

# Promoting Responsible Business Conduct: Key issues for donor agencies supporting Private Sector Engagement



This summary is based on a 63-page DCED report on 'Promoting Responsible Business Conduct (RBC): A scoping paper for donor agencies supporting Private Sector Engagement (PSE)' (Feb 2022).

Responsible Business Conduct is widely recognised as a means for businesses to operationalise the Sustainable Development Goals (SDGs) in ways that are profitable and increase business competitiveness and resilience. Realising its potential, OECD governments have ramped up efforts to promote RBC through a 'smart mix' of instruments. RBC also increasingly features in donor agency discussions on private sector engagement (PSE), with most donors considering RBC as a condition or objective of collaboration with the private sector.

## ► Defining Responsible Business Conduct:

According to the *OECD Guidelines for Multinational Enterprises*, RBC refers to principles and standards that set out an expectation for businesses to avoid and address negative social and environmental impacts of their core business operations, including throughout their supply chains, while contributing to sustainable development where they operate.

The remainder of this summary outlines current practice related to four key government instruments to promote RBC and highlights examples of how donor agencies can forge closer linkages between PSE and RBC objectives.



## 1. Legislation and regulation:

While the benefits and disadvantages of legislation are widely debated, legislative instruments are increasingly being used or explored by many OECD governments and the EU to establish mandatory requirements regarding businesses' adherence to, and/or reporting on, RBC – for

some or all economic sectors and RBC risks. Two aspects are critical for legislation to be effective: consultations with all relevant stakeholders on the right level and scope of legislation; and appropriate ways to mitigate potential negative effects of legislation, such as the exclusion of some developing country suppliers from export markets. Donor agencies can play a role in both of these – a) by participating in national consultations on domestic legislation; and b) by strengthening the capacity of developing countries to meet export market requirements. The latter includes capacity-building of suppliers to cope with the effects of legislation in export markets, and of developing country governments to create appropriate regulatory and institutional frameworks with respect to RBC, through donors' PSE and wider private sector development (PSD) work.



## 2. Facilitation and Motivation

Governments, including donor agencies, take a wide range of measures that lead to improved information, businesses' collaborative capacity or incentives for RBC:

- *Setting coherent policy frameworks on RBC:* This may be done through national policies, action plans, as well as cross-government coordination processes. Many also mainstream RBC across government procurement, fiscal policy, and trade and investment agreements.
- *Providing information, advice and training on RBC:* This is most commonly done through National Contact Points for the *OECD Guidelines*. Several governments have also launched popular online tools that help companies assess risks and potential for social and environmental improvements in their supply chains.
- *Enabling access to voluntary standards and codes of conduct:* Donors fund various voluntary sustainability standards that provide guidance to companies and oftentimes a certification process that facilitates companies' market access and transparency for consumers. Evidence indicates a positive impact of some voluntary standards on RBC, yet their proliferation may warrant a shift of donor support to relatively unregulated sectors, and to the alignment and consolidation of existing standards.

- *Promoting peer pressure, dialogue and other collective action among companies:* Examples with cautiously positive evaluations are a) the Dutch RBC sector agreements, some of which had a small positive impact on RBC, thanks to knowledge sharing, peer pressure and government facilitation; and b) the World Benchmarking Alliance, which ranks companies' SDG performance, including due diligence practices.
- *Raising awareness on RBC among consumers and investors:* Consumers and investors play a strategic role for the adoption of RBC. Donors support several initiatives that raise consumer awareness on RBC issues, promote transparency for RBC labels, and enhance investor capacity to consider RBC in their investments.



### 3. Partnerships and Engagement

Partnerships and engagement with the private sector combining public and private resources and capabilities to support the SDGs are a core task of donor agency PSE units – and can pursue RBC objectives in three ways:

- 1) *The incorporation of RBC criteria in partner screening and selection:* This is done by most donor agencies, but specific approaches are diverse and still evolving.
- 2) *Partnerships with individual companies with the primary objective to promote RBC:* Interest in these has been growing, but only few agencies have actual experience – e.g., in co-funding assessments on supply chain sustainability; thematic funds, e.g. to support company efforts against child labour in their supply chains; RBC-focused calls for proposals in the context of sectoral sustainability initiatives; and projects developed and funded jointly with strategic partner companies.
- 3) *Partnerships with national or sectoral private sector groups and platforms to promote RBC:* In order to foster systemic change, some donors focus on convening, co-facilitating, and contributing to, discussions on RBC of private sector groups and platforms.



### 4. Publicity and Endorsement

Government actions in this category range from light-touch publicity for positive examples of RBC (the most

common practice among donors) to official awards and labels for particular companies that are seen as champions of RBC. The latter require careful design in order to have a potential positive impact, but also carry a higher risk for governments: While they have only been used by very few agencies to date, there are practical and reputational risks in defining and measuring 'what is good enough' for official recognition and in endorsing individual companies' RBC performance based on imperfect information.

### Possible next steps for donor agencies

- There is a need and demand for experience exchange among donors on how to operationalise RBC considerations, and notably the fast-moving field of *national and EU-level legislation*, in their programming. This includes implications of new RBC legislation for PSE programmes, and for wider PSD work in developing countries to ensure continued export market access by supplier companies.
- Efforts to *facilitate and motivate* RBC are worth enhancing further, including through donor participation in RBC policy formulation and cross-government coordination. Donor support also remains critical in the area of voluntary standards, and in facilitating collective action and peer pressure among companies (e.g., through benchmarks). There is also scope to expand awareness-raising efforts on RBC among consumers and investors.
- Given their growing interest but limited experience in *partnerships and engagement* with individual companies and private sector groups to promote RBC, donors would benefit from an exchange on initial lessons learnt.
- *Publicity* for good RBC practice could be expanded, such as through more systematic thematic or sectoral case studies on companies' journey towards better RBC performance.
- Overall, there is a need for capacity in many agencies to incorporate RBC aspects in PSE, e.g. through training or support by internal RBC focal points.