Investing in renewable energy to power a just transition

INVESTOR GUIDE

OCTOBER 2022
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Foreword

Mary Robinson
Adjunct Professor for Climate Justice, Trinity College Dublin; Chair of The Elders; Former UN High Commissioner for Human Rights; Former President of Ireland

World events – ranging from conflict to the pandemic to unprecedented weather patterns – continue to bring into stark relief that decarbonising the energy mix is both an imperative for global security and a non-negotiable for halting the climate crisis. Decreasing costs, technology improvements, favourable national policies and increasing investor appetite could make the needed acceleration in wind and solar capacity deployment a reality. This opportunity must be seized through swift and coordinated global action – but a rapid energy transition that disregards its impacts on the rights of affected communities and of the most vulnerable groups risks derailing entirely.

The global clean energy transition must be as just as it is swift.

Impacts on human rights and the environment are already tangible throughout the renewable energy value chain. This extends from extraction of ‘transition minerals’, to the land-intensive nature of wind and solar projects and their associated risks to Indigenous Peoples’ land rights. Renewable energy companies have a clear responsibility to respect these rights, including the fundamental principle of Free, Prior, and Informed Consent, and to mitigate the negative impacts of their business activities on surrounding communities. Investors must hold them to it. As this guide sets out, investors have a critical role to play in helping to shape the nascent renewable energy sector into one that is inclusive, rights-respecting, and sustainable. And an increasing number of good practice examples suggest that this is possible. But more is required, given that there is no alternative: abusive business models – and the loss of trust they generate, put at risk the energy transition that our future requires.

This guide provides an important roadmap for renewable energy investors in integrating human rights into their investment methodologies and risk assessment processes. By adopting uncompromising human rights policies and undertaking related due diligence and engagement, supporting emerging human rights and environmental due diligence legislation, and encouraging progressive equity-based business models, investors can – and must – be catalysts for real change. An inclusive and sustainable energy transition depends on it.
Meeting the challenge of the clean energy transition requires an unprecedented redirection of investment flows into the growing renewable energy sector. A current investment gap, estimated to be some $5 trillion, presents a significant investment opportunity for private capital and institutional investors, yet also demands that this investment is deployed in ways that builds and supports a truly sustainable global economy.

Investors must both understand human-rights related risks and play an essential role in ensuring human rights are at the centre of the energy transition. This includes lending public support for legislative reforms to protect fundamental human rights, particularly those of Indigenous Peoples, whose communities are often the most negatively impacted. It also means ensuring investee companies have robust policies and resources to build a renewable energy sector that respects human rights and draws the link between a failure to do so and consequences for long-term value creation.

This guide sets out, in practical terms, what that means: assessing the human rights-related risks associated with the renewable energy industry, ensuring an awareness of deepening climate-induced global inequality, and understanding how the clean energy transition can deliver attractive risk-adjusted returns, arrest the climate crisis and achieve a more equitable and resilient energy sector.
Executive summary

In the face of the growing climate crisis, the world requires a swift and substantial increase in global renewable energy (RE) capacity. Wind and solar energy installations – and the significant investment they require – must be quickly developed and expanded if we are to meet our climate targets, with annual clean energy investment in emerging and developing countries needing to expand from less than US$92 to US$614 billion between 2026 and 2030. While this much-needed growth presents a singular opportunity, the RE sector is far from immune to the human rights risks that have historically plagued the fossil fuel and traditional extractive industries, or to the rising global inequalities now assessed as a systemic investment risk. Between 2015 and 2021 the Business & Human Rights Resource Centre (the Resource Centre) recorded 369 attacks against human rights defenders (HRDs), who often face intimidation and attempts to silence them and their communities or organisations, related to RE projects. Investors have the opportunity to influence the development of a RE industry that respects human rights – while simultaneously securing sustainable benefits for their portfolios, as well as for communities and the global green energy transition.

Drawing on Resource Centre research, this guide helps investors make better decisions for a fast and fair transition. It sets out the key human rights risks and impacts associated with the RE sector today, particularly to HRDs and Indigenous Peoples. Given the enormous land requirements of RE installations, often located in rural areas, the rights of these frontline communities, including to Free, Prior, and Informed Consent (FPIC), must be front-of-mind for the burgeoning RE industry. Where they are not, as case studies in this guide demonstrate, companies and their investors face significant reputational, litigation and financial risks. Project delays, suspensions and community conflict are considerably more likely, with their attendant ballooning and unanticipated costs.

Investors can play a critical role in helping shepherd the clean energy transition around the pitfalls of the past by committing to actively integrate human rights in their clean energy investment decisions. There is opportunity for investors to act now to ensure their RE investee companies have effective human rights policies and practices in place. This guidance provides action points for investors to:

- Assess investee company performance on the energy transition through a human rights lens;
- Undertake human rights and environmental due diligence; and
- Commit to active ownership and engagement strategies.

Specific examples of good practice – and their associated benefits – are included throughout this guide, demonstrating these approaches are not only possible, but preferable. These range from responsible investment policies regarding rights-respecting RE opportunities, to working directly with portfolio companies to ensure they have community engagement plans in place. The opportunity to reimagine the energy sector based on justice and equity is also evidenced through the nascent, but growing, equity model framework, where RE companies design projects with Indigenous communities on the principles of co-ownership and co-benefit.

Addressing human rights risks now will enable the momentum required for investors to drive an energy transition that not only creates new economic opportunity, but also helps address persistent inequality and human rights infringements. In other words, to help power a transition to clean energy that is not only fast, but also fair.
Key recommendations for RE investments to respect human rights

The recommendations below set out practical approaches for investors to ensure their investments respect human rights. In so doing, they also enhance the security and safety of their investments. The recommendations are built on the key international human and labour rights standards set out in the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises. To uphold these standards, investors should:

1. Adopt stewardship and responsible investment policies, including voting and proxy resolution guidelines, regarding rights-respecting RE investments;

2. Build rights-respecting RE investment practices;

3. Screen potential investees based on:
   - Public commitment to human and labour rights through policy and practice, with specific consideration of land rights, Indigenous Peoples, rights and HRDs.
   - Project portfolio coherence (avoid investing in companies developing new fossil fuel projects) and science-based emissions targets aligned with the objectives of the Paris Agreement and related transition plans.
   - Company track record of causing, contributing to or being linked with human rights harms.

