Globalization - Fair for the working poor?

Perspectives from an Investor in Developing Countries
Conference: “Is Fairer Trade Compatible with Freer Markets?”
March 5, 2009

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Economic Recovery slowly Underway

Global GDP Growth, %

Source: IMF, World Economic Outlook, 2010 Update, January 2010
And yes, Trade is back too....

Source: IMF, World Economic Outlook, October 2009
.. Making Trade “work” for the Poor?

Production ➔ Processing ➔ Transport ➔ Distribution ➔ Consumption
The Problem is huge...
### When Markets don’t work for the Poor...

#### 3rd Party-led Certification
- Third-party provides certification, independent monitoring and evaluation
  - Tools: Audits, Monitoring & Feedback, Certificates/Labels
  - Increase efficiency for firms in the market through centralization of information management, audit costs and M&E
- **Examples:** RugMark, Fairtrade Labeling Organization, GLOBALGAP, UTZ

12 interventions in 4 sectors

#### Multi Stakeholder Intervention
- Can be either a 3rd Party-led or a Buyer Consortium, which both provide a code of conduct; minimum principles for members to adhere to
  - Tools: Code of conduct; feedback; capacity building
  - Usually driven by civil society pressure to firms for compliance on environmental and social standards
- **Examples:** Ethical Trading Initiative, Business Social Compliance Initiative, Roundtable on Sustainable Palm Oil, Better Cotton Initiative

14 interventions in 2 sectors

#### Company-led
- Either a) an intervention initiated by company in response to an external incentive, usually reputational risk concerns; or b) an internally-focused initiative to target the labor supply chain directly in response to a perceived business risk (e.g. attrition)
  - Tools: Monitoring and evaluation, capacity building, may have internal certification
- **Examples:** Nike, HOCHTIEF, Guangsha Constructions, Denmor Garments, IKEA

13 interventions in 6 sectors

#### Government-led Interventions
- Intervention mandated and regulated by the government
  - Tools: Licenses, taxes, regulation, etc.
- **Examples:** Better Factories in Cambodia, Brazilian National Plan for Eradication of Forced Labor

3 interventions in 3 sectors

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We benchmarked more than 45 examples across 4 types of labor standards interventions to generate “best-practice” lessons in terms of option design, financial viability and impact

Source: IFC/Monitor

Note: 6 interventions were multi-sector and so not included in the above count
3rd Party Certification “banks” on consumers..

Pressure Points!

... often very successfully
This is a “crowded space”

<table>
<thead>
<tr>
<th>Players (eg)</th>
<th>Tools</th>
<th>Standards Compliance</th>
<th>Advisory</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting Firms</td>
<td>Ergon, ERM</td>
<td>IFC</td>
<td>Ergon, SAI, ERM, SustainAbility</td>
<td></td>
</tr>
<tr>
<td>Multilateral Agencies</td>
<td>IFC</td>
<td>GTZ, USAID, DfID</td>
<td>ILO</td>
<td></td>
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<tr>
<td>Bilateral Donors</td>
<td>GTZ, USAID, DfID</td>
<td>GTZ, USAID, DfID</td>
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</tr>
<tr>
<td>Codes of Conduct (Roundtables) (Palm Oil, Cocoa, Cotton, Sugarcane) MSIs (4C, ICI, WCF, etc.)</td>
<td>Better Work</td>
<td>Roundtables, MSIs</td>
<td></td>
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</tr>
<tr>
<td>3rd Party Certification</td>
<td>Global GAP FLO, RFA</td>
<td>Global GAP FLO, RFA</td>
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<tr>
<td>NGOs</td>
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<td>Human Rights Watch</td>
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<td>Trade Unions</td>
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</tbody>
</table>

Note: Other 3rd Party Certifications include Forest Stewardship Council, Fair Trade in Tourism South Africa, UTZ, Other MSIs include Eliminate Child Labor In Tobacco, Business Social Compliance Initiative, Ethical Tea Partnership, Organic. International Banks are not large players in labor issues and so have not been mapped here;

Source: IFC/monitora
### Few Interventions Can Cover it All...

Although the range of activities across interventions is diverse (mostly standard-setting, auditing and capacity-building), few interventions have full coverage.

