INFORMAL WORKERS IN GLOBAL VALUE CHAINS: LESSONS FROM THE ETHICAL AND FAIR TRADE MOVEMENTS

1. Introduction

The past 30 years has seen the rapid expansion of global value chains into an ever-increasing number of countries in the global south. Yet in spite of the considerable wealth this has created for multinational companies as well as being an important driver to economic growth in sourcing countries, many workers and producers in these chains continue to be deprived of their human rights and suffer poor working conditions. Gereffi and Mayer (2006) refer to the global “governance deficit” to which states and societies have responded to fill the gap with new governance capacities. (Cited in Re-embedding Governance: Global Apparel Value Chains and Decent Work, Frederick Mayer and John Pickles, June 2010, Working Paper, Capturing the Gains). The analysis draws particularly on Karl Polanyi’s concept of a “double movement,” in which markets try to dis-embed themselves from social control and states and society responds by seeking to re-embed them in institutions of governance. (Polanyi, (1944) 2001). However, in spite of the efforts of global trade unions and a plethora of civil society organizations that have campaigned for the respect for the human rights of workers in global value chains and the enforcement of labor law, the race to the bottom has accelerated the expansion of sourcing frontiers and resulted in mutations of traditional forms of exploitation. Indeed, in those cases where steps have been taken by government to improve the conditions of workers in response to internal and external pressures such as in China with the introduction of the New Labor Contract Law in 2008, the market has reacted to dis-embed itself and take its business to other sourcing countries such as Indonesia, Vietnam and Cambodia where there are less constraints.

This paper will provide a summary of general trends in the informal economy and highlight the presence and conditions of informal workers in global value chains through the lenses of ethical and fair trade. It will look at empirical evidence on different categories of informal workers within the apparel industry and commodities and the implications of fair and ethical trade for informal workers. It will then look at the strategies applied by ethical trade initiatives, the fair trade movement and membership-based organisations to improve the working conditions and terms of trade for informal workers. The paper will conclude by drawing out lessons for future strategies.
2. Global Value Chains and Informal Workers

(a) Definition of informal employment: The ILO and the WIEGO network have promoted a broad definition of informal employment, endorsed by the International Conference of Labor Statisticians in 2003 that includes:

- employees in formal enterprises not covered by national labour legislation, social protection or certain employment benefits such as paid annual or sick leave
- contributing family workers working in formal sector enterprises
- industrial outworkers such as home-workers engaged in the production of goods for global Brands

This broader definition provides a framework for capturing different categories of workers in global value chains.

(b) Informal workforce

Improved statistics provide evidence that the informal economy is large by whatever measure is used:

- share of non-agricultural employment: 45-85 % of non-agricultural employment in developing countries
- share of economic units: e.g., 80% of all enterprises in India are informal
- share of GDP: informal enterprises (i.e., the informal sector) contribute 25-50% per cent of non-agricultural GDP in developing countries

The informal economy is growing at least in terms of:

--share of total employment

--share of new jobs

There are indications that the global economic recession has accelerated the informalization of work in global value chains and opened new frontiers in Multi-National Corporations’ and global Brands’ search for ever cheaper prices. Formal work is decreasing and informal work is increasing including outsourcing to home-workers, the proliferation of contract work within formal production units, an increase in the use of migrant workers and widespread unregulated sub-contracting. Furthermore, there is evidence that the quality of informal work is deteriorating rather than improving. Informal workers and producers are inserted into global value chain production but often with very low earnings and benefits, (usually below the legal minimum wage where it exists), and very high risks – in fact, the global system often downloads risks on the informal workforce (by, for example, delaying payments to home-workers). Informal workers and
Informal Workers in Global Value Chains: Lessons from the Ethical and Fair Trade Movements
– Elaine Jones, Director, Global Trade Programme, WIEGO

producers are organizing/being organized to change corporate practices, terms of trade and policy related to global value chain production – but these efforts are too few and far between and also are not well supported or understood.

