PROMOTING AND ENABLING RESPONSIBLE BUSINESS CONDUCT THROUGH DEVELOPMENT CO-OPERATION EFFORTS

Stocktaking of initiatives by donor agencies and national development financing institutions

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Foreword

This report presents findings from a stocktaking exercise conducted by the OECD Secretariat on how objectives related to promoting and enabling responsible business conduct (RBC) are integrated in strategies, programmatic policies, operational guidelines, and procurement practices of bilateral donor agencies and development financial institutions (DFI). The exercise focused on identifying the current state of play, with an emphasis on featuring initiatives and safeguards that promote, incentivise, support, exemplify or monitor RBC by the private sector. This work is part of ongoing efforts by the OECD Working Party on Responsible Business Conduct to promote policy coherence on RBC and support the implementation of the Sustainable Development Goals.

The stocktaking was based on a desk review of publicly available documents, supplemented by secondary sources in a few instances where limited information was available on donor or DFI websites. The complete list of agencies and documents included in the stocktake is available in the Annexes.

Comments and questions concerning this stocktaking are welcome and can be addressed to the authors (tihana.bule@oecd.org and coralie.martin@oecd.org). Any shortcomings are only those of the authors. The stocktaking was submitted as a room document for the Roundtable for Policymakers on Responsible Business Conduct, held as part of the OECD Global Forum on Responsible Business Conduct in Paris on 20-21 June 2018 and shared for comment with the OECD Development Assistance Committee. The Secretariat is grateful to the Swiss Agency for Cooperation and Development for making this report possible as well as the delegations and colleagues that have provided invaluable comments and insights.

Table of contents

Introduction

The 2030 Agenda for Sustainable Development calls for mobilising the private sector for the achievement of the Sustainable Development Goals (SDGs) and invites businesses to apply their creativity and innovation to solve sustainable development challenges. Development agencies are increasingly seeking ways to catalyse private sector investment and channel private resources toward development objectives, with a view to bridging the investment gap needed to achieve the SDGs estimated to be in order of 3.3-4.5 trillion USD/year. Traditional development finance has evolved over the years from providing Official Development Assistance (ODA) to include innovative programmes, structures and partnerships that bring together commercial and public actors. Many donor agencies, for example, support public-private partnerships[1] and promotion of blended finance has been gaining increased attention from the global development community in recent years. Blended finance aims to make use of development finance sources, such as funds from donors and philanthropic organisations, to mobilise additional finance for development, notably from commercial sources (OECD, 2017a).

However, commercial and development objectives are not automatically aligned. Today, there is a growing recognition that sustainable and inclusive development cannot be achieved without responsible business conduct (RBC). As new development financing structures emerge, involving multiple actors and geographies, setting out clear expectations on stakeholder roles and responsibilities will be essential to ensuring that increased private sector engagement in development efficiently and positively contributes to the global agendas. There is also an expectation that governments observe RBC principles and standards in their own role as economic actors (e.g. through public procurement, export credits, and development finance) and as owners of enterprises. Aligning and reinforcing RBC and development co-operation policies at the national level can help governments maximise their efforts toward achieving the SDGs and promoting better outcomes for people and the planet.

Intersection of responsible business conduct and development

Global consensus on what constitutes RBC

RBC principles and standards set out an expectation that all businesses – regardless of their legal status, size, ownership structure or sector – avoid and address negative consequences of their operations, while contributing to sustainable development of the countries where they operate. RBC means integrating and considering environmental and social issues within core business activities, including throughout the supply chain and business relationships. Although RBC is sometimes used interchangeably with corporate social responsibility (CSR), it is understood to be more comprehensive and integral to core business than what is traditionally considered CSR (mainly philanthropy). A key element of RBC is risk-based due diligence – a process through which businesses identify, prevent and mitigate their actual and potential negative impacts and account for how those impacts are addressed.

The OECD Guidelines for Multinational Enterprises (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 OECD Guidelines in 2011 included intensive consultations with a range of stakeholders and partners, including from the G20 countries. The Guidelines align with the UN Guiding Principles on Business and Human Rights (UN Guiding Principles), as well as key ILO instruments, including the ILO core conventions and the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. These instruments together have helped build global 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. Box 1 summarises the OECD instruments in which RBC has been integrated.

The OECD has also adopted various sectoral guidances on RBC due diligence to help business implement RBC standards. In May 2018, a general OECD Due Diligence Guidance for Responsible Business Conduct was adopted. The guidance is the first government-backed standard for corporate due diligence on RBC, applicable to company operations and supply chains in all sectors of the economy. It addresses a range of risks, including human rights, labour, the environment and corruption, and helps promote a common understanding and avoids the potential for conflicting expectations. It also helps businesses understand and implement due diligence for RBC as foreseen under the OECD Guidelines through providing plain language, practical explanations of each component of the due diligence process.

RBC has been integrated in global economic governance

A number of countries are integrating RBC principles and standards in domestic regulations and initiatives. In March 2015, the **UK** (2015) enacted the Modern Slavery Act, mandating that commercial organisations prepare an annual statement on slavery and human trafficking and report on their due diligence processes to manage these risks within their operations and supply chains. **France** mandates supply chain due diligence in accordance with the OECD Guidelines and requires all French companies with more than 5000 domestic employees or more than 10 000 international employees to publish a due diligence plan for human rights and environmental and social risks (Government of France, 2017). **Canada** has enhanced its strategy Doing Business the Canadian Way: A Strategy to Advance Corporate Social Responsibility in Canada's Extractive Sector Abroad to allow for withdrawal of government support in foreign markets for companies that do not act responsibly or refuse to participate in the dispute resolution processes available through the Canadian government, including National Contact Points for the OECD Guidelines.

The **United States** Federal Acquisition Regulation was revised in 2015, establishing a number of new safeguards to protect against trafficking in persons in federal contracts (Government of the United States, 2015). Additionally, the 2015 Trade Facilitation and Trade Enforcement Act eliminated the exceptions to the prohibition on import of goods into the United States **-** it is now illegal to import goods made, wholly or in part, with convict, forced and indentured labour under penal sanctions. In March 2016, US border agents withheld goods tied to forced labour on the basis of the new Act (US Customs and Border Protection, 2016).

RBC criteria have also been included in economic instruments. The OECD Recommendation of the Council on Common Approaches for Officially Supported **Export Credits** and Environmental and Social

Due Diligence was revised in April 2016 to strengthen RBC considerations in export credits and to promote policy coherence (OECD, 2016b). The OECD Recommendation on **Procurement** calls on adherents to use public procurement to support secondary policy objectives, including RBC standards set by the OECD Guidelines. The WTO Revised Agreement on Government Procurement of 2014 introduced new exceptions for environmental and social policy linkages in order to overcome some of the legal challenges associated with restricting procurement awards based on RBC principles (OECD, 2017e).

These developments reflect international trends and are also contributing to joint action at the regional level. In 2014, the **European Union** passed a directive on disclosure of non-financial and diversity information to promote more transparency on environmental and social issues across sectors and companies over a certain size incorporated in EU member states and listed on regulated EU exchanges (EC, 2014). Recently, an agreement on a framework to stop the financing of armed groups through trade in conflict minerals was reached at an EU level, with the aim that EU companies source tin, tantalum, tungsten and gold responsibly. These minerals are typically used in everyday products such as mobile phones, cars and jewellery (EC, 2016). Lastly, the new EU trade strategy Trade for all: Towards a more responsible trade and investment policy uses RBC as a pillar (EC, 2015).

Governments from emerging and developing economies are increasingly connecting RBC with various policy areas in practice. For example, the Association of Southeast Asian Nations (**ASEAN**) has included references to key RBC concepts in the ASEAN Economic, Socio-Cultural, and Political-Security Community Blueprints 2025 and has taken specific action on urgent social issues in the global supply chain.[2] Several ASEAN members have also included RBC in their regulatory framework. For example, RBC is included in the Myanmar Investment Law. The 2018 OECD Investment Policy Review of Southeast Asia, which builds on national reviews of seven countries in Southeast Asia and looks at common challenges across the region and at the interplay between regional initiatives and national reforms, includes a chapter on how policies that promote and enable RBC can help achieve these goals.

China is increasingly incorporating RBC into its national initiatives. In 2015, OECD and China signed a comprehensive programme of work, setting out the strategic vision and activities in a number of topics, including RBC. Several joint activities have been undertaken under the programme. Notably, on the basis of OECD RBC instruments, Chamber of Commerce Metals, Minerals & Chemicals Importers and Exporters adopted a Chinese Due Diligence Guidelines for Responsible Minerals Supply Chains in 2015. OECD is now working with the China National Textile and Apparel Council to promote responsible business in global textile and apparel supply chains.

