

# Global Supply Chains - Public Sector Engagement with CSR

## The role of bilateral donors

By PricewaterhouseCoopers  
Business for Social Responsibility  
November 2004



Executive Summary .....	2
1 Introduction.....	1
2 Codes of Conduct.....	4
2.1 The emergence of codes of conduct: private response to a governance failure.....	4
2.2 The need for a new approach .....	5
3 The case for donor intervention.....	9
3.1 Meeting development objectives .....	9
3.1.1 The social arguments .....	9
3.1.2 The economic arguments .....	10
3.2 Meeting foreign policy objectives.....	13
3.3 The space for donor interventions.....	13
4 Donor roles – a framework.....	15
4.1 A framework for action .....	15
4.2 Essential Elements for the Creation of Successful Enabling Environments.....	15
4.3 Industry-focused collaborative framework .....	16
4.3.1 Collaboration.....	17
4.3.2 The Elements of Collaborative Initiatives .....	18
5 Donor interventions.....	20
5.1 Development cooperation.....	20
5.1.1 Standards.....	21
5.1.2 Capacity building .....	27
5.1.3 Worker Empowerment.....	29
5.2 Social and environmental criteria.....	32
5.3 Trade.....	35
6 Next Steps.....	37
Annex A: References.....	40
Annex B: List of organisations consulted.....	41

*This report has been prepared for and only for the Swedish Ministry of Foreign Affairs and the Swedish International Development Agency in accordance with the terms of our engagement letter dated 07.05.2004 and for no other purpose. We note that it is the intention to make this report available to the wider public. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.*

*The report was prepared by Aron Cramer, Business for Social Responsibility, and Peder Michael Pruzan-Jørgensen, Helle Bank Jørgensen, Fredrik Franke, all PricewaterhouseCoopers.*

## **Executive Summary**

The Swedish Ministry of Foreign Affairs and the Swedish International Development Agency have commissioned research on ways bilateral donors of developed countries can promote corporate social responsibility in global supply chains in developing countries. This report investigates and evaluates the case for donor intervention; identifies some best practice efforts of bilateral donors; and finally presents strategic proposals for ways bilateral donor agencies and other developed country government agencies can support achievement of these goals.

### **Consistent with donor objectives**

The authors of this report believe that support for CSR - understood for the purposes of this report as the wider realisation of basic workers' rights and environmental protection in global supply chains - is consistent with bilateral donors' overall objective of poverty reduction. The authors also contend that such support is consistent with other foreign policy objectives such as the development of global trade based not only on free markets, but also on principles of democracy, social equity and justice and respect for basic human rights, including core labour rights.

In addressing the issues discussed in this paper, it is important that bilateral donors engage with governments in a manner that emphasizes locally-developed and appropriate solutions, to address local context, and using language that does not suggest that the agenda is being driven solely from and for the benefit of Northern institutions and interests. To put it another way, the greatest progress will be achieved by focusing on the development benefits of promoting fair working conditions and good environmental practices.

### **The context**

We present this paper in the context of an environment that is simultaneously static and dynamic. On the one hand, most observers believe that codes of conduct have led to improved labour practices in many industries over the past several years. At the same time, there is increasing recognition that the current "system" for achieving good labour and environmental practices in global supply chains, primarily through the mechanism of private codes of conduct and worksite monitoring is not sustainable, and has reached the likely limits of progress.

In addition, market access for both the informal and formal sectors of society in developing countries is increasingly linked to social and environmental performance suggesting that an inability to address this agenda will further weaken the prospects for development, poverty reduction and economic growth.

Local governments supported by bilateral donors have a pivotal role to play. Indeed, this report takes as an underlying premise the notion that codes of conduct have emerged as a corporate policy solution (though often triggered by public criticism) to a public governance failure which in turn is caused by a variety of factors including poverty, lack of human and institutional capacities, and effective enforcement of the rule of law. This

report proceeds from the perspective that donors have a key role to play in addressing this governance gap.

In addition to making a call for public sector governance and engagement, this report claims that more systemic approaches are called for to maximise the impact of codes of conduct efforts and related activities. This in turn requires the engagement of the public sector in developing countries as only the public sector has the legitimacy and authority to draw together all of the actors to enable them to contribute in an efficient and cohesive way that ensures optimal use of available resources. In addition, to date the drive for improved social and environmental standards has to a large extent been controlled by ‘Northern’ actors leaving too little attention to the need for localizing the initiative and ensuring local ownership. Bilateral donors have a role to play there as well, most notably acting as a facilitator between ‘Southern’ partners and ‘Northern’ stakeholders.

To date, bilateral donors have only to a limited extent seized the opportunity to work systematically with developing country governments in respect of CSR in global supply chains.

### **The enabling environment and collaborative frameworks**

The achievement of positive labour and environmental workplace practices in global supply chains requires a supportive enabling environment in which the public sector has a key role.

Developing country governments are likely to be successful in improving social and environmental standards if they develop coherent strategies that address the critical elements of the enabling framework: transparent and efficient legal and market-based drivers, robust capacities, and useful tools and skills.

In our view, developing country governments should develop approaches that seek to mobilize the skills, resources and capacities of multiple stakeholders including suppliers, multinational buyers, and civil society, and engage them in collaborative efforts focused on particular industries or particular agricultural commodities.

As noted in the report, we believe that collaborative, industry-focused and multi-stakeholder initiatives such as those presently being developed or implemented in the Central American garment industry, the South African wine industry, the Kenyan horticulture industry, and the Cambodian garment industry hold the greatest potential for improving labour and environmental standards in global supply chains.

In developing countries, the public sector can contribute to the development of these collaborative, industry-focused initiatives by endorsing or supporting other stakeholders’ efforts; facilitating the creation of these frameworks through its convening power, or by establishing legal frameworks that aid in their development.

## **The role of donors**

Donors play a critical role as development partner for the public sector. The principal role of donors is to assist through the provision of technical and financial assistance local governments undertake their responsibility as the principal overseer and shaper of the enabling environment.

However, donors can also promote improved social and environmental standards in global supply chains by others means. The role of donors falls into three categories:

- **Development cooperation.** Much of the focus of the report rests on this aspect of donors' activities. Bilateral donors can act in the traditional role as partner for local governments and other key stakeholders offering financial, technical and other support for activities envisioned to strengthening the enabling environment. In addition, donors can use their convening power by acting as a mediator and facilitator between southern and northern stakeholder groups including the private sector, civil society and local governments. Donors also can use their convening power to provide support for the development of local multi-stakeholder initiatives and other activities that focus directly on the improvement of labour and environmental standards. Such support should be developed within the overall industry-focused collaborative framework outlined in the preceding section.
- **Use of social and environmental criteria.** Developed country governments can include social and environmental criteria in their political dialogue with developing country governments, in their public procurement efforts, and in their lending facilities such as mixed and soft credits, as well as other efforts to tie the provision of government benefits to the achievement of standards or the adoption of processes designed to achieve desired standards.
- **Trade.** Trade and support of labour and environmental standards also can be linked. The positive experiences from the US-Cambodia Textile Agreement suggest one route to how such linkages can be made involving development cooperation. The GSP-scheme of the European Community suggests another.

As regards development cooperation, bilateral donors could support local governments in the three main areas outlined below. While the individual proposals falling within these three categories have merit on their own, whenever possible, actions in each of these three categories should be implemented through collaborative frameworks that are designed in as comprehensive a manner as possible:

- **Setting and enforcing standards more effectively**
  - Clarify laws and regulations in a manner consistent with internationally agreed principles
  - Extend laws and regulations to areas such as export processing zones and work groups such as migrant works not adequately covered

- Collaborate with the private and civil society sectors in the enforcement of laws and regulations through e.g. self-evaluation, accreditation, multi-stakeholder initiatives, etc.
- Building the capacity of private and public actors
  - Establish low-cost OHS-networks and mentor schemes to stimulate and facilitate learning. Multinational corporations could form part of such networks.
  - Build capacity of business federations to advise on labour and productivity management
  - Develop centres of excellence that combine attention to social and environmental issues with the management and technical skills that allow for more productive and competitive industries to develop.
  - Engage more actively with progressive northern industry initiatives involved with social and environmental standards in global supply chains
- Empower workers and trade unions, and other key civil society organisations
  - Educate and train workers on their rights at work
  - Remove barriers to worker representation
  - Develop dispute resolution mechanisms

The authors of this report recognize the trend among many bilateral donors to focus more on sector programme support and less on project implementation. While some of the proposals presented in this report may be implemented as part of wider sector programme support initiative, we also propose attention to less comprehensive approaches, which could be undertaken by a range of parties, including local civil society organizations.

### **Next steps**

As next steps, the Swedish government, through the Ministry of Foreign Affairs and the Swedish International Development Agency, should consider piloting some of the proposals outlined in this report. For instance, some of the models for public-private enforcement of labour and environmental standards could be tested in a specific industry. Another option would be to engage some Swedish multinational corporations as partners in support of some of the capacity building activities outlined in the report, including the establishment of low-cost occupational health and safety networks and mentor schemes.

With respect to the use of social and environmental criteria, none of the donors surveyed for this report appears to have developed a comprehensive approach to how social and environmental criteria should be used in development cooperation. SIDA could consider to developing such guidelines that could include soft credits, export credits, development cooperation, etc.

With respect to trade, the Ministry of Foreign Affairs could consider consultation with the European Commission in the upcoming review of the Generalised System of Preferences, with a view to discussing whether trade incentives and social performance can be linked more effectively, and in a more targeted fashion, with a view to improving labour and environmental standards in particular industries.





# 1 Introduction

## Objectives of Report

This report presents ideas about how public sector efforts to promote corporate social responsibility (CSR) in global supply chains in developing countries could be supported and strengthened by donor countries and development cooperation agencies.

It has been prepared in accordance with the terms of reference prepared by the Swedish Ministry of Foreign Affairs and the Swedish International Development Agency (SIDA) dated May 7, 2004. In preparing this report, the authors have thus investigated and evaluated the case for donor intervention in strengthening implementation of CSR in global supply chains; and investigated and considered expectations of numerous stakeholders we have consulted concerning the role of donors. We have also sought to identify, through consultations with donor agencies, best practice efforts of bilateral donors to support developing countries' efforts (from both public and private sector) to meet the growing demands and challenges related to CSR in global supply chains.

On this basis, the report includes strategic proposals about how bilateral donors such as SIDA can enhance existing efforts and support new efforts to strengthen implementation of CSR in global supply chains. Some of the proposals, however, are directed to other parts of the Swedish government.

## Background of Report

This report has grown out of a handful of separate, but related initiatives. In 2003, the authors of this report, along with the Danish Institute for Human Rights, researched and published a report commissioned by the World Bank Group entitled *Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains*. That report identified barriers to the implementation of codes of conduct by suppliers, along with options for more effective efforts to reach such goals. One of the primary conclusions of that report was that the public sector in both developed and developing economies should leverage their resources more effectively to contribute to better labour and environmental conditions in supply chains. It was widely believed that unless the public sector in developing countries engaged more effectively with these issues, the prospect for further improvements would remain modest.

Early this year, the Swedish Ministry of Foreign Affairs and the Swedish International Development Agency, in collaboration with the World Bank Group, the Prince of Wales International Business Leaders Forum, and the International Institute for Environment and Development, hosted an international meeting in Stockholm titled: *Development Cooperation and Corporate Social Responsibility - Exploring the Role of Development Cooperation Agencies*. This meeting convened development cooperation agencies, companies, civil society organizations and others to consider ways that donor agencies can support implementation of responsible business practices.

At the same time, the authors of this report were commissioned by the World Bank Group to prepare a second report, this time examining the role of developing country

governments in facilitating better labour and environmental conditions in their agricultural and apparel export industries. This report builds on the research and the report presented to the World Bank Group.

