DECENT WORK AND DEVELOPMENT FINANCE

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March 2019

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ACKNOWLEDGMENTS

This publication was produced by Ergon Associates under the direction of FMO for the Association of bilateral European Development Finance Institutions (EDFI).

The report benefited from valuable insights provided by environmental and social (E&S) specialists and development effectiveness (DE) specialists from FMO, DEG, CDC, Proparco and Swedfund. Further inputs were provided by the wider EDFI E&S and DE community during a meeting in Brussels in April 2018. A series of interviews was conducted with representatives of the Trade Union Development Cooperation Network of the International Trade Confederation (TUDCN-ITUC), the International Labour Organisation (ILO), the Dutch Ministry of Foreign Affairs and the UK's Department for International Development (DFID).

This report was prepared in the context of the Let's Work Partnership, which is a group of 28 IFIs focused on private-sector development which have agreed to work together to create more and better private-sector jobs, promote the inclusion of vulnerable groups and help the private sector strengthen its value chains.

DISCLAIMER

The views represented in this publication are those of the authors and do not necessarily represent the official views or policy positions of FMO or the EDFIs nor the interviewed organizations' representatives.

ACRONYMS & ABBREVIATIONS

BIO	Belgian Investment Company for Developing Countries
CDC	CDC Group
COFIDES	Compañía Española de Financiación del Desarrollo
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DFI	Development Finance Institution
EDFIs	European Development Finance Institutions
E&S	Environmental and Social
EDFI	Association of European Development Finance Institutions
ESAP	Environmental and Social Action Plan
ESG	Environmental, Social and Governance
ESMS	Environmental and Social Management System
ETUC	European Trade Union Confederation
FI	Financial Institution
Finnfund	Finnish Fund for Industrial Cooperation
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
HR	Human Resources
IFC	International Finance Corporation
IFU	Investeringsfonden for Udviklingslande
ILO	International Labour Organisation
ITUC	International Trade Union Confederation
LDCs	Least Developed Countries
MSI	Multi Stakeholder Initiative
NGO	Non-Governmental Organisation
Norfund	Norwegian Investment Fund for Developing Countries
ODA	Official Development Assistance
OeEB	Oesterreichische Entwicklungsbank
OHS	Occupational Health and Safety
Proparco	Société de Promotion et de Participation pour la Coopération Economique
PS2	Performance Standard 2 on Labour and Working Conditions
SDGs	Sustainable Development Goals
SIFEM	Swiss Investment Fund for Emerging Markets
SIMEST	Società Italiana per le Imprese all'Estero
SME	Small to Medium Sized Enterprise
SOFID	Sociedade para o Financiamento do Desenvolvimento
UN	United Nations
UNGPs	United Nations Guiding Principles on Business and Human Rights

EXECUTIVE SUMMARY

Development is at the heart of the EDFIs' mandates ... and jobs matter for development

European Development Finance Institutions (EDFIs) share an explicit development mandate underpinning their investment strategy, with a strong focus on economic growth and job creation as a pathway to poverty reduction. EDFI-financed businesses employ over two million workers directly, with at least a further three million jobs supported indirectly. There is increasing recognition that the quality of these jobs matters for development: where productivity is low, conditions insecure and incomes inadequate, the positive development impact of creating and sustaining employment is constrained, and even undermined.

Collectively, EDFIs have made strong institutional commitments to support Decent Work ...

Support for Decent Work has emerged as a prominent element of EDFIs' commitment to progress on the Sustainable Development Goals (SDGs), with particular emphasis on SDG 8 on Decent Work and Economic Growth. The concept of Decent Work, developed by the International Labour Organisation (ILO), implies an integrated approach to development and economic growth that takes into account both quantity and quality of jobs. It addresses the generation of employment opportunities for the poor that are accompanied by rights, representation and protection.

Complementary to the concept of Decent Work, 'job quality' is a distinct concept that can assist EDFIs to pay greater attention to the characteristics of jobs in the workplaces of EDFI investment and lending portfolios, and understand the impact of their investments in this respect. Whilst there is no formally agreed definition of 'job quality' at the international level, the concept has been the subject of enhanced focus in recent years, and can be understood to cover inter alia pay and other rewards, intrinsic characteristics of work, terms of employment, health and safety, work-life balance, and voice and agency.

... while facing particular challenges in promoting job quality in their portfolios

EDFIs often make investments in the most challenging and risky environments, where others are reluctant or unable to go. Due to the nature of their mandates and financing activities, EDFIs face by design several significant challenges in seeking to promote Decent Work and job quality:

- EDFIs focus their investment on the poorest countries, where there are typically weaker governance and enforcement mechanisms, and where there may be gaps in the transposition of ILO conventions into national legislation. Formal jobs in these economies are often in the minority, and there are challenges in effecting inclusive formalisation.
- EDFI investment is at the enterprise level, which makes it difficult to effect change where poor working conditions are related to broader systemic issues that affect a whole sector; for instance, endemic long working hours or low wages.
- Businesses and policy-makers in low-income countries may have concerns about the employment impacts of a 'job quality' agenda in the context of fragile labour markets.
- EDFIs may have limited visibility of labour risks in their portfolio, by virtue of the structure of both project activities – e.g. where infrastructure is constructed by contractors and sub-contractors – and the structure of transactions themselves – e.g. where debt or equity is 'intermediated' by funds or financial institutions (FIs). There are a range of reasons for EDFIs to invest in infrastructure or via funds and FIs (not least to enhance their ability to reach SMEs which can boost job growth) but it constrains their ability to identify labour risks and promote job quality directly.

EDFIs can establish a demonstration effect in and through their portfolio businesses, showing that support for Decent Work and job quality can go hand in hand with strong business performance ...

In the face of these challenges, EDFIs can offer an informed perspective on business practice in the poorest countries that seeks to identify what sort of jobs can do most to stimulate and maintain inclusive growth, and combat 'in-work poverty'. Also, by working with high-potential enterprises to develop more robust people management systems and to make judicious investment in human capital, EDFIs can demonstrate that a focus on 'job quality' can go hand in hand with – and indeed boost demand for – job creation and skills development.

... and change the 'rules of the game', by mainstreaming compliance with internationally agreed labour standards.

One of the main channels by which EDFIs promote job quality is through a firm commitment to the International Finance Corporation's Performance Standards on Environmental and Social Sustainability, particularly Performance Standard 2 (PS2) on Labour and Working Conditions. The Performance Standards represent an internationally recognised benchmark on sustainability in investments, and are based on the premise that the most constructive and sustainable approach to environment and social (E&S) compliance is to put in place effective management systems, including those that relate to people management.

PS2 is the primary standard that guides EDFI relationships with clients on Decent Work and job quality. It is aligned with the ILO core conventions on child labour, forced labour, non-discrimination and freedom of association, which have been recognised by the international community as universal human rights that apply to all people in all countries. PS2 also provides requirements in relation to inter alia working conditions and terms of employment, collective dismissals, grievance mechanisms and worker accommodation. EDFI clients are required to apply PS2 to their direct workforces, and ensure that their contractors have systems in place to apply PS2 to their own workers. Where national legislation differs from PS2, clients are required to apply whichever standard is more stringent.

All EDFIs have processes for assessing E&S risks and impacts related to their investments, including those that relate to labour and working conditions. Identifying and mitigating the risk of non-compliance with labour standards is key for EDFIs, as nearly every transaction will entail some impact on jobs. Labour rights abuses can constitute restrictions on fundamental, internationally-recognised human rights, and labour risks can threaten operational continuity and the reputation of both EDFIs and their clients.

EDFIs add value by supporting the development of people management systems in client enterprises and raising awareness and knowledge of labour standards in the markets in which they operate...

Alongside E&S compliance frameworks, EDFIs have adopted a range of practical measures to catalyse positive change within their clients and the markets in which they operate. These measures target changes in different ways:

- **Engaging with clients**: A number of EDFIs provide advisory support and technical assistance to their clients to introduce and/or strengthen the implementation of modern and professional management systems, including those required to manage their workforce.
- **Engaging with financial markets:** Given the significant volume of EDFI finance that is intermediated through private equity funds and financial institutions, EDFIs increasingly engage with these actors to raise awareness of labour rights concerns, offering training and guidance materials to boost the capacity of fund managers and FIs to manage labour compliance risks.
- **Engaging with partners:** The Association of bilateral EDFIs itself offers an important platform for dialogue and cooperation on Decent Work between EDFIs, as well as with other (multilateral and bilateral) development finance institutions. Dialogue with trade unions is another means used by some EDFIs to increase their contribution to the Decent Work Agenda, while a number of EDFIs have sought to establish partnerships with private sector actors, experts or civil society organisations to increase their impact.

...and there is potential for development finance to contribute further to the realisation of Decent Work in emerging and developing economies worldwide.

There is an important role for EDFIs to strengthen and enhance existing efforts to demonstrate that decent jobs are compatible with competitive business models - leading to market transformation, and improving mutual understanding of challenges, objectives and areas of common interest between EDFIs and key stakeholders. This includes normalising respect for labour rights as standard terms of business in emerging and developing markets, guiding and developing the people management systems and capacity of clients, and driving enhancements to job quality measurement frameworks, which enable consistent and streamlined assessment of job quality throughout EDFI portfolios.

1. INTRODUCTION

1.1 DECENT WORK AND JOB QUALITY IN THE INTERNATIONAL DEVELOPMENT AGENDA

Labour markets serve as a dynamic link between economic growth and poverty reduction. Jobs connect improvements in living standards, productivity gains and social cohesion. That is to say, development happens *through* jobs (see e.g. World Bank, 2012).

For most poor people in the developing world, work is their main route to escaping poverty: labour is typically the principal asset that the poor have at their disposal. But there is increasing recognition that some jobs do more for development than others: job quality matters. Where productivity is low, or conditions are insecure and incomes inadequate, the well-being of workers and households is compromised, and the positive development impact of employment is constrained. Of course, the majority of poor people in Least-Developed Countries (LDCs)[1] already have jobs, by necessity, but these are mostly found in the informal economy, with poor terms and conditions of employment (ILO, 2018). The challenge is to create more productive and inclusive employment.

Eradicating poverty is therefore not solely a question of generating economic growth and employment opportunities but also ensuring that both the quantity and quality of available work is such that it can lead to poverty reduction and inclusive development. For this, private sector development is key.

The United Nations (UN) Sustainable Development Goals (SDGs) announced in 2015 saw the adoption of the 17 undeniably ambitious goals which set the international development agenda for the next fifteen years. Reflecting the results of the world's largest-ever consultation exercise, finding that 'better job opportunities' were the third most significant concern of all respondents worldwide, the SDGs gave a central role to decent jobs. SDG 8 (Decent Work and Economic Growth) sets the objective of promoting "sustained, inclusive and sustainable economic growth, full and productive employment and Decent Work for all" and is accompanied by ten specific targets.

1 LDCs are low-income countries confronting severe structural impediments to sustainable development. For the current list of LDCs as defined by the Committee for the Development, a subsidiary body of the United Nations Economic and Social Council, see: https://www.un.org/development/desa/dpad/least-developed-country-category.html

1.2 RATIONALE FOR THIS BRIEFING

Development finance is becoming an increasingly important lever in international development assistance, and the most cited government policy goals for increased investment in European Development Finance Institutions (EDFIs) are job creation, growth and private sector development (EDFI, 2017). Much of the growth in EDFI portfolios has been financed by a growth in shareholder equity; i.e. retained profits and replenishments from governments (EDFI, 2017).

All EDFIs have an explicit development mandate as part of their investment strategy, typically with a strong focus on job creation as a pathway to poverty reduction. As a group, EDFIs have expressly stated their intention to step up to the sustainability challenges set by the SDG Framework, alongside the Addis Agenda on Financing for Development and the Paris Climate Agreement (EDFI, 2016). As part of this development mandate, EDFIs aim to target investment towards some of the least developed countries in the world, in sectors with the potential to stimulate economic growth.

Against this background, Decent Work has emerged as an important framing concept for EDFIs, as it is seen as one of the main ways in which DFIs (and other private sector actors) can contribute to progress on the SDGs. Several EDFIs now explicitly incorporate references to SDG 8 into their institutional policy frameworks.[2] (See Box 1 for an outline of how FMO has integrated the SDGs into its investment strategy.)

In this context, this Briefing aims to provide guidance to development finance institutions (DFIs) and other private investors operating in developing economies based on existing good practices from EDFIs, particularly in light of some of the specific challenges faced by EDFIs in relation to labour and working conditions in their investments. It also aims to inform and encourage further EDFI good practice on Decent Work, and may provide a useful reference point for other actors with an interest in development finance, including policy-makers, trade unions, and civil society organisations.

This report is structured in three main sections:

1. **What is development finance and what does it mean for jobs?**
   This section describes how development finance can support job creation, the different types of finance instruments used by EDFIs and the implications for Decent Work, and the main characteristics of EDFI portfolios.

2. **Decent Work and how it relates to development finance.**
   This section outlines the content of the ILO's Decent Work Agenda, and its relevance to DFIs and their clients.

3. **How EDFIs promote Decent Work and job quality in their investments.**
   This section outlines the specific challenges faced by EDFIs with respect to promoting Decent Work and job quality, and the key mechanisms by which EDFIs respond to these challenges and support Decent Work in their investments.

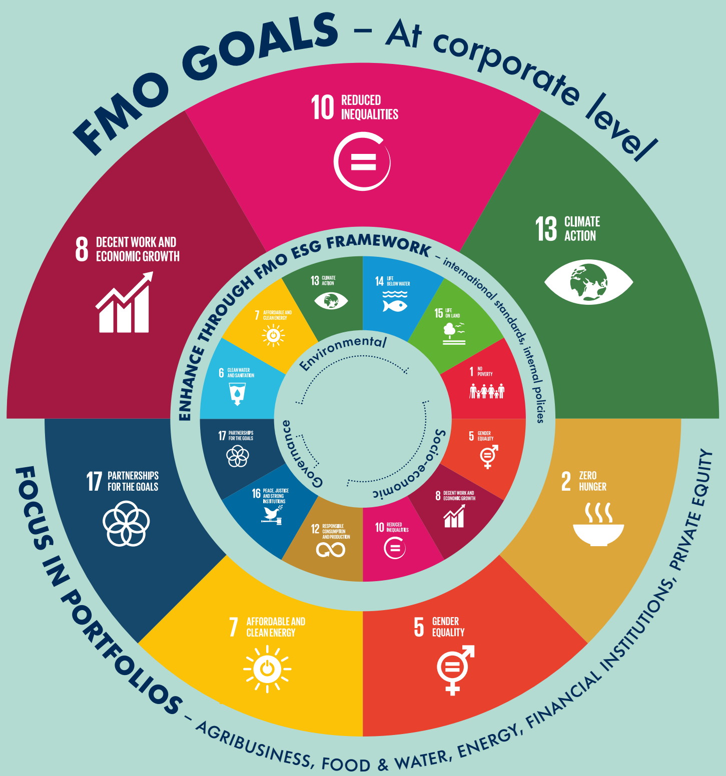
2 Other SDGs that different EDFIs have identified as relevant to their work include SDG 1 (Poverty Reduction), SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 10 (Reduced Inequalities), SDG 12 (Responsible Consumption and Production), SDG 13 (Climate Action), SDG 16 (Peace, Justice and Strong Institutions) and SDG 17 (Partnership for the Goals).

BOX 1

FMO: INTEGRATING SDGS INTO INVESTMENT STRATEGY

FMO has expressed its full commitment to the SDG framework, and has identified SDG8 as being of particular relevance. FMO aims to contribute directly to progress on the SDGs at three main levels:

1. **Core business and goals:** Across its portfolio, FMO contributes to SDG 8 via its goal on the number of jobs supported. FMO also has portfolio-wide goals on climate change (SDG 13) and reducing inequalities (SDG 10).
2. **Sector focus:** Alongside the portfolio wide SDGs, FMO sector portfolios contribute to additional SDGs that are of particular relevance to their investments, and these additional SDG goals may be complementary to the Decent Work Agenda. For instance, FMO is working to promote gender equality (SDG5) through a number of its deals, with a particular focus on improved access to finance for women entrepreneurs.
3. **Environmental, Social and Governance (ESG) standards:** FMO considers that it paves the way to SDG delivery, including SDG 8, by ensuring that investments adhere to international standards on ESG risk management (including PS2) and by actively engaging clients on these standards.



Source: FMO website; FMO, 2017.

1.3 METHODOLOGY

The research methodology for this report was based on a focused literature review, interviews with EDFI representatives and selected stakeholders, and field visits to three DFI clients.

In February 2018, the research team held interviews with FMO representatives in The Hague and representatives of the International Trade Union Confederation (ITUC) and the International Labour Organization (ILO) in Brussels. Further telephone interviews were held with E&S specialists and Development Effectiveness specialists from CDC, DEG, Swedfund and Proparco. The preliminary findings of the research were presented and discussed at an EDFI workshop in Brussels in April 2018.

