Principles for Responsible Investment

DISCUSSION PAPER

ADOPTING A STRATEGIC APPROACH TO HUMAN RIGHTS AND SOCIAL ISSUES POLICY

November 2023

To inform this briefing, the following investor group has been consulted: PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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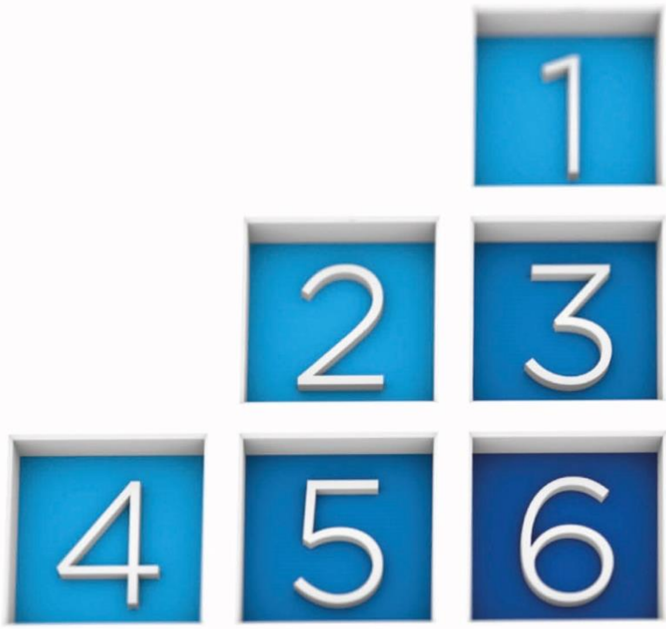
THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.



PRI'S MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: http://www.unpri.org

ABOUT THIS PAPER

This discussion paper examines the role of policy in enabling the respect of human rights from corporates and investors. It highlights the need for policy action that addresses human rights and social issues as part of an investor response to systemic risks associated with growing inequalities and climate change.

The paper identifies several action areas for policymakers, encompassing both financial and real economy policy. It invites discussion amongst the PRI signatories regarding the best ways to address these issues from a policy perspective.

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EXECUTIVE SUMMARY

Two of the main social issues currently facing society relate to growing economic inequality and the effects of climate change and the economic transition.

In recent years, particularly since the COVID-19 pandemic, economic inequality has been on the rise. This has had a negative effect on social cohesion, which has contributed to political instability. It also has considerable human rights implications, reducing access to, and provision of, essential services, limiting equal access to justice and political participation, and worsening poverty and social exclusion.

Climate change and environmental degradation are widely recognised as some of the most pressing threats to humanity's future. The economic transition may also have negative social and human rights implications, by increasing pressure on employment in high-emitting sectors and critical raw material value chains.

Human rights are inherent to all human beings, without discrimination. They provide a framework for defining prosperous and inclusive societies from a social viewpoint. They also provide a framework through which policymakers can ensure that the transition to a sustainable and equitable economy supports social systems. To this end, human rights and social issues should be fully integrated into a whole-of-government approach to the economic transition, extending beyond financial policy to include a wider range of issues and policy tools.

Over the last five years, regulations aimed at addressing human rights and social issues have been adopted in several major world economies, including the EU, Japan, the UK, and the US. Building on previous PRI work on these themes, this paper identifies a set of policies that policymakers can utilise. These include:

- Corporate ESG disclosure regulations;
- Corporate due diligence regulations;
- Investor ESG regulations (including for ESG service providers);
- Stewardship frameworks and regulations;
- Sustainable taxonomies;
- National sustainable finance strategies;
- National Action Plans on Business and Human Rights.

Policy interventions in the real economy are also urgently required. These interventions should ensure that the economic transition does not exacerbate inequalities by placing additional burdens on vulnerable parts of society. They may include fiscal policy interventions and be part of a coordinated, whole-of-government approach to the transition.

THE PRI APPROACH TO HUMAN RIGHTS AND SOCIAL ISSUES

Human rights are inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Everyone is entitled to these rights without discrimination. They help define prosperous and inclusive societies from a social perspective.

The PRI's mission states that 'an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and **society as a whole**.'[1] The organisation's 10-year blueprint aims to 'enable signatories to improve the real world – now and in the future – by encouraging investments that contribute to **prosperous and inclusive societies** for current and future generations'.[2]