These various work projects each indicate growing interest in the question of how codes of conduct can be made more effective through targeted public sector interventions. This report represents a particular intersection of the themes in that debate, with the focus on the role of development cooperation agencies.

### **Methodology**

While this report builds on much of the empirical and analytical work commissioned in the past two years by the World Bank Group CSR Practice<sup>1</sup> as well as the work of others, at the core of the report are the practical experiences of governments in developing and developed countries as well as consultations undertaken with more than 80 representatives of the public sector, international institutions, buyers and civil society in Europe, North America, Asia, Africa and Latin America.

In particular, the report has benefited from consultations with bilateral donors concerning current and potential actions by donor agencies to promote the effectiveness of CSR with respect to supply chains. We have been able to consult with donor agencies from Sweden, Denmark, Germany, the United Kingdom, and the United States, as well as with the European Commission and some multilateral agencies. The consultations concerning the role of donors also have included discussions with governments receiving bilateral aid.

Consultations with donor agencies in most cases involved meetings with two or more representatives, to gain a diverse picture of the agencies' views and engagement on the issues. At the same time, we note that most agencies' involvement may include other departments, or very decentralized approaches, and therefore this report may not present a comprehensive picture of all activities.

A full list of the organizations and institutions consulted is annexed to the report. In view of some consultation partners' wish to be consulted anonymously we have not identified the persons consulted.

The results of these consultations have been analyzed and are presented in this report.

### **Structure of Report**

The report includes the following sections subsequent to this introduction.

In Section Two, we outline some of the substantive context necessary to consider the findings and recommendations presented here. In particular, we summarize the conclusions drawn from nearly two years of research, consultation and analysis by the authors concerning the role of the public sector in promoting CSR in supply chains. The

---

<sup>1</sup> Notably (Fox, Ward and Howard 2002), (Jørgensen, Pruzan-Jørgensen, Jungk and Cramer 2003), (Smith and Feldman 2003), (Berman, Webb and others 2003) and (Ward 2004)

section focuses on the emergence of codes of conduct, the need for new approaches to effectively improve standards in global supply chains, and the role of the public sector. In particular, we explore and discuss the need for greater coordination of efforts between public and private institutions, within industry sectors, and with civil society.

In Sections Three, Four and Five, we provide the substantial portion of the report. In Section Three we present the case for donor engagement, stressing the link between donors' efforts in these areas and development and foreign policy objectives, noting also that there exists a unique space for donor involvement in the promotion of labour and environmental standards in global supply chains.

In Sections Four and Five we turn to the potential roles for donors and specific areas in which donor intervention is likeliest to be effective, and is most needed. In particular, we focus on a small number of areas where we believe donors can have the greatest influence, support for: traditional activities to improve working environments, further development and enforcement of standards, capacity building for enterprises, the public sector, and workers' representatives, and worker empowerment. All this is discussed in the context of a bias in favour of collaborative initiatives, meeting one of the central gaps in current practice: the lack of systematic efforts to coordinate and leverage the relative contributions of different sectors.

In Section Six, we suggest possible next steps that can be taken by donor agencies to pursue the concepts and initiatives proposed here.

## 2 Codes of Conduct

### 2.1 The emergence of codes of conduct: private response to a governance failure

This report takes as an underlying premise the notion that codes of conduct emerged as a corporate policy solution to a public governance failure. While several factors contributed to the rise of codes of conduct, most observers agree that while labour laws in most countries are at or near levels called for in international agreements,<sup>2</sup> the enforcement of these principles is uneven at best. Similarly, environmental principles are neither well understood, based on widely-agreed international principles, nor broadly enforced. This inattention to the enforcement of labour and environmental principles has resulted in public controversy and scandal, activism by trade unions and NGOs, and the development of a new generation of corporate efforts to establish policies to contribute to better workplace conditions in global supply chains.

One of the defining features of this movement has been the diffuse nature of these efforts. While many of the initiatives that mark these past ten years are highly worthy, they have not resulted from systems thinking. The result of this approach has been a series of successes – some quite impactful – punctuated by instances of inefficiencies, duplication and inconsistency.

Levi Strauss & Co. is widely credited with having established the first code of conduct establishing specific performance requirements for its suppliers, in 1991. Over the following ten years, codes became extremely widespread amongst multinational companies, especially those in particular industry sectors: apparel, retail, footwear, and toys, and more recently in agriculture, consumer electronics, automobiles and others.

This development began as a standard setting exercise: only later did mechanisms to enforce these codes emerge. When they did, however, armies of enforcement teams fanned out across the globe, some from multinationals themselves, some from for-profit firms, and some – albeit a smaller number – from NGOs and other non-profit organizations.

During most of the history of codes of conduct, multinational buyers and monitors working on their behalf have placed an emphasis on the policing of suppliers as the primary means of achieving, verifying and demonstrating compliance with labour and environmental principles. Much greater attention has been paid to labour issues than to environmental issues, although significant work has been done to address worker health and safety issues, and environmental issues related to them.

The implementation of social and environmental standards through codes of conduct has relied on a fairly rudimentary and straightforward “system” of code development, implementation, monitoring and remediation. It is a system that has relied heavily on private monitoring of code compliance as the principal means of ensuring compliance

---

<sup>2</sup> There are several exceptions to this generalization, including some that are widely-known and substantial, such as the case of freedom of association in China, however this should not obscure the broader point.

with the code provisions. These approaches have not been the result of systematic development, with the result that the whole “system” does not appear to exceed the sum of its parts.

In the mid to late 1990s several collaborative initiatives involving other stakeholders emerged, bringing together a number of companies and stakeholders around common codes and implementation measures. These efforts, referred to in the report as “multi-stakeholder initiatives,” developed for a number of different reasons. In general, these initiatives have sought to develop and reflect a wider consensus around code content and implementation mechanisms, engage knowledgeable and credible parties from civil society, provide a means for greater coordination and collaboration, and share costs of implementation. While these multi-stakeholder initiatives and industry-wide efforts can be seen as an enhancement of the initial generation of codes developed by individual companies, they are nonetheless part of the same trajectory that has guided the implementation of social and environmental standards so far.

More recently, a new generation of innovation and experimentation has been tried. Efforts to harmonise the multi-stakeholder initiatives have been piloted, for example in Turkey. The ILO has sought to bring together all stakeholders to address working conditions in a comprehensive way, with mixed success, in places like Morocco and Bangladesh. Stakeholders have come together to seek to develop comprehensive approaches to issues arising out of trade negotiations, as for example in Central America, as part of the Central American Free Trade Agreement (CAFTA) negotiations. Technical efforts to promote good practice, such as shared databases developed by SEDEX in the UK and the Fair Factories Clearinghouse in the US, also have sought to make forward progress. Each of these efforts has the potential to lead to more systematic initiatives that will help to reduce the atomized nature of the first generation of code of conduct efforts, and therefore are to be welcomed.

## **2.2 The need for a new approach**

At the same time, this paper has been written in the context of increasing recognition that the current “system” for achieving good labour and environmental practices in global supply chains, primarily through the mechanism of private codes of conduct and worksite monitoring, is not working as effectively as it could. While our 2003 research revealed areas of substantial progress, that progress is inconsistent, is likely not sustainable, and does not maximize progress.

It is also worth stating, given the focus of this report, that the heavy emphasis on compliance, rather than the use of codes of conduct and related efforts to achieve economic development goals, limits the potential of improvements. While compliance with core labour standards and good environmental practice does bring advances towards development goals, this is an indirect result. Refocusing attention on global supply chains to bring more of a developmental approach is therefore warranted.

The authors of this report believe that there is a moment in time currently where some of the opportunities can be capitalized on, and some of the barriers overcome by catalyzing greater action by governments, which has a pivotal role to play.

### **Barriers**

As developed through the report we presented to the World Bank Group in 2003<sup>3</sup>, barriers to wider and more successful application of codes of conduct include six main points: (1) confusion about the nature of the standards to be applied, owing in part to the multiplicity of codes with difference in the application of standards; (2) an over-reliance on “top down” efforts which are, or are seen to be, imposed externally on suppliers; (3) lack of a clear business case for code implementation, and the perception and reality of ongoing conflict between commercial concerns and social and environmental objectives; (4) lack of clarity concerning environmental issues and standards; (5) lack of consensus that codes provide a good or legitimate path forward, and finally, (6) lack of an effective approach by government, whether through inattention or disinterest.

One important barrier is the broadly held belief that codes of conduct, as applied, lead to inconsistent standards at worst, and confusing standards at best. This is of signal importance to this study, because there appears to be a clear path to removing this barrier: greater reliance on local laws and regulations, so long as they are consistent with international principles like core labour standards. Indeed, the significance of this barrier can be substantially reduced, if not erased, by government’s acting in one of its most traditional roles: that of standard setter and enforcer.

This too would reduce significantly problems associated with “top down” approaches imposed on suppliers. There remains a sense that codes of conduct are “new” standards that reflect the interests of consumers in the wealthier countries rather than the social, economic and environmental goals of citizens in developing economies. While this assertion generally does not withstand scrutiny, there is no doubt that greater reliance on the standards established by sovereign governments would be harder to dismiss than company codes of conduct.

The third barrier, lack of a “business case” for good social and environmental practices, is complex, because it arises from the interplay of a diverse set of parties from the public and private sectors. That said, this too is a barrier that governments, whether donors or recipients, have a role in reducing, since the establishment of clear standards, evenly applied, achieves a “level playing field,” that helps to align social, environmental and economic concerns.

The fourth barrier is reinforced by our research, which reinforces the view that environmental concerns, beyond those related to occupational health and safety, have yet to enter fully the code of conduct agenda. An exception to this is in the agricultural sector, where the consulted workers stated that codes had reduced the environmental (health & safety) risks working with pesticides and other chemicals.

---

<sup>3</sup> Jørgensen, Pruzan-Jørgensen, Jungk and Cramer 2003

It also is important to note that many stakeholders do not accept the basic premise that codes of conduct are either the best mechanism, or indeed an effective mechanism for addressing the social and environmental issues at the core of this report. Trade unions in particular contend that public enforcement of laws, and collective bargaining agreements, are a far more effective and accountable system for ensuring that labour principles, and to some degree environmental principles, are honoured. It is, in fact, possible to extrapolate from this view that some believe that *codes themselves are a barrier*, and this view provides an important countervailing opinion that is worth considering as options for future progress are developed.

Finally, and significantly, there is a virtual consensus by informed observers that the absence of action by local governments presented a significant barrier to the achievement of good labour and environmental practice in global supply chains. It is essential to note that government inaction was viewed not only as a barrier to the achievement of good practice generally, but also as a barrier to the implementation of codes of conduct and other critical steps taken by non-state actors.

### **The need for the public sector solutions**

As noted above, although codes of conduct are a force for positive change in terms of labour and environmental performance, current approaches are far likelier to bring sustainable improvements when implemented within a comprehensive, public sector governed framework.

Governments have good reasons to invest in developing such frameworks. First, such efforts are likely to deliver economic and social spin-offs that contribute positively to national competitiveness. Second, they provide a level playing field for enterprises active in the country. Third, they insert into the debate over supply chains an opportunity for governments to have greater influence over outcomes than they have to date, as “solutions” have often been presented from outside these economies.

Thus, this report presents recommendations that identify ways the public sector can mobilize not only its own actions, but also take advantage of the resources, skills and capacities of different actors in areas such as: capacity building, training of workers, collaboration with other actors, and the strengthening and diversification of inspection systems.