The research team gratefully acknowledges the participation of the three EDFI clients[3] who agreed to share their experiences and are the subject of extended case studies (see Annexes). The following companies were selected on the basis that they represent a cross-section of sectors and geographies, and showcase some of the different practices adopted by EDFIs to strengthen job quality outcomes:

- **FMO:** DI Frontier and VS Hydro, development of hydropower infrastructure in Uganda;
- **Swedfund:** Radisson Blu Upper Hill, a hotel in Kenya; and
- **CDC:** RFL Electronics Ltd (REL), a manufacturing facility in Bangladesh (part of the Pran-RFL Group).

In April-May 2018, researchers carried out site visits and, in each case, spent two days conducting interviews and focus group discussions with managers, supervisors and employees in order to understand the kinds of initiatives taken by EDFI clients to promote Decent Work, and the kind of support offered by EDFIs themselves.

3 This report uses the term 'clients' as common shorthand to describe the range of 'end-user' businesses supported by EDFI funds – including both borrowers and investee enterprises, whether financial relationships are direct or intermediated by a fund or financial institution.

2. DEVELOPMENT FINANCE & WHAT IT MEANS FOR JOBS

2.1 OVERVIEW

Development finance aims to bridge the gap between commercial finance (provided by banks or other private sector investors) and official development assistance (provided by governments).

EDFIs are a group of 15 publicly-owned entities each with a mandate to invest in private sector enterprises in developing countries to promote development. Not all EDFIs are alike: some have private sector shareholders and pay dividends, and some have a mandate to support domestic firms in their overseas activities.

The resources that EDFIs provide are intended to be additional to what the market can provide and to catalyse further investment. For instance, FMO tests all of its investments against three main dimensions:

- **Financial additionality**: Providing financial services only where the market cannot or does not do the same, or otherwise does not provide on an adequate scale or on reasonable terms.
- **ESG additionality:** Providing additional, non-financial value (such as green and inclusive development impact, E&S risk management and governance improvements).
- **Catalytic role:** Maximizing the flow of finance to FMO's client(s) by mobilizing third-party funds.[4]

4 See: https://www.fmo.nl/policies-and-position-statements

2.2 HOW EDFIS SUPPORT JOB CREATION

EDFIs promote employment generation through four main channels:

1. **Additionality and catalytic effect:** by focusing on their mandate to 'go beyond the market' and to 'crowd-in' commercial investors, EDFIs help increase the volume of economic activity in a country, and as a consequence support employment creation.
2. **Demonstration effects:** EDFIs' projects can demonstrate the potential of new types of investment, thus leading to further investments by the private sector, which in turn lead to more economic activities and more employment creation.
3. **Skills and technology transfer and upgrading:** EDFIs contribute to human capital formation through capacity-building and technical assistance, changes in business regulatory environments and the uptake of better business practices, including better employment practices. Such support can foster better managerial and innovation capabilities, increasing firms' potential to grow and invest in technology and skills, with possible consequent employment opportunities (albeit with attendant risks of job destruction where technology supplants labour and there is limited scope for labour re-allocation).
4. **Forward and backward linkages:** EDFIs can support firms which have both forward and backward linkages in an economy – that is, manufacturers needing inputs from suppliers (backward linkages) but also selling their products to distributors and retailers (forward linkages), both of which can generate and sustain employment.

Table 1

TYPICAL FORMS OF DEVELOPMENT FINANCE INSTRUMENTS (IDB, 2017)	
DEBT	DFI debt instruments can take the form of loans (non-tradable) and debt securities (tradable). DFIs may lend directly or, more commonly, offer funding to a FI for 'on-lending'. Some DFIs may offer 'concessional loans' loans to de-risk or encourage certain investments – providing better-than-market-rate terms, either through longer repayment terms, low interest rates, or both. Most DFIs enjoy preferred creditor status, enabling them to issue 'syndicated loans' in which they act as a broker between borrowers and commercial lenders.
EQUITY	When a DFI acquires equity in a company or shares in an investment fund, this means the DFI owns a residual claim on the assets and earnings of that company or the companies the fund subsequently invests in. When a DFI decides to acquire equity, the first key decision is whether to invest directly or invest through (private equity) funds (delegating the process to experienced managers). DFIs usually use direct investments when they can levewrage some comparative advantage. For example, DEG prefers to use direct investments where it has a local presence. 'Investment funds' are collective investment undertakings where investors pool funds that issue shares.
QUASI-EQUITY	Quasi-equity usually refers to hybrid financial instruments that lie between equity and debt, depending on their characteristics – including subordinated loans, convertible debt and preferred stock.
RISKMITIGATION	A loan guarantee is a promise by a DFI guarantor to pay back a borrower's debt if a borrower defaults on a loan. Guarantees may be used to de-risk investments for commercial investors. A particular form of guarantee –'trade finance' – is used for trade-related transactions by local banks.

2.3 DEVELOPMENT FINANCE INSTRUMENTS

Development finance can take different forms and each form can be deployed through specific financial products (see Table 1). EDFIs may lend or invest, directly or through an intermediary financial institution (FI) or fund, and may operate alone or with other public or commercial lenders or investors. The structure of the financial products offered by EDFIs will reflect their mandate and objectives; in many cases, the range and form of products offered has developed in recent years in order to reach specific segments of the private sector in particular countries or regions.

The way in which each transaction is structured is important, as it has an influence on the extent to which each EDFI can influence jobs, and how:

- The greatest level of influence on jobs comes through direct equity transactions, where EDFIs take on an ownership stake in a company and may be able to effect direct influence on strategic people management questions (see Box 2 for an example of how Swedfund has used its board presence to support Decent Work). However, where equity investments are made via a private equity fund, the relationship with the company is indirect and EDFI influence over job quality outcomes may be reduced.

- Similarly, EDFIs maintain closer oversight of labour risks where they provide debt finance to clients directly, whereas when they lend to financial institutions (FIs) for on-lending, there is significantly decreased visibility of end-use – not least where an FI portfolio may be composed of a high volume of lower value transactions – and hence reduced influence on job quality outcomes.

There are important reasons for EDFIs to invest via collective funds and FIs, as it allows EDFIs to increase access to finance for SMEs, which are difficult for EDFIs to engage directly yet tend to be the wellspring of job creation in low-income economies. (The challenges associated with different kinds of investments are discussed further in Section 4.)

Some EDFIs are also able to mobilise funds for technical assistance, which can be deployed to support clients to develop or strengthen their management systems, including those that relate to people management. (See Section 4 for further discussion and examples of technical assistance.)

2.4 CHARACTERISTICS OF EDFI PORTFOLIOS

The biggest EDFIs by portfolio value are FMO (The Netherlands), DEG (Germany), Proparco (France) and CDC (UK). By the end of 2015, the combined EDFI portfolio of committed investments was €36.3 billion, supporting 4 million direct jobs (EDFI, 2017). The annual level of new investments by EDFIs reached €6.0 billion in 2015, equivalent to 10% of all bilateral Official Development Assistance (ODA) financed by European aid agencies and the EU institutions (up from 4% in 2005) (EDFI, 2017).

EDFI members invest in a wide variety of sectors, ranging from finance to infrastructure, agribusiness, industry/manufacturing and services. Financial services and infrastructure are the largest sector for EDFIs as a whole: in 2014, 50% (€16.3 billion) of the total consolidated portfolio was invested in the financial sector (mainly in funds and FIs); the share invested in infrastructure was equal to 24% (€7.9 billion, of which €5.4 billion was invested in power).

Individual EDFIs have developed specific areas of expertise. Among the bilateral EDFI members, SIFEM (Switzerland) invests exclusively in the financial sector (funds and FIs), which is also the largest area of activity for CDC (UK). (These funds and FIs then invest and/or lend to a range of businesses in their target markets.) Infrastructure is the main area of activity for COFIDES (Spain) and Norfund (Norway), whereas Simest (Italy) and SBI (Belgium) operate mainly in industry and manufacturing.

BOX2

SWEDFUND: USING BOARD INFLUENCE TO PROMOTE JOB QUALITY

The Radisson Blu Upper Hill in Nairobi is one of Kenya's top five-star hotels. It is owned by Elgon Road Developments Ltd (ERDL), a special purpose vehicle co-owned by Swedfund (27.18%), IFU (27.18%), Finnfund (27.18%), and a local shareholder (18.47%). As an equity investment, each of the EDFIs has a seat on the board.

Swedfund takes an active interest in job quality matters during board meetings, which are held at least quarterly at the hotel. According to the hotel's General Manager, one of the main ways in which Swedfund and the other EDFIs contribute to job quality at the hotel is through their recognition of the connection between business performance and sound people management: "it is ultra-positive for the hotel to have this emphasis on employment and general HR practices at board level". The GM says that EDFI support has been crucial in introducing new benefits for staff: "I know that if I want to go to the board to propose an additional month's maternity leave for women, they will back it 100% … I don't think I would get the same level of support for these kinds of initiatives from other owners."

During board meetings, board members also raise questions related to compliance with national legislation, the collective agreement or PS2. Legal compliance is important for Swedfund not only as a matter of PS2 compliance, but also because ERDL is the direct employer of all workers at the hotel, they have direct exposure to liability for non-compliance with Kenyan labour laws. In this context, Swedfund says that its investment and E&S functions work together closely to scrutinise reporting on workforce developments. According to the GM, EDFI board members show a strong awareness of labour and working conditions: "As soon as we say anything that might not seem in line with [PS2] during board meetings, they will pick it up straight away". This is then followed up with the hotel's HR manager after the board meeting by Swedfund's E&S specialist.

As a five star hotel, the Radisson Blu Upper Hill relies on all of its staff to consistently deliver the highest possible levels of service to guests, and it is crucial that staff feel valued and motivated, as well as empowered to respond to guests' needs. In this context, a focus on job quality has led to higher staff engagement and satisfaction and this has been shrewd commercial practice. By keeping staff happy, the hotel also keeps staff turnover very low (0.02% in 2017) and makes it difficult for competitors to poach its best workers. At the end of 2016, the Radisson Upper Hill was ranked 18th out of 36 Radisson hotels in Africa on guest satisfaction scores and 186 in the European, Middle East and North Africa and Africa (EMENA) region; by the end of 2017, it was ranked first in Africa and fourth in EMEA. The hotel has also increased its profitability, with a Gross Operating Profit (GOP) of 26% in 2016, growing to 38% by the end of 2017.

(An extended version of this case study – based on interviews and a site visit carried out in 2018 – is set out in Annex B. This text focuses primarily on the role of Swedfund, which supported the preparation of the case study.)

3. **THE DECENT WORK AGENDA,** AND HOW IT RELATES TO DEVELOPMENT FINANCE

'Decent Work' has gained currency among EDFIs as a core concept underpinning SDG8. While it covers a very broad agenda, Decent Work has the greatest operational relevance for EDFIs in its normative dimension of 'Rights at Work' – highlighting the central role of internationally-recognised labour standards at the core of rights-based, inclusive development. This is reflected in the individual and common policy commitments of the EDFIs, which recognise the status of the ILO Core Conventions on child labour, forced labour, non-discrimination and freedom of association and collective bargaining, and require the development of sound people management systems and worker-management dialogue to promote Decent Work. While Decent Work has become a policy objective for EDFIs, practical measures to monitor and evaluate job quality outcomes at enterprise level in DFI portfolios are at an earlier stage of development.

3.1 THE DECENT WORK AGENDA

From its origin as an internal organising principle for the International Labour Organisation (ILO), Decent Work has emerged as a concept with wide currency, most significantly through SDG 8 on Decent Work and Economic Growth. Decent Work starts from the insight that development depends on people working, and the nature of jobs matters as well as the number of jobs.

The question of how work contributes to sustainable development is encapsulated in the 'four pillars' of the ILO Decent Work Agenda, (see Figure 1, focussing particularly on the ILO Core Labour Standards), with gender equality and non-discrimination seen as a cross-cutting objective. The pillars are understood to be interdependent and mutually reinforcing.

Figure 1

THE FOUR PILLARS OF DECENT WORK

PRODUCTIVE AND FREELY CHOSEN WORK	RIGHTS AT WORK	SOCIAL PROTECTION	SOCIAL DIALOGUE
This covers access to productive work, and opportunities for skills upgrading and development, including vocational training.	This focuses on the rights and principles set out in the 1998 ILO Declaration on Fundamental Principles and Rights at Work, which include the effective abolition of child labour; elimination of discrimination in employment; elimination of all forms of forced labour; and freedom of association and the right to collective bargaining.	This encompasses access to social security, occupational health and safety (OHS), and policies with respect to wages, earnings and hours.	This covers negotiation, consultation or exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest. Social dialogue is understood as an objective in itself, but also instrumental to the effective achievement of the three other objectives.

GENDER EQUALITY

3.2 JOB QUALITY

Decent Work is an expansive concept, initially developed to support holistic thinking on jobs within the ILO and amongst national policy-makers (see ILO, 2008), and can be challenging to apply and measure at the level of the individual worker and the enterprise. Given the breadth of the Decent Work agenda, the concept of 'job quality' has emerged in recent years as a means of operationalising the concept of Decent Work to understand impact at the level of the individual workplace. Whereas the ILO has developed a comprehensive set of Decent Work Indicators[5], these are focused at the national level – reflecting ILO's mandate to work with its tripartite constituents (i.e. governments, trade unions, and employers) to create a policy and legal environment which can enable Decent Work. Focusing on 'job quality' can help EDFIs to understand and monitor what Decent Work looks like in a specific workplace.

Whilst there is no formally agreed definition of 'job quality' at the international level, there have been several attempts in recent years to create a framework of indicators to measure the quality of employment (see e.g. UNECE, 2015, with ILO participation; Cazes et al, 2015, setting out the OECD framework; Eurofound, 2012). While each effort to define 'job quality' has resulted in a diverse range of indicators, some key themes can be identified (see Table 2).

Despite a lack of formal consensus on what constitutes 'job quality', it should be understood to incorporate the rights pillar of the Decent Work Agenda, recognising that the core labour standards are non-negotiable and irreducible for all.[6] The overlap between the pillars represented in Figure 1 and the dimensions of Table 1 shows that drawing on the concept of 'job quality' does not mean displacing or diminishing the concept of Decent Work,[7] but rather provides a means for its practical application (and measurement) at the level of the individual workplace. For EDFIs, it provides a tool to enable increased focus on aspects of Decent Work that are relevant to their operations and on which progress can be measured. It can be seen to incorporate the normative elements of the Decent Work Agenda (i.e. the core labour standards), as well as additional elements of other pillars (social protection, training, wages, social dialogue). Importantly, job quality provides a concept that aligns with IFC Performance Standards (see below) and provides opportunities for measurement at the level of the individual worker, opening up possibilities for EDFIs to understand their impact on Decent Work in enterprises (see Section 4)

Table 2

DIMENSIONS OF JOB QUALITY EMERGING FROM AN INTERNATIONAL REVIEW (CIPD, 2018)	
PAY AND OTHER REWARDS	Including objective aspects such as wage level, type of payment (e.g. fixed salary, performance pay) and non-wage fringe benefits (e.g. employer-provided pension, health cover) and subjective aspects (e.g. satisfaction with pay)
INTRINSIC CHARACTERISTICS OF WORK	Including objective aspects (such as skills, autonomy, control, variety, work effort) and subjective aspects (such as meaningfulness, fulfilment)
TERMS OF EMPLOYMENT	Including objective aspects (e.g. contractual stability and opportunities for training, development and progression) and subjective aspects (e.g. perception of job security)
HEALTH AND SAFETY	Including physical and psycho-social risks
WORK-LIFE BALANCE	Including working time arrangements such as duration, scheduling and flexibility, as well as work intensity
REPRESENTATION AND VOICE	Including employee consultation, trade union representation and employee involvement in decision-making

5 The most recent version of the ILO Decent Work indicators was published in 2013 (ILO, 2013).
6 These rights have been recognised by the international community as universal human rights that apply to all people in all countries, regardless of the level of economic development, through the 1998 ILO Declaration on Fundamental Principles and Rights at Work.
7 Indeed, the ILO itself has applied the framework for measuring job quality set out in UNECE (2015) as a means of understanding the quantitative aspects of job quality in SMEs (see ILO 2015 and 2017).

3.3 THE RELEVANCE OF DECENT WORK TODEVELOPMENT FINANCE

The relevance of Decent Work to EDFI operations can be understood via three main tracks:

1. **The EDFI mandate to deliver sustainable development impacts through their debt and equity operations:** Decent Work can be taken into account in EDFI frameworks for understanding and assessing the development impact of their investments. This could involve analysing the labour market impacts of job creation linked to investment (looking at *how* jobs contribute to local livelihoods, inclusion and human capital development). (Prospects for measuring job quality are explored further in Section 4.2.

