

SUMMARY WORKSHOP REPORT

Consultation on Responsible Business Conduct and Competition in Supply Chains

26th March 2018, Himalaya hotel
Kathmandu, Nepal

Background

On 26th March 2018, the International Labour Organization (ILO), hosted by the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), convened 46 experts and practitioners for a one day workshop to share insights into and the experience of efforts to promote responsible business conduct among SMEs¹ with the aim of identifying effective models and priorities for action that could be taken forward by the *ILO Global Business Network*.

The workshop was attended by delegations of Employers Organizations, sectoral associations, and SMEs from India, Nepal, Pakistan, Sri Lanka and Bangladesh. The workshop was conducted under the Chatham House Rule.

Below is a summary of the discussion and a selection of key points.

Context

- Most income generation and employment is generated by SME deeper in the supply chain, actors that have backwards and forward linkages that cut across the economy;
- While compliance has become the new norm, many SME are concerned the compliance focus has enabled anti-competitive behaviour that limits or prevents the inclusion of smaller firms in global supply chains;
- Most SME are unclear of what is expected and where to access reliable sources of information on the minimum standards in global competition;
- SME struggle to be recognized by potential customers and their power to resist pressure for lower prices is considered to be weak, often at the expense of trade-offs in business conduct;
- While change in buyers procurement practices has been observed in certain sectors and among more mature SME in the first and second tier, all SME can cite examples of unsustainable business practices being rewarded by international customers;
- A number of South Asian countries have good legal and policy settings in place to support SME but implementation tends to be weak or non-existent;
- Many SME feel trapped in survival mode, forced to focus on lower level needs and short-term horizons – this also results in SMEs tending to be reactive, not proactive in the area of business and human rights;
- SME with political deficits due to age, gender, caste, ethnicity, disability, location or other parameters often lack representation;

¹ SME is used here to reference non-subsidiary, independent firms which employ 0 – 250 workers (0-10=micro, 11-50=small, 51-250=medium). It is noted that there is no single definition of SME, and employee numbers may not be the sole defining criterion.

- Migration of skilled workers (human capital flight) and labour market deficiencies (skills mismatch as a result of policy and regulatory settings that favour larger enterprises) are two of the most significant constraints facing SME in South Asia;
- Many migrant and potential migrant workers are unaware of the practical and legal processes involved in moving to another country, and have a limited understanding of their rights at work and how to protect those rights – this leads to false expectations and heightens their vulnerability to exploitation;
- SME owners and operators likewise tend to lack an understanding of the above;
- Youth unemployment, political deficits, and decent work deficits fuel crisis and conflict and can become a self-perpetuating cycle that experience has shown to be difficult to break;

Global Supply Chains

- Current supply chain requirements are perceived as discriminating against SME - SME have limited resources or capacity to invest, and little effort is made to make guidance on labour standards more easy to access and understand;
- If long term, sustainable economic growth and stability is to be realised, governments have a responsibility to ensure legal and policy settings are in place that favour/promote inclusive supply chains;
- Investment in awareness raising, information and support efforts to assist SME in understanding and implementing the expected supply chain standards is considered inadequate - even among more mature SMEs with the most experience as suppliers to international markets, firms find it challenging to understand and/or meet the changing requirements;
- The proliferation of standards, codes of conduct, and initiatives is creating a set of additional challenges that counter the effort to achieve higher standards of business conduct;
- The interests of buyers are perceived by SME to be common across the spectrum, whereas SME perceive significant differences among SME across sector, location and company/supply chain;
- Procurement and sourcing practices that expect SME to meet the highest standards while also bearing the costs tend to be unrealistic – there needs to be more respect for a ‘decent deal’ where neither side feels forced into a corner;
- More needs to be invested in relationships throughout the supply chain, price points are important but not always the critical piece - there are other incentives/rewards to consider;
- Global supply chains are benefiting from the productive capacity of a migrant workforce without account for the labour market deficits this can create in sending communities (which are perceived to disproportionately impact SMEs);

