



Social standards in the context of employment and income

Briefing Paper - SDC Division E+I

Introduction

Social standards have gained much in importance in the last decade, as a key element in the international debate on the social dimension of globalization, and increasingly, as an integral part of the international community's approach to reduce global poverty and to achieving the Millennium Development Goals (MDG). The effective and appropriate implementation of social standards, however, faces many challenges: How to ensure in a sustainable way that social standards, much a concern of the global North, impact positively on the life of poor women and men in poor countries? How to ensure that they impact positively on those working in the informal economy, and that they enhance rather than hamper the competitiveness of local small and medium enterprises? Government and private business in developing countries still see social standards as a trade barrier of industrialised countries to protect their own economies.

Social standards

At the very heart of social standards are the Core Labour Standards as defined in the Declaration on Fundamental Principles and Rights at Work of the International Labour Organisation (ILO <http://www.ilo.org/>) and endorsed by the member states of the ILO in 1998:

- § Freedom of association and the right to collective bargaining¹
- § Elimination of all forms of forced or compulsory labour²
- § Effective abolition of child labour³
- § Elimination of discrimination with respect to employment and occupation⁴

These four core labour standards are regarded as fundamental human rights, universally applicable. All ILO member countries, regardless whether they have ratified the respective ILO conventions or not, are obliged to respect, promote and realize these standards. In addition, a wide range of other standards has been agreed by ILO member states, covering issues such as health, safety at the working place, minimum wages, etc. The ILO, however, has limited power to enforce labour standards and the implementation by governments is sometimes weak.

A comprehensive framework is the Decent Work Agenda⁵ (<http://www.ilo.org/mdg>) put forward by the ILO in 1999 to help countries to combine social and economic development. The four strategic objectives of the Decent Work Agenda are: promote rights at work; building opportunities for work; protecting against social risks and loss of work; strengthening social dialogue in business and society. These objectives have been strongly endorsed in 2004 by the

¹ See Factsheet 1 "Freedom of Association and the Effective Recognition of the Right to Collective Bargaining"

² See Factsheet 2 "Elimination of all Forms of Forced or Compulsory Labour "

³ See Factsheet 3 "Effective Abolition of Child Labour"

⁴ See Factsheet 4 "Elimination of discrimination with respect to employment and occupation"

⁵ Fact Sheet "Decent Work Agenda" (forthcoming)

report A Fair Globalization of The World Commission on the Social Dimension of Globalization (<http://www.ilo.org/public/english/fairglobalization/index.htm>) recommends making Decent Work a global goal in order to mitigate the negative impacts of international trade and financial flows.

In September, 2005, The World Summit ("MDG plus 5") concluded to make decent work for all a central objective of national and international policies as well as national development strategies, including poverty reduction strategies, as part to achieve the MDGs⁶.

Thus, the promotion, implementation and monitoring of social standards today goes far beyond the International Labour Organisation. Other international organisations such as the World Bank and the IFC, the European Union as well as bilateral development agencies have increasingly made social standards an integral part of their development policies and programmes. Based on an agreement between WB and ILO, the decent work agenda will receive support in the second generation of Poverty Reduction Strategies (PRS). The decent work agenda is also part of the strategic partnership between EU and ILO to foster collaboration towards the achievement of the MDG. The German Ministry for Economic Development and Cooperation and the British Department for International Development (DfID) have developed specific policies and strategies aiming explicitly at the promotion of labour standards as an important element for a fair globalization and for reducing global poverty^{7 8}.
(<http://www.gtz.de/de/themen/uebergreifende-themen/sozial-oekostandards/7193.htm>)

Any attempt, however, to link social standards with the World Trade Organisation, has been strongly opposed by many developing countries, which fear the use of labour standards for protectionist purposes through the global North. Nevertheless, bilateral and regional free trade and investment agreements increasingly include labour standards, such as the new Generalised System of Preferences of the EU, or the North American Free Trade Agreement (NAFTA) including a side agreement North American Agreement on Labour Cooperation (NAALC).

Corporate Social Responsibility (CSR), Codes of Conduct

Since the nineties, corporate social responsibility has enjoyed increasing popularity throughout Europe and North America. Growing pressure and lobbying from civil society organisations, especially consumer groups and advocacy NGOs, trade unions and media have led multinational enterprises to take greater responsibility for social and environmental issues throughout their global operations. Fair and ethical trade have become important drivers of change in the global economy. Multinationals care for their reputation and increasingly address environmental and social responsibility under sustainability concerns.