2. **E&S Standards relating to employment and labour practices:** Decent Work contains a *normative* aspect: the labour standards component. One of the principal mechanisms by which EDFIs promote Decent Work and job quality in their investments is by requiring clients to comply with the IFC Performance Standards on Environmental and Social Sustainability[8], an internationally recognised benchmark on sustainability in investments, which provides EDFI clients with guidance on how to identify and manage a range of environmental and social risks. Performance Standard 2 (PS2) on Labour and Working Conditions is the main reference point on Decent Work and job quality, and is guided in part by the ILO core conventions on child labour, forced labour, discrimination and freedom of association. PS2 also provides requirements in relation to *inter alia* working conditions and terms of employment, collective dismissals, grievance mechanisms, and worker accommodation. Where national legislation differs from PS2, clients are required to apply whichever standard is more stringent. (This aspect of the EDFIs' work is explored in more detail in Section 4.)

3. **The development of EDFI sector and country strategies:** A closer focus on what sorts of jobs will result from EDFI finance can inform EDFI country and sector strategies. This may also entail closer coordination with relevant agencies – such as ILO or bilateral technical assistance agencies – as well as national actors working on human rights, skills, youth employment and women's economic empowerment, for instance.

Importantly, Decent Work also overlaps with other commitments made by DFIs:

- **Gender equality:** This has become a priority focus for many EDFIs (including FMO, CDC, Swedfund and Proparco), often expressed as a commitment to SDG 5 (see Box 3). EDFI commitments to gender equality usually include a component on equal opportunity for women and men in the workplace, but also encompass a broader range of subjects, including access to finance for female entrepreneurs and access to services (including health and education) for women. For instance, FMO has a stand-alone position statement on gender, framing its actions within the context of SDG 5 and committing FMO to "proactively seek investments that support women as entrepreneurs, reach women as end-users of goods and services and include women in the labour market". FMO is also directing some of its efforts internally in order to better understand the position of women within its operations: in 2017, it became the first EDFI to become certified under the EDGE (Economic Dividends for Gender Equality) scheme, which involved a rigorous external assessment of the workplace environment through an employee survey, workforce data analysis, and review of company policy and practice against best international practice. In June 2018, an international group of DFIs - including CDC, Proparco, Cassa depositi e prestiti Group (CDP - Italy) and DEG - launched the ambitious 2X Challenge, a $3 billion commitment by 2020 to support investments that enhance women's economic advancement (EDFI, 2018).[9]
- **Human rights:** A number of DFIs (including FMO and CDC) have also issued position statements on human rights, which take labour standards into account.

8 There are eight Performance Standards which cover: Assessment and Management of Environmental and Social Risks and Impacts; Labour and Working Conditions; Resource Efficiency and Pollution Prevention; Community Health, Safety and Security; Land Acquisition and Involuntary Resettlement; Biodiversity, Conservation and Sustainable Management of Living Natural Resources; Indigenous Peoples; and Cultural Heritage.
9 Other DFIS and organisations involved in the initiative include: the Overseas Private Investment Corporation (USA), the Development Finance Institute Canada, the Japan Bank for International Cooperation, and the Japan International Cooperation Agency. For more information, see: https://www.2xchallenge.org/.

BOX 3

SWEDFUND: PROMOTING GENDER EQUALITY IN PORTFOLIO COMPANIES

Swedfund's Women4Growth (W4G) programme is designed to unlock the potential of women, by providing leadership training and a platform for women to discuss and address barriers to their advancement in the workplace. It is aligned with Swedfund's commitment to promoting gender equality in its investments. Since it was launched in 2015, Swedfund has conducted W4G workshops with portfolio companies in Kenya, Ethiopia and South Africa.

The W4G programme has had a significant impact on working conditions for women and men alike at the Radisson Blu Upper Hill hotel in Nairobi (in which Swedfund has a 27.18% equity stake). Conducted in November-December 2016, the programme was initially delivered through three workshops, culminating in a final workshop where women presented their recommendations to senior management and owners. (The W4G programme is also aligned with the Radisson Hotel Group's Balanced Leadership initiative, which aims to encourage more women to take on leadership roles in the company.)

Following the W4G workshops, several of the participants' recommendations were implemented, and the programme has taken on a life of its own, leading to even greater change than was originally envisaged by Swedfund and the participants. In particular, some important new benefits for staff were agreed on as a result of discussions that flowed from the W4G workshops, including an additional month's maternity leave, sick leave for children's illness and medical insurance for dependents. The hotel's General Manager now makes a point of meeting with small groups of women employees on a regular basis to follow up on progress: "I want [women] to know that I care about this agenda. This is also a business decision: I need to know what I need to do to get the best out of my staff."

(An extended version of the Radisson Upper Hill case study–based on interviews and a site visit carried out in 2018–is set out in Annex B.)

3.4 THE BUSINESS CASE FOR INCREASED JOB QUALITY

In many contexts in which EDFIs operate, there is a common preconception that investing in improved working conditions leads to higher labour costs that are not compatible with business competitiveness. However, there is now an extensive body of research that links investment in human resource (HR) management systems and training with better corporate financial performance (see e.g. Bernstein and Beeferman, 2015; see also Box 4 below). Indeed, modern and professionalised HR management can be a useful proxy for more generally capable and aware management in general.

There are several dimensions to the client-level business case, which may include a combination – or all – of the following:

- **Improved access to export-oriented markets, and to international finance:** The advent of labour 'codes of conduct' has seen compliance with international labour standards become a condition of business in the higher-value segments of the global value chains.[10] Access to finance is also relevant: sustainability and reputational risk are starting to work their way into conventional investment analysis undertaken by buy-side analysts and asset managers.[11]
- **Stemming skills shortages, turnover and absenteeism:** Attracting and retaining workers is a key factor in creating a positive cycle of compliance-led performance, which can contribute to competitive advantage. Scarcity of talent can be a major bottleneck for growth for companies in low-income economies (just as in high-income economies). At the same time, the cost of high staff turnover[12] and absenteeism[13] is often underestimated by companies, and can be significant, even for lower-wage workforces.
- **Improved productivity and innovation:** Investments in job quality, including better working conditions and skills development, can pay for themselves through productivity improvements – directly by improving work efficiency (and indirectly through reducing staff turnover) as a result of increased employee satisfaction and focus[14]. Companies are better positioned to implement new working practices and technologies as a result of greater workforce flexibility and approach to change. Channels for worker-management engagement provide a means for identifying and addressing tensions before they escalate into costly industrial disputes.
- **Improved compliance and reputation management:** Prioritisation of legal and regulatory compliance reduces the risk of exposure to fines, the legal costs of addressing claims and the risk of interruption relationships with reputationally sensitive business partners.

Alongside the business case for increased job quality at the enterprise level, there is an important case for improved job quality at the macroeconomic level. More and better jobs in private sector enterprises can help to boost productivity and ensure more inclusive growth, ensuring that economies are making the most efficient use of human capital.

It is possible that some businesses and policy-makers in countries of EDFI operation may have concerns about the employment impacts of a 'job quality' agenda in the context of fragile labour markets, particularly where they are marked by high levels of youth unemployment and broader under-employment, unsure of the implications of new technologies on future opportunities. Evidently, job quality is predicated on employment, and any effort to promote improvements to working conditions needs to be informed by an understanding of competitiveness, productivity and employment security concerns.

10 A recent review of 45 multi-stakeholder initiatives (MSIs) (i.e. organisations comprised of various stakeholders, typically including representatives of companies, governments, civil society organisations, and trade unions) that set transnational standards for business or government (including on labour standards) revealed their wide reach. The MSIs under consideration operated in over 170 countries on six continents, and regulated over 9000 companies including 65 Fortune Global 500 businesses with combined annual revenues of more than $5.4 trillion dollars. The initiatives were clustered in three sectors: agriculture, forestry and fishing; mining and energy; and consumer goods (MSI Integrity et al, 2017).

11 There is mounting evidence regarding the links between sustainability practices and business performance. For instance, a recent review of 2000 studies on the links between ESG performance and financial performance found that 90% of the studies found a neutral or positive relationship between high ESG scores and financial performance, and the majority of studies found a positive relationship (Friede et al, 2015). See also Khan et al, 2015.

12 One US study found that it cost businesses on average about 20% of a worker's salary to replace a worker, but this could be significantly higher for positions that required specific qualifications or skills (Boushey and Glynn, 2012).

13 An IFC study of a Solomon Islands tuna processing plant estimated that the company stood to save $166,000 and earn an additional $1.58 million per year by reducing absenteeism from 18% to 15% (IFC, 2017).

14 Evidence from the joint ILO/IFC Better Work programme in Vietnam found that better working conditions in garment factories were linked to higher productivity. Where working conditions were better, particularly those relating to the working environment, workers reached daily production targets nearly 40 minutes faster than workers in factories with worse conditions. Individual worker productivity was also found to decrease as verbal abuse increased in the work environment. While the average worker takes ten hours to reach the daily production target set by her supervisor, workers concerned by verbal abuse – but with the same education, training and experience – required almost one additional hour per day to reach this target (Better Work, 2016).

BOX 4

DEG / DBL: THE BUSINESS CASE FOR JOB QUALITY IN BANGLADESH

To date, much of the research on the business benefits of investing in job quality is based on data from high-income economies, with limited enterprise-level research from emerging markets. In the context of the Let's Work partnership, DEG conducted a study with DBL Group, one of the leading garment manufacturers in Bangladesh, to explore the business case for companies to provide better working conditions for their workers.

DBL Group is co-financed by DEG, FMO, OeEB and other DFIs, with sixteen facilities for spinning, fabric knitting, dyeing and finishing, printing and packaging. The company operates in a challenging commercial environment: Bangladesh dominates the ready-made garments market in South Asia, but faces intense competition from other countries in the region, constant price pressure and ongoing industry expansion. This has led to a situation where working conditions and safety often lag behind, as evidenced by the collapse of Rana Plaza in 2013. Nevertheless, the increasing demand for higher value garments from Bangladesh offers important opportunities for companies to upgrade their operations and to create higher qualified, better paid jobs for workers, particularly women. There is also increasing emphasis by international buyers, especially from Europe and North America, on demonstrating sound environmental and social practices.

In this context, DBL identified safety and working conditions as a crucial precondition of securing its market position in the future. The company developed a Social Management System (SMS), including a comprehensive code of conduct and policies to demonstrate compliance with international labour standards, and has invested heavily in building, fire and electrical safety. It has also established an on-site shop where employees can purchase everyday goods at a discount (effectively increasing disposable income), an on-site medical centre that provides basic medical care for free and sells subsidised medical products, and an on-site creche for workers' children. Structured training programs ensure that new employees develop requisite technical skills, and training for middle management has improved leadership competencies. Efficiencies which were implemented throughout the company's business processes have meant that employees are paid above the national minimum wage, as well as above many comparable companies in the local area.

The company's investments have benefitted workers, while also contributing to a number of successful business outcomes. In particular, lower staff turnover and absenteeism, as well as better training, have led to productivity improvements. Safer working conditions have been associated with fewer accidents and staff turnover and absenteeism rates have decreased considerably. Between 2012 and 2014, the absenteeism rate fell from 3.35% to 1.09%, far below the industry average of 10%. Over the same period, average monthly staff turnover dropped from 4.7% to 2.99%, compared to an industry average of 5-10%.

While the company is contemplating further improvements, its efforts have already led to substantial business benefits and tangible improvements for workers. Taken together, DBL's experience helps solidify the business case for job quality promotion and Decent Work outcomes.

Source: DEG, 2015

4. HOW EDFIS PROMOTE DECENT WORK & JOB QUALITY OUTCOMES IN THEIR INVESTMENTS

In many cases, development finance is *structurally* supporting improvements to job quality in the economy through supporting the development of higher-value, higher-productivity sectors which offer greater formal protections and skills development opportunities to workers, resulting in higher returns to labour. EDFIs typically invest in companies that are better positioned to implement or work towards implementation of the management systems necessary to provide higher quality jobs for workers. The way in which EDFIs choose to operate leads to a series of constraints and challenges in ensuring and strengthening job quality outcomes. This section examines the nature of the unique challenges faced by EDFIs, by virtue of the structure of their operations, and their practical responses.

4.1 KEY CHALLENGES & CONSTRAINTS IN INFLUENCING DECENT WORK OUTCOMES

4.1.1 CHALLENGING GEOGRAPHIES

EDFI investment is concentrated on particular geographic regions, by virtue of EDFIs' objective to play the strategically important role of 'catalysing' investment flows into low-income countries, where the private sector faces difficulties in accessing finance. The largest regions in the EDFI portfolio are Sub-Saharan Africa (31%), Latin America and the Caribbean (20%) and South Asia (14%) (EDFI, 2016).

This geographical focus provides significant opportunities for EDFIs to contribute to job creation; however, EDFIs also run into challenges in terms of ensuring the quality of those jobs. This is because *inter alia*:

- Developing economies often have weaker governance and enforcement mechanisms and lower levels of collective organisation amongst workers. Although most countries have now ratified the ILO core conventions, there are often gaps in the transposition of those conventions into national legislation and their enforcement by labour inspectorates, which are often under-resourced.

- In some developing economies, there may be resistance to increasing wages and improving working conditions on the grounds that low labour costs are perceived to be a competitive advantage in the global marketplace.[15]

- EDFI investment is at the enterprise level, which makes it difficult to effect change where poor working conditions are related to broader systemic issues that affect a whole sector; for instance, breaking down long working hours.

EDFIs' presence in challenging geographies is not a reason to lower standards, or to excuse breaches, but it may imply the need for an *incremental* approach to improvements in some respects. This is not at odds with a recognition that the ILO core labour standards are inalienable rights; rather, it marks a concrete engagement with the practical issue of *how* to achieve full enjoyment of these rights. This may mean that there is not perfect compliance with all elements of PS2 in all investments, particularly at the outset of the relationship, but it must be a goal for all EDFIs and their clients to work towards, by increasing awareness of the importance of PS2 and supporting the development of management systems along the way to strengthen better outcomes for workers. Nevertheless, not all situations are amenable to this approach, especially where there is a risk of immediate and serious harm: for instance, under the EDFI Declaration on Principles for Responsible Finance[16] (the "Rome Consensus") - an agreement between the EDFIs that applies to co-investments and includes joint E&S requirements – there is a universal Exclusion List, which prohibits investments that involve any form of child labour or forced labour.

4.1.2 LIMITED VISIBILITY OF LABOUR RISKS

Another challenge for EDFIs is how to identify labour risks when their visibility is limited, either by virtue of how working arrangements are structured, or how the investment or loan is made. Visibility may be limited in:

- **Investments where there are high levels of sub-contracting or outsourcing:** It can be difficult to identify risk or to ensure that PS2 requirements are cascaded down the contracting chain where contractors are not in a direct relationship with DFIs. This is particularly a risk in projects with a construction element, as the construction industry is typically organised around primary contractors that sub-contract works to several smaller companies (who may then sub-contract again, including to labour-only contractors). Equally, labour brokers (or labour agents) are used in many industries to supply temporary labour, creating further complexities.
- **Investments made via a fund manager.** There are good reasons for investing via funds: with DFI backing, private equity funds can partner directly with (smaller) high-potential businesses in emerging markets, providing them with technical expertise, and introducing international practices, including E&S standards. However, it also means that EDFIs rely on fund managers to identify and mitigate labour risks, and there can be varied approaches to labour due diligence amongst fund managers and different levels of capacity to mitigate the risk.
- **Investments made via FIs:** Most EDFIs provide loans to local financial institutions (FIs) in emerging markets, with a view to increasing access to credit through 'on-lending' to a wider range of businesses (e.g. SMEs). Again, this approach relies on FIs to implement their own processes for assessing and managing labour risk in their investments, which can vary substantially, but it may also be unfeasible for FIs to carry out detailed assessments in relation to large numbers of SMEs. Investing via FIs is an important mechanism for reaching SMEs, which are amongst the greatest engines of job creation in emerging economies, but often have weak or non-existent management structures and procedures in place to ensure compliance with national legislation and PS2.

4.1.3 LIMITS ON LEVERAGE AND SPHERE OF INFLUENCE

In some instances, EDFIs may have limited leverage on labour issues, because their investment comes too late for effective pre-disbursement remediation (e.g. contracts in a large infrastructure project have already been let, and there is no prospect for influencing their terms) or because the risks are located too far from the direct sphere of influence of the EDFI in its relationship with a client. By the time a project becomes 'bankable' – i.e. meets the minimum investment or lending criteria of the institution in question – certain decisions key to job outcomes may have been made, including the structure of employment and procurement of contractors.