On being an SME in South Asia

- Labour market deficits, lack of implementation/enforcement of policy and regulations, and limited access to technical and financial support for enterprise upgrading constrain the practice of responsible business conduct;
- Collective efforts by SME to demand change in supply chain sourcing practices and business models has been limited – If working alone without the support of other

- business actors, SME perceive these efforts will have limited potential to affect change beyond certain points of intersection;
- Access to finance and financial technology (FINTECH) is critical if SME are to more formally integrate into global markets;
 - The business case for RBC among SME needs more investment - sustainable business practices can lead to cost efficiencies and opportunities but not for all firms or in all contexts;
 - SME tend not to invest in business continuity planning (for disaster and conflict) - leaving supply chains vulnerable to interruption and heightening enterprise (worker and management) vulnerability to exploitation in times of crisis;
 - Enterprise mentalities need to be changed in many SME so that workers understand the enterprises success as benefiting them likewise enterprises see workers success as benefiting the enterprise – SCORE provides a good model;
 - Priority areas for support – address the lack of skills and technology, poor access to finance, logistics and infrastructure costs, and regulatory burdens that make it difficult for SMEs to formally participate in global supply chains and prioritize responsible business conduct;

Business collaboration

- SME increasingly recognize that to survive they need to aggregate together - but understanding the different models for networked collaboration tends to be weak and many of the working examples known lack the sophistication needed to fully realize opportunities in global supply chains;
- Most collaboration among SME tends to be personal, with family, friends, and community members sharing a vested interest in each other's success – at this level, competition does not play a significant role in restraining collaboration;
- The most common form of collaboration tends to be informal information sharing and advice among SMEs - Geographically clustered alliances within an industry are also common, driven by the need to increase production capacity and/or ability to compete;
- Collaboration with other actors at different points in the supply chain is not common – as a basis for this, the value chain should be centred incentives and rewards put in place to motivate each actor to do their best for the collective and to ensure all are satisfied that the benefits are shared equitably.
- Employer and Business Membership Organizations (E/BMO) are favourably viewed at sectoral level where local chapters/chambers are in place, but otherwise tend to be geared towards the interests and needs of larger businesses;
- E/BMO in South Asia lack the financial resources and technology to conduct large scale programs to reach SME but there are many examples of E/BMO that have adopted and promote programs on social sustainability;
- Representation of SME at E/BMO board level, particularly among the national/apex employers' organization, is critical to change attitudes towards smaller firms, to ensure SME voice, and to provide the strategic direction needed to improve membership value for SME;

Summary of key themes

- There is potential for collaboration around a vision of promoting inclusive supply chains that build commitment to and reward responsible business conduct;
- It is time to move beyond compliance towards a sustainability mind-set that shares benefits throughout the supply chain;
- Alone, SME have limited capacity to demand change in supply chain practices and business models;
- A global forum is
- Governments need to be held to account for implementing the legal and regulatory framework in place;
- Investing in people today for the future of tomorrow is critical – education and skills development to avoid the mind-sets and capacity limitations that have given rise to the issues we are now tackling;

The ILO Global Business Network

Perceived value:

- ILO has institutional relationships and influence with governments in all geographies and can dialogue with policy makers to promote attention to SME issues and to promote responsible business conduct in global supply chains;
- No global platform currently exists where SME are provided a seat at the table with the ILO and actors at different points along the supply chain;
- The combined economic and political power of big business and small coming together on these issues, married with the ILOs expertise and objectivity, could be a game changer;

Recommendations:

- The name of the initiative needs to be changed if SME are to be attracted – for example, the *Global Coalition for Responsible Business Conduct*, the *Global Coalition for Sustainable Business Practices*, or the *Global Business Coalition for Social Sustainability*;
- The focus on Human Trafficking needs to be carefully considered and communicated as this will deter some firms and raises questions about the scope of this work;
- Research, innovation and technologies being developed for action on these issues need to have an SME audience in mind from the start;
- The banking and financial sector need to be active partners in the initiative;
- Countries like Afghanistan and Bhutan need to be involved in the conversation so they have the opportunity to learn and prepare, if not their entry to the market place could see a regional race to the bottom;

