

PART I  
*Chapter 6*

# Promoting sustainable development through responsible business conduct

by

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*Investment can help raise standards of living through job creation, skills and technology development, and distribution of wealth. Achieving these impacts, however, depends on the quality of the investment as much as the quantity. Irresponsible business practices not only erode the investment and business environment; they can result in economic loss, environmental degradation, poor labour conditions, and in the most serious of cases, injury and loss of human life. Responsible business conduct principles and standards emphasise the integration of environmental and social concerns within core business operations. This chapter discusses how responsible business conduct can directly contribute to achieving the Sustainable Development Goals, while also being good for business. It examines the main global guidelines, principles and standards, as well as the role of governments.*

*Challenge piece by Marco Lambertini, WWF International. Opinion pieces by Peter Bakker, World Business Council for Sustainable Development; Sharan Burrow, International Trade Union Confederation.*

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## The challenge: Can smart investment make sustainable development a reality?

**Marco Lambertini,**

Director-General, WWF International

Since the Rio Earth Summit in 1992, the international community has worked toward a shared vision of sustainable development. Now, with the Sustainable Development Goals (SDGs), the United Nations (UN) member states have committed their highest level of political will to ensuring that human well-being is advanced within the planet's ecological boundaries.

Yet if the SDGs are going to be more than aspirational words on paper, we must secure the positive participation of business and industry at the global, regional and national levels. In developing countries, private investment already makes up 60% of external financial inflows, contrasted with flows from public sources – such as official development assistance – which in Africa, for example, amount to a mere 1% of capital inflows (World Bank, 2013).

At the same time, funding alone is not enough to bring about lasting change. Alongside the significant increases in investment that are required to achieve the SDGs, substantial policy reform will be needed, as success will depend on the behaviour and practices of those directing the financial flows. Unless multinational enterprises are brought into alignment with the sustainable development agenda, irresponsible actors will hold the power to undermine the potential of the SDGs. For example, in 2012, community groups and UN experts protested against plans for an open-pit coal mine in Bangladesh that would displace up to 130 000 very poor people and destroy their agricultural land, fisheries and freshwater sources (UN, 2012). Yet despite these severe human rights, environmental and food security concerns, the company behind the project, Global Coal Management Plc, did not abandon it.

A sustainable future for our world hinges on responsible business conduct. Multinational enterprises have a large influence in many countries that rely on foreign financing for their development. Yet responsible businesses that seek to comply fully with national and international laws and standards when endeavouring to operate abroad can often be at a disadvantage compared to actors who may act less responsibly. Despite this, some companies are already realising their potential to play a positive role. As just one example, WWF is working with the global fashion firm H&M to minimise the company's negative impact on the water supply in high-risk river basins in the People's Republic of China and Bangladesh. As textile production can be water intensive, H&M is increasing the efficiency and cleanliness of its operations, as well as collaborating with local stakeholders on sustainable management of shared freshwater resources.

The OECD and its member countries can play a unique and critical role in supporting the global proliferation of good business practice. The *OECD Guidelines for Multinational Enterprises* (OECD, 2011) are the most respected standards for corporate behaviour worldwide. By strengthening the implementation of these guidelines, the OECD can promote reform and improve the enabling environment for responsible investment. This, in turn, will encourage sustainable development by giving responsible businesses an advantage that benefits their bottom lines, while at the same time advancing development targets. This shift will not happen on its own, however; like-minded governments, companies, investors, civil society groups and consumers must work in concert to facilitate change for the better.

One of the OECD's potentially strongest tools for advancing responsible business conduct at home and abroad – the National Contact Point system of the *OECD Guidelines for Multinational Enterprises* – needs to be significantly improved. This innovative grievance mechanism is intended to provide remedy for corporate wrongdoing. However, an analysis conducted by the OECD Watch network (Box 6.4), of which WWF is a member, found that of the 250 complaints filed with the National Contact Points network since 2000, only 3 have led to an actual improvement in the conditions of the victims of corporate abuse. Only a further 12% of claims recorded beneficial results of any sort, such as improved company policies. OECD Watch is asking for a revision of the procedural guidance governing National Contact Points in order to ensure that the network is strengthened. This one reform may seem small when looking at the enormous ambitions of the 2030 Agenda for Sustainable Development. It may not seem as glamorous as the Pope's climate encyclical or the G8's recognition that we are in the last fossil fuel-based century, but it could have enormous and far-reaching impact.

The fact is that each and every decision we make related to responsible business conduct and private investment will have historic implications in determining whether 2015 will be remembered as a turning point in the course of human history.

The positive effects of investment – be it foreign or domestic – in promoting development are well documented. Under the right conditions, investment can raise overall productivity and ultimately lead to an increase in a country’s standard of living. It can contribute to job creation, the development of human capital and the efficient distribution of wealth, while supporting technology development and the transfer of knowledge and skills. Foreign investment, in particular, can provide advantages beyond the direct contribution to the capital stock (Chapter 2). It can serve as a conduit, enabling domestic industries to access international markets and linking them with multinational enterprises and global value chains (OECD, 2015a).

These benefits, however, are not a given. The growth and development impact of investment depends as much, if not more, on the “quality” of the investment as on the quantity. For many years, low environmental and social standards have been viewed favourably by investors looking to minimise costs in the short term, as well as by some countries looking to attract investment. It is becoming increasingly clear that this race to the bottom is not a sustainable model.

The 2015 Addis Ababa Action Agenda calls on the private sector to adopt principles for responsible business and investment and engage as partners in the development process (UNGA, 2015). It also calls on the private sector to invest in areas critical to sustainable development and shift to more sustainable consumption and production patterns. At the same time, it commits governments to developing policies and strengthening regulatory frameworks to better align private sector incentives with public goals, and to encourage the private sector to adopt sustainable practices and foster long-term, quality investment.

