

POLICY BRIEFING

THE RISK-BASED APPROACH TO DUE DILIGENCE

PRACTICAL, PROPORTIONATE AND EFFECTIVE HUMAN RIGHTS AND ENVIRONMENTAL DUE DILIGENCE (HREDD) FOR INVESTORS AND INVESTEEES

July 2025

This document is provided for information only. It should not be construed as advice, nor relied upon. PRI Association is not responsible for any decision or action taken based on this document or for any loss or damage arising from such decision or action. All information is provided “as-is” with no guarantee of completeness, accuracy or timeliness and without warranty of any kind, expressed or implied. PRI Association is not responsible for and does not endorse third-party content, websites or resources included or referenced herein. The inclusion of examples or case studies does not constitute an endorsement by PRI Association or PRI signatories. Except where stated otherwise, the opinions, recommendations and findings expressed are those of PRI Association alone and do not necessarily represent the views of the contributors or PRI signatories (individually or as a whole). It should not be inferred that any third party referenced endorses or agrees with the contents hereof. PRI Association is committed to compliance with all applicable laws and does not seek, require or endorse individual or collective decision-making or action that is not in compliance with those laws.

To inform this paper, the following group has been consulted: Global Policy Reference Group, Human Rights & Social Reference Group.

While the policy recommendations herein have been developed to be globally applicable, the PRI recognises that the way in which policy reforms are implemented may vary by jurisdiction and according to local circumstances. Similarly, the PRI recognises that there may be circumstances where there are merits to allowing market-led initiatives to precede regulatory requirements.

Copyright © PRI Association 2025. All rights reserved. This content may not be reproduced, or used for any other purpose, without the prior written consent of PRI Association.

ABOUT THE PRI

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

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

ABOUT THIS BRIEFING

This briefing is intended for policy makers across markets considering introducing human rights and environmental due diligence (HREDD) regulatory tools for investors and corporations. Doing so can help to establish a level the playing field for responsible corporate and investor practice and reduce the negative human rights and environmental impacts of economic activities.

This briefing explains the 'risk-based approach' to HREDD, as defined in the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. Adopting a risk-based approach gives investors and investees the discretion to focus and prioritise their efforts on the areas of the value chain where adverse impacts are, or are likely to be, most severe, and therefore create material risks for investments. Such an approach ensures due diligence guidance and/or requirements are proportionate, practicable and effective.

For more information, contact:

Hazell Ransome

Policy Specialist, Disclosures & Due Diligence

Hazell.Ransome@unpri.org

Davide Cerrato

Senior Policy Specialist, Human Rights

Davide.Cerrato@unpri.org

AN INTRODUCTION TO HREDD

For almost 15 years, thousands of businesses¹ have been conducting or have started to implement human rights and environmental due diligence (HREDD) in line with the international standards (UNGPs and OECD Guidelines – see box 1 below). Conducting effective HREDD²:

- improves financial risk management and management of human and social capital;
- strengthens supply chains resilience;
- reduces reputational risks;
- better-prepares entities for upcoming sustainability legislation (on due diligence, disclosure, etc.);
- helps entities align their activities with the evolving demands of beneficiaries and clients.

The PRI 2024 reporting data³ shows asset owners and investment managers are paying increased attention to human rights and social factors. In 2024, [32%](#) of reporting PRI signatories said they used the UNGPs and/or the OECD guidelines to identify human rights outcomes.

BOX 1: What is human rights and environmental due diligence (HREDD)?

HREDD means the steps taken by an entity to identify and act on actual or potential negative sustainability-linked impacts in their own operations and value chain. It shares key features with financial risk due diligence such as identifying areas of high risk based on geography, sector etc. and conducting investee engagement. The main difference is that HREDD focusses on negative impacts to people's human rights and the environment (as opposed to impacts only on the business, investees or shareholders).

The UN's [Guiding Principles on Business and Human Rights](#) (UNGPs) provide a global standard for how companies should act on [human rights](#). Unanimously endorsed by the UN Human Rights Council in 2011, they are widely supported by states, regional institutions and multilateral organisations, among others. While the UNGPs do not create new international law obligations, they are directly referenced in and continue to shape regulatory initiatives on responsible business around the world.⁴

The UNGPs consist of [three pillars](#):

1. The State duty to protect human rights.
2. The corporate responsibility to respect human rights (including through a **due diligence process**).
3. Access to [remedy](#) (substantive outcomes to counteract, or make good, the negative impact).