Activities for consideration:

- Develop easy-to-use tools and resources on the different models for networked collaboration among SME (ie hub and spoke);

- Support E/BMOs to conduct large scale information and awareness raising programs at the community level about responsible business conduct and the opportunities presented;
- Explore innovative models for assisting SME to access the finance needed for firm upgrading;
- Create a platform or opportunities that give SME visibility to international buyers;

Participants included:

Bangladesh:

- Farzana Kahn, Small and Medium Enterprise Foundation (SMEF)
- Mustain Billah, Leathersgoods and Footwear Manufacturers and Exporters Association of Bangladesh (LFMEAB)
- Tahmid Ahmed, The Bengal Glass Works/ Bangladesh Employers' Federation (BEF)

India:

- Avinash Dalal, Ambattur Industrial Estate Manufacturers' Association (AIEMA)/National Board for Micro, Small and Medium Enterprises (NBMSME)
- Darmesh Poria, J.P. Enterprises
- Nott Krishna Murali, Ambattur Industrial Estate Manufacturers' Association (AIEMA)
- Piyush Kumar, PMG Consultants
- Rajesh Tetarwal, Simran International Exports
- Surendra Mardia, Ambattur Industrial Estate Manufacturers' Association (AIEMA)

Nepal

- Anal Raj Bhattarai, Confederation of Nepalese Industries
- Bishnu Luitel, Federation of Nepal Cottage and Small Industries (FNCSI)
- Chandra Kachhipati, Fair Trade Group Nepal (FTGN)
- Dharma Shakya, Federation of Handicraft Associations of Nepal (FHAN)
- Dolendra Paudel, My Mart Nepal Pvt Ltd
- Hari Gyawali, IME Remit Nepal
- Hansa Pandey, Federation of Nepalese Chambers of Commerce and Industry (FNCCI)
- Kamal Shrestha, Fair Trade Group Nepal (FTGN)

- Lajana Shrestha, Federation of Nepalese Chambers of Commerce and Industry (FNCCI)
- Mohan Katwai, Federation of Nepal Cottage and Small Industries (FNCSI)
- Rajan Sharma, Federation of Nepalese Chambers of Commerce and Industry (FNCCI)
- Ramva Shrestha, Federation of Nepalese Chambers of Commerce and Industry (FNCCI)
- Ratneshwori Shrestha, Federation of Handicraft Associations of Nepal (FHAN)
- Riya Thapaliya, TSN Corporation
- Rinky Othimise, Federation of Nepalese Chambers of Commerce and Industry (FNCCI)
- Shakuntala Shrestha, Federation of Nepalese Chambers of Commerce and Industry (FNCCI)
- Sita Adhikari, Federation of Nepalese Chambers of Commerce and Industry (FNCCI)
- Sunil Chitrakar, Fair Trade Group Nepal (FTGN)
- Amrendia Thakus, Federation of Handicraft Associations of Nepal (FHAN)

Pakistan:

- Mehnaz Saleem, Terry Tex International
- Muhammad Basiut Abbasi, S. Abdullah Home
- Muhammad Saleem Nagaria, S.I.T.E. Association of Industry

Sri Lanka:

- Adhil Khasim, The Employers Federation of Ceylon
- Gaya Kariyawasam, The Employers Federation of Ceylon
- Suresh de Mel, Business and Peace Alliance

Other:

- Bina Thapa, Programme Officer, ILO Nepal
- Eranthi Premaratne, MAS Kreedaa
- Gary Rynhart, International Labour Organization (ILO)
- Henrik Moller, International Labour Organization (ILO)
- Linda Orozco, Independent Consultant
- Narayan Bhattarai, International Labour Organization (ILO)
- Milan Shresta, International Labour Organization (ILO)
- Prakash Sharma, International Labour Organization (ILO)
- Ravi Peiris, International Labour Organization (ILO)
- Richard Howard, International Labour Organization (ILO)
- Thomas Thomas, ASEAN CSR Network
- Wade Bromley, International Labour Organization (ILO)