

DISCUSSION PAPER No. 353

Integrating a human rights-based approach in European development finance institutions

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International financial institutions (IFIs) and development finance institutions (DFIs) play a key role in promoting sustainable and inclusive development in developing countries. In doing so, they operate in challenging contexts, often involving significant sustainability risks. To address these risks and foster their development impacts, DFIs have put in place policies and procedures to ensure that investments do not harm people or the environment. They also show a growing commitment to embrace a human rights-based approach (HRBA) to their investments. Yet, regarding adopting the HRBA, progress is uneven across DFIs, including in Europe. This partly reflects the diversity of DFIs in size, strategies and capacities.

This paper sets out to better understand human rights-based approaches, highlight good practices among DFIs and discuss some of the challenges linked to their operationalisation. The paper concludes by presenting ten recommendations for European DFIs to strengthen their approach to human rights, clustered into five main areas: (1) policy commitment and mandate; (2) management of negative impacts; (3) human rights promotion; (4) integration of HRBA principles and toolboxes in DFIs' operations; (5) the case of co-financing.

The paper also argues that the EU is well placed to take a leading role in this endeavour, building on the EU regulatory and institutional value-based setting. The European development finance institutions association (EDFI), together with the European Commission blended finance and guarantee mechanisms, can play a catalytic role in enhancing DFIs' HRBA in a coherent and collaborative way.

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Acronyms

AFD	Agence Française de Développement
CAO	Office of the Compliance Advisor/Ombudsman
CEB	Council of Europe Development Bank
CSDDD	Corporate Sustainability Due Diligence Directive
CSO	Civil society organisation
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DFI	Development finance institution
DIHR	Danish Institute for Human Rights
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECDPM	European Centre for Development Policy Management
EDFI	European Development Finance Institutions Association
EIB	European Investment Bank
EFSD+	European Fund for Sustainable Development plus
ESAP	Environmental and social action plan
E&S	Environmental and social
EU	European Union
FI	Financial institution
FICS	Finance in Common Summit
FinnFund	Finnish Fund for Industrial Cooperation
FMO	Dutch Entrepreneurial Development Bank
HRBA	Human Rights-Based Approach
HRDD	Human Rights Due Diligence
IFC	International Finance Corporation
IFC PSs	International Finance Corporation’s Performance Standards on Environmental and Social Sustainability
IFI	International financial institution
IFU	Investment Fund for Developing Countries
LDC	Least developed country
MIGA	Multilateral Investment Guarantee Agency
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the UN High-Level Commissioner for Human Rights
PDB	Public development bank
SDG	Sustainable Development Goal
SIDA	Swedish International Development Cooperation Agency
UN	United Nations

UNGP


UN Guiding Principles on Business and Human Rights


Executive Summary


International financial institutions (IFIs) and development finance institutions (DFIs) play a key role in promoting sustainable and inclusive development in developing countries. In doing so, they operate in challenging contexts, often involving significant sustainability risks. To address these risks and foster their development impacts, DFIs have put in place policies and procedures to ensure that investments do not harm people and the environment and are increasingly dedicating efforts to adopt a human rights-based approach (HRBA) to their investments.

This paper sets out to provide a better understanding of human rights-based approaches, highlight good practices among DFIs, and discuss some of the challenges linked to their operationalisation (including in the case of co-financing). The paper concludes by presenting ten recommendations for European DFIs to strengthen their approach to human rights:

	1. Policy commitment and mandate
Include or strengthen human rights dimensions in the mandate and policy commitment	
All DFIs should include a formal commitment to human rights in their mandate and policy. This helps set up clear objectives and goals, secure the necessary resources and capacities, and adopt the necessary policies and processes to achieve them.	
At the European level, the Association of European Development Institutions (EDFI) could foster the adoption of common standards to design or review the policy commitment of EDFI members.	

	2. Do no harm: managing negative impacts
a) Assess and review Environmental and Social (E&S) management frameworks to ensure they can deliver on human rights responsibilities	
DFIs should strengthen processes to regularly assess the robustness of the implementation of their environmental and social (E&S) procedures and adequately address any identified gaps and weaknesses. Notably, DFIs should strive to integrate the additional elements introduced by the UN Guiding Principles on Business and Human Rights (UNGPs) that are not yet fully reflected in current E&S practices.	
DFI safeguards should spell out different kinds of leverage that may be deployed to address the human rights risks of clients.	
b) Integrate human rights considerations throughout the entire project cycle	
DFIs should strengthen monitoring systems to document how existing risks have been addressed by the client, identify new risks and track positive impacts – including by increasing the role of independent observers.	
DFIs should use the severity of human rights abuses to guide decisions around the need for additional human rights due diligence (HRDD) of investments.	
DFIs should improve the assessment and monitoring of indirect investments in funds and financial institutions.	

	3. Maximise positive impact: promoting human rights
Reconcile risk compliance and positive impact assessment through a human rights lens	
DFIs should train and socialise investment teams on human rights and conduct joint impact assessments that take into account both the positive contributions of investments to the Sustainable Development Goals (SDGs) as well as E&S and human rights impacts and risks.	
The EC and DFIs shareholders, through their participation in the EFSD+ Strategic Board, should spell out clear indicators for monitoring human rights obligations by DFIs under EFSD+ guarantees and EU blended finance.	

	4. Integrating HRBA principles and toolboxes in DFIs' operations
a) Build capacity and raise awareness across all levels of the organisation on human rights	
DFIs should ensure that sufficient means (e.g. in terms of budget and human resources) are available to adopt and implement a thorough, active and positive HRBA, which is commensurate with the size of the DFI, and ensure appropriate training across all levels of the organisation; to avoid duplication of efforts and minimise costs, DFIs should seek synergies and complementarity between human rights approaches and E&S procedures.	
b) Ensure meaningful stakeholder engagement	
DFIs should adopt clear guidelines and ensure proper implementation of meaningful and inclusive engagement with the impacted rights-holders, the responsible duty-bearers and other relevant parties, by allocating sufficient resources, including budgets as well as staffing and capacity.	
DFIs should also use their leverage to support clients in meaningful right-holder engagement.	
c) Set responsible exit principles	
DFIs should set responsible exit principles to deal with any unresolved environmental, social and human rights issues at project closure or when a DFI exits projects on a planned or unplanned basis.	
d) Enable and, where appropriate, contribute to remedy	
DFIs should strengthen safeguard policies to enable remedy, by including remedy provisions in contingency planning from the start of the project cycle and providing for a broad range of reparations (including but not limited to financial compensation).	
e) Improve transparency and disclosure	
DFIs should favour proactive disclosure, including of project-level information, with any exemptions (e.g. for commercial confidentiality) defined narrowly and justified on a case-by-case basis by reference to foreseeable harm to a legitimate, recognised interest.	



5. Co-financing

Take a pragmatic approach towards a gradual harmonisation of approaches

While recognising that there is no one-size-fits-all approach, European DFIs should strive to align on a set of harmonised standards and procedures both for direct and indirect investments, by ensuring regular exchange of information and learning amongst EDFI members.

Taking a pragmatic approach, European DFIs could align on a set of harmonised, publicly disclosed standards, allowing each DFI to have further requirements and enhanced practices. Promoting greater convergence between DFIs' policies and practices on human rights would reduce competition concerns, help reduce duplication of efforts and transaction costs in the case of co-financing, and reduce HRBA-related costs through the pooling of human rights expertise.

1. Introduction

International financial institutions (IFIs) and development finance institutions (DFIs) play a key role in promoting sustainable and inclusive development in developing countries. In doing so, they are increasingly encouraged to invest in challenging contexts, including least-developed countries (LDCs) and fragile states, where human rights and environmental and social risks are significant. DFIs also face increased scrutiny from civil society and are held accountable for the adverse impacts associated with their investments.