4. Undertake own human rights and environmental due diligence (HREDD) in operations and supply chains, prior to investing, as well as on an ongoing basis, and publishing results in line with the UNGPs.²

5. Develop high-level expectations towards RE investees using key questions including around:
   - HREDD in operations and supply chains, including access to remedy and engagement with rights-holders, and published results in line with the UNGPs.
   - Public policies and practices on fundamental human rights and labour rights throughout supply chains, and on operations in or sourcing from conflict-affected and high-risk areas (CAHRAs), with particular consideration to land rights and Indigenous Peoples’ right to FPIC, the protection of human rights and environmental defenders and on implementing and supporting co-ownership/equity models with Indigenous Peoples and local communities.
   - Clear board responsibility and oversight functions for human rights policy and integration across all relevant departments.

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¹ Such criteria should be used not only to screen potential direct investments, but also to build ETF / index fund for passive investments, as well as before considering buying corporate bonds or issuing private debt.

² Due Diligence Guidance for investors can be found in the 2021 report of the UN Working group on Business and Human Rights “Taking stock of investor implementation of the UN Guiding Principles on Business and Human Rights” as well as in OECD (2017), Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises.
Asset owners should develop a human rights policy for asset/fund managers and related expectations for asset/fund management and monitor asset/fund managers rights performance in managing RE investments.

Use and maximise leverage by actively engaging with RE investees and other stakeholders;

- Develop engagement plans and action plans with direct and significant RE investees to close any gaps and maintain active dialogue with executive management to address key salient human and labour rights risks in operations and value chains.
- When directly investing, engage with communities and defenders affected by RE projects on an ongoing basis and in a regular, secure and reciprocal manner.
- Use divestment as a last resort following repeated failed engagement with RE investee companies to ensure respect for human rights.
- Work with investees to ensure access to remedy is effective when harm is caused by RE projects.

Harness the power of collective action;

- Minority shareholders, in particular, should join investor coalitions to increase leverage over investees.
- Net-zero investor coalitions should adopt a clear commitment to rights-respecting investments in a just transition.
- Engage with civil society organisations (including trade unions) and identify areas of collaboration or support, such as by publishing statements.

All investors and coalitions should engage national governments and standard setters to influence the adoption of national policy, regulatory and legislative frameworks to protect human rights through public support for:

- Emerging mandatory HREDD, sustainability disclosure legislative acts and corporate governance reforms that seek to change the business model by addressing the causes of short-termism in business conduct and to fully embed human rights and environmental impacts in corporate strategies.
- Stronger legal guarantees on the protection of human rights as part of investment incentives – with specific attention given to land rights and Indigenous Peoples’ fundamental rights when considering investments in new countries.
- The development of national policy frameworks on co-ownership/co-equity models.
Climate change and the just transition – Key developments

As climate change and the resulting environmental and humanitarian crises continue to accelerate, the global energy shift towards renewables needs to keep pace. For the world to limit warming to a 1.5° scenario, we need to almost halve current greenhouse gas emissions by 2030. According to the Intergovernmental Panel on Climate Change (IPCC), wind and solar energies are primary mitigation options to reduce net emissions and meet this 2030 target, but only if they generate more than 40% of the world’s electricity by the end of the decade. Currently, they contribute just 14%. A significant scale-up of global RE capacity is required by 2030 – wind power global capacity will need to quadruple and global solar power capacity will have to increase six-fold.³

This rapid expansion offers massive investment opportunities, with the current investment gap estimated to be approximately US$5 trillion. Annual clean power investment in emerging and developing countries alone needs to increase seven-fold, from less than US$92 billion in 2020 to US$614 billion between 2026 – 2030, according to the Net Zero Emissions by 2050 Scenario of the International Energy Agency (IEA). Meeting this challenge requires public and private capital, with institutional investors poised to play the largest role. Nearly half (48%) of asset owners and managers plan to increase their investments in RE infrastructure projects in the next three to five years. This appetite is buoyed by anticipation that RE assets have the potential to deliver long-term value in a rapidly changing global energy landscape. Private equity (PE) investments are at the forefront of this movement – PE (and venture capital) investments in RE have increased by 159% from 2020 to 2021, with 2022 on track to be comparable to 2021.

### WIND AND SOLAR GLOBAL INSTALLED CAPACITIES (GW) – 1.5° SCENARIO

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<tr>
<th>Year</th>
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<td>2050</td>
<td>8000</td>
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The race to clean energy is taking place in a world of deep inequalities, many of which are driven by the current energy model. This includes a profound divide between populations of the Global North – historically the major contributors to greenhouse gas emissions – and those of the Global South, who bear little responsibility for the climate crisis and where access to reliable, cheap and clean energy remains severely limited. Africa, for example, contributes just 3.8% of global emissions, less than a third of the 13% attributed to the European Union (EU), yet in 2020 only 48.5% of Sub-Saharan Africa had access to electricity compared with 100% of the EU. Many low-emitting jurisdictions increasingly, and disproportionately, feel the impacts of climate change and are also more vulnerable to future impacts.

Global momentum on corporate responsibility

Renewable energy companies and their investors will need to respond to growing calls for a more sustainable and responsible economy, as well as a rapidly changing global legal landscape, including in respect of mandatory human rights and environmental due diligence (mHREDD). Once a controversial proposition, transnational legislation on corporate accountability vis-à-vis human and environmental rights abuses is increasingly a point of potential political compromise in many countries, particularly at the EU level. As multinational companies face heightened litigation risks, mHREDD could benefit rightsholders, as well as companies and their investors, by increasing legal certainty and levelling the playing field, while offering economic advantage to rights-respecting companies.

