

Submitted on 5 September 2010

*“The generation of full and productive employment and the creation of decent work and income...must be made the primary goal of macroeconomic, social and development policies, including by promoting equal skills development and employment opportunities, reducing wage gaps between women and men.”*

Ban Ki-moon, UN Secretary General (February, 2010)

## Section 1 - Summary

1.1 This submission focuses on the work of CDC Group plc. As the UK's development finance institution (DFI), fully owned by DFID, CDC could make a greatly strengthened contribution to meeting the MDGs and in particular MDG (1b) on decent work. This MDG is severely off-track with very large or large deficits in decent work recorded across Africa and Asia (MDG Progress Chart, 2010).<sup>1</sup> Furthermore, decent work has been placed at the heart of recovery from the global economic crisis (e.g. G20, 2009<sup>2</sup>; ILO 2009<sup>3</sup>), indicating that action to deliver decent work is a pressing international development priority.

1.2 In order to assist CDC and DFID with strengthening their contribution to delivering decent work, the Decent Work and Labour Standards Forum (funded by DFID) commissioned research into decent work and development finance<sup>4</sup>, and held a multi-stakeholder, DFI best practice seminar involving CDC and DFID. However, CDC has not responded to the Forum's formal letter, copied to DFID, requesting a meeting to discuss follow up on the recommendations from the research and seminar. On the basis of our research and discussions, we believe that CDC's contribution to meeting MDG 1b is in need of strengthening for the following reasons:

- Its policies do not require *compliance* by investees with international standards including ILO core labour standards and the UN Declaration of Human Rights.
- CDC does not follow internationally recognised best practice on labour standards for DFIs.
- There is a lack of transparency and accountability because it does not engage civil society in policy development, nor the development, implementation, monitoring and evaluation of projects invested in.

1.3 CDC's policies and practice in these areas could be strengthened by benchmarking with other DFIs, such as the World Bank's International Finance Corporation, the European Bank of Reconstruction and Development, FMO (Netherlands), and DEG (Germany). And as a result, the impact of CDC's investments on delivering decent work could be greatly enhanced.

## Section 2 - The Decent Work and Labour Standards Forum

2.1 The Decent Work and Labour Standards Forum (the 'Forum') is a multi-stakeholder body of business, development NGOs, trade unions, academics and labour standards specialists working together with the UK government towards the achievement of decent work and the alleviation of

<sup>1</sup> MDG Progress Chart (2010) [http://www.un.org/millenniumgoals/pdf/sgreport\\_draft.pdf](http://www.un.org/millenniumgoals/pdf/sgreport_draft.pdf)

<sup>2</sup> G20 Summit, Pittsburgh (2009) <http://www.pittsburghsummit.gov/mediacenter/129639.htm>

<sup>3</sup> Recovery from the crisis: A global jobs pact (2009)  
[http://www.ilo.org/public/libdoc/ilo/2009/109B09\\_101\\_engl.pdf](http://www.ilo.org/public/libdoc/ilo/2009/109B09_101_engl.pdf)

<sup>4</sup> Decent work and development finance (2010) [www.decentwork.org.uk](http://www.decentwork.org.uk)

poverty for working people in the global south<sup>5</sup>. The Forum was funded by DFID from April 2009-March 2010, and during this time its activities included:

- Publishing *Decent work and development finance* and holding a seminar with DFIs CDC and EBRD; and the ITUC and Building and Wood Workers International. The seminar aimed to share best practice in enabling private sector financing to generate decent work.
- Conducting a collaborative study on how the economic crisis has affected the poor in Zambia and Bangladesh, mapping out decent work contributions that stakeholders and donors can make, followed up with a seminar involving DFID.
- Enabling knowledge sharing and increased debate through case studies, research, a regular newsletter, a website, workshops on a collective submission to DFID consultations, including DFID's 2009 White Paper.