This chapter examines the guidelines, principles and standards related to responsible business conduct and discusses how it can contribute to implementing the Sustainable Development Goals (SDGs). It focuses on two aspects:

1. the role of businesses in integrating environmental and social considerations into core business decisions to manage risks (for example, when operating in low-capacity and high-risk areas and sectors) and to ensure that their activities do not cause or contribute to negative outcomes
2. the role of governments in actively promoting and enabling responsible business conduct, fostering a dynamic and well-functioning private sector, while protecting the public interest and stakeholder rights.

## What is responsible business conduct?

Expectations around responsible business conduct are founded on the premise that all businesses – regardless of their legal status, size, ownership structure or sector – should make a positive contribution to the economic, environmental and social progress of the countries in which they operate, while at the same time avoiding and addressing negative impacts of their activities, including throughout the supply chain and business relationships. Responsible business conduct principles and standards emphasise the integration of environmental and social issues within core business operations, going beyond the traditional concept of corporate social responsibility, which is often understood as being separate from core business (see the “In my view” box by Sharan Burrow). A key element is risk-based due diligence, a process through which businesses identify, prevent and mitigate actual and potential adverse impacts, and account for how these are addressed.

Governments have an important role to play in enabling and promoting responsible business conduct, working with businesses, trade unions, civil society, the general public, within their own government structures and with other governments, to create synergies and encourage best practice.

*In my view:*  
*The private sector must be held to the same transparency  
 and accountability standards expected of others*

**Sharan Burrow,**

Secretary-General, International Trade Union Confederation

An ambitious and universal agenda, built on the 17 Sustainable Development Goals (SDGs), has set us on a course to eradicate poverty and achieve important sustainable development objectives by 2030. The agenda is vast and complex, and governments alone will not be able to meet the objectives. The roles of trade unions, civil society, local authorities and national parliaments are fairly well defined. On the other hand, the role of business and the private sector in delivering the 2030 Agenda for Sustainable Development is significantly less straightforward.

There are differing opinions on how to engage the private sector fruitfully to ensure that it contributes to, rather than undermines, the SDGs. Delivering decent work in all of its dimensions, safeguarding human rights and promoting responsible investment that supports inclusive growth are major pillars of the SDGs, and these are areas where the private sector still has a long way to go.

The private sector must be held to the same international transparency and accountability standards as other actors, especially if it is to be supported through development co-operation efforts. This includes respecting and applying International Labour Organization (ILO) principles and standards, including its International Framework Agreements\* and the *Tripartite Declaration on Multinational Enterprises and Social Policy* (ILO, 2014); the United Nations' "Protect, Respect and Remedy" Framework, and its "Guiding Principles on Business and Human Rights" (UN, 2011); and the *OECD Guidelines for Multinational Enterprises* (OECD, 2011). Major improvements need to be made in the area of corporate transparency: businesses must report on their financial activities on a country-by-country basis. This includes reporting on tax and procurement procedures, as it is impossible to champion the participation of the private sector in development without addressing taxation policy and practice (see the OECD's *Development Co-operation Report 2014*; OECD, 2014a).

To be positive actors in the development agenda, at the bare minimum the private sector must meet its fiscal obligations. The recent *Panama Papers* revelations underline the need to address the role of professional enablers – lawyers, accountants, financial institutions, and corporate and trust service providers – in facilitating the use of opaque structures and tax havens for tax avoidance and evasion, as well as corruption and money laundering. The potential of domestic resources as a sustainable source of development finance cannot be realised without greater tax transparency. The 133-member-strong Global Forum on Transparency and Exchange of Information monitors the implementation of the international standard on tax information exchange. Through mechanisms such as this one, the OECD and its members are in a position, both as participants in international policy-making bodies and through their development strategies at home and abroad, to promote measures, standards and means of implementation that serve the needs of workers and the real economy.

Social dialogue and social partners (worker and employer organisations) can also play a key role in reaching the SDGs. Social dialogue helps to ensure broad-based democratic ownership of economic and social development objectives, ensure respect for core labour standards, and promote social equity. Through social dialogue, representatives of employers and workers contribute to shaping effective social and economic development strategies while providing conflict management and contributing to peace.

\* See: [www.global-unions.org/+framework-agreements-+.html](http://www.global-unions.org/+framework-agreements-+.html).

## OECD tools promote and enable responsible business conduct to support sustainable development

The OECD encourages reform of the investment environment to maximise its contribution to sustainable development. It also promotes responsible business conduct through the *OECD Guidelines for Multinational Enterprises* (OECD, 2011) and the *Policy Framework for Investment* (OECD, 2015a; Chapter 2). Several OECD instruments on specific topics are also of relevance, such as the *G20/OECD Principles of Corporate Governance*,<sup>1</sup> the “OECD Guidelines for Fighting Bid Rigging in Public Procurement”<sup>2</sup> and the “G20/OECD High-Level Principles of Long-Term Investment Financing by Institutional Investors”.<sup>3</sup> The OECD is also home to the “Convention on Combating Bribery of Foreign Public Officials in International Business Transactions”. Governments, businesses and stakeholders alike can use these instruments to ensure that responsible business conduct is fully integrated into national development strategies.

### **The OECD Guidelines for Multinational Enterprises are a key reference for doing business responsibly**

When OECD members adopted the OECD “Declaration on International Investment and Multinational Enterprises” in 1976,<sup>4</sup> they made a policy commitment to provide an open and transparent investment environment, agreeing that the freedom of businesses to operate globally also carries responsibility for local impact. The *OECD Guidelines for Multinational Enterprises* were part of that declaration. Forty years and five updates later, the OECD guidelines are still one of the primary references on responsible business conduct, together with the United Nations (UN) “Guiding Principles for Business and Human Rights” (UN, 2011) and core International Labour Organization conventions (Box 6.1).

The OECD guidelines are the most comprehensive set of government-backed recommendations on responsible conduct available. They comprise principles and standards in all major areas, including information disclosure, human rights, employment and industrial relations, the environment, bribery and corruption, consumer interests, science and technology, competition, and taxation. Their purpose is to ensure that business operations are in harmony with government policies, to strengthen the mutual confidence between businesses and the societies in which they operate, to improve the investment climate, and to enhance the contribution of the private sector to sustainable development. The most recent update of the guidelines (in 2011) included intensive consultations with a range of stakeholders and partners, including from the G20 countries. This process conferred wide credibility and support to the guidelines, promoting their use even further.