Developing RE projects in a world of increased conflict

The recent Russian military aggression against Ukraine – a decisive factor in the EU’s accelerated shift to renewables – has been an abrupt reminder that development of the RE sector is essential for global security. However, minerals essential for manufacturing RE equipment are often found in CAHRAs. Examples include Ukraine and Russia, which both have large transition mineral resource endowments. Russia is a leading exporter of high-grade nickel, used for the manufacturing of electric car batteries, but revenues from the extractive sector are reportedly sustaining the country’s military endeavours, leading several companies to exit the country. Ukraine has undeveloped lithium reserves, as well as large iron, titanium and graphite deposits. Rare earth supply chains, critical to the manufacture of both wind and solar equipment, are reportedly connected to egregious abuses committed by the Myanmar military junta which seized power from the democratically-elected government in February 2021. The Democratic Republic of Congo, plagued by decades of armed conflicts, is home to the world’s largest deposit of cobalt. Renewable energy projects in occupied territories, such as Western Sahara and the Occupied Palestinian Territory, may also exacerbate conflict dynamics.

In each of these circumstances, and others like them, operating in or sourcing from these areas requires heightened human rights due diligence, respect of the obligations imposed by international humanitarian law on private actors and careful consideration of degree of contribution to conflict dynamics. As the UN Working Group on Business and Human Rights put it, “Businesses are not neutral actors; their presence is not without impact. Even if a business does not take a side in the conflict, the impact of their operations will necessarily influence conflict dynamics.” With climate change driving inequality and conflict, as well as increased mineral exploitation, it is likely state fragility and conflict will increasingly become a part of the RE sector, as in the past with oil, gas and mining exploration and production.
The energy transition needs to be just to be fast

The rapid increase in RE capacity will primarily be from wind and solar onshore projects. These are highly land intensive, requiring about 10 times more land than a fossil fuel project to deliver the same power. As pressure to swiftly scale up global RE installations sets in, the likelihood of material impacts on local communities, Indigenous populations and workers will intensify. As Indigenous Peoples currently hold about 20% of the Earth’s land mass, respect for their rights and their participation in future RE projects is central to the success of the energy transition. Failure by RE companies to recognise and respect the human rights of the communities in which they wish to operate is increasingly likely to result in a loss of their social licence to operate, with related risks of reputational damage, litigation and project suspensions. On a large scale, this represents a threat to the swift green energy transition the world requires.

To this end, lessons from the fossil fuel industry, characterised by its severe environmental and social impacts, as well as conflict with and failure to benefit host communities, are critical to heed. While the RE sector is likely to face significant frontline community resistance if it follows a similar path – with direct consequences for both investors and the global energy transition itself – examples of better practice can also be found. In Kenya, there are emerging examples of community ownership and benefit sharing built into wind power projects. While opportunities therefore exist for change – and for better investment returns – an explicit departure from ‘business as usual’ models in respect of community engagement and human rights is required of the RE sector to make these a reality.

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4 According to the IEA, annual capacity additions for onshore wind power installations need to reach 310GW (as compared to 108GW in 2020), and 80GW for offshore wind (6GW in 2020). Source.
How well prepared are companies to respond to the human rights risks of RE projects?

Against the backdrop of a growing need for a swift transition to clean energy – and the enormous investment opportunity this presents – companies operating along the RE value chain are obliged to investigate, assess and mitigate the risks of negative human rights impacts associated with their business activities. While evidence of good practice exists, there is unquestionably room for improved human rights performance along the full renewable energy value chain – from transition mineral extraction through to renewable energy installations.

The extractive sector, particularly the fossil fuel industry, has played an unfortunate role in driving and exacerbating conflict and environmental harm in previous generations. While governance has improved, these abuses are still common within the growing ‘transition’ mineral sector. The Resource Centre’s Transition Minerals Tracker has identified 495 allegations of human rights abuses between 2010 and 2021 associated with the extraction of six minerals (nickel, copper, zinc, lithium, cobalt and manganese) critical to RE technologies. Abuses against local communities, civil society organisations and their leaders make up two-thirds (63%) of the allegations, with attacks on Human Rights Defenders (HRDs) accounting for one third of allegations. The sector is also prone to allegations of abuse of workers’ rights (17% of all allegations).

Further along the supply chain, evidence shows equipment suppliers, such as wind turbine manufacturers, also fail to meet due diligence expectations, and a number have not committed to acting in accordance with the UNGPs. Solar photovoltaic panels, in particular, have come under the spotlight over concerns of forced labour and other human rights violations, particularly in polysilicon and raw materials mined or produced in the Xinjiang Uyghur Autonomous Region of China, where the UN Special Rapporteur on Contemporary Forms of Slavery has found it “reasonable to conclude” forced labour had taken place. Emerging evidence shows not only are these abuses found within the RE value chain, but the sector is not yet prepared to address risks associated with project deployments.

TRANSITION MINERALS TRACKER: ALLEGATIONS OF ABUSE RECORDED IN TRANSITION MINERAL SUPPLY CHAINS, 2010-2021

2 in 3 allegations relate to attacks against local communities, civil society organisations and their leaders

1 in 3 allegations concern attacks against HRDs

17% of allegations concern abuse of workers’ rights
Key human rights abuses in RE project deployment

Between 2010 and 2021, the Resource Centre made 303 requests to 222 companies regarding 157 individual allegations of human rights abuses in connection with RE project deployments in the wind, solar, hydropower, biomass and geothermal sectors. The frequency of those allegations has increased in recent years. They span across all geographies and include issues such as community protests, lawsuits against public participation and violations of the rights of Indigenous Peoples. The most serious and commonly-occurring human rights issues in the RE sector include the failure to respect the right to FPIC of Indigenous Peoples – a right protected under international law – and land rights abuses in relation to involuntary resettlement and compensation. In the hydropower sector, 22% of all individual allegations analysed by the Resource Centre related to land rights. In the wind sector, 31% related to issues regarding FPIC, while another 23% related to land rights.

The rights of Indigenous Peoples are particularly at risk in countries without centralised land rights management systems, and where Indigenous Peoples' land rights are solely customary and not recognised formally in law or via land titles. Companies have a responsibility to respect the rights of Indigenous Peoples, even if states fail to protect them. An issue frequently highlighted by communities is when consultations start after project developers and national authorities have already spent time and resources on developing the project, which frequently results in additional pressure on communities to consent to the project. These circumstances can be enabling factors in expediting resettlement of these communities, despite the fact that resettlement should be the last resort according to the International Finance Corporation (IFC) Performance Standard n°5.

Community opposition to resource development projects frequently stems from these resettlement processes and perceptions that company compensation policies are inadequate.