This report proceeds on the assumption that continued and enhanced efforts on the part of business, both by multinational buyers and local suppliers is essential, and should in no way be seen as letting such actors “off the hook.” Further, it proceeds on the assumption that one essential role for government is to create enabling environments that envision strong contributions from civil society (NGOs and trade unions in their respective roles), and also from workers and communities. Such collaborative efforts are at the heart of the approach outlined here.

In fact, the importance of all these actors underlines the need for government efforts since it is only the government that can create or ensure an environment in which the main

pillars of an enabling environment -- drivers, capacity and tools -- point each of these actors in a common direction.

Consultations have shown that while there is an increasing sense among various parties to the debate that governments should be engaged more energetically, some actors still find it hard to appreciate the need for a new trajectory that does not center on the performance of the private sector alone. There also remains considerable skepticism about the degree to which exporting country governments are genuinely prepared to compete on the basis of better social and environmental performance.

In short, many seasoned observers continue to see government as the problem rather than the solution. We proceed on the assumption that this is not an immutable situation, and that it must be faced directly for progress to be made. We address some of these points below.



### **3 The case for donor intervention**

This report argues that support for improved labour and environmental standards in global supply chains contributes to both development and wider foreign policy objectives of bilateral donors in developed countries<sup>4</sup>. In addition, and as important, it is argued that bilateral donors can play a pivotal role in addressing these issues suggesting that a unique space exist for donor interventions in promoting e.g. collaborative, multi-stakeholder initiatives.

#### **3.1 Meeting development objectives**

The research undertaken for this report demonstrates that bilateral donors increasingly recognise that support for better labour and environmental workplace practices can play an important part of development cooperation strategies contributing to realising the overall objective of poverty reduction and economic and social development. The research also shows that donors only recently have adopted comprehensive policies on the promotion of core labour rights indicating that it is an area for further policy development. As concerns the external environment, donors have for long developed policies and implemented programmes.

The arguments presented by donors to promote core labour rights, including improved workplace practices seem to fall into two main categories, social arguments and economic arguments.

##### **3.1.1 The social arguments**

Two distinct aspects make up the social arguments. First, support for better labour and environmental workplace practices should be seen as a contributing factor to ensuring the realisation of basic human rights of workers, including disadvantaged groups such as women, migrant and temporary workers, and other workers part of the informal economy. In some important developing country export industries such as textiles and agriculture, women workers make up a significant proportion of the workforce suggesting that such support could have a strong gender dimension<sup>5</sup>.

In addition, donors argue that the wider enjoyment of such rights contributes to the development of more stable and responsive democratic societies, which being an objective in itself also is widely believed to play an important contributing factor in addressing poverty<sup>6</sup>. Moreover, a robust system of labour rights can also contribute to

---

<sup>4</sup> Although this report is primarily concerned with assessing the case for donor interventions in meeting development objectives, in the following some consideration is also given to how such support can contribute to wider foreign policy objectives. Indeed, as a whole the recommendations in this report cut across the traditional development cooperation agenda to include trade and traditional foreign policy.

<sup>5</sup> According to Oxfam International, women as percentage of production employees in the agricultural and apparel sectors in a number of developing countries in Africa, Latin America and the Middle East make up 65% to 90%. For instance, in the Cambodian apparel sector women constitute 90% of the workforce; in the Kenya cut-flower industry women make up 75% of the workforce; see Oxfam International, 2004.

<sup>6</sup> DFID, 2004

social and political development in that a set of standards applied evenly and transparently provides an example of good implementation of the rule of law.

Second, it is increasingly recognised by bilateral donors that poor workplace practices harm the physical and mental health of workers, which can result in whole households are thrown into poverty. The probability of this risk is particularly high for workers in the informal sector often linked to the apparel and agricultural industries<sup>7</sup>. Thus, support for improved workplace practices must be seen as primarily a poverty preventative measure. It should be noted however that donors recognise that this is an area where further research would be required to establish the significance of the link between promotion of core labour rights and poverty reduction at an aggregate level. For instance, DANIDA notes that the relationship between poverty and working environment conditions is not well documented and continues<sup>8</sup>.

### 3.1.2 The economic arguments

While the economic and social arguments cannot be entirely separated, for instance social stability and the wider realisation of human rights contribute to efficient markets, there are some distinct and relevant economic arguments.

In the pursuit of poverty reduction strategies bilateral donors have in recent years turned greater attention to the need of supporting the development of competitive, developing country industries. There is increasing evidence that good labour and environmental standards contribute positively to competitiveness. There are two mechanisms at play: market access and productivity.

#### Market access

Increasingly, access to (some) developed country markets requires compliance with basic labour and environmental standards. These requirements are placed in a handful of formal trade agreements, and more frequently, through the contractual requirements of multinational corporations<sup>9</sup>. This suggests that social and environmental compliance must be considered a competitive parameter. This was the very reasoning behind an initiative in the Philippines where access to apparel

**Box 1: Philippine: Manufacturers and exporters re-accreditation programme**

This programme was developed with the American Apparel Manufacturers Association but later overtaken by the Philippine Department of Trade and Industry. Philippine apparel suppliers are required to participate in a social compliance initiative to become eligible for export quotas. The initiative involves third party monitoring by professional service providers based on the WRAP-standard. The DTI funds the initial audit, however subsequent audits are funded by the suppliers themselves.

---

<sup>7</sup> However, as noted by one interviewed donor agency, this risk is likely to be higher in industries such as construction and transportation where most workers belong to the informal economy and where they most often are without any kind of social coverage. To this donor and in view of the overall objective of poverty reduction, the implication would be that support for core labour rights, although more difficult, should focus on the informal economy rather than the formal economy.

<sup>8</sup> DANIDA, 2004

<sup>9</sup> Although it is inherently difficult to establish the volume of global exports subjected to social and environmental criteria in contractual arrangements in the market place, anecdotal evidence indicates that the volume is large and increasing.

export quotas is linked to companies' performance with respect to labour standards and participation in a social compliance programme. In view of the phasing-out of the textile quota-regime in 2005, the government assessed that Philippine suppliers should become social compliant 'when time allowed'; see box 1. Other examples referenced in this report such as the Kenya Flower Council in the Kenyan horticulture industry and the multi-stakeholder initiative, WIETA, in the South African wine industry suggest that this market driver is beginning to catalyze change at the level of developing country industries.

Trade agreements play an important role in shaping market access for developing countries. Within the last four to five years new approaches to linking trade with social and environmental performance have been initiated. The US-Cambodia Textile Agreement is one such new approach where Cambodian apparel suppliers' access to the US market is linked to the industry's performance with respect to core labour standards; see box 2. In other US bilateral free trade agreements there are clauses built in which links market access to social and environmental performance. In some cases, these free trade agreements also link to development cooperation; this is the case in the Central American Free Trade Agreement (CAFTA) that includes development cooperation aspects such as support for capacity building to improve labour standards. To the extent that this trend continues developing countries' market access will become closer linked to respect for core social and environmental standards.

**Box 2: US-Cambodia Textile Agreement**

In 1999, the Governments of the Kingdom of Cambodia and the United States of America entered into a Trade Agreement on Textile and Apparel. The Agreement set an export quota for garments from Cambodia to the United States while seeking to improve working conditions and respect for basic workers' in the Cambodian garment sector by promoting compliance with - and effective enforcement of - Cambodia's Labour Code as well as internationally recognised core labour standards.

The agreement offers a possible 18% annual increase in Cambodia's export entitlements to the United States provided the Government of Cambodia supports the implementation of an ILO programme to improve working conditions in the Cambodian apparel and textile sector, including internationally recognised core labour standards, through the application of Cambodian labour law.

The programme achieves the overall objective by 1) establishing and operating an independent system to monitor working conditions in factories; 2) providing assistance in drafting new laws and regulations; 3) increasing the awareness of workers and employers of rights and obligations; 4) increasing the capacity of the employers, workers and their respective organisations, and of government officials.

ILO-trained local staff using a fairly traditional and control-based methodology carries out monitoring. Participation in the programme is mandatory to become eligible to use export quotas.

**Productivity**

The second dimension of the economic argument, the question of productivity, has gained increasing interest in recent years, not least in view of many suppliers' perception that investment in labour standards is inconsistent with increased productivity and quality. Although there is a general lack of hard research on which to base an opinion, strong anecdotal evidence is emerging, which suggests that investment in labour and environmental workplace practices contributes to increased productivity and better

quality<sup>10</sup>. For instance, the ILO Factory Improvement Programme recently implemented in Sri Lanka and now under way in India and Vietnam as well as the joint ILO-UNDP Project WISE in the Philippines have both demonstrated clear positive links between good labour management in respect of internationally agreed principles and practices and increased productivity

Similarly, an initiative by a group of buyers in China, known as the Impactt project, has come to the same conclusions<sup>11</sup>.

**Box 3: Linking core labour standards and productivity: the ILO Factory Improvement Programme**

The ILO Factory Improvement Program (FIP) seeks to build processes that support the realization of the twin objectives of compliance and competitiveness at the level of suppliers by promoting a systems approach to management. The project objective is to build capacity at industry and/or national level to train and execute factory improvement projects with relevant suppliers.

The programme was initiated following a study in 2000 by the ILO that surveyed 20 multinational companies in the apparel, retail and footwear sectors and 74 of their suppliers in countries including China, Sri Lanka, Guatemala, Honduras, Mexico, Cambodia, and Thailand. The study found that it was essential to establish a linkage between competitive (productivity and quality) and labour issues.

The programme was tested in Sri Lanka. Eight relatively large apparel factories were chosen for a six-month training and factory-level consulting/improvement program. Short training sessions for each module were followed by factory visits and consulting in the specific needs of individual factories. International experts with the support of local teams conducted the training modules. The programme builds on aspects of the ILO workplace improvement methodology, WISE, developed by the ILO that combines workplace monitoring with workplace improvement techniques building the capacity of suppliers to achieve greater productivity through better labour management. End of line defects fell from around 13% average across the participating factories to around 8% during the course of the programme. Absenteeism fell from almost 8% to 5%. Turnover fell from 9% in participating factories to around 7%.

Following the success of the program in Sri Lanka, it is proposed that it be implemented in Vietnam and India in late 2004.

While the above arguments may lend themselves as strong reasons for action by local governments rather than foreign counterparts, they also present good reasons for bilateral donors to support the achievement of better workplace practices in exporting industries.

---

<sup>10</sup> To date, hard research linking competitiveness and core labour standards is virtually non-existing. According to the Department for International Development in the UK existing research on trade and investment and core labour standards presents a mixed picture. Some research suggest there high labour standards negatively impacts exports in labour-intensive industries, others show a different picture. Most studies seem to agree that higher labour standards do not result in less foreign direct investment suggesting that increased labour costs are offset by positive effects via, e.g. greater social stability; see DFID op.cit.

<sup>11</sup> This is a project undertaken by a group of buyers in cooperation with e.g. the British consultancy Impactt and the Hong Kong Productivity Council. Involving nine Chinese garment suppliers, the project set out to identify ways to reducing overtime while maintaining appropriate wage levels and increasing productivity. The project was generally considered successful in meeting this objective.

### **3.2 Meeting foreign policy objectives**

In addition to contributing to the realisation of development objectives, support of good labour and environmental standards in global supply chains may contribute to fulfilling other foreign policy objectives of developed country governments such as the promotion of democracy and human rights of which core labour standards is an important element. The policy on promotion of core labour standards developed by United Kingdom's Department for International Development refers to this as one key objective of the policy.