To address these risks and foster their development impacts, DFIs have put in place policies and procedures to ensure that investments do not harm people and the environment. They also established impact measuring frameworks highlighting their contributions to sustainable development for transparency and accountability matters. In this context, DFIs are increasingly dedicating efforts to adopt a **human rights-based approach (HRBA)** to their investments, by integrating human rights into their policies, standards, processes and operations.

Human rights have been higher on the agenda at the 2022 Finance in Common Summit (FiCS) as well, where some public development banks (PDBs) committed to *'progressively integrate the human right based approach in their activities'* (FiCS 2022). Amongst the (few) institutions that have endorsed the statement to date, European actors stand out, including the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Agence Française de Développement (AFD) group and the Council of Europe Development Bank (CEB).

The HRBA has been promoted by the United Nations (UN) in international cooperation since 2003 and has gradually been taken up by many development actors. Human rights are also a fundamental pillar of the European Union (EU) and its external action, as enshrined in the Treaty on European Union and the EU, its member states and their development agencies and financial institutions for development increasingly adopt and promote an HRBA. Two principles guide an HRBA:

- **Do no harm:** a preventative principle aimed at ensuring that projects funded by development actors do not inadvertently cause harm or undermine human rights;¹
- **Maximise positive impact:** a proactive principle that involves embedding the advancement of human rights into the purpose of projects.

¹ The type of negative impacts to be managed in the social area include workers' rights, Indigenous Peoples' rights, and community health, safety and security, as well as land and resettlement.

Box 1: Key internationally agreed principles and multilateral frameworks

● The **UN Human Rights Based Approach** (UN 2003) set out the HRBA in three principles:

1. All programmes should further the realisation of human rights as laid down in the Universal Declaration of Human Rights and other international human rights instruments;
2. Human rights standards guide all development cooperation and programming in all sectors and in all phases of the programming process;
3. Programmes of development cooperation contribute to the development of the capacities of duty-bearers to meet their obligations and of 'rights-holders' to claim their rights.

● The **UN Guiding Principles on Business and Human Rights (UNGPs)** (UN 2011) provide an internationally agreed global reference point on the responsibilities of business in relation to human rights. They affirm three pillars:

1. The duty of States to protect against human rights abuses by businesses;
2. The corporate responsibility of businesses to respect HRs;
3. The duty of States to ensure access to remedies for business-related human rights abuses. As such, the UNGPs set the following key expectations for businesses: (1) putting in place a policy commitment to respect human rights; (2) carrying out human rights due diligence across activities and business relationships; and (3) providing for, or cooperate in, the remediation of any actual adverse impact that a business causes or contributes to.

● The **Organisation for Economic Co-operation and Development (OECD) guidelines for multinational enterprises** (OECD 2011), which provide non-binding principles and standards for responsible business conduct in a global context, and are aligned with and reinforce the UN Guiding Principles.

In terms of the adoption of the HRBA, progress is uneven across DFIs, including in Europe. This partly reflects the diversity of DFIs in terms of size, strategies and capacities. While the approach has been pioneered by Nordic DFIs – including FinnFund, SwedFund and the Danish IFU, with the support from the Danish Institute for Human Rights (DIHR) – the Association of European Development Institutions (EDFI) has recently embarked on a process to harmonise its members' procedures on human rights in accordance with the UNGPs and members' best practices. This has led to the development of joint guidance and operational tools.

To move forward with the HRBA agenda, this paper sets out to provide a better understanding of human rights-based approaches, highlight good practices among DFIs, and discuss some of the challenges linked to their operationalisation (including in the case of co-financing). The paper concludes with a set of recommendations for all DFIs. In this endeavour, the EU is well placed to take a leading role, building on the EU regulatory and institutional value-based setting. The EDFI, together with the European Commission (EU) blended finance and guarantee mechanisms, can play a catalytic role in enhancing DFIs' HRBA in a coherent and collaborative way.

This study is based on a literature review and semi-structured interviews with a range of actors, including multilateral IFIs and European DFIs, as well as civil society organisations (CSOs). As such, it builds on insights from practitioners to shape recommendations that are not only theoretical and nice-to-have, but rather pragmatic and anchored within the realities of financial institutions for development. In addition, the report was enriched with the written feedback and comments received by IFIs and DFIs.

2. State of play and good practices

This Section focuses on the main institutional and operational aspects entailed by an HRBA, considering the two key principles of doing no harm and maximising positive impact and highlighting some of the good practices identified. These good practices should not be blindly replicated by DFIs but rather serve as aspirations that could help them further sophisticate their approach to human rights.

Figure 1: The key elements of a human rights-based approach



Source: From the authors

1. Policy commitment and mandate

The UNGPs require businesses to include an explicit **policy commitment** to meet the responsibility to respect human rights.² This is a high-level public statement, distinguished from operational-level policies and procedures. Such a policy commitment should be publicly available, communicated internally and externally to all personnel, business partners and other relevant parties, and reflected in operational policies and procedures (UNGP 2011).³

In this context, following an update of the EDFI Principles for Responsible Financing of Sustainable Development (EDFI 2022), EDFI members have committed in 2019 to uphold '*all internationally recognized human rights, as defined in the International Bill of Human Rights and in line with the understanding of the United Nations Guiding Principles on Business and Human Rights*'.

² In addition, the *state-business nexus* (UNGPs, paragraph 4) prescribes that States should take additional steps to protect against human rights abuses by business enterprises they own, or that receive substantial support and services from State agencies. As such, States should encourage and, where appropriate, require human rights due diligence by the agencies themselves and by those business enterprises or projects receiving their support.

³ It can be published as a stand-alone document or included in existing sustainability policies.

Yet, in practice, there is some variation across European DFIs in the adoption and scope of the human rights commitment in their individual mandates and policies. Some DFIs – such as IFU, FinnFund, SwedFund and the Dutch FMO – are required by their governments to comply with the UNGPs and include a specific commitment to the UNGPs in their policies, but this is not the case for all. Also, the commitments of some DFIs focus on the responsibility to respect human rights in their own activities and operations (e.g. IFU 2019; FinnFund 2019; FMO 2022), while others only expect their clients to respect human rights according to the UNGPs (e.g. BIO 2023).

Lastly, few policy commitments currently acknowledge the different forms in which DFIs can be involved with adverse human rights impacts and rarely contain a clear requirement that all negative impacts should be remedied (OHCHR 2022). The EIB and FinnFund are among the institutions including such explicit recognition (EIB 2023; FinnFund 2019).

Box 2: The key role played by the adoption of a formal mandate and more stringent regulation on due diligence

The inclusion of a formal commitment by DFIs' shareholders to respect and promote human rights in their **mandate** has been a key factor explaining why Nordic financial institutions have progressed faster on this agenda, as it signals strong political will. For example, Section 9(1) of the [Danish Act on International Development Cooperation \(2016\)](#) requires IFU to fully integrate the UNGPs in its activities. Likewise, Finnfund adheres to the [HRBA of the Finnish Ministry for Foreign Affairs \(2015\)](#) and SwedFund to the [Swedish HRBA](#) – which is made compulsory by the [Swedish development cooperation and humanitarian assistance policy framework](#).⁴ This trend is expanding beyond Nordic countries. For example, in 2021, the new [French law on international development cooperation](#) made the promotion of human rights an explicit part of the AFD mandate. Similarly, as an EU body, the EIB is legally bound by the provisions of the [Charter of Fundamental Rights of the EU](#) and has to comply with other EU legislation, such as the [EU Global Human Rights Sanctions Regime](#) and the [European Convention on Human Rights](#).