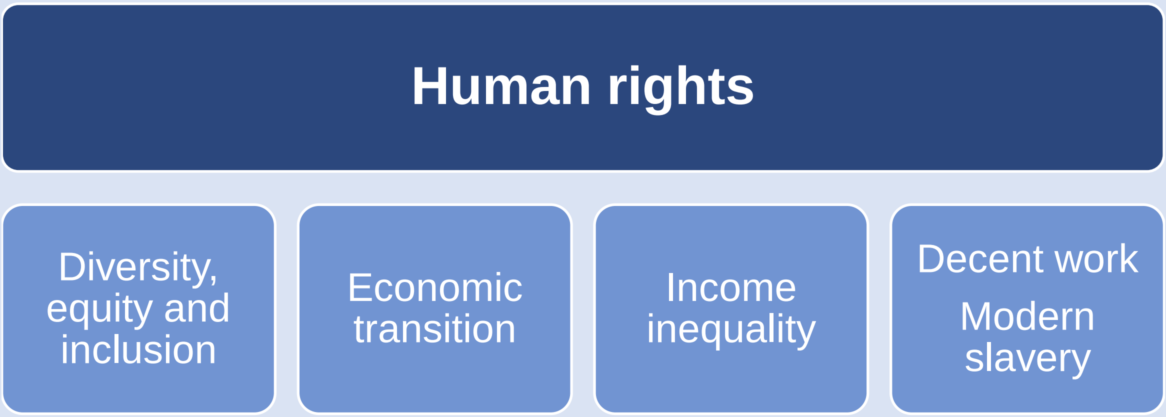
For this reason, human rights have been identified as one of the key (Tier 1) issues in PRI's 2021-2024 strategy. This strategy identifies 'human rights, as both an immediate source of protection for individuals from harm and discrimination, and as a necessary foundation for lasting social equality, stability and productivity'.[3]

The table below shows the PRI's approach to human rights and social issues. Human rights represent the lens through which more specific issues (such as DEI and decent work) are addressed.

FIGURE 1: THE PRI APPROACH TO HUMAN RIGHTS AND SOCIAL ISSUES

Just like climate change cannot be tackled without addressing biodiversity loss, other issues covered by the work of the PRI, such as decent work, health, and DEI, represent different elements of a same approach. This is focused around human rights and the international tools aimed at their protection, tools that the majority of countries in the world have agreed to.

The PRI view is that human rights represent a foundation upon which policy interventions on areas such as the economic transition, income inequality, decent work, modern slavery and DEI should be built.



[1] PRI (2023) About the PRI.
[2] PRI (2017) A blueprint for responsible investment.
[3] PRI (2021) PRI 2021-2024 strategy.

PROPOSED OBJECTIVE

The proposed objective for the PRI's work on human rights and social policy is the following:

The PRI will work with its signatory base to engage in the development of financial and real economy policies and regulations with the aim of fostering lasting social equality, stability, and productivity. The PRI will advocate for policies and regulations that incentivise companies and capital markets actors to adhere to the requirements of the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines on Multinational Enterprises. Within this process, the PRI will work to support a just transition to a net zero economy and facilitate the efficient allocation of capital to achieve the social aspects of the Sustainable Development Goals.[4]

SETTING THE SCENE

ECONOMIC INEQUALITY AND CLIMATE CHANGE: TWO ISSUES IN NEED OF CONCERTED POLICY SOLUTIONS

The 2021/2022 Human Development Report, titled 'Uncertain times, unsettled lives', opens with the statement that the world is in 'a new uncertainty complex'.[5] Decades of increasing economic inequality, seen in both developing and developed countries, have resulted in volatile economic conditions and political polarisation.[6] This trend has further intensified due to the 'polycrisis' brought about by the combined effects of COVID-19 pandemic, the cost-of-living crisis, the conflict in Ukraine, and the unmanaged, non-diversifiable risks stemming from climate change.[7]

Issue 1: Economic inequality

Sustainable Development Goal 10 aims to 'Reduce inequalities within and among countries'.[8] Its first target, set for 2030, is to 'progressively achieve and sustain income growth of the bottom 40 percent of the population at a rate higher than the national average'. However, global economic inequalities are increasing.[9] The World Bank's 2022 Poverty and Shared Prosperity report concluded that 'Progress in reducing global poverty has essentially halted: by 2030, nearly 7% of the world's population—nearly 600 million people—will still struggle in extreme poverty.'[10]

The Covid-19 pandemic has exacerbated this trend. In 2020, 70% of the world's population lived in countries with rising economic inequality. Studies suggest that during the first year of the pandemic, the world experienced the largest increase in global inequality and poverty since 1990, with an estimated 0.7-point growth in the global Gini index,[11] and 90 million people falling into extreme poverty (earning less than $2.15 per day).[12] The pandemic, along with the current inflation and energy crises, have disproportionately impacted the income, wages and access to basic needs of historically disadvantaged groups (e.g. women, low-paid workers, and vulnerable communities). This has undermined the very fabric

[4] UN DESA (2015), The 2030 Agenda for Sustainable Development.
[5] UNDP (2022), Uncertain times, unsettled lives.
[6] Chatham House (2022), The economic basis of democracy in Europe
[7] WEF (2023), This is why 'polycrisis' is a useful way of looking at the world right now.
[8] United Nations (2016), Goal 10: Reduce inequality within and among countries.
[9] Economic inequality is a wide-ranging term that encompasses several different aspects, including income and wealth inequality and inequality of opportunity. Its effect can be seen across geographical regions and between generations. The PRI 2018 paper on Why and how investors can respond to income inequality highlights the potential negative impacts of this kind of inequality.
[10] World Bank (2022), Poverty and shared prosperity.
[11] The Gini index measures the extent to which the distribution of income or consumption among individuals or households within an economy deviates from a perfectly equal distribution. Whilst a Gini index of 0 represents perfect equality, an index of 100 implies perfect inequality.
[12] Mahler, Yonzan and Lakner (2022) The Impact of COVID-19 on Global Inequality and Poverty.