Moreover, bilateral donors as representatives of developed country governments may wish to support the achievement of decent of workplace practices in global supply chains in view of the rising scepticism among the public at large attributed to globalisation. As noted by the European Commission “[there is among the public] ... a recognition that trade and investment flows should benefit the population at large and support those that participate in the production processes and contribute to economic growth”.<sup>12</sup> The Commission further states that at present the existing international economic and social rules and structures are unbalanced at the global level indicating that it needs to outline a strategy that enhances the contribution of globalisation to social development and to the respect for fundamental rights, including core labour standards.

Global supply chains are a distinguishing phenomenon of globalisation making them a relevant objective for initiatives that should seek to enhance the social benefits of globalisation. Thus, in a long-term perspective developed country donors as strong proponents of globalisation hold an interest in ensuring that the process of globalisation contributes to social and economic development in locations where products are sourced.

### **3.3 The space for donor interventions**

The research undertaken for the purposes of this report shows that donors can play a critical role in ensuring that labour and environmental standards in global supply chains improve. Although to date there are few practical examples where donors have undertaken such critical roles, the wide range of parties consulted almost unanimously agreed that bilateral donors present a welcomed and needed input to bring the debate further; see box 4.

---

<sup>12</sup> European Commission, COM(2001) 416 final

**Box 4: Donor experiences with CSR in global supply chains**

Donor experiences with direct involvement with CSR in global supply chains are limited. To date, only the donor agencies in the United Kingdom (DFID), Germany (BMZ and GTZ) and United States have been actively involved in activities aimed at improving workplace practices in global supply chains.

DFID involvement has primarily been implemented via funding of the Ethical Trading Initiative as well as direct funding of smaller specific projects initiated by the Ethical Trading Initiative in the South African wine industry, the Kenyan and Zimbabwean horticulture industries.

The German BMZ-GTZ is actively involved in two supply chain projects, the social compliance initiative in the German retail industry, and the Common Code for the Coffee Community. The latter project supports the coffee trade & industry, producers, trade unions and NGOs in the development of a code of conduct for sustainable production, processing and marketing of green coffee. In the former project, the AVE-initiative, the BMZ-GTZ has helped facilitate a common code of conduct for the German retail industry in cooperation with trade unions and NGOs with focus on the apparel, textile, leather, footwear and toy industries. The initiative involves common monitoring of suppliers to the German retail industry. The GTZ is involved in awareness raising activities involving local suppliers, NGOs, public sector representatives and trade unions in a number of developing countries.

The United States primarily via USAID is involved in a couple of projects, the most important is funding for the ILO programme in Cambodia set up in connection with the US-Cambodia Textile Agreement.

For further reading on donor agencies' experience with CSR in broad terms, please refer to "How donor agencies are supporting and enabling corporate social responsibility" a summary document prepared for the conference on Development Cooperation and corporate social responsibility - exploring the role of development cooperation agencies", Stockholm 22<sup>nd</sup>-23<sup>rd</sup> March 2004.

The critical role of bilateral donors principally stems from the analytical perspective employed in this report: the current codes of conduct trajectory that emphasizes solutions at the level of the firm has exhausted its potential for further progress because it has failed to acknowledge the importance of the wider enabling environment and the critical role of government in shaping that environment. Bilateral donors can play a pivotal role as development partner for local government in shaping an enabling environment to the achievement of better labour and environmental standards in global supply chains. This and other roles are further explored in section 4.

In short, donor involvement with labour and environmental conditions in global supply chains not only holds the promise of contributing to fulfilling overall development and foreign policy objectives; such involvement is also needed to bring additional impetus to the continuous process of improving workplace practices in global supply chains.

## 4 Donor roles – a framework

### 4.1 A framework for action

This report, while focusing on the opportunities available to donor agencies, proceeds from the view that the achievement of good labour and environmental conditions in global supply chains must be founded in a supportive, enabling environment in which business can work continuously to improve workplace practices in collaboration with stakeholders. The public sector has a key role as the principal overseer of the enabling environment, and this section outlines some of the features of effective enabling environments.

This section therefore provides suggestions about the context in which donors, and their partners, can act most effectively.

### 4.2 Essential Elements for the Creation of Successful Enabling Environments

Based on the work of the World Bank Group with respect to enabling environments, consultations with stakeholders, and practical examples surveyed for the purpose of this study, we believe that any work to promote enabling environments should address either or all of the following three critical elements:

- **Maximum Use of Drivers:** An enabling environment is considerably easier to create if business and others are pushed to act through the presence of drivers. Drivers can take various forms, including legal, commercial and social, and they may take both positive and negative forms. A prime example is the impending phase-out of apparel quotas, which is driving many governments to pursue strategies allowing them to compete on the basis of good labour practices. Market-based drivers also have been particularly strong in pushing many of the initiatives referenced in this report, such as the South African wine industry (all producers export to the same market thus being subject to identical market pressures) and the Philippine garment industry (access to quotas has been linked to participation in a WRAP-based social compliance initiative).
- **Capacity:** It also is essential that there be relevant human capacities and institutions such as inspectorates, ministerial departments, business federations, etc. to pursue the social, environmental and economic goals inherent in this agenda. For example, the failure or inability of states to enforce labour standards, despite the presence of legal, social, and to some degree commercial drivers of strong labour practices remains a factor that undermines the enabling environment. Recent progress in Cambodia, for example, presents progress towards an alternate scenario in which trade agreements have provided a strong driver, and the ILO has worked to ensure that local capacity exists to make progress towards the social goals.
- **Tools:** A successful enabling environment also relies on the presence of tools to be used in achieving social and environmental goals. Tools that have been identified

in our research, as well as work performed by others, include labels, certificates, guidelines, management systems, etc. The capacity building agenda described below embraces this approach.

Successful strategies should address the critical elements within a coherent framework. While local governments may be effective in building institutions such as robust and credible enforcement agencies, these efforts are more effective when they coupled with strong and transparent market drivers as well as the practical skills and incentives required to shape business behaviour. We also believe, as outlined further below, that such approaches are most effective when they are focused on particular industries engaging multiple stakeholders in collaborative efforts<sup>13</sup>.

In our view, the apparent failure of the present system of codes of conduct to bring about sustainable social and economic change, despite substantial efforts by numerous stakeholders, is based on the absence of a systematic, collaborative framework.

### 4.3 Industry-focused collaborative framework

We believe that strategies based on industry-focused collaboration between multiple stakeholders and within a coherent framework represent a novel departure from governments' traditional approach to promoting labour and environmental standards. Moreover these arrangements also hold the greatest promise for creating supportive, enabling environments that ultimately will result in improved labour and environmental standards in global supply chains.

#### **Box 5: Collaborative initiative in the South African wine industry (WIETA)**

WIETA is a not for profit, voluntary collaborative initiative that involves multiple stakeholders to the South African wine industry. The objective of the initiative is to improve the working conditions of employees in the wine industry by means of standard setting, capacity building and monitoring. It was set up in late 2002.

The initiative has developed a base code on the basis of South African law and the Ethical Trading Initiative (ETI) code. In addition, guides to the code have been developed for the different constituencies. A corps of independent auditors performs audits on the basis of the code. Suppliers request and pay for the audits themselves; spot-audits are being considered. WIETA educate members and workers in the code, and unions also educate workers concerning the code. Some minor training services are offered.

An executive committee governs WIETA with representatives of all major constituencies to the industry including producers, unions, NGOs and government. NGOs represent the interests of temporary and migrant workers and other workers not formally represented by the trade unions.

WIETA is part-financed by small membership fees (producers). In addition, much of WIETA's funding will come from the Common Customs Tariff rebate afforded to a percentage of South African wine exported to Europe and the United Kingdom. The UK retailers who benefit from this rebate have agreed that this saving be returned to South Africa to fund various developmental initiatives in the wine industry.

---

<sup>13</sup> As indicated above, many of the practical examples that follow should illustrate the relevance of these key assumptions. We also would note that we do not consider these assumptions to be necessary in 100% of the efforts we propose, and there will continue to be relevant interventions that fall outside the scope of these assumptions.



While several of the recommendations we present in this report have merit on their own, we generally believe that the impact of each proposal will be substantially greater if implemented within a coherent, industry-focused strategy that seeks to engage multiple stakeholders in collaborative efforts. Donor agencies have a unique ability to foster this kind of collaboration.

Collaborative initiatives therefore can be used to achieve the full range of development oriented options presented later in this paper including: (1) efforts to set, extend and enforce standards; (2) capacity building; (3) worker education and engagement; and (4) development and implementation of economic incentives for good practices. Before turning to these, below we outline the basic characteristics of such industry-focused collaborative frameworks.

#### **4.3.1 Collaboration**

The collaboration we are calling for is not simply the politically driven desire by some to see more transparency on the part of the business sector. Rather, it is practical collaboration within a coherent framework that allows each sector of society to bring its own unique attributes to bear in ensuring that the issues in questions can be addressed successfully and result in long-term, sustainable solutions.

There are several reasons for this, including:

- The need to shift away from the ad hoc nature of efforts to date. As we have noted in several places, the present approach is unlikely to yield sustainable results suggesting a need for developing coherent, collaborative approaches. Collaboration would also seem to be a prerequisite for governments to ensure that efforts are supportive of governments' overall developmental objectives.
- Leveraging and wiser use of resources. Governments will not be able to fully align private, voluntary initiatives to public policy goals unless such efforts brought within an overall framework. Also, there is widespread agreement among particular businesses (and among many other stakeholders) that the present individualised supplier auditing represents a waste of resources. This is the rationale behind the growing number of industry-wide initiatives such as the German retail sector initiative. Moreover, the present shift from auditing and policing towards capacity building and training will require more concerted and cooperative efforts to be successful. However, in the absence of coherent, collaborative frameworks, individualised monitoring risks merely being replaced by individualised capacity building resulting in the same sub-optimal use of resources.
- Ensuring that complementary competencies are present. While the public sector is the overall 'organiser' of the enabling environment, it does not on its own possess the competencies and skills required to bring about change. Thus, collaboration allows each party to apply its expertise and support implementation. For instance, the development of workplace codes in the skilled trades in the Netherlands was a

result of collaborative effort in a traditional tri-partite set-up recognising that both business and unions had relevant expertise to bring to the table.

- Ensuring broad based support and credibility. The emergence of codes of conduct should also be seen through the prism of public governance failure to ensure credible and robust enforcement of standards. At the same time civil society remains highly sceptical of purely private, voluntary efforts to ensure better standards.

In addition to the above, collaboration also appears to be a prerequisite for achieving the critical mass of financial and human resources required to ensure the more widespread realisation of labour rights and better environmental protection. Thus, in our view this is why many of the initiatives to date have failed to contribute to a wider respect of labour rights and environmental protection. They have been too narrow in scope and scale.

#### **4.3.2 The Elements of Collaborative Initiatives**

Based on the practical examples cited in this report, we believe that collaborative frameworks could be based on the following organising principles:

- **Industry focus:** As noted above, collaborative initiatives are likely to yield the best results when focused on particular industries. Industry is in many respects a highly organising and defining determinant of the social, political and economic structures of society. In practice, the critical elements of the enabling environment are likely to be different between industries; for instance, market-based drivers tend to be industry specific. More importantly, however, the critical stakeholders are usually organised along industrial lines. This applies to labour unions and employers' federations and also to some NGOs that are focused on particular industries. In addition, the connection between the buyer and the supplier sides follows industrial lines.
- **Shared governance:** The governance of collaborative frameworks should involve participants that reflect the broad concerns and interests of the key constituents affected, including constituencies without institutional representation such as migrant workers, women workers, etc. Collaboration thus has to extend beyond the mere inclusion of multiple stakeholders to include multi-stakeholder governance. In some cases tripartite governance will suffice, and in others additional stakeholders will need to be brought into the picture. Collaborative governance is crucial to the resolution of disputes among the involved parties – such governance structures may act as a precursor for facilitating institutional dialogue among the tripartite bodies of the labour market.
- **Common standards:** Collaboration should be structured on an agreed set of environmental and labour performance principles, based on national laws and regulations, consistent with international principles -- notably core labour standards. This said, we believe that there are reasons to be cautious in promoting labour standards that are markedly 'above' the national law, unless there are material

differences between national law and international principles. Initiatives in the Cambodian textile industry and the South African wine industry are both considered successful partly because they do not seek to achieve labour standards that are dramatically above what is required by local law.