Even where the EDFI can work successfully with its client to promote appropriate systems and procedures, there may be labour rights concerns – relating to national legal systems, or political context – which remain outside the sphere of influence of the EDFI client. In these instances, EDFIs are presented with a 'residual risk', necessitating both close supervision as well as efforts to identify alternative forms of remediation, including partnership with agencies engaged in policy dialogue on labour market governance.

4.1.4 TENSIONS BETWEEN JOB QUALITY AND JOB QUANTITY

In some cases, companies may use EDFI investment to increase their productivity by upgrading their facilities and technology. This may help to improve job quality, for instance, by boosting wages whilst reducing the need for excessive overtime hours; however, it may also reduce the overall quantity of jobs available in the workplace. The challenge here is therefore a broader policy concern: how to ensure the development of skills, including re-skilling, to support higher value addition without broader costs accruing to the most vulnerable participants in the labour force and, where such costs cannot be fully absorbed, to develop broader systems of social protection and active labour market policies to support alternative income generation opportunities.

15 Here it is important to distinguish between the internationally-recognised labour rights set out in the ILO Core Conventions, the breach of which cannot legitimately form a competitive advantage, and other terms and conditions that are not substantively determined in international instruments (such as wages and working hours) and may legitimately reflect the development status of the country in question.

16 https://www.edfi.eu/wp/wp-content/uploads/2017/10/EDFI-Principles-for-Responsible-Financing.pdf

4.2 FACING THE CHALLENGES: ENSURING LABOUR STANDARDS FOR SUSTAINABLE DEVELOPMENT IN INVESTMENT

EDFIs have developed a set of practical responses to these challenges, which are grounded in respect for internationally recognised labour standards, and consistent with approaches to broader E&S risk management. Much of the EDFI approach focuses on cultivating stronger 'people management' systems, which help companies to demonstrate compliance with national and international labour standards, and to develop an effective framework for workers' grievances to be addressed and resolved as quickly and efficiently as possible.

4.2.1 SHIFTING BUSINESS CULTURE: CHANGING THE RULES OF THE GAME

One of the main ways in which EDFIs support Decent Work is by safeguarding and promoting compliance with national labour legislation and respect for international labour standards in their investments.

Different elements of PS2 have a different normative basis. Whilst the provisions on child labour, forced labour, discrimination and freedom of association are based on ILO core conventions, the requirements on working terms and conditions of employment (including wages, working hours overtime, breaks and leave) are less closely defined. For example, PS2.10 provides that clients must respect collective agreements where they exist, and where they do not (or do not address working conditions and terms of employment), the client must provide "reasonable working conditions and terms of employment"[17]. EDFI clients are required to apply PS2 to their direct workforces, and ensure that their contractors have systems in place to apply PS2 to their own workers. In addition, DEG and Swedfund take a particular interest in substantive terms of employment related to working hours, overtime, minimum wages, OHS and written particulars of employment (referred to as "Basic Terms and Conditions").

Importantly, the IFC Performance Standards are based on the premise that the most constructive way to ensure compliance is through effective management systems. Performance Standard 1 requires that all clients put in place an Environmental and Social Management System (ESMS) that provides a "methodological approach to managing environmental and social risks and impacts in a structured way, on an ongoing basis". The ESMS is described as a "dynamic and continuous process", that should involve engagement between the client, its workers, local communities and (as appropriate) other stakeholders. For labour issues, the relevant management systems will typically be called 'Human Resource (HR) Management' or 'People Management', particularly with regard to the management of direct employees.

Where appropriate, EDFIs may require or encourage clients to align with other standards or to seek certification in addition to or as a means of demonstrating compliance with PS2. For instance, EDFIs may request that clients seek SA8000 certification, a global private voluntary standard which measures performance on social standards, and is anchored by a strong management element that strengthens organisational capacity to address and prevent labour risk.

17 Reasonable working terms and conditions may be assessed by reference to conditions established for work of the same character in the trade or industry concerned in the area / region where the work is carried out, collective agreement or other recognised negotiation between other organisations of employers and workers' representatives in the trade or industry concerned, arbitration award, or conditions established by national law.

4.2.2 ATTENTION TO LABOUR RISKS ACROSS THE PROJECT LIFECYCLE

Non-compliance with PS2 and national labour standards undermines Decent Work and job quality in EDFI investments and can have a negative impact on business performance and investment outcomes. At the same time, management systems that enable clients to align with PS2 can also allow companies to optimise their use of human capital, leading to higher levels of productivity and productivity (see above Section 3.3: "The business case for increased job quality"). It is therefore critical for all EDFIs to understand, assess and mitigate labour risks throughout the lifecycle of their investments. In line with the UN Guiding Principles on Business and Human Rights (UNGPs), one element of this approach must be to identify the most salient impacts on labour rights, in order strategically to *prioritise* efforts to increase leverage to mitigate these risks, including working in partnership with others.

All EDFIs have a process in place for assessing risks and impacts related to their investments, including those that relate to labour and working conditions. For EDFIs, labour risks (that is, risks of non-compliance with labour standards) are:

- **Prevalent:** nearly every transaction will entail jobs;
- **Salient:** labour rights abuses can constitute restrictions on fundamental, internationally-recognised human rights; and
- **Material:** labour risks can threaten not only operational continuity but also the reputation of both EDFIs and their clients.

In this context, early identification of risk in investments through effective due diligence enables more effective mitigation and more efficient allocation of resource. It also creates awareness and opens up channels of communication – internally and externally – which may become crucial to effective remedy later in the project cycle. It is therefore vital that there is a clear due diligence process, implemented consistently across operations, to identify and escalate key labour risks as early as possible in the project cycle.

Where the E&S due diligence process reveals gaps in compliance and/or client capacity to ensure compliance, these are addressed by EDFIs through an Environmental and Social Action Plan (ESAP), which sets out a time-bound plan with priorities, goals and targets for reaching the necessary standards. This may be accompanied by technical assistance (see below). The ESAP is then incorporated into the investment agreement, plus any other E&S requirements. Some of the elements of the ESAP may be "conditions precedent" for disbursing funds; i.e. actions that need to be taken before funds are disbursed.

Once contracting and disbursement has taken place, EDFIs undertake ongoing monitoring and engagement with clients to assess ongoing compliance and identify any new risks as they emerge. Monitoring takes two main forms: client submission of an annual monitoring report on a range of social and environmental performance criteria, likely tailored by the ESAP requirements, and site visits by EDFIs (or a third party acting on their behalf) (see Box 5). The kind and frequency of monitoring typically depends on the type of investment and the inherent level of risk. For instance, an EDFI would typically be more likely to have a higher degree of scrutiny of large construction sites (e.g. commissioning third parties to conduct independent labour audits), compared to a greater reliance on client self-reporting in lower risk white-collar environments, such as banks.

BOX 5

LINKING ONGOING RISK MONITORING WITH MANAGEMENT CAPACITY BUILDING: FMO, FRONTIER ENERGY AND VS HYDRO

In Uganda, FMO and its client, Frontier Energy, invest in several run-of-the-river hydro projects designed to meet Uganda's increasing demand for electricity. The main construction contractor for each is a Sri Lanka-based company, VS Hydro.

Initial monitoring in 2016 of construction on one of the sites in eastern Uganda flagged concerns over labour issues, notably the absence of written contracts and poor OHS standards. To follow up, Frontier Energy and FMO commissioned a focused labour audit, which then indicated wider issues with respect to HR management systems and working conditions, including lack of HR resource, poor record-keeping on working hours, overtime hours and payments, and the number of workers on site. Problems were particularly acute with respect to sub-contractors.

The findings of the labour audit created a catalyst for productive discussions between FMO, Frontier Energy and VS Hydro, on addressing identified gaps and strengthening HR and contractor management systems. Key changes put in place by VS Hydro have included:

- Hiring an experienced HR Manager for Uganda;
- Distribution of worker contracts;
- Improved record keeping of hours, wages, overtime and social security payments;
- Closer monitoring of sub-contractors and support for sub-contractors in implementing payroll and HR processes;
- A new disciplinary code to address bullying, and awareness-raising sessions for managers and supervisors;
- Improvements in wages, and discussion on how to move forwards towards a living wage;
- A revised approach to worker engagement and grievances;
- A revamped Worker Committee to provide a forum for discussion of workers' issues; and
- An increased emphasis on OHS issues including adherence to safety procedures, PPE and housekeeping.

The follow up to the labour audit has been based on a collaborative partnership approach. All parties recognize that problems remain and that maintaining good working conditions and labour standards is an ongoing process that requires constant attention.

Importantly, the monitoring and engagement process has the potential to achieve positive impact beyond the investment in question. Intent on expanding its operations in the region, VS Hydro is keen to apply the lessons learned in terms of upgraded HR systems and policies to new development sites in Western Uganda and Rwanda.

(An extended version of this case study - based on interviews and a site visit carried out in 2018 - is set out in Annex A.)

4.2.3 ASSESSING PROGRESS ON DECENT WORK IN EDFI CLIENT WORKPLACES

One of the principal sources of information for EDFIs on job quality is from the client in their capacity as employer. This information can flow from the client's initial response to due diligence questions regarding PS2 compliance, as well as from covenanted reporting requirements, tailored to the client on the basis of labour risk analysis. However, there are limits to client self-reporting as an information source on job quality. Many EDFI clients typically have patchy HR data, and these tend to be limited to statutory records / payroll. Further, client self-assessment may not be wholly relied on, particularly in relation to sensitive or contentious issues, where there may be an effective conflict of interest. Any approach to job quality measurement predicated on client self-assessment as the primary data source should also provide scope for EDFI or third-party validation if necessary. However, by asking a client to describe their capacity and systems to manage people well, it is possible to achieve 'positive self-reinforcement' through focusing on evidence of well-functioning people management systems – job quality drivers – as key data points.

Alongside monitoring PS2 compliance, one of the principal ways in which EDFIs have sought to measure their impact on Decent Work is by understanding their impact on job creation. For instance, both FMO and CDC have developed methodologies for assessing the number of direct and indirect jobs that are created (in CDC's case) or supported (in FMO's case) through their investments (see, respectively, FMO, 2018b; MacGillivray et al, 2017). However, EDFIs are increasingly keen to develop a more holistic understanding of their contribution to Decent Work and understand the impact of their investments on job quality. As noted above, there is strong overlap between due diligence on labour standards and working conditions, and the efforts of EDFIs to gauge their impact through more detailed assessment of the sort of jobs their investments are creating and sustaining. In this context, DEG has established a system for measuring the quantity and quality of 'decent jobs' (see Box 6).

There are several challenges associated with developing a robust framework for assessing the *quality* of jobs in EDFI investments, not all of which are unique to the EDFI context. One of the major dilemmas lies in choosing what to measure: there is no internationally agreed approach to measuring job quality, and a number of different approaches have been put forward (see, e.g.: UNECE, 2015; Cazes et al, 2015; CIPD, 2017 & 2018; The Good Economy, 2018). Many approaches establish indicators at the macroeconomic level, including the framework for measuring Decent Work that has been developed by the ILO (see Decent Work Indicator Framework, 2008/2013), with a greater focus on the legal / policy environment than outcomes for workers.

BOX 6

MEASURING JOB QUALITY:
DEG'S DEVELOPMENT EFFECTIVENESS RATING SYSTEM (DERA)

Since 2017, DEG has been deploying its Development Effectiveness Rating (DERa) in order to better understand the impact of its investments on development at the level of individual clients, and across its portfolio.

Under DERa, development effectiveness is measured according to five pillars: "decent jobs", "local income", "market and sector development", "environmental stewardship" and "community benefits". The pillars are weighted, with the "decent jobs" component accounting for 25% out of a total of 150 points.

The "decent jobs" pillar seeks to measure both the quantity and quality of jobs of each client.

- The quantity of jobs is measured in terms of the direct workforce (employees) and "indirect job potential" (based on backward linkages in the sector).
- The quality of jobs is measured in terms of client compliance with IFC PS2 and ILO Basic Terms and Conditions (ranging from serious deviations to full compliance and best practice). In addition, the quality assessment takes the level and quality of occupational health and safety and human resource management (ranging from basic/not satisfactory to in accordance with international standards and best practice) into account. DEG makes this decision based on monitoring carried out by its own social specialists or external consultants, or – for low risk projects – client self-assessment checked by investment officers. If clients do not comply with the ILO core conventions, then the client automatically scores 0 for this pillar.

DEG also collects data on the number of women in the workforce, the annual spending on training and the number of people in vocational training as well as spending on and type of additional benefits provided to employees; however, these are not included in the DERa scoring framework.

The DERa is applied throughout the project lifecycle. The first DERa is filled in prior to the approval of a transaction, providing a baseline for the investment, and a forecast of the expected effects. After commitment, the DERa is then updated annually, allowing DEG to measure changes in the client's contribution to development over time.

Source: https://www.deginvest.de/DEG-Documents-in-English/About-us/What-is-our-impact/Policy-brief_EN_final.pdf ; interview with DEG, March, 2018.

4.3 GOOD PRACTICES BEYOND COMPLIANCE: ADDITIONAL SUPPORT OFFERED TO CLIENTS

Alongside their focus on identifying, mitigating and monitoring labour risks and non-compliance, EDFIs work with clients and others in a range of different ways in order to shift practices within individual companies and markets more generally to maintain higher levels of E&S performance. In this way, EDFIs aim to act as a catalyst, stimulating positive change and development outcomes in a range of areas, including job quality.

Over time, the work of EDFIs in supporting larger-scale, higher-value economic activities can usefully serve to stimulate and fulfil demand for higher-productivity, 'better' jobs. In the immediate term, however, one of the challenges for EDFIs is to work with enterprises to develop more robust people management systems and to make judicious investment in human capital, to show that a focus on 'job quality' can go hand in hand with – and indeed boost demand for – sustainable job creation and skills development necessary for enterprise growth. In other words, and as noted in Section 3 above, this means delineating more clearly the contours of the 'business case' for investing in quality jobs in emerging and developing economy workplaces (see e.g. DEG, 2016).

4.3.1 ENGAGING WITH CLIENTS

EDFIs often provide advisory services (also known as 'technical cooperation' or 'technical assistance') to build the capacity of their clients in different areas in order to create more commercially robust and productive businesses. These services can vary from putting in place stronger corporate governance systems to establishing more modern and professional HR management systems. (For an overview of CDC's cooperation with REL, a manufacturing company in Bangladesh, see Box 7 and Annex C; for an outline of DEG's Business Support Services (BSS) to strengthen client management systems, including people management, see Box 8.)

Technical assistance can be a crucial milestone in the journey towards ongoing compliance with PS2 and towards overall improved job quality: in many of the markets in which DFIs operate, clients do not always have the systems or capacity in place at the outset to ensure full compliance with PS2. (For an example of how FMO worked with one of its clients in Sub-Saharan Africa to strengthen management systems, see Box 9.)

Some EDFIs have developed targeted programmes to offer to clients. For example, Swedfund has developed Women4Growth, a "talent programme" for clients to support action on gender equality for their workforces and to empower high-potential women employees (previously described in Box 3). Similarly, IFU has developed a programme to encourage its clients to put health (including sexual and reproductive health) and gender equality on their business agenda (see: IFU, 2016).

BOX 7

HANDS-ON SUPPORT TO ALIGN MANAGEMENT PRACTICES WITH INTERNATIONAL STANDARDS: CDC AND RFL ELECTRONICS LTD (REL)

In February 2018, CDC provided debt financing to RFL Electronics Ltd (REL), a company which produces consumer electronics and white goods destined for Bangladeshi consumers and which has firm ambitions to expand into international markets. As of May 2018, the company had 311 employees, but was poised to expand. REL is part of a larger and highly successful group, PRAN-RFL.

During appraisal, CDC identified certain gaps relating to labour and working conditions, many of which were linked to broader endemic issues in Bangladesh's manufacturing sector. Some of the challenges related to long working hours, formalisation of existing gender equality policies, occupational health and safety (OHS) capacity, and contractor management (particularly with respect to ensuring overtime payments in line with national law).

Prior to signing the loan agreement, CDC provided significant support to REL - via external consultants and its own inhouse resources - so that the company could strengthen its internal management systems and capacity, including with respect to people management and health and safety. Throughout this process, REL demonstrated a strong commitment to aligning its management practices with international standards. This engagement was rooted in an understanding that aligning management practices with international standards can bring substantial benefits, including greater access to finance and markets. REL made a number of changes with CDC support, including:

- Introducing breaks in production and reducing daily working hours while maintaining workers' pay;
- Implementing gender-related policies and procedures, conducting a number of trainings on sexual harassment, and exploring the introduction of company programmes to support the advancement of women;
- Improving OHS systems, training, and knowledge while actively promoting a strong OHS culture;
- Introducing a payment system wherein REL pays sub-contracted workers directly from its payroll to ensure that overtime is paid correctly.