<table>
<thead>
<tr>
<th>Intervention Activities</th>
<th>Certification</th>
<th>Code of Conduct</th>
<th>Labeling</th>
<th>Standard Setting</th>
<th>Auditing / M&amp;E</th>
<th>Grievance and Appeals</th>
<th>Capacity Building &amp; Training</th>
<th>Financing to Implementees</th>
</tr>
</thead>
<tbody>
<tr>
<td>3rd Party-led Certification</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>rarely</td>
<td>rarely</td>
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</tr>
<tr>
<td>Multi-Stakeholder Interventions</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
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<tr>
<td>Company-led (External)</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</tr>
<tr>
<td>Company-led (Internal)</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Government</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

**Enforcement**

- Taxes
- Fines
- Court Cases

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Source: Secondary research, Expert interviews, Monitor Analysis
And the focus on the consumer can only go so far...

Source: World Bank, USDA, Datamonitor, UN, FAO; Analysis from IFC/ Monitor.
Good Reasons to take a Close Look at Sectors ...

Sector Revenue vs. Employment in Developing Countries

Agriculture & Forestry
Construction
Tourism
Retail
Waste Management

Agricultural Sub-Sector Revenue vs. Employment in Developing Countries

Note: “Developing Countries” defined as global markets excluding those of the US, EU, Canada, Australia, New Zealand, Japan, Singapore and South Korea
OHS Complaints by Sector Employment

OHS Incidence Per Person Employed in Sector

Average Number of Days Lost Per Employee By Sector (2006-2006)

- Agriculture & Forestry
- Construction
- Hotels & Tourism
- Retail

Note: 54 countries were included in the ILO 8c “days lost due to economic activity” sample set; data is most recent available from 2000 to present.
Source: ILO
Freedom of Association Complaints Similar

We use strikes and lockouts as a proxy for “hot points” of worker management conflict, though as a metric of need, both high reports and no reports (due to no FoA) can be cause for concern, and must be considered contextually.

Number of Reported Strikes and Lockouts by Sector (2000-2006)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Strikes and lockouts (per year of report, 2000 - 2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture &amp; Forestry</td>
<td>100</td>
</tr>
<tr>
<td>Construction</td>
<td>112</td>
</tr>
<tr>
<td>Hotels &amp; Tourism</td>
<td>85</td>
</tr>
<tr>
<td>Retail</td>
<td>92</td>
</tr>
</tbody>
</table>

Note: FoA data from Guyana has been excluded because it is greater than 5 years old, and it represents an extreme outlier; 84 countries were included in the ILO 8c “strikes and lockouts” sample set; data is most recent available from 2000 to present.

Source: ILO
Labor Interventions’ Coverage in Selected Sectors

Certification covers less than 9% of selected markets, codes of conduct cover at most 50%; gaps exist.

**Sector Coverage by Interventions**

- **Cocoa**
  - Code of Conduct (Internal): 1%
  - Certification: 50%
- **Sugar**
  - Certification: 50%
- **F&V**
  - Code of Conduct (Internal): 23%
  - Certification: 12%
  - 23-35%² of all exported fruits to developed countries are covered by interventions.
- **Coffee**
  - Code of Conduct (Internal): 5%
  - Certification: 7%
  - Employment: 5%
- **Palm Oil**
  - Certification: 9%
  - Employment: 30%
- **Forestry**
  - Certification: 4%
- **Construction**

**Sector Revenue¹**

- Cocoa: $10 Billion
- Sugar: $32 Billion
- F&V: $627 Billion
- Coffee: $24 Billion
- Palm Oil: $42 Billion
- Forestry: $142 Billion
- Construction: $732 Billion

**Employment**

- Cocoa: 124 Million
- Sugar: 10 Million
- F&V: 368 Million
- Coffee: 24 Million
- Palm Oil: 6 Million
- Forestry: 14 Million
- Construction: 127 Million

**Notes:**

1. Coverage defined as % of global market exports, except for F&V.
2. Revenue for each sector includes IFC Investment Countries defined as global markets excluding those of the US, EU, Canada, Australia, New Zealand, Japan, Singapore and South Korea.
3. Covers only the top 10 plantation crops that are exported from developing countries to developed countries; we used this as a proxy for F&V sector at large and assumed at most 50% of the other fruits are covered by interventions.