### Section 3 - CDC and decent work

3.1 According to its investment code CDC, seeks to “encourage the businesses in which CDC’s capital is invested to work over time towards full compliance with the International Labour Organization (“ILO”) Fundamental Conventions and with the United Nations (“UN”) Universal Declaration of Human Rights”<sup>6</sup>.

3.2 Although CDC indicates that it aims to drive up standards over time, taking this approach raises serious questions about it investing in companies that may be failing to provide decent work and crucially, that could be violating people’s fundamental rights at work and their human rights – “over time”.

3.3 Furthermore, use of the term “over time” does not suggest that contributing to the creation of decent work within the context of investment activities is a priority for CDC. This is a missed opportunity given the fact that MDG 1b is severely off track, and the recorded increases in the number of working poor due to the economic crisis. According to the UN, in *Keeping the Promise*, “The lack of progress in creating productive and decent jobs...have been the key reasons for the persistence of poverty and the rise in the number of working poor...in 2008, some 633 million workers – 21.2 per cent of the workers in the world – lived with their families on less than \$1.25 per person per day.”<sup>7</sup> CDC could do more now to create decent work.

3.4 The approach taken by CDC contrasts with internationally recognised best practice for DFIs reflected in the World Bank’s International Finance Corporation Performance Standard 2<sup>8</sup> on Labour and Working Conditions (IFC –PS2). These standards *require* companies invested in to have policies and processes that enable them to *comply* with ILO Core Labour Standards. In addition, unlike CDC’s Investment Code, PS2 defines different employment relationships with the applicability of PS2 to all workers, employees and non-employees, which would include those in supply chains. This omission in CDC’s Code could perpetuate poor working conditions in sub-contracted or outsourced areas of work.

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<sup>5</sup> Particular views in this submission are not attributed to any particular person or organisation, and no listed person or organisation is formally endorsing the views put forward in this submission.

<sup>6</sup> CDC Investment Code <http://www.cdcgroup.com/uploads/cdcinvestmentcode.pdf>

<sup>7</sup> Keeping the Promise (2010) [http://www.un.org/millenniumgoals/pdf/sgreport\\_draft.pdf](http://www.un.org/millenniumgoals/pdf/sgreport_draft.pdf)

<sup>8</sup> IFC-PS2

[http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/pol\\_PerformanceStandards2006\\_PS2/\\$FILE/PS\\_2\\_LaborWorkingConditions.pdf](http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/pol_PerformanceStandards2006_PS2/$FILE/PS_2_LaborWorkingConditions.pdf)

3.5 Regarding health and safety in the workplace, CDC's Investment Code states: "where an activity is assessed to present significant health and safety risks, work over time to apply relevant IFC policies and guidelines". In 2009, CDC invested 13 per cent of its portfolio in industrials; 6 per cent in mining; and 10 per cent in energy and utilities. Given the possible health and safety risks involved in these sectors, it would be expected that CDC would adopt best practice. But since IFC-PS2 *requires* companies to provide workers with a safe and healthy working environment taking into account risks in that particular sector, CDC is clearly not adopting best practice on occupational health and safety.

3.6 The right to freedom of association and the right to organise and bargain collectively are enshrined in the UN Declaration of Human Rights and in ILO Core Labour Standards. CDC, however, does not require companies to recognise these rights and instead states that "consultative workplace structures and associations" should be allowed. These are not the same as free trade unions, and this is but another example of CDC failing to adopt DFI best practice.

3.7 In IFC-PS2, social protection measures, such as leave for illness, maternity and holidays, are required to be respected if they are part of a collective bargaining agreement, or where there is no agreement, conditions must comply with national laws at a minimum. CDC's Investment Code makes no mention of companies having to respect any such bargaining agreements, and it does not state explicitly that workers directly employed by the company should be provided with a written document of their terms and conditions of work, in which such protections would be stated.