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5 Data can be downloaded [here](#). This includes 46 company response requests in relation to evidence of forced labour in solar panels supply chain, following research published by the Sheffield Hallam University. The Resource Centre recognises that many communities do not view hydropower or biomass as renewable sources. We include it within our analysis as it is a part of many government climate action plans and so that we have a comprehensive overview of the salient risks.

6 As per the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), the 1992 Convention on Biological Diversity, as well as per ILO convention n°169.
Such conflicts in relation to land and FPIC also frequently involve attacks against HRDs, which span the entire RE value chain. Beyond attacks related to transition minerals mining, between 2015 and 2021 the Resource Centre recorded 369 attacks against defenders, including 98 cases of lethal attacks. Most were related to hydropower projects (311 attacks), followed by wind (34 attacks), solar (15 attacks), geothermal (8 attacks) and biofuel (1 attack).\(^7\) Over half (56%) of all attacks were related to land rights issues. Half of the non-lethal attacks were cases of judicial harassment (arbitrary detention and/or frivolous lawsuits or strategic litigation against public participation [SLAPPs]). An overwhelming majority of these attacks occurred in Central and South America (79%). Perpetrators are often not prosecuted, and these attacks frequently form part of a larger suppression of civic freedoms, and are underpinned by economic and political systems increasingly aiming to privatise land.

Communities may also perceive FPIC – as practised by governments and companies – is in many cases a box-ticking exercise undertaken before gaining access to resources. This has led some Indigenous Peoples to develop their own FPIC protocols, documenting laws and customary traditions, as ways to regain control over their resources, with these being recognised by high courts in several countries in Latin America and Asia. Self-determination for Indigenous Peoples is a fundamental right and the associated right to give or withhold FPIC is a key safeguard to protect it. In recognition of this, some countries, such as Liberia and Sierra Leone, have now integrated FPIC in their national legislation concerning the mining sector. In addition, FPIC is considered good practice for all affected communities.

ATTACKS AGAINST HUMAN RIGHTS DEFENDERS LINKED TO THE RENEWABLE ENERGY INDUSTRY, 2015-2021

369 attacks against HRDs recorded

- 56% of attacks were related to land rights issues
- 4 in 5 attacks occurred in Central and South America

\(^7\) Some of these attacks were related to multiple sectors and not exclusively to RE. The Resource Centre’s database of attacks against human rights defenders is available [here](#).

Photo by Daniel Cima, Comisión Interamericana de Derechos Humanos
Community consent, Indigenous rights and due diligence: A lesson from EDF in Mexico

Gunaa Sicarú, a project by Électricité de France (EDF), would have been one of the largest wind projects in Latin America, with 115 wind turbines estimated to produce 825.7GWh for 30 years and located in Oaxaca, on the lands of Unión Hidalgo, a Binnizá - Zapotec Indigenous community.

In 2016, EDF Renewables Mexico, a subsidiary of EDF (84% of which was owned by France at the time) began administrative, tax and commercial procedures in Mexico for the planned project and was granted a permit for construction in 2017. The project would have required approximately 5,000 hectares, an equivalent of around one third of Unión Hidalgo territory. The community expressed concerns these procedures were taken without sufficient community consultation – a right guaranteed by the Mexican constitution – and were, therefore, in violation of their rights to FPIC. More specifically, they argued negotiations were conducted only with selected individuals of the community, including so-called “landholders committees”. Unión Hidalgo land is communal and subject to the Mexican Agrarian Law, which requires the decision to conclude contracts with third parties for its use must be made collectively by community assemblies. Mexican authorities eventually initiated a broader consultation process in 2018, which was plagued by threats and attacks on HRDs, as well as allegations by community members of direct pressure and intimidation by “landholders” and other groups in favour of the construction of the wind farm, allegedly encouraged by company representatives.

In October 2020, HRDs from the community, Mexican human rights organisation ProDESC and the European Center for Constitutional and Human Rights (ECCHR) filed a civil lawsuit against EDF before the French civil courts for breach of the 2017 French law on the duty of vigilance of parent companies and contracting companies. The claimants argued EDF failed to secure meaningful FPIC of the Indigenous community, and that EDF had violated its legal obligations by proceeding with the project while knowing that risks to HRDs were not mitigated. In addition, claimants sought an injunction to suspend EDF’s project until the merits of their claim were adjudicated. Both requests were dismissed on procedural grounds in late 2021. The case remains ongoing, in connection with prior damages incurred by the Unión Hidalgo people and as such, EDF could be facing compensation payments. Meanwhile, in June 2022, as a result of litigation brought by ProDESC and HRDs in 2018 to Oaxaca’s First District Court, Mexico’s state power utility Comisión Federal de Electricidad cancelled the power supply contract with EDF, after delays to the project resulting from failing to consult communities properly. This led to EDF missing the timeline set in the contract for the Gunaa Sicarú project. Consequently, the Mexican Ministry of Energy deemed Gunaa Sicarú unfeasible, effectively shutting down the project for good.
Comprehensive policies are a critical part of identifying, mitigating and remedying human rights abuses. The Resource Centre’s Renewable Energy and Human Rights Benchmark examined the human rights policies of 15 of the largest publicly-traded wind and solar power generation companies, including two investors with significant RE holdings. In 2021, these companies achieved an average overall score of just 28% for their adoption of essential human rights policies and practices. No company scored full points for adopting policies on two of the sector’s most salient human rights risks: respecting land rights and committing to non-retaliation against human and environmental defenders.

The costs of human rights abuses for the RE sector

Local opposition to RE projects should be considered a significant risk for the sector, particularly in regard to wind and solar installations, with their vast land requirements that frequently require displacement of communities or harm biodiversity essential to their livelihoods. Research demonstrates opposition to RE projects and the risk of human rights violations can have significant financial implications for investors and project development; one such study on tenure issues in Southeast Asia between 2001 and 2017 identified a majority of such disputes had a significant financial impact for developers and their backers, mostly driven by displacement of local communities. Three-quarters (74%) of the disputes studied spanned more than six years and a sizable portion included lawsuits or formal complaints. Similarly in Kenya, a state frontrunner in RE projects deployment, the cancellation of the Kinangop 60.8-megawatt project in early 2016 following a court case regarding complaints over the land compensation process and widespread community opposition to the project, resulted in a loss for investors amounting to US$66 million.