The **regulatory environment on due diligence** also plays an important role in pushing the human rights agenda forward, with a rapidly evolving landscape in the EU. For instance, France adopted a mandatory human rights due diligence law in 2017, and the Act on Corporate Due Diligence Obligations in Supply Chains entered into force in 2023. Similar initiatives for the legalisation of human rights due diligence are being discussed or agreed upon at the national level in countries such as Finland, the Netherlands⁵ and the UK. In 2022, the EC also adopted a legislative proposal for a [Corporate Sustainability Due Diligence Directive](#) (CSDDD) under the European Green Deal with the objective of advancing the green transition and protecting human rights in Europe and beyond.

Lastly, adopting an HRBA has become a compulsory requirement in the programming and implementation of EU external policies (EC 2021). Thus, besides national legislation, EU rules may also induce more DFIs to formally commit to human rights. In line with the [Treaty on European Union](#) (TEU Art. 2, 3(5) and 21), the Regulation of the EU's financial instrument for the neighbourhood, development and international cooperation (NDICI), which covers the European Fund for Sustainable Development Plus (EFSD+), has as one of its objectives to *'protect, promote and advance democracy, the rule of law, including accountability mechanisms, and human rights, including gender equality and the protection of human rights defenders, including in the most difficult circumstances and urgent situations.'* As such, it also requires DFIs benefiting from the EFSD+ guarantee to comply with human rights and social, labour and environmental standards (see [Regulation \(EU\) 2021/947](#) Art. 35 and 38(7)). This provides additional incentives for DFIs to adopt an HRBA.

⁴ The [Swedish State Ownership Policy \(2020\)](#) also expects every state-owned enterprise to follow the UNGPs.

⁵ See also the [Dutch Banking Sector Agreement on International Responsible Business Conduct regarding Human Rights](#), which became effective in December 2016.



2. Do no harm: managing negative impacts

The principle of *do no harm* is translated by DFIs into the implementation of international **environmental and social (E&S) standards**. EDFI members typically require their clients to comply with the [International Finance Corporation's Performance Standards on Environmental and Social Sustainability](#) (IFC PSs). This is implemented through a combination of risk assessment, due diligence, and contractual clauses that include environmental and social action plans (ESAP), E&S monitoring of projects (e.g. through data requests and site visits), disclosure and reporting. The scope of these measures differs across financial instruments (e.g. equity, loans), the type of finance (e.g., direct or intermediated via financial institutions and funds) and the level of E&S risks. Likewise, in 2022, the EIB revised its own set of [E&S Standards](#) that EIB-financed projects must comply with.⁶

The EDFI also adopted the [Principles for Responsible Financing](#), which set the high-level principles that all EDFI members have to adhere to. The Principles recognise that DFIs' decisions and activities may be associated with negative environmental, social and human rights impacts for local communities and require their investee companies to mitigate these risks and work towards relevant international norms and standards (including the UNGPs), as well as promote the same standards in their supply chains. EDFI also developed a [Harmonised exclusion list](#) and Harmonized E&S Standards (not publicly-disclosed), providing guidance on E&S requirements per type of project and investee.

With the support of the DIHR, EDFI also developed a **Voluntary Guidance Note on Human Rights** in 2021, though this is not publicly disclosed. EDFI also set up an informal Working Group on Human Rights, which is tasked with supporting EDFI members in strengthening their internal human rights processes. Nonetheless, the extent to which human rights are integrated into E&S procedures still varies significantly across DFIs and harmonisation is limited due to the voluntary nature of the document.

Some DFIs are increasingly using **concepts and methodologies introduced by the UNGPs** that are additional to the expectations placed on the clients by the IFC PSs – both in terms of coverage of potential human rights risks as well as procedural elements of the risk identification and management process.^{7,8} For example, while the IFC PSs include many human rights dimensions, they do not adequately cover certain rights, such as the right to privacy and data protection or the human rights of affected actors that do not fall within the categories of workers, communities and indigenous peoples (such as consumers, patients, and children). As such, depending on the nature of the investment, an exclusive reliance on the IFC PSs may result in certain human rights blind spots. Also, compared to the IFC PSs, the UNGPs foresee due diligence and monitoring to go beyond the project-specific assessment, to assess the overall policy and practice of the businesses financed and their impacts,⁹ as well as identify and address the impacts

⁶ They comprise 11 standards, out of which Standard 1 outlines an integrated approach to impact assessment and risk management; Standard 2 outlines the promoter's responsibilities for transparent and continuous engagement with project stakeholders; and Standards 3 through 10 cover specific thematic areas (namely pollution, biodiversity, climate change, involuntary resettlement, indigenous peoples, gender, vulnerable groups, labour rights, health, safety and security and cultural heritage).

⁷ The OHCHR (2023a) provides an overview of key differences between the IFC PSs and the UNGPs.

⁸ The two standards differ also in their origins and nature: the IFC PSs were developed by a multilateral development bank and provide operational guidance on how to manage E&S impacts; while the UNGPs are a soft law standard negotiated at the UN level providing general guidance on how businesses should respect human rights.

⁹ For example, BIO's E&S assessment takes into account the overall policy and practice of the businesses financed through a risk and outcome-based approach. Using the IFC PSs as a key reference, BIO helps clients achieve the standards '*through means that are appropriate to the nature and scale of the activity and commensurate with the level of environmental and social risks and/or impacts*'. BIO also strives to '*identify new opportunities that may help clients to increase the overall sustainability of their operations*'. Clients can also call on BIO's Business Development Support Fund to co-finance E&S-related studies,

resulting from the client's business relationships.¹⁰ The EDFI Voluntary Guidance Note (in its Annex 1) provides a comparative overview of the two sets of standards, including selected examples and advice for DFIs to integrate the additional elements introduced by the UNGPs.

Moreover, as some human rights may be at greater risk than others in particular industries or contexts, some DFIs¹¹ committed to complement the E&S review with a specific **human rights due diligence** (HRDD) in relation to business activities in cases of high likelihood of severe project-related impacts. Implementing an HRDD entails: assessing prospective investments to identify potential or existing human rights impacts (both prior to the investment decision and on an ongoing basis); paying specific attention to local and country contexts before and during the investments; evaluating the likelihood and severity of the potential adverse impacts (based on the criteria of scale, scope, vulnerability of the rightsholders, and remediability); incorporating the findings into investment decisions to prevent and mitigate such impacts; as well as using leverage to influence investees in taking corrective actions and providing remedies to those whose human rights have been adversely impacted.¹² HRDD is slowly being integrated into DFIs' E&S due diligence, rather than being implemented as an additional, separate process, though there is still large variation across DFIs in practice.

Box 3: Human rights contextual risk assessment tools

DFIs are increasingly adopting tools and methodologies to better understand contextual human rights risks stemming from the particular nature of the country, sector and client levels, in addition to project-specific risks. Such **contextual analysis** can help E&S staff identify human rights risks that trigger the need for an enhanced assessment that goes beyond the regular E&S review. This may translate into increasing stakeholder engagement, asking additional questions to gauge the client's capacity to address contextual risks or commissioning additional studies for the assessment of certain risks – often relying on third-party expertise.¹³

EDFI, in partnership with the DIHR, has elaborated a harmonised contextual human rights risks analysis tool. The tool is meant to be used (1) during the screening phase, for an early overview of selected human rights risk areas at the country level; (2) during the due diligence phase, for a qualitative assessment of contextual risks and the identification of relevant E&S measures; (3) as an ongoing contextual risk analysis to monitor the contextual risks identified, the actions taken to prevent and address them, and identify new risks that may emerge over the course of the investment. The risk assessment tool is based on desktop research

evaluations, training, and third-party expertise on E&S-related matters (BIO 2023). Likewise, Proparco assists its clients in improving their E&S practices, for example, by financing technical assistance for capacity building for staff, the implementation of E&S management systems and corporate certification.

