Project code	RAF/03/M04/SWI
Project title	ILO/Swiss Project for regional conflict management and enterprise-based competitiveness development
Responsible department	DIALOGUE
Type of evaluation	Independent mid-term evaluation

ABSTRACT

Background & Context

In July 2003, the Swiss Ministry of Foreign Affairs/Political Division IV and the Swiss Ministry of Economic Affairs (seco) financed a new phase of the existing project to promote regional conflict management, and started a pilot project to promote enterprise based competitiveness development in South Africa. This reports analyses the achievements to date and makes recommendations to assure the project's success.

Main Findings

On the ***promotion for regional conflict management systems****,* the project was active in up to eight countries:

- In *Angola*, goals were substantially achieved in a difficult environment. Angola's current labor law favors conflicts and discourages collective bargaining. The Project analysed the system's shortcomings and proposed legal amendments, which were largely supported by the social partners. They will be put to Parliament this year. Promulgation of the new law is key to Angola benefiting from the Project, and the commitment of the Labour Minister to hasten the process was appreciated. The Project should help elaborating a strategic implementation plan, foster the understanding of collective bargaining, and assist training for prosecutors, arbitrators and social partners.
- In *Mozambique*, goals were substantially achieved. Some training was provided and legal amendments establishing an entirely new dispute settlement system will be tabled to Parliament in October. The implementation of the new system is a challenge: It requires the stakeholders and particularly government to set up a proper project structure and allocate substantial resources. The Project should assist that process, advising on steps to be taken, timelines and resource requirements, provide training for arbitrators etc. and social partners.
- In *Zimbabwe,* outputs were substantially achieved. Legal reforms were promulgated, the dispute settlement system reformed, training material developed, arbitrators trained and library resources installed. Yet, obstacles slowed the implementation process, some of which were removed during the Evaluation: The Labour Minister agreed to hold a high-level seminar on social dialogue in August 2005, and to make the necessary legal changes to promulgate the Codes and Guidelines as soft-law. The social partners and the government strongly asked for continued support by the

project. The Team recommends the Project focusing on training (including negotiation skills for social partners) and the high level social dialogue symposium.

- In *Swaziland*, the objectives were substantially achieved: The labour law reform passed Parliament and the institutional arrangements of the dispute settlement mechanism are in place. Guidelines were approved, training material developed and some training organised. Most importantly, the Project helped organising a unique meeting between the top political institutions and the social partners to discuss social dialogue. The discussions led to an understanding to develop a focused agenda. The Project should continue to support this process which is a window of opportunity with high potential. Other activities should be limited to supporting the implementation of Codes and Guidelines and eventually phased out.

- In *Namibia*, the goals were substantially achieved: The general labour law reform finally passed Parliament. The new dispute settlement institution will open its doors towards the end of 2005. Despite delays, government had shown commitment by setting up an electronic case management system and by providing training. Having invested much time and resources, the Project should phase down activities, focus on strategic advice to establish the new institution, selected training, and be there to acknowledge the introduction of the new system.

- In *Lesotho*, the objectives were achieved. The system works well and is sustainable. Activities should be phased out.

- In *Botswana*, outputs were substantially achieved. The legal reform was promulgated, albeit prematurely before the institutional arrangements were in place. However this is being attended to with the projects assistance. Codes and training material were developed and training organised. The Project should limit support to completing assistance on implementation.

Everywhere, stakeholders highly commended the Project and its staff. Despite language issues in Portuguese speaking countries, the Project's few but highly qualified staff continued to efficiently and successfully deliver, using its reputation and experience and very competent external consultants to generate multiplier effects. Often, the social partners considered the Project a unique opportunity which started a process away from antagonism towards dialogue and a search for win-win situations. The Project's dialogue based approach facilitated the convergence of opinions and helped stakeholders taking ownership.

In sum, the Project continues to yield very good results. It impacts on labour disputes, the relationship between the social partners and the wider socio-economic field. In countries such as Swaziland and Zimbabwe, the Project's contribution to social dialogue on a national level could help political and socio-economic development well beyond the Project's original goals. These successes are the result of mutual respect and trust established over years. Results are sustainable in countries which joined early on, while in countries which joined more recently important work remains to be done. For the latter, a premature termination of the Project in September 2005 would throw back the reform process for years and negatively impact on the donor's reputation as a reliable partner. Hence the Evaluation Team strongly recommends funding at least the shortfall due to the rand appreciation and permitting the Project its full term.

