milestones in venture capital term sheets, and create human rights risk oversight structures at the board of directors' level.[7]

Use leverage to move the ESG field toward respect for human rights. The consistent integration of human rights due diligence into all leading ESG frameworks, standards, regulations, and taxonomies used by the financial services sector is essential for making progress. FIs are encouraged to use their leverage, either individually or through associations such as the PRI, to call for alignment of ESG benchmarks, data providers, and reporting frameworks with the UNGPs.[8]

Illustrative actions set out by UNGPs 10+ Roadmap

"Set clear expectations that financial support and investment will only be made where investees have put in place policies and human rights due diligence processes and grievance mechanisms aligned with the UNGPs, can demonstrate performance improvements over time and provide data to support effective investor monitoring."

"Engage investees in constructive dialogue to promote: (1) the adoption of human rights policies, governance, due diligence, and effective grievance mechanisms, and (2) the provision of remedy for victims of human rights abuse where the investee has caused or contributed to adverse human rights impacts."

03

The Call to Action

Use the UNGPs as a Compass for Meeting Global Challenges

Make respect for human rights a core element of the just transition. Climate change has profound consequences for the enjoyment of the full range of human rights, including the rights to life, a decent standard of living, and health. Respecting people's rights and ensuring access to remedy provide guard rails for the massive economic shifts required to move from a fossil fuel-based to a renewable energy-based economy. Yet, FIs often tackle climate risks and human rights issues separately, undermining the sustainability of each. For instance, a growing number of renewable energy projects around the world face cancellation due to community opposition. By carrying out due diligence, FIs can better assess the impacts of greenhouse gases attributable to business activities, as well as shed light on the impacts on all those affected by the necessary transition away from a carbon-based economy.[9]

> **Investor Alliance for Human Rights**
>
> A collective action platform for responsible investment that is grounded in respect for people's fundamental rights. Close collaboration with peers and civil society helps investors identify human rights risks and priorities and maximize their leverage to create change.

Optimize digital transformation by ensuring technology also respects human rights. While financial technology, or "fintech," such as digital financial services, may enhance financial inclusion and participation and bring about other social benefits, it is critical to safeguard against abuses that could have serious human rights implications. Discrimination and predatory lending, data mining and privacy abuses, facial recognition, the growth of cryptocurrencies, and money laundering are among the risks posed by fintech. Likewise, engaging portfolio companies in the tech sector to ensure the development, sales, and use of new digital technologies that respect human rights is essential for tackling systemic risks posed by digital transformation.[10]

Engage in collective action to tackle systemic challenges. Addressing global challenges to advancing respect for human rights takes leadership, coordination, and stakeholder engagement to ensure that the solutions target the root causes of problems. Weak regulatory environments can encourage a race to the bottom among financial actors and their portfolio companies, and financial services and the broader economy can contribute to cumulative impacts such as socioeconomic inequality and climate change. To address these, action by individual FIs alone is insufficient. Multi-stakeholder engagement and collective action are essential for building leverage and overcoming these collective challenges.[11]

The Call to Action

04 Engage and Partner with People Affected by Financial Products and Services

Meaningful stakeholder engagement is essential for respecting human rights.[12] In a human rights context, this includes engaging with rights-holders who are currently or potentially affected, as well as their legitimate representatives, and expert organizations (e.g., trade unions, human rights defenders, and civil society organizations). Engaging stakeholders with firsthand knowledge of how a business may affect people—negatively or positively—is vital for due diligence to function and for business to succeed.

Innovate FI stakeholder engagement. It may not always be practical for FIs to directly engage with impacted rights-holders. They may be far removed from the impact of their financial activities, as in the case of asset owners and managers, or there may be no actual adverse impacts to identify yet, which may be the case for venture capital firms that invest in start-ups at the ideas stage. In these instances, FIs should be prepared to engage directly with impacted rights-holders where the opportunity arises, and proactively develop reasonable alternatives, such as engaging credible, independent expert resources, including human rights defenders and others from civil society to inform institutional understanding of human rights risks and how to manage them.

Dutch Banking Sector Agreement on Human Rights

Banks participating in the Agreement worked together with signatories from civil society, trade unions, and government toward meeting their human rights responsibilities.

Elevate stakeholder voice among clients and portfolio companies. Assess a company's policies and practices regarding stakeholder engagement as well as the effectiveness of their grievance mechanisms to ensure understanding of what is happening on the ground. Use leverage with clients and portfolio companies to promote meaningful stakeholder engagement. Elevating stakeholder voice and perspectives in corporate governance of investee companies may also include reserving board seats for workers, promoting opportunities for employee ownership, and calling for the creation of stakeholder advisory councils for boards.[13]

Engage critical voices in good faith and encourage clients and portfolio companies to do the same. Engaging with and enabling critical voices to raise concerns in good faith is key for finding human rights red flags. Instead of looking to manage reputational harm associated with highly critical stakeholders, FIs should embrace the tension that may arise in these situations and recognize it as an opportunity to gain valuable knowledge, inform due diligence, and even partner with external voices to jointly find solutions to key challenges.

Consider not just the who but also the how. Meaningful stakeholder engagement means not only considering who to engage, but also how to engage, which will differ based on the individual or group. To ensure that interactions are meaningful, FIs should undertake efforts to remove inherent power imbalances and ensure stakeholders are able to engage on an even playing field, especially when they may face threats to their security and well-being. This may involve the participation of mediators, facilitators, or other third parties.

The Call to Action

05 Ensure and Enable Access to Remedy for Victims of Harm

Preventing harm is essential for respecting human rights, but so is repairing wrongs for victims of harm and ensuring access to remedy.[14]

FIs are expected to adopt or participate in effective grievance mechanisms that provide a channel for stakeholders, including affected rights-holders, to report adverse human rights impacts connected to an FI's activities and portfolios. This may involve innovating approaches to remedy.