*The OECD guidelines are a primary reference on responsible business conduct.*

Each country adhering to the guidelines (Figure 6.1) commits to setting up a National Contact Point to promote their use, handle inquiries and help resolve issues that can arise when an enterprise does not observe the guidelines (see also Box 6.4). The National Contact Points are intended to facilitate access to consensual and non-adversarial means – such as conciliation or mediation – to help the parties involved deal with the issues. This problem-solving focus offers the parties involved a better level of control in reaching an agreement, as compared to more formal processes in which a third party makes final, binding decisions. Moreover, this government-based, non-judicial grievance system can often be significantly more expeditious and cost-saving, and in some cases it may be the only procedure available for resolving grievances.

Governments adhering to the OECD guidelines may also develop specific guidance, through a multi-stakeholder process, to help enterprises identify and respond to risks of adverse impacts associated with particular products, regions, sectors or industries (Box 6.2).

### Box 6.1. The global consensus on responsible business conduct principles and standards

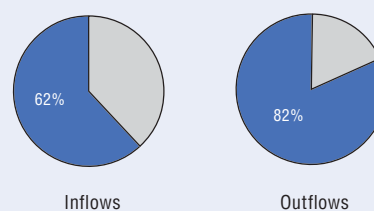
In 2011, the *OECD Guidelines for Multinational Enterprises* were updated and the UN “Guiding Principles on Business and Human Rights” were unanimously endorsed, evidencing international convergence and coherence around what constitutes responsible business conduct. These two instruments have helped build consensus and clarify the baseline standards for how businesses should understand and address the actual and potential adverse impacts of their operations, and how governments should support and promote responsible business practices. This convergence is echoed in other international standards, including the ISO 26000 Guidance on Social Responsibility,<sup>1</sup> the International Finance Corporation’s “Performance Standards” (IFC, 2012) and the *OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence*.<sup>2</sup> In addition, regional and country strategies based on the OECD guidelines and the UN guiding principles are increasingly emerging, for example the European Union Corporate Social Responsibility Strategy<sup>3</sup> and the United States’ National Action Plan on Responsible Business Conduct, to be adopted in 2016 (The White House, 2014). Many countries are also developing national action plans to ensure that the recommendations are implemented (UN OHCHR, n.d.). Finally, more and more countries are using responsible business conduct principles and standards to frame domestic law. For example, the United States’ Dodd-Frank Act specifically addresses due diligence along mineral supply chains and requires companies to report on whether they source certain minerals (tin, tantalum, tungsten and gold) from conflict areas. Another notable development is the 2015 G7 leaders’ commitment to support responsible supply chains and improve access to remedy (G7, 2015).

Figure 6.1. Who adheres to the OECD Guidelines for Multinational Enterprises

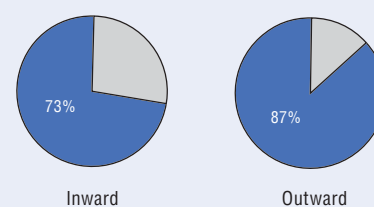
#### Adhering countries

Argentina	Korea
Australia	Latvia
Austria	Lithuania
Belgium	Luxembourg
Brazil	Mexico
Canada	Morocco
Chile	Netherlands
Colombia	New Zealand
Costa Rica	Norway
Czech Republic	Peru
Denmark	Poland
Egypt	Portugal
Estonia	Romania
Finland	Slovak Republic
France	Slovenia
Germany	Spain
Greece	Sweden
Hungary	Switzerland
Iceland	Tunisia
Ireland	Turkey
Israel	United Kingdom
Italy	United States
Japan	European Union (Observer)
Jordan	

#### Adhering countries’ share of global foreign direct investment flows 2007-13



#### Adhering countries’ share of global foreign direct investment stock 2007-12



1. See: [www.iso.org/iso/catalogue\\_detail?csnumber=42546](http://www.iso.org/iso/catalogue_detail?csnumber=42546).

2. See: [www.oecd.org/tad/xcred/oecd-recommendations.htm](http://www.oecd.org/tad/xcred/oecd-recommendations.htm).

3. See: [http://ec.europa.eu/growth/industry/corporate-social-responsibility/index\\_en.htm](http://ec.europa.eu/growth/industry/corporate-social-responsibility/index_en.htm).

Sources: OECD (2014c), “OECD Guidelines for Multinational Enterprises: Responsible business conduct matters”, OECD, Paris, [http://mneguidelines.oecd.org/MNEguidelines\\_RBCmatters.pdf](http://mneguidelines.oecd.org/MNEguidelines_RBCmatters.pdf); IMF (2015), *IMF Balance of Payments and International Investment Position Statistics* (database), [www.imf.org/external/np/sta/bop/bop.htm](http://www.imf.org/external/np/sta/bop/bop.htm).



### Box 6.2. Responsible supply chains in the agriculture and garment and footwear sectors

Investing in **agriculture** is one of the most effective strategies for economic growth and poverty reduction in rural areas. However, agri-business investments can have adverse social and environmental impacts, including on the rights and livelihoods of local communities – particularly in countries with weak regulatory capacity and tenure rights. For instance, if domestic land legislation does not adequately recognise and protect informal land tenure rights, land acquisition may lead to the eviction – without fair compensation – of local communities holding customary rights; this, in turn, can result in a loss of income, increased vulnerability and food insecurity.