Finally, RBC expectations have been been included in **high-level international commitments**, notably by **G7** and **G20 Leaders**. In the June 2015 G7 Leaders Declaration, G7 pledged to lead by example to promote international labour, social and environmental standards in global supply chains; to encourage enterprises active or headquartered in the G7 to implement due diligence; and to strengthen access to remedy (G7, 2015). Under the 2016 Chinese G20 Presidency, the G20 recognised in several statements the critical role of RBC in investment and global supply chains. G20 Trade Ministers issued a statement in July reinforcing their determination to "promote inclusive, robust and sustainable trade and investment growth" and agreed on G20 Guiding Principles for Global Investment Policymaking, where reference to RBC was included (G20, 2016a). This was been followed by further commitments in 2017 by G20 Leaders to foster “the implementation of labour, social and environmental standards and human rights in line with internationally recognised frameworks”, including the OECD Guidelines (G20, 2017).

Development impact of implementing RBC standards is compelling

Implementation of RBC principles and standards can help address some of the conditions on a country-level that may lead to instances where human rights are abused or the environment is not protected. For example, on-the-ground implementation of the OECD due diligence guidance for the mineral supply chains

Box 1. OECD instruments referencing RBC

Several OECD instruments recognise the importance of governments' role in promoting and enabling RBC and in designing and implementing a strong RBC policy framework, in addition to the OECD Guidelines for Multinational Enterprises and the OECD due diligence guidances, which are the basis for OECD RBC standards:

- **2018 OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs** recognise that blended finance projects should integrate high corporate governance, environmental and social standards, as well as RBC instruments to support the development of functioning and efficient markets.
- **2016 Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence** was revised in April 2016 to strengthen RBC considerations in export credits and to promote policy coherence.
- **2015 Policy Framework for Investment** includes a dedicated chapter on policies for promoting and enabling RBC (Chapter 7).
- **2015 Recommendation of the Council on Public Procurement** calls on countries to ensure the strategic and holistic use of public procurement, including fostering RBC
- **2015 G20/OECD Principles of Corporate Governance** cross-reference the OECD Guidelines for Multinational Enterprises and recognise the important role of stakeholders in corporate governance, importance of disclosure and transparency, and the responsibilities of the board.
- **2015 Guidelines on Corporate Governance of State-Owned Enterprises** recommend that the state ownership policy fully recognise SOE responsibilities towards stakeholders and request that SOEs report on their relations with stakeholders, as well as to make clear any expectations the state has in respect of RBC by SOEs. The SOE Guidelines further recommend (and rely on the Board of Directors to the executive management) extensive measures to report on foreseeable risks, including in the areas human rights, labour, the environment, and risks related to corruption and taxation.

For more information on RBC policy coherence, see Chapter 3 on Government policies in support of Responsible Business Conduct *in the forthcoming* 2017 Annual Report on the OECD Guidelines for Multinational Enterprises.

has provided market access to an estimated 80,000 artisanal and small-scale miners in Africa's Great Lakes Region, who support an estimated 400,000 dependents.[3] Consider also the case of human rights impacts in global supply chains. For many countries across the world, integration in global supply chains has presented a development opportunity and has led to major societal gains such as job creation, skills development, and technology transfer, helping lift millions of people out of poverty. Today's global supply chains are as intricate as they are efficient.[4] At the same time, policy and legal frameworks to ensure social and environmental protection have not always kept pace with the expansion and complexity of cross-border supply chains. For example, ILO estimates that 24.9 million people were victims of forced labour at any given time in 2016. Out of these people, 16 million are exploited in the private sector such as domestic work, construction or agriculture; 4.8 million persons in forced sexual exploitation, and 4 million persons in forced labour imposed by state authorities (ILO, 2017). While these numbers cannot solely be attributed to the rise of supply chains, their complexity and the resulting lack of visibility in many cases has led to illegal subcontracting and an increase in almost all human rights and labour risks, including child labour, harassment and violence, and unsafe working conditions.

Furthermore, there is increasing evidence that responsible businesses are better businesses. RBC as part of core business decision making is not only socially desirable but also makes sense from a risk management point of view. Environmental and social issues are financially material. If these are not reflected in risk management practices, the company can be subject to losses. The OECD (2017d) examined the issue of RBC and the financial performance of companies (return on equity and return on assets) in a panel regression with over 6 500 observations. Controlling for value chain structure, economic and financial factors, the overwhelming finding is that the social score (a measure of a company's capacity to generate trust and loyalty with its workforce, customers and society) has a highly-significant positive effect on companies' return on equity and return on assets. These results lend support to the proposition that investing in and implementing RBC practices throughout the supply chain enhances financial performance in the long-run, on average, while supporting social goals.

Overview of findings

Implementation of RBC standards is an opportunity for long-term market-oriented development solutions that can have an economy-wide impact. Due to their global reach, in-country influence, and financial leverage, government institutions that finance development programs are uniquely placed to help developing economies ensure that private sector – including domestic and foreign investors – in their economies contributes positively to sustainable development. The incentives to do so are strong as promoting and enabling RBC aligns both with their mandate and the broader policy objectives and commitments made by their governments. These institutions can use their leverage to disseminate knowledge and facilitate discussions at the country-level on key topics and to encourage governments with whom they work with to promote RBC standards. When engaging directly with private sector actors, they can communicate expectations that partners should observe RBC standards, as well as support and supervise their implementation.

As of 2018, 48 governments accounting for the majority of international investment flows, have adhered to the OECD Guidelines for Multinational Enterprises and have committed to promote and enable RBC. This includes all of the members of the OECD Development Assistance Committee (DAC).

The summary of findings under this stocktaking is below[1].

Many donor agencies and DFIs have taken important steps to promote, incentivise and exemplify RBC issues. RBC principles and instruments are referenced in development co-operation efforts. New sets of tools, training and guidelines have been developed to support private sector entities in the implementation of these standards. DFIs have long adopted environmental and social risk management frameworks to ensure that their investments are responsible and to mitigate the risks of environmental or social damage.

Donor agencies are increasingly recognising RBC as an important element of their policies. This is demonstrated by the number of agencies that reference RBC standards in their policy documents. Many support the implementation of RBC standards by making training and tools available for their own staff and for external parties, including businesses. For example, a number of knowledge sharing tools and platforms have been developed to help procurement officers purchase responsibly and identify potential risks in specific sectors and supply chains. While donor role is traditionally not that of an investor and, therefore, limited references to due diligence are to be expected, some donor contracting policies and processes do include requirements to conduct background checks. However, with the increasing objectives to engage with the private sector, donor roles are evolving and it will be important to ensure engagement with the private sector includes expectations on RBC. Some donors have already started enhancing their processes, such as eligibility criteria or requirements that businesses benefitting from their projects respect RBC standards. However, with a few exceptions, donors tend to favour declarative instruments and self-certification and take limited steps to verify whether businesses are meeting these expectations.

DFIs have systematic processes in place for ensuring investments are not associated with negative impacts. Managing environmental and social risks is a regular part of DFI operations and this includes due diligence, capacity building and monitoring of the implementation of the recommendations they make. However, many DFIs still tend to favour a compliance-based approach. There is scope to align due diligence efforts with the RBC approach, which could help DFIs meet their external and internal objectives. For example, several DFIs were recently criticised for reinforcing practices to channel funds through offshore centers, an area that not covered by their compliance frameworks. They have reacted by creating new policies and vision statements. Aligning these policies with RBC standards can ensure that their efforts are in line with the expectations set out by their governments on RBC.

Nevertheless, there is scope to harmonize efforts across development finance actors, and mainstream RBC standards within institutions. While increasing references to RBC or international RBC instruments do exist, they tend to be isolated and vary in both scope and content across institutions. For example, differences may exist on the range of issues or the types of initiatives concerned. Often, RBC commitments are limited to specific projects or financing instruments. There is scope to align RBC commitments across institutions to communicate clear expectations to partners and create a level-playing field. There is also significant scope to introduce more clarity on how RBC commitments are translated

[1] For list of agencies included, please see Annex 1. The OECD Secretariat reviewed over 400 documents and/or webpages in this stocktaking

into action within institutions, and ensure that RBC standards are included in the internal processes of development actors.