- **Financial sustainability:** Significant public funding and/or external funding may be necessary to undertake the initial phases of initiatives described here, and indeed this may be a particularly valuable means of engaging donors. At the same time, the long-term financial sustainability of such initiatives needs to be secured by the financial commitment of implementing parties through market mechanisms and/or some limited form of public funding. It is an important premise of the proposals presented that they should not require significant public funding as a prerequisite for successful implementation. In addition, committed collaboration would seem to require an element of financial risk on the part of the private sector<sup>14</sup>.

In addition to the above characteristics of collaborative initiatives, we would like to stress the importance of local ownership. While many of the drivers, capacities and tools in recent years have come from developed economies, they are not long-term substitutes for the integration of public sector initiatives in developing countries. Moreover, we recommend that the northern industry-wide initiatives seek to interact more strategically with local governments, as well as work to contribute to local capacity to develop, implement and govern collaborative initiatives.

---

<sup>14</sup> Financial risk does not necessarily come as the donation of financial capital but also in the form of in-kind contributions such as participation in training activities, test implementation of new techniques, etc.

## **5 Donor interventions**

There is no single recipe for donor involvement. Rather, donors can pursue a wide range of policies to promote higher workplace standards in global supply chains. This report proposes that donor involvement can be pursued along three policy dimensions that extend beyond the traditional sphere of development cooperation. Development cooperation remains, however, the most important dimension and the one that is at the centre of this report.

The three policy dimensions that developed country governments could pursue in isolation or, more effectively, in combination are:

- **Development cooperation.** Bilateral donors can act in the traditional role as partner for local governments and other key stakeholders offering financial, technical and other support for activities envisioned to strengthening the enabling environment. In addition, donors can use its convening power acting as a mediator and facilitator between southern and northern stakeholder groups including the private sector, civil society and local governments as well as provide support for the development of local multi-stakeholder initiatives and other activities that focuses directly on the improvement of labour and environmental standards. Such support should be developed within the overall industry-focused collaborative framework outlined in the preceding section.
- **Social and environmental criteria.** Developed country governments can include social and environmental criteria in its political dialogue with developing country governments, in its public procurement efforts, in its lending facilities such as mixed and soft credits, etc.
- **Trade.** Trade and support of labour and environmental standards can be linked. The experiences from the US-Cambodia Textile Agreement suggest one route to how such linkages can be made involving development cooperation. The GSP-scheme of the European Community suggests another.

These three policy dimensions are explored in the following.

### **5.1 Development cooperation**

The achievement of good, sustainable labour and environmental workplace practices in global supply chains requires a supportive enabling environment. The public sector in developing countries has a key role as a principal overseer and shaper of the enabling environment. In respect of development cooperation, the key role of bilateral donors is to support the public sector in its endeavours to undertake this key role.

In broad terms, developing country governments are likely to be successful in improving social and environmental standards if they develop coherent strategies that address all the

critical elements of the enabling environment: transparent and efficient legal and market-based drivers, robust capacities and institutions, and useful tools and skills. Such a broad approach is also in line with the development approach of most leading donor agencies that emphasises support for policy development and the enabling environment in particular sectors of society.

Within this broad framework, donor agencies can support local government in a variety of ways that involves traditional development cooperation interventions. These include support for development of national policies and programmes; review and modernisation of legislation and regulation; capacity building at the institutional level, most frequently the ministries of labour and environment, relevant inspection authorities and technical institutions; awareness raising among workers and their representative institutions, and including capacity building of trade unions and other civil society organisations<sup>15</sup>.

These categories of interventions are important. As earlier argued, however, to maximise impact they should be implemented within an overall framework as outlined in preceding section. Developing country governments with the support of bilateral donors should develop strategies that seek to mobilise the skills, resources and capacities of multiple stakeholders and engage them in collaborative efforts focused on particular industries or particular agricultural commodities. Within such a framework bilateral donors should support the public sector in developing countries in three main areas that are further explored below:

- Setting and enforcing standards more effectively
- Building the capacity of private and public actors
- Empower workers and trade unions, and other key civil society organisations

While the individual proposals falling within these three categories have merit on their own, whenever possible actions in each of these three categories should be implemented through collaborative frameworks that are designed in as comprehensive a manner as possible. We would note -as did several of the donors consulted - that donors by virtue of vast experiences are particularly well suited to engage with multiple stakeholders from both the North and the South as well as from different sectors of society.

In addition, while some donors are disentangling themselves from the process of implementation of development projects focusing on the project appraisal and evaluation phases as they place greater emphasis on sector programmes rather than individual projects, such engagement would not necessarily require the involvement of donor staff but rather local organisations possibly supported by international organisations.

### **5.1.1 Standards**

Setting and enforcing standards are important elements of the drivers, institutions and the tools that create better enabling environments. Recognising that there are gaps in both *de*

---

<sup>15</sup> See Danida 2004, annex I for a more elaborate outline of bilateral donor interventions in support of the working environment.

*jure* and *de facto* application of standards, bilateral donors can support local governments with respect to:

- Clarification of existing standards in a manner consistent with international standards
- Extension of existing laws and regulations to cover areas such as export processing zones as well as to work groups not adequately covered by existing laws and regulations
- Collaboration with the private and civil society sectors in the enforcement of standards.

Thus, the challenge with respect to standards has two distinct but related dimensions: establishment of standards and enforcement of standards.

### **Establishment of standards**

Clear and enforceable standards in content and in application consistent with internationally agreed principles are a critical element of the enabling environment. The public sector in developing countries should attend to the consistency, applicability and clarity of their national laws to ensure that the legal framework enables achieving good labour and environmental standards.

**Consistency** with internationally agreed principles is an objective in itself -not least for bilateral donors. In addition, there is a risk that efforts to achieve good labour and environmental standards in line with requirements of multinational corporations are undercut by the legal framework if inconsistent with internationally agreed principles. In the perspective of promoting local, multi-stakeholder collaborative initiatives this report's research suggest that consistency is crucial to ensure the commitment of all participants; see text box.

- *It is recommended that the public sector work to ensure that laws pertaining to labour and the environment are consistent with internationally agreed principles. In cooperation with relevant expert institutions such as the ILO, UNEP, World Bank Group and UNDP, bilateral donors can support such efforts by means of offering financial and technical assistance.*

#### **Box 6: Legal standards and multi-stakeholder initiatives**

Some of the multi-stakeholder initiatives appear to have been particularly successful because they have sought to aspire to national legal standards consistent with internationally agreed principles. For instance, according to the management of the South African wine industry, the fact that the standards aspired to are in line with national law means that both industry and unions see the initiative as a compliance initiative. In Australia, the Homeworkers Code of Practice is based on local law. The Code is an industry-union initiative facilitated by government that seeks to improve the working conditions of homeworkers to the Australian retail and apparel industries.

**Clarity** is an important part of consistency. Legal standards must be clear and enforceable to allow all stakeholders to work on a common platform towards agreed upon

goals. The research undertaken for this report as well as other anecdotal evidence suggests that there is substantial confusion about the meaning of existing standards, as applied.

Lack of clarity inhibits implementation of goods standards for several reasons: 1) many suppliers in global supply chains are small and medium-sized enterprises without the resources and skills required to interpret unclear laws and many workers in such supply chains are unfamiliar with formal industrial work settings; 2) undue advantaged can be gained through lack of clarity; and 3) greater clarity will contribute to greater consistency in the requirements expressed by multinational corporations and thus contribute to less confusion and better implementation<sup>16</sup>.

**Box 7: Industry Sector Labour Codes and Guides in the Netherlands**

The Dutch employers' organisation in the skilled trades has developed detailed, easy to read and use guidelines for management of workplace issues. The guidelines are structured by industrial process identifying solutions to potential problems. On each issue it offers advice on how to achieve performance beyond legal compliance. The guidelines have been developed with the relevant trade unions and representatives of government, however the employers' organisation is responsible for continuously updating the codes. The codes have been developed at a cost of €15,000.

This report's research suggest that clarification as appropriate should take place at the industry level as opposed to the national level engaging a wide range of concerned stakeholders. The initiation of such processes of clarification will also help to build confidence among the participating stakeholders, most notably the labour market parties and the public sector. The experiences from the Netherlands' skilled trades are illustrative of this approach; see text box.

---

<sup>16</sup> A recent study by the World Bank Group on barriers and options to implementation of codes of conduct at the level of suppliers concluded that the lack of legal and regulatory clarity was a contributing factor in buyers making inconsistent requirements to their suppliers (Jørgensen, Pruzan-Jørgensen, Jungk and Cramer, 2003).

- *It is recommended that the public sector seek to engage stakeholders representing workers and business in distinct industries in efforts to achieve greater clarification of existing laws and regulations. Such efforts could result in 1) users' guide for management on legal requirements; 2) users' guide for management on implementation; and 3) workers' guide on their rights and obligations under the law. Bilateral donors can support the public sector in such endeavours offering financial and technical assistance. In addition, in situations where e.g. the public sector lacks the expertise or the confidence of other stakeholders, bilateral donors can undertake the role as facilitator.*

**Extension and applicability** of existing laws and regulations present a particular challenge. In many developing countries, basic labour law is enforced, if at all, with an emphasis on the formal sector, and in some cases only applies to certain parts of the workforce, leaving a very large part of the workforce with minimal protection, including workers in export processing zones. This problem is particularly relevant in global supply chains in agricultural commodities but also in light manufacturing including textiles where homeworkers make up a significant share of the total workforce in the supply chain. These gaps present problems for three reasons in addition to the obvious point that they leave many workers unprotected: 1) it reinforces the view that codes are somehow an external imposition that is inconsistent with local practice since codes often require suppliers to ensure compliance throughout their own supply chains; 2) they mean that two sets of rules apply: one for companies in a purely local economy, and another for those participating in global supply chains, which creates market distortions and a two-track system for those seeking to enforce applicable provisions; and 3) they run contrary to clear international consensus.

- *It is recommended that national governments as appropriate seek to ensure that basic labour and environmental provisions apply equally to all categories of workers, and all workplaces, without exemptions that create or invite lower standards. As in the above, bilateral donors can in cooperation with relevant expert organisations offer technical and financial assistance to such efforts.*

### **Enforcement of standards**

Poor enforcement is the key aspect of the public governance failure with respect to labour and environmental standards. The present enforcement capacity in many developing countries suggests that a system of credible and robust enforcement must rely on other means of enforcement than the traditional policing undertaken by the public inspectorates<sup>17</sup>.

The absence of robust and credible public enforcement is the principal reason for the rise in private monitoring by multinational corporations in recent years. However, as early

---

<sup>17</sup> In countries such as Cambodia, the Philippines and Vietnam the total number of labour inspectors are less than 300 suggesting that even major increases is unlikely to have any significant impact on the enforcement capacity. In addition, labour inspectors often are poorly remunerated making them easy targets to corruptive practices. For instance, a Cambodian apparel worker's monthly income is more than double the income of Cambodian labour inspectors.



indicated, while private monitoring and auditing exercised by multinational companies in principle may be seen as a complementary resource to the public labour and environmental inspection systems, in practice, the current “system” misallocates and duplicates resources without corresponding benefit in social, environmental or economic terms. This suggests that public-private collaboration presents some opportunities for achieving better and more comprehensive enforcement. As noted, such public-private collaborations are likely to be more successful when focusing on particular industries rather than on developing ‘generic’ solutions.