3. Empirical Evidence: Informal Workers in Fair and Ethical Trade Value Chains

Two examples of private governance in global value chains are the ethical and fair trade movements. Fair Trade is primarily concerned with using trade and market access as a way of improving the livelihoods of small producers and workers whereas Ethical Trade’s primary focus is on the implementation of international labor standards,

Ethical Trade

As a response to consumer pressure resulting from increasing public exposure to poor working conditions in global value chains, a large number of multi-stakeholder initiatives have emerged since the mid-1990’s. Mayer and Pickles argue that the ‘governance deficit’ triggered a counter-movement to “re-regulate work, sourcing practices, and the movement of factories in the global economy”. (Mayer and Pickles, op. cit). One example of such an effort in this counter-movement is The Ethical Trading Initiative (ETI), a UK-based tri-partite organization comprising more than sixty Corporates including global Brands and High Street Retailers, Non-Governmental Organizations, (NGO’s), and global Trade Unions. Members are required to adopt a Code of Conduct which is based on the core International Labour Standards as defined by the International Labour Organization.

In 2006 the ETI commissioned an Impact Assessment to determine whether the application of its Code of Conduct had proved beneficial in improving working conditions in the supply chains of its members. The study found that while there had been improvements in areas such as health and safety in the first tier of supply chains examined, the code had not been applied further down the supply chain. In general, it was found that permanent and regular workers benefitted most from the application of the code, with migrant or contract workers experiencing little change or having poorer working conditions. (ETI Impact Assessment, Barrientos and Smith, IDS, University of Sussex, 2006). Subsequently, ETI introduced more stringent annual reporting requirements for its corporate members to report on the number of workers by site and by type of worker, (permanent, temporary, casual), beyond the first tier of the supply chain. Companies are also required to report whether they have home-workers in their supply chains. More experienced members report that the move to applying ethical trade policies down the supply chain is a natural progression from the intelligence they have gained about the working conditions and contractual arrangements in the first tier of the supply chain, (author interviews with ETI members). The following categories of informal workers have been identified in significant numbers in ETI members’ supply chains:

(a) Informal Waged Workers in First Tier Manufacturers and Sub-Contracting Units: - Although company reporting can be said to be of uneven quality, improvements have been made by companies in identifying greater numbers of informal workers in their supply chains. More companies are reporting the presence of contract workers in formal production sites. One garment retailer reported that they have discovered that 80-100
per cent of workers in their first tier production sites in South Asia are contract workers. Factory line managers are reported to be by-passing formal recruitment processes and dealing directly with labour contractors, (author interviews). This provides them with maximum flexibility to deal with the demands of short lead times, fluctuating order volumes and last-minute changes to style and design. With the increase in pace on fast fashion, with some retailers changing their ranges every six weeks, combined with the sharp rise in competition on price and the proliferation of Brands, the pressures on factories is constantly building. The presence of informal workers in first tier suppliers in the garment industry appears to be a widespread phenomenon. In Turkey, one of the largest trade unions in the garment industry, Teşvik, reports that up to 60 per cent of workers in factories are unregistered, while press exposes on working conditions in Manchester and Leicester report the presence of undocumented migrant workers.

(b) Home-Workers in the Bottom Tier of Supply Chains: - Sub-contracting is another feature of the apparel industry. At the bottom of the supply chain, thousands of industrial outworkers or home-workers are linked into global supply chains. Often, factories will take on more work than they can produce in-house and sub-contract orders to other units who, in turn, will put out work to home-workers. Home-workers are also used where labour intensive processes are required such as hand-stitching and embroidery. Their traditional skills are under-valued and under-paid with most not earning even the legal minimum wage. In what amounts to denial, a few companies have adopted a “no home-worker policy” in an attempt to minimize their exposure to reputational risk.