Businesses have a key role to play in ensuring that their operations do not have adverse impacts, and that they benefit local communities and host countries. Observing responsible business conduct principles and standards can ensure that they contribute to sustainable development. The 2016 “OECD-FAO Guidance for Responsible Agricultural Supply Chains” (OECD, 2016b) calls on companies to:

- Ensure that their operations contribute to food security and nutrition and sustainable and inclusive rural development.
- Hold good-faith, effective and meaningful consultations with communities before initiating any operations that may affect these communities.
- Respect legitimate tenure rights holders and their rights over natural resources potentially affected by their activities.
- Seek to ensure that legitimate tenure rights holders receive prompt, adequate and effective compensation of their tenure rights being negatively impacted by their operations. Thus, tenure rights holders should not be displaced without having been consulted and having received proper compensation.

The guidance also recommends that companies increase employment opportunities. Increased employment was the most frequently cited benefit arising from 39 large-scale agri-business investments analysed by the United Nations Conference on Trade and Development and the World Bank (UNCTAD/World Bank, 2014).

Similarly, the **textile, garment and footwear industry** provides employment for millions of workers worldwide, the majority of whom are women. The garment sector in particular is very important for a number of low-income countries in terms of trade, gross domestic product (GDP) and employment (World Bank, 2015). However, the risks of adverse environmental and social impacts in the sector are well documented. Progress has been made on many fronts, but severe challenges remain, in part because:

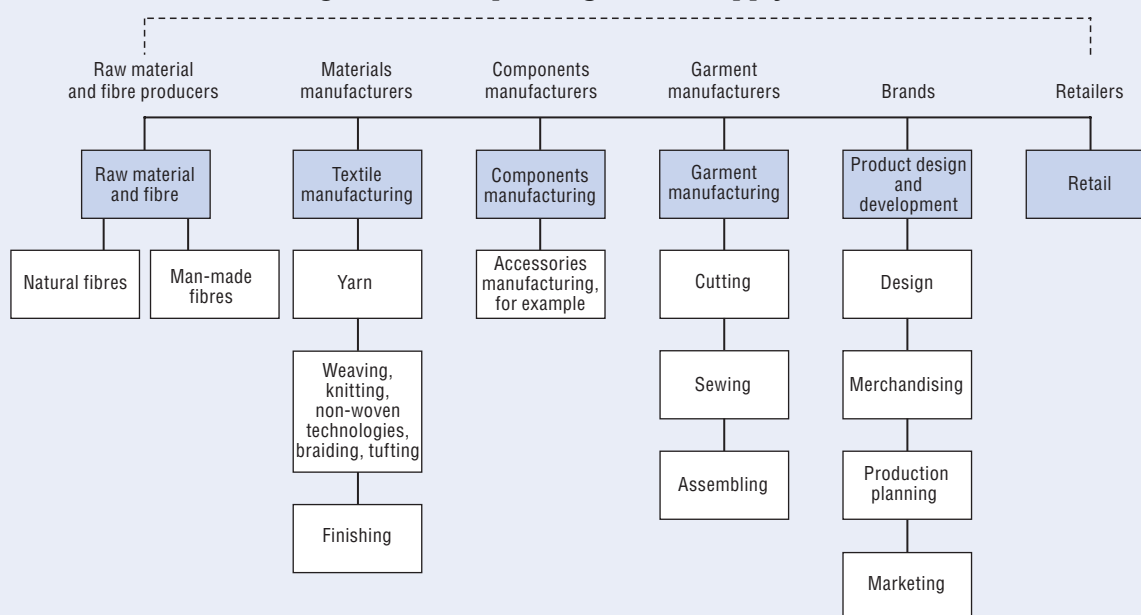
- The textile and garment sector operates on short lead times, tight margins and short-term contracts, contributing to downward price pressures and reducing the business incentive for investing in environmental and social upgrading.
- The emphasis is primarily on manufacturing, although the risks of adverse impacts extend across the full length of the supply chain (Figure 6.2). To date, risk mitigation has been primarily driven by individual businesses rather than a sector-wide approach.
- In some cases, the scope of risks of adverse impacts extends far beyond the textile and garment sector and cannot be addressed by business alone, but rather requires a co-ordinated approach among the government, business, workers and civil society.

To promote a common understanding of due diligence in the sector, the OECD is developing guidance for responsible supply chains in the garment and footwear sector.\* The guidance encourages companies at each stage of the supply chain to take a pro-active and risk-based approach to risk identification, mitigation and prevention. It harmonises the expectations of due diligence for child labour, forced and bonded labour, freedom of association and collective bargaining, wages, discrimination, working hours, occupational health and safety, environment, and bribery and corruption.

\* <http://mneguidelines.oecd.org/responsible-supply-chains-textile-garment-sector.htm> and <http://mneguidelines.oecd.org/rbc-agriculture-supply-chains.htm>.

## Box 6.2. Responsible supply chains in the agriculture and garment and footwear sectors (cont.)

Figure 6.2. Simplified garment supply chain



Note: Intermediaries operate throughout the supply chain.

### The Policy Framework for Investment can help create an enabling environment for responsible business conduct

The OECD *Policy Framework for Investment* can help governments in developing economies design and strengthen their responsible business conduct policy frameworks (Chapter 2). Originally adopted in 2006 in response to the UN “Monterrey Consensus on Financing for Development”, the framework was updated in 2015 to better reflect the development dimension of investment, and to include lessons learned from over 25 investment policy reviews of developing and emerging economies, and regional economic communities.

The framework helps governments put in place policies that can mobilise private investment that supports steady economic growth and sustainable development, thereby contributing to the economic and social well-being of people around the world. It aims to advance the implementation of the SDGs and to help mobilise financing for development in support of the 2030 Agenda. Drawing on international good practice, the framework offers guidance in 12 policy areas that are critically important for improving the quality of a country’s enabling environment for investment. Responsible business conduct policy is one of these policy areas. Governments can enable responsible business conduct in numerous ways. This includes establishing and enforcing an adequate legal framework to protect the public interest, and monitoring business performance and compliance with this regulatory framework. It is important to ensure that the legal and regulatory framework is enforced in all areas related to responsible business conduct, including human rights, employment and labour, environment, anti-corruption, and consumer interests. Setting clear expectations for businesses to act responsibly at home as well as abroad, particularly with regard to vulnerable individuals and populations, is also key. Providers of development assistance can support governments in developing economies working to build the capacity and resources needed to monitor compliance and respond to infringements.