The process of aligning management practices with international standards is ongoing; however, strong commitments by both REL and CDC have yielded early successes which set the groundwork for further progress. Bangladesh remains a challenging context with respect to labour and working conditions, but REL has made significant progress towards international standards and interventions thus far have led to tangible benefits for workers and the business. CDC's capacity-building efforts at REL have also influenced management practices in other parts of the PRAN-RFL group, particularly the non-food side of the business, thereby widening CDC's impact.

(An extended version of this case study – based on interviews and a site visit carried out in 2018 – is set out in Annex C.)

BOX 8

DEG BUSINESS SUPPORT SERVICES: BUILDING PEOPLE MANAGEMENT SYSTEMS

DEG actively contributes to the promotion of decent jobs through its Business Support Services (BSS). The business support services is based on the findings on a the study Bridging the skills gaps in developing countries: a practical guide for private sector companies, which DEG has conducted with The Boston Consulting Group on behalf of the EDFI's as contribution to Let's Work. These services are co-funded or grant funded, typically involving a joint financial contribution from DEG and its client in order to promote ownership and buy-in. Business support may involve advice on environmental and social risk management as well as corporate governance. More recently, a technical service known as People Management was developed in response to difficulties in addressing the skills gap in developing countries. These gaps were identified following DEG-led research and case-studies.

Under the People Management program, DEG assists companies in implementing people management practices which aim to overcome skills gaps and other HR challenges. Technical support involves the use of HR consultants who identify the root causes of gaps, and ultimately create a tailor-made plan with specific solutions based on international good practice. The proposed plan and solutions are incremental, and DEG offers support throughout the implementation process.

People Management has met with success in a wide range of geographies and operating contexts. In Namibia, DEG provided support to an expanding frozen goods distributor in need of trained and qualified staff. The company was able to identify qualification requirements, address gaps, and develop training programs which led to the systematisation of recruitment, improved retention, and better job satisfaction.

Similarly positive results were achieved following DEG advisory work involving a meat processing company in South Africa. In response to challenges related to a lack of well-qualified recruits, high turnover, and low employee engagement, DEG identified a number of gaps as well as solutions to existing HR processes. Solutions were aimed at reconciling the company's interests with those of its workforce, and encouraging a culture shift by demonstrating that workers are an important part of the company. The end result was higher employee satisfaction, as well as better overall performance.

Source: DEG website

BOX 9

FMO AND J&J AFRICA: SUPPORTING THE TRANSPORT SECTOR IN SUB-SAHARAN AFRICA

Founded as a family-run enterprise in 1995, J&J Africa has grown to become a leading transportation and logistics provider in South East Africa. J&J now has a fleet of over 1500 trucks that provide services to and from Mozambique, Zimbabwe, Malawi, Zambia, South Africa and Eastern DRC, and employs over 3000 workers directly, in functions ranging from driving, warehouse storage and packing, workshop, management and administration. J&J is also responsible for indirect employment through a network of long-term contractor partners. The company plays a key role in linking African producers and consumers with global markets.

FMO acquired a stake in J&J in 2013, alongside Investec (an FMO client) and Carlyle Group. From the outset, FMO has played a role in developing an ESMS to help the company achieve best practice. As part of its E&S due diligence process, investors identified gaps in management systems, including the need for a dedicated Health, Safety, Environment and Security (HSES) Manager, which was identified as a prerequisite for strengthening company practices on working conditions, OHS and fire safety. To create a blueprint for change, FMO and Investec developed an ESAP with actions to develop more modern, professionalised governance structures and management systems that would support improvements in working conditions and job quality. Since making the investment, FMO has visited the company on several occasions to discuss progress with the company's senior management, whose engagement and drive has been pivotal in rolling out improvements and building a management driven system.

Enhancements to HR management capacity have been crucial to J&J's ability to improve working conditions and safety for staff. J&J's management has increased the size and capacity of its HR department, both recruiting new staff, including an experienced HR director, and providing training to new and old staff. The new HR department uses state of the art HR systems for recruitment and is better positioned to introduce and implement new policies and procedures, enhance recruitment processes and conduct induction training of new staff. Training and monitoring of sub-contractors has also been strengthened: the company now ensures that all new sub-contractors (including labour brokers) are provided with introductory training on its internal regulations, and regularly audits sub-contractors for compliance. Where possible, the company aims to share best practice between contractors.

With FMO's encouragement and Investec's involvement, J&J has targeted OHS as an area for improvement and has introduced sophisticated new management systems integrating OHS into many other facets of the organisation. Safety outcomes have improved considerably as a result of well-maintained vehicles and PPE, but also as a result of management initiatives such as regular training sessions, toolbox talks and briefings for employees and drivers on OHS (with support from management at all levels), fatigue management, handling of hazardous substances, fire safety, first aid and other safety-related matters. As a result of its improved OHS systems, the Specialized Transport division of the company and Greendoor Group have been able to achieve certification to rigorous international standards, including OHS 8000 and ISO 45000. Greendoor Group is also SQAS accredited. The J&J Group continues to pass stringent audits that are both client- and internally driven.

J&J has also taken a proactive role in improving the sexual health of drivers, launching HIV awareness raising, testing and counselling services in partnership with international NGOs and improving access to health services and condoms. As a result of all of these changes, J&J has seen tangible improvements on a number of workforce-related indicators, including staff retention, as well as improvements in customer satisfaction levels. For J&J, there is a significant incentive in improving job quality to keep employee turnover low: its customers trust J&J with their freight (including flammable substances) because they know that its drivers are well trained and will keep their products safe. Better management, strong health and safety processes, good working conditions, excellent systems and well-maintained vehicles are all factors in helping to keep J&J an 'employer of choice'.

Source: FMO

4.3.2 ENGAGING WITH FINANCIAL MARKETS

Given the significant proportion of funds that many EDFIs invest via private funds and in light of the specific challenges involved (see section 4.1.2), EDFIs have committed to a common approach: *"When investing through intermediaries such as financial institutions or funds, we require these to implement systems to ensure adherence to our standards"* [18]. As the proportion of intermediated transactions in many EDFI portfolios is substantial, this remains an important area for continuous improvement.

Several EDFIs have worked to develop products to raise the awareness and capacity of fund managers and FIs on PS2. For instance, CDC has developed an online E&S toolkit for fund managers[19], based on the IFC Performance Standards, which includes briefing notes on specific topics (including labour), E&S sector profiles, and checklists. Similarly, FMO has developed a sustainability toolkit for private equity firms, and an e-learning tool on sustainability for microfinance institutions and banks that finance SMEs.[20](See also Box 10 for a sector-wide approach to strengthening E&S awareness and expertise in the financial sector in Bangladesh, and Box 11 for an overview of CDC's guidance and training for funds.)

BOX 10

FMO: TAKING A SECTOR-WIDE APPROACH TO E&S STANDARDS IN FINANCIAL INSTITUTIONS IN BANGLADESH

Bangladesh represents one of FMO's most significant countries of investment, and financial institutions are an important focus of its portfolio. (Across FMO's total portfolio, financial institutions represent just over a third (37%) of all investment.) As such, FMO – along with other EDFIs – have taken an active interest in strengthening awareness of E&S standards in the sector.

Local developments helped: Bangladesh's Central Bank introduced Environmental Risk Management Guidelines for the banking and financial institutions in 2011, which led to greater awareness of E&S risk in the financial sector in Bangladesh. Consequently, banks and other financial institutions in Bangladesh are now taking proactive steps to address E&S risks within their business operations and are developing or strengthening their in-house environmental and social management systems frameworks to manage key risks.

However, there are ongoing gaps in local expertise and knowledge on E&S standards and risk mitigation in FI sectors of investment. To address these gaps and build local capacity, FMO, OeEB, DEG, and Proparco, partnered with four local FIs in 2016 to provide training to 150 bankers on E&S standards including PS2 requirements, thereby creating a new network of E&S specialists and a new pool of E&S knowledge in the sector. Following the success of the 2016 pilot, a further training session took place in early 2018, partnering up with nine local FIs, to train approximately 250 banking officials across eight training sessions between February and April 2018.

For more information, see FMO Stories - Bangladesh

Source: FMO, 2018a; GCPF, 2018

18 See: www.edfi.eu/wp/wp-content/uploads/2017/10/EDFI-Principles-for-Responsible-Financing.pdf
19 See: http://toolkit.cdcgroup.com/
20 For both the FMO toolkit and e-learning tool, see: https://www.fmo.nl/estoolkit

BOX 11

CDC: BUILDING THE CAPACITY OF FUNDS TO PROMOTE JOB QUALITY

CDC offers guidance to private equity fund managers on how to manage ESG risks in emerging markets through a blend of training, advisory support and online tools.

Since 2010, CDC has been running annual ESG training programmes for fund managers and their portfolio companies (co-funded by Norfund for past two years). Portfolio companies have attended alongside investors for the past three years, providing an additional level of context and richer discussions of conditions and challenges in portfolio companies. In 2018 alone, five programmes have been delivered in London, Lagos, Mumbai, Nairobi and Johannesburg, reaching over 400 people, including more than 100 fund managers / portfolio companies.

The ESG training programme runs over four days, and covers 12 stand-alone modules, delivered by a combination of CDC and specialist consultants. The module on Labour and Working Conditions covers all aspects of IFC PS2 and is subject to ongoing refinement: its focus for the 2017/18 programme was on modern slavery (particularly through a supply chain lens), as well as aspects of job quality that are not always covered comprehensively by national legislation, including hours, wages and grievance mechanisms. The module on OHS has also evolved over time, from a beginners' module (focussed on risk management in SMEs) to a more advanced module for 2017/18 that now includes discussion of inter alia, contractor management, occupational health and exposure, and fire safety management.

The training programme is interactive and designed to encourage participants to learn through case studies and first-hand experiences on how to identify and manage ESG risk. Throughout the training, participants build relationships with their peers while gaining practical insights into risk identification and risk management. Workshops have been well received, and participant feedback consistently indicates that the training and guidance is appreciated by portfolio companies. CDC maintains communication with workshop attendees on good practice via regular E&S newsletters.

Alongside the training, CDC's online ESG Toolkit provides advice for fund managers on effective ESG integration, including a practical briefing note on labour standards. The Toolkit is regularly updated, and aims to be both a building block for the development of a customised ESG management system, and an easy-to-use reference guide for assessing and managing ESG risks, impacts and opportunities.

Source: Information provided by CDC, 2018; UN PRI, 2018; toolkit.cdcgroup.com

Source: Information provided by CDC, 2018; UN PRI, 2018; toolkit.cdcgroup.com

4.3.3 PARTNERSHIPS AND DIALOGUE

Working in partnerships with others can help EDFIs to increase their understanding of Decent Work challenges in their countries of investment and deepen their development impact:

- **Working with other EDFIs:** Given that one of the founding objectives of EDFI was to strengthen cooperation and facilitate knowledge sharing and learning, the Association of bilateral EDFIs itself offers an important platform for dialogue and cooperation on Decent Work between EDFIs, as well as with other (multilateral and bilateral) DFIs. There is a high level of co-investment between bilateral, regional and multilateral DFIs, and multiple DFIs often invest in the same projects. In this context, it makes sense that to increase information sharing between EDFIs – in terms of E&S compliance, as well as good practices – in order to maximise impact and ensure that there is a common language and vision on labour requirements that is communicated to clients. EDFIs do not have a mandate to engage in policy dialogue on decent work and job quality, though there is potentially scope for EDFIs to partner with other national and international institutions whose role includes legal and policy dialogue.

- **Working with private sector actors:** Some EDFIs are working in partnership with multinational companies to bolster their sustainability offering and impact. Swedfund is working in partnership with H&M to support DBL Industries, an international textile manufacturer headquartered in Bangladesh (see also Box 2 above regarding DEG's work with DBL in Bangladesh) to expand its operations into Ethiopia and build a new textile factory that will employ 4000 workers (at full capacity). Swedfund is providing the loan for the new facility, while H&M has signed a long-term sourcing agreement with DBL (Swedfund, 2016a). The structure of this deal provides both commercial and sustainability benefits for all parties, and as the factory grows, it is expected to have positive economic spill-overs to the local economy.

- **Working with NGOs:** EDFIs also seek advice and expert inputs from NGOs. For instance, FMO has appointed someone in-house from the Gender team at an NGO to understand how to increase its impact on gender equality through its investments, including how to support women's leadership and talent development, and support women-led SMEs. IFU works with the Family Planning Association to encourage IFU's project companies to promote women's rights and health in the workplace (IFU, 2016). CDC is working with The Boardroom Africa, an organisation that has created a database of C-suite and senior executive women across Africa to address misperceptions that there is an insufficient pool of women who are interested in or capable of taking up board-level positions.

- **Working with trade unions:** Dialogue with trade unions can help EDFIs to better understand potential labour risks and impacts in their investments, whilst also reinforcing EDFI commitment to the social dialogue pillar of the Decent Work Agenda. Several EDFIs already have contacts in place with their national trade unions; for instance, Swedfund has put in place communication channels for scheduled and ad hoc dialogue with LO and IF Metal, Swedish trade union confederations (see Box 12.) (Swedfund, 2015). This kind of dialogue could provide an entry point for engaging with trade unions in their countries of investment. However, whilst there is an existing web of contacts between EDFIs and trade unions and NGOs, there is scope for further and more regular engagement amongst a wider range of EDFIs.

5. CONCLUSION

EDFIs are increasingly important actors in promoting the decent work dimensions of private sector development in LDCs. Their investments create and sustain a significant number of jobs, and they are committed to ensuring that their clients' businesses are run responsibly, in line with national and international labour standards.

Given their mandates to be additional to commercial finance, EDFIs operate in poorer, higher risk, countries and sectors, to grow markets and improve the investment climate, and to demonstrate positive investment experiences. They are also required to mobilise private capital, price products to generate commercial returns and build companies able to attract private capital in the future. This poses a series of challenges for EDFIs when it comes to promoting job quality.

This report seeks to capture existing good practices and plot a trajectory forward developing clear and fair people management systems that respect labour standards and promote development. The challenges are increasingly understood, and translated into constructive, practical operational questions by EDFIs. There is an important opportunity for EDFIs to optimise their impact, and refine their understanding of this impact, through progressively supporting decent work by:

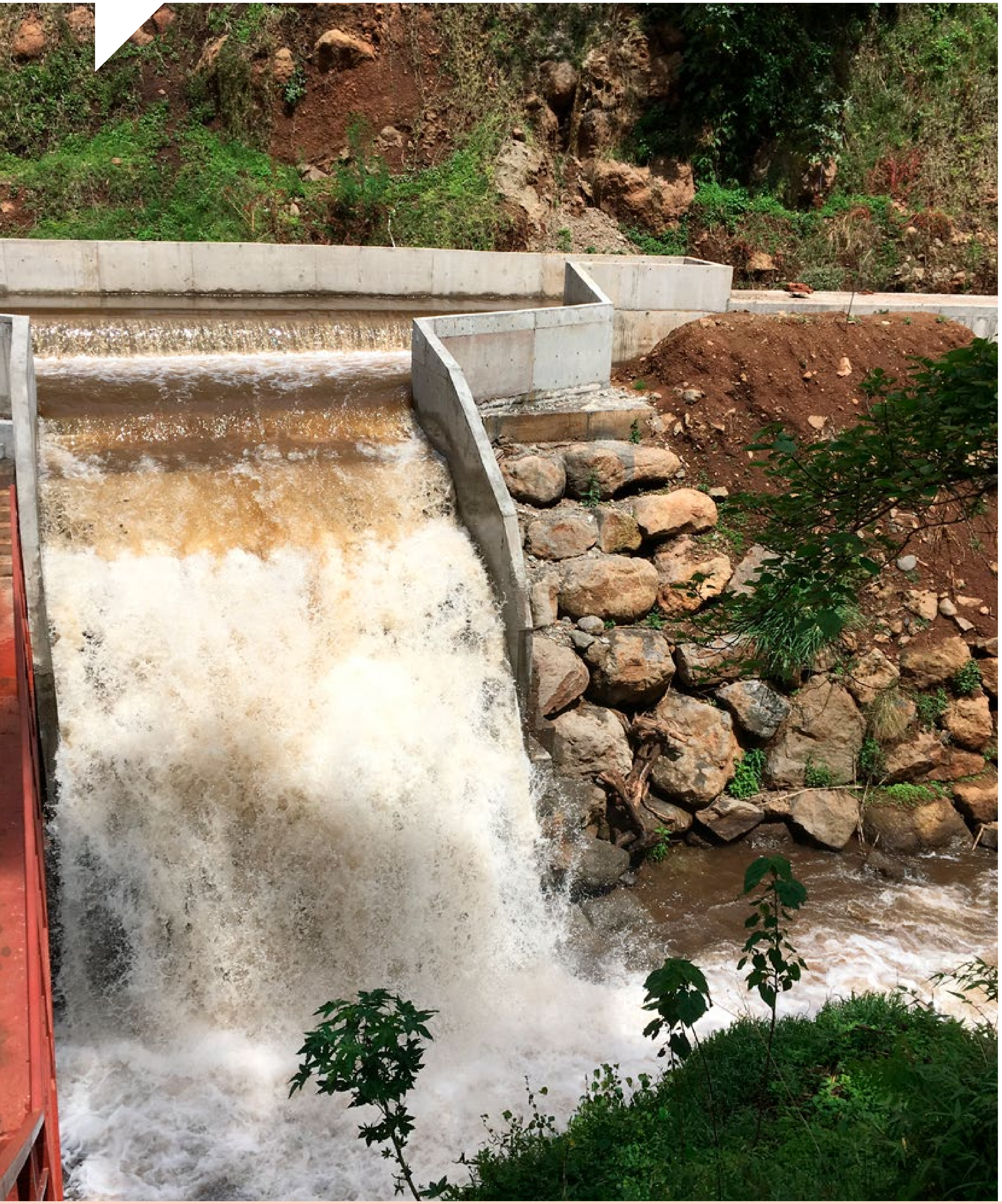
- Reinforcing public rules (the 'rules of the game') through private contracts (loan covenants and equity) and normalising labour rights as standard terms of business in emerging and developing markets;

- Guiding and developing the people management systems and capacity of their clients (e.g. through technical assistance), and thereby raising awareness of the centrality of people management in emerging markets;

- Driving and gauging enhancements to job quality through developing and implementing a range of tailored approaches to gauging job quality, balancing both job quality 'drivers' and outcomes, which enable consistent and streamlined assessment of job quality throughout EDFI portfolios;

- Generating and communicating demonstration effects – that decent jobs are compatible with – indeed necessary for – long-term competitive business - leading to market transformation, and in particular that equal opportunity for all talents is a self-sustaining business driver; and

- Improving mutual understanding of challenges, objectives and areas of common interest between EDFIs, NGOs and key labour stakeholders, and trade unions in particular.