of society. The World Economic Forum ranks the erosion of social cohesion erosion and livelihood crises as among the most significant global risks for the next decade.[13]

Economic inequality has significant human rights implications. It leads to disparities in accessing health, education, housing, and other services essential to the enjoyment of basic economic and social rights. It also limits people's equal access to justice and political participation. It perpetuates poverty and social exclusion, which, in turn, are key drivers of conflict and insecurity.[14] Economic inequality is both a consequence and a cause of human rights risks and impacts. The denial of internationally guaranteed human rights can be linked to many of the key determinants of inequality, including the erosion of labour rights, the weakening of public services, the disproportionate impact of the rising cost-of-living crisis on poorer communities, systemic discrimination, and the capture of democratic decision-making by interest and lobby groups.[15]

Issue 2: Climate change

On the other side of the equation, there is now a consensus that action is necessary to mitigate and adapt to the effects of climate change. In recognising a healthy environment as a human right, the UN General Assembly stated that climate change and environmental degradation are some of the most pressing threats to humanity's future. It called upon states to step up efforts to ensure their citizens have access to a 'clean, healthy and sustainable environment.'[16] In the preamble of the Paris Agreement, the Parties recognised the need to 'take into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities'.[17]

Climate change and the climate transition are substantially increasing the pressure on several systems,[18] including:

- **Economic productivity**: According to the ILO, it is projected that by 2030, high temperatures will cause the loss of the equivalent of more than 2 percent of the total working hours worldwide.[19] In 2023 the World Meteorological Organization (WMO) estimated that 'extreme weather, climate and water-related events caused 11,778 reported disasters between 1970 and 2021, resulting in just over 2 million deaths and US$ 4.3 trillion in economic losses'.[20]
- **Social systems**: Market mechanisms aimed at addressing the implications of climate change, such as carbon pricing, can have unexpected social consequences if not properly designed and implemented.[21] The scaling of renewable energy and carbon and nature credits projects can also negatively impact upon forest-based indigenous communities.[22] The recent suspension of a US $117 million forest conservation project in Nicaragua over alleged escalating violence against indigenous people shows the need for effective community engagement and due diligence mechanisms in such projects.[23]
- **Employment across high-emitting sectors**: Although studies indicate the potential for the net zero transition to create more jobs than those lost,[24] the effects of the transition on the workforce cannot be ignored. Measures such as job training and tax credits for lower-income workers, coupled with a revenue-neutral carbon tax, can help offset these negative effects.

[13] World Economic Forum (2022), Global Risks Report 2022.
[14] Oxfam (2014), Even it up: time to end extreme inequality
[15] Centre for Economic and Social Rights (2016), Inequality: can human rights make a difference?
[16] United Nations General Assembly (2022), The human right to a clean, healthy and sustainable environment.
[17] UNFCCC (2015) Paris Agreement.
[18] OECD (2023) Overview of climate-related provisions in the OECD Guidelines and Due Diligence Guidance.
[19] ILO (2019) Working on a warmer planet: The impact of heat stress on labour productivity and decent work.
[20] World Meteorological Organization (2023), Economic costs of weather-related disasters soars but early warnings save lives.
[21] IMF (2021), 'The Poverty and Distributional Impacts of Carbon Pricing: Channels and Policy Implications'
[22] Human Rights Watch (2023), COP28: Carbon Market Rules Should Protect Rights.
[23] Climate Home News (2023), UN climate fund suspends project in Nicaragua over human rights concerns.
[24] Climate Change Committee (2023), A Net Zero workforce.

- **Sourcing of critical raw materials**: Demand for critical raw materials is increasing,[25] which poses a risk of exacerbating the existing environmental and social issues associated with the areas of extraction. Some jurisdictions, including the EU,[26] are taking action to increase their control over critical and strategic supply chains. However, there is often a risk that human rights and decent work safeguards are disregarded in this process. The development of *net-zero supply chains* for critical minerals for renewable energy and electric vehicles value chains will need to be accompanied by due diligence requirements and other governance processes in order to minimise harm and avoid disruptions.

With climate change and environmental degradation now widely recognised as a human rights concern, UN Special Rapporteur Professor David Boyd recently stressed the importance of corporations and investors aligning their policies and practices to the UNGPs with a view to human rights and climate change.[27]

Policymaking never occurs in a vacuum, and the success of these measures, as well as the broader climate transition, will therefore hinge on the full integration of human rights principles into their design. This must be accompanied by clear communication to the public to ensure that the transition is designed and perceived in a way that is just and fair for all. The financial sector has a strong role to play in this, supporting countries in implementing Article 2.1c of the Paris Agreement, which pertains to '[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.'