¹⁰ Such counterparty-level assessment is also required by the Minimum Safeguards laid out in the EU Taxonomy Regulation. The Minimum Safeguards are set to ensure that any investments or activities labelled as 'taxonomy-aligned' meet certain minimum governance standards and do not violate social norms, including human rights and labour rights, bribery, taxation and fair competition (Ray & Gamsjäger 2023).

¹¹ For example, [FMO's Statement on human rights](#) indicates that '*the IFC PSs will be supplemented with additional human rights due diligence for high-risk transactions when and where FMO is the lead investor*'. Similarly, [BIO's E&S Strategy and Policy](#) (2023) indicates that '*in certain high-risk contexts (...), BIO will give special attention to human rights and adopt specific measures in connection with the E&S assessment and monitoring of such investment. This may result in adapted due diligence scope or specific third-party expertise to assess specific human rights related risks*'.

¹² For instance, IFU's HRDD assesses actual and potential human rights impacts of its direct investments and includes the prevention and mitigation actions identified in its investment agreements. For that, IFU's E&S consultants are required to have specific human rights expertise, including on land and indigenous people, value chains and business partners, gender, privacy rights and contextual risks. For investments in funds and financial institutions (FIs), IFU requires fund managers and FIs to set up systems that assess and address their potentially adverse impacts on human rights in their portfolio.

¹³ For example, SwedFund carries out a risk analysis during the screening process to identify potential human rights risks and impacts. Depending on the results, a decision is taken as to whether to carry out an in-depth human rights analysis (SwedFund 2017). Likewise, the EIB carries out a pre-appraisal screening and risk categorisation, and FinnFund determines on a case-by-case basis the scope and depth of its assessment of human rights impacts depending on the results of the first screening, the context, and the magnitude of any envisaged human rights impacts and case-specific risks of the activity to be financed.

only and is to be considered a starting point for a more in-depth assessment of human rights risks, as relevant, including through engagement with civil society organisations and potentially affected stakeholders and their representatives.

Yet, while the tool provides EDFI members with a common approach to the identification of human rights risks, few DFIs currently use it beyond the ex-ante phase and throughout the investment life cycle, including monitoring and exit.¹⁴

Lastly, DFIs must put in place **complaints mechanisms** to provide opportunities for third parties to submit grievances and seek remedy (Ashraf et al. 2023). In addition, they can require higher-risk clients to have a **grievance mechanism** in place to facilitate early indication and prompt remediation of project-related grievances.



3. Maximise positive impact: promoting human rights

DFIs put in place **impact measuring frameworks** highlighting their contributions to sustainable development for transparency and accountability matters. Most DFIs publicly report on their positive development impact through socio-economic metrics and, in some cases, map these onto specific Sustainable Development Goals (SDGs). The identification and documentation of development impacts span across the project lifecycle, with an ex-ante analysis predicting direct and indirect impacts of investments; a monitoring phase that collects impact indicators from the clients; and aggregate reporting (e.g. through annual reports).

EDFI members have committed to *'continuous improvements in the management of ESG matters'* as well as *'to enhance positive effects in relation to human rights, the environment, workers and all other stakeholders.'* Yet, so far most DFIs have engaged with the HRBA primarily from a compliance and risk management perspective and have not sufficiently recognised the respect of human rights as a positive driver for business and a means to enhance impact (DIHR, 2021). Most DFIs did not yet sufficiently integrate the positive effects linked to the promotion of human rights in their development impact frameworks. Notably, there is a prevailing disconnect between understanding the SDGs as an opportunity agenda versus the human rights agenda being understood exclusively as a compliance and risk management matter. Such disconnect is often illustrated by the E&S and impact teams working in parallel.

A recent study by the DIHR (DIHR 2021) highlights four practical ways to better connect the dots between risk assessment and positive impacts:¹⁵

1. **Take a holistic approach to impacts**, i.e. ensuring that any negative impacts by the clients are reflected in the development impact methodologies and not tolerating any trade-offs between positive SDG impacts and human rights harms;¹⁶
2. **Track human rights outcomes** from the implementation of the E&S standards, i.e. ensuring that the developmental benefits of the E&S function are accounted for in the development impact measurement;

¹⁴ An example is SwedFund which carried out three in-depth human rights analyses in connection with planned exits in 2021 (SwedFund 2017).

¹⁵ The DIHR has also produced a human rights impact assessments guidance and toolbox (DIHR 2020), which provides practical guidance to conducting, commissioning, reviewing and monitoring human rights impact assessments of business projects.

¹⁶ An example of good practice in this regard is provided by the EIB, whose Additionality and Impact Measurement Framework recognises that a project's positive contributions to human rights do not offset any adverse impacts. Also, its E&S Policy explicitly states that the EIB seeks to reduce or eliminate, when possible, prevailing patterns of discrimination and related exclusion.

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3. **Pay heightened attention to economic and social rights** when investing in essential services (e.g. water, health, education, housing)
 4. **Take a human rights-based approach to data**, for example, to shed light on the characteristics of groups and individuals that suffer from exclusion and historical discrimination and whose well-being should be prioritised in development interventions.

DFIs can also improve their approach to development impact tracking by better coordinating with development partners on HRBAs through capacity building and technical assistance to CSOs, policy dialogue, and grant support from development agencies to foster a more active engagement of local stakeholders.



4. Integrating HRBA principles and toolboxes in DFIs operations

a) Awareness raising and capacity building

DFIs need to build capacity on new approaches and tools to integrate human rights in their E&S and impact measurement frameworks. For that, awareness raising and sensitisation on human rights issues across the institution are key. Such awareness-raising should be tailored to the different DFIs' departments and help break down the assumption that human rights issues are only the responsibility of E&S teams. At the same time, E&S experts should be trained on the various additional human rights dimensions to be considered in their due diligence assessment and follow-up during the project lifecycle. In addition, DFIs can also rely on external expertise and partner with human rights organisations (as in the case of IFU and SwedFund with the DIHR) to update their internal tools and approaches, as well as conduct project-based human rights due diligence and monitoring.

Box 4: HRBA Toolboxes

EC Toolbox on the HRBA ([EC 2021](#)) puts forward five working principles to apply through programming, design and implementation:

1. Applying all human rights for all;
2. Meaningful and inclusive participation and access to decision-making;
3. Non-discrimination and equality;
4. Accountability and the rule of law for all;
5. Transparency and access to information supported by disaggregated data.

SIDA Toolbox on HRBA ([SIDA 2022](#))¹⁷ includes the following principles and key questions:

1. Participation: Do all relevant stakeholders engage actively, in a way that allows rights holders to contribute meaningfully and influence outcomes?
2. Link to human rights obligations: How are relevant human rights standards and recommendations from international and regional human rights mechanisms identified and used in formulating objectives and advancing processes and outcomes?
3. Accountability: Who are the duty bearers at different levels, and do they have sufficient capacity and interest to be accountable to rights holders? Are there mechanisms for participation and complaints in place for rights holders, civil society and other stakeholders to hold the duty bearers to account?

¹⁷ The toolbox also includes technical briefs on how to apply the HRBA in different thematic areas.

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4. Non-discrimination and equality: Are rights holders and the root causes of the non-realisation of their human rights identified and taken into account, particularly those most subject to discrimination and marginalisation?
 5. Empowerment and capacity development: How does the intervention contribute to the empowerment of rights holders to claim their rights, as well as capacity development of duty bearers to uphold their responsibilities, and of other relevant stakeholders to contribute to positive outcomes?
 6. Transparency: What measures are put in place to ensure that all stakeholders are able to access relevant information and knowledge regarding the intervention?