ANNEX A:
FMO AND DI FRONTIER / VS HYDRO
Uganda – construction

This case study shows how a partnership between development finance institution (DFI), client and leading contractor can lead to improved labour and working conditions on construction sites and generate positive spill-over effects beyond DFI-financed projects.

THE INVESTMENT

The FMO investment relates to several run-of-the river hydroelectricity sites in Uganda, all in relatively remote locations. In Western Uganda, Lubilia has recently been commissioned and currently generating power while Nyamagasani 1 & 2 is undergoing construction. In the Eastern region of Uganda, on the Siti river near the Kenyan border, Siti 1 is generating power, while Siti 2, the larger of the two is due to be completed in September 2018. The Lubilia, Siti and Nyamagasani projects are being developed by Frontier Energy, a specialist fund in the African renewable energy market. FMO has investments both in the Fund, and also lines of credit to the projects themselves, making it both an equity investor and lender.

The Engineering, Procurement and Construction (EPC) contractor for each project is a Sri Lankan company, VS Hydro, which is also a shareholder in the Siti 1 & 2 and Nyamagasani 1 projects, alongside Frontier Energy. VS Hydro is an experienced hydro-power engineering company established in Sri Lanka, which has expanded in recent years into East Africa. These investment inter-relationships potentially create some different interests between the parties but in practice have contributed to creating shorter lines of communication and a common understanding of the challenges and requirements. For FMO, equity and credit relationships have created a greater degree of leverage.

THE WORKFORCE

In its East African projects, VS Hydro directly employs Sri Lankan senior managers and technical staff, and also local Ugandan and Kenyan managers and administrative staff. During construction, it uses specialist sub-contractors for some civil and technical works, that source skilled staff from Sri Lanka, and it also uses local labour providers for semi-skilled and unskilled workers. At peak labour deployment, there are around 350 workers on each project, of which approximately 80% are employed by sub-contractors, either for specialist tasks or as unskilled labour.

LABOUR AUDIT AS A CATALYST FOR POSITIVE CHANGE

Initial monitoring of the Siti 1 project by the lender's technical advisers in 2016 flagged concerns over labour issues, notably absence of contracts and poor OHS standards. To follow up, Frontier Energy prepared a standard labour contract to be used by VS Hydro and worked together with FMO to devise a ToR for a specialist labour audit. The audit was conducted on Siti 1, Siti 2 and Lubilia in March 2017. These projects were in various stages of construction.

The subsequent audit confirmed weaknesses in OHS measures and training, but also indicated wider issues with respect to HR management systems and working conditions. In particular, it found that there was a lack of HR resource (with no dedicated HR officers on site), which was contributing to poor record-keeping on working hours, overtime hours and payments, and the number of workers on site. Age verification systems – for documenting absence of child labour - were limited, and random checks found that employment contracts contained legal language that was not easily understood by workers. These problems were particularly acute with respect to sub-contractors, with limited systems for monitoring sub-contractors' HR processes and actions. Management gaps were exacerbated by a gap in linguistic understanding and cultural practices between predominantly Sri Lankan management and supervisors, and the mostly Ugandan workforce.

The findings of the labour audit created a catalyst for productive discussions between FMO, its client Frontier Energy and VS Hydro, not only regarding how to address the identified gaps, but also how to strengthen HR and contractor management systems on site more generally. As one VS Hydro manager put it "if we hadn't been audited, we would not have been challenged on our practices and we might have been reluctant to make changes".

Immediately following the audit, the FMO E&S specialist identified the importance of swift and direct dialogue between senior representatives of Frontier Energy (FMO client) and VS Hydro, flying to Nairobi to meet with them in person and agreeing to a phased roadmap for meaningful change. Ongoing communication and follow up has also been key, with FMO making monthly phone calls to check in on steps taken. All three parties emphasise that this has been a collaborative process. VS Hydro explains that "Frontier Energy and FMO share ideas and give input and this allows us to come to an informed decision".

CHANGES SO FAR

As a first step, a senior manager at VS Hydro was tasked with overseeing the company's response and development of its HR capacity. The company then hired a specialist HR consultant to review its internal systems and resources and produce an action plan with timelines. In line with this, VS Hydro has been instituting a range of policy changes and allocating considerable new resource to supporting enhanced HR management processes. These include:

- **Expansion of HR capacity:** Although it was initially difficult to find an HR professional willing to work on the remote sites where the hydro projects are located, VS Hydro was able to recruit an experienced HR Manager for Uganda who splits her time between the various projects. There is also a part-time trained HR Officer located at each site.

- **New worker registration system**: The company completed a worker registration exercise to ensure that all workers on site were counted and documented.

- **New polices and worker contracts:** The VS Hydro external HR consultant drafted appropriate policies and procedures for the new HR team to review and implement. Standard worker contracts, defining terms and conditions in line with Ugandan law, were reviewed and the language was simplified to be better understood by workers.

- **Improved record keeping:** VS Hydro has worked hard to ensure that hours are now recorded accurately by supervisors enabling calculation of normal hours and overtime at the appropriate rate, and accurate payment of social security contributions. This has also created transparency over total working hours, enabling these to be monitored in line with legal limits. The company is looking to purchase a more integrated payroll system for all its Ugandan operations.

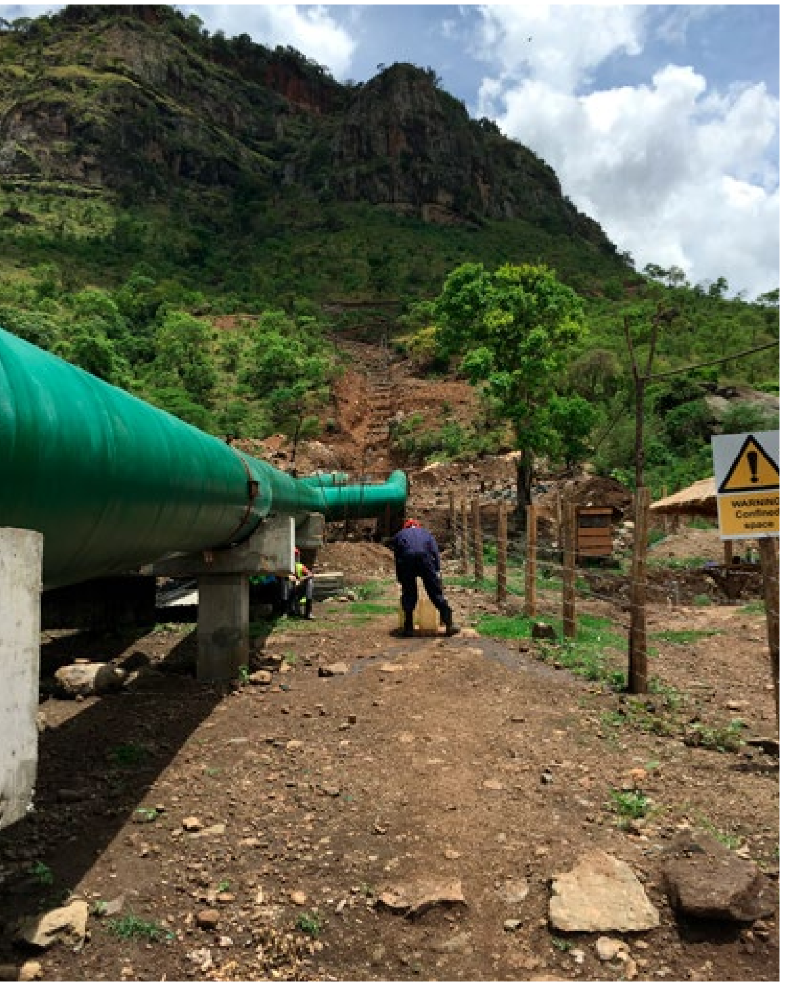
- **Working hours within legal limits:** As with all remote construction projects, maintaining weekly hours within legal limits remains a challenge. Delays due to poor weather or late delivery of materials can require overtime to complete tasks on time. Many local and Sri Lankan workers are also keen to work longer hours in order to earn higher wages. However, VS Hydro has worked to explain the legal situation and the OHS implications of working overly long hours. It is committed to taking on more workers to complete jobs rather than expect excessive hours from the existing workforce.

- **Closer monitoring of sub-contractors:** With so many workers employed by sub-contractors, it is vital to ensure that project standards are clearly communicated to and implemented by sub-contractors. With this in mind, VS Hydro has negotiated a new contract with the main labour-only sub-contractor which specifies higher HR standards and greater responsibility for delivering these standards. With assistance from Frontier Energy, sub-contractors' standard contracts with their workers have been reviewed and changes are ongoing to make sure that they meet legal requirements and good practice (for example, in relation to grievance processes). Additionally, VS Hydro has worked with its sub-contractors on practical methods for implementing its requirements for recording hours and making accurate payments. The requirement to institute proper payroll and HR processes has been just as much a challenge for the sub-contractors as for VS Hydro. While this work is yet to be completed, VS Hydro feels that these efforts will benefit workers employed by the subcontractors on other projects.

- **A workplace culture of greater respect:** VS Hydro recognised that working relationships between Sri Lankan technicians and supervisors and the largely Ugandan unskilled workforce needed to be improved. Top management took the lead in communicating the need for mutual respect. A new disciplinary code was instituted to address bullying, and awareness-raising sessions were held for managers and supervisors. Additionally, more Ugandan supervisors were appointed, and English-speaking Sri Lankans were identified to act as intermediaries. VS Hydro accepts that changing attitudes and behaviours can take time and that issues remain, but it now feels that there is commitment to and a framework for addressing the problem.

- **Wages:** The labour audit raised the question of whether wages were adequate, particularly in the absence of an effective statutory minimum wage in Uganda, although VS Hydro believed that wage levels were in line with similar projects in the local area. Frontier Energy and FMO have provided input on methods of calculating living wages, and VS Hydro has been discussing ways to move forward. In the short term, opportunities to increase wages on the existing projects are limited, as the budgets are long established, and the labour contracts have been let. However, the company has introduced higher wages for Siti 2 (compared to Siti 1) and instituted a 10% annual increment for longer-standing staff and a performance bonus of up to another 5%. In the longer term, VS Hydro is looking to allow for higher labour costs within its tenders on new projects, and to structure contracts for new sub-contractors' so that wages can be increased without squeezing contractors' margins.

- **Revised approach to worker engagement and grievances:** To improve communications and capture worker issues at an early stage, the company set up a revamped Worker Committee, comprised of representatives from both the direct workforce and sub-contractors. The Committee meets with management weekly to discuss a range of work-related issues, and monitors and logs complaints either from individual workers or from representatives. According to HR staff, complaints have reduced since the Worker Committee started meeting regularly.
- **OHS:** Since the labour audit, staff report an increased emphasis on OHS issues including adherence to safety procedures and housekeeping, delivered through inductions, ongoing specialist training and toolbox meetings. Regular renewal of personal protective equipment (PPE) remains a problem but workers have been sensitised to the need to wear appropriate PPE at all times.



ONGOING CHALLENGES AND LESSONS LEARNED

All parties recognize that not all problems have been fixed. All agree that meeting and maintaining good working conditions and labour standards is an ongoing process that requires constant attention. All share a mutual understanding of the challenging context. The projects are in remote areas, where there is limited regulatory oversight, and heavy reliance on sub-contracted labour to meet fluctuating labour demand.

Monitoring sub-contractor performance on working hours and regular wage payments remains a challenge, as does continuing adherence to OHS standards. Additionally, keeping working hours within legal limits is problematic in a sector where long hours are the norm, as does influencing sub-contractor practices where changes have cost implications (e.g. discussions around wages). Maintaining sound relations between ex-patriate staff and local workers is also a work in progress.

In light of these ongoing challenges, backing and leadership from the top management team is emphasised as a key lesson. According to one VS Hydro manager "we needed that will and zeal from top management who were keen to see the company do better". The early intervention and collaborative approach adopted by FMO and Frontier Energy was critical to securing and maintaining this backing.

THE BUSINESS BENEFITS

Fostering change in challenging environments is part of FMO's mandate as a development bank. FMO recognizes that achieving decent work can be complex but it is of key importance. It is so important because the impact of improving labour and working conditions reaches beyond the well-being of an individual worker. It is connected to the well-being of the entire family and their capacity to escape from poverty.

To achieve decent work, FMO engages with clients and other partners. In this case, FMO, Frontier Energy and VS Hydro enjoy a relationship that goes beyond the investments subject to the labour audit. Thus, working together towards improvements in labour and working conditions may generate a spill-over effect to other investments.

Frontier Energy is keen to be perceived as a leader in the energy sector in the region, including with respect to E&S performance. Such a profile can be an attractive proposition to prospective investors in its funds, as well as being the right thing to do. For FMO and Frontier Energy together, VS Hydro's willingness to engage in open discussions provided an opportunity to tackle some typical labour issues found on many projects in sub-Saharan Africa.