At the same time, it should be emphasised that in the long run, inaction on climate change will be more expensive than taking decisive action now. Studies demonstrate that delayed action on the climate crisis will result in higher long-term costs, delaying or entirely halting investments, reducing economic growth, and causing more financial disruption to workers and communities.[28] While minimum social safeguards should be at the core of any policy intervention towards the climate transition, they should not serve as a justification for delayed action.[29]

Other issues of relevance

In an increasingly polarised world, some human rights laws could potentially exacerbate competition between countries. For example, the recent trade ban imposed by the US administration on products mined, produced, or manufactured in whole or in part in the Xinjiang Uyghur Autonomous Region of the People's Republic of China may contribute to the decoupling of the US economy from China. From this perspective, import bans may create obstacles to importing goods from rival countries, particularly in light of the evolving geopolitics relating to the energy transition.[30]. Investors should be aware of these risks, and further analysis is needed on the human rights implications of trade policies in countries around the world, and the extent to which these policies might impact investment outcomes.

[25] The International Energy Agency highlights that between 2017 and 2022 overall demand for lithium saw a three-fold increase, demand for cobalt rose by 70%, and demand for nickel increased by 40%, mostly due to demand from the energy sector.
[26] EU (2023), Critical Raw Materials Act.
[27] UN General Assembly (2019) Report of the Special Rapporteur on the issue of human rights obligations relating to the enjoyment of a safe, clean, healthy and sustainable environment, para 71.
[28] UNDESA (2017), Climate Change and Social Inequality.
[29] PRI (2023), Transitioning to net zero is cheaper than putting it off.
[30] International Renewable Energy Agency (2019), A New World: The Geopolitics of Energy Transformation.

HOW CAN HUMAN RIGHTS HELP TACKLE THESE ISSUES?

In September 2021, the UN Secretary-General set out a 'Common Agenda' for the future of global cooperation,[31] calling for a 'renewed social contract anchored in human rights'. This includes goals such as universal social protection, encompassing health care and basic income security, as well as a commitment to the right to a healthy environment. Human rights are not only an obligation for all States to uphold, but also 'problem-solving measures and ways to address grievances, not just for individuals but for communities at large.'

Policymakers are increasingly focusing on the escalating impact of economic inequality. The new policy initiatives centre around workers and communities along the supply chains, and include measures such as due diligence legislation, human capital management disclosures, and import bans. There is also increasing recognition of the need to expand the scope of these regulatory initiatives to encompass the wider value chains of raw materials, products, and services.[32] The reference point for all these initiatives should be internationally recognised human rights norms and standards such as the UNGPs and the OECD Guidelines for Multinational Enterprises (the Guidelines).

At the 2022 G7 Summit, the leaders agreed to 'coordinate to maximise the coherent implementation of and compliance with international standards relating to human rights, environment, and labour across global supply chains', and committed to 'working towards an international consensus on business and human rights to strengthen compliance with international standards, including through mandatory measures that protect rights-holders, provide for greater multilateral cooperation to address abuses, and support remedy, thus enhancing predictability and certainty for business.'[33]

By incorporating a human rights and social dimension into their policy decisions, policymakers can contribute to the achievement of several sustainable development goals including:

- addressing gender-related issues connected to business activities;
- providing workers in different jurisdictions, developed and developing, with a living wage;
- eradicating forced labour from global value chains.[34]

Human rights and financial performance

The impact of social performance on economic and financial performance is equally significant. A growing body of evidence shows that social issues have a material effect on business performance, and therefore financial returns.[35] According to a 2022 survey on the role of finance in addressing social issues, 87% of respondents agreed that 'addressing human rights continues to be associated not only with risk mitigation, but also with the creation of opportunities for better financial performance'.[36] This is just as relevant to areas relating to human capital management. The PRI's report on diversity, equity, and inclusion identifies several areas where these principles can be used to enhance company performance,[37] while our report on 'ESG Integration: How are Social Issues Influencing Investment Decisions',[38] highlights how investors have been able to decrease beta risks by addressing issues such as labour relations and governance, and supporting company supply chain stability. By ensuring minimum

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[31] United Nations (2021), Our Common Agenda.
[32] Danish Institute for Human Rights (2023), Due diligence in the downstream value chain: case studies of current company practice.
[33] G7 (2022) G7 Leaders' Communiqué.
[34] According to the UN 92% of all the Sustainable Development Goals are linked to human rights and labour standards. See Our Common Agenda, p. 32.
[35] Khan, M., Serafeim, G., Yoon, A. (2016), Corporate sustainability: First evidence on materiality. See also BSR (2022) Human Rights Roadmap for Transforming Finance.
[36] Luxembourg for Finance (2022), Finance and Human Rights: the 2022 perspective.
[37] PRI (2022), Diversity, equity and inclusion: Key action areas for investors.
[38] PRI (2017), ESG integration: how are social issues influencing investment decisions?

safeguards on decent work, companies can reap the benefits of increased operational efficiency, reduced reputational risks, and a healthier and more productive workforce.[39]

Courts around the globe are increasingly acknowledging the relevance of these issues for multinational corporations.[40] An increasing number of cases are being brought against companies and investors with regard to the alleged impact of their operations on climate change,[41] some of which specifically reference human rights. While most of these cases have not yet reached a conclusion, it is clear that regulatory risk associated with human rights impacts, especially in connection to climate change and environmental degradation, are increasingly becoming a reality for corporates and investors.