Governments should clearly communicate their expectations for responsible business conduct and provide guidance on specific practices. Enabling enterprises to meet these expectations involves identifying and removing barriers to the uptake of responsible business; it also entails making an effort to engage with businesses to strengthen their responsible business conduct practices, including with businesses that may have special challenges in this respect, such as small and medium enterprises. It is important to engage industry and stakeholders in collective initiatives to promote responsible business conduct, to encourage and/or contribute to related non-government initiatives, and to provide recognition and incentives to businesses that exemplify best practice.

*Governments should exemplify responsible business conduct in their own operations.*

Finally, governments should ensure alignment among all policies relevant to responsible business conduct and collaborate with foreign governments to support international policy coherence on responsible business conduct. As employers, procurers and through state-owned enterprises, governments should also exemplify responsible business conduct in their own operations. Not only is this in the public interest – it also enhances the government’s legitimacy when making recommendations on responsible conduct to businesses.

## **Responsible business conduct can help achieve the Sustainable Development Goals**

Promoting and implementing responsible business conduct principles and standards contributes to ensuring that stakeholder rights are respected, ultimately leading to broader value creation. Irresponsible business practices not only erode the quality of the investment and business environment; they result in economic loss, environmental degradation, poor labour conditions, and in the most serious of cases – such as the April 2013 collapse of the Rana Plaza factory in Bangladesh – loss of human life.

In the pursuit of the SDGs, there is much to be gained from promoting and enabling responsible business conduct. It can help mobilise the resources that will be necessary for financing the implementation of the 2030 Agenda, while improving access to markets and participation in value chains for developing country industries. It can also promote accountability and inclusiveness, particularly important for marginalised or vulnerable segments of the population.

### **Responsible business conduct is important for financing development**

As discussed in Chapter 1, investment will be crucial for the success of the SDGs. Foreign direct investment is identified in the Addis Ababa Action Agenda as a vital complement to national development efforts (UNGA, 2015: para. 35). The challenge for developing economies will not only be attracting investment, but also channelling it towards the implementation of the SDGs. The promotion and implementation of responsible business conduct principles and standards can help create an investment environment that is underpinned by respect for internationally accepted social and environmental principles. With growing expectations on investors to behave responsibly throughout their supply chains, investors are increasingly valuing aspects of domestic investment frameworks that contribute to stability in the long term, such as environmental standards that minimise the risks of causing adverse environmental impact, or enforced labour standards aligned with international principles that stabilise conditions in the workforce (Box 6.3). Not respecting internationally accepted social and environmental principles and standards increases the risk of being excluded from international markets.

### Box 6.3. **Responsible business conduct matters**

The Business and Industry Advisory Committee (BIAC) represents business interests to the OECD. BIAC has long recognised the importance of responsible business conduct in globalised markets, consistently underlining its commitment to work in partnership with its members – the leading business organisations in OECD countries and beyond – to support effective implementation of the OECD guidelines. There is a strong business case for all enterprises to operate responsibly, regardless of their size, ownership structure or the sector of the economy in which they are engaged.

As companies increasingly invest in emerging and developing countries, responsible business conduct helps firms strengthen their long-term investment perspectives while also contributing to the implementation of the Sustainable Development Goals. An investment climate that does not include respect for certain core rules of responsible business conduct risks acting as a disincentive for international investors, making it clearly in the interest of the business community to promote responsible business conduct. That is why BIAC believes that it is more important than ever to foster global engagement and a global level playing field by promoting implementation of the *OECD Guidelines for Multinational Enterprises* by countries that are not yet adhering to them.

The updated *OECD Policy Framework for Investment* also recognises the role of governments in providing an enabling environment both for investment and for responsible business conduct. By including a chapter on responsible business conduct, the OECD has highlighted that promoting investment and fostering responsible business conduct go hand-in-hand. BIAC is actively involved in OECD discussions on fostering private investment, addressing barriers to investment flows and encouraging responsible business conduct to foster growth and development around the world.

Contributed by the Business and Industry Advisory Committee (BIAC), <http://biac.org>.

Designing investment policy frameworks that consider environmental and social objectives alongside economic ones offers the opportunity to prioritise investments that have the greatest potential for promoting full and productive employment, as well as sustainable patterns of production (see the “In my view” box by Peter Bakker). Yet most investment incentives still largely focus on economic performance objectives; it is estimated that only 8% of investment measures from 2010-14 were geared toward SDG-related sectors and targets (UNCTAD, 2015).

Governments that are able to create a business environment underpinned by responsible business conduct principles and standards are more likely to keep and attract quality investment, minimise the risks of adverse impacts from those investments and ensure sustainable development (OECD, 2015a).

### **Following recognised principles and standards can strengthen participation in global value chains**

The rise of global value chains presents a development opportunity and is changing the way countries think about the competitiveness of their economies. The production of goods is increasingly fragmented and carried out wherever the necessary skills and materials are available at a competitive cost and quality (OECD, 2013).<sup>5</sup> Value chain activity is very sensitive to the quality of the business environment, which, in addition to the development of human capital, infrastructure, availability of capital and quality of institutions, has been identified as one of the most important factors for enabling integration into global value chains<sup>6</sup> (OECD, 2015b).

Promoting internationally recognised environmental and social principles within domestic enterprises can help strengthen the linkages between these enterprises and multinational enterprises. As discussed in the previous section, expectations on responsible business conduct principles and standards cover the entire supply chain. Multinational enterprises are expected to conduct risk-based due diligence in evaluating their suppliers. Suppliers that integrate

## In my view:

### *A new corporate performance measurement framework can encourage sustainable success, for business and for society*

**Peter Bakker,**

President, World Business Council for Sustainable Development (WBCSD)

Sustainability is the defining issue of this generation. Climate change, natural resource depletion and widespread inequality – all against the backdrop of a rapidly growing population – are arguably some of the most daunting challenges humanity has yet to overcome. Responsible businesses understand the risks that these challenges pose, but they see the opportunities as well. That's why businesses everywhere are integrating sustainability into their core business strategies.