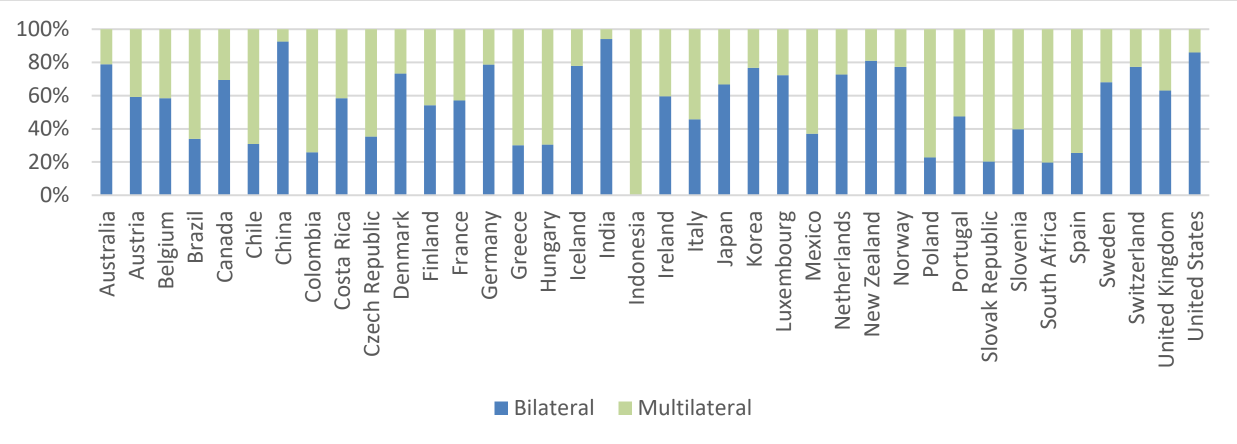
Activities by donor agencies

RBC is of relevance for donor agencies 1) in their engagement with the private sector and 2) in their own internal processes. The range of donor interventions and funding mechanisms is diverse and complex. Donors typically channel funds to developing economies (bilateral ODA) and multilateral organisations (multilateral ODA) through grants or loans, and may also provide direct technical assistance. Other forms of assistance have emerged involving new actors and complex structures and instruments. This includes South-South and triangular co-operation, where two or more developing economies exchange knowledge, skills, resources and technical know-how. This type of co-operation may take the form of regional and inter-regional collective actions, including partnerships involving governments, regional organisations, civil society, academia and the private sector (UNDP, 2014). Additionally, new forms of development financing structures, for example, blended financing schemes, are also gaining ground.

Depending on the type of support provided, donors have varying degrees of involvement and oversight of their contributions. This is an important element to consider when thinking about how RBC efforts are supported across the wide range of donor countries under this stocktake. For example, when donors make multilateral contributions, the funds become an integral part of the recipient institution and assets (Gulrajani, 2016). Nevertheless, as board members, large donors may often have influence on the processes and controls that are implemented by multilateral organisations. Bilateral contributions may also require a certain degree of relinquishing control over funds and may imply sharing responsibilities with other stakeholders such as the recipient government, NGOs, or the private sector (OECD, 2017).

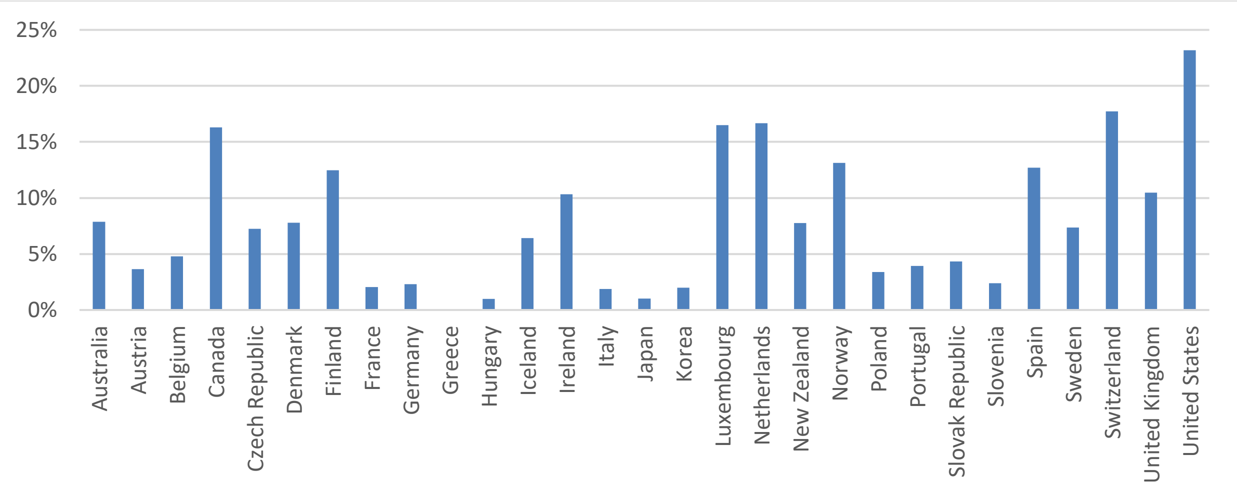
Figure 1 shows the percentage of bilateral and multilateral flows for each country included in the stocktake. DAC donors disbursed over 60% of ODA bilaterally and roughly 25% multilaterally, as measured in two-year averages over the 2008-2013 period (Gulrajani, 2016). Only a limited part of these contributions is channelled through private entities (e.g. acting as partners in the implementation of ODA projects). Figure 2 provides an overview of the share of total ODA flows channelled through private entities for each DAC member.

Figure 1. Share of bilateral vs multilateral ODA, 2016*



Note: *For Brazil, Chile, People's Republic of China, Colombia, Costa Rica, India, Indonesia, Mexico and South Africa, data is based on OECD estimates for the most recent year available*.
Source: OECD (2017), "Detailed aid statistics: Official and private flows", OECD International Development Statistics (database). **http://dx.doi.org/10.1787/data-00072-en**, and non-DAC reporting (**http://www.oecd.org/development/stats/non-dac-reporting.htm**).

Figure 2. Share of total ODA channeled through private entities



Note: ODA administered by NGOs and other private entities on behalf of the official sector, reported under various types of aid. Core contributions to NGOs and other private bodies are excluded.
Source: OECD (2017), "Detailed aid statistics: Official and private flows", OECD International Development Statistics (database). **http://dx.doi.org/10.1787/data-00072-en**.

RBC standards are relevant across the diversity of development cooperation structures and financing mechanisms. Depending on the activities, channels and financing mechanisms involved, different measures and tools might be relevant to ensure that RBC expectations are met. Depending on whether the funds are allocated to core government functions such as direct budget support or debt relief, or whether the funds contribute to a specific project or thematic area, donors may implement different measures to promote RBC and enable sustainable supply chains. Donors may also have varying levels of leverage depending on the types of institutions they finance and their level of involvement activity financed. Table 1 gives examples of different measures that donor agencies may undertake to promote RBC.

Additionally, donor agencies can exemplify RBC by applying RBC standards in their own internal processes. The OECD Policy Framework for Investment, for example, recognises the important role of the government as an economic actor (e.g. as an employer, procurer and through state-owned enterprises) and sets out that governments expected to behave responsibly when performing a commercial role. By exemplifying RBC through its own operations, the government enhances its legitimacy in making recommendations on RBC to business. The framework also highlights promoting transparency around RBC. The UN Guiding Principles for Business and Human Rights also discuss the state-business nexus – noting that:

> "A range of agencies linked formally or informally to the State may provide support and services to business activities. These include export credit agencies, official investment insurance or guarantee agencies, development agencies and development finance institutions. Where these agencies do not explicitly consider the actual and potential adverse impacts on human rights of beneficiary enterprises, they put themselves at risk – in reputational, financial, political and potentially legal terms – for supporting any such harm, and they may add to the human rights challenges faced by the recipient State.
>
> Given these risks, States should encourage and, where appropriate, require human rights due diligence by the agencies themselves and by those business enterprises or projects receiving their support. A requirement for human rights due diligence is most likely to be appropriate where the nature of business operations or operating contexts pose significant risk to human rights."

Therefore, donor agencies can play a significant role in integrating and implementing RBC, in for example, procurement processes, putting in place grievance mechanism to assess their own human rights impacts, engaging and supporting stakeholders on matters related to RBC, as well as disclosing non-financial information.

