

Responsible exit considerations

Key factors to consider prior to exit

While it is generally acknowledged that decisions to disengage / divest are highly context specific, the Office of the United Nations High Commissioner for Human Rights (OHCHR) has summarised key factors to consider prior to exit. The ones most applicable to the financial sector are

- **Assessing opportunities to increase leverage over an investee/client.** Leverage may already exist through contractual requirements or other means, but may be enhanced through capacity building efforts, collaboration with industry peers, incentives, or sanctions.
- **(Re) evaluating corrective actions plans or compliance timelines.** Investees / clients should be provided with enough time to remedy or fix non-compliances. Prior to making a decision to exit, it should be ensured that timelines are appropriate (and, where relevant, support is provided). The reasonableness of timelines should be based on an understanding of the severity of an impact; with more severe / ongoing impacts requiring tighter compliance timelines.
- **Understanding the human rights impacts of a potential divestment or disengagement.** This may require specific assessments, stakeholder engagement (e.g. with impacted groups), and advice from experts. Impacts may be both direct or indirect (e.g. workforce retrenchment as well as broader impact on community livelihoods through termination of contracts with suppliers or service providers).

Preparing and implementing exit

Preparing for exit	Efforts should be made to understand salient human rights risks (which may have changed over the course of an investment) and client capacity to manage those risks. In preparation for exit, specific assessments can be undertaken including: • Pre-exit human rights impact assessments • Client readiness evaluations (including capacity to provide remedy or close-out outstanding environmental and social action plans, see section on 'Remedy'). An assessment of an FI's own leverage may also be required. Where leverage is low, strategies to maximise leverage may be required, including E&S / human rights focused exit memorandum to embed responsible practices or incremental disengagement plans (see CAO source in "Further Resources").
Deciding to exit	Based on prior assessments or analyses (see above), the decision to exit should consider if significant social, environmental or human rights risks might be exacerbated or materialise as a result of changes in the client's capacity and commitment to address issues following an FI's withdrawal and potential loss of leverage. At this stage, internal and external stakeholder engagement may be required.

	• Internal stakeholder engagement can be an opportunity to raise awareness of relevant human rights considerations and obtain management buy in. • External stakeholder engagement can involve impacted individuals / communities, and may be used to solicit perspectives on the implications of an exit's timing, structure, or process. There may also be opportunities to engage and align with co-investors to ensure and facilitate a responsible exit.
Designing and implementing exit	Integrating responsible exit principles in the implementation of exit may require: • Ongoing stakeholder engagement in order to encourage exchange of information and evaluate impacts of exit strategy • Evaluating buyers to ensure they have adequate E&S commitments and capacity (e.g., positive E&S track record, experience in the industry, supportive of E&S objectives, plausible strategy for meeting key human rights requirements) • Incorporating E&S provisions into sales contracts or other agreements as relevant • Taking measures to encourage or ensure continuity of management, particularly where such individuals have E&S commitment or expertise.

Further resources

Further resources	Notes
Office of the United Nations High Commissioner for Human Rights (OHCHR), <i>Business and Human Rights in Challenging Contexts: Considerations for Remaining and Exiting</i> (2023)	Summary of key considerations for businesses when evaluating the appropriateness of exit in light of difficult or challenging human rights contexts
SOMO, <i>Should I stay or should I go? Exploring the role of disengagement in human rights due diligence</i> (2016)	Discussion paper exploring the concept of disengagement in the context of human rights due diligence
Organisation for Economic Co-operation and Development (OECD), <i>Global Forum on Responsible Business Conduct: Session Note, Responsible disengagement</i> (2017)	Note that summarises high level disengagement principles as well as sector specific case studies
Office of the United Nations High Commissioner for Human Rights (OHCHR), <i>Remedy in Development Finance: Guidance and Practice</i> (2022)	Chapter V contains a detailed discussion of key principles relating to 'responsible exit' and emerging developments in the context of development finance
Compliance Advisor Ombudsman (CAO), <i>Responsible Exit: Discussion and Practice in Development Finance Institutions and Beyond</i> (2023)	Resource that explore and aggregates responsible exit practices from a range of institutions, including the preparation, design, and execution of responsible exit

Further resources	Notes
Global Impact Investing Network (GIIN), <i>Lasting Impact: The Need for Responsible Exits</i> (2018)	Overview of theory and approaches to responsible exit, particularly in the context of impact investing