3.8 The Asian Development Bank supports different social protection schemes for different target groups, for example: labour market policies designed to promote employment and protect workers; social insurance programmes to cushion risks associated with unemployment, disability and old age for example; and social assistance/welfare programmes<sup>9</sup>. CDC does not have a similar social protection strategy, even though social protection is a core pillar of the ILO's Decent Work Agenda, and therefore part of MDG 1b.

3.9 CDC does not have a robust complaints mechanism through which workers can report violations of their rights. This represents a lack of accountability to the workers, and a lack of transparency in CDC's operations. In addition, monitoring progress on delivering decent work is difficult to measure without such a mechanism. The IFC has an online communication facility, through which trade unions can register complaints of worker rights violation. The system also enables trade unions to monitor dispute resolution. CDC can and should set up a transparent complaints mechanism that involves trade unions and labour standards specialists.

3.10 Decent work is recognised as playing an important role in achieving gender equality (e.g. by UNIFEM<sup>10</sup>). And in a study commissioned by CDC, FMO, Norfund and IFC<sup>11</sup>, the authors recommended that these DFIs develop a consistent and comprehensive gender policy to guide investments which is consistent with the Gender Equality Tool for Portfolio Companies in the report. To date, the Forum is not aware of consultation on or development of such a policy by CDC, but it would be keen to work with CDC to ensure that this policy would contribute to delivering decent work for women and men.

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<sup>9</sup> Asian Development Bank – Social Protection Strategy <http://www.adb.org/SocialProtection/strat.asp>

<sup>10</sup> UNIFEM: Women Poverty and Economics  
[http://www.unifem.org/gender\\_issues/women\\_poverty\\_economics/](http://www.unifem.org/gender_issues/women_poverty_economics/)

<sup>11</sup> IMPLEMENTING GENDER EQUALITY POLICIES AND PRACTICES IN PRIVATE SECTOR COMPANIES  
<http://www.nordsor.no/wp-content/uploads/2010/04/Gender-Study-Final-Report-December-20091.pdf>

## **Section 4 - CDC and civil society engagement**

4.1 CDC also falls short of other DFIs in terms of engagement with civil society resulting in a lack of public accountability and transparency, both in the UK and in countries where CDC invests. This is in spite of its 100% ownership by the UK government.

4.2 Engaging civil society in country at the outset of project design, and when decisions are being taken about investments can help ensure that investments create decent work. Currently, CDC does not have a coherent policy outlining how civil society will be involved in impact assessments, project design, monitoring and evaluation. As mentioned previously, non compliance with core labour standards, and being prepared to accept 'worker committees' suggests that CDC does not recognise the crucial role that trade unions play in protecting and promoting labour standards as part of mature systems of industrial relations.

4.3 CDC could draw on the learning and best practice of other DFIs. DEG's supervisory board includes two representatives from the national trade union centre, and the chairwoman from FNV (the largest trade union in The Netherlands) sits on FMO's supervisory board. The IFC and EBRD have consulted stakeholders and labour standards experts including the ITUC, ILO and global trade union federations, when developing their performance standards on labour standards to ensure that content, language and implementation effectiveness reflect best practice.

## **Section 5 - Recommendations**

In view of the evidence presented, this submission makes the following recommendations regarding CDC's policy and practice.

- CDC's Investment Code should require compliance by investees with ILO Core Labour standards, the UN Declaration of Human Rights and other relevant international standards.
- Existing best practice, currently IFC-PS2, should be adopted by CDC, and CDC should benchmark its policies and practices with other DFIs including EBRD, FMO and DEG.
- CDC develops a social protection strategy.
- A robust complaints mechanism is set up, which involves trade unions, NGOs and labour standards specialists.
- CDC develops a gender policy - together with performance indicators including decent work.
- New performance standards be developed which are widely consulted on.
- Formal structures are set up which enable meaningful engagement and consultation with representatives from civil society in the development, implementation, monitoring and evaluation of projects/investments in country.
- Representatives from civil society sit on relevant CDC boards.