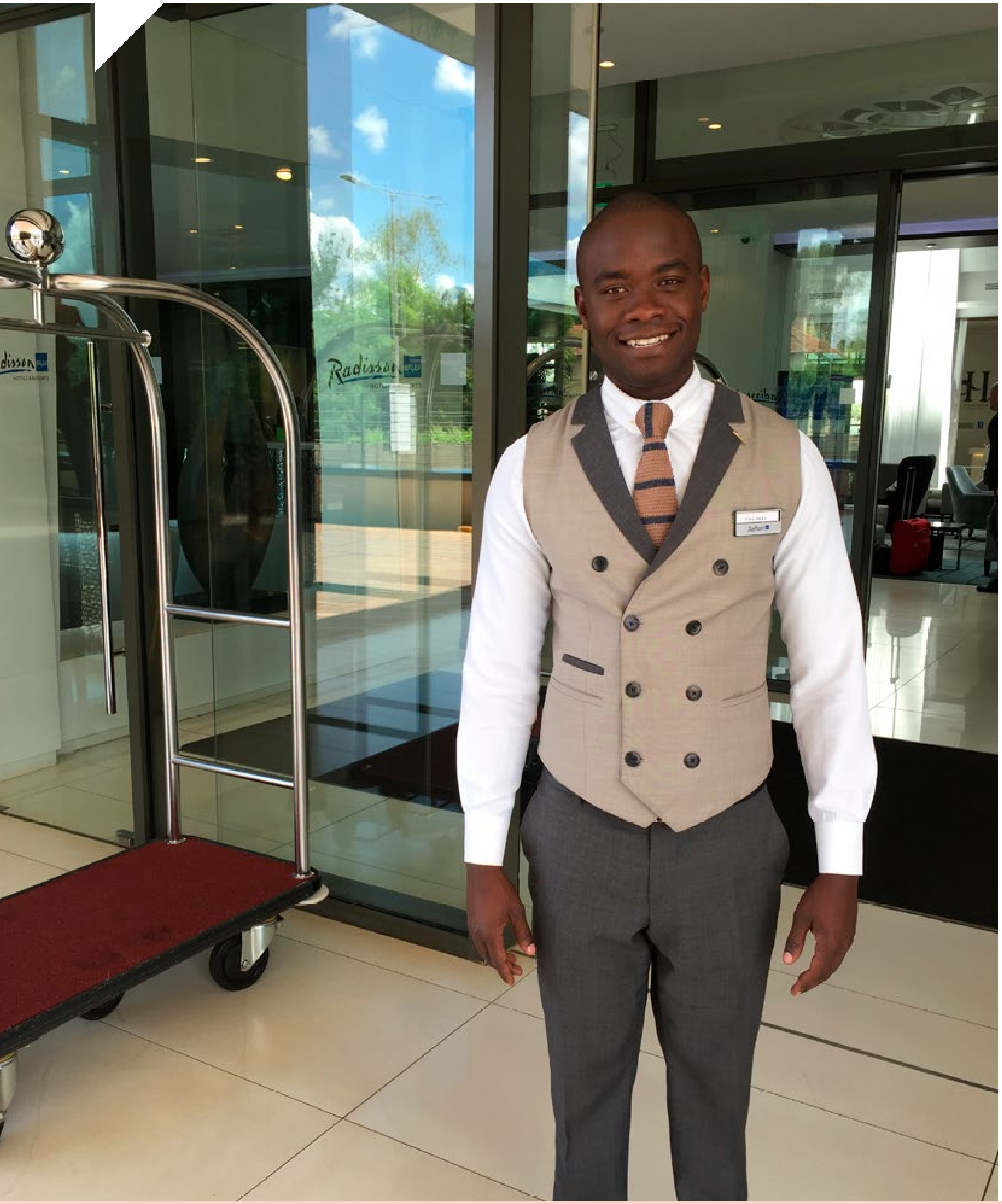
For VS Hydro, the labour audit findings demonstrated that its previous focus on engineering and project delivery was inadequate to meet the requirements of international investors. According to one manager, "We saw we needed better compliance with international standards to satisfy lender demands". Alongside investor expectations, VS Hydro accepts that changes were necessary to keep pace with its expansion in Africa and its greater exposure to potential social and labour risks. VS Hydro has several pipeline projects in the region and believes that boosting HR management systems and enhancing its local HR understanding and capacity is consistent with its growth as a company and its ambition as a favoured contractor in the region. As stated by one senior manager, "we've now proven we can deliver on these issues and can use the lessons to go onto bigger projects".

CONCLUSION

The strength of this transformative process is the collaborative working relationship that FMO, Frontier Energy and VS Hydro have developed, working alongside each other as partners. The senior management commitment of Frontier Energy and VS Hydro and the honest attitude of the parties laid the foundation for a trusted partnership. Trust enabled the complementary business interests to converge and to lead to change. FMO's role was catalytic in this process.

Change takes time. Building up institutional capacity - investing in people and HR systems, improving planning, better sub-contractor management and achieving contract prices that better reflect the labour costs - alongside managing a business - is complex and slow at times. This is remains an ongoing process.

The transformation process reached beyond the scope of the individual investment. VS Hydro states that they have drawn on the lessons learned in this case and applied upgraded HR systems to new sites in Western Uganda and Rwanda. (One of the lessons for VS Hydro was that it is easier to build in the right systems from the outset, rather than retrofit once contracts have been let). They are increasing their investment in local professional capacity, including HR and E&S functions, so that there will be an HR officer on site at all projects. Their investment in upgraded policies and HR processes will also be rolled out in other projects. Additionally, they say that discussions around living wage will have implications for wage levels on new projects.



ANNEX B:
SWEDFUND AND ELGON ROAD / RADISSON
Kenya –hotel

This case study provides an example of how development finance institutions can have a positive impact on job quality through their influence at board level in equity investments, and through targeted capacity building programmes to promote strengthen aspects of job quality (e.g. gender equality).

THE INVESTMENT

Hotels contribute to a variety of development effects. An investment in a hotels help establish the local economy by supporting tourism, business relations and money spent in the country. Hotels provide direct jobs, including career paths for women. Additionally, hotels require services and infrastructure from local companies, such as transport, waste collection, food supplies and laundry, supporting regional development.

Like in a every workplace, management of job quality is important to ensure a safe workspace, with fair compensation and working hours and equal opportunities.

The Radisson Blu Upper Hill in Nairobi is one of Kenya's top five-star hotels. It is owned by Elgon Road Developments Ltd (ERDL), a special purpose vehicle co-owned by Swedfund (27.18%), IFU (27.18%), Finnfund (27.18%), and a local shareholder (18.47%). As an equity investment, each of the European DFIs has a seat on the board. (This case study focuses primarily on the role of Swedfund, which supported the preparation of this case study.)

Hotel operations are managed by the Radisson Hotel Group (RHG)[21], under the Radisson brand, in accordance with an International Management Agreement with ERDL. RHG is one of the largest hotel groups in the world, and the Radisson Blu Upper Hill represents an important part of RHG's expansion in Africa. It has 271 rooms for guest accommodation, and runs a busy programme of meetings and events for international and local organisations. It has two restaurants, offering an all-day meal service, and one bar.

21 The Carlson Rezidor Hotel Group rebranded as the Radisson Hotel Group in February 2018.

THE WORKFORCE

The Radisson Blu Upper Hill is staffed by 287 employees, all of whom are directly employed and paid by ERDL, but whose day to day work is managed by RHG. All full-time direct employees are on permanent contracts, with use of temporary contracts confined to the hotel's meetings and events function, which can be subject to some unpredictable fluctuations. A small number of workers are engaged through third parties for security (up to 35 workers) and cleaning of public areas (12 workers). There is a trade union present at the hotel, with nearly full membership (98%) amongst non-managerial staff.

Overall, women represent 36% of the workforce, and 40% of senior management (Heads of Department and above). The largest department by number of staff is Food and Drinks, representing 26% of the total workforce, with a relatively even balance of women and men (53% and 47% respectively). This is followed by Housekeeping (45 employees, 71% men and 29% women) and Kitchen (40 employees, 78% men and 22% women).

HOW THE HOTEL SUPPORTS JOB QUALITY

In general, Radisson Blu Upper Hill aims to create a meritocratic workplace where there is equal opportunity for all workers, regardless of gender, nationality or ethnicity. The hotel is managed in accordance with RHG's standard operating procedures that apply across all hotels operating under the Radisson brand; however, this still provides scope for flexibility and innovation on people management practices. In 2017, the hotel devoted considerable time and effort to developing fairer and more transparent people management systems, including carving out a greater role for the HR department in recruitment processes and performance appraisals alongside middle management. All staff members now have a development plan, with five key performance indicators tailored to their position, and undergo quarterly performance reviews with the Hotel Manager, HR Manager and their Head of Department.

In addition, a new series of employee incentives have been introduced, including an "employee stock exchange", where workers earn points on the basis of fixed measures of performance (e.g. outstanding customer service) and guest feedback, and can win a fully paid-for international trip to another Radisson hotel. This is seen as more democratic and subject to less bias than the previous "employee of the month" system, which was based on the nomination and feedback of managers only.

Senior management has prioritised the development of channels for engaging with workers at the hotel in order to understand employee needs and concerns. There is a positive relationship between management and the trade union, including through regular formal meetings of the Joint Consultative Committee, which is comprised of union and management representatives. The General Manager and the HR Manager also have an "open-door policy" in order to foster an environment of openness and transparency with employees in the hotel. This way individual employees can approach management directly with any questions, concerns or suggestions. There are also quarterly "town hall meetings", which all staff attend, and which are hosted by different departments on a rotating basis.

The Radisson Upper Hill offers fair terms and conditions to its workforce, with a series of benefits that exceed Kenyan legal requirements and local industry norms. At a minimum, all terms and conditions comply with the Kenyan Employment Act and with the sectoral collective agreement between the Union of Kenyan Hotelkeepers and Caterers Association and the Kenyan Union of Domestic, Hotels, Educational Institutions, Hospitals and Allied Workers (KUDHEIHA). Long hours are discouraged, and overtime is limited. Key benefits that go "beyond compliance" and are particularly valued by staff include:

- **A service charge:** In accordance with the collective agreement, the hotel applies a service charge on sales of accommodation, food and drinks, which is equally distributed amongst non-managerial employees on a monthly basis. At the Radisson, the service charge on accommodation is 10% (in excess of the 7% required by the collective agreement), which typically results in a significant (albeit variable) uplift to the wages of unskilled workers, especially during busy times. For instance, a housekeeper earning a base monthly wage of KES 26,000 (USD 260), can potentially earn an additional 50,000 (USD 500) as a result of the service charge.

- **Pension:** All staff contribute 6-10% (depending on their position) of their salary to a pension fund, with matching contributions by the hotel.

- **Medical insurance for dependents:** In 2016, the hotel introduced a new medical insurance policy for all staff, which provided medical coverage for individual employees and two dependents.

- **Parental benefits:** The hotel offers an extra month of maternity leave and new mothers are permitted to follow more flexible starting and leaving times. Until their child is two years of age, mothers are not rostered on night shift. All employees (women and men alike) are entitled to five days of paid leave each year to care for sick children (subject to providing a medical certificate).

- **Access to training:** Staff value the hotel's extensive training programme, designed to uphold the standards associated with the Radisson brand and provide ready opportunities for staff to refresh and upgrade skills. This includes e-learning, on-the-job training, and structured in-house training programmes (such as the newly introduced leadership training for supervisors), as well as external professional programmes as required. Employees are entitled to 14 days paid leave each year to pursue studies related to their work at the hotel.

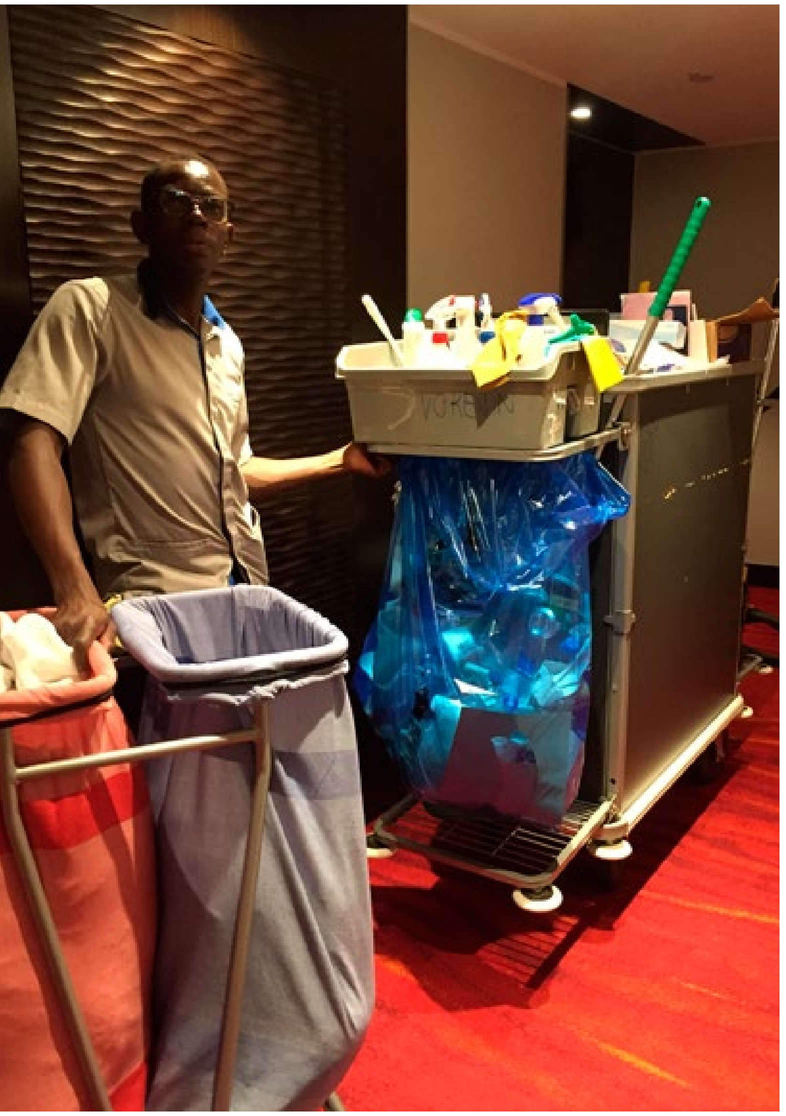
HOW SWEDFUND SUPPORTS DECENT WORK AND JOB QUALITY

Swedfund takes an active interest in job quality matters during board meetings, which are held at least quarterly at the hotel. According to the hotel's General Manager, one of the main ways in which Swedfund and the other investee EDFIs contribute to job quality at the hotel is through their recognition of the connection between business performance and sound people management: "it is ultra-positive for the hotel to have this emphasis on employment and general HR practices at board level". The GM says that EDFI support has been crucial in introducing new benefits for staff: "I know that if I want to go to the board to propose an additional month's maternity leave for women, they will back it 100% … I don't think I would get the same level of support for these kinds of initiatives from other owners."

During board meetings, board members also raise questions related to compliance with national legislation, the collective agreement or PS2. Legal compliance is important for Swedfund not only as a matter of PS2 compliance, but also because ERDL is the direct employer of all workers at the hotel, they have direct exposure to liability for non-compliance with Kenyan labour laws. In this context, Swedfund says that its investment and E&S functions work together closely to scrutinise reporting on workforce developments. According to the GM, EDFI board members show a strong awareness of labour and working conditions: "As soon as we say anything that might not seem in line with [PS2] during board meetings, they will pick it up straight away". This is then followed up with the hotel's HR manager after the board meeting by Swedfund's E&S specialist.

Swedfund has also had significant impact on working conditions at the hotel through its Women4Growth (W4G) programme, conducted at the hotel in November-December 2016. This programme is aligned with Swedfund's commitment to promoting gender equality in its investments, and is designed to unlock the potential of women, by providing leadership training and a platform for women to discuss and address barriers to their advancement in the workplace. At the Radisson Blu Upper Hill, the programme was initially delivered through three workshops, culminating in a final workshop where women presented their recommendations to senior management and owners. The W4G programme is aligned with RHG's Balanced Leadership initiative, which aims to encourage more women to take on leadership roles in the company.

Following the workshop, several of the W4G recommendations were implemented, and the programme has taken on a life of its own, leading to even greater change than was originally envisaged by Swedfund and the participants. In particular, some of the generous benefits for staff (mentioned above) were agreed on as a result of discussions that have flowed on from the W4G workshops, including the additional month's maternity leave, sick leave for children's illness and the medical insurance for dependents. The General Manager makes a point of meeting with small groups of women employees on a regular basis to follow up on progress: "I want [women] to know that I care about this agenda. This is also a business decision: I need to know what I need to do to get the best out of my staff."



THE BUSINESS BENEFITS

As a five star hotel, the Radisson Blu Upper Hill relies on all of its staff to consistently deliver the highest possible levels of service to guests, and it is crucial that staff feel valued and motivated, as well as empowered to respond to guests' needs. In this context, the hotel's focus on staff engagement and satisfaction has been shrewd commercial practice: according to the General Manager, "When we listen to staff, we find that we have better working practices – people are much more motivated to go the extra mile." By keeping staff happy, the hotel also keeps staff turnover very low (0.02% in 2017) and makes it difficult for competitors to poach its best workers. At the same time, the new performance management system aims to build trust and support staff development, encouraging workers at all levels to work together and empowering them make decisions in their day-to-day work that are better for the business.

A strong focus on people is also core to the Radisson global brand and reputation, underpinning the Radisson Hotel Group's public commitment to ethical business standards and practices.[22] "Think People" is one of the company's three pillars of responsible business (along with "Think Community" and "Think Planet"). Since 2010, the Group has been recognised as one of the World's Most Ethical Companies by the Ethisphere Institute, and is one of only three companies in the lodging and hospitality industry to be acknowledged in this way. More broadly, the Radisson Hotel Group's business model recognises that its people are at the core of its success and future.

The General Manager considers that the hotel's approach to people management has been integral to the hotel's dramatic success in 2017: at the end of 2016, the Radisson Upper Hill was ranked 18th out of 36 Radisson hotels in Africa on guest satisfaction scores and 186 in the European, Middle East and North Africa and Africa (EMENA) region; by the end of 2017, it was ranked first in Africa and fourth in EMEA. The hotel has also increased its profitability, with a Gross Operating Profit (GOP) of 26% in 2016, growing to 38% by the end of 2017. (For comparison, one of the Radisson's closest competitors in Nairobi has a GOP of 28%.)

