

INTER-AGENCY TASK FORCE
ON FINANCING FOR DEVELOPMENT

Issue Brief Series

Policies and regulatory frameworks to better align business and finance with global goals

International Labour Office (ILO)

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1. Introduction

The Addis Ababa Action Agenda on Financing for Development emphasizes that private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation. Long-term private investment is critical to support growth, employment and structural transformation, and needs to be aligned with social inclusion and environmental sustainability. The Addis Agenda thus emphasizes the importance of mobilizing stable longer-term private finance, both domestic and international, in ways that further sustainable development. The Agenda welcomes private sector corporate responsibility initiatives, while also exploring policy and regulatory frameworks to better align business and finance with sustainable development.

The contribution of enterprises is important for the realization of all sustainable development goals and targets but is of particular relevance to SGD 8. **Enterprises contribute to sustainable development and decent work for all first and foremost by respecting the rule of law and workers' rights through their operations and investments, and by aligning their corporate initiatives with public policies and country decent work priorities.**

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Selected targets of direct relevance for enterprises:
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| <ul style="list-style-type: none"> ✓ 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro, small- and medium-sized enterprises, including through access to financial services ✓ 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value ✓ 8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training ✓ 8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms ✓ 8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment |
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The Addis Agenda recognizes the contribution made by enterprises to sustainable development through their business operations and investments. It calls for a rights-based approach to business development and for the promotion of good practices of business that are sharing the common vision of sustainable development and are looking into the social impact of their operations:

“We will foster a dynamic and well-functioning business sector, while protecting labour rights and environmental and health standards in accordance with relevant international standards and agreements, such as the UN Guiding Principles on Business and Human Rights and the labour standards of the ILO, the UN Convention on the

*Rights of the Child and key multilateral environmental agreements, for parties to these agreements. **We welcome the growing number of businesses that embrace a core business model that takes account of the environmental, social and governance impacts of their activities, and urge all others to do so. We encourage impact investing, which combines a return on investment with non-financial impacts.** We will promote sustainable corporate practices, including integrating environmental, social, and governance factors into company reporting as appropriate, with countries deciding on the appropriate balance of voluntary and mandatory rules. We encourage businesses to adopt principles for responsible business and investing, and we support the work of the United Nations Global Compact in this regard.* (Paragraph 37)

This brief is looking at the question of private sector alignment with public development goals through the lens of the social/labour dimension of sustainable development.

2. Stocktaking

2.1 Production, trade and investments trends

The proliferation of global supply chains has profoundly transformed the nature of cross-border production, trade and investments.¹ The United Nations Conference on Trade and Development (UNCTAD) estimates that around 80 per cent of global trade (measured in terms of gross exports) is now linked to the international production networks of multinational enterprises (MNEs), conducted either as intra-firm trade between an MNE and its affiliate(s), through non-equity modes of international production, or through arm's length market transactions.² Developing economies have increasingly become engaged in international investment flows, receiving more than half of global FDI in 2012 compared with less than 20 per cent in 2000, and reaching \$681 billion in 2014. Among the top ten FDI recipients in the world, five are developing economies.³

These trends highlight the importance of engaging the private sector on sustainable development and inclusive growth considering the impact MNE operations and investment decisions have on the development opportunities of countries. Local businesses are also becoming increasingly aware of sustainable and responsible business practices as they become or aspire to become part of global production systems. The potential contribution of enterprises of all sizes in ensuring inclusive and sustainable economic growth worldwide underlines the importance of clear reference frameworks to ensure a closer alignment of business actions with national and global development goals.

2.2 Reference frameworks for business actions

Since its creation in 1919, the ILO has maintained and developed a system of **international labour standards** aimed at promoting opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and dignity. International labour standards lay down the basic minimum social standards agreed upon by all players in the global economy. They are either conventions, which are legally binding international treaties that may be ratified by member States and translated into national legislation, or recommendations, which serve as non-binding guidelines. Whilst not directly binding on enterprises if not integrated in national legislation, the principles derived from the conventions and recommendations adopted by the ILO act as a guide for enterprises' behaviour worldwide.

¹ Decent work in global supply chains, International Labour Conference, 105th session, 2016.

² UNCTAD: World Investment Report 2013

³ WTO: World Trade Report 2014 and UNCTAD: World Investment Report 2015

The **Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration)** is of particular relevance in the context of the SDGs. It seeks to encourage the positive contribution that (multinational) enterprises can make to economic and social progress and to minimize and resolve the difficulties to which their various operations may give rise. As the only ILO instrument directly addressed to enterprises, it translates the principles derived from international labour standards into guidance for company operations. And it also addresses governments and social partners on the need for a conducive legislative and policy framework to fully harness the contribution of private sector action for inclusive growth and decent work.