Establish human rights grievance mechanisms for concerns arising in financed projects, such as the one launched by ANZ Bank in 2021 following extensive consultation with human rights organizations.

Participate in or create multistakeholder initiatives with a grievance and remedy component that enables stakeholders to share information about human rights harm and access remedy, such as the Dutch Pension Fund Agreement on Responsible Investment.

Develop a robust grievance mechanism infrastructure that involves (1) proactively supporting company preparedness for remedy before harm occurs by communicating expectations regarding remedy and grievance mechanisms to investees and clients; (2) reactively using leverage where harm occurs to influence portfolio companies and clients to focus on remedy, engage with affected people, and ensure that there is a meaningful remedy outcome; and (3) participating in multi-stakeholder initiatives where clients and portfolio companies participate and that incorporate a grievance and remedy component.

Explore innovative contract clauses or financial vehicles up front to capture the risk of harm/adverse investment externalities and ensure that there are funds available to provide remedy before harm occurs.

Who provides remedy?

Some FIs, such as private equity firms or banks providing project lending, may be more likely than others to contribute to, or in some cases cause, adverse impacts through their relationships with clients and portfolio companies. In these cases, FIs are expected to cease the action causing the harm and play a direct role in providing remedy. Where an FI has contributed to harm, they are also expected use their leverage to influence other actors contributing to the harm to mitigate the harm and to provide remedy. However, even if FIs are not contributing to harm, they may still be directly linked to adverse human rights impacts through their products and services. FIs should use their leverage to promote and enable remedy for victims of their value chains.

Consider the innovations and lessons from grievance mechanisms and accountability frameworks that have evolved in other settings, such as in project and development finance. Networks and platforms, such as the Grievance Redress and Accountability Mechanism partnership, exist to build capacity and a community of practice for FIs and other entities in their efforts to meet the UNGPs' requirements.

Central to making progress on remedy are efforts to shift institutional culture. While difficult to achieve, when cultural changes within FIs reach a tipping point, the changes can be profound. It takes strong leadership, clear communication, and the need to view complaints not simply as a source of reputational risk, but as a source of learning that is essential for improved performance and accountability.

The UNGPs 10+ Roadmap puts forward a resounding call to action for the financial services industry.

The Next Steps for Transforming Finance

Without the active engagement of FIs and those that work with and influence them to make respect for human rights a reality, meaningful progress on addressing the financial system's impacts on people will remain limited in the decade ahead.

Efforts to build a common understanding of how the human rights and the UNGPs are the "S" of ESG but are also core to "E" and "G" are essential. This should be supported with appropriate metrics and a recognition that limiting the focus on human rights to ESG-labeled activities contradicts the basic idea that FIs, like all companies, have a responsibility to respect human rights.

The UNGPs 10+ Roadmap emphasizes that the time for action is now, and the financial services industry has the reach and leverage to drive the realization of human rights in business. With the right mix of practical tools and tailored guidance across the industry, there is no reason why we could not see this transformation in time for the UNGPs' 20th anniversary.

Through collective action with peers and engagement with civil society, governments, international institutions, and other stakeholders, the financial services industry can play a leading role in reining in harmful practices while promoting business that leads to positive social impacts.

While these steps will not happen overnight, they represent some of the crucial building blocks to meet the demands and expectations of the ESG movement, avert serious human rights risks, and achieve a more just and sustainable global economy.

To learn more about BSR's work to support FIs in their efforts to meet human rights expectations, align their business practices with the UNGPs, and act on key priorities in the next decade, visit our website or contact **Paloma Munoz Quick**, Global Lead on Financial Services and Human Rights, at **pmunoz@bsr.org**.

Endnotes

ESG 2.0: A Human Rights Approach

[1] The degree of leverage over a company does not determine whether an FI should use leverage. Rather, it helps determine what it can do to persuade that entity to act.

[2] Guiding Principle 14 clarifies that severity of impacts are judged by their scale, scope, and irremediable character.

The Call to Action

[3] See UNGP 16 on policy commitments and page 36 of the Investor Toolkit on Human Rights to find a checklist for human rights policy commitments.

[4] UNGPs 10+: A Roadmap for the Next Decade of Business and Human Rights, Action area 3, Goal 3.2: Embed human rights due diligence in corporate governance and business models

[5] Action area 3, Goal 3.2: Embed human rights due diligence in corporate governance and business models

[6] Action area 3, Goal 3.1: Scale up business uptake and translate commitments to respect into practice

[7] Action area 6, Goal 6.1: Seize financial sector ESG momentum and align S in ESG with the UNGPs

[8] Action area 6, Goal 6.2: Leverage other business community shapers: beyond regulators and finance

[9] Action area 1, Goal 1.1: Make business respect for human rights a core element of just transition and sustainable development strategies, applying all three pillars of the UNGPs

[10] Action area 1, Goal 1.3: Optimize the digital transformation through respect for human rights

[11] Action area 1, Goal 1.2: Enhance collective action to tackle systemic challenges

[12] Action area 5: Ensure meaningful stakeholder engagement to reinforce protect, respect and remedy

[13] Recommendations, Taking Stock of Investor Implementation of the UN Guiding Principles on Business and Human Rights (A/HRC/47/39/Add.2), UNWG, June 2021.

[14] Action area 4: Access to Remedy. Several factors determine where on the continuum between linkage and contribution a particular situation may sit, including the extent to which the firm enabled, encouraged, or motivated human rights harm by the company; the extent to which it could or should have known about such harm; and the quality of any mitigating steps the firm takes to address it.

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