Finally, there has been a steady increase in the number of policy initiatives from regulators focusing on human rights and social issues in recent years. Examples include nearly 50 states adopting National Actions Plans on Business and Human Rights;[42] due diligence laws being launched in the EU, Japan, South Korea and other jurisdictions, in many cases with explicit reference to international standards such as the UNGPs; the initiatives for the adoption of anti-modern slavery instruments in the UK, Canada, and Australia; and legislation concerning disclosure on social-related issues, in alignment with the development of disclosure standards such as those of the International Sustainability Standards Board and the European Sustainability Reporting Standards (ESRS).

[39] PRI (2022), How investors can advance decent work.
[40] *Urbaser SA and Consorcio de Aguas Bilbao Bizkaia, Bilbao Biskaia Ur Partzuergoa v Argentine Republic*, ICSID Case No. ARB/07/26, Award (8 December 2016), para. 1195.
[41] Setzer J and Higham C (2023) 'Global Trends in Climate Change Litigation: 2023 Snapshot', page 27.
[42] OHCHR (2022), National Action Plans on Business and Human Rights.

WHAT IS THE ROLE OF POLICYMAKERS, INVESTORS, AND PRI?

Policymakers have a crucial role to play in this realm, encompassing both financial and real economy policy.

To support their work, the PRI aims to develop a policy approach that builds upon and reinforces relevant foundational policy reforms, whilst recognising the differences in each jurisdiction in order to ensure that human rights and social considerations are included in all relevant policies. Policymakers have at their disposal several policy tools, including those outlined in the Toolkit for sustainable investment policy and regulation published by the PRI and the World Bank Group[43]. These tools include:

- Corporate ESG disclosure regulations;
- Corporate due diligence regulations;
- Investor ESG regulations (including for ESG service providers);
- Stewardship frameworks and regulations;
- Sustainable taxonomies;
- National sustainable finance strategies;
- National Action Plans on Business and Human Rights.

Investors should support the work on these issues by responsibly engaging with policymakers, either individually or through collective engagement.[44]

The following sections will outline examples that demonstrate the relevance of human rights and social issues with regard to the above policy areas, and set out preliminary suggestions for how policymakers should incorporate these topics into policy and regulation. Up to this moment, the two main focus areas for policymakers have been corporate ESG disclosures and due diligence regulations. Consequently, the following analysis will begin with these topics before moving on to other policy tools.

CORPORATE ESG DISCLOSURES

While metrics around environmental (E) and governance (G) aspects are currently more evolved, there is a movement towards the development of disclosure metrics and standards on social issues. Policymakers and standards setters are increasingly active in this area, mirroring the strategies employed on climate and environmental issues. This is exemplified by the European Sustainability Reporting Standards (ESRS) and the proposed expansion of the International Sustainability Standards Board's (ISSB) work to encompass human rights and social issues.

Access to a set of consistent and standardised corporate disclosures will assist investors in meeting their sustainability targets. It will enable them to manage the impacts on individuals that arise, or could arise, from their business activities and investee companies, while at the same time reducing financial and reputational risks by providing comprehensive information about their investments. To conduct this analysis, investors need different types of data throughout the investment process. However, there are gaps in terms of available information and reliable sources, and even when this information is accessible, it can be difficult to access and process at scale.

Achieving improved disclosures, especially in emerging markets where data is scarce but the likelihood of human rights violations may often be higher, will support the flow of capital in their direction. This will,

[43] PRI and World Bank Group (2020), A toolkit for sustainable investment policy and regulation.
[44] PRI (2022), A sustainable policy engagement handbook.

in turn, support sustainable development goals, and help to ensure a fairer and more just net-zero transition.

To this end, policymakers should introduce mandatory disclosure regimes that:

- Make data **available** by:
  - aligning required disclosures with international human rights standards;
  - expanding the availability of contextual data to provide more granular information on companies' value chains;
  - focusing disclosures on companies' leadership and governance characteristics, business risks, and human rights due diligence;
  - requiring quantitative information on positive human rights impacts.
- Make data **accessible** through data tagging, digital taxonomies, and digital corporate reporting.
- Make data **verifiable** also through the regulation of ESG data and ratings providers (as explored below).

The ISSB's work to establish a global baseline for sustainability disclosures will be key to achieving these goals. At the same time, by its own mandate, the ISSB adopts a single materiality approach that will likely not be sufficient to serve the collective and diverse data needs of PRI signatories. To ensure interoperability between the standards, it will be important to monitor and support other initiatives that use a double materiality approach, such as the work of the EU's European Financial Reporting Advisory Group (EFRAG) or the Global Reporting Initiative (GRI).

CORPORATE DUE DILIGENCE LEGISLATION

Legislation on due diligence can introduce safeguards in the economy to ensure that workers, communities, and consumers are considered in business activities. This promotes fairness and stability in a time characterised by a rising systemic risk and volatility associated with economic inequality, rising cost of living, and other crises.