The number of codes of conduct has grown dramatically. Codes of Conduct, in the broadest definition, are statements of values which companies on a voluntary base recognize and engage to apply throughout their operations, including numerous suppliers linked to their value chain. Some codes exist in many variations. Many cover specific employment conditions, a few

⁶ The 2005 World Summit, para 47 of the Declaration, on Employment - "We strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our relevant national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals. These measures should also encompass the elimination of the worst forms of child labour, as defined in International Labour Organization Convention No. 182, and forced labour. We also resolve to ensure full respect for the fundamental principles and rights at work."

⁷ Arbeitskreis Sozialstandard (2005): *Globalisierung sozial gestalten. Die Umsetzung der Kernarbeitsnormen in ausgewählten Projekten der deutschen Entwicklungszusammenarbeit*. Arbeitskreis Sozialstandards, Eschborn

⁸ DfID (2004): *Labour standards and poverty reduction*. Department for International Development, London.

refer to the four ILO core labour standards. Codes of conduct have been established at the level of individual companies, others have been developed for specific sectors or products, such as food, garments, footwear, toys, sporting goods, flowers, etc. More recently, multi-stakeholder initiatives have been developed, formed by coalitions including multinational enterprises, consumer organisations, other civil society NGO, trade unions, etc. They usually are much stronger in labour rights. Examples are the Ethical Trading Initiative (ETI) in UK (<http://www.ethicaltrade.org/>), the Social Accountability (SA) 8000 code (<http://www.accountability.org.uk/default.asp>), the Global Reporting Initiative (<http://www.globalreporting.org/>). The International Organisation for Standardisation (ISO) is elaborating a framework for a new ISO standard on corporate social responsibility. There is an increasing number of product-related multi-stakeholder initiatives.⁹

Multilateral initiatives focus explicitly on a worldwide reach. Best known are the UN Global Compact (<http://www.unglobalcompact.org/>) (with ten principles in the fields of human rights, labour standards, environment and anti-corruption) and the OECD Guidelines for Multinational Enterprises (<http://www.oecd.org/daf/investment/guidelines>), providing non-legally binding principles and standards.

The trust in codes of conduct much depends on independent certification. Multinationals, fair trade, multi-stakeholder initiatives make use of professional institutions and auditing companies to verify compliance with their codes of conduct. This has led to a considerable growth in this industry.

Codes of conduct covering employment conditions in global supply chains can have a positive effect on working conditions in their value chains and on the promotion of socially responsible business practices and international labour standards. There are, however, limitations in the extent to which codes can do so¹⁰:

- § Codes of conduct are voluntary and lack any means of enforcement. Any system of self-regulation is unlikely to achieve widespread realisation of labour rights. The majority of workers in developing countries work for enterprises which are immune to consumer and other pressure, or they work as self-employed in the informal sector which is not covered neither by labour legislation nor codes of conduct.
- § Codes usually refer to the first level suppliers of the value chain, but often prove ineffective to change employment practices amongst more distant suppliers. Informal workers, such as home-workers or non-permanent workers, are often located in more distant tiers of the supply chains and therefore are not benefiting of codes of conduct
- § There is a clear gender gap: Women account for a significant proportion of workers engaged in export production but are, however, often found in informal, non-permanent and insecure jobs. They are therefore less likely to be covered by labour legislation and codes of conduct¹¹.

⁹ *introduce: page 60ff, of: Survey on social questions in the context of employment and income promotion, FAKT, 2005, Annex 6*

¹⁰ Based on:

- DfID (2004), see (10)
- Stephanie Barrientos (2003): *Multinationals and Employment. Corporate Social Responsibility, Employment and Global Sourcing ba Multinational Enterprises*. ILO (not published)
- Stephanie Barrientos et.al. (2004): *Ethical trade in African horticulture: gender, rights and participation*. IDS Working Paper 223, Sussex.

¹¹ Stephanie Barrientos, Institute of Development Studies (IDS), Sussex: *What Impacts do Codes of Conduct have on Life of the Poor?*, Presentation at SDC, Bern, June 2004.

- § For the vast majority of small and medium enterprises (SME) who produce for local markets, CSR has little impact, and even amongst those within export supply chains, many remain in sectors and supply tiers thus far not touched by codes of conduct.¹²
- § Codes of conduct are more effective in addressing health and safety issues, but weak in addressing discrimination, freedom of association and other labour rights.
- § Codes hardly take into account the local context. Similarly, social auditing and certification systems have often not been designed with the specific local context or the situation of informal workers (women and men) in mind.
- § The sheer number of and the variations in codes of conduct can be a severe burden for suppliers who deliver to numerous international buyers.