These cases highlight why the RE sector and its investors should seek to ensure the opportunity of the energy transition is not forfeited by poor adherence to human rights standards. Prioritising robust community engagement, respect for Indigenous Peoples’ rights and committing to the principles of FPIC should be seen as the essential underpinnings of a burgeoning, sustainable RE sector across the globe, not merely procedural steps. There is opportunity for change and for investors to act now to ensure these cases stay the exception, not the norm.

Opportunities for new development models in RE

One of these emerging opportunities is through bold action to reimagine the traditional energy model to ensure real, direct benefit for communities that will host RE projects. Negotiating agreements with local communities is a standard practice in the mining industry. These typically include company commitments on preferential local hiring, local procurement and spending on social projects, such as schools. Such agreements are sometimes complemented by revenue sharing mechanisms, by law or by contract, whereby a share of the taxes paid by the mine is allocated locally. However, these models do not necessarily fulfil the aspirations of some communities to have an ongoing say in the project decision-making and the exploitation of their resources, including over the life of the project.

In the RE space, alternative models of ownership – such as co-equity, in which a community acquires an equity share of the project – are emerging as an exciting opportunity for inclusive development and for rethinking the energy sector itself. While a nascent and currently small part of the RE sector, equity models offer more opportunity for legitimate community participation, influence on project governance, greater anticipation of potential adverse human rights and environmental impacts and material benefit if the project proceeds as
planned. In Canada, where such models have been tested in several Indigenous communities, they are seen as contributing not only to ensuring meaningful implementation of FPIC, but also as contributing to the reconciliation process between Indigenous communities and non-Indigenous Canadians, therefore functioning as a pivotal part of a just energy transition in Canada.

However, successful implementation of co-equity models depends on alignment between planned outcomes and community expectations, which need to have been identified and discussed with the whole community ahead of engagement. The value proposition needs to be clear, as it requires committing financial capital and being associated with future debts – while revenues may only materialise a few years into the project, if at all. A minority stake will confer little control, even if it does facilitate financial benefit; this may be at odds with instances in which communities prioritise gaining influence over the project and controlling its impacts on their land and resources. Communities’ governance structures for the project should be carefully thought out to ensure the whole community supports of the decisions taken by their representatives. Existing energy access issues should also be factored in by ensuring an adequate supply of the energy produced by the project is safeguarded for use by the local community. Given the legal and technical modalities of such agreements can be complex to navigate, stakeholders considering an equity model approach need to ensure the inherent power imbalance between a community and a company is addressed through external technical support to the community members, and by allowing sufficient time for the community, including regional federations of impacted communities, to debate and resolve their formal position. Governments can also play a role in supporting communities accessing the necessary financial capital to acquire an equity stake, for example, through loan guarantees.

Such approaches are grounded in the vision that communities and Indigenous Peoples are a critical part of climate solutions, and that protecting and respecting their rights stem from substantial obligations, rather than purely procedural ones. It requires moving away from considering them through ‘stakeholder consultation’ only, which can lead to ‘tick-box’ approaches without substantive outcomes for host communities.

**Equity models in practice**

Bullfrog Power is a Canadian RE company, named by the Carbon Disclosure Project as “Canada’s leading green energy provider”. Bullfrog has previously partnered with Canada’s Indigenous Clean Energy (ICE) Social Enterprise and channels a portion of its profits into community green energy grants, the beneficiaries of which have ranged from schools to remote Indigenous communities to an orca research station. Some of Bullfrog’s energy projects offer powerful examples of co-benefit models involving and empowering local stakeholders. In 2019, Bullfrog worked with W Dusk Group and the Fisher River Cree Nation on a 3,000-panel solar farm in Manitoba, the province’s largest solar farm. W Dusk Group, an Indigenous-owned energy company, and 11 Indigenous workers were hired and trained to build the farm. Fisher River Cree Nation Chief David Crate said: “This solar project is a source of empowerment and pride for our community. In addition to generating revenue and training local workers in solar installation, we’re also starting a conversation about large-scale green energy. We want to show both Indigenous and non-Indigenous communities that ambitious RE projects are possible without further harming the environment.” Bullfrog sells the RE generated by the Manitoba farm to the Royal Bank of Canada.
Additional guidance for investors

On equity models:
- **The Indigenous Clean Energy Social Enterprise** is a Canadian not-for-profit platform advancing Indigenous leadership in Canada's RE projects.
- **The Right Energy Partnership with Indigenous Peoples (REP)** is an Indigenous-led, multi-stakeholder partnership promoting RE systems that respect human rights and advancing indigenous-led solutions and approaches.
- **The First Nations Clean Energy Network in Australia** is a network of First Nations people, community organisations, land councils, unions, academics, industry groups, technical advisors, legal experts, renewables companies and others, working in partnership to ensure that First Nations communities share in the benefits of RE projects.

On human rights, HRDs and FPIC:
- Columbia Center on Sustainable Investment (2022) – *Respecting the Human Rights of Project-Affected Communities in Wind and Solar Energy Project Deployment*
- Office of the United Nations High Commissioner for Human Rights: *Land and Human Rights*
- The Resource Centre (2021) – *Human rights defenders & business in 2021: Protecting the rights of people driving a just transition - Investors’ briefing*
- Kelly Dudine (Columbia University) & Sam Szoke-Burke (Columbia Law School, Columbia Center on Sustainable Investment) (2020) *Incorporating Free, Prior and Informed Consent (FPIC) into Investment Approval Processes*
- University of Colorado’s [Free, Prior and Informed Consent Due Diligence Questionnaire](#) for investors
- First Peoples Worldwide, [FPIC Due Diligence Questionnaire](#) (2021 updated version)
- Forest Peoples Programme, [Resources on Free, Prior and Informed Consent (FPIC)](#)

On land acquisition and resettlement processes:
- IFC [performance standard n°5 on Land Acquisition and Involuntary Resettlement](#) is currently viewed as best practice.