Human rights due diligence is a particularly relevant topic, with several related regulations being developed around the world. A number of these proposed laws specifically include investors within their scope. This trend is expected to continue and will allow financial institutions to minimise risk while achieving positive sustainability outcomes. While historically such risks have been associated with reputation, they are now increasingly expanding to include legal liability. Investors and companies require a level playing field, and should not be subject to conflicting requirements for their operations around the world.

Beyond minimising system-level risks, the significant benefits of corporate due diligence disclosures for investors include

- Support of investors' sustainability assessments;
- Enhancement of risk analysis and processes for impact prevention, mitigation, and remediation;
- Provision of greater understanding of companies throughout the value chain;
- Enabling responsible investors to conduct better-informed engagement with investees, respect human rights, and provide due consideration to environmental issues. [45]

In the spirit of achieving closer integration between environmental and social factors, and supporting a just transition, due diligence mechanisms are increasingly applied to both human rights and environmental issues. For example, the OECD recently updated its Guidelines for Multinational Enterprises, including a considerable expansion of the section dedicated to the environment, with a focus on risk-based due diligence for environmental and climate matters. Moreover, the upcoming EU

[45] PRI (2020), Why and how investors should act on human rights. See also Investor Alliance for Human Rights (2020) The investor case for mandatory human rights due diligence.

Corporate Sustainability Due Diligence Directive (CSDDD) addresses environmental issues alongside human rights.

INVESTOR ESG REGULATION (INCLUDING REGULATION OF ESG SERVICE PROVIDERS)

Investor ESG regulation can take several different forms, including:

- regulations setting out investor duties or obligations;
- investor disclosure regimes;
- due diligence requirements on investors.

As highlighted in the PRI's human rights paper,[46] human rights and a range of social issues, including inequality and human capital management, should be recognised as material considerations for investors These factors should be integrated into disclosure frameworks and the general duties or obligations of investment entities to meet the demands of clients and beneficiaries.[47] The information gathered through better mandatory corporate disclosure regimes will support investors and should be used to inform their investment decision-making.

While ESG issues are currently on the way to being widely integrated into investment decisions, regulators still have a key role to play. They ought to clarify:

- the extent to which human rights are considered material for investment entities within the context of their management of ESG factors in their investment process under existing investor duties;
- investors' duties or obligations in terms of managing key adverse impacts on society and human rights, with a view to the *Do No Significant Harm* principles set out in other regulations;
- investors' duties or obligations to pursue sustainability outcomes and address system-level risks, such as extreme poverty, inequality, and human rights impacts, in line with the requirement to act in the best interests of clients and beneficiaries, as set out in the PRI's Legal Framework for Impact project;[48]
- investors' duties or obligations to align with sustainability due diligence requirements;
- investors' duties or obligations to comply with anti-greenwashing and sustainability labelling regulations.

Regulators are also beginning to consider including the financial services sector in due diligence regulations, for example with the EU Corporate Sustainability Due Diligence Directive (CSDDD).

As highlighted by the Legal Framework for Impact project, in addition to the express or implied terms of the relevant investment arrangement, asset owners and investment managers have duties that may arise from legislation or general law, such as tortious duties in common law jurisdictions. In such situations, within the scope of their mandate, regulators should aim to clarify what these duties entail.

ESG service providers should also be considered within these regulatory regimes. Such actors offer a range of services that support capital market actors in integrating ESG and sustainability into their investment decisions. Recently, several financial market regulators, including those in the EU, UK, and India, have initiated steps to regulate ESG ratings and data providers. These regulators often cite a lack of perceived transparency in the methodologies employed by these providers. Other actors, such as

[46] PRI (2020), Why and how investors should act on human rights, page 14.
[47] These include, as general examples, the Employee Retirement Income Security Act of 1974 (ERISA) in the US or the Undertakings for the Collective Investment in Transferable Securities (UCITS) Directive, Solvency II, Alternative Investment Fund Manager (AIFM) Directive, the Directive on Markets in Financial Instruments (MiFID II) and the Insurance Distribution Directive in the EU.
[48] PRI (2021) A legal framework for impact.

investment consultants and proxy advisors, also have a pivotal role to play in ensuring that human rights and social issues are taken into consideration in investment decisions.

STEWARDSHIP FRAMEWORKS AND REGULATIONS

As recognised by the PRI's Advance initiative, stewardship is a key tool that investors can use to ensure that the companies they invest in respect human rights. In recent years, it has been shown that strict scrutiny by regulators can support and enhance the results of these activities. Regulatory frameworks for effective stewardship can help investors mitigate system-level risks (such as inequitable social structures), improve the long-term performance of economies and their investment portfolios, as well as improve social and environmental outcomes in line with their beneficiaries' objectives and public policy goals.[49]

To this end, stewardship regulations may help:

- explicitly encourage or require investors to integrate human rights-related and material social considerations into stewardship and investment decision-making;
- establish a stewardship reporting framework or integrate such reporting requirements into investor disclosure regulations to improve transparency in terms of how duties or obligations are fulfilled (stewardship policy, actions, and outcomes).

