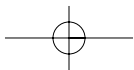
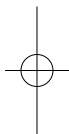
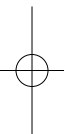


THE PROMOTION OF SUSTAINABLE ENTERPRISES



THE PROMOTION OF SUSTAINABLE ENTERPRISES

Graeme Buckley
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INTERNATIONAL LABOUR OFFICE • GENEVA

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Buckley, Graeme; Henriques, Michael; Salazar-Xirinachs, José Manuel
The promotion of sustainable enterprises
Geneva, International Labour Office, 2008-07-30
Enterprise development, sustainable development, decent work, employment
creation, corporate responsibility
03.04.5

ISBN 978-92-2-121200-3

ILO Cataloguing in Publication Data

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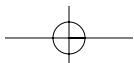
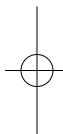
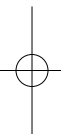
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FOREWORD

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EXECUTIVE SUMMARY

Promotion of sustainable enterprise

This volume is a contribution to the broad and wide-ranging international debate on the promotion of enterprise. The central role of the private sector, in all its forms, is increasingly recognized as key to development challenges including employment creation. This volume is based on two documents: the original report presented to the 2007 session of the International Labour Conference for discussion by the Committee on the Promotion of Sustainable Enterprises (ILO, 2007a) and the conclusions of this committee (ILO, 2007b). The discussion report takes stock of the developments and experiences from a decent work perspective, with particular emphasis on how to strengthen the contribution of enterprises to productive and equitable economic and employment growth. The conclusions cover the conditions for a conducive environment for sustainable enterprises; the role of government in the promotion of sustainable enterprises; enterprise-level principles for sustainable enterprises; and the role of the social partners in the promotion of sustainable enterprises.

The concept of a sustainable enterprise

The promotion of sustainable enterprises is a broad and wide-ranging subject, not least because enterprises take many forms, not just in terms of size, sector and spatial dimensions but also in terms of how an enterprise is managed and governed and its legal status and operational objectives. All enterprises are part of society; they shape and are shaped by the communities in which they operate.

Promoting sustainable enterprises is about strengthening the institutions and governance systems which nurture enterprises – strong and efficient

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markets need strong and effective institutions – and ensuring that human, financial and natural resources are combined equitably and efficiently in order to bring about innovation and enhanced productivity. This calls for new forms of cooperation between government, business and society to ensure that the quality of present and future life (and employment) is optimized whilst safeguarding the sustainability of the planet.

The importance of enterprise as the principal source of growth and employment cannot be overstated. Economic growth is fuelled, first and foremost, by the creativity and hard work of entrepreneurs and workers. Driven by the quest for profits, enterprises innovate, invest and generate employment and wage income.

Enterprises need to ensure that their core business activities continue to add value and are undertaken efficiently and effectively. Enterprises also need a supportive enabling environment characterized by, among other things, the existence of open, rule-based, predictable and non-discriminatory markets and a non-corrupt and well-governed economy. Enterprises benefit from operating in value chains characterized by high-quality industries, with prosperous consumers and investors. Enterprises also benefit from enterprise-level, sectoral and national mechanisms for effective social dialogue.

A distinction is made between enterprise development per se and the development of *sustainable* enterprises. The concept of “sustainable enterprise” is related to the general approach to sustainable development – forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs – an approach which postulates a holistic, balanced and integrated perspective on development. However, sustainable development is about more than just environmental issues; it requires the integration of all three pillars of development – economic, social and environmental.

The social dimension of sustainable development typically includes “a commitment to promote social integration by fostering societies that are stable, safe and just and which are based on the promotion and protection of all human rights and on non-discrimination, tolerance, respect for diversity, equality of opportunity, security and participation of all people including the disadvantaged and vulnerable groups and persons”.¹ A central tenet of the social pillar of sustainable development is, of course, the generation of secure livelihoods through freely chosen productive employment. Sustainable development is therefore a framework for the general global dialogue on growth and development, but also for the more specific discussion on enterprise development and, within that, it provides a sound framework for the debate on regulation and voluntary action in the sphere of business.