Table 1. Examples of RBC measures for different types of donor activities

Channel	Type of contribution	Example of RBC measure
Multilateral Organisations	Core (including mandatory contributions to multilateral organisations)	• Reference and support RBC in international for a • As board members, advocate for RBC integration in organisational policies, practices, and programmes
	Non-Core (including voluntary contributions to specific-purpose programmes)	• Finance projects that advance RBC (e.g. sustainable supply chains) • Include RBC expectations and criteria in assessment and selection of implementing partners • Include RBC indicators in monitoring and evaluation of projects with large procurement components
Government	General budget support	• Refer to promotion of RBC in grants and loan agreements • Promote adherence to OECD Guidelines/observance of UNGPs
	Sector budget support	• Facilitate discussion on RBC in high-risk sectors • Disseminate OECD due diligence guidances for specific sectors and support multi-stakeholder activities • Refer to RBC in grants and loan agreements
	Projects	• Support projects that advance RBC • Include RBC criteria in assessment and selection of implementing partners • Include RBC criteria in grants agreements • Include RBC indicators in monitoring and evaluation
	Technical assistance	• Provide technical assistance in the implementation of RBC standards in processes such as procurement • Train local experts on RBC principles and standards
Basket funds / pooled funding	Project / programmes	• Conduct RBC due diligence on partners • Design and finance projects and programs on the basis of RBC • Include RBC criteria in project / program documents • Include RBC criteria in assessment and selection of partners • Include RBC criteria in contract provisions • Include RBC in audit and reporting • Provide tools, training and guidance on RBC standards
NGOs, other private bodies, PPPs and research institutes	Core support	• Provide core support to NGOs/research centers that support RBC • Include RBC in screening, assessment and selection mechanisms • Conduct risk-based due diligence • Request disclosure of non-financial information • Implement mechanisms to address non-compliance with RBC standards
	Projects	• Support projects that advance RBC • Include RBC in screening, assessment and selection mechanisms • Conduct risk-based due diligence • Monitor and audit compliance with RBC standards • Implement mechanisms to address non-compliance with RBC standards
	Technical assistance	• Develop tools and guidelines to support the implementation of RBC • Train experts on RBC • Organise workshops and training on RBC

Donors are affirming commitments to RBC, but there is scope for further alignment

Out of the 38 donor agencies included in this stocktake, 12 make direct reference to RBC or CSR in their main policy or strategy document or main website. Even when RBC or CSR do not appear prominently, most donors still state their commitment to sustainable development as an objective they pursue in the context of the 2030 Agenda or as a principle. The notion that donors should be aware of and manage their direct and indirect impact, including throughout the supply chain, is widely present in policies and strategy documents. However, the concepts behind such commitments vary between RBC, CSR, environmental and social management, and broad sustainability. As an example, *corporate sustainability* occupies a prominent place in the description of GIZ's identity, structure and values as set out on the agency's main website. Under this concept, GIZ includes corporate responsibility to respect human rights, as defined by the UN Guiding Principles. Other important RBC areas, such as occupational health and safety, environmental management or disclosure, are addressed separately in the policy (GIZ, 2017). By comparison, USAID's Strategic Sustainability Performance Plan focuses on clean energy and environmental management. The agency's plan and commitments include managing gas emissions, making an efficient use of water and preventing pollution and waste (USAID, 2016). The fluidity that can be observed among different definitions of CSR and/or corporate sustainability can overall create confusion about the commitments made, as well as how the standards applied compare both among the agencies but also in relation to broader government commitments.

To that effect, publicly endorsing the international leading RBC instruments as a basis for private sector engagement can help donor agencies define expectations and also create a sense of accountability that ties within broader efforts to address how business, society, and environment intersect. For example, Norad has completed an evaluation exercise to understand how human rights are promoted, protected and respected in Norwegian development cooperation involving business on the basis of the UN Guiding Principles for Business and Human Rights. The evaluation assessed the systems and performance of six Norwegian public entities in Norwegian development cooperation, namely the Ministry of Foreign Affairs (MFA), Norway's embassies, the Norwegian Agency for Development Cooperation (Norad), Norfund, the Norwegian Export Credit Guarantee Agency (GIEK) and Innovation Norway. The evaluation also included two country case studies, Tanzania and Mozambique, and based the findings from five projects in each country. The result found that Norway's aid administration strongly communicates about business and human rights, however, that there are still gaps in practice in how these commitments are implemented (Norad, 2018). Donor agencies can take advantage of the development of tools that help translate what RBC means in practice, for example, the various due diligence guidances that the OECD has adopted.

Although 34 out of the 38 donor countries included in this stocktake have adhered to the OECD Guidelines, only a few refer to them or other key international RBC instrument in their main policy or strategy documents. This is the case of the Ministry of Foreign Affairs of the Netherlands, which clearly states in its agenda for aid, trade and investment that companies are expected to comply with the OECD Guidelines and the UN Guiding Principles on Business and Human Rights (Ministry of Foreign Affairs of the Netherlands, 2013). In Denmark, DANIDA emphasises that responsible businesses contribute to the SDGs, and insists on business responsibility to respect human rights, mirrored by the state's duty to ensure that the businesses with which they cooperate respect human rights, in line with the UN Guiding Principles on Business and Human Rights (DANIDA, 2017a). As previously mentioned, GIZ also refers to the UN Guiding Principles and references in the *Corporate Sustainability Principles* that they are also enshrined in the agency's rules and standards for staff and managers (GIZ, 2017).

Several donor agencies have developed action plans or tools to guide and support the implementation of their RBC commitments. GIZ has developed a *Corporate Sustainability Handprint*, enabling systematic measurement of four dimensions of sustainability defined as ecological balance, social responsibility, economic capability and political participation (GIZ, 2017). Sweden's SIDA has developed guidelines to support CSR, defined as the basic principles of the UN Global Compact and OECD Guidelines. These guidelines lay out SIDA's role with respect to CSR issues, and include action steps, such as participating in international fora, strengthening dialogue on CSR issues with the private sector, building capacity at home and abroad, or integrate CSR into the agency's activities (SIDA, 2004). The French Development Agency AFD has adopted a new CSR strategy for 2018-2022, aiming to integrate sustainable development into funded operations, and throughout project cycles, mitigate negative and promote positive environmental and social impacts, increase stakeholder engagement and transparency, and promote financial security and integrate international standards into AFD activities (AFD, 2018). In order to mainstream environmental and social commitments and support its staff in the operationalisation of principles, Austria's ADA has created a Manual for Environmental and Social Impact Management, which covers issues such as human rights, environment, gender equality or conflict prevention (ADA, 2017).

Several donors have taken steps to mainstream RBC in their own operations and to improve policy coherence

Some agencies have developed or adopted codes of conduct to better reflect their commitment to RBC. Codes of Conduct typically provide standards and guidance on ethics and integrity, focusing on compliance issues such as corruption, fraud, or money laundering, with some variations. For example, USAID Ethics and Standard of Conduct operational policy covers foreign gifts and conflicts of interests, but also includes a chapter on counter-trafficking of persons (USAID, 2015). Australia's DFAT Conduct and Ethics Manual provides guidance on fraud, conflicts of interest, gifts and use of information, and has one chapter on child exploitation and abuse in the country and abroad (DFAT, 2017). Several donors have shifted from a compliance mind set to integrate a broader range of issues aligned with RBC commitments. The Ethics Charter of the French Development Agency AFD, for example, includes commitments from the agency and its employees to operate in accordance with the fundamental UN and ILO conventions and to take environmental and social impact of activities into consideration (AFD, 2017a). The Code of Conduct of Austria's ADA, which has a binding effect for all of agency's employees, include a commitment to act responsibly and carefully with the environment, in line with sustainable development (ADA, 2016).

There have also been notable efforts by the agencies on disclosure, a key pillar of RBC expectations. The 2011 Busan Agreement on aid data, for example, included a commitment to improve the quality of aid data, and notably implement a common, open standard for electronic publication of information on resources provided through development cooperation, taking into account the statistical reporting of the DAC and other frameworks such as the International Aid Transparency Initiative (IATI). All DAC members report on their ODA flows and aid efforts and policies to the OECD DAC annually (OECD, 2017). In addition, many donors have started providing free and easy access to aid data. Half of the donor agencies in this stocktake now publish data through IATI, and many of them have additional platform providing information on aid flows. In the United States, USAID has made clear commitments to uphold values of transparency, participation and collaboration (USAID, 2017). These commitments translate into several tools that provide open data on U.S foreign assistance (foreignassistance.gov) and USAID activities (explorer.usaid.gov). The Netherlands, Denmark, Sweden, France, Canada, Belgium and Italy provide open data on their aid flows through dedicated aid platforms. These datasets generally provide details on projects, budgets, sectors, activity status and stakeholders involved.[5]

Several donor agencies have also established specific mechanisms to handle complaints related to the agency activities at home and abroad**.** GIZ, for example, has a human rights complaint procedure in place, based on the UN Guiding Principles, with a dedicated email address for reporting concerns related to the human rights impact of the agency (GIZ, 2017). During the first half of 2017, the French Development Agency AFD implemented a new mechanism for handling complaints related to the environmental and social impact of the agency in its projects abroad. The agency has created a dedicated portal on its website and email address to facilitate the reporting of complaints (AFD, 2017 a,d). SIDA, Norad, USAID or DFID, notably have mechanisms in place to report concerns related to fraud or misbehaviour. Overall, most of these grievance mechanisms still focus on corruption or fraud and might not always provide a suitable venue for handling complaints related to the impact of agencies beyond criminal conduct. It should be noted that all donor countries that have adhered to the OECD Guidelines do have a National Contact Points for the OECD Guidelines, whose role includes handling enquiries, and contributing to the resolution of issues that may arise from the alleged non-observance of the guidelines.