A framework such as the one developed in the UK's Financial Reporting Council[50] can support companies in delivering effective stewardship activities, especially when coupled with the work of initiatives such as Advance.

SUSTAINABLE TAXONOMIES

In the social space, taxonomies are important for a number of reasons:

- social taxonomies support investors to drive capital directly towards the delivery of social objectives;
- minimum safeguards in environmental taxonomies can ensure that capital supporting green goals does not undermine social progress or harm communities.

As demonstrated by the growth of social bonds,[51] there is a strong investor interest in supporting social infrastructure. Similar to the environmental sector, the presence of taxonomies to guide investment in this area is important for unlocking capital. This would support countries in achieving their social goals, including financing a just transition and realising the SDGs. As shown in the PRI's implementation guide on the topic,[52] a well-designed, effectively-implemented sustainable finance taxonomy can:

- define a socially sustainable activity and the criteria used in this determination;
- measure the degree to which investments and companies' activities are sustainable;
- help investors and companies plan and report on a transition towards sustainability by establishing the objectives and the direction of travel for different economic activities;
- aid policymakers in making informed decisions and developing policies that are consistent with relevant long-term social objectives;
- provide a shared reference point and encourage collaboration between policymakers, investors, and companies.

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[49] PRI (2023) How policy makers can implement reforms for a sustainable financial system: stewardship.
[50] FRC (2021), Effective Stewardship Reporting
[51] According to the IFC, social bonds are the fastest growing segments of sustainable debt. This kind of instrument raised $206 billion in funding in 2021 and is forecast to bring in $300 billion in 2022.
[52] PRI (2022), How policy makers can implement reforms for a sustainable financial system: taxonomies, page 5.

Social taxonomies, and social safeguards within environmental taxonomies, should include human rights at their core.[53] Up until this point, one of the main challenges in designing and implementing taxonomies in the social space has been the difficulty in measuring the social characteristics of an economic activity and quantifying the positive contribution that such activities might have with regard to social sustainability outcomes.

NATIONAL SUSTAINABLE FINANCE STRATEGIES

Sustainable finance strategies, when implemented as part of a whole-of-government approach, can help mainstream human rights and social issues within the financial system, bridging the gap that exists between the finance sector and the wider economy. These strategies can promote economic development while fostering social inclusion and protecting the environment. They can support and enable investment in areas that require capital, such as social impact investment, and can enable or accelerate a country's ability to deliver on sustainable development goals.

Sustainable finance strategies should also establish clear connections to real economy policies. The strategies should be designed in a way that moves the whole of the government towards achieving the desired sustainability outcomes and avoids competing interventions between various ministries and regulators.

Moreover, sustainable finance strategies should be coordinated with regulatory interventions in other areas. For instance, the EU's adoption of a sustainable finance strategy that included a comprehensive package of measures specifically aimed at addressing social issues, including plans for a social taxonomy.

NATIONAL ACTION PLANS ON BUSINESS AND HUMAN RIGHTS

National action plans are 'policy documents in which a state articulates priorities and actions that it will adopt to support the implementation of international, regional, or national obligations and commitments with regard to a given policy area or topic'.[54]

Currently, 11 out of 30 National Action Plans on Business and Human Rights adopted by countries worldwide do not include provisions on finance and banking.[55] The integration of these sectors in the remaining 19 countries varies widely. For instance, while Chile's provision pertains to 'look[ing] to generate strategic alliances with banking institutions to facilitate access to financial services to cooperatives', France's policy acknowledges that the financial sector 'has a duty to promote the adoption of responsible management practices by the companies it finances or invests in, especially in the human rights field'.

Given the relatively limited uptake of commitments regarding the financial system in existing NAPs, along with the diverse manifestation of such commitments, it is important that, when developing new NAPs or updating existing ones, regulators give due consideration to the role of the financial system in achieving social outcomes in line with international standards.

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[53] CDP (2022), Seeking clarity amidst fragmentation.
[54] DIHR and ICAR (2017), National Action Plans on Business And Human Rights: A Toolkit For The Development, Implementation, And Review Of State Commitments To Business And Human Rights Frameworks, p. 11.
[55] National Action Plans on Business and Human Rights, Finance & banking sector.

AREAS OF FURTHER WORK

In line with the PRI's aim to focus on a whole-of-government approach for a successful transition to a net-zero, sustainable economy that works for people and the planet,[56] future investigation should include social and human rights-related policy. Alongside the core focus on financial policy, there should be further research on the real economy, including trade, fiscal, and industrial policies.