Thus, in contrast to narrowly defined, traditional perspectives which depict enterprises in terms of linear input–output relationships centred solely

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on maximizing short-term economic value, an integrated approach to sustainable enterprise development takes a more holistic and long-term view. Sustainable enterprises thus comprise a number of different stakeholders, including shareholders, employers, employees and customers, as well as relationships with suppliers, governments and the broader community, and operate in overlapping and interdependent spheres of influence at micro, macro and meta levels (see figure 1.1, Chapter 1).

The micro level refers substantively to what goes on within the enterprise or its immediate environment (the management of human and financial resources and use of physical resources like energy, transport and communications systems) and to the direct interface between enterprises and their customers and suppliers. It also refers to workplace organization, to support networks and institutions and, within this, to the role that social dialogue and social partners play in fostering sustainable enterprises. Thus, at the micro level, it is necessary to consider the sustainability of an enterprise in terms of the structure of the sector or market in which it operates and, in particular, its relationship with suppliers and customers along the value chain.

At the next level – the macro level – there are a set of policy areas which directly define the competitive and enabling environment and determine the sustainability and growth potential of enterprises. These policy areas are: macroeconomic policies (fiscal, monetary and exchange rate), particularly those affecting demand conditions; specific policies at the sectoral level – agriculture, manufacturing and services – as well as geographical or regional enterprise development policies, investment promotion and industrial policies; trade and regional integration and market access policies; and the specific regulatory and legal environment for doing business.

At the meta level are the broad political, economic, social and environmental conditions which determine, among other things, the quality of institutions and governance in a society. Included here are a range of factors which might not be specific to enterprise but which effectively influence broader private sector development and general societal outcomes such as stability, inclusivity and the challenges posed by issues like inequality and corruption. The sustainable stewardship of the natural environment is also covered at this level, as are governance issues and the role that social dialogue can play in fostering the conditions for sustainable enterprises.

The rise of globalization and the broadening and deepening role of the private sector in the domestic economy have given rise to new challenges and opportunities. Globalization has compounded the economic, social and environmental challenges facing enterprises. All these changes have brought about a new and evolving relationship between business and development.

The promotion of sustainable enterprises

There is a symbiotic relationship between enterprise and development – business thrives where society thrives – and the private sector has a vital role to play in helping countries to achieve the Millennium Development Goals (MDGs), not least the headline target of halving the US\$1 a day poverty head count, while MDG 8 specifies that a global partnership for development, including cooperation with the private sector, should underpin international efforts. This makes creating the right conditions for profitable and sustainable enterprise development and private investment a high priority in development policy and for the Decent Work Agenda.

Creating opportunity for sustainable enterprises: Basic conditions

For any enterprise, irrespective of size, the sector it operates in or its legal structure, the broad political, social, economic and environmental context is vitally important (see figure 3.3, Chapter 3). It is generally accepted, for example, that peace, a trusted and respected legal system, appropriate levels of social development and relatively predictable and stable political institutions, all have a major bearing on the sustainability of enterprises. These broad “meta conditions” provide the framework for wealth creation: they are necessary for fostering enterprise growth but they are not in themselves sufficient, as they do not actually create wealth themselves. The relationship between such broad parameters and enterprise growth is very complex but some general principles can be discerned.

The structure of civil and political life is undoubtedly an important determinant of competitiveness, economic growth and sustainable enterprise. Good governance – which encompasses respect for human rights, functioning democratic institutions, freedom of expression, equal rights for women and men, effective mechanisms for social dialogue, and so forth – generally provides a sound basis for sustainable development.

Governments which maintain macroeconomic stability and ensure transparency and due process in policy-making, which safeguard property rights, channel tax revenues back into the economy through productivity-enhancing investments in human capital and physical infrastructure, ensure that good laws are made and upheld, that public order and security is maintained and that there is proper stewardship of the natural environment, are likely to create the best socio-economic conditions for sustainable enterprises to flourish.