Progress has been made in the area of public procurement

Public procurement is an important area where donor agencies can both exemplify and promote RBC, for example, through integrating risk assessments or RBC due diligence in the procurement process and including RBC expectations into eligibility, selection criteria and contract provisions. In many cases, donor agencies do not have their own procurement policies in place, and refer prospective suppliers to their broader government procurement processes. In the past, tender outcomes have been based primary on the initial cost approach, and that is still the case in many countries. In recent years, there has been a considerable shift from a purely initial cost approach to a a life cycle approach for procurement that includes environmental and social impacts enhancing value for money. Governments are increasingly concerned with the broader impacts of the goods and services they purchase. However, procurement processes are complex and it can be challenging for policy-makers to reconcile core procurement principles **-** transparency, economy, openness, fairness and competition **-** with social and environmental objectives.[6]

Besides procurement policies that may exist at government level, several donor agencies have integrated RBC considerations in their procurement guidelines. For example, DFID’s corporate social responsibility policy provides that DFID will purchase goods and services that are produced and delivered under conditions that do not involve abuse or exploitation, and have the least impact on the environment (DFID, 2017c). AFD has implemented a sustainable buying approach, which includes the integration of environmental and social provisions in contracts, and environmental criteria in purchasing practices (AFD, 2017c). Nevertheless, there is scope for further implementing RBC in procurement efforts and broaden the range of RBC issues considered.

Donor agencies have safeguards for activities targeted at the private sector

Private sector can be involved in donor agencies activities in different ways. Private sector development programs, for example, provide direct or indirect support to businesses as a way to foster economic growth and fight poverty. A variety of other forms of engagement and financing mechanisms have also emerged from the discussions around 2030 Agenda, such as challenge funds, special PPP funds, or targeted loan guarantees. Regardless of the form for engagement, when donors have programmes or special facilities in place through which they provide financial assistance to businesses, they typically do have rules and safeguards in place. In the Netherlands, for example, companies need to sign a declaration of commitment that they will apply the OECD Guidelines when they apply for the use of any financial foreign policy instrument. Australia's Strategy for aid investments in private sector development clearly states that "all parties should have a demonstrated commitment to being a responsible business and have a clear social impact agenda" (DFAT, 2015). Denmark's DANIDA Market Development Partnerships (DMDP) makes it a key requirement that participants respect international frameworks including the OECD Guidelines, the UN Global Compact, and the UN Guiding Principles on Business and Human Rights (DANIDA, 2017). In the Czech Republic, the Development Partnership Program for the Private Sector, which seeks to involve the private sector in the achievement of the SDGs and support the development of the private sector in developing countries, bases its principles for private sector involvement on international commitments at OECD, UN, and European Union level (Czechaid, 2017). Spain's AECID has developed a framework defining the role of the private sector in Spain's development cooperation, as well as principles for engaging and supporting the private sector, based on RBC instruments including the OECD Guidelines and the UN Guiding Principles on Business and Human Rights (AECID, 2016).

When providing support to private entities in the form of grants or loans, some donors have risk management processes in place. A positive evolution is the development of screening and appraisal mechanisms that integrate some RBC elements. Some agencies also apply a first screening process widely used by DFIs, with exclusion lists. ADA, DANIDA and AFD, for example, have published a list of criteria for exclusion of projects that they may not finance because of ethical, environmental or social concerns. The Netherlands has developed a methodology to screen applications that do not meet minimum RBC criteria. When applying for funding from the Good Growth Fund, a Dutch government fund providing funding to both national and local SMEs, companies need to meet eligibility criteria aligned with the OECD Guidelines. The application process starts with a non-committal proposition submitted through a form called "Quick Scan", which includes specific questions on compliance with the OECD Guidelines (Government of the Netherlands, 2017).

RBC criteria is also increasingly applied in actual evaluation criteria. In Austria, every application for funding is subject to an appraisal by ADA on environmental, social and gender issues (ADA, 2017). Same goes for the Canadian development agency, which shares each application for funding with environment, gender equality and governance specialists. Assessment criteria include identification of risks and mitigation strategies, on themes such as "do no harm" as regards to human rights (Global Affairs Canada, 2017).

But expectations of due diligence are often limited to self-certification mechanisms

Although assurances related to RBC are increasingly part of the evaluation and contract award criteria for donors, due diligence is rarely mentioned as the main process through which donor agencies ensure that applicants meet RBC requirements. Only a few donors have made due diligence a systematic process for assessing and addressing risks of adverse impacts that projects or partnerships may create. Among them, Norad clearly communicates that grant applicants and recipients should act in accordance with the UN Guiding Principles and the OECD Guidelines, and only awards grants when it is feasible to conduct a proper due diligence of the applicant. Norad also specifies that applications may be refused if this is not possible or if the applicant's risk profile is regarded as too high (Norad, 2016). DFID has also taken important steps to strengthen its own due diligence process and to ensure that suppliers meet RBC standards. In an open letter to DFID suppliers published in October 2017, UK Secretary of State committed to reinforce safeguards and controls on suppliers. Some specific measures include a “tough new DFID supplier code of conduct” that includes concrete actions suppliers are expected to take with respect to ethics, environment and human rights for all new tenders, with legally enforceable sanctions for non-compliance. Among the new requirements, suppliers will be expected to sign up to the UN Global Compact and take assurances to tackle modern slavery. The letter also states that DFID will no longer rely on self-certification and has set up a dedicated team to ensure that suppliers are complying (DFID, 2017). In the United States, the National Action Plan (NAP) on Responsible Business Conduct published by the United States in December 2016, states that USAID will develop and pilot a “social safeguards assessment tool” that Missions may use when designing new projects to ensure due diligence on social and human rights issues (State Department, 2016).

Projects that directly promote RBC are not widely spread

Donors can play a significant role in promoting RBC on-the-ground by financing, supporting or implementing projects that promote RBC. This can take different forms, from supporting multi-stakeholder or local RBC initiatives to developing comprehensive programs that target levelling the playing field for businesses that are responsible. Some donors have supported RBC implementation activities; nevertheless, there is scope to increase such activities. For example, Swiss SDC has played a leading role in the development of the Global Compact Network Switzerland (Economie Suisse, 2015). The Italian Ministry of Foreign Affairs has contributed 50,000 EUR to the UN Global Compact office and coordinated the Italian participation at several UN event related to RBC (European Commission, 2014). GIZ has developed an entire practice on enabling sustainable supply chains. The agency offers support to companies in developing and emerging countries to identify and mitigate risks, notably through on-site support and facilitation of multi-stakeholder dialogue (GIZ, 2017). Several initiatives have also been developed on specific sectors. The Netherlands’s Ministry of Foreign Trade and Cooperation has signed an agreement with Dutch companies operating in the coal industry to improve the coal supply chain. This initiative notably encourages Dutch companies and their contractors to act in accordance with the OECD Guidelines and take action to enable a sustainable supply chain (Ministry of Foreign Trade and Cooperation of the Netherlands, 2017). Canada has taken a similar approach with its enhanced CSR strategy in the extractive sector abroad. With this strategy, the government reaffirms its commitment to promote CSR in one its key industry and provides a framework incorporating the OECD Guidelines to enable sustainable supply chains (Global Affairs Canada, 2016).

Several countries have also developed and publicised tools that help companies be responsible. Dutch Ministry of Foreign Affairs has notably commissioned the development of a tool called CSR Risk Check, with the foundational principles derived from the OECD Guidelines. CSR Risk Check provides information on RBC risks by product and location, as well as guidance on how to meet RBC standards. It aims to help companies assess their exposure to risk and to take mitigation measures by providing information and guidance (MVO, 2017). The United States also sponsored a Responsible Sourcing Tool in order to help companies identify risks in their supply chain and implement measures to prevent them. It lists the OECD Guidelines, some of the ILO Core Conventions, and the UN Guiding Principles for Business and Human Rights among the list of external resources for companies to refer to (State Department, 2017). Overall, there is scope to further integrate RBC in donor efforts.

Activities by development financing institutions

DFIs are government-backed financial institutions that invest in private-sector projects in low- and middle-income economies. They are structured as multilateral or national organisations that implement development co-operation policy of their government. The scope of this stocktaking exercise is limited to national organisations. Their ownership and governance structures vary, with some being fully owned by their governments, while others partially owned by their government and private shareholders. Table 2 summarises the governance structure of the 16 DFIs included in this stocktaking.

DFIs engage directly with businesses through a wide range of instruments, notably equity investments, loans, loan guarantees, and risk insurance. Most DFIs use a mix of these different instruments, but some focus exclusively on equity, while others (such as the OPIC in the United States) have governance rules preventing such investments. Many DFIs also provide technical assistance to the institutions they invest in (Savoy et al., 2016).