Challenges ahead

The effective and appropriate promotion of social standards as a means to reduce poverty faces a number of challenges reaching beyond CSR:

- (1) **Linking regulation and voluntary codes of conduct:** Voluntary codes of conduct and initiatives can potentially contribute to the enhancement of labour rights in a global economy. However, if codes are to bring sustainable and widespread improvements in labour conditions, a wider process of social change is required, including national legislation, international labour standards, and the efforts of various stakeholders (state, private sector, civil society). The challenge is to link regulation with voluntary initiatives and to find a balance of responsibilities between state, market and civil society in addressing these problems. For development agencies, this calls for action "beyond CSR", that is shaping support to various stakeholders (international organisations, governments, private sector, civil society) through different programmes at different levels.
- (2) **Labour organisation:** Action to promote the rights of the poorest workers in the world must be tailored to their needs. Most of them are not members of formally recognised trade unions. Within many developing countries, "informal" labour movements such as community organisations, producer or trader associations, women's associations and NGOs, have been the main champions of the labour rights of the poorest sections of the workforce. It is crucial to empower workers both within and outside unions to claim better treatment from employers and governments.
- (3) **Corporate social responsibility:** There is a great need for local codes of conduct, developed by local stakeholders, incorporating private sector, civil society and government bodies. There are some models of locally-owned multi-stakeholder initiatives oriented towards a continual process of workplace improvements (<http://www.wieta.org.za/>)¹³. The challenge is to find a balance between a common framework that is accepted internationally in global export markets and codes that can be applied locally to meet both workers and SMEs needs. Similarly, it is crucial to have independent local capacities developed for the monitoring and verification of social compliance, strengthening processes that move away from a management focused to a more participatory approach¹⁴.

¹² Maya Forstater, Alex MacGillivray and Peter Raynard: *Responsible Trade and Market Access: Opportunities or Obstacles for SMEs in Developing Countries?* UNIDO, Vienna, 2005.

¹³ Wine Industry Ethical Trade Association in South Africa (WIETA)

¹⁴ Diana Auret and Stephanie Barrientos (2004): *Participatory social auditin: a practical guide to developing a gender-sensitive approach*. IDS Working Paper 237, Sussex.

- (4) **Integration of informal workers:** Applying ethical standards throughout the supply chain remains a major challenge. Many informal workers in global production do not benefit neither from state enforcement of labour standards nor from codes of conduct. Nevertheless, codes of conduct can help to move informal workers towards a better realization of their rights. But this has to be developed within a framework that supports local stakeholder engagement and relates to national labour laws. Multi-stakeholder approaches with partnerships between business, trade unions and development organisations and a stronger commitment to labour rights are more likely to provide positive effects.
- (5) **Gender gap:** New strategies are required to address the gender gap that actually exists for many women workers. Multi-stakeholder initiatives that bring together different stakeholders provide avenues for generating greater gender awareness. Efforts to harmonize the numerous codes and international forum around multinational enterprises provide opportunities to strengthen the gender focus of codes. Also, voluntary initiatives should link up with government if labour standards are to extend to wider production (domestic and export) on a more sustainable basis.
- (6) **SMEs:** The integration of small and medium enterprises in codes of conduct and multi-stakeholder or multilateral initiatives is a key challenge all over the world. For SME, meeting such standards is clearly only one condition for market access. The question therefore is how to enhance their competitiveness in a socially and ecologically sustainable way, in order to facilitate their access to national and international supply chains. UNIDO plays an important role in exploring and developing approaches to making responsible trade accessible and applicable for SMEs¹⁵.
- (7) **Research:** Information on the impact of codes of conduct on workers (women and men), on self-employed, on SME is still very partial. There is a great need to know more on how to enhance positive impacts and how to avoid negative impacts on workers, and how to enhance competitiveness of SME in a socially responsible way. UNIDO has initiated a programme for exploring more in-depth approaches and instruments to support SME in this process.
- (8) **Harmonization:** Competition between codes of conducts and initiatives has had some positive outcomes. There is, however, a strong case for improving co-ordination and harmonisation in order to clarify key provisions which must be met for producers which supply for numerous international buyers, and for joining forces to contribute to improvements in working conditions worldwide.

¹⁵ link to UNIDO project, supported by SDC