DFIs can also **engage clients** on human rights issues, through awareness raising, guidance and training and by embedding human rights-specific requirements in the contractual agreements, alongside E&S requirements. DFIs can also provide clients with technical assistance and capacity building on how to respect and integrate human rights in their business activities (as done by the EIB, for instance¹⁸).

DFIs can also support **safeguards for human rights defenders**, for example, by taking a zero-tolerance stance on threats or violence against them, communicating their human rights expectations to investee companies, and assessing whether such companies have in place appropriate human rights policy commitments, due diligence processes and grievance mechanisms, and whether they specifically consider risks to defenders. DFIs can also include related prevention and mitigation actions in the ESAP with the client if the contextual risk analysis shows a high risk of abuses against human rights defenders in the country. The choice of relevant actions will be context-specific and can be identified in collaboration with human rights experts and advocates.¹⁹ In the case of high-risk projects, the due diligence on the ground should include consultations with human rights defenders in a safe space. Lastly, DFIs can also choose to exercise collective leverage by engaging with governments and other stakeholders to publicly condemn attacks against defenders.²⁰

b) Stakeholder engagement

Stakeholder engagement is a key cross-cutting dimension of human rights due diligence. As highlighted by the EC and SIDA toolboxes, DFIs must ensure meaningful and inclusive participation of stakeholders and access to decision-making.

Across European DFIs, there are opportunities for more proactive and meaningful engagement processes of potentially affected and affected rights-holders (e.g. to identify adverse human rights impacts and design prevention and mitigation measures), as well as human rights organisations (e.g. to seek expert information or advice, or when deciding early exit from a project) and domestic institutions (e.g. to seek partnerships to advocate for better laws and practices on human rights).

To be considered meaningful, the stakeholder engagement process should not be viewed as an isolated event, or organised pro forma to 'check the box', but rather it should be an ongoing and iterative process, preceded by an analysis of the project, its context and potential impacts, and followed by a genuine consideration of stakeholders' views and concerns in decisions related to project planning and implementation. The stakeholder consultation should be transparent and based on factual information; equitable and non-discriminatory (ensuring the voices of

¹⁸ See Annex C: UN Guiding Principles on Business and Human Rights due diligence steps and EIB approach in EIB 2023.

¹⁹ Examples of relevant sources of information include e.g. the [CIVICUS Monitor Index and watch list on situation of the civic space](#), the [Freedom House Democracy Index](#), reports and annual global analysis from [Front Line Defenders](#), human rights reports published by [Amnesty International](#), [Human Rights Watch](#) or the [US Department of State](#), and information from the [Business and Human Rights Resource Centre](#) (FinnFund n.d.)

²⁰ More information can be found in Investor Alliance for Human Rights, the Business & Human Rights Resource Centre, and the International Service for Human Rights (2020), Global Witness (2018), and MFA Finland (2023).

women, poor, and vulnerable groups are represented); free of intimidation and coercion, as well as conducted in a language, format, and manner that is appropriate, clear, and accessible. The process should also be systematically documented and relevant aspects of it should be disclosed publicly (Reidar 2019).

DFIs can identify the stakeholders that should be engaged during the planning and scoping phases of an investment. While this identification will depend on various factors (such as the nature of the business project, the anticipated impacts, or the country or regional context), the engaged stakeholders should include: the impacted **rights-holders** (such as community members,²¹ workers and trade unions, consumers, clients, customers and end-users, and human rights defenders), the responsible **duty-bearers** (such as host-government actors, company representatives, business partners, investors and shareholders) and **other relevant parties** (such as CSOs and international organisations, national human rights institutions, experts and journalists) (DIHR 2020).

DFIs can also use their leverage to support their clients in more direct engagement with potentially affected rights-holders by e.g. including explicit language on rights-holder engagement in their policies and contractual agreements, and requiring clients to provide documentation on how they have taken into account the perspectives of right-holders in e.g. their E&S plans. DFIs can also support negotiations with affected rightsholders or provide dispute resolution services.

Box 5: Guidance and toolboxes on stakeholder engagement

In 2020, the EIB published a non-binding [Guidance note on stakeholders engagement](#) that provides recommendations and good practices informed by the UNGPs.²² The note supports the implementation of the Standard 2 of EIB's E&S Standards and requires its promoters to engage in consultation with communities in the design of grievance redress mechanisms in projects across all risk categories (rather than being limited to high-risk projects). It also states that remedies must be based upon dialogue with claimants and includes provisions on disability inclusion, indigenous peoples' rights and protection against reprisals.

Also, the DIHR has developed a [toolbox on stakeholder engagement](#) that helps DFIs and businesses identify relevant stakeholders to engage with and provides practical guidance to assessment teams, including considerations of non-discrimination, vulnerability and marginalisation, with examples of interview questions.

Lastly, the EDFI Voluntary Guidance Note includes specific guidance on stakeholder engagement in its Annex 6, including examples of engagement opportunities for each stakeholder group.

c) Responsible exit

DFIs need to envision ways to **exit projects responsibly**. Yet, for many DFIs, there seems to be an imbalance between the efforts spent on upfront compliance (when entering projects) compared with those on exiting. DFI safeguards are often weak in this area and lack clear requirements concerning how to deal with unresolved environmental and social issues when DFIs exit projects. This is a challenge, especially for private sector operations that are characterised by short project cycles. While client contracts and DFI safeguards commonly make provisions for continued fulfilment of E&S requirements beyond project closure, safeguard requirements in this regard are generally sparse and with little publicly available data on how post-closure supervision and post-exit action plans are carried out (OHCHR 2022).

²¹ These can include: residents living near the project, land owners, farmers, indigenous peoples, community or religious leaders, schools, local interest groups and community members living downstream from operations or in the supply chain.

²² As mentioned, in 2022, the EIB revised its E&S Standards with the publication of the [EIB's Environmental and Social Sustainability Framework](#). The guidance note on stakeholders' engagement (dated 2020) was produced in relation to the previous set of EIB's E&S standards. Nonetheless, the guidance remains a useful reference guide.

In recent years, the need to adopt responsible exit strategies has gained increasing importance among DFIs following a series of high-profile cases where exits by investors have resulted in reported social, environmental, and human rights impacts.

Early exit is envisioned by the UNGPs as a last resort option relevant in situations where companies lack leverage and cannot increase their leverage, to mitigate and remediate an ongoing adverse human rights impact directly linked to their activities. Any unintended negative human rights impacts associated with exiting should be considered prior to any decision to do so.

Box 6: Recent approaches to responsible exit

FMO and FinnFund issued a [public statement](#) announcing their decision to seek a responsible exit from the Agua Zarca hydropower project in Honduras in 2017 and engaged an independent consultant to conduct an inclusive consultation process to determine what a responsible exit from the project should look like. This independent consultant's report is the first publicly available example of an attempt to address principles for a responsible exit. It includes the following three principles:

1. Avoid, at least, additional escalation of disputes in the area and, at best, offer a path for peaceful coexistence of communities;
2. Meet some of the development needs of communities in the area, regardless of whether they supported or opposed the project;
3. Respect existing contractual obligations.

In 2023, the Compliance Advisor Ombudsman (CAO), the independent accountability mechanism of the IFC and the Multilateral Investment Guarantee Agency (MIGA), produced an advisory report on responsible exit ([CAO 2023](#)) that highlights how a range of actors approach responsible exit²³ and offers recommendations on advancing responsible exit strategies. The study supports the operationalisation of commitments by IFC/MIGA to develop an approach to responsible exit and is a useful resource for other DFIs. According to CAO (2023):

1. A responsible exit is more than a decision as to whether or not to exit when there are risks or adverse impacts. It is a proactive strategy for exit that seeks to manage risks, address adverse impacts, and, for some investors, to sustain positive environmental and social impacts;
2. A responsible exit entails planning, preparation, and actions from early in the investment life cycle;
3. Understanding, building, and effectively using leverage with investees is central to responsible exit;
4. The views of impacted communities and individuals are vital in informing investor decisions and plans for exiting responsibly;
5. Responsible exit approaches are relevant for, and can be applied to, a wide range of investment products and to lower-risk projects as well as high-risk ones.