ONGOING CHALLENGES

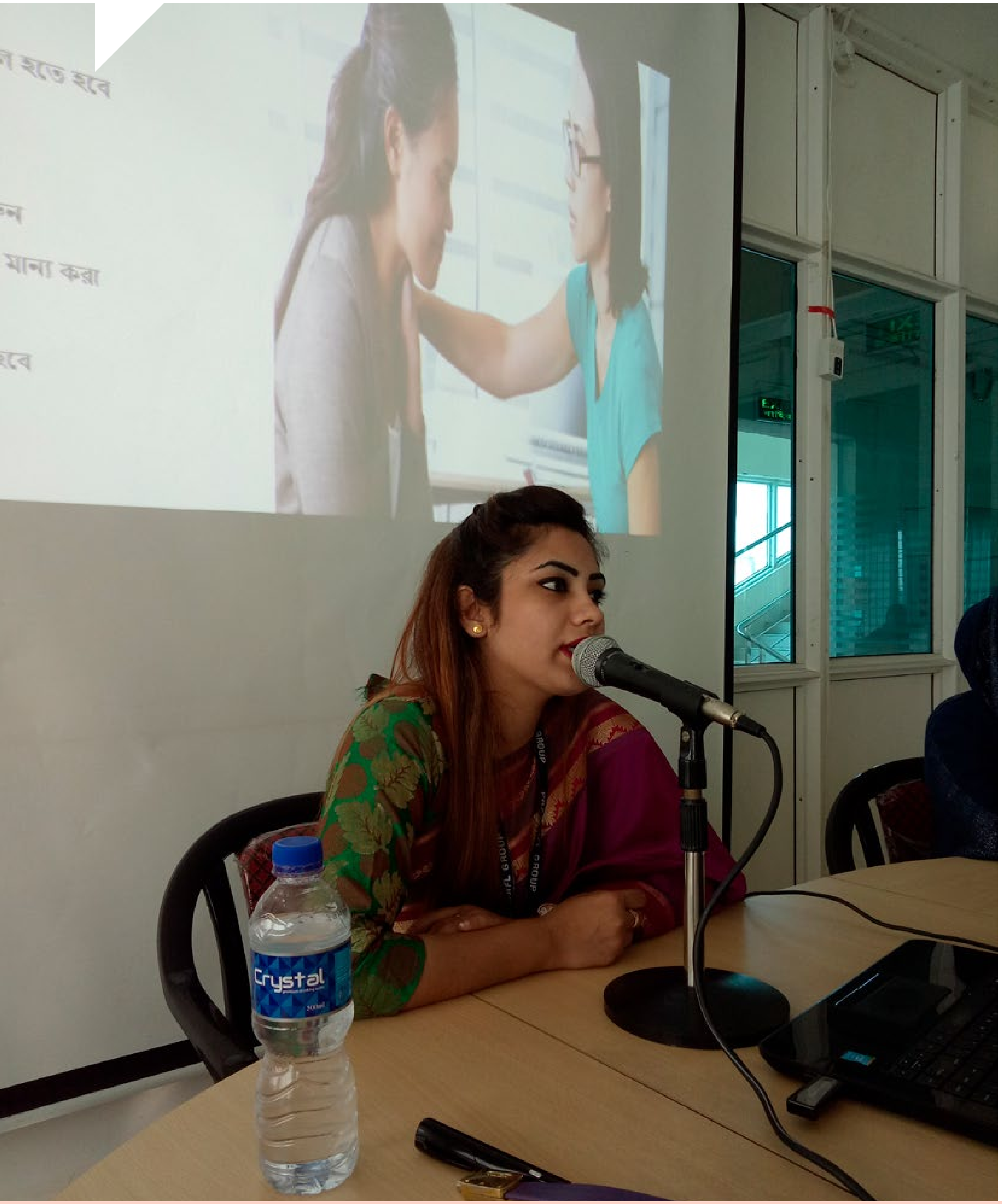
The hotel has ambitious goals to keep on improving its performance across the board, including with respect to people management. One of its key objectives in the coming year is to embed the new performance management system. Management will need to build worker trust in the new system, continue to provide constructive feedback and support for development, and be seen to reward workers for positive performance. The new system will be integral to the hotel's aim to provide progression opportunities for its workforce (e.g. there is a policy to recruit all supervisors internally) and to reduce the number of expats in senior management by upskilling local Kenyan workers.

The W4G programme has enjoyed considerable success at the Radisson Blu Upper Hill so far: the challenge will be to consolidate and build on the gains made. An important next step will involve thinking about how to engage male staff, as there is a perception amongst some men that women are now receiving a disproportionate share of benefits. One approach could be to involve men in discussions around work life balance, and to communicate more clearly that men are equally entitled to take up the benefits such as sick leave for children. More generally, another important next step will be to create a more formal basis for some of the initiatives (e.g. regular meetings between the General Manager and representatives of female staff), so that they are more embedded in the hotel's policies and procedures and less reliant on the actions of individual managers. A more formalised approach could then serve as a template for other hotels in the region, including the RHG's other hotels in Nairobi, and other hotels in Swedfund's portfolio.

CONCLUSION

The Radisson Blu Upper Hill operates in a competitive market, where the customer service offered by its workforce is key to its overall financial performance. The hotel's experience shows that listening to and investing in employees pays off, allowing the company to get the very best out of their workforce at all levels of the organisation and leading to better customer service outcomes and profitability. Swedfund has played an important role in supporting job quality and decent work, providing support and oversight at board level as an owner, and providing additional capacity-building at operational level through its Women4Growth programme.

22 See, e.g. Rezidor, 2017, Responsible Business Annual Report 2017: http://www.rezidor.com/phoenix.zhtml?c=205430&p=respsustainabilityreports



ANNEX C:
CDC AND RFL ELECTRONICS LTD. (REL)
Bangladesh - manufacturing

REL is an example of how hands-on support from DFIs can help clients to align their management practices with international standards, leading to progress on job quality outcomes in a range of difficult areas, including working hours, contractor management, gender equality, and health and safety.

THE INVESTMENT

RFL Electronics Limited (REL) produces consumer electronics and white goods destined for Bangladeshi consumers, and has firm ambitions to expand into international markets. As part of the company's expansion, CDC and Standard Chartered Bank Bangladesh provided US $18 million in debt financing (US $15 million / US $3 million respectively) to REL. This investment is being used to expand existing facilities and support a move towards vertically integrating production.

REL is part of PRAN-RFL, a highly successful corporate group in Bangladesh, which has over US $1.8 billion in turnover (as of June 2017). PRAN-RFL's direct workforce exceeds 100,000 people, with significant additional indirect employment. The group is divided in two parts: PRAN is focused on food and agriculture, while RFL – to which REL belongs – produces a highly diverse range of non-food goods, including furniture and plastic goods.

THE WORKFORCE

REL has a direct workforce of approximately 311 employees (as of May 2018) across two industrial sites: PRAN Industrial Park and Danga Industrial Park. This total workforce includes 57 women (18% of total workforce), primarily working as operators. Workers have several functions including technicians, cleaners, machine operators, and quality assurance.

Construction and expansion is underway at Danga Industrial Park, which has required the use of a construction contractor and sub-contractors ("contracted workers") on a seasonal basis. This contracted workforce is engaged in a variety of tasks including masonry, carpentry and general labour. This is expected to involve approximately 120 workers during the next construction cycle.

CDC'S INVOLVEMENT AND THE MOVE TOWARDS INTERNATIONAL STANDARDS

During the project's appraisal, CDC's environmental and social (E&S) due diligence identified several focus areas which related to labour and working conditions, many of which were not confined to REL operations, but linked to broader endemic issues in the manufacturing sector in Bangladesh. Some of the major challenges included:

- **Working hours.** Long working hours is a pervasive issue in Bangladesh, and REL was no exception. More stringent procedures were required to ensure there were no excessive working hours. Additionally, overtime pay needed to be revised.

- **Contractor management.** Some contracted workers were not receiving overtime pay rates according to national law. Accommodation provided to contracted workers did not meet international standards, and there was no grievance mechanism equivalent to that provided to the direct workforce.

- **Gender equality.** While the company had a non-discrimination policy, and although other gender issues such as sexual harassment prevention were briefly addressed as part of existing orientation courses, formal policies, procedures and training were not in place.

- **Occupational health and safety (OHS).** Some OHS policies and procedures were in place, however gaps in implementation, monitoring, and technical capacity existed. This was particularly true for contracted construction workers. For instance, even though safety equipment was provided and relevant rules existed, workers often did not use personal protective equipment (PPE) as required.

In order to address these challenges, CDC has been providing support to REL for over two years. A significant part of this support took place prior to signing the loan agreement. In particular, CDC devoted substantial in-house resources and engaged advisors to work closely with REL in Bangladesh. This support included the delivery of on-the-ground trainings and workshops to support REL to develop and implement a robust environmental and social management system (ESMS). A key priority was to build the company's know-how so that they could develop their own policies and procedures that would be directly tailored to their operations, rather than relying on external models from elsewhere. Throughout this process, PRAN-RFL management demonstrated strong commitment and support towards achieving better E&S performance.

Crucially, while this support was primarily directed at REL, CDC's capacity-building efforts were opened up to management from PRAN-RFL group. Many of the lessons that stem from CDC's involvement with REL are being rolled-out to and informing wider management practices, particularly within the non-food side of the business (i.e. RFL group). This spread of good practice beyond the borrower into the broader group will be an important part of CDC's impact. Going forward, the commitment to create an ESG Committee at RFL group level which will coordinate these issues promises to yield further benefits.

"REL and the wider RFL-PRAN Group have shown real commitment towards sustainability. We have seen significant support from senior management, and momentum to adopt international good practices across key aspects of the company's environmental and social performance. This is driven by recognition that evolution of practice is not just the "right thing to do" but a business imperative. We are sure that the journey PRAN-RFL has started will persist and CDC will continue to support the company and the wider group." CDC's Manager – Environmental and Social Responsibility.

CHANGES SO FAR

Aligning with international standards and addressing difficult labour issues can be a lengthy process, but REL has made substantial progress following a number of key interventions. According to the company, CDC's advice, support, and capacity building efforts have been pivotal, and have given the company a "clear path to improvement" in the words of the Deputy Manager responsible for EHS. In particular, changes have been introduced with respect to:

- **Working hours.** Overtime pay issues were quickly rectified to bring practices in line with national law. Additionally, a new shift system has been piloted within REL to reduce daily working hours, whilst maintaining workers' pay. This break in production has improved the ability of supervisors to oversee and manage overtime.

- **Contractor management.** REL has strengthened oversight of its contracted workforce and is devoting more resources to improving the welfare and safety of contracted workers. Contracted workers were moved into better accommodation, which is now destined for use by future operations staff. To address irregularities in overtime payments, REL decided to pay contracted workers directly from its payroll in order to ensure that proper amounts were being paid. Based on work bills and salary sheets, contracted workers are now paid by REL in cash and in the presence of representatives from the construction contractor to ensure full transparency. Existing grievance mechanisms have been expanded to include contractors, and REL has also remained proactive in dealing with issues among its contracted workforce, including addressing worker dissatisfaction with food quality and price of food.

- **Gender equality.** Gender-related policies and procedures have been implemented, and REL has also committed to improving and expanding existing training and awareness around harassment and gender issues. The company's preventive and zero-tolerance approach to sexual harassment has been linked to company values and morals. A number of sexual harassment training sessions have been conducted, with two three-hour sessions planned every month going forward.

Additionally, the company is considering implementing programmes to support women taking more senior roles within the group. CDC will be supporting the company to identify further opportunities around women economic empowerment.

- **Health and safety.** Roles and responsibilities have been more clearly defined, and policies and procedures have been expanded. Alongside improved technical knowledge, monitoring systems have been developed to support better OHS outcomes, and new indicators will inform appropriate responses going forward. On-the-job OHS training has also been enhanced and will evolve based on feedback, with the creation of a strong OHS culture as the overall aim. Awareness efforts have included the observance of "World Day for Safety and Health at Work" which involved a rally, evaluation of safety knowledge, as well as practical training exercises.

Overall, the company has greatly benefited from formalisation and standardisation of processes and procedures. Improving capacity and technical know-how has meant that existing systems will be developed and adapted as necessary, without further external support required.

"It is very pleasant to see how our organization is moving towards international standards on top of meeting national labour and environmental requirements. CDC's investment and support helped us to figure out the key environmental and social improvement areas and opportunities. Obviously, this support is enriching our capacity in terms of environment, social and health and safety matters. It is a team effort & will be continued." RFL's Deputy Manager – Compliance and Environmental, Health and Safety

BUSINESS BENEFITS AND ONGOING OPPORTUNITIES

From the perspective of both REL and the broader PRAN-RFL group, the business case for developing and enhancing management systems with CDC assistance was supported on multiple fronts:

- Being an "employer of choice" in Bangladesh: As a high-profile employer in the region, the process towards internationalisation, and the improvements which have already been seen, have reaffirmed that the company is a leading employer in Bangladesh. This means that REL and the broader PRAN-RFL Group are better positioned to attract and retain the talent that they need – at all levels – to support growth.

- Expanding access to international markets. Alignment with international standards can place the company in a better position to access international markets and expand beyond Bangladesh. This may come in the form of more interest from private buyers with their own standards covering labour issues. As PRAN-RFL looks beyond its current market position, the value of these efforts are becoming clearer.

- Access to capital: Alignment with international standards can also place the company in a better position to attract international investors, which increasingly require alignment with international environmental and social standards.

- Demonstrating corporate commitment to social sustainability. PRAN-RFL has had a longstanding corporate commitment to social sustainability, and improving management practices in order to address a wide range of important labour issues is seen as a clear expression of these commitments to social sustainability. This commitment began several years prior to CDC's investment, and included concerted efforts to eliminate or mitigate the impact of child labour in a context where child labour was often considered unavoidable in certain industries. More recent efforts include the involvement of an RFL factory in the Better Work program.

- Across the key focus areas of this case study, a number of tangible improvements have already been observed at REL. These improvements further support the business case for moving towards international standards:

- Productivity gains. The move towards a 4-hour break between shifts, as opposed to a continuous production cycle, was accompanied by technological upgrades. Taken together, productivity has been maintained, and early trends suggest an increase in productivity which appears to be linked to the change in working hours and the impact of capital investments.

- Strengthening organisational capital - making best use of the skills and talents of women and men alike. According to the Deputy HR Manager, who has been responsible for conducting training, the company is working hard to ensure that women feel more comfortable in developing skills, advancing within the company, and contributing at all levels. Initiatives aimed at increasing the number of women in management are being gradually introduced.

- Improved health and safety outcomes. Building a health and safety culture is a long and ongoing process. Early indicators suggest progress, such as an increase in health and safety awareness (evidenced by an increase in the number of OHS-related suggestions and grievances) and reduction in observed unsafe behaviours. The company has recently started to track OHS KPIs so that performance can be better tracked.

"Our aim is to generate employment and earn dignity and self-respect for our compatriots through profitable enterprises. A good environment and social management system is IMPERATIVE to achieve our goal. PRAN-RFL is committed to continue its focus on promoting an environment and social culture in the group so that we are not behind in achieving International standards." PRAN-RFL Group's Director - Corporate Finance.

ONGOING CHALLENGES

Many of the changes at REL are taking place within a challenging national context. In Bangladesh, working hours, accommodation standards, the status of women in the workforce, and lack of safety culture, among other things, have been identified by many actors as areas for further scrutiny and improvement.

In this context, moving towards international standards may cause some tensions with longstanding business practices and attitudes. As a result, changing mindsets and changing workplace culture were identified as common challenges throughout the process. From a management perspective, the business case as well as CDC's support and requirement to address E&S issues as a condition of financing were powerful drivers of change. Since these rationales tend to be less persuasive among workers, REL strove to ensure open channels of communication. For instance, employees have often been willing to work long hours in order to maximise earnings. At REL, worker assembly sessions were used to communicate the benefits of leisure time and work-life balance, and managers were directed to have open discussions with employees regarding any changes. Awareness campaigns on the topic of health and safety as well as gender issues were also important. Overall, incremental changes supported by open dialogue have led to promising results, with signs of more to come.

CONCLUSION

CDC's investment in REL demonstrates how support, expertise, and capacity-building can impact job quality outcomes across a few key areas. These improvements have been linked to real business benefits, and as a result, lessons from the client company have been shared throughout the wider group which has broadened CDC's impact. Given PRAN-RFL's size and profile within Bangladesh, these early outcomes are significant. Although the journey is still ongoing, individuals throughout the company have seen the value of aligning management practices with international standards and addressing labour and working conditions. The Director of Corporate Finance at PRAN-RFL is optimistic that the company's progress can demonstrate to other Bangladeshi companies the benefits of engaging with international standards and labour matters.

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EDFI European Development Finance Institutions

FMO Entrepreneurial Development Bank