They apply to all businesses, [including investment firms](#). The UNGPs are reflected in the [OECD Guidelines for Multinational Enterprises on Responsible Business Conduct](#), which are recommendations – from the governments of adhering countries to multinational enterprises – for responsible business conduct. The OECD Guidelines were updated in 2023 and **cover due diligence on environmental impacts, as well as human rights**.

¹ Over [24,000 companies](#) have joined the UN Global Compact, following [Principle 1](#) to respect the protection of internationally proclaimed human rights, using due diligence. See also: UN Global Compact (2025) [Support for Efforts Toward Mandatory Human Rights and Environmental Due Diligence](#); Mars, Unilever etc. (2025) [Joint Letter](#); Business and Human Rights Resource Centre [Due Diligence Examples & Case Studies, Incl. HRIA](#); European Commission: British Institute of International and Comparative Law, Civic Consulting, Directorate-General for Justice and Consumers, LSE, Torres-Cortés, F. et al. (2020) [Study on due diligence requirements through the supply chain – Final report](#) (p. 48. 70.85% (37.14, 33.71%) of surveyed companies conduct due diligence on some or all human rights and environmental impacts).

² Ruggie and Middleton (2018) [Money, Millennials and Human Rights - Sustaining "Sustainable Investing"](#); Koob, Jørgensen and Sano, the Danish Institute for Human Rights (2018) [Human rights and economic growth](#).

³ Note, the respondent profiles for 2023 and 2024 are slightly different because 2024 was a voluntary year of reporting for majority of signatories. Given reporting was voluntary there is an unavoidable selection bias. As a result, signatories who performed better or showed improvement were more likely to report in 2024.

⁴ Examples include the EU [CSDDD](#), [CSRD](#), [Taxonomy](#) and [SFDR](#), Japan's [Guidelines on Respecting Human Rights in Responsible Supply Chains](#). The OECD Guidelines for Multinational Enterprises, which are based on the UNGPs, are also mentioned in regulation such as the Norway [Transparency Act](#), in addition to the policies highlighted above.

BOX 1 (Continued): What is human rights and environmental due diligence (HREDD)?

The HREDD process includes:

- Identifying actual and potential adverse human rights or environmental impacts.
- Preventing, mitigating and/or bringing to an end the actual and potential impacts identified.

The actions an investor/company should take under this step depend on their relationship to the adverse impacts identified. While there are instances where an investor can *cause* or *contribute* to an adverse impact⁵, in most cases investors are instead *linked*⁶ to such adverse impacts.⁷ Here, they are expected to influence the entity causing the adverse impact to help prevent or mitigate it, not undertake prevention directly.

- Monitoring ongoing management of human rights and environmental impacts.
- Communicating to clients, beneficiaries, affected stakeholders and publicly about the outcomes, and the actions taken.

THE RISK-BASED APPROACH

A frequently raised concern about HREDD is the perceived difficulty of assessing sustainability impacts across the entire value chain. Investors/companies can have thousands of investees/suppliers, and data availability can be limited. To make sure HREDD is practicable and proportionate **investors and companies should be permitted and encouraged to scope out the areas of their value chains with the highest risk and then prioritise their HREDD efforts there. This is the risk-based approach.**⁸ The risk-based approach is based on partnership and collaboration between different actors along the value chain. It does not require bigger companies to police their whole supply chain, nor does it allow bigger companies to outsource responsibilities to their suppliers.

The risk-based approach complements existing risk management methods traditionally undertaken by investors/companies – to scope out the most material risks based on geography, sector etc, and then prioritise those investees/suppliers for engagement. For example, there may be good overlap with the processes an investor/company already uses to prevent money laundering or comply with anti-money laundering legislation.⁹ Therefore, investors/companies may already have in place the systems (or the starting blocks to build such systems) to implement risk-based HREDD (e.g. data collection and analysis, prioritisation tools etc.).

⁵ UN Working Group on Business and Human Rights (2021), [Taking stock of investor implementation of the UN Guiding Principles on Business and Human Rights](#) (p. 5-8); OECD (2017), [Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises](#) (Box 4 p. 15).

⁶ OECD (2017), [Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises](#) (p. 35).

