BUSINESS ACCOUNTABILITY **FOR** DEVELOPMENT

Mapping business liability mechanisms and donor engagement with private sector in development

How can we ensure that business – in particular multinational enterprises (MNEs) – really contribute to development in the countries where they operate? How can responsibility of their actions be granted against development impacts? How to keep them accountable for spending public money? These seem quite immediate questions. However, they still need to be answered.

The study "**Business Accountability FOR Development**", launched in April 2015, was supported by the CPDE, in cooperation with ITUC-TUDCN and EURODAD. It highlights existing business accountability mechanisms in general, and puts forward specific criteria to grant effectiveness of private sector initiatives in development.

The study includes the following recommendations, addressed to the whole development community:

On business accountability mechanisms

- There are various mechanisms already in place that are supposed to regulate, guide and assess business behaviour. Still it seems **very difficult to make them function in reality**, because of a substantial lack of commitment by the business side.
- **Business must be made accountable** on the basis of international standards that directly or indirectly (through States) address them.
- With increasing interest in the private sector as a development actor, existing instruments for business accountability should assume additional importance. **Adherence and implementation of internationally recognised guidelines and principles** concerning business behaviour and their accountability instruments (namely the ILO Conventions and standards, including the ILO Declaration on Principles concerning Multinational Enterprises and Social Policy, the OECD Guidelines for Multinational Enterprises, the UN Global Compact and the Guiding Principles on Business and Human Rights) **should become key condition to grant private sector support in development cooperation**.
- Compliance should be linked to eligibility and an adequate monitoring system **should lead to suspension of financial support in case of violations**.
- In the specific case of TCAs, these should be **interconnected with granting financial support** to private enterprises in development.
- Integrating rights-based approaches should be at the heart of any development process, through an inclusive and multi-stakeholder paradigm, including **social dialogue**.

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On how donors use aid to engage with the private sector in development

- **Agree on a coherent narrative about the role of the private sector in development in order to make sure that no areas or countries in need are left behind**.
- **Develop and implement the necessary tools to maximise the development impact of aid flows**. Aid is a scarce resource and donors need to be able to answer questions such as whether using aid to leverage investments in developing countries represent a more efficient and effective use of aid compared to, for example, investing in health and education. In particular:
    - **Donors should ensure financial additionality by establishing indicators that assess financial needs as well as opportunity costs** in relation to other development concerns, and by creating eligibility criteria that favours the domestic private sector and takes into account track records of the private sector actor in delivering development results.
    - Given the problems in measuring additionality, **donors need to clarify intended development outcomes and ensure that public investments to the private sector translate to sustainable livelihoods, observance of labour rights**, generation of quality employment, and improvement of social and environmental outcomes.
    - Agree on a global framework, modelled on the development effectiveness principles that can also be applied to all forms of support to the private sector. This should particularly include, **alignment with the country's development priorities and an inclusive approach to citizen engagement** (i.e. CSOs, trade unions (through social dialogue) and local communities, in addition to private sector actors). These principles must be consistent with democratic ownership and the use of country systems including in public procurement.
    - Improve the tools used to record and monitor donor support to the private sector, starting with the limitations identified throughout the report. Special attention should be paid to reporting practices related to ´leveraging' aid modalities.
- **Align international efforts and resources to improve donor engagement with the private sector with the areas that are more likely to make a significant contribution** to achieve international development goals. Given the importance of donor and developing countries' **procurement systems** in the context of aid delivery and that its impact extends well beyond its realm, it would be reasonable that the development community pays more attention to this area of work:
    - **Aid resources should primarily be used to reduce poverty and inequality and achieve development goals**. The goal of any private sector engagement in development should be producing positive development outcomes and this should not be obscured by the drive to create and increase profit.
    - **Donors should commit to fully untying aid** to ensure that aid resources can be used most effectively and efficiently and can target strategic partners in the private sector.

Permalink to the study: http://www.ituc-csi.org/business-accountability-for-development