On forced labour in global supply chains:
- The Resource Centre (2022) *Forced labour risks, remedy and changing regulation: KnowTheChain investor briefing*
Human rights in business are not soft requirements. They do not refer only to intentions but, crucially, also the results of actions by private sector actors, including investors. The UN and the OECD are clear that investors have their own responsibilities to respect human rights, which is distinct from those of their investee companies. Their degree of involvement in human rights harms will determine their degree of responsibility in addressing them. In many cases, investors can be directly linked to these impacts, even as a result of a minority shareholding. In such circumstances, investors are required to use their leverage to influence their investees.8

Despite a growing number of human rights-related shareholder resolutions, the shift to align investment practices with human rights standards is in its nascent stage – and early indications suggest there is much room for improvement within investors’ human rights and sustainability policies and practices. The UN Working Group on Transnational Corporations and Business Enterprises has noted investors still too frequently fail to understand sustainability as part of their fiduciary duties, which contributes to a culture of corporate short-termism with “devastating impacts on human rights and the environment.” Significant opportunity for improvement therefore remains when it comes to integrating human rights in RE investments to ensure they are in line with investors’ responsibilities, although examples of good practice are growing as models for the broader sector.

**Integrating human rights in energy transition investments**

Recognising the risk climate change poses to their investments, a number of investor coalitions have already adopted pledges towards net-zero emissions investment portfolios by 2050 – such as the Net-Zero Asset Owner Alliance, Climate Action 100+, the Net Zero Asset Managers Initiative. Integrating climate change into risk management approaches is being mainstreamed through the work of the Taskforce on Climate-Related Financial Disclosures (TCFD), set up by the G20 Financial Stability Board. However, more consideration of the potential impact of climate change and related mitigation efforts on human rights is required. Human rights risks and impacts have been largely perceived as harder to capture through quantitative data and indicators, and thus incorrectly viewed as having limited material impact on companies’ long-term value. This approach, however, fails to reflect the magnitude of socio-economic change required to achieve a decarbonised economy by 2050 – and the fact that leaving out human rights risks may result in multiple consequences for business actors, not least stranded projects and assets.

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8 OECD, Responsible Business Conduct for institutional investors, p. 13. The Office of the High Commissioner for Human Rights has clarified that “directly linked” can in principle apply where an investor has provided financing to a client and the client, in deploying those funds, subsequently causes an adverse human rights impact.
Climate performance assessment from a holistic point of view

Recent developments show positive evolution towards a more all-encompassing vision of companies’ climate performance, including formation of just transition indicators by the World Benchmarking Alliance and Climate Action 100+ integrating just transition indicators into its benchmark disclosure framework. These should serve as the basis for investors’ coalitions working towards net-zero emissions investment portfolios to integrate clear commitments to respecting fundamental human and labour rights in the energy transition in their pledges. The need for greater connection between net-zero and just transition pledges has been further exemplified by the launch of the Statement of Investor Expectations for Job Standards and Community Impacts in the Just Transition coordinated by the Interfaith Center on Corporate Responsibility and supported by investors representing US$4.3 trillion.

Using influence to support the emergence of a responsible and rights-respecting RE sector

High-level commitments and sound HREDD throughout the entire RE value chain can also have positive results for investors as it helps anticipate future adverse human rights impacts which can result in operational delays, reputational and regulatory risks and additional costs. Adopting a proactive approach towards human rights can also equip RE investors with a better understanding of the connection between their investments and real development outcomes across geographies – where the geopolitics and socio-economic realities of climate change may have profound repercussions on project planning and final delivery.

By exercising their influence on regulators, policymakers and standard-setters, investors can not only improve their social and environmental outcomes, but it can also help them stay ahead of the curve and anticipate future regulatory risks and investment opportunities. All investor coalitions, but more particularly those which have committed to work towards a net-zero economy and a just transition, should consider using their leverage with governments to publicly support binding legislation on human rights and environmental due diligence across jurisdictions. Investors can also play a pivotal role in building a responsible RE sector by publicly supporting emerging frameworks on co-equity/ownership models, as well as giving equal importance to legal guarantees on the protection of human rights and to traditional investment incentives (tax rebates etc).

Building a rights-respecting investment strategy and practice

Investors’ common responsibility to respect human rights must be enacted through a clear policy in their investing activities, as well as through active stewardship of their investments. Universal owners in particular (i.e. investors with large and diversified ownership portfolio combined with a range of assets under management) have an interest in adopting an active stewardship approach as they are exposed both to risks associated with individual investments, and to global systemic risks.
Rethinking the relationship between asset managers and asset owners

Passive investments through exchange-traded funds (ETFs) have steadily grown and now represent a significant share of capital markets. Asset owners need to pay attention to the way they are managed. In 2020, ShareAction assessed the human rights performance of 75 of the world’s largest asset managers and found only 28% of those surveyed had committed to engage or exclude companies which failed to respect the UNGPs or the ILO frameworks – despite many having adopted a policy commitment towards human rights. Asset owners, particularly large pension funds, can play a pivotal role in addressing this gap. They can seek alignment of their concerns and interests in investing in a responsible RE sector with the decisions of asset managers acting on their behalf through selection, appointment and monitoring. They should clearly articulate their stewardship policies across different asset classes and put in place their own dedicated governance systems to monitor the performance of asset managers in managing rights-respecting investments. Asset owners and managers willing to invest indirectly in RE infrastructure projects (i.e. through a real estate investment fund) should formalise their approach through a dedicated policy, which guides their selection, ongoing engagement and evaluation and retention of fund managers, and establishes the terms of their mutual expectations with regards to respecting human rights, and related oversight. Asset owners should ensure fund managers ask relevant questions to companies and can also set up ‘adverse impact monitoring’ to help support further engagement with the fund or asset manager.

Active stewardship is also increasingly seen as an effective way to “reinvigorate investors’ fiduciary duty” – especially that of institutional investors such as pension funds – whose assets belong to different generations and who represent individual beneficiaries who may themselves be affected by climate change and related increased geopolitical instability. Further recognition of the need for investors to actively engage with companies and governments on the just transition is growing, as the recently-launched PRI Advance stewardship initiative for human rights and social issues exemplifies. There are practical steps all investors can take to work towards ensuring they are contributing to a rights-respecting transition, including key questions to ask before investing. Examples of emerging good practice offer guidance for the sector.
Good practice examples for investors

Stewardship and responsible investment policies with respect to rights-respecting investments in RE

French public pension fund Ircantec’s engagement strategy pivoted towards integrating the social aspects of the energy transition in 2019. Ircantec explicitly seeks to support the development of RE and to be an active shareholder. Ircantec has committed to assessing its investees’ alignment with the UNGPs. It prioritises investment in RE companies concerned with “sustainable land management”, reflecting a prioritisation of land rights in the context of the just energy transition.