In addition, two of the IFC's [Operating Principles for Impact Management](#) (2019) refer specifically to responsible exit, namely Principle 7 ('*Conduct exits considering the effect on sustained impact*') and 8 ('*Review, document, and improve decisions and processes based on the achievement of impact and lessons learned*').

Lastly, the Office of the UN High Commissioner for Human Rights provides extensive guidance on responsible exit for DFIs in the 2022 report '[Remedy in Development Finance: Guidance and Practice](#)'.

²³ The CAO (2023) identified the following elements for responsible exit: planned for during due diligence; effective supervision of the project and monitoring of client grievance mechanism to identify emerging risks; existing leverage and new opportunities for leverage are identified and used toward enhanced E&S risk management; capacity of the client is built to sustain good E&S performance; stakeholder engagement identifies the views of project-affected people and latent risks, and informs decisions; a decision to exit is made considering E&S risks and sustaining good E&S performance; adverse impacts are remediated; the client and project sustain sound E&S management after the investor exits.

d) *Remedy*

DFIs should provide or enable adequate **remedy**²⁴ in case of abuse. Remedy is a human right under international law and is especially important in fragile and conflict-affected settings. Reparations to redress harms can be of a financial or non-financial nature and may take many forms, including restitution, compensation, rehabilitation, satisfaction and guarantees of non-repetition. These forms are most effective in combination (OHCHR 2022). The responsibility of DFIs in terms of access to remedy differs depending on the form of involvement with adverse human rights impacts (whether a DFI caused, contributed to or is directly linked to impacts). DFIs have a key role to play in **enabling** remedy, by exercising leverage with clients (through commercial and legal leverage but also normative influence, diplomatic or political leverage, convening power, and technical expertise). For that, independent accountability mechanisms play a key role.

When appropriate, DFIs should also **contribute** directly to remedy. Several funding mechanisms are possible for this. However, remedy remains a sensitive issue given the lack of precedence amongst DFIs to directly contribute to it. As such, there is a need to overcome the unduly defensive mindset and fears that proactive due diligence and remedial action by DFIs might increase their own legal liability. Broader proactive due diligence will not be likely to increase liability risks and, in fact, may reduce them (OHCHR 2022). This requires a thorough discussion at the EDFI level to identify the best way forward.²⁵

Box 7: IFC and MIGA's Approach to Remedial Action

Remediating project impacts when they occur is an integral part of [IFC and MIGA's Environmental and Social Sustainability Frameworks](#). Facilitating access to remedies for project-affected people is also a core aspect of CAO's mandate. In 2023, IFC/MIGA issued a proposed Approach to Remedial Action²⁶ that articulates a holistic approach to remedial action aligned with the Sustainability Framework and the CAO Policy. The approach provides more clarity on activities to prepare for remedial action, including building and exercising influence, improving access to remedy and systemising IFC/MIGA's facilitation and support of remedial actions.

e) *Transparency and disclosure*

Accountability comes through transparency. Hence, **transparency and disclosure** are an integral part of an HRBA. Beyond the traditional sustainability reporting (emphasising positive impacts), DFIs are expected to communicate to external stakeholders about salient human rights risks and adverse impacts and the measures taken to address them. Formal reporting on severe human rights risks is also a requirement in the UNGPs.²⁷ Such information on the

²⁴ Conceptually, remedy includes both the processes involved in providing remedies and the outcomes of the process, including the reparations provided. Remedies play a number of roles: (a) redress, making victims 'whole' and returning them to the status quo ante; (b) prevention, pre-empting future abuses; and (c) deterrence, discouraging others from causing harm. The responsibility to provide remedy is not the same as administering a grievance or complaint mechanism: a grievance mechanism is a formalised procedure or process that can enable, but cannot guarantee by itself, the provision of remedy (OHCHR 2022).

²⁵ An informal EDFI working group on remedy has recently been established and discussions on the subject are ongoing.

²⁶ This approach is a proposal that remains subject to further review by the IFC and MIGA Boards of Directors; it would be implemented for an initial pilot period of four years, based on which to draw lessons learned and refine it. A [public consultation on the proposed IFC/MIGA Approach to Remedial Action](#) took place between February and April 2023. In April 2023, the OHCHR issued [comments and recommendations on the proposed Approach](#) which argue for an ambitious policy reset of the Approach.

²⁷ Internationally recognised guidance on human rights reporting can be found in the revised [Global Reporting Initiative Universal Standards](#) and the [UN Guiding Principles Reporting Framework](#).

management of adverse impacts should allow external stakeholders to evaluate the adequacy of prevention and mitigation efforts.

Many DFIs have information and disclosure policies that apply to the institutions as well as information disclosure requirements for their clients at the project level. These usually cover both proactive dissemination and reactive responses to requests for information. Yet, there are weaknesses in various areas that undermine accountability: many DFIs lack finance and budget information at activity and organisation levels and performance data. The challenges increase in projects with complex investment structures. There are also shortcomings in terms of access to E&S plans for stakeholders, as well as large exemptions for commercial confidentiality that tend to privilege business-sensitive information over human rights interests and transparency goals (OHCHR 2023a).

Box 8: IFC and EIB's approach to transparency and disclosure

Public information policies of the IFC and EIB recognise the importance of access to information. As such, these institutions take proactive measures to promote access to information and publicly disclose project-level information, e.g. through the EIB's [Public Register](#) and IFC's [project mapping](#).

3. Considerations for co-financing

There is a high level of financial cooperation among EDFI members, who often co-invest in given investment projects ([31% of investments](#) in the portfolio are co-financed by two or more EDFI members). In doing so, DFIs follow their own policies and procedures – though these are increasingly harmonised thanks to the efforts of the EDFI. This Section provides a better understanding of what happens in cases of projects co-financed by DFIs.

Typically, the IFC PSs and EDFI Harmonised E&S Standards apply in case of joint investments. However, the practical implementation of such standards can sometimes differ across DFIs, and regional or bilateral DFIs may set stricter standards or more explicit requirements, in particular on human rights. In practice, the lead financier often leads the due diligence and E&S process, while the other co-financing entities assess the project in parallel, drawing on the results of the lead's assessments. In situations in which multiple E&S and human rights' standards and practices are applicable to a given project, DFIs' safeguards often require observance of the highest applicable standard. As such, DFIs can only rely on other DFIs processes if standards are equivalent to or higher than their own.²⁸

Some (larger) financial institutions for development (such as the EIB, the German KfW and AFD – through the Mutual Reliance Initiative – as well as Proparco, FMO, and the German DEG with the Friendship Facility) have put in place systems through which the lead financier fully leads the due diligence and E&S risk assessment, relying on its own standards and procedures as long as the minimum requirements of the other partners are met.

Since a DFI is responsible for human rights impacts in co-financed investments even when it relied on other DFIs' impact assessments, DFIs need to manage reputational risks – as well as the financial and legal implications of human rights violations – by, for example, upholding their additional human rights due diligence on top of the E&S due

²⁸ For example, EIB's E&S Standards require that, in cases of co-financing, if a common approach is not agreed upon, EIB's requirements should be applied (see paragraph 4.6 of the Policy).

diligence led by another DFI. This can result in duplication of efforts and higher transaction costs for DFIs and their clients.