There is ample evidence to show that enterprise is severely constrained in an economy where property rights are inadequately defined. When property owners, whether material or intellectual, are not guaranteed their rights, they are unwilling to invest further, while potential new entrants to the formal

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market will have incentives to disguise their activities and remain in the informal economy, outside the realms of decent work. Similarly, enterprise is likely to be built on a more secure foundation when society embraces a broad-based culture supportive of enterprise.

Equity and economic and social inclusion are important basic conditions for sustainable enterprises. Inequality of assets and opportunity hinders the ability of poor people to participate in and contribute to growth. High levels of income inequality weaken the poverty reduction impact of a given growth rate and can undermine the political stability and social cohesion needed for sustainable growth. Social inclusion – whether based on gender, ethnicity or any other factor – is inherent in sustainable societies and strengthens the potential for sustainable enterprises.

Evolving and contemporary approaches to enterprise development

Enterprise development policies and programmes, and private sector development more generally, figure highly in plans and strategies concerned with promoting growth and development. Notwithstanding the diversity of national contexts, motivations and objectives for undertaking enterprise or private sector development, there is an emerging body of good practices grounded in a wide range of practical, project-based experiences in this field. It is possible to distinguish three broad trends (or paradigms) which have evolved over the past 30 or so years (see table 2.1, Chapter 2). These paradigms represent a somewhat stylized distinction between approaches which, in practice, are complementary and overlap.

Early approaches to enterprise development – paradigm 1 – emphasized strengthening the “sector” by building the capacity of individual enterprises through business development services (BDS) and financial services (FS). These approaches were often targeted at particular sizes of enterprises, particular subsectors, particular groups of people, or based on a spatial dimension, such as part of an area-specific rural development programme. However, there emerged a growing concern that enterprise-specific interventions were being constrained by external factors inherent in the environment and were limited in terms of outreach. Thus, a new paradigm emerged – paradigm 2 – which added the business (-enabling) environment (BEE) to the enterprise-level interventions.

As increased attention was given to the business environment, and the private sector was no longer viewed as an amalgam of enterprises categorized primarily by size but as an integrated system of product and service markets governed by a regulatory framework responsive to changes in demand, a third paradigm emerged, concerned ultimately with national competitiveness. This

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paradigm embraced improvements to the investment climate, focused largely on enhancing the opportunities, incentives and conditions for attracting investment and promoting the growth of formal, often larger enterprises, and with bottom-up approaches concerned with making markets work, particularly in terms of ensuring that opportunities reach down to the poor and that markets are inclusive and equitable.

Making markets work and improving the investment climate is not simply about unleashing market forces. It is an approach which recognizes that efficient markets need effective institutions, and that markets cannot always be left to themselves to allocate resources efficiently. If markets do not work, market failure is said to occur. There are four broad areas of potential market failure: provision of public goods; the abuse of market power; positive and negative externalities; and asymmetric information. In each case, governments have a role in ensuring that markets work better and in the broader public interest.

The regulatory and legal environment: Issues and policies

The business-enabling environment is a broad concept which covers a range of factors, external to the enterprise, that affect enterprise formation and growth. A good business environment enables entrepreneurs to expand their activities and creates incentives for them to formalize their businesses. Experience shows that a good business environment encourages investment and promotes higher levels of growth. A strong evidence base has built up to show that inappropriate regulations, excessive “red tape” and bureaucratic obstacles, lengthy business registration procedures, ineffective safeguards of property rights, corruption and weak commercial justice systems, all constrain businesses, especially in poorer countries.

Of the many factors which influence the business environment, aspects of the legal and regulatory environment invariably figure highly on most policy agendas. Of particular significance are: the framework of laws and regulations covering such things as business registration, licensing, taxation, employment, access to credit and other types of finance; contract enforcement; protection of property rights; and bankruptcy provision.

Ultimately, improving the business-enabling environment is expected to strengthen the capacity for wealth creation, productive employment and decent work. In developing countries it is often seen as a mechanism for helping to tackle poverty reduction. However, regulatory policy-making presents a conundrum. There are constant demands for more regulation to protect, for example, the environment, workers or consumers, but where regulation is poorly designed or overly complicated it can impose excessive costs and constrain productivity.