This report’s research has uncovered a number of examples of public-private cooperation often involving other stakeholders in respect of enforcement of standards; primarily labour standards. These examples are quite different in nature providing different learning experiences.

In several places, it seems as if the public sector tacitly recognises private monitoring as an effective substitute for public inspections. For instance, the independent but private monitoring in the South African wine industry through the WIETA multi-stakeholder initiative has effectively allowed the public inspectorates to focus their resources on the wine producers that sell to the domestic market and who often display the poorest workplace conditions. Similarly, the industry-governed Kenya Flower Council conducts private monitoring in the horticultural industry that to a wide extent replaces government inspections. In many countries, private monitoring by e.g. insurance companies or certifying bodies allow the public inspectorates to adjust their monitoring.

In other places, private monitoring has formally replaced public inspections. This is the case in the Cambodian textile and garment industry that benefits from the ILO-governed private monitoring; see box 2. In the Philippines, textile and garment manufacturers’ access to export quotas are conditioned on their participation in a government sponsored and endorsed private monitoring scheme that follows the WRAP-standard; see box 1. Appointed private monitors perform the workplace inspections. The manufacturers themselves finance some of this auditing.

A number of countries, developed and developing alike are experimenting with self-evaluation as a means of enforcement. In 2004, the Philippine government adopted a new labour standards enforcement framework that requires companies with more than 200 employees to carry out self-evaluation based on guidelines developed by government. The evaluations shall be performed by joint-teams of management and workers. Companies that fail to report violations and who are later identified as violators will be more severely penalised. In the environmental arena a number of mostly developed countries have developed publicly accessible pollutant release and transfer registers to which companies must report their emissions and waste management. In case of false reporting, companies are also severely penalised<sup>18</sup>.

---

<sup>18</sup> A pollutant release and transfer register (PRTR) is a mandatory, publicly accessible database that compiles detailed data on chemicals that industrial and other facilities release on-site or transfer off-site. A PRTR thus allows the wider public and other full access to information about release of chemicals and other types of hazardous waste from individual facilities. In the United States, the US Toxic Release

These diverse experiences suggest that the public sector can pursue a number of routes to ensure better and more comprehensive enforcement. It is also likely that the different approaches are more relevant under some conditions than others.

Public-private cooperation with respect to enforcement is likely, however, to stir debate in many countries as well as run into institutional and political opposition. In addition, such collaborative efforts also require a degree of trust among the participating stakeholders that may not always be present. In situations like this an ‘outsider’ may be able to catalyse change otherwise not possible. This has been the role of the Ethical Trading Initiative in connection with the initiative in the South African wine industry and also to a lesser extent in connection with its involvement in the Kenya Horticulture Ethical Business Initiative (HEBI). Some of the parties consulted in connection with this report acknowledged that the lack of confidence among key stakeholders in particular with respect to the public sector often was such that an outsider was required to bring the parties together engaging them in collaborative efforts.

- *It is recommended that national governments pursue public-private collaboration with respect to enforcement of standards. The involvement of government will vary according to the model pursued. Bilateral donors can play an important role beyond that of offering financial and technical assistance to include undertaking a direct facilitating role. The following four generic models may be tested in specific locations:*
  - *Self-evaluation. To be effective, self-evaluation should involve both management and workers. Workers must be sufficiently strong to balance the influence of management. A trade union representative should participate in self-evaluations. Donors could offer support to development of evaluation guidelines, empowerment of workers and training of trade union representatives.*
  - *Cooperation: National governments could develop specific criteria with respect to standards, auditing methodology and auditor skills that would allow private monitoring to replace public inspections. This should allow multi-stakeholder, collaborative industry initiatives such as the WIETA, the Cambodian textile initiative and the Kenya horticulture initiatives to effectively replace public inspections. Donors could help not only in developing such criteria in cooperation with relevant international organisations but also, more importantly, contribute to the establishment of such collaborative initiatives.*
  - *Accreditation and certification are the natural extensions of ‘cooperation’. Companies could be offered various incentives to become certified and/or use accredited monitors such as grace periods for reported non-compliances, financial subsidy, lower insurance premiums, etc. Donors could support the work of the ISEAL-alliance as well as Social Accountability in Sustainable*

---

Inventory was set up in 1986 following the Bhopal incident in India in 1984. In 2004, the European Union launched the European Pollutant Emission Register.

*Agriculture with a view to develop appropriate standards, methodologies and accreditation guidelines that could be recognised by governments as effective and complementary enforcement mechanisms<sup>19</sup>.*

### **5.1.2 Capacity building**

As noted elsewhere in this report, there is a widespread recognition that codes of conduct efforts should be reoriented away from mere policing towards greater reliance on capacity building and training of suppliers. As a corollary to this development, it is also widely recognised that public inspectorates should be transitioned away from reliance on the enforcement function towards a teaching function that enables suppliers to assume a greater share of the responsibility for performance. Finally, it is increasingly recognised that workers and their representatives must play a greater role in ensuring good workplace standards.

There are thus four primary targets for capacity building, listed in order of priority: (1) suppliers; (2) public sector staff; (3) supporting institutions; and (4) workers and their representatives.

Donor agencies have traditionally focused a significant portion of their support for good labour and environmental standards on capacity building. This report argues that there is considerable scope for continuing this support. However, it is also argued that such support should seek to engage multiple stakeholders in collaborative efforts and that the capacity of suppliers and not public institutions such be at the centre of such efforts.

Multi-stakeholder (or tri-partite) approaches to capacity building, while being more time consuming in the conception and implementation phases, hold the prospect of burden sharing, skills complementarities, and long-term sustainability. Donors can engage in various forms of capacity building that are outlined below.

#### **Supplier training on labour and environmental standards**

There exists in many cases an information and skills gap that prevents suppliers from pursuing the environmental and labour policies discussed in this paper. In addition, there is a perception gap in that most suppliers still perceive improvement of labour and environmental standards as being inconsistent with productivity and profitability. According to the research undertaken by the ILO in connection with the Factory Improvement Programme this perception is one of the key barriers to sustained efforts to improve workplace practices; see box 3.

According to consultations with Philippine public sector representatives, the government was successful in altering the perception of wider business in respect of these issues as a result of a sustained programme undertaken in cooperation with the ILO and UNDP, known as the project WISE; see text box X. In short, the project undertook to demonstrate to business managers the positive linkages between improved labour

---

<sup>19</sup> In many countries ISO certification acts as an effective complementary, albeit indirect, enforcement mechanism. For instance, in some Indian states environmental inspection will be limited in scope if a manufacturer has been ISO 14001 certified.

standards and productivity/quality by using the WISE-methodology in the workplaces of participating factories. The ILO Factory Improvement Programme builds on the WISE-methodology.

- *The perception of the private sector with respect to the linkages between labour management and productivity can significantly inhibit or promote implementation of good labour practices. Donors can support the ILO in its efforts to promote the Factory Improvement Programme in particular countries and industries as well as undertake on their own to initiate awareness raising programmes in particular industries involving multiple stakeholders, including business federations, trade unions and the public sector. In addition, donors in cooperation with the ILO could work to ensure that the experiences and methodologies from the programme are more widely shared with labour inspectorates in other countries.*

**Box 8: Project WISE in the Philippines**

The Project WISE is a low-cost programme for improving productivity and working conditions in small (and medium-sized) enterprises. It works to link productivity and product quality to better and safer workplace conditions. The programme was initially implemented through the Department of Labour and Employment (DOLE) system with assistance from the UNDP and ILO in 1994-97 in a handful of Philippine regions and in the following years sought expanded to the rest of the country. The programme is generally attributed to having contributed greatly to a widespread acceptance that workplace improvements can lead to productivity increases.

The WISE-methodology originally developed by the ILO in the 1980s and subsequently refined. The methodology is generally considered efficient in improving workplace conditions while simultaneously increasing productivity.

The direct beneficiaries are the labour inspectorates and technical staff of the DOLE, at the national and regional offices, and other personnel and training staff from the cooperating government, private and labour organisations who shall comprise the implementing teams and core of trainers for the project. They have been trained to propagate the concept and benefits of WISE to as wide a clientele group as possible. The ultimate target group, however, are the small and medium-sized entrepreneurs and workers.

In the consultations for this report, it was frequently stated by buyers and others that there is a paucity of expertise available in the most critical markets with respect to labour management, workplace improvement, production planning, etc. Buyers did not expect such services to be rendered by government only or on a non-payment basis. In addition, the research has demonstrated a general lack of attendance to these issues even in highly export-oriented industries. This suggests that there is a need to facilitate the development of such expertise. Donors could provide the necessary seed capital and technical expertise to develop such services. A number of options could be pursued:

- *Establish low-cost EH&S networks to stimulate and facilitate learning. Experts bringing together a group of companies with similar requirements could run such networks. Participating companies could pay an annual fee to cover the costs of the experts as well as pay for more customised services. Donors could provide seed capital and technical expertise to help set up such networks.*

- *Establish low-cost mentor-schemes. E.g. a large (multinational) corporation could undertake to train and develop own suppliers. This model has been tried with some success in the Philippines facilitated by the Employers Confederation of the Philippines.*
- *Build capacity at the level of business federations to offer advise on labour and environmental management. The Employers Confederation of the Philippines have developed such a programme on the basis of the ILO project WISE, however the financial cost has prevented suppliers from taking advantage of the programme.*
- *Set up 'centres of excellence' that combine attention to social and environmental issues with the management and technical skills that allow for more productive and competitive industries to develop. Such centres could be set up as complementary capacity building effort to industry-wide monitoring or wider collaborative frameworks. This would also allow such centres to develop services that meet the needs and requirements identified in monitoring activities. Donors could provide the seed capital, however in the medium-to-long term a transition towards a greater degree of financial independence should be achieved through services being rendered on a payment basis. Multiple stakeholders, a professional board, academic institution or another model could undertake the governance of such centres.*
- *An alternative to centres of excellence would be to build on the experiences of the century-old model of agricultural educational centres in the United States and Europe. These centres facilitated the transition of an economy from one form of activity to another and these experiences could form the basis for similar activities in developing countries.*
- *Engage multinational corporations and their industry organisations more actively. At present the various northern codes of conduct initiatives in the e.g. toy, retail, garment, tea, coffee and cut flower industries have remained overly focused on monitoring. Although many of the companies that form part of these initiatives privately recognise the need to engage more actively in capacity building, it is noteworthy that to date this is only taking place to a limited extent. There should be considerable scope for donors to engage with these northern initiatives with a view to complement their activities with capacity building initiatives as outlined above. The German AVE-initiative that benefits from the involvement of the German donor agency could serve as a source of inspiration.*

### **5.1.3 Worker Empowerment**

A wide spectre of parties consulted for this report, including representatives of buyers, recognise that engaging workers more directly in the process of ensuring good labour and environmental practices is essential to sustainable progress. Better labour and environmental performance is enhanced through more educated workers better able to vindicate their rights, more effective trade unions with free access to workers, and better labour-management dialogue.

This is a role for governments to play, through the clarification and enforcement of existing laws; bringing of existing laws into conformance with core labour standards; ensuring that labour-management relations can operate smoothly and within the bounds

of core labour standards; and in finding ways to serve in the role that only it can play: that of a neutral party tied neither to management nor labour.<sup>20</sup>

The initiatives need to consider the makeup of the workforces in question. The agriculture and apparel industries generally are comprised of a highly diverse workforce that includes a majority of non-organised workers, including migrant workers, women, and seasonal/temporary workers. Many of these groups face distinct challenges in understanding and exercising their rights. In addition to the benefit of having governments ensure that laws apply to all classes of workers, including migrants, temporary workers and others, there is a need to develop educational and other programs that target these workers. In addition to addressing the specific classifications of workers in the apparel and agricultural industries, it is essential that the educational levels of workers in these industries be addressed, so that efforts and materials are appropriate and effective.