In this latter regard, areas that merit further investigation include:

- Real economy policies to offset the potential adverse effects of the economic transition on workers and communities. These include measures to ensure the retraining of workers in transitioning industries and investment in local communities that are currently heavily reliant on carbon-intensive activities, such as coal mining. These measures may a have profound effect on the enjoyment of human rights by workers along value chains and in their communities, thus mitigating economic inequalities and ensuring a just transition.[57]
- Issues generally included under governance, such as responsible political engagement and tax, have far-reaching consequences on social structures, perpetuating and potentially increasing inequalities. Regulators should take these aspects into account when designing policies. Considering the limited fiscal space available for decisive action towards the net-zero transition, there is a risk that policy interventions in this area may disproportionately affect parts of society that are already particularly vulnerable to crises such as high inflation and increasing cost of living. Such interventions may therefore undermine the effectiveness of the economic transition.
- The evolving role of multilateral financial institutions and the international financial architecture in tackling the 21st-century polycrisis, especially with regard to the ability of developing and emerging economies to fund their net-zero commitments while providing support for the most vulnerable parts of society. Recently, the PRI published a policy briefing on the topic, highlighting a set of recommendations designed to enable multilateral financial architecture to deliver financing at the scale and speed required to achieve the transition to a sustainable and equitable economy that supports natural and social systems.[58]

While the above list is non-exhaustive, it demonstrates the broad range of policy interventions that will be necessary in the future, encompassing both financial and non-financial policies.

[56] PRI (2023), Investing for the economic transition: the case for whole-of-government policy reform.
[57] For further information on these relationships, see O. Blanchard and D. Rodrik (2021) Combating Inequality: rethinking government's role.
[58] PRI (2023), Reforming the multilateral financial architecture: why, how and the case for acting now.

ANNEX A: PRI'S INVOLVEMENT IN FINANCIAL AND CORPORATE POLICIES AND THEIR REGULATION OF HUMAN RIGHTS AND SOCIAL ISSUES[59]

Country and regional level						
	National action plan (or equivalent)	**Due diligence legislation**	**Corporate ESG disclosure standards**	**Investor ESG regulation**	**Taxonomies**	**Stewardship regulations**
Australia		Modern Slavery Act[60]				
Canada		Fighting Against Forced Labour and Child Labour in Supply Chains Act[61]				
China	▪ Human Rights Action Plan					
EU	▪ European Green Deal ▪ European Pillar of Social Rights	▪ National level legislations ▪ Corporate Sustainability Due Diligence Directive[62] ▪ Forced labour import ban[63] ▪ Conflict Minerals Regulation ▪ Regulation on deforestation-free products	▪ Corporate Sustainability Reporting Directive ▪ European Sustainability Reporting Standards[64]	Sustainable Finance Disclosure Regulation	▪ Final Report on Minimum Safeguards[65] ▪ Final Report on Social Taxonomy[66]	SRD II article 3(g) on disclosure

[59] Please find here a list of the regulations on social issues currently in place. Note that this table focuses on the PRI's 'key jurisdictions' and does not intend to be an exhaustive list of HR&S policies around the world.
[60] PRI (2023) Consultation response - Review of the Australia Modern Slavery Act.
[61] PRI (2021) PRI support for Bill S-216, Act to enact the Modern Slavery Act and to amend the Customs Tariff.
[62] See PRI business statement, September 22 paper, and March 23 paper.
[63] PRI (2023) PRI statement: European Commission proposal for a regulation prohibiting products made with forced labour.
[64] PRI (2022) Consultation response: Japan Ministry of Economy, Trade and Industry (METI) invitation for public comments regarding draft guidelines on respect for human rights in responsible supply chains.
[65] EU Platform on Sustainable Finance (2022) Final report on minimum safeguards.
[66] EU Platform on Sustainable Finance (2022) Final report on social taxonomy.

Japan	Business and Human Rights Action Plan	Guidelines on Respect for Human Rights in Corporate Supply Chains[67]	FSA ordinance on disclosure of corporate affairs[68]			Japan Corporate Governance Code
Mexico	In development				Taxonomía Sostenible de México	
Norway	National Action Plan for the Implementation of the UN Guiding Principles	Transparency Act				
UK	Action Plan on UN Guiding Principles on Business and Human Rights	Modern Slavery Act		UK DWP Taskforce on Social Factors[69]		UK Corporate Governance Code
US	Action Plan on Responsible Business Conduct[70]	▪ California Transparency in Supply Chains Act ▪ Tariff Act of 1930 ▪ Dodd-Frank Act	SEC Human capital management (in development)			
Multilateral level						
G7/G20		2022 G7 agreed work on 'internationally accepted, binding standard for corporate due diligence'	G20 Sustainable Finance Working Group's Roadmap			
OECD		Guidelines for Multinational Enterprises [71]				
ISSB			Consultation on agenda priorities[72]			

[67] PRI (2022) PRI consultation response on Exposure Draft European Sustainability Reporting Standards.
[68] PRI (2022) PRI response to JFSA's invitation for public comments regarding revision plans to the cabinet office ordinance on disclosure of corporate affairs.
[69] PRI (2021) UK Department for Work and Pensions call for evidence response: Consideration of social risks and opportunities by occupational pension schemes.
[70] PRI (2021) PRI response to US Department of State: National Action Plan on Responsible Business Conduct.
[71] PRI (2023) PRI's response to the OECD consultation on the targeted update of the Guidelines for Multinational Enterprises.
[72] PRI (2023) PRI response to ISSB consultation on agenda priorities and accompanying blog post: A call for an ISSB reporting standard on human rights and social issues.

The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org