They know that responsible business goes beyond altruism: it's also about spotting trends, being among the first to move and adapt to an ever-changing future. It's about redefining the way businesses value nature and society so that they can understand the true costs, profits and values of their enterprises. It's about cultivating a new development framework that encourages sustainable success, for business and for society.

The 2030 Agenda calls for a new corporate sustainability philosophy, one built on the SDGs and the Paris Agreement<sup>1</sup> resulting from COP21. A strong, sustainable development framework will be crucial for a healthy global economy because businesses cannot succeed in societies that fail. The sooner companies integrate principles from the SDGs and COP21, the sooner they will reap the tangible benefits.

Responsible businesses recognise this critical period as a chance to get ahead. They've started by building a business case for transitioning to a low-carbon economy, demonstrating that this is one of the biggest opportunities for the foreseeable future. Through the Low Carbon Technology Partnerships Initiative,<sup>2</sup> companies are working together to develop innovative and scalable solutions for addressing global issues – like supplying clean energy to developing areas and building infrastructure for climate-smart agriculture – all while maintaining a focus on economic objectives that spur continuous, independent and sustainable development.

In order to do this properly, we need accurate metrics and feedback on how we're doing and where we can improve – financially, socially and environmentally. Current forms of reporting and measurement are failing, largely because they exclude crucial social and environmental measures from the balance sheet. Without this information, we are unable to fully unlock the solutions that will bring sustainability to scale. In order to address this need, forward-thinking businesses are using an integrated reporting framework supported by non-financial frameworks such as the Global Reporting Initiative,<sup>3</sup> the Sustainability Accounting Standards Board,<sup>4</sup> and the Natural and Social Capital Protocols.<sup>5</sup>

Cutting-edge measurement, reporting and valuation standards like these will eventually enable us to accurately evaluate our businesses, opening new avenues for success by incentivising integrated sustainability solutions and rewarding companies that adopt responsible business models early. Tools like these can enable the move beyond low-carbon technology and savings in energy costs to create an economy that's based entirely on social and environmental sustainability.

Responsible business is the key to a sustainable world. Businesses must continue uncovering opportunities around all aspects of sustainable development, placing the emphasis on creating a responsible relationship with the world and fostering equitable progress for humankind as a whole. It's time for all actors to seize the opportunities to address global socio-environmental challenges. Our future depends on it.

1. See: <https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf>.

2. See: <http://lctpi.wbcstdservers.org>.

3. See: [www.globalreporting.org/Pages/default.aspx](http://www.globalreporting.org/Pages/default.aspx).

4. See: [www.sasb.org](http://www.sasb.org).

5. See: [www.naturalcapitalcoalition.org/natural-capital-protocol.html](http://www.naturalcapitalcoalition.org/natural-capital-protocol.html) and [www.wbcd.org/SocialCapital.aspx](http://www.wbcd.org/SocialCapital.aspx).

internationally recognised environmental and social principles and standards have a comparative advantage over those that do not. In addition, multinational enterprises are increasingly basing their decisions about where to do business on the ability to ensure predictable and reliable supply chains, capable of delivering effectively at the each stage of the global value chain (Taglioni and Winkler, 2014; OECD, 2014a). It is estimated that costs of delays can be substantial for certain product categories; these could constitute a tariff equivalent of 1% or more (Hummels, 2007; OECD, 2014a). Any delays resulting from, for example, labour unrest or environmental damage, would contribute to those costs. A 2014 report found, for example, that a major mining project with capital expenditures between USD 3-5 billion will suffer direct costs of roughly USD 20 million per week in delayed production (in net present value terms), largely due to lost sales based on delays caused by community conflicts and ineffective stakeholder engagement practices (Davis and Franks, 2014).

Furthermore, economies participate in global value chains both as users of foreign inputs and as suppliers of intermediate goods and services used in other economies' exports. It is estimated that more than half of global manufacturing imports are intermediate goods – such as primary goods, parts and components, and semi-finished products – and that more than 70% of global services imports are intermediate services, such as business services (OECD, 2013).

Promoting internationally recognised environmental and social principles and standards within domestic enterprises can also improve their access to export markets. For example, the European Union (EU) Generalised Scheme of Preferences (GSP) allows developing country exporters to pay less or no duties on their exports to the EU; in practice, this constitutes the partial or complete removal of tariffs on two-thirds of all product categories. Additionally, the EU has established a GSP+ scheme, which grants the full removal of tariffs on essentially the same product categories as those covered by the generalised scheme to countries that ratify and implement core international conventions relating to human and labour rights, environment, and good governance (EU, 2015).

Additionally, the inclusion of language related to sustainable development and responsible business conduct has become a dominant practice in recent years in investment treaties. OECD research shows that more than three-fourths of international investment agreements concluded between 2008 and 2013 include language on responsible business conduct (mainly free trade agreements with investment protection provisions) and virtually all of the investment treaties concluded in 2012-13 include such language (Gordon, Pohl and Bouchard, 2014).<sup>7</sup>

### **Improving access to remedy helps to ensure accountability**

Increasing awareness of possible adverse social, human rights and environmental impacts linked to business activity has led to growing demands for stronger accountability for businesses operating globally. Integrating responsible business conduct principles and standards into national development frameworks and investment policies can help ensure accountability, setting out what is expected of businesses and making clear the consequences of not meeting these expectations.

Accountability and access to remedy for victims of negative impacts linked to business activity have long been issues, and judicial and non-judicial systems alike have often failed to address them (UN OHCHR, 2015).<sup>8</sup> While a number of accountability mechanisms exist, such as the National Contact Points for the *OECD Guidelines for Multinational Enterprises*, these need to be strengthened and better used by those who have the leverage to induce change, including consumers and investors (Box 6.4). Improving access to remedy nationally, regionally and internationally; promoting transparency; and empowering consumers can all contribute to increased accountability. Fostering a business environment in which the costs of irresponsible behaviours are reflected is also in the interest of businesses, as it contributes to levelling the playing field, putting pressure on businesses that do not integrate environmental and social considerations into their operations.