Policy guidance on the division of responsibility among co-financing institutions for what concerns remedy is limited, with, for example, syndication agreements not regularly including provisions for financial contributions to remedy among lenders (OHCHR 2022). Legal guidance, e.g. on joint funds for remedy or other contingency provisions, also remains limited.

A common EDFI framework that incorporates a more explicit commitment and a set of common operational guidelines on when and how to conduct an HRDD could help address some of these challenges. Such a framework could be based on the existing Voluntary Guidelines on Human Rights and could be integrated into the EDFI's Harmonised E&S standards.

4. Challenges

Before introducing the recommendations, this chapter presents some of the key challenges and constraints that DFIs may face when implementing or improving their HRBA. Considering these will, in turn, help design recommendations that are not only desirable but also feasible in practice.

First, DFIs may lack **sufficient leadership** on human rights issues to pursue an HRBA. This often depends not only on how strongly human rights are formally integrated into DFIs' mandates and the national and international due diligence environment DFIs operate (see Box 1) but also on how strongly motivated the CEO and management are in strengthening the organisation's approach to human rights. As such, the human rights agenda risks falling behind amongst other, competing priorities.

Secondly, DFIs also face **capacity constraints** and often lack **sufficient expertise and awareness on human rights** issues across the organisation's relevant functions, which may in turn, prevent them from engaging in a more ambitious and sophisticated approach to human rights. This is in part due to historical reasons, as environmental protection issues arose earlier on DFIs' agendas, which in turn has led to having a higher proportion of experts with an environmental background as compared to a human rights background, both at the DFI and the client level. Moreover, some DFIs may have a cap on the amount of human resources available to conduct DFIs' operations and activities. This can limit their ability to ensure a good ratio of E&S staff with sufficient human rights expertise to the volume of transactions, especially for smaller DFIs. Such caps may also lead to excessive reliance on external E&S consultants, which in turn can inhibit the consolidation of internal capacity and institutional memory and risks resulting in blind spots if the hired consultants have a too-narrow human rights expertise.

Cost and time constraints (compared to available resources) can also make the adoption and implementation of novel tools and approaches on human rights – as well as the reporting on salient human rights risks across large and diverse portfolios – challenging for DFIs' staff, who are already dealing with many other topics and administrative requirements. Likewise, the perception of HRDD as an additional burden, risking preventing officers from closing a sufficient number of deals, needs to be addressed.

In this context, **underlying concepts and beliefs** also play a role. Fully embracing an HRBA encompassing both principles of *do no harm* and *maximise positive impact* entails a systemic shift from a more traditional business risk lens to a rights holder perspective – whereby development is achieved through the effective implementation of human rights norms and the provision of equal rights for all; the risk assessment is primarily concerned with impacts

on people, rather than the organisation; and DFIs are held accountable to right-holders (Linder, 2019). This shift is likely to take time. The establishment of an EDFI working group on human rights represents a first, important step to bridging the gap between different traditions, providing clarity and improving DFIs’ understanding of the UNGPs’ elements and operational human rights guidelines that are additional to the current E&S management practice.


Thirdly, some DFIs **fear losing a competitive edge** in adding contractual requirements relating to human rights, when other DFIs do not implement such practices. In this context, increasingly pursuing the alignment of approaches and practices would help foster a level playing field among European DFIs and lessen competition concerns, which is key to incentivising DFIs to do more on this agenda. Beyond the fear of losing a competitive edge, DFIs may also fear taking too much responsibility in an area with potential legal liability, as well as overloading clients (especially when considering SMEs in a developing country context) who may already be struggling to meet the IFC PSs requirements. DFIs may also lack sufficient leverage on clients, especially when loans are concerned (as compared to equity investments).

Taking these issues into account, the next Section provides recommendations to European DFIs on the ways forward when it comes to doing more and better with their complaints mechanisms.


5. Recommendations

The recommendations put forward in this Section build on the good practices identified in Section 2. They should be thought of and tailored to the specific context in which a given DFI operates, including their respective size, business model, context of operation, current E&S practice and capacities, and overall risk profile. In particular, explicitly considering the issue of available capacity and expertise is key in pursuing enhanced HRBAs in view of a DFI’s commitments, reputation and impact. These considerations have to be addressed not only by the DFIs but also by their board/shareholders, to empower and provide the necessary resources to DFIs to pursue a more active, positive and thorough HRBA, including in more fragile and complex contexts.

We also highlight that, while the objective of these recommendations is to strive towards continuous improvement, higher ambitions on the human rights agenda should not translate into divestment from more challenging countries and sectors.

	1. Policy commitment and mandate
Include or strengthen human rights dimensions in the mandate and policy commitment	
<p>DFIs should include a formal commitment to human rights in their mandate and policy. This helps set up clear objectives and goals, secure the necessary resources and capacities, and adopt the necessary policies and processes to achieve them. A robust commitment should be approved at the most senior level and informed by relevant internal and/or external expertise. It should also acknowledge that a DFI can cause, contribute to or be directly linked to human rights abuses; acknowledge the responsibility to provide an effective remedy for adverse human rights impacts that the DFI caused or contributed to; and state clear expectations on human rights for internal stakeholders as well as clients. It can also include specific mention of the protection of human rights defenders and whistle-blowers and the existence of a zero-tolerance policy towards harassment and retaliation.</p>	

In the longer term, at the European level, the EDFI Board, with the support of the EDFI Working Group on Human Rights, could further facilitate dialogue amongst DFIs and foster the adoption of common standards to design or review the policy commitment of EDFI members, based on the guidance and checklist already contained in the Voluntary Guidance Note on Human Rights. EDFI could also promote alignment with other international alliances (such as the Finance in Common and the [DFI Alliance with Canada and the USA](#)).

	2. Do no harm: managing negative impacts
a) Assess and review E&S management frameworks to ensure they can deliver on human rights responsibilities	
<p>As already indicated in the EDFI Voluntary Guidance Note, DFIs should strengthen processes to regularly assess the robustness of the implementation of E&S procedures and adequately address any identified gaps and weaknesses. To do that, DFIs should periodically evaluate internal policies, procedures, capacities, and resources and how they address E&S as well as human rights risk-related activities. They should also assess the accuracy and relevance of the E&S risk categorisation and incorporate relevant learnings on human rights risks into the training and guidance to staff. This should be done especially when expanding investments in riskier countries and sectors.</p> <p>Notably, DFIs should strive to integrate the additional elements introduced by the UNGPs that are not yet fully reflected in current practices based on the IFC PSs and integrate the management of any additionally identified risks and human rights ‘blind spots’ into the ESAPs. The HRDD should be adapted to the specific contexts and projects DFIs engage in.</p> <p>DFI safeguards should spell out different kinds of leverage (including commercial, contractual, convening, normative, and capacity building) that may be deployed to address the human rights risks of clients.</p>	
b) Integrate human rights considerations along the entire project cycle, including the monitoring and exit phase	
<p>DFIs should strengthen monitoring systems to document how existing risks have been addressed by the client, identify new risks and track positive impacts. When relevant, DFIs can increase the role of independent observers to ensure E&S and human rights commitments are fully met, beyond client self-reporting.</p> <p>As indicated in the Voluntary Guidance Note, DFIs should use the severity of human rights abuses (in terms of scale, scope, and irremediability) to guide decisions around the need for additional HRDD (especially on aspects of workers rights; community rights; indigenous populations rights; and environmental rights) – as opposed to only considering only risks that are familiar or easy to address.</p> <p>DFIs should also improve the initial assessment and ongoing evaluation of indirect investments in funds and financial institutions, for instance, by reaching out more proactively to final beneficiaries and cross-checking their E&S reporting.</p> <p>At the European level, an EDFI common approach is key to ensuring a levelled playing field between European DFIs. For that, a pilot project on a high-risk sample of investments, to be undertaken with other European DFIs on a voluntary basis and externally funded, could provide a possible way forward.</p>	



3. Maximise positive impact: promoting human rights

Reconcile risk compliance and positive impact assessment through a human rights lens

DFIs should train and socialise investment teams on human rights and overcome the possible duality of E&S team versus impact assessment team, with a view to conducting a joint SDG and E&S/human rights impact assessment as part of the screening and due diligence procedures. This could help ensure that investments do no harm when it comes to human rights, but also contribute to specific SDGs, thus ensuring an optimised approach to fostering human rights in partner countries. DFIs should also incorporate any potential negative human rights impacts by the clients in the development impact methodologies, which should not tolerate trade-offs between positive impacts towards the SDG and human rights harms. Lastly, DFIs should ensure that the development impact measurement methodologies do document and track developmental benefits ensuing from E&S and human rights risk management.

