

Taking stock of investor implementation of the UN Guiding Principles on Business and Human Rights

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This blog post is an extract of the investor stocktaking report of the UN Working Group on Business and Human Rights “Taking stock of investor implementation of the UN Guiding Principles on Business and Human Rights”. The full report can be accessed [here](#). The Working Group on the issue of human rights and transnational corporations and other business enterprises (also referred to as the Working Group on Business and Human Rights) was established by the Human Rights Council in 2011 (resolution 17/4). The Working Group is composed of five independent experts, of balanced geographical representation. The Council renewed the Working Group’s mandate in 2014 (resolution 26/22), 2017 (resolution 35/7) and 2020 (resolution 44/15).

In the run-up to the 10th anniversary of the UN Guiding Principles on Business and Human Rights (Guiding Principles), the UN Working Group on transnational corporations and other business enterprises (Working Group) launched the “Guiding Principles 10+ / Next Decade BHR Project.” The Project assesses the first decade of implementation of the Guiding Principles by States and business enterprises and aims to develop a roadmap for meaningful action in the decade ahead.

In recognition of the need to promote the investor responsibility to respect human rights, including as a key means to speed and scale up business respect for human rights, the Guiding Principles 10+ project shines a brighter light on the role of institutional investors – asset owners and managers – in Taking stock of investor implementation of the UN Guiding Principles on Business and Human Rights.

This report provides a summary of what rights-respecting investment entails, based on the expectations of the Guiding Principles, the authoritative global framework for the respective duties and responsibilities of governments and business enterprises to prevent and address business-related human rights impact. It outlines how enabling environments have fostered greater investor respect for human rights over the past decade and summarises signs of progress as well as major gaps and barriers to future progress. It wraps up by providing a set of recommendations for increasing investor action over the course of the next ten years and beyond, concluding that a widespread and serious embrace of long-term thinking and decision-making within investment institutions and the full spectrum of actors they work with is an essential and core component of upholding the dignity and wellbeing of individuals and communities.

Enabling environments for rights-respecting investment are emerging

The report highlights that progress in investor uptake of the Guiding Principles over the past

decade has been bolstered by increased efforts from certain standard-setting bodies seeking to create an enabling environment for rights-respecting investment. These actors – including governments, multilateral organisations, reporting frameworks, industry associations, multi-stakeholder platforms, and stock exchanges – play a critical role in driving Guiding Principles implementation at scale and facilitating a level-playing field for investors. The European Union (EU), in particular, has taken on a leadership role in redefining the responsibilities of institutional investors by ensuring that environmental, social and governance (ESG) considerations, including human rights, are at the heart of the region's financial system. A wide range of research over the past decade has also documented the correlation between human rights risks, corporate financial performance and risks to investment and helped bolster investor engagement on human rights, while industry initiatives have started providing much needed collective action platforms to activate investor action to promote the uptake of the Guiding Principles.

Despite this progress, uptake of the Guiding Principles among governments and standard-setting bodies has at the same time been inconsistent and insufficient. There is widespread misalignment between legal frameworks for investment decision-making and the Guiding Principles, as well as weak enforcement of existing environmental and social requirements where these exist. There remains a capacity gap across State institutions and within multilateral entities, including the United Nations, when it comes to speaking out about investor responsibility and accountability in relation to human rights.

Progress and gaps of investor uptake

While engagement with human rights issues among socially responsible investors has a longstanding history, the shift in approach to aligning investment practices with international standards such as the Guiding Principles has only recently begun. Human rights policy commitments are growing in number among investors and human rights reporting frameworks and benchmarks are supporting their efforts to assess and engage companies on human rights. Investors are also activating their leverage to engage companies on the uptake of the Guiding Principles among portfolio companies. For example, investors representing \$5.8 trillion in assets have called on companies to improve their rankings on the Corporate Human Rights Benchmark. Shareholder resolutions increasingly call on companies to implement the Guiding Principles, and some of the world's largest asset managers have cast votes in favour of human rights due diligence in the past two years. While still exceedingly rare, some investors are making increased efforts to enable access to effective remedy for victims of business-related human rights abuse.

Despite progress, human rights are still rarely addressed in a systematic or principled way among the institutional investor community. The vast majority of investors have yet to meaningfully engage with their human rights responsibilities. Most investors have significant capacity challenges with regard to business and human rights. As a result, knowledge of human rights, including how human rights are defined, how they are relevant across ESG factors, and what meaningful human rights due diligence looks like, remains limited throughout the institutional investor community. Even areas of investor activity where consideration of social impacts are seemingly embedded have been largely detached from efforts to align investment activities with the expectations laid out by the Guiding Principles. This includes in the context of impact investing, which seeks to generate positive social and environmental impacts alongside financial returns and investing toward achievement of the Sustainable Development Goals (SDGs). The ability of investors to meaningfully assess and prioritise human rights risks connected with their investment activities has also been challenged by the fact that meaningful corporate human rights disclosure has been the exception, not the norm, over the past decade. A root cause of this has been the inconsistent integration of the Guiding Principles across the myriad reporting frameworks, benchmarks and other data and research products used by investors to assess companies.

A culture of corporate short-termism, therefore, still prevails in financial markets with devastating impacts on human rights and the environment. Increased shareholder pay-outs and compensation for executives and directors tied to short-term financial performance has been coupled with cost-cutting and wage stagnation for workers. Investor pressure, especially from hedge funds and private equity firms underlies this trend, though pension funds, sovereign wealth funds, and even union funds are participating in riskier forms of investment in order to meet their commitments to beneficiaries (1).

The report concludes that efforts to achieve the widespread implementation of the Guiding Principles throughout the economy will continue to be stymied unless investor respect for human rights is sped and scaled up. The following list is an excerpt of recommendations for (1) States, (2) institutional investors and (3) other actors in the investment ecosystem to advance the investor responsibility to respect human rights over the course of the next decade, and beyond.

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Footnote:

1. Source :
<https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/files/EU%20mHRDD.pdf>

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