#### Box 6.4. OECD Watch

OECD Watch's 108 members from 52 countries around the globe have a shared commitment to work towards ensuring that business activity contributes to sustainable development and poverty eradication, and that corporations are held accountable for their actions worldwide.

OECD Watch members also share the view that the *OECD Guidelines for Multinational Enterprises* have enormous potential to provide corporations with the guidance they need to make a positive contribution to sustainable development, while at the same time holding them accountable when they act irresponsibly and providing victims of corporate abuse with a much-needed forum for accessing remedy.

The OECD guidelines are among the world's few government-backed international corporate accountability standards that are accompanied by a dedicated dispute resolution mechanism. In the absence of an international binding framework regulating corporate behaviour, and in situations where judicial systems are unable to do so – because of inadequate funding, non-enforcement, corruption or otherwise – the OECD guidelines' system of National Contact Points is often the only option available to victims of corporate abuse for seeking remedy for harm done to them, or for holding multinational corporations accountable for social and environmental abuse.

There is some evidence that the filing of complaints under the OECD guidelines has had beneficial results and has provided a measure of remedy, often in the form of forward-looking corporate policy changes (OECD Watch, 2015). Such policy changes – if genuinely implemented – bring with them the potential to prevent future harm.

Yet unfortunately, these examples are few and far between, leaving the enormous potential of the OECD guidelines unfulfilled. Recent research\* reveals that in the overwhelming majority of cases, the complaint process has failed to bring an end to corporate misconduct or provide remedy for past or ongoing abuses. With only a few exceptions, the National Contact Points either remain largely inaccessible, or they suffer from a real or perceived lack of independence and impartiality, frequently failing to follow procedural timelines and refusing to conduct independent investigations.

Nearly all National Contact Points are inadequately funded by their governments. At the same time, governments seldom attach concrete consequences to companies' failure to adhere to the OECD guidelines. If the National Contact Points are to function as an effective network for promoting adherence to the OECD guidelines and for addressing harm caused by corporate misconduct, these weaknesses need to be addressed. Fortunately, there are steps that adhering governments, the OECD and National Contact Points themselves can readily take to improve effectiveness. This could begin with a revision of the OECD guidelines' Procedural Guidance for National Contact Points, to level the playing field and ensure harmonisation of performance. Implementing a system of mandatory peer reviews would also accelerate improvements in performance, as would reducing the barriers to accessing the mechanism. National Contact Points should be willing to base findings of non-compliance with the OECD guidelines on independent investigations if cases are not amenable to mediation, or if mediation fails. Finally, adhering governments must be willing to attach consequences to a company's non-compliance with the OECD guidelines.

Despite current obstacles to the implementation and effectiveness of the guidelines, OECD Watch continues to believe in their potential and remains committed to further engaging with adhering governments, National Contact Points, the OECD, businesses, trade unions and other stakeholders, providing constructive feedback and recommendations.

Contributed by OECD Watch.

\* See, for example, Ruggie and Nelson (2015).

### **Responsible business conduct promotes inclusiveness**

To support the contribution of responsible business conduct to inclusive and sustainable development, special attention needs to be given to ensuring that it does not have unforeseen negative impacts – for example, the marginalisation of workers in the informal sector or of artisanal miners in high-risk areas. At the same time, it is important to support investment in risk-prone areas or sectors to avoid the potential negative impacts of disengagement (Box 6.5).

#### **Box 6.5. Doing good while doing no harm**

The industries that entail the most severe risks are often relied on by the poorest and most vulnerable segments of the population for their livelihoods. For this reason, the two-fold obligation to do good while doing no harm, as set forth in the *OECD Guidelines for Multinational Enterprises*, has important implications for promoting inclusive growth and development.

For example, to avoid the potential social and economic adverse impacts of disengagement in high-risk areas or sectors, businesses are encouraged not to pull out at the first sign of potential environmental or social risks within their supply chain, but rather to engage in risk-mitigation efforts and to take into account the possible adverse impacts of any decisions to disengage.

The benefits of continued engagement have been demonstrated clearly in the context of responsible mineral sourcing. The *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas\** suggests strategies to create economic and development opportunities for at-risk populations, such as for example formalisation and legalisation of artisanal and small-scale mining. In the Democratic Republic of Congo (DRC), this approach has contributed to the creation of special legal zones for artisanal and small-scale mining. The guidance also supports workable cohabitation of small and large-scale mining activities. In the DRC as well as in Rwanda, the results of this action have been impressive: in just three years, approximately 70 000 artisanal miners gained market access, with better prices, better conditions and secure long-term opportunities (Creamer Media, 2014).

Contributed by Roel Nieuwenkamp, Chair of the OECD Working Party on Responsible Business Conduct.

\* <http://mneguidelines.oecd.org/mining.htm>.

Effective supply chain due diligence can help to build meaningful partnerships with suppliers and non-traditional actors, upgrade skills, formalise informal sectors, and build the capacity of the various business partners to deal with responsible business conduct expectations (OECD, 2015c). For example, in mineral-producing regions like the African Great Lakes, West Africa and Latin America; in processing countries in the Middle East and Asia; and in consuming countries around the globe, the OECD due diligence guidance (see Box 6.5) is helping to:

- reduce opportunities for armed groups and public security forces to benefit from mineral production and trade
- improve livelihoods for artisanal miners and mining communities
- strengthen local government capacity to regulate and supervise the mineral sector, improve data collection, increase revenues and stem illicit trade linked to the production and trade of minerals
- increase global transparency and accountability in mineral supply chains
- increase market and industry initiatives in favour of responsible mineral supply chains
- improve understanding of the informal economy and natural resource-connected conflicts
- support informed and comprehensive policy making and action.