Partners Group, a global private equity investment manager with a large RE portfolio, has adopted an active ownership strategy. It works proactively with its portfolio companies to ensure they have community engagement plans in place. For one of its projects in Australia, the Sapphire Wind Farm, the board developed a Community Engagement Approach to support public participation during the construction phase. The plan included two important pillars in relation to assessing public interest for direct investment in the project and set up a benefit fund for long-term community initiatives.

Building rights-respecting RE investment practices

Investor due diligence at the onset of a project can lead to sustainable outcomes. Actis, a large global investor in sustainable infrastructure, launched a RE platform in 2012, Ostro Energy, which is dedicated to developing solar and wind energy projects in India. During the due diligence process, Actis to ensure projects were backed by local communities. A ‘Labour Accommodation Standards Policy’ was put in place to remedy a lack of an established regulatory framework with regards to workers’ accommodations and conditions, and access to safe drinking water and sanitation in accordance with best international standards. Ostro Energy has developed into a successful RE company in India. No worker or community protests have been recorded in relation to its projects.

Shareholders’ resolutions are an important tool to advance Indigenous Peoples’ rights in RE projects. One example from the fossil fuel sector illustrates this: repeatedly challenged by its investors, Marathon Petroleum, a minority partner in the Dakota Access Pipeline acknowledged its responsibility to address the project’s risks to Indigenous Peoples’ rights – although concessions have been deemed as insufficient by human rights activists. In the RE space, a 2022 proposal by SumOfUs that challenged Apple with regard to components it sourced from the Xinjiang region of China received 34% voting support.

Using and maximising leverage by actively engaging with RE investees

Further along the RE value chain there are examples illustrating how repeated failures by investee companies to meaningfully engage with investors can escalate to divestment. In 2020, after multiple efforts to engage with Grupo Mexico, Mexico’s largest mining company was blacklisted by Denmark’s statutory pension fund ATP over dangers posed by a new tailings dam. The dam was located at the site of the Buenavista copper mine, where a massive dam failure in 2014 was the cause of an environmental disaster.

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9 Ostro Energy has now been acquired by ReNew Power, see Reuters. ReNew Power buys Ostro Energy in one of India’s biggest clean energy deals.
Practical steps for rights-respecting investment in RE

**General recommendations**

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<tr>
<th>PRIOR TO INVESTMENT</th>
<th>DURING INVESTMENT</th>
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<tr>
<td><strong>All investors</strong></td>
<td><strong>All investors</strong></td>
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**Adopt clear public policies towards rights-respecting investments**
- Adopt an investment strategy committing to human and labour rights respecting investments, in line with investors' obligations under the UNGPs.
- Adopt an active stewardship policy: communicate expectations for RE investments.
- Use key questions to develop expectations towards RE investees.

**Screen potential RE investments based on clear rights-respecting criteria**
- Screen companies based on public commitment to respecting fundamental human and labour rights with particular consideration being given to rights at risk in RE project deployment (land rights, Indigenous Peoples' rights including FPIC) as well as zero tolerance for reprisals against HRDs.
- Screen companies based on project portfolio coherence (avoid investing in companies developing new fossil fuel projects) and existence of a science-based emissions target aligned with the objectives of the Paris Agreement and related transition plan.
- Review potential investees for any documented track record of causing, contributing to or being linked with human rights harms, including retaliation against HRDs. In such event, consider investing based on seriousness of impact, degree of causality as well as prevention and remediation steps taken.

**Require potential investees to undertake and publicly report on HREDD in line with UNGPs**
- Such criteria should be used not only to screen potential direct investments, but also to build ETF/index fund for passive investments, as well as before considering buying corporate bonds or issuing private debt.

**Join and influence investors’ coalitions to adopt clear high-level commitments towards rights-respecting investments in the net-zero race, and related operational plans: joint engagement plan towards communities and other stakeholders, engagement plans and expectations for companies.**

**Maintain active vigilance of investments compliance with fundamental rights**
- Require companies to communicate on the result of its ongoing HREDD throughout supply chain.
- Monitor companies' performance with regards to human and labour rights and environmental protection.

**Act on human rights abuses and allegations of abuses**

**Direct public or private investments**
- If found to have caused or contributed to an adverse impact: cease and provide access to remedy.
- Use leverage through access with companies, or through collaboration with other minority investors in the case of minority investment if linked to adverse impacts.
- Engage with companies facing human rights allegations to ensure access to remedy is provided.

**Exercise active stewardship**

**Direct public or private equity investments**
- Exercise active stewardship: file proxy resolutions and support resolutions focused on improving human rights and environmental performance in RE, maintain an ongoing dialogue with investees executive management including escalation where necessary, speak at Annual General Meetings of company.
- Use divestment in a rights-respecting fashion as last resort following repeated failed engagement, and consider issuing press release.
- Passive investors should also exercise active ownership with individual investees, especially if they hold sizeable equity.
- Minority investors should consider supporting human rights resolutions and actively engaging with other investors through joining coalitions.
### Specific additional recommendations

#### PRIOR TO INVESTMENT

1. Undertake investor’s HREDD, including heightened due diligence for investments in CAHRAs.
2. Assess that the company’s own due diligence is aligned with the UNGPs / OECD Guidelines, that a community engagement plan is in place, and that the company has a supply chain action plan and a responsible sourcing policy.
3. Set time-bound action plans to close any gaps before the investment, including setting up policies on human and labour rights, including land rights, FPIC, zero-tolerance towards reprisals against HRDs, sourcing from or operating in CAHRAs, a community engagement plan and a supply chain monitoring plan.
4. Agree on a performance monitoring plan with the company for significant investees.
5. Ensure that human rights issues are addressed by companies’ boards and across relevant and integrated departments.
6. In the case of significant investments: engage with communities and workers directly in a meaningful and inclusive manner respecting FPIC protocols where they are available. Minority investors should consider joining coalitions that prioritise community engagement.