Table 2. Examples of governance structure of national DFIs

	Ownership Structure	Tied to National Interests
OeEB (Austria)	100% Austrian export credit agency	Untied
BIO (Belgium)	100% Belgium governmet	Untied
BMI-SBI (Belgium)	63% public shareholders, 37% private	n.a
IFU (Denmark)	100% Danish government	Danish interest required
Finnfund (Finland)	93% Finnish government, Finnvera, and Confederation of Finnish industries	Finnish interest required
AFD/Proparco (France)	64% French Development Agency	Untied
KfW/DEG (Germany)	Owned by KfW	Untied
CDP/SIMEST (Italy)	100% CDP	Italian interest required
FMO (Netherlands)	51% Dutch government, 49% commercial banks, trade unions and others	Untied
Norfund (Norfund)	100% Norwegian governmet	Untied
SOFID (Portugal)	60% Portuguese government and four Portuguese banks	Portuguese interest required
COFIDES (Spain)	54% Spanish government, 45% Spanish banks, 1% CAF	Spanish interest required
Swedfund (Sweden)	100% Swedish government	Untied
SIFEM (Switzerland)	100% Swiss Government	Untied
CDC Group (United Kingdom)	100% UK Government	Untied
OPIC (United States)	100% U.S Government	U.S interest required

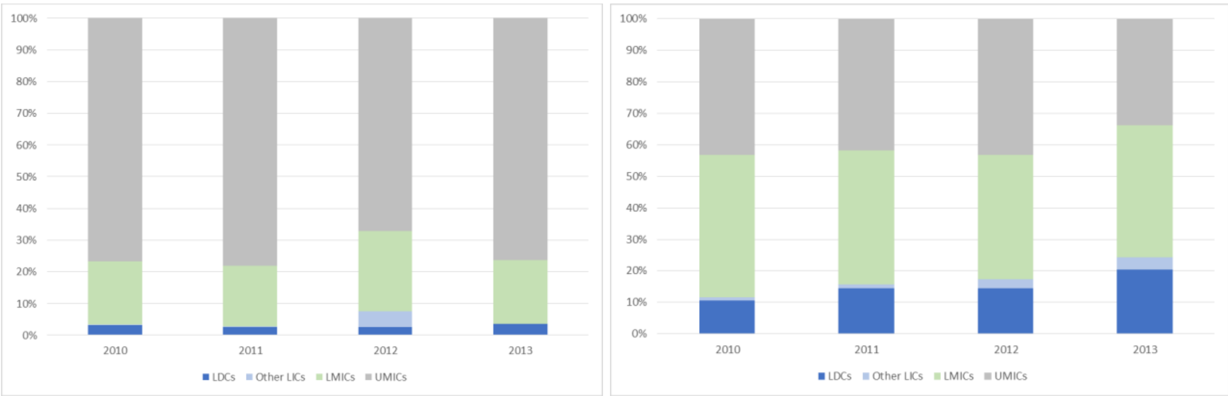
Source: CSIS, 2016.

DFIs are important development actors, contributing to economic growth, job creation and tax revenue generation in countries where private investors may not invest alone. As such, although they also invest in higher income economies, they tend to have a higher proportion of investments in low-income countries in their portfolios. Figure 3 provides an overview of their share of investments in Least Developed

Countries (LDC), other Low-Income Countries (LICs), Low and Middle Income Countries (LMIC) and Upper Middle Income Countries (UMIC) for DFIs and for all Foreign Direct Investment (FDI) flows.

Figure 3. FDI and DFI flows by income group

FDI flows by income group ***DFI flows by income group***



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Source: OECD data. "Development Finance Institutions and Private Sector Development". http://www.oecd.org/dac/stats/development-finance-institutions-private-sector-development.htm, accessed 22 November 2017.

DFI mandate to contribute to international development objectives also translates into investment criteria. The Association of bilateral European Development Finance Institutions (EDFI) defines three main success criteria for DFIs investments (EDFI, 2016):

- **additionality**, i.e. investing in underserved geographies, segments and sectors, by taking a long-term approach that allows them to invest in areas where private sectors hesitates to invest alone;
- **catalytic effect**, which is the ability to mobilise capital from private investors by being first movers in projects considered high-risk and by sharing risk and expertise;
- **sustainability,** defined as both commercially viable and responsible.

These multiple objectives make RBC particularly relevant for DFIs. Adopting and promoting RBC standards contributes to their mandate, by ensuring that their investments do not contribute to adverse impacts, strengthen sustainable development outputs. As they often operate in challenging markets, implementing RBC due diligence, internally and externally, can help protect their investment and ensure they are meeting their objectives. In the medium-term, promoting RBC standards can also contribute to reducing market risk and attracting more investments from private sector. DFIs also have significant leverage to promote and incentivise RBC standards with the businesses they invest in. They can, for example, incorporate non-financial criteria in their investment decisions, attach commitments to respect RBC standards to their loan agreements, and accompany investees in implementing best practice. Different instruments and investment structures give DFIs varying levels of leverage. Direct investments in companies might give them a right to nominate board members or have a say in operations. When investing in private equity funds, DFIs can focus on ensuring that adequate systems are in place to identify, prevent and mitigate risks of adverse impacts.

DFIs have widely adopted environmental and social standards in operations

Fifteen of the sixteen DFIs in this stocktaking exercise are members of the EDFI. In 2009, EDFI members adopted the EDFI Principles for Responsible Financing, which include commitments to ensure a preventive and precautionary approach to environmental and social impact of investee companies, as well as to mitigate and compensate unavoidable risks. These principles also include requirements that investees work toward relevant norms and standards, such as the UN Declaration of Human Rights, the ILO Core Conventions and the IFC Performance Standards on Economic and Social Sustainability and the associated Environmental and Health & Safety Guidelines (EDFI, 2009). In addition, EDFI members have agreed on Harmonized Environmental and Social Standards for any mutual financing activities. These standards include Environmental and Social Category Definitions, Requirements for Environmental and Social Due Diligence, and an Exclusion List (EDFI, 2017).

Most DFIs at least partially base their risk management on the IFC Performance Standards. These standards are part of the IFC Sustainability Framework, which articulates IFC commitments to sustainability and is integral part of IFC risk management. The framework provides guidance on how to conduct an evaluation of those performance standards and what information to look for, covering a wide range of issues also addressed by the OECD Guidelines. The following safeguards can be found in most investment policies of the DFIs:

- **Exclusion lists** are mechanisms to ensure that the DFIs do not fund or engage in certain activities. Exclusion lists traditionally include tobacco, gambling, weapons and munitions, activities deemed illegal under host country laws or international conventions, and forced labor. However, exclusion lists do vary for each DFI. For example, FMO and Proparco also have exclusions related to racist and anti-democratic media, or activities resulting in the destruction of critical habitat (FMO, 2017; AFD, 2017b).
- **Review of management systems**: DFIs usually include provision that allow them to review Environmental and Social Management System (ESMS) in order to assess whether the investees has sufficiently robust processes to identify and prevent adverse impacts. This notably includes having a due diligence process in place, a grievance mechanism, risk assessment mechanisms, stakeholder engagement.
- **Due diligence**: when dealing directly with the company receiving the loan or investment, DFIs will generally conduct a due diligence, with different levels depending on the preliminary background checks and risk assessments.
- **Development of Environmental and Social Action Plans (ESAP)**: except in rare cases, the DFI will generally avoid withdrawing from a financially viable project as a result of E&S assessments. Instead, DFIs would develop an action plan that the investees must implement to remain eligible to funding. Procedures exist to rescind the funds if the company does not meet its obligations.

Investment processes generally differ when DFIs invest directly in a business or when they invest through an intermediary such as a private equity fund. When their investment is indirect, DFIs focus on environmental and social management systems in place to ensure that private equity firms operate responsibly. When they invest directly in a business, an enhanced process is applied, which generally includes due diligence with on-site visits.

Aligning due diligence efforts with the RBC approach can help DFIs with internal and external objectives

IFC recognises the need to implement processes similar to those recommended to clients and has developed a Sustainability Policy, elaborated in 2006 and revised in 2012. It notably requires that IFC conducts environmental and social due diligence on activities proposed for its support (IFC, 2012b). Majority of DFIs have adopted similar guidelines or policies, and conduct due diligence, including site visits and/or external audits, as part of their investment decision process. Nevertheless, the range of issues covered by these policies varies among DFIs and may not fully encompass the range of RBC issues included in the OECD Guidelines or the UN Guiding Principles nor the way that environmental and social impacts may be considered and prioritised.

For example, taxes are an important aspect of the OECD Guidelines not covered by the IFC standards. As a response to civil society demands, some DFIs have revised their policy to include tax issues in their due diligence efforts and to ensure that investments are not made in a way to benefit from certain tax policies (for more information see Eurodad, 2014). In general, while this has mainly been a compliance approach, FMO, Swedfund and IFU have taken important steps to go beyond compliance and ensure that their activities do not contribute to tax evasion. FMO has also developed a Tax Transparency Tool to "systematically appraise whether its clients show responsible tax behavior" (Counter-Balance, 2016). There are also interesting examples where DFIs have acted to ensure their procurement practices are sustainable. KfW, for example, has adopted and promoted a sustainable procurement process, including developing a toolbox for contracting officers (KfW, 2014).