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Governments thus face the difficult challenge of getting the balance right, providing proper protection to different groups, and making sure that the impact on those being regulated is proportionate. This is a vital challenge because the efficient functioning of markets and enterprises is in the interest of public authorities, businesses, citizens and the social partners, and is increasingly determined by the regulatory frameworks in which they operate.

Regulatory reform is not simply deregulation, nor is it only a matter of costs: it is about appropriate regulations, smart regulations, effective and efficient regulations. Regulations and administrative procedures are needed to implement public policies. Private enterprises depend on adequate regulatory frameworks to ensure fair competition (“level playing fields”), to make markets work better (through regulations on contract enforcement and the protection of intellectual property rights) and to ensure the sustainability of markets (through regulations on waste management, and fuel and energy use).

Creating wealth and decent work through competitive enterprises and nations

Competitiveness has its foundation in productivity, and enterprises become sustainable by being competitive themselves and functioning in a competitive environment (figure 4.1, Chapter 4). This is fundamental for making markets work, increasing choice, stimulating innovation and creating wealth. The concept of competitiveness is vitally important, but difficult to define and measure, and problematic because virtually everything may matter for competitiveness; what matters most is likely to change over time as economies and societies develop, and will vary from one location or sector to another.

Because of the depth and breadth of the concept of competitiveness, there is broad agreement that the most informed approach to assessing it is by reference to a wide range of factors. There are two international surveys of competitiveness produced annually which attempt to present a systematic and holistic assessment of the competitiveness of nations. These are the Global Competitiveness Report (GCR) and the World Competitiveness Yearbook (WCY). Both surveys make use of secondary data from national and international sources, and also conduct specific surveys of business leaders/executives. Both publications weight together a large number of variables to produce overall indices of competitiveness, covering a large number of countries and territories.

Although there is no magic formula for enhancing national competitiveness, broad trends can be discerned indicating the relative importance of different factors according to levels of development. Overall, though, it appears that, irrespective of levels of development, business environment factors as a group are a greater determinant of differences in

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competitiveness across countries than are enterprise-level factors. Governments clearly have a role to play in fostering national competitiveness through public policy which stresses systemic competitiveness and integrates reforms in the business environment with skills upgrading, investment in research and development and appropriate industrial, regional, trade, investment and competition policies.

Sustainable economic integration through trade and value chains

One of the oldest insights in economics is that the size of the market is an essential determinant of the potential for enterprises to grow and take advantage of economies of scale, of opportunities for countries to have a more diversified, more competitive and higher-productivity economy and, therefore, of creating productive employment and decent work and achieving higher standards of living.

A conducive environment is critically influenced by trade policies and the investment climate. Opening up an economy and integrating it into larger markets is an important strategic direction to increase competition, improve productivity and promote diversification, but it must be done wisely because not all patterns of integration into the world economy have the same effect on growth and jobs.

Although globalization has the potential to yield significant long-term welfare gains, in the short term, safeguards are required to minimize the costs of adjustment. Appropriate policies need to be put in place to assist developing countries in overcoming supply-side production constraints and to enable exporters to meet the requirements of international markets, diversify exports and increase added value. Making it easier to trade by increasing market access, improving trade rules, encouraging the growth of sustainable value chains and strengthening ethical and fair-trade principles and practices in trading relationships, are all important trade-related dimensions of promoting sustainable enterprises.

The role of enterprise in society

Enterprises operate in ever more complex social and economic systems in which they are subject not only to commercial and economic pressures but also to social and environmental pressures from governments, civil society groups, consumers, suppliers and their owners, managers and workers.

The issue of the social responsibility of business is not new but it has become more prominent in recent years. The ILO Tripartite Declaration of

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Principles concerning Multinational Enterprises and Social Policy, dating from 1977 and updated most recently in 2006, is one of the earliest international instruments covering the social dimension of business. Conceptually, the increased attention given to the role of business in society is grounded in the basic message of sustainable development, namely, that in the long term, economic growth, social cohesion and environmental protection go hand in hand. Promotional instruments like the United Nations Global Compact, and reporting mechanisms like the Global Reporting Initiative (GRI), have enhanced the profile of social and environmental dimensions of business.