The EC and DFIs shareholders, through their participation in the EFSD+ Strategic Board, should spell out clear indicators for monitoring human rights obligations by DFIs under EFSD+ guarantees and EU blended finance. Given the current negotiations around the result measurement framework to be applied to EFSD+ guarantees and blended activities, the EC and DFIs shareholders should push for the inclusion of specific indicators on human rights, specifying those that should be mandatory and those are to be applied on a case by case basis, depending on DFIs' monitoring frameworks and appetite to capture impact on human rights. This would also help demonstrate the impacts of the EFSD+ on the SDGs, highlighting both opportunities and risks and serving future improvements in DFIs' monitoring and evaluation processes' practices.



4. Integrating HRBA principles and toolboxes in DFIs' operations

a) Build capacity and raise awareness across all levels of the organisation on human rights

DFIs should ensure that sufficient means (e.g. in terms of budget and human resources) are available to adopt and implement a thorough, active and positive HRBA. This should be commensurate with the size of the DFI. Appropriate training across all levels of the organisation is key to mainstreaming the human rights agenda. It is important to avoid siloing human rights in the E&S departments. DFIs can also strategically engage and seek guidance from national human rights institutes and experts – especially those with experience working with DFIs such as the DIHR or Themis Research – to build staff capacity and improve their policies and operations in connection with human rights.

To avoid duplication of efforts and minimise costs, DFIs should continue to seek synergies and complementarity between human rights approaches and E&S procedures. For that, it's important to train E&S consultants on human rights, rather than only recruiting specific human rights experts.

b) Ensure meaningful stakeholder engagement

DFIs should adopt clear guidelines and ensure proper implementation of meaningful and inclusive engagement with the impacted rights-holders, the responsible duty-bearers and other relevant parties, following best

<p>practices, and existing guidance and toolboxes (see Section 2.4). For that, DFIs should allocate sufficient resources, including budgets as well as staffing and capacity.</p>
<p>DFIs should also use their leverage to support clients in meaningful right-holder engagement, for example, by incorporating specific language on rights-holder engagement and criteria in E&S plans and reporting requirements, requiring clients to provide documentation on how they have taken into account the perspectives of right-holders in their E&S plans, as well as through technical assistance. DFIs can also support negotiations with affected rightsholders or provide dispute resolution services.</p>
<p>c) Set responsible exit principles</p>
<p>DFIs should set responsible exit principles to deal with any unresolved environmental, social and human rights issues at project closure or when a DFI exits projects on a planned or unplanned basis. The OHCHR (2022) includes specific recommendations on responsible exit such as:</p> <ul style="list-style-type: none"> ● Carry out a stock-taking of exit practices and more extensive evaluations of E&S impacts of project closure to build an evidence-based approach and inform policy; ● Use all available leverage to pressure the client into taking action; ● Integrate more detailed E&S requirements concerning exit in contract agreements; ● Develop a responsible exit framework for the full project cycle to clarify expectations, strengthen legitimacy, minimise unintended consequences, promote consistency and help remedy residual impacts; ● Require a responsible exit action plan to address and remediate any adverse impacts; ● Publicly disclose termination provisions of contractual agreements.
<p>d) Enable and, where appropriate, contribute to remedy</p>
<p>DFIs should strengthen safeguard policies to enable remedy, by including remedy provisions in contingency planning from the start of the project cycle and providing for a broad range of reparations (including but not limited to financial compensation). A possibility is for DFIs to coordinate their respective approaches to remedial actions to the extent possible. DFIs could, for example, build on the IFC/MIGA proposed Approach to Remedial Action, currently under development. Yet, given the existing criticisms on the ambition (or lack thereof) of the IFC/MIGA approach (OHCHR 2023; DIHR 2023; Saldinger 2023), it may be important for EDFI to develop their own approach, in line with EU value and principles.</p> <p>Priority actions to enable remedy, in the short- to mid-term, (as highlighted by the OHCHR 2022) include:</p> <ul style="list-style-type: none"> ● DFIs should communicate internally on remedy – not as a blame game but as project contingency; ● DFIs should update their policies and systems (e.g. carry out a rigorous and transparent evaluation of the remedy mechanisms available through the institution and its clients; establish and maintain effective Independent Accountability Mechanisms, etc.); ● DFIs should build capacities and align internal incentives and staff members’ accountabilities with environmental and social objectives; ● Provide resources to enable remedy, as a longer-term ambition, as illustrated by the recent OHCHR (2022).

e) Improve transparency and disclosure

DFIs should favour proactive disclosure, including project-level information, with any exemptions (e.g. for commercial confidentiality) defined narrowly and justified on a case-by-case basis by reference to foreseeable harm to a legitimate, recognised interest (OHCHR 2022). Commercial and sensitive issues should also be managed thoroughly. To improve their transparency and disclosure, DFIs should:

- Make publicly available the key E&S standards and procedures to HRDD adopted;
- Specify the approach to deal with requests for access to information (timeframes, reasons for denials, procedures for appeals, and commercial confidentiality exceptions);
- Use leverage (e.g. through ESAP and contractual provisions) to push clients to adequately disclose their salient human rights risks and the progress in the implementation of their ESAPs. As disclosing ESAPs is a sensitive issue, pursuing a harmonised approach across European DFIs would be key to reducing competition concerns;
- Require high-risk clients to regularly report on their E&S and human rights performance;
- Recognise contextual challenges, including shrinking civil society space, threats to human rights defenders, and restrictions on freedom of the press;
- Provide guidelines on translations, commitments to communications in the formats and languages accessible to communities and accessible-format access for persons with disabilities;
- Limit situations where costs can be imposed to access documentation;
- Annually report on the implementation of the transparency policy (including statistics on the number of requests received, the timeframe and nature of the DFIs' responses, data on appeals, number and type of incidents of intimidation and/or reprisals and the nature of the DFI's responses).



5. Co-financing

Take a pragmatic approach towards a gradual harmonisation of approaches

While recognising that there is no one-size-fits-all approach, DFIs should strive to align on a set of harmonised standards and procedures across the DFI community, both for direct and indirect investments.

At the European level, EDFI can play a catalytic role. For that, it is key to take a pragmatic approach, whereby EDFI members could align on a set of harmonised, publicly disclosed standards, but each DFI can have further requirements and enhanced practices.

Promoting greater convergence between DFIs' policies and practices on human rights would also reduce competition concerns, which is key to incentivising DFIs to be more ambitious in this agenda, and help reduce duplication of efforts and transaction costs in the case of co-financing. Promoting complementarities and synergies among DFIs, including through co-financing and pooling of human rights expertise, would also reduce HRBA-related costs.

To achieve stronger alignment, EDFI should ensure regular exchange of information and learning amongst EDFI members.

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