#### DURING INVESTMENT

1. Follow up on results and on actions taken to close gaps identified prior to the investment.
2. Engage with investees on co-equity models with local communities.

#### Asset owners: develop a human rights policy for selection of asset / fund managers and communicate its expectations to support relationship building.

4. Ensure fund manager’s policies and processes aim to prevent / mitigate human rights risks, add related obligations in contracts.

5. Asset owners should engage with the investment manager to agree on a voting / escalation strategy with companies listed in the index.

## Specific additional recommendations

<table>
<thead>
<tr>
<th><strong>PRIOR TO INVESTMENT</strong></th>
<th><strong>DURING INVESTMENT</strong></th>
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<tbody>
<tr>
<td><strong>Private equity / infrastructure</strong></td>
<td><strong>As a general partner</strong></td>
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<tr>
<td>≡ Conduct initial company/project screening looking at geographical – related (especially in CAHRAs) and other human rights risks.</td>
<td>≡ Follow up on expectations outlined in the investment agreement with the company.</td>
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<tr>
<td>≡ Conduct detailed due diligence to assess current human and labour rights policies, including land rights, FPIC, zero-tolerance towards reprisals against HRDs, sourcing from or operating in CAHRAs, a community engagement plan and a supply chain monitoring plan. Undertake additional due diligence for projects with major operations impacting Indigenous peoples.</td>
<td>≡ Consider exercising legal leverage in case of breach.</td>
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<td>≡ Develop advanced expectations for the company to mitigate actual / potential human rights risks discovered during the due diligence process and formalise them through the investment agreement.</td>
<td>≡ Provide effective support to companies on improving human and labour rights policies and practices, and integrate those in own development plan for the investment.</td>
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<tr>
<td>≡ Engage with communities and workers directly in a meaningful and inclusive manner respecting FPIC protocols where they are available. Adopt formal grievance mechanisms for communities.</td>
<td>≡ Engage with investees on developing co-equity models with local communities.</td>
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<tr>
<td><strong>As a limited partner</strong></td>
<td><strong>Direct investment:</strong> the investor may be the majority shareholder and thus have a seat on the board of the company. It should exercise considerable influence over the company’s approach to human rights risks.</td>
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<td>≡ Condition commitment to the fund to the GP’s own adherence to the above-listed steps, negotiating for certain rights (including to opt-out) if the fund does not respect human rights.</td>
<td>≡ Engage in an active dialogue with the GP on the fund performance on human and labour rights.</td>
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<tr>
<td><strong>Fixed income / debt (direct)</strong></td>
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<tr>
<td>≡ Require disclosures demonstrating HREDD was conducted.</td>
<td>≡ Engage with bond issuers through direct contacts and use the leverage of their equity counterparts to increase influence when engaging with companies.</td>
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<tr>
<td>≡ In the case of debt, conduct own due diligence in advance when considering funding projects in CAHRAs in order to complement company due diligence efforts.</td>
<td>≡ When considering renewing debt, review policy and performance throughout the preceding project timeline, and require updated plans for maintaining respect for human rights and the environment.</td>
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<td>≡ Consider responsibly pulling funding, divesting or avoiding new debt issuance when projects/companies are discovered to cause or contribute to abuses and companies involved are not taking the necessary steps to mitigate or provide remediation, as outlined under the UNGPs.</td>
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<td>≡ Partner with other bond managers/debt issuers to increase influence.</td>
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Investor’s checklist – key questions

These questions should be shared with direct investees or intermediaries, such as asset managers, as expectations to be raised with companies.

- **(For energy producers) Has the company committed to transition away from fossil fuels production and to have a portfolio mostly comprised of RE sources? What is the time frame for transition?**

- **(For all types of companies) Has the company developed and adopted a science-based emissions target aligned with the Paris Agreement, accompanied with a transition plan?**

- **Does the company have a clear public commitment to human and labour rights?**
  - With specific consideration given to salient risks associated with RE project development (land rights, Indigenous Peoples’ rights including FPIC, sourcing and/or operating in CAHRAs)?
  - Including policies to support decent work and quality work standards in the energy transition?
  - Committing to a zero-tolerance policy for retaliation against human rights defenders, including the use of Strategic Lawsuits Against Public Participation (SLAPPs)?

- **Does the company have a public policy to engage with rights-holders, including those potentially and actually affected by its activities?**
  - Does the company communicate on its processes to identify best benefit, equity and ownership sharing opportunities with local communities?
  - Does the company have a policy to identify legitimate tenure rights holders when acquiring, leasing or making other arrangements to use land for its own operations?
  - Is the company’s approach to community and rights-holders engagement based on regular, secure and reciprocal dialogue and formalised in a clear and public engagement policy?
  - Does the company have a stated due diligence process to identify, understand and respect the traditional and formal governance structures of Indigenous Peoples for operations by its projects?

- **Does the company have a clear commitment to remedy where it has caused or contributed to adverse impacts, and to exercise leverage when linked?**
Does the company’s board have a clear responsibility to ensure human rights are fully integrated into the company’s strategy and across relevant departments?

What board committee, if any, has formal oversight for human rights issues?

Has the company designed and effectively implemented human rights and environmental due diligence throughout its supply chain?

Does the company proactively identify its human, labour and environmental rights risks and impacts, assess them, and integrate prevention and mitigation measures in its own operations and in its supply chain? Does it publicly report on its due diligence efforts?

Does the company have a responsible sourcing policy and a supply chain monitoring plan? Does it endeavour to identify potential connections to identified human rights risks such as forced labour or harm to Indigenous peoples in its supply chain?

Does the company conduct heightened human rights due diligence in CAHRAs (if applicable)?

Does the company provide effective remedy & grievance mechanisms and ensure that affected rights-holders have access to them?

Additional guidance for investors

- London School of Economics and the Grantham Institute – Investing in a just transition
- UN PRI Investment tools for responsible investment
- UN Global Compact Think Lab on Just Transition Introduction to Just Transition: A Business Brief

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