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UN FORUM SERIES – Human rights due diligence is redefining investment opportunities in frontier markets

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In 2015, a number of developments in the human rights space have created momentum around the departure of business as usual. Last month saw the official launch of the Sustainable Development Goals (SDGs), which openly embrace private sector growth as a means for poverty reduction. Earlier this year, a survey from the Economist Intelligence Unit of over 850 senior business executives found that most businesses recognize that their operations have an impact on human rights and that their responsibilities go beyond abiding by local laws. Responsible investment is increasing at a steady rate, and institutional investors are starting to acknowledge the materiality of human rights issues.

Amidst all this progress, it can be hard to keep up with what is making waves in the field of human rights and business. One of the most ambitious examples of translating the notion of human rights due diligence into practice comes from the Dutch Good Growth Fund (DGGF) – a €700 million revolving fund of the Dutch ministry of Foreign Affairs that aims at coupling aid and investment, with the ultimate goal of unlocking sustainable development in low and middle income countries. A consortium of PwC and Triple Jump manages the part of DGGF that provides financing for local small and medium enterprises in 68 developing countries through intermediary funds.

DGGF will run for 15 years, and the sheer scale of what our part of the fund can achieve is impressive. That is, if the intermediary funds are equipped with the necessary tools to identify, assess and mitigate the risks that arise when doing business in countries where the rule of law is weak or poorly enforced. PwC's Sustainability & Responsible Governance team conducts environmental, social, governance (ESG) due diligence on each fund that applies to DGGF (in other words, on each potential DGGF investee) to unearth the key risks and understand the extent to which the intermediary funds are able to mitigate them.

Human rights may be the most recent item on the list of ESG due diligence for investors in frontier markets, but it is already a game changer. Our methodology looks at how the "Respect" pillar of the UNGPs has been unpacked and translated into the funds' policies and processes. Our approach envisages a level of granularity that stretches into the funds' pipeline, and allows us to engage fund managers on the most critical issues.

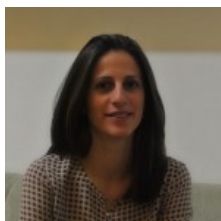
Checking if a policy exists, and if an intermediary fund has an exclusion list in place is simply not enough anymore. Going a step further and asking fund managers if they tailored their policies to their target countries/ target sectors is also falling short. What we need to know, from a human rights due diligence perspective, is whether the policies, processes and controls actually work in practice, and how effective they are in addressing human rights risks across the whole portfolio. We need to test the capacity of the intermediary fund to work creatively to respect high standards even in countries with a track record of corruption and abuse. In short, it is a matter of cutting through the noise and checking if things really work on the ground.

The shift toward more responsible business practices in the developing world starts with investors and businesses knowing the risks and showing the way risks can be managed. It starts with due diligence to ensure that resources are not channeled to companies that infringe upon the rights of others – workers, local communities, stakeholders at large.

We look forward to the next decade, and to redefining investment opportunities in high-risk markets.

Anna Bulzomi

Human rights lawyer specialized in the interplay between human rights and economic relations, Anna has been working on the implementation of ESG and human rights due diligence programs since 2012. She led business & human rights projects in Europe, Central Africa and East Africa, and advised businesses in a number of industry sectors, including finance. She is currently based in Amsterdam, where she works with PwC and is part of a team conducting ESG due diligence on investment funds applying to the Dutch Good Growth Fund.



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