The main contribution of business in helping to address the multiple challenges of sustainable development, productive employment and decent work rests on the creation and growth of viable enterprises. This comprises the core business activities such as producing safe and affordable products and services, generating income and investment, and creating decent jobs. However, progressive enterprises now realize the value of being “ahead of the curve” in terms of corporate responsibility, not least because social and environmental criteria are increasingly influencing consumer decision-making and the investment decisions of individuals and institutions.

Even though there is a strong ethical or normative case, and often a sound business case, for enterprises to integrate social and environmental requirements, as expressed by international standards and national laws and practices, into their operations, this does not imply that all enterprises will necessarily do so. Nor does it negate the important role that government has in maintaining laws, regulations and standards – including as they relate to the international labour standards – and in providing appropriate promotional policies to encourage the formation and growth of sustainable enterprises.

Businesses, either individually or through their representative organizations, can add great value to relevant public policy dialogues by participating in, for example, national poverty reduction strategy planning and donor-based forums, trade and environmental policy-making, and global dialogues on issues such as climate change, biodiversity, money laundering, national security, corruption and human rights issues. Such dialogues serve to underscore the importance of productive employment and decent work as a global goal.

In parallel, forward thinking, progressive enterprises are increasingly adopting and implementing responsible business practices and standards to set a positive example for sustainable private sector development, including in developing countries. This is grounded in a range of social, ethical and environmental instruments, codes of conduct and reporting formats such as the Equator Principles for project finance and the Extractive Industries Transparency Initiative (EITI) for the oil, gas and mining sector.

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Financial and physical infrastructure and services

Sustainable enterprises of all sizes and types need access to financial and physical infrastructure and services. Financial infrastructure refers to the legal and regulatory framework for the financial sector and the institutions and systems which enable financial sector intermediaries to operate effectively. Financial services cover a range of financial products or instruments, including credit, savings, insurance, leases, equity investments, payment services and remittances.

Inclusive financial markets are necessary for fostering sustainable enterprises because all enterprises require financial services. Small and medium-sized enterprises (SMEs) are often under-served by financial intermediaries, especially in developing countries, and addressing this “missing middle” should be a major objective of policies with a view to strengthening the inclusivity of financial infrastructure and services for sustainable enterprises. As the example of social finance illustrates, financial services can be used to promote productive and decent work outcomes, and one powerful and rapidly growing instrument for this is through investments that specifically address or target social and environmental factors.

Physical infrastructure is a key component of the investment climate, with the potential to reduce business costs and enable enterprises and individuals to access markets. It is crucial to agriculture and rural development, a key enabler of trade and integration, important for offsetting the impact of geographical dislocation and sovereign fragmentation, and critical for improving access to world markets. It is fundamental to human development, including the delivery of health and education services to poor people.

Human resources: Investing in people

Sustainable enterprises recognize people as a source of competitive advantage and treat their employees both as assets and as agents for change. In the light of new and evolving structures of production and work, enterprise success and productivity is likely to depend increasingly on human resources. Globalization makes investing in people more important than ever, and this involves investing in the quality of working life through appropriate workplace organization, workplace practices, conditions of employment, and human resource development and management.

The competitiveness and viability – and even survival – of enterprises increasingly depends on the ability to ensure that employees are motivated, skilled and committed. This is best achieved in a progressive workplace environment characterized by a spirit of mutual trust and respect, non-discrimination and good labour–management relations. Evidence suggests that

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employees are motivated by many different things, and that creating a positive work environment boosts not only morale but also productivity and competitiveness. Appropriate workplace practices, including conditions of work, particularly as they relate to occupational safety and health (OSH), as well as sound labour–management relations and human resource development policies, are vitally important for the promotion of sustainable enterprises.