Aligning ongoing due diligence efforts with RBC approach could also help DFIs advance transparency. For example, the OECD Guidelines include a set of disclosure recommendations that call for timely and accurate disclosure on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company. The Guidelines also encourage a second set of disclosure or communication practices in areas where reporting standards are still evolving such as, for example, social, environmental and risk reporting. Additionally, specific reporting recommendations are provided with regard to certain themes treated by the Guidelines (e.g. environment, human rights, corruption). RBC due diligence involves: 1) identifying actual and potential adverse impacts; 2) preventing or mitigating adverse impacts; and 3) accounting for how adverse impacts are addressed, by (a) tracking performance and (b) communicating results. As a result due diligence reporting has also been included as an integral step in industry specific due diligence guidance developed by the OECD. DFIs have made important progress in being transparent around their investments, and further alignment of these efforts with RBC efforts could help them standardise the information provided and to ensure that they are communicating material information.

Finally, there is scope to strengthen the operational-level grievance mechanisms and to link them with the broad range of non-judicial grievance mechanisms available at the national or international levels, including the National Contact Points for the OECD Guidelines. For example, KfW has an online form allowing any individual, organization, or affected parties who believe that they have been negatively affected by a project or program financed by KfW to submit a complaint. KfW has also implemented a whistleblowing system and appointed an Ombudsperson (KfW, 2017b). FMO has adopted a similar policy, with an online form available to all to file complaints. In addition, FMO has implemented a speak-up policy that provides a platform for FMO employees and any party involved with FMO to raise a concern about possible misconduct within FMO or its subsidiaries (FMO, 2017c). OPIC has an Office of Accountability, which is an independent office in charge of addressing concerns, complaints or conflicts about environmental or social issues that may arise around OPIC-supported projects. The office can help parties resolve conflicts, and conduct investigations on how OPIC policies were applied (OPIC, 2017b). IFU has implemented a separate grievance mechanism to supplement the National Contact Points when grievances from those affected by an IFU investee are not resolved (IFU, 2017).

Tools exist to help DFIs ensure companies they work with are responsible

DFIs in general do monitor progress in the implementation of environmental and social standards of the companies they work with and some developed tools to help companies be more responsible. For example, Dutch FMO developed an ESG Toolkit (based on IFC Performance Standards) after it identified that significant discrepancies may exist between high-level standards and their implementation within private equity funds. FMO has also developed a sustainability e-learning tool to support banks and microfinance institutions wanting to reduce environmental and social risks in their portfolio (FMO, 2017d). UK's CDC created a step-by-step guide on due diligence, based on reviews of past projects and a dedicated website for fund managers providing guidance and materials on ESG management (CDC, 2015; 2017). DFIs can use the OECD Due Diligence Guidance for Responsible Business Conduct for further efforts with their investee companies. This guidance provides practical support to businesses on implementation of RBC standards and provides plain language explanations of the due diligence recommendations and associated provisions. Some DFIs also host training and capacity building as part of the monitoring process; aligning these efforts with the efforts to promote RBC among companies may provide value-for-money.

Furthermore, DFIs role in exercising leverage as a shareholder of companies should not be underestimated. DFIs control significant funds and can use their leverage. OECD paper on *Responsible Business Conduct for Institutional Investors* can also support DFIs in these objectives. The paper identifies key actions for asset managers and asset owners under each step of the due diligence process and includes discussion of key considerations, such as challenges, existing practices, or regulations specific to the investment sector which may impact due diligence approaches.

Finally, DFI role in blended finance is critical. OECD Development Assistance Committee Blended Finance Principles recognise that "high quality in the design and execution of projects financed by development finance, including blended finance, are central to the objective of supporting the development of functioning and effective markets. Blended finance should be based on high corporate governance, environmental and social standards, as well as internationally recognised responsible business conduct instruments, providing an opportunity for commercial partners to acquaint themselves with quality standards in unfamiliar markets." DFI's have also recognized the important role of doing so through the *DFI Working Group on Blended Concessional Finance for Private Sector Projects*, which includes both multilateral and bilateral DFIs. The group has created guidelines and five principles on how to implement blended finance transactions, including "Principle 5: Promoting High Standards." The principle highlights that high standards of conduct, including in the areas of Corporate Governance, Environmental Impact, Social Inclusion, Transparency, Integrity, and Disclosure, should be promoted (DFI Working Group on Blended Concessional Finance, 2017). OECD instruments on RBC can serve for this purpose.

Conclusion

While many donor agencies and DFIs have taken important steps to promote, incentivise and exemplify RBC, this has not yet the case across the board. Implementation of RBC standards can help development actors engaging the private sector to ensure that the partners they work with or invest in are acting responsibly according to international standards. It can also help them meet their government's broader policy objective to promote RBC both in their own economies and the supply chain. OECD provides an array of tools and guidance to governments and the private sector that can support these objectives.

The OECD Guidelines are the most comprehensive set of recommendations on RBC for businesses, and define clear expectations for businesses that apply even in countries where capacity issues persist and laws and regulations are not well enforced. Implementation of RBC standards is an opportunity for long-term market-oriented development solutions that can have an economy-wide impact. Due to their global reach, in-country influence, and financial leverage, government institutions that finance development programs are uniquely placed to help developing economies ensure that private sector – including domestic and foreign investors – in their economies contributes positively to sustainable development. The incentives to do so are strong as promoting and enabling RBC aligns both with their mandate and the broader policy objectives and commitments made by their governments. These institutions can use their leverage to disseminate knowledge and facilitate discussions at the country-level on key topics and to encourage governments with whom they work with to promote RBC standards. When engaging directly with private sector actors, they can communicate expectations that partners should observe RBC standards, as well as support and supervise their application. They can also exemplify RBC by adopting them internally.

More needs to be done in this area. Sharing experiences, defining and aligning best practices based on international standards will help to increase consistency and clarify expectations.

Annex 1: List of agencies included in the stocktaking exercise

Donor agencies included in the stocktaking exercise

Country	Institution
USA	US Agency for International Development (USAID)
Australia	Department of Foreign Affairs and Trade (DFAT)
Austria	Austria Developent Agency (ADA)
Belgium	Belgian Development Agency (BTC)
Brazil	Brazilian Cooperation Agency (ABC)
Canada	Global Affairs Canada
Chile	Chilean International Cooperation Agency (AGCI)
China	Department of Foreign Aid of the Ministry of Commerce (MOFCOM)
Colombia	Presidential Cooperation Agency (APC)
Costa Rica	Ministry of External Relations and Cult
Czech Republic	Czech Development Agency
Finland	Department for International Development Cooperation (FINNIDA)
France	French Agency for Development (AFD)
Germany	German Society for International Cooperation (GIZ)
Greece	Ministry of Foreign Affairs
Hungary	Ministry of Foreign Affairs
Iceland	Icelandic International Development Agency (ICEIDA)
India	Development Partnership Administration (DPA)
Indonesia	National Development Planning Agency (BAPPENAS)
Ireland	Irish Aid
Italy	Italian Agency for Development Cooperation (AICS)
Japan	Japan International Cooperation Agency (JICA)
Luxembourg	LuxDev
Mexico	Mexican Agency for International Cooperation (AMEXCID)
Netherlands	Netherlands Foreign Trade and Development Agency (NFTDA)
New Zealand	NZAID
Norway	Norwegian Agency for Development Cooperation (NORAD)
Poland	Ministry of Foreign Affairs, Development Cooperation Department
Portugal	Camões
Slovak Republic	Slovak Aid
Slovenia	Ministry of Foreign Affairs
South Africa	Government (multiple departments)
South Korea	Korea International Development Agency (KOICA)
Spain	Spanish Agency for International Cooperation (AECID)
Sweden	Swedish International Development Cooperation Agency (SIDA)
Switzerland	Swiss Agency For Development Cooperation (SDC)
UK	Department for International Development (DFID)

National DFIs included in the stocktaking exercise

Country	Institution
Austria	OeEB
Belgium	BIO
Belgium	BMI-SBI
Denmark	IFU
Finland	Finnfund
France	AFD/Proparco
Germany	KfW/DEG
Italy	CDP/SIMEST
Netherlands	FMO
Norway	Norfund
Portugal	SOFID
Spain	COFIDES
Sweden	Swedfund
Switzerland	SIFEM
UK	CDC Group
United States	OPIC

Note: This list was chosen on the basis of the OECD DAC list of main bilateral DFI: http://www.oecd.org/dac/stats/development-finance-institutions-private-sector-development.htm

The OECD Secretariat reviewed over 400 documents and/or webpages for this stocktaking – the full list is available upon request.

Annex 2: Author notes on methodology

This stocktaking exercise was conducted by the OECD Secretariat and aims to understand how objectives related to promoting and enabling responsible business conduct (RBC) are integrated in strategies, programmatic policies, operational guidelines, and procurement practices of bilateral donor agencies and development financial institutions (DFI). The exercise focused on identifying the current state of play, with an emphasis on featuring initiatives and safeguards that promote, incentivise, support, exemplify or monitor RBC by the private sector. This work is part of ongoing efforts by the OECD Working Party on Responsible Business Conduct to promote policy coherence on RBC and support the implementation of the Sustainable Development Goals.