⁷ For clear definitions of cause, contribute and linked (and an explanation of directly linked vs linked) see OECD (2014) [Due diligence in the financial sector: adverse impacts directly linked to financial sector operations, products or services by a business relationship](#) (p. 3-6).

⁸ OECD (2017), [Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises](#) (section 1.3, p. 18).

⁹ OECD (2022), [Translating a risk-based due diligence approach into law: Background note on Regulatory Developments concerning Due Diligence for Responsible Business Conduct](#) (p. 19).

BOX 2: The steps of the risk-based approach¹⁰

- **Step 1: Scope out their own operations and value chain at a high-level, to identify general areas where adverse impacts are most likely to occur and to be most severe.**

Look at factors such as geography, sector, business model, products and services to prioritise general areas (including suppliers/investees) for further assessment and engagement.

- **Step 2: For the most significant areas of risk, conduct in-depth mappings and assessments to identify and assess actual or potential adverse impacts with which they may be involved.**

To ensure a holistic/balanced understanding of impacts and risks, the assessment should include targeted research or engagement with potentially affected stakeholders (e.g. community members).

- **Step 3: Act to prevent, mitigate and remedy actual or potential adverse impacts with which they are or may be involved, prioritising the most severe adverse impacts.**

Severity depends on the scale of the outcome (on an individual right(s)), the scope (number of individuals affected) and the irremediable character (any limits on the ability to restore those affected to a situation at least equivalent to their previous situation). In the rare cases where two or more impacts have a similar level of severity, businesses can prioritise the more likely adverse impact.

- **Step 4: Track ongoing management of human rights and environmental outcomes.**
- **Step 5: Communicate to clients, beneficiaries, affected stakeholders and publicly about outcomes and the actions taken.**

These steps should be carried out both pre-investment and at regular times throughout the investment's life (as new risks can continue to emerge), or when a change in the situation makes it necessary.

THE BENEFITS OF THE RISK-BASED APPROACH

The risk-based approach gives investors/companies the discretion to use their resources to **tackle the most severe risks and impacts with which they are involved in their value chain**. This reduces burden on investors/companies conducting HREDD and on investees/suppliers, who are less likely to receive blanket questionnaires, but rather targeted requests. It also benefits rights holders as those most severely affected, or most at risk of being negatively impacted, will be prioritised.

An alternative policy solution that has been suggested to address large value chains is to **limit proactive HREDD obligations to direct (tier 1) suppliers**. However, studies find that, in practice, this 'cascading compliance approach' increases administrative burden and reduces the effectiveness of the due diligence.¹¹ This is because:

- Companies and their direct suppliers face greater administrative costs through excessive use of Q&A forms and audits.¹²
- Excessive reliance on contractual codes shifts responsibility from large companies to their smaller suppliers. This places disproportionate burden on SMEs, who are often required to uphold 'no human rights risks' in their own supply chains.¹³

¹⁰ For more detail see OECD (2018), [OECD Due Diligence Guidance for Responsible Business Conduct](#) (p.25-28).

¹¹ Wilhelm (2024) [Mandatory due diligence legislation: a paradigm shift for the governance of sustainability in global value chains?](#)

¹² da Graça Pires and Schönfelder (2025) [Mandatory human rights and environmental due diligence in practice: key insights from France and Germany](#).

¹³ Da Graça Pires and Schönfelder (2025) [Mandatory human rights and environmental due diligence in practice: key insights from France and Germany](#) (p. 5).

- The most severe risks and impacts (most often further down the value chain than tier 1 suppliers and often located in high-risk countries) are overlooked.¹⁴ These impacts could become more severe if unaddressed, leading to increased reputational, legal and financial risk.

German SMEs have expressed [reservations](#) about this tier 1 policy solution in the existing German Supply Chain Act, particularly regarding the “non-specific and large-scale” use of questionnaires (an “instrument with limited effectiveness”) and contractual assurances as a means of compliance.