Donors have an obvious and well-established role to play with respect to worker empowerment. The following recommendations do not present an exhaustive list of activities that donors could undertake to empower workers and their representative organisations.

#### **Educating workers about their rights**

There is a substantial need for workers to become more familiar with their rights at work, as well as the environmental, health and safety issues that can arise in e.g. apparel and agricultural manufacturing.

- *Donors can offer technical and financial assistance to local governments and relevant labour market parties with respect to ensuring that workers become more familiar with their rights at work as well as the environmental, health and safety issues they face.*
- *Donors can offer support to local community based groups to engage in efforts such as awareness raising and training to educate workers. Such support can also be given to other civil society organisations.*

#### **Removing barriers to worker representation**

In many countries that are major exporters of apparel and agricultural products, there are *de jure* and *de facto* limitations on unions' abilities to operate. Governments can achieve the objectives of achieving better workplace practices and competitiveness by providing more space for workers to choose freely whether to participate in independent trade unions, and this holds the potential for decentralizing the monitoring of workplace conditions by engaging workers more directly. As noted earlier in this paper, this would also seem to be a prerequisite for the further development of effective, credible and

---

<sup>20</sup> The question of worker empowerment is perhaps one of the most politicised topics addressed in this paper. Governments have, therefore, an important role to play in demonstrating its ability to act as an "honest broker" enabling workers, trade unions, and business to interact within the bounds of fairly administered national legal frameworks consistent with core labour standards.

balanced self-assessment models that involve joint employer-employee inspections/assessments.

The inability of trade unions to operate in a manner that allows workers to exercise their right to freedom of association and collective bargaining distorts and limits the effectiveness both of local laws and of codes of conduct. These organisations are also likely to play a key role in delivering required training and information to workers, including the development of simple and popular tools that will help workers address E&HS issues in the workplace.

In many locations, notably including EPZs, unions often have difficulty gaining access to workers. Government could take steps to ensure that security provisions established for the legitimate purpose of managing trade restrictions are not applied for inappropriate purposes.

Many observers – including workers – have also noted that trade unions have not always acted as independent organisations seeking to represent workers. Some in the international trade union movement have indeed acknowledged this privately. Donors can help to professionalize the actions of trade unions, and help to remove inappropriate political and other barriers to the effective functioning of unions as the representatives of workers.

- *Donors should raise the issue of the right to freedom of association and collective bargaining in political consultations with developing countries; see also X.*
- *Donors could provide the requisite technical and financial expertise to help governments develop the institutions necessary to develop efficient labour markets.*
- *Donors could support the capacities of trade unions.*

### **Enhancing dispute resolution mechanism**

An important aspect of empowerment of workers is to ensure the development of and more easy access to mechanisms through which workers can express concerns about workplace practices. The development of dispute resolution mechanisms could serve a useful role in deterring and mediating conflict. In addition, the development of dispute resolution mechanisms would make freedom of association easier to implement.

It is noteworthy that the initiative in the Cambodian textile industry earlier referenced in this report also addressed the need to develop a dispute resolution mechanism. In the eyes of observers very close to the initiative, the development of this mechanism has not only helped mediate a number of concrete conflicts, it has also turned out as an important confidence building measure that eventually may allow for less antagonistic and more constructive labour market relations. The government of Cambodia has likewise indicated that the experiences from the textile industry may have wider, positive impact on the broader labour market.

- *Donors should assist governments to establish, fund and publicise alternative dispute resolution mechanisms easily accessible to workers.*

## 5.2 Social and environmental criteria

Developed country governments can promote good labour and environmental practices in global supply chains through the inclusion of labour and environmental criteria in various policies, programmes and activities. A number of developed country governments are already pursuing such policies.

There are basically two ways by which social and environmental criteria can be included in developed country policies, programmes and activities: As an entry criterion or as a development objective.

The first approach is to include social and environmental criteria as a condition that has to be met in order to benefit from or participate in various programmes. This approach can be applied across a wide range of activities:

### Political dialogue

The donors consulted for the purposes of this study all address human rights issues in their ongoing political dialogue with key development cooperation partners. However, a number of donors confidently confessed that core labour standards do not feature high on the agenda in such political consultations nor are such issues in general addressed with consistency or persistency except in the more extreme cases.

- *The authors of this report do not believe in making compliance with core labour standards a general entry requirement for development cooperation. However, compliance with core labour standards could be linked to implementation of specific private sector programmes using such criteria in a context where it makes substantive sense. Compliance could also be made a parallel development objective that should form part of the overall evaluation of the success of the private sector programme; see below.*

### Credits

The extension of mixed, export or other kinds of soft credits as well as investment capital from public investment funds could be conditioned on beneficiary companies' compliance with basic labour and environmental standards. Compliance with such standards could be observed either per se in the beneficiary company's operations and/or in the specific activities funded by such credits or capital. There are numerous examples of use of such criteria. For instance, in the Netherlands companies applying for export credit guarantees are required to sign a declaration stating that they will abide by the OECD Guidelines for Multinational Corporations. A similar requirement is in place in Finland. The Danish export credit agency, Eksport Kredit Fonden, recently signed up to the Equator Principles<sup>21</sup>. While beneficiaries of the mixed credit scheme of the Danish

---

<sup>21</sup> The Equator Principles are a voluntary set of guidelines for managing social and environmental issues in project finance lending, developed by leading financial institutions. They are based on the environmental and social standards of the IFC, and apply globally to development projects in all industry sectors with a capital cost of \$50 million or more.



Development Agency, DANIDA, must ensure that workplace conditions in projects funded by mixed credits comply with Danish standards, they are not required to comply with certain social and environmental criteria when applying for funding. The International Finance Corporation is committed to incorporate respect for core labour rights in all future IFC loan agreements. A number of donors generally require that environmental impact assessment is carried out in the pre-appraisal phase of a project and that issues are addressed in the project. Few donors require a social impact assessment to be carried out.

- *The research shows that no donors appear to have a coordinated and consistent approach on how to integrate respect for core labour rights in various lending and investment operations; see also box. Donors - and other parts of government - could develop 'enterprise-wide' guidelines that address how social and environmental criteria are included. Such guidelines could refer to OECD Guidelines on Multinational Corporations or other internationally accepted standards, including the Global Compact<sup>22</sup>. Guidelines could also require borrowers to carry out both social and environmental impact assessments in the pre-appraisal phase with a view to ensure that negative environmental and social impacts are mitigated.*

**Box 9: Donors and social and environmental criteria**

As noted in the text, the research undertaken for this report presents a mixed picture with respect to donors' use of social and environmental criteria in development cooperation activities. Some donors use social and environmental criteria in dialogue, programmes and activities, others don't. However, no donors present a coherent strategy resulting in different approaches and standards to the use of such criteria. One donor uses strict social and environmental criteria in its export credit facilities but only vaguely so in its soft lending facilities. In some private sector twinning programmes participating companies are required to comply with core labour standards and specific environmental criteria, in other programmes no such criteria are used. In general, environmental impact assessments are required whereas social impact assessments are rarely mandated. Such social impact assessments could be inspired by the principles and methodologies developed by the World Bank Group and that make part of the Equator Principles.

The majority of donors consulted believed that social and environmental criteria should be used to a greater extent, however they all expressed concern about their ability to monitoring companies' compliance with such criteria. It was also argued that the fact that many donors are going from project management to programme funding with limited control of the exact use of funds exacerbated the difficulty of exercising meaningful control. One donor expressed that this was an area where donors should work together to develop common guidelines suggesting that the OECD DAC could provide an appropriate forum.

## **Public procurement**

Codes of conduct have introduced compliance with social and environmental criteria in the market exchanges between private sector parties. Such practices could also be

---

<sup>22</sup> As a member of the European Union, the Swedish government could seek to push the use of social and environmental criteria in the lending activities of the European Investment Bank.

extended to the market exchanges between the public sector as buyer and the private sector as supplier. As public procurement make up a substantial part of developed country GDP, the inclusion of social and environmental criteria potentially could have significant impact on global supply chains that supply a significant share of services and products sourced by the public sector. None of the donors consulted in the research employ such criteria in their procurement activities.

It has been outside the scope of this study to make an assessment of experiences with the inclusion of social and environmental criteria in public procurement more widely, however anecdotal evidence suggest that to date concern has primarily been given to environmental criteria whereas social criteria has been more or less ignored. In a European Union context it is still debatable the extent to which environmental and not least social performance legally can be used as award criteria<sup>23</sup>. It is noteworthy though that the local parliament of the region of Umbria in Italy has adopted legislation that gives preference to SA8000 certified suppliers in public procurement<sup>24</sup>. Recently, the United Nations Administration announced that the principles of the Global Compact would be adopted in the area of procurement; the exact implication hereof remains unknown.

- *Donors - and more generally developed country governments - could consider within the limits of law the use of social and environmental criteria in their public procurement activities.*

### **Programming cycle**

As noted in the above, to date environmental impact assessment has become an integrated element of donors' programming cycle. With the exception of impact assessments with respect to gender the research did not indicate that social impact assessments including workplace impact assessments are carried out in a systematic fashion. In May 2004, however, DANIDA adopted a set of guidelines for integrating concern for the working environment in all aspects of development cooperation. Due to its novelty, the impact of this initiative is yet to be established.

- *Donors could consider developing guidelines that makes social impact assessments a requirement for all programming activities. Where relevant such assessments should also include workplace practices.*

In addition to using social and environmental criteria as entry requirements, donors could as an alternative route require beneficiary companies and/or local governments to address social and environmental issues in the activities sponsored or by other means benefiting

---

<sup>23</sup> The Directive does not prohibit or discourage the use of social or environmental criteria, however for long it was - and to some extent it still is - believed that such criteria cannot be given preference to a financially superior solution. In September 2002, however, the European Court of Justice ruled in favour of the Helsinki City Authority who had awarded a contract to a bus operator who did not submit the financially most attractive proposal but who offered an environmentally superior solution in line with the environmental requirements spelled out in the tender documents.

<sup>24</sup> The legality of this law is still under review by the European Commission and the European Court of Justice.

from public programmes. This developmental approach would be more in line with the traditional development approach of donors. One example of such an approach is the private sector twinning programme of DANIDA, the Private Sector Development Programme. In this programme, Danish companies are required to assist the local business partner meet local legal standards with respect of labour and environmental workplace practices. The Danish company is required to report on environmental performance on a quarterly basis using specific indicators, however no requirement is made with respect of labour standards nor is social performance of the business partners assessed in the pre-appraisal phase.

### **5.3 Trade**

Trade policy is a potent instrument in stimulating change. This report will not consider the broader perspectives and implications of introducing social and environmental criteria into the multilateral trade regime. As a member of the European Union, it remains outside the purview of the Swedish government to design its own bilateral trade policies as the competence with respect to trade policy rests with the European Commission.

Nonetheless the Swedish government may want to sway its influence with the European Commission with respect to the use of social and environmental criteria in the Community's Generalised System of Preferences scheme (GSP), a trade instrument with a social and economic developmental outlook.