## The way forward for promoting responsible business conduct

The development co-operation community has an important role to play in promoting responsible business conduct worldwide. This begins with ensuring that businesses operating in developing economies are aware of their obligations under the OECD guidelines and the UN guiding principles, and that they observe them. All 29 members of the OECD Development Assistance Committee adhere to the OECD guidelines and are committed to promoting them among their national businesses, whether operating at home or abroad (OECD, 2015d). This may require increasing efforts to ensure policy coherence on responsible business conduct, for example by not providing export credits to businesses that are not committed to responsible business conduct principles and standards; or by integrating responsible business expectations into development policy. It is important to communicate to businesses that responsible business conduct should be viewed as a business opportunity, rather than as a cost. There is increasing evidence that responsible business practices lead to productivity gains.

Providers of development assistance can help developing economies strengthen their relevant policy frameworks, increasing the capacity of their economies, reforming framework conditions to make their countries attractive investment destinations, and promoting responsible business conduct along the length of global supply chains. Official development assistance can be used in innovative ways to encourage the uptake and implementation of responsible business conduct by domestic and foreign businesses, for example by supporting the participation of domestic industries in multilateral responsible business conduct efforts; or by ensuring that the availability of grievance mechanisms under the OECD guidelines is well known and used. This type of support is especially important in countries emerging from conflict, which may lack the capacity to implement the international principles and standards on responsible business conduct.

In his challenge piece at the beginning of this chapter, Marco Lambertini notes that one of the potentially strongest tools for advancing responsible business conduct is the National Contact Point system of the *OECD Guidelines for Multinational Enterprises*. Yet he also notes that this system “needs to be significantly improved”. In 2015, the OECD developed an action plan to strengthen National Contact Points, focusing on peer reviews, capacity building, peer learning and new tools (OECD, 2016c). The action plan reflects the increasing political will to improve and build on the National Contact Points to ensure effective implementation of the OECD guidelines. The OECD is also working on providing more guidance to businesses on how to implement the recommendations of the OECD guidelines and is working to promote responsible business conduct more broadly with partner countries that do not formally adhere to them.

### Key messages for responsible business conduct

- Engage in dialogue on responsible business conduct.

Governments:

- Identify and remove barriers to the uptake of responsible business conduct, and set clear expectations for businesses to act responsibly at home as well as abroad.
- Establish and enforce an adequate legal framework that protects the public interest and underpins responsible business conduct, and monitor business performance and compliance.
- Clearly communicate expectations regarding responsible business conduct, provide guidance on specific practices, and enable enterprises to meet these expectations, paying particular attention to the needs of businesses that may have special challenges in this respect, such as small and medium enterprises.

- Work with stakeholders in the business community, labour organisations, civil society, the general public, within the government and with other governments to create synergies and establish coherence on responsible business conduct.
- Act responsibly in the context of the government's role as an economic actor, for example, as employers, procurers and through state-owned enterprises.
- Provide recognition and demonstrate support for best practice in responsible business conduct.
- Strengthen access to remedy, including by strengthening the National Contact Point mechanism.
- Support strengthening of policy frameworks for responsible business conduct in developing economies.
- Use official development assistance in innovative ways to encourage the uptake and implementation of responsible business conduct by domestic and foreign businesses.

Businesses:

- Observe the *OECD Guidelines for Multinational Enterprises* and the UN “Guiding Principles for Business and Human Rights”.
- Integrate responsible business conduct principles and standards throughout the supply chain.
- Carry out risk-based due diligence to identify, prevent and mitigate actual and potential adverse impacts and account for how these impacts are addressed.
- Champion responsible business conduct and help others see it as an opportunity.

## Notes

1. [www.oecd.org/corporate/principles-corporate-governance.htm](http://www.oecd.org/corporate/principles-corporate-governance.htm).
2. [www.oecd.org/competition/guidelinesforfightingbidrigginginpublicprocurement.htm](http://www.oecd.org/competition/guidelinesforfightingbidrigginginpublicprocurement.htm).
3. [www.oecd.org/finance/principles-long-term-investment-financing-institutional-investors.htm](http://www.oecd.org/finance/principles-long-term-investment-financing-institutional-investors.htm).
4. See: [www.oecd.org/investment/investment-policy/oecddeclarationanddecisions.htm](http://www.oecd.org/investment/investment-policy/oecddeclarationanddecisions.htm).
5. The OECD defines a global value chain as the full range of activities that firms engage in to bring a product to the market, from conception to final use. Such activities can range from design, production, marketing, logistics and distribution, to support to the final customer. They may be performed by the same firm or shared among several firms.
6. Location in a global value chain is characterised by the production process and the relative skills and resource endowments of the firms and countries in question (i.e. comparative advantage), suggesting that productivity is essential for upgrading. Upgrading is usually discussed in terms of economic and social benefits. Firms can gain by: 1) being more efficient in producing a given type of output; 2) engaging in the production of more sophisticated products; 3) acquiring new functions within a given value chain; or 4) moving into different value chains. Social upgrading refers to outcomes related to employment and pay, gender, and the environment.
7. Research shows that the major functions of such treaty language are, in the order of prevalence: 1) to establish the context and purpose of the treaty and set forth basic responsible business conduct principles through preamble language; 2) to preserve policy space to enact public policies dealing with responsible business conduct concerns; and 3) to avoid lowering standards, in particular relaxing environmental and labour standards for the purpose of attracting investment.
8. This is particularly true for cases involving gross human rights abuses and other serious offences – such as forced and child labour or large-scale harm to human health and livelihoods. A 2014 study commissioned by the UN Working Group for Business and Human Rights (Zerk, n.d.) found that considerable legal, financial, practical and procedural barriers exist for access to remedy. These barriers involve, among others, definitions of jurisdiction and of what constitutes an offence; standards for assessing liability; and methods of determining sanctions and compensation. The lack of access to remedy is not just a problem for victims, but also for the majority of businesses, as it creates legal uncertainty and reinforces concerns about impunity. A seeming lack of accountability has lent support to a resolution by the UN Human Rights Council (June 2014) to examine the scope of a legally binding treaty on business and human rights.

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