EXAMPLES OF EFFECTIVE USE OF THE RISK-BASED APPROACH

Investor practice – case studies from PRI signatories

The PRI has collected several [case studies](#) of investors using risk-based due diligence to engage on issues related to human rights. Some examples include:

- [AP2](#), a Swedish asset owner, who has developed an in-house quantitative model to undertake jurisdiction-by-jurisdiction due diligence. The model operates at various levels of granularity, from the country level down to the sector level, and uses third-party data focused on the actual risks posed by human rights breaches rather than the financial risks.
- [PAI Partners](#), a global private equity investment manager, which maps potential supply chain-related risks by using sell-side research, public benchmarks, public information from internet searches, sustainability reports from peers and interactions with the management of the targeted company.
- [Redwheel](#), a UK-based investment manager, who’s ‘Greenwheel human rights toolkit’ comprises of a full human rights risk-mapping tool (a forced-labour risk index across over 170 countries, covering sector and commodity risks) and full in-depth human rights due diligence framework.
- [VFMC](#), an Australian sovereign wealth fund, which engaged with an external advisory firm to conduct a detailed assessment of over 11,000 investment holdings. This risk assessment sought to identify a potential indicative number of enslaved people at each entity within its investment supply chain based on geographic exposure and industry sector.

Non-legislative guidance following the risk-based approach – an unexhaustive list

- OECD sectoral guidance for [Institutional Investors](#), [Extractive](#), [Garment and Footwear](#), [Agriculture](#), [Minerals](#) and [Child Labour](#) (multiple)
- OECD [Translating a risk-based due diligence approach into law: Background note on Regulatory Developments concerning Due Diligence for Responsible Business Conduct](#) (2022)
- PRI [How to identify human rights risks: A practical guide in due diligence](#) (2023)
- PRI [Human rights due diligence for private markets investors: a technical guide](#) (2023)
- PRI [Human rights in sovereign debt: the role of investors](#) (2022)
- PRI [Human rights in private markets: identifying and assessing negative human rights outcomes](#) (2022)
- Shift [What is risk based due diligence](#) (2025)

¹⁴ Business and Human Rights Resource Centre (2024) [Beyond tier 1: Exploring “substantiated knowledge” in the German Supply Chain Act](#).

Legislative guidelines – Japan Guidelines on Respecting Human Rights in Responsible Supply Chains (Japanese Guidelines)

The [Japan Guidelines](#) extend to “business enterprises in supply chains and other business partners [that are related to the business enterprise’s operations, products, and services], which are not limited to direct business partners”. Importantly, the Guidelines recognise that the degree of leverage a business enterprise has on its business partners depends on various factors, and the application of the Guidelines should take this into consideration.

Article 4 of the Guidelines state “the first step of human rights due diligence is to identify and assess any actual or potential adverse human rights impacts in which business enterprises may be involved”. This impact assessment should be “iterative and increasingly in depth”. The Guidelines provide a process for the identification and assessment of adverse impacts, based on four steps:

- Identification of business fields with material risks. The Guidelines provide a table to guide this assessment, covering a series of risk factors (at the sector, product and service, geographic and enterprise level).¹⁵
- Identification of the processes where adverse impacts arise. This focuses on identifying “how adverse human rights impacts can occur (who suffers adverse impacts on what human rights) at each process of the business enterprise’s operations”.
- Assessment of the business enterprise’s involvement in adverse impacts. This step addresses the ‘cause’, ‘contribute to’ or ‘directly linked’ element of the UNGPs and OECD Guidelines.
- Prioritisation. The Guidelines recognise that it may be difficult for an entity to immediately address all identified adverse impacts. In this case, the impacts to be addressed should be prioritised based on the severity of the adverse human rights impacts.

Mandatory HREDD legislation – EU Corporate Sustainability Due Diligence Directive (CSDDD)

Under [Article 8 of the CSDDD](#), companies in scope must take appropriate measures to identify and assess actual and potential adverse impacts arising from their own operations, those of their subsidiaries and, where related to their ‘chains of activities’, those of their business partners. This involves:

- mapping out these operations (note the ‘[chain of activities](#)’ covers upstream and downstream business partners and is closely aligned with the UNGPs’ ‘[value chain](#)’);
- identifying general areas where adverse impacts are most likely to occur and to be most severe (taking into account risk factors such as the sector or geographical area);
- carrying out an in-depth assessment in those areas.

Where it is not feasible to prevent, mitigate, bring to an end or minimise all identified adverse impacts at the same time, companies are required to prioritise adverse impacts identified, based on their severity and likelihood. Once the most severe and most likely adverse impacts are addressed, the company should address other less severe/likely adverse impacts.

¹⁵ Business enterprises with limited business fields, particularly small business enterprises may omit this step of the process.