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**Coverage of priority sectors by certifications are significantly lower than that by codes of conduct.**

**There is a clear trade-off between the depth and stringency of an intervention, versus coverage.**

**A large portion of coverage is primarily environmental in nature.**

Source: Primary and Secondary Research; Monitor Analysis
.. Instead - Focus on Processor or Producer?
Private Capital Flows - A Huge Influence

Emerging Market Private Capital Inflows, Net

$ billion

Level

Percent of GDP

percent of GDP

Emerging Market Private Capital Inflows, Net


0 1 2 3 4 5 6 7 8 9

International Finance Corporation

World Bank Group
Who We Are, What We Do

• IFC is the only global multilateral institution focused exclusively on the private sector — the global leader in private sector development finance

• Driven by our vision and purpose, we make a unique contribution to development

• We invest, advise, mobilize capital, and manage assets — providing solutions for an inclusive and sustainable world

• We create opportunity for people — improving lives in poorer countries
IFC’s Structure

- Owned by **182 member countries**

- IFC is **the main driver of private sector development** in the World Bank Group

- **Collaborates** with other members of the group, including the World Bank (IBRD and IDA), MIGA, and the International Centre for Settlement of Investment Disputes

- **Global:** Headquartered in Washington, D.C.

- **Local:** More than 100 offices worldwide in 86 countries
IFC’s Global Reach

- 100+ country and regional advisory services offices worldwide
IFC’s Business
Investment Services

- Loans and intermediary services
- Equity and quasi-equity
- Syndications
- Structured and securitized products
- Risk management products
- Trade finance
- Subnational finance
- Treasury operations
IFC’s Business Advisory Services

Five main business lines:

• Access to finance
• Corporate advice
• Environmental and social sustainability
• Infrastructure Advice
• Investment Climate
IFC’s Business
Asset Management

• Launched in 2009, IFC Asset Management Company invests third-party capital in a private equity format

• It lets outside investors benefit from IFC’s expertise at achieving strong equity returns as well as development impact

• Its first two funds are IFC Capitalization Fund and a general private equity fund that will co-invest with IFC in Africa, Latin America, and the Caribbean
The Reach of IFC’s Projects

• *IFC’s activities help raise living standards for people throughout the developing world*

Last year our clients provided:

• 2.1 million jobs

• $90.6 billion in SME loans and $9.3 billion in microfinance loans

• 220 million telephone lines

• 20.5 million people with clean water

• 17 million people with power connections

• 5.5 million patients with health care services
Fiscal Year 2009 Highlights

- **Investments**: 447 new projects in 103 countries
- **Advisory services**: 227 new projects in 69 countries
- **$14.5 billion in financing**: $10.5 billion for IFC’s own account, $4.0 billion mobilized
- **$34.5 billion committed portfolio**, representing investments in 1,579 companies
- **IDA countries** account for half of IFC projects.

**Overall:**
- $1.8 billion invested in **Sub-Saharan Africa**
- This was a 30 percent increase over the past year
IFC Financing

- *“Mobilization” for 2006 and 2007 includes structured finance, loan participations, and parallel loans.
Investments by Region, FY09

Commitments for IFC’s Account: $10.5 Billion

- Latin America and the Caribbean 26%
- Europe and Central Asia 20%
- Sub-Saharan Africa 17%
- Middle East and North Africa 12%
- Global 2%
- East Asia and Pacific 11%
- South Asia 12%
Investments by Industry, FY09

Commitments for IFC’s Account: $10.5 Billion

Global Financial Markets 45%
Global Manufacturing and Services 14%
Global Information and Communication Technologies 5%
Infrastructure 14%
Health and Education 2%
Oil, Gas, Mining and Chemicals 7%
Private Equity and Investment Funds 3%
Subnational Finance 3%
Agribusiness 7%
IFC engaged in broad range of Standards Activities

*Interventions differ with regard to certain key characteristics, such as participation incentives, and funding sources*