Regarding the Pilot on ***enterprise-based competitiveness development,*** the South African textile and clothing industry proved an excellent choice. The sector is threatened by wave of Chinese imports and the appreciation of the Rand. Moreover, it suffers from low labour productivity and difficult labour management relations. Labour cost per unit produced is around 2/3 higher than in China, Swaziland or Lesotho. With wage reductions politically impossible, the country's only viable strategy towards competitiveness is to improve (labour) productivity.

The Project operated in Ladysmith and Newcastle, non-metropolitan areas which highly depend on the textile and clothing sector and suffer from traditional labour management relations, low productivity and little use of technology. Six factories completed the Pilot project. Yet, the only Taiwanese owned company on the Pilot terminated its participation towards the end of the Pilot phase.

Through training and coaching to introduce best operating practices, most participating factories significantly improved *productivity, quality of output and generated cost savings* of 1.35 million Rand to date. If sustainable and when rolled-out to the full factory, cost savings will significantly impact the bottom line.

The project was even more successful in such factors as *staff development, morale and safety*. Worker identification with the company changed. Teamwork, dialogue based management style and peer pressure within production lines, drew absenteeism down to levels often below the target of 3%, and reduced disciplinary action and staff turnover and improved safety records. While pilot areas reported the biggest improvements, their success often had positive spill-over effects to the whole factory. Workers, middle managers and top management consistently reported a profound change in their attitude towards their counterparts. This is particularly beneficial considering the traditional mindset in which the region still operates. Many of the workers trained were promoted to lower managerial levels and will eventually assume even more demanding jobs. This allowed top management to focus on strategic decisions such as the development of new products. It should be emphasized that while the Project enables workers and middle management to efficiently produce higher value-added goods, top management's strategic decisions eventually determine companies' long term success.

Recommendations & Lessons Learned

The Project's success was based on the following elements: First, it carefully chose consultants. Secondly it merged the traditional, rather narrow approach of business consultants with the dialogue and labor relations driven methodology of the ILO. By relentlessly measuring productivity and waste and loss, pressure was kept on participants. At the same time, the emphasis on sound labor relations, teambuilding and the role of workers in a globally competitive company fostered labor management collaboration. This seems a successful first in South Africa. Thirdly, the Project created a dynamism of friendly competition among the participating companies, which in turn fostered teambuilding at the company level. Finally, at the factory level the Project involved all parties at the Implementation Team, which created ownership and will make the process sustainable.

The Project used a labour intensive approach. While multiplier effects should be developed, the approach will have to remain labour intensive if its effect shall not diminish. It therefore might be even more important to market the results within both South Africa – using the CTA's privileged access to institutions such as SETA, the government or the MLC – and the ILO community. This should generate additional donor and governmental support. In addition, the positive results of the Pilot should induce companies to contribute more substantially for the services received. Thirdly, the Project should continue to cooperate with other institutions when delivering its services to make the results institutionally and financially more sustainable. Finally, the project so far validated a positive approach to globalisation – that sound labour standards and open economies can be mutually beneficial. Marketing the Project's results will positively contribute to the heated debate in South Africa and elsewhere on mandatory local sourcing, protectionism or a more active exchange rate policy.

Against that background, the Team not only recommends funding the resource gap caused by the exchange rate changes, but to merge this decision with a decision to extend the Project's scope to other geographic areas and economic sectors. This will not only allow the Project to complete the roll-out phase of Pilot companies, thereby assuring sustainability of results and permitting the donor to better assess the mid-term success of the approach. Moreover, by extending its activities to a second group of textile companies or other sectors the encouraging results can be validated. Such validation will make the case against protectionism much stronger. With the funds available ending in September 2005, such a 'fast-track' approval is ambitious and requires commitment and flexibility on all sides. The CTA will have to draft the Project proposal which the ILO will have to submit by mid-September to seco. Seco in turn will not only have to carry out its due diligence and decision making process until the end of October or November, but also guarantee salaries and operating costs for the time between the Project's technical ending and the approval of the new Phase of the Project.