The stocktaking was based on a desk review of publicly available documents, supplemented by secondary sources in a few instances where limited information was available on donor or DFI websites. The complete list of agencies and documents included in the stocktake is available in the Annex 1.

The following elements were researched:

- **References to RBC in policies, programmatic documents and strategies**: explicit references to the OECD Guidelines for Multinational Enterprises, the Policy Framework for Investment or investment climate, RBC, or due diligence;
- **RBC in procurement practices**: integration of RBC elements in procurement practices, including but not limited to, RBC criteria in tender documents, evaluation and award, and contract provisions;
- **Capacity-building**: development and dissemination of tools or guidelines supporting RBC or specific RBC themes; provision of training to support businesses in the implementation of RBC standards;
- **Due diligence**: existence of screening mechanisms and due diligence processes *before* providing funding or establishing partnerships with the private sector;
- **Monitoring of RBC performance**: existence of mechanisms to monitor RBC performance and take corrective actions in case of non-observance;
- **Internal processes aligned with RBC standards**: implementation of RBC standards in internal processes and operations, including non-financial disclosure, grievance mechanisms, whistleblowing protection and stakeholder engagement.

Due to the extensive scope of this research, choices have been made regarding which initiatives, commitments or instruments to report on. In general, this report aims to highlight best practices while providing a representative view of the integration of RBC practice among the diversity of donors and DFIs. In an attempt to standardise the information and present as much data as possible from the research, the presence of key RBC items was systematically researched. RBC is a comphrehensive concept and this list should not be interpreted as a definiteion of RBC. These RBC items are listed in the table below:

Institution	Policy / process	RBC measure
Donors	General policies	Reference to the OECD Guidelines, the PFI, RBC or CSR in key policy or strategy document or corporate website
		Existence of RBC / CSR or ESG action plan, charter or guidance, specific to the agency
		Reference to the OECD Guidelines, the PFI, RBC or CSR in material related to private sector engagement projects
	Private sector engagement or direct support	Exclusion list
		Integration of RBC, CSR or ESG criteria in assessment and partner selection
		Integration of RBC, CSR or ESG criteria in contract provisions
		Risk assessment conducted
		Due diligence conducted
		Due diligence requested / encouraged
		Monitoring of RBC, CSR or ESG criteria in place
		RBC training, tools or guidance available
		Existence of Procurement policy incorporating RBC elements
	Internal Processes	Grievance mechanism
		Participation in IATI
DFIs	General policies	Reference to the OECD Guidelines, the PFI, RBC or CSR in key policy or strategy document or corporate website
		Existence of RBC, CSR or Sustainability policy specific to the DFI
	Private sector investments	Risk management principles based or partially based on IFC Performance Standards or other relevant standard
		Existence of exclusion list
		RBC including ESG risk assessment conducted
		Due diligence including local visits conducted for direct investments
		Monitoring of RBC including ESG risks identified
		Existence of policy related to offshore centers
		RBC training, tools or guidance available
	Internal Processes	Existence of Procurement policy incorporating RBC elements
		Stakeholder engagement
		Disclosure
		Grievance mechanism

Some initiatives were relevant for this research but did not fall neatly into one of the above categories. As a rule, whenever such initiative was found, it was included in this research as long as it met the following consideration:

1. Incentivising RBC - for example, we did not review internal policies related to equality of opportunity and treatment in the workplace; however, we did consider inclusion of provisions on the same matter by in the contracts signed by suppliers.

2. Agency leadership – for example, organising an RBC-focuse forum would typically be included in this report, while the presence of a representative at a forum organized by a third party is not.

Broad government RBC commitments were outside of the scope of the research. For example, an initative by the government to develop a National Action Plan (NAP) on Business and Human Rights was not included. However, if the NAP mentions specific actions directly targeting the country donor agency or DFI, it would be included. Similarly, the existence of policy or rule with RBC elements at government level, even if it applies to the donor agency, is outside of the scope of this research, unless it is clearly cited or operationalised at agency level. For example, the fact that a government has developed guidelines on sustainable procurement, even with these guidelines apply to all government agencies, will not be considered for the purpose of this exercise. However, if these guidelines are referenced on the agency's website, tender documents or internal procedures, each referencing will demonstrate that RBC elements have been integrated in the donor agency's documents and will be part of this research. The rationale for this distinction is, first, that this stocktaking exercise focuses specifically on donors. Secondly, policies, rules and guidelines are efficient only insofar as they are implemented. In the case of procurement rules, for instance, it is reasonable to assume that contracting officers in any agency follow the procurement guidelines of this specific agency, regardless of broader rules or guidelines available at government level. Therefore, for this research, the procurement guidelines available on donor agency's websites prevail.

This scope calls for a clear definition and delineation of donor agencies. As a rule, the term donor agency refers to the official agency in charge of managing development co-operation financial flows. This includes traditional ODA as defined by the OECD Development Assistance Committee (DAC).

Although donors and DFIs may have procurement policies that applies for broader types of tendering and contracting, throughout this report, we use the term "procurement" only to refer to the purchase of goods or services that are intended to the direct use of the organisation (e.g, acquisition of goods, maintenance services, etc). We look separately at processes applied when donors or DFIs open tenders to either provide support to private sector actors (e.g funding or technical assistance), or to cooperate with private sector actors in a development project.

The majority of donors reviewed in this report have set up dedicated development agencies, with varying levels of autonomy from the government. This the case of the United States, for example, with USAID, or Germany with GIZ. However, several countries, such as China, manage their development cooperation and ODA through a department of the government. When this is the case, the research focuses on the Ministry or department assuming these responsibilities. A list of institutions researched for each country is available in Annex 1 of this report.

DFIs are major providers of other official flows, i.e non-concessional international public flows (Schmidt-Traud, G., Sachs, J.D, 2015) and may or may not be affiliated to the national development agency. In France, for example, the DFI PROPARCO is defined as the "AFD subsidiary dedicated to the private sector" (PROPARCO, 2017). The U.S DFI OPIC, however, defines itself as "a self-sustaining U.S. Government agency that helps American businesses invest in emerging markets" (OPIC, 2017). For this research, DFIs are considered distinct entities, and their policies, rules and guidelines analysed independently from the agency they may be affiliated with, unless a direct reference to the donor agency's policies or documents is made. Other providers of official development assistance, such as export credit agencies, are not included in the scope of this report.

The OECD Guidelines provide recommendations on all major areas of RBC. Often, policies, programmatic documents, processes and guidelines may refer to one or several themes, without referring explicitly to the concept of RBC. References to specific themes of the OECD Guidelines are in the scope of this research, as long as they are specifically targeted at the private sector. For example, a general commitment towards the environment in a strategy document may not represent an RBC commitment. However, integrating environmental criteria in a contract award process is considered an RBC measure, in the sense that it incentivises business partners behaviors toward the adoption of responsible environmental practices.

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Notes

[1] For example, USAID Global Development Alliance provides a model for public-private partnerships. Germany's DeveloPPP provides financial and technical support to businesses willing to invest in opportunities where commercial and development objectives overlap. Denmark's Market Development Partnership, the Dutch Good Growth Fund, DFID's Development Impact Bonds are other examples involving businesses, as partners, investors or a mix of both.

[2] For example, the legally binding 2015 ASEAN Convention against Trafficking in Persons, Especially Women and Children (ACTIP) entered into force in March 2017. ASEAN has also taken steps to tackle a broader but related issue of migrant workers. In November 2017, ASEAN leaders adopted the ASEAN Consensus on the Protection and the Promotion of the Rights of Migrant Workers.

[3] For more information on the implementation of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, please refer to http://mneguidelines.oecd.org/mining.htm.

[4] OECD, WTO and World Bank (2014) Global value chains. Challenges, opportunities and implications for policy Report prepared for submission to the G20 Trade Ministers Meeting Sydney, Australia, 19 July 2014, www.oecd.org/tad/gvc_report_g20_july_2014.pdf. ; OECD (2013), Interconnected Economies: Benefiting from Global Value Chains, OECD Publishing, Paris, http://dx.doi.org/ 10.1787/9789264189560-en.

[5] Some civil society organisations, however, have noted that more efforts are needed to meet the commitments in the Busan Agreement. According to the *Publish What You Fund Initiative*, the only bilateral donors that fully meet the requirements are DFID and SIDA, with Canada, the Netherlands, DANIDA and GIZ not far behind, while other donors ranking between "Fair" and "Poor".

[6] For the recent state-of-play on procurement and RBC, please refer to https://mneguidelines.oecd.org/Responsible-business-conduct-in-government-procurement-practices.pdf

mneguidelines.oecd.org

OECD