<table>
<thead>
<tr>
<th>Implementer</th>
<th>3rd Party-led Certification</th>
<th>Multi Stakeholder Intervention</th>
<th>Company-led</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>3rd Party Certification Organization</td>
<td>3rd Party Certification Organization</td>
<td>Multi-stakeholder</td>
<td>Individual Company</td>
<td>National Government</td>
</tr>
<tr>
<td>Primary Activities</td>
<td>Audits, M&amp;E, provision of certificates / labels</td>
<td>Code of conduct; feedback; capacity building</td>
<td>M&amp;E, capacity building, may have internal certification</td>
<td>Licenses, taxes, regulation, etc.</td>
</tr>
<tr>
<td>Incentive for Firms to Participate</td>
<td>Access to markets (premium customers who pay more) or to manage reputational risk</td>
<td>Members use intervention to manage reputational risk and market / signal sustainability to customers</td>
<td>External reasons: Can cater to premium demand (charge higher prices), manage reputational risk</td>
<td>Ability to function legally; companies do not have to pay fines, do not have sanctions imposed on them; are able to function freely in the market</td>
</tr>
<tr>
<td>Sector versus Issue Specific</td>
<td>Can be sector specific (e.g., tourism), or issue-specific (e.g., ‘child labor free’)</td>
<td>Usually sector specific (with some exceptions, like ETI and BSCI)</td>
<td>Sector specific (i.e., companies address issues relevant to the sector they work in)</td>
<td>Can be sector specific (e.g., export oriented textiles industry), or issue-specific (e.g., forced labor)</td>
</tr>
<tr>
<td>Funding Sources</td>
<td>Membership/ License Fees, Grants</td>
<td>Membership Fees, Grants</td>
<td>From company cost savings or profits</td>
<td>Government Funding</td>
</tr>
<tr>
<td>Selected Examples</td>
<td>Forest Stewardship Council, RugMark, FLO, UTZ, Rainforest Alliance</td>
<td>Better Sugarcane Initiative, Global Social Compliance Program, Better Work, RSPO</td>
<td>Pizzorno, Stora Enso, Nike, Favorita Fruit Company, Cairn, Guangshasha Construction, IKEA</td>
<td>Gangmaster Licensing Authority of UK, Better Factories in Cambodia</td>
</tr>
</tbody>
</table>

Red indicates IFC involvement
The Equator Principles: From Private to Public Goods

- A voluntary set of guidelines for managing E&S issues in project finance, based on IFC’s E&S standards
- Established in 2003, 10 international financial institutions (FIs) adopted the Equator Principles
- As of December 2009, 68 Financial Institutions adopted the Equator Principles, representing close to 90% of global project finance business in emerging markets
- Each financial institution puts in place their own policies and procedures consistent with the Equator Principles
IFC - where we invest....

Performance Standards (eg. on labor)

- To establish, maintain and improve the worker-management relationship
- To promote the fair treatment of workers and compliance with national labor and employment laws
- To prevent unacceptable forms of labor (e.g., harmful child labor and forced labor)
- To promote safe and healthy working conditions and protect and promote worker health
PS2: Labor and Working Conditions Requirements

1. Human Resources Policy
2. Document and Communicate Working Conditions and Terms of Employment
3. Respect Collective Agreements
4. Workers’ Right to Organise and Bargain Collectively
5. Non-discrimination and Equal Opportunity
6. Retrenchment Plan
7. Grievance Mechanism
8. No use of Harmful Child Labor
9. No use of Forced Labor
10. Safe and healthy work environment
Assessment and Learning for IFC Clients

Country and Industry screening

Send questionnaire to Company

Field appraisal - check potential labor issues

Themes that could trigger issues:
- Migrant workers
- Dormitories
- Free trade zones

If significant issues

No

Labor Audit

Any Corrective Actions Needed

Monitoring

Reporting

Yes
Example: Pantaleon (Sugar - Central America)

- **Largest sugar producer** in Central America, with mills located in Guatemala, Honduras and Nicaragua. Approximately 13,000 workers.
- **Main labor risk:**
  - Migrant workers (around 50% of Mayan origins) in their plantations in Guatemala.
- **Actions taken:**
  - Eliminating middleman contracting process in favor of direct hiring;
  - Working directly with local community leaders in contracting regions;
  - Providing high nutritional and re-hydration food;
  - Providing adequate housing, health services and money saving opportunities.
How to get from project to market influence?

Level of sector-wide deployment of a sustainable practice
For instance, energy efficiency finance, eco-standards/commodities, sustainable energy, …
IFC Advisory - “Making it work for the Poor”

Example: Garments

ILO/IFC: Better Work

STAR

H&M

WAL-MART

GAP

LOEVE

NIKE
Better Work: Operating at three levels

Compliance Needs Assessment → Advisory Services and Training → Follow-up Assessment

Factory (mgt & workers) → Improvement Plan → Self Assessment → Improvement Activities

Buyer → Engagement and accessing reports
Going Forward: Making Markets Work...

- Financial Sector can play a role (risk perspective...)
- Standards are the way to go
- Broad Applicability is key
- Single-Issue Standards don’t take us far
- Minimum thresholds better than none
- Standards, when accompanied by technical assistance, can offer local firms a chance to become global players

Source: Staff estimates.