However, investing in people is also about public policies to foster a skills- and knowledge-based approach to employability. The design and implementation of coherent economic policies which address the demand side of the economy are also vital to ensuring that the potential of an employable workforce is maximized. The benefits of investing in people are likely to be greater if they take place in parallel with broader improvements to the basic conditions, the investment climate, and an appropriate national framework for effective social dialogue.

Social partners, social dialogue and tripartism

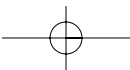
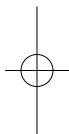
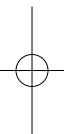
Institutions and organizations matter for sustainable enterprise development. Employers' and workers' organizations working together with governments are capable, under certain circumstances, of creating enabling and basic conditions for sustainable enterprise development in three areas: democratic governance; economic efficiency; and social equity. In terms of governance, they can promote greater political accountability and provide an effective means for dialogue and conflict management, making politics more transparent and less divisive.

Employers' and workers' organizations also play an important economic role. They influence, directly or indirectly, working conditions at the enterprise level, as well as the policy and regulatory environment in which enterprises operate. Evidence indicates that their impact on competitiveness and productivity can be very positive. In terms of social equity, both types of organizations can perform an important function in enhancing social inclusion and combating all forms of discrimination. Their interaction, along with the State, also has important consequences for income distribution.

It is clear, however, that not all employers' and workers' organizations are equally capable of making the type of positive contributions in each of these three spheres. Three key conditions are necessary to enhance their development potential: freedom (the right to organize and collective bargaining); strength (sufficient institutional capacity); and external factors (functioning and supportive markets and state institutions).

Note

¹ *The Copenhagen consensus* – a summary of principle commitments of the World Summit for Social Development, Copenhagen, 1995, Commitment 4.



ABBREVIATIONS AND ACRONYMS

BASI	(ILO) Business and Social Initiatives Database
BDS	business development services
BEE	business-enabling environment
CEFE	competency-based economies through formation of enterprise
CEO	chief executive officer
CSR	corporate social responsibility
DFID	Department for International Development (United Kingdom)
DWCP	Decent Work Country Programme
ECOSOC	Economic and Social Council
ED	enterprises development
EITI	Extractive Industries Transparency Initiative
EPZ	export processing zone
ETI	Ethical Trading Initiative
EU	European Union
EYB	Expand Your Business
FDI	foreign direct investment
FS	financial services
GATT	General Agreement on Tariffs and Trade
GCR	Global Competitiveness Report
GDP	gross domestic product
GEA	Global Employment Agenda
GEM	Global Entrepreneurship Monitor
GRI	Global Reporting Initiative
GTZ	Gesellschaft für Technische Zusammenarbeit (Germany)
HIV/AIDS	human immunodeficiency virus/acquired immune deficiency syndrome
IOE	International Organisation of Employers

The promotion of sustainable enterprises

ICFTU	International Confederation of Free Trade Unions
ICT	information and communication technology
IFC	International Finance Corporation
IPA	investment promotion agencies
IT	information technology
KAB	Know about Business
LED	local economic development
MDG	Millennium Development Goal
MMW4P	making markets work for the poor
MNC	multinational corporation
MSE	micro- and small enterprises
NEPAD	New Partnership for Africa's Development
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
OSH	occupational safety and health
PPD	Public-private dialogues
PPP	Public-private partnerships
RIA	regulatory impact assessments
RTO	registered training organization
SARS	Severe Acute Respiratory Syndrome
SEED	(ILO) Programme on Boosting Employment through Small Enterprise Development
SIDA	Swedish International Development Cooperation Agency
SIYB	Start and Improve Your Business
SME	small and medium-sized enterprises
SRI	socially responsible investment
TNC	transnational corporation
UNCTAD	United Nations Conference on Trade and Development
UNDAF/CCA	United Nations Development Assistance Frameworks/ Common Country Assessments
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
VET	vocational education and training
WBCSD	World Business Council for Sustainable Development
WCY	World Competitiveness Yearbook
WEF	World Economic Forum
WHO	World Health Organization
WIRED	Workforce Innovation in Regional Economic Development
WTO	World Trade Organization