Decent Work Country Programmes have been established in ILO member States to promote decent work as a key component of national development strategies, identifying the decent work challenges to be addressed and opportunities to be enhanced. Country objectives are agreed with employers' and workers' organizations and are the main vehicle for delivery of ILO support to countries. By aligning their initiatives with these national decent work priorities, enterprises can make a major contribution to the realization of decent work, both a means and a goal of sustainable development.

3. Policy Options and recommendations

3.1 Following a rights-based approach: aligning business operations with national legal frameworks and principles of international labour standards

Many enterprises have adopted policies governing labour and employment aspects of their operations as part of their longer-term sustainability strategies. Respecting the rule of law in countries of operations and adopting a rights-based approach building on the internationally recognized labour standards should be the foundation of any corporate sustainability strategy. It is important to minimize the difficulties that operations of an enterprise may give rise to and to address negative human rights impacts. Enterprises requesting advice on how to better align corporate policies and business operations with the MNE Declaration and principles of international labour standards can contact the ILO Helpdesk for Business.⁴

3.2 Maximizing the positive contribution of business to sustainable development: aligning corporate initiatives with public policies and national priorities

As part of long term sustainability, it is important for enterprises to look into enhancing their positive contribution to socio-economic development. To achieve this, ensuring a closer alignment of their corporate initiatives with national development priorities and public policies is the way to go for increased shared benefits and inclusive growth. Examples illustrating how enterprises contribute to skills development and youth employability (SDG 4 & 8) particular highlight the importance of synergies, coordination and alignment of corporate initiatives with national programmes. Enterprises can make a significant contribution to national efforts to increase youth employability by training their own staff and supporting development of in-demand skills among the younger workforce. In this spirit, the ILO MNE Declaration recommends to enterprises that they cooperate with national training institutions, to make the services of skilled resource personnel available and to participate in vocational skills programmes, including special funds. For governments, cooperation with enterprises on education and training is important to ensure close alignment between the supply and demand for skills which can lead to public private partnerships for apprenticeships and on the job training. As recommended in the ILO MNE Declaration, multinational enterprises can enhance their local contribution to the

⁴ The ILO Helpdesk for Business provides an individual assistance service to respond to specific queries (assistance@ilo.org) and a website (www.ilo.org/business) which features ILO tools and resources for business, including questions and answers (Q&As) on a wide range of labour topics.

creation of decent jobs by giving priority to the employment of nationals of the host country and building business linkages with local enterprises for the provision of goods and services and the local processing of raw materials.

3.3 Government initiatives and policy measures promoting alignment of business operations and private investments with sustainable development objectives

In addition of translating their international commitments into national legislation, governments are increasingly introducing policies and initiatives to stimulate sustainable and responsible business behaviour of foreign MNEs in their countries, such as the Social Responsibility Council for Sustainable Development in Chile. Likewise, home countries of MNEs are active in influencing operations of their MNEs in other parts of the world, such as Canada which has formulated the Canadian Strategy to Advance Corporate Social Responsibility in Canada's Extractive Sector Abroad.

A key strategy for boosting decent work opportunities in host countries, especially developing countries, is promoting backward and forward linkages between MNEs and local enterprises and is consequently becoming a common feature of policies to promote positive impacts of foreign direct investments (FDI). Examples include the CSR Policy for the Extractive Sector in Mozambique and the African Mining Vision adopted by the African Union which establishes a regional policy framework to better harness the opportunities of the extractive industry for inclusive growth in Africa and that recognizes that public policies need to be in place and that private policies need to be aligned with national and local development priorities.

Starting with the North American Agreement on Labor Cooperation (NAALC) which added a social dimension to the North America Free Trade Agreement (NAFTA), over the past two decades governments have increasingly integrated labour provisions in investment, trade and regional integration agreements to advance the contribution of FDI and trade to socioeconomic development.

3.4 The role of employers' and workers' organizations

Employers' and workers' organizations contribute to the creation of an environment that is conducive to the emergence and growth of sustainable enterprises by ensuring economic efficiency, democratic governance and social equity. Through social dialogue, they influence the working conditions at the enterprise level as well as the policy and regulatory environment in which companies operate. They are key players not to be overlooked when addressing issues related to the role of business in sustainable development and inclusive growth at the enterprise and national levels.