#### **Box 10: The Generalised System of Preferences (GSP)**

The Community GSP covers 178 independent countries and territories. It covers 7,000 products including the majority of industrial products and a great many agricultural and fish products. In general, half of the products are admitted at a zero rate while the other half are granted a limited reduction. The overall objective of the scheme is to assist developing countries to reduce poverty by helping them to generate revenue through international trade. The present scheme runs until year-end 2004. The recent Communication by the European Commission sets out guidelines for achieving the overall objective under GSP schemes from 2006 to 2015. One of the key objectives of the revised guidelines is to give greater prominence to sustainable development including respect for a number of international conventions in the area of basic human and labour rights, the environment and governance.

Source: European Commission, Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee: Developing countries, international trade and sustainable development: the function of the Community's generalised system of preferences (GSP) for the ten-year period from 2006 to 2015, Brussels, 7.7.2004 (COM(2004) 461 final)

#### **The Generalised System of Preferences**

The Community GSP Scheme provides market access on a preferential basis to developing countries; see text box. So-called social incentives under the GSP scheme are developed to promote core labour standards in GSP-countries. Under this scheme additional trade preferences may be granted to countries that effectively apply the standards laid down in core ILO Conventions (conventions 87, 98, 138, 29, 100, 105, 111 & 82). Countries must apply and submit to a rigorous evaluation.

The GSP scheme is presently under review. In its latest Communication on this issue, the European Commission notes, however, that the incentives are little used and thus recommends that the scheme is altered<sup>25</sup>. In the Communication, the Commission suggests that the incentive scope should be broadened to include a wider spectre of relevant conventions with respect to sustainable development, including conventions of basic human and labour rights, of the environment and of the principles of governance. The Commission does not specify the conventions in question, however notes that relevant conventions are those with institutional mechanisms that the relevant international organisations can use to regularly evaluate how effectively they have been implemented. In turn, the Commission will take account of these evaluations before deciding which of the applicant countries will be selected to benefit from the incentive schemes.

The approach suggested by the Commission implies that the granting of additional preferences is conditioned on the basis of a favourable assessment of the general, country-wide situation with respect to the ratification and implementation of the relevant conventions. In view of the general approach outlined in this report and based on the experiences of the US-Cambodia Textile Agreement, it could be considered to adjust the GSP incentive scheme to include the granting of additional preferences to particular commodities/products arising from industries where the relevant conventions are effectively observed. Thus, the assessment of ‘compliance’ would be carried out at industry level rather than at economy-wide level, and the granting of preferences would apply to particular commodities/products rather than a broader range of commodities.

The consideration of such an approach would require further legal, technical, economic, social and political analysis that also could include consideration of options where the presence of local multi-stakeholder initiatives with independent, credible and robust monitoring possibly involving e.g. the ILO could provide a relevant means of evaluation mechanism. This can in turn be combined with development cooperation interventions targeted at the industries in question.

---

<sup>25</sup> See COM(2004) 461 final, Brussels, 7 July 2004. The Commission explains the little use of the incentive scheme with reference to “that some beneficiary countries have preferred not to have the content and implementation of their social legislation subjected to the rigours of scrutiny” Further, the Commission hypothesizes that “the length and relative complexity of the evaluation procedures have probably made the arrangements even less attractive” (p.9).

## 6 Next Steps

This report presents a wide range of proposals that could contribute to more effective implementation of codes of conduct, resulting in improved labour and environmental workplace practices in global supply chains.

This report's authors believe that support for the wider realisation of basic workers' rights and environmental protection in the workplace is consistent with bilateral donors' overall objective of poverty reduction. In addition, it is increasingly evident that donors need to address the social and environmental imbalances as well as the growing income and development disparities arising as a direct or indirect result of globalisation. Finally, support for improved workplace practices also contributes to the social and economic agendas of developing countries, including their aspiration to improve competitiveness through better and greater access to developed country markets.

What is equally important is that there exists a space for donor intervention. Filling that space could prove critical in advancing the agenda further. Donors such as SIDA and other donor agencies consulted for this report could fill this space by implementing some of the proposals outlined in this report.

While doing so would not require a comprehensive strategy for CSR in global supply chains, impact is likely to be greatest if individual initiatives are implemented within a comprehensive framework along the lines suggested in this report. Such an approach would also be consistent with the sector programme support strategies pursued more and more frequently by bilateral donors. However, the authors of this report also believe that donor interventions could and should come also in less ambitious formats supporting promising initiatives at the local level. Thus, while donor cooperation can be crucial in certain areas, such as stimulating legal change where coordinated donor pressure can be useful, it may not necessarily be a prerequisite for practical initiatives.

In summary, the Swedish government through the Ministry of Foreign and Affairs and the Swedish International Development Agency (SIDA) could consider some of the following proposals as next steps:

- **Comprehensive policy approach to social and environmental issues.** SIDA could consider developing a comprehensive, strategic approach with respect to how social and environmental issues should be addressed in political dialogue and development cooperation. It would seem particularly relevant to develop guidelines on how various programmes and projects could address core labour rights and other key labour issues, including the preparation of relevant social impact assessments. This would help to ensure that attention is given to such issues as well as raise the awareness of partners of the importance of these issues. The development of CSR guidelines presently in progress could serve as a catalyst for this.
- **Facilitate and support multi-stakeholder initiatives.** In cooperation with development partners, SIDA could identify particular industries where stakeholders

have shown an interest in promoting better labour and environmental workplace standards with a view to promoting collaborative, multi-stakeholder initiatives along the lines of the framework developed in this report. Presently, a number of industries either have shown such interest, or developed such programs, including for example the toy, apparel, coffee, cocoa, tea, palm oil, and cut-flower industries. All of these industries are predominantly based in less developed countries, some of which are key development cooperation partners of the Swedish government.

- **Test public-private enforcement of labour and environmental standards:** The proposal to develop public-private cooperation in the enforcement of labour and environmental standards holds considerable promise, although it should be noted that it is likely to be seen as controversial by many stakeholders. Some of the models outlined could be tested at pilot level with a view to test viability, relevance and feasibility.
- **Awareness raising.** In many developing countries, the private and non-private sectors alike, there is a lack of awareness with respect to social and environmental rights and obligations in the workplace. Working in cooperation with local stakeholders in particular industries, bilateral donors can fund awareness raising initiatives. When addressing the private sector such initiatives should strive to make the link between standards and workplace productivity.
- **Linking trade and development cooperation.** The Swedish government could consider ways to use its influence in the European Community to investigate whether and how trade linked with development cooperation can be used to advance social and environmental standards in global supply chains. The review of the GSP-Scheme could be a relevant, first entry point.
- **Linking standards and productivity.** Building on the experiences of the ILO projects with the WISE-methodology and the ILO Factory Improvement Programme, programmes could be developed with a view to raise the awareness of local industries of the linkages between good labour and environmental management and productivity/quality. Support could also be given to the relevant ILO-programmes.
- **Engaging and supporting Swedish companies in public-private partnerships.** A number of Swedish multinational corporations some of which have been consulted for the purpose of this report are actively involved with the issues discussed in this report. The Swedish government could engage these companies in some of the activities proposed in the section on capacity building, most notably the development of learning networks and mentor networks. Such efforts should seek to build local capacity, ownership and initiative.

In addition to advancing the above proposals, there is an overall need for bilateral donors to engage more effectively in the debate over implementation of codes of conduct in global supply chains. As the debate on codes of conduct is gradually shifting trajectory

from one that emphasises solutions developed by individual enterprises to one that includes efforts to develop the overall enabling environment, including the role of the public sector, the experiences and competencies of bilateral donors are increasingly valuable. As such, there is a need for donors to help this change of trajectory to take place effectively.

## **Annex A: References**

Berman, Jonathan, Tobias Webb, and others, “Race to the Top: Attracting and Enabling Global Sustainable Business”, Washington D.C.: World Bank Group, 2003

DANIDA, *Guidelines for integration of working environment concerns into Danish development assistance*, Copenhagen, 2004

Department for International Development (DFID), *Labour Standards and poverty reduction*, London, 2004

European Commission, Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee: *Promoting core labour standards and improving social governance in the context of globalisation*, Brussels, 18.7.2001, (COM(2001) 461 final)

European Commission, Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee: *Developing countries, international trade and sustainable development: the function of the Community’s generalised system of preferences (GSP) for the ten-year period from 2006 to 2015*, Brussels, 7.7.2004 (COM(2004) 461 final)

Fox, Tom, Halina Ward, and Bruce Howard, “*Public Sector Roles in Strengthening Corporate Social Responsibility: A baseline study*”, Washington D.C.: World Bank Group 2002

Jørgensen, Helle Bank, Peder Michael Pruzan-Jørgensen, Margaret Jungk, and Aron Cramer, “*Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains*”, World Bank and International Finance Corporation, Washington D.C., World Bank Group 2003

Ministry of Foreign Affairs et al, “How donor agencies are supporting and enabling corporate social responsibility” a summary document prepared for the conference on Development Cooperation and corporate social responsibility - exploring the role of development cooperation agencies”, Stockholm 22<sup>nd</sup>-23<sup>rd</sup> March 2004.

Oxfam International, *Trading Away our Rights - Women working in global supply chains*, Oxford, 2004.

Ward, Halina, “*Public Sector Roles in Strengthening Corporate Social Responsibility: Taking Stock*”, Washington D.C.: World Bank Group and International Finance Corporation 2004



## Annex B: List of organisations consulted

	Public Sector	Buyer	Donor	Civil Society
<b>China</b>				
Ann Taylor*		1		
Asia Monitor Resource Centre*				2
City University of Hong Kong*				1
Disney*		1		
Gap*		2		
Guangzhou Occupational Health and Occupational Rehabilitation Resource Center*				1
HK Christian Industrial Committee*				2
IPS (subsidiary of Limited Brands)*		1		
Li & Fung*		1		
May Company*		1		
Narrowgate*		2		
Nike*		1		
Participatory Development Appraisal Network*				1
<b>India</b>				
Karnataka State Pollution Control Board	1			
Karnataka Factories and Boilers Department	1			
<b>Kenya</b>				
Kenya Human Rights Commission	1			
Kenya Investment Promotion Agency	1			
Kenya Tea Development Agency	1			
<b>Philippines</b>				
Occupational Safety and Health Center	1			
Employers Confederation of the Philippines	1			
Bureau of Working Conditions, Department of Labor and Employment	1			
<b>South Africa</b>				

Department of Economic Development and Tourism	1			
WIETA				1

### **Sri Lanka**

Export Development Board	1			
Department of Labour	1			
Ministry of Labour	1			
Board of Investment	1			
Central Environmental Authority	1			

### **United States**

Fair Labor Association				1
Maquila Solidarity Center				1
Clean Clothes Campaign				1
Solidarity Center, AFL-CIO				1
USLEAP				1
Workers Rights Consortium				1

### **Europe**

ICFTU				1
ILO		6		
DFID		3		
DANIDA		3		
SIDA		2		
GTZ - Programme Office for Social and Ecological Standards		2		
BMZ - Public Sector Cooperation		1		
European Commission DG Development		1		
European Commission: Occupational Health and Safety Agency	1			
LO/FTF Council (Danish Trade Union's internationale development arm)				2
Environmental Protection Agency	1			
Oxfam International				1
Natural Resources Institute				2
Hennes & Mauritz*		1		
Karstadt Quelle*		1		
IKEA*		1		
Marks & Spencer*		1		

Adidas*	1
Chiquita*	1

\*Consulted in a group larger than two persons



REGERINGSKANSLIET

**Ministry for Foreign Affairs**

Additional copies of can be ordered from: The Ministry for Foreign Affairs, Information Office, S-103 39 Stockholm

Telephone: Int+46-(0)8-405 10 00, fax: Int+46-(0)8-723 11 76, web site: [www.ud.se/ga](http://www.ud.se/ga)

Cover: Editorial Office, The Ministry for Foreign Affairs

Printed by XBS Grafisk service, 2006

Article no: UD 06.020