Many of the ETI company members have now accepted that if they are in the apparel business then they will inevitably have home-workers in their supply chains. However, the continuing lack of transparency from suppliers who conceal their sub-contracting arrangements, (because they tell companies what they think they want to hear), means that companies will often be caught unawares, even if they have formally adopted the ETI Home-Worker Guidelines which commit members to apply the base code to home-workers. The ILO 1996 Convention on Home-Workers (C.177) provides a definition of home workers and recognizes them as workers in an employment relationship. However, where companies have acknowledged the presence of home-workers in their supply chains, the evidence is that they have so far failed to pay piece rates which equate to the minimum wage let alone deal with the other requirements of the base code in relation to improving working conditions of home-workers.

Under the C.177 definition of the employment relationship, there is a clear responsibility for the buyer to assume responsibility:

(a) Work carried out by a person, to be referred to as a home worker,
– in his or her home or in other premises of his or her choice, other than the workplace of the employer;
– for remuneration;
– which results in a product or service as specified by the employer, irrespective of who provides the equipment, materials or other inputs used, as long as this
Informal Workers in Global Value Chains: Lessons from the Ethical and Fair Trade Movements
– Elaine Jones, Director, Global Trade Programme, WIEGO

person does not have the degree of autonomy and of economic independence necessary to be considered an independent worker under national laws, regulations or court decisions;
(b) the term “employer” means a person, natural or legal, who either directly or through an intermediary, if any, gives out home work in pursuance of his or her business activity (ILO 1996).

The fact that many companies now acknowledge that there are large numbers of home-workers in their supply chains has been a step forward. However, there is still some way to go in securing the rights of home-workers especially within a context of the global economic recession and the race to the bottom on price leading to increasing numbers of informal workers in global supply chains.

A recent report commissioned by WIEGO on home-based work in South Asia reports the rise in home-based work in that region and elsewhere

"Home-based work appears to be on the rise around the world, particularly for women, largely reflecting the effort to cut costs through flexible work contracts or sub-contracting, and in some cases through loss of formal sector jobs, seen for this region too (GOI 2007: 5). In an analysis of the impact of recent policies on home-based work, Rani and Unni (2009) find that at the macro level, a rise in the unit cost of labor is associated with an increase in female home-based work. Making Home-Based Work Visible: A Review of Evidence from South Asia, Research Report 10, Ratna M. Sudarshan and Shalini Sinha

When it comes to analysis of the value chain in garments and textiles with home-based workers at the bottom of domestic or international markets, Unni and Scaria (2009), found that lead firms exercise control through such factors as design, lead time and quality parameters. They suggest: “The comparative advantage in the cost of labor in the international chain is largely realized through outsourcing of work to home-based workers, who mostly comprise women” (Unni and Scaria 2009: 648 cited in Sudarshan and Sinha op cit).

This “comparative advantage” goes some way to explaining the increase in the presence of informal workers in global supply chains. It also exposes the limitations of voluntary initiatives to regulate the conditions of workers. The value chain approach has been a useful tool in highlighting the presence of informal workers in global value chains. However, to bring about improvements in their working conditions regulatory governance in value chains requires enforcement.
In their conclusions to the report *Making Home-Based Work Visible: A Review of Evidence from South Asia*, Sudarshan and Sinha point to the need to complement the value chain approach with local economic development analysis:

“...much more attention needs to be given to the relevance and potential of cluster development approaches for HBWs. While there is a role for global consumer-led ethical approaches to ensure implementation of labor codes for all workers, including HBWs, sustainability and implementation of labor codes require local embeddedness. Given the significance of domestic markets for home-based work in South Asia, value chain studies need to be supplemented with local economic development analysis”.

**Fair Trade**

Many of the producers of handcrafts supplying into international Fair Trade markets are also home-based workers. They would typically be a combination of own-account workers who produce goods from materials that they source themselves and then sell to Fair Trade organizations that provide a link with the market and home-workers who are provided with materials by the Fair Trade organizations they belong to. For example, basket weavers in Northern Kenya will produce the fiber they need from the land they farm and are paid by the piece, whereas home-based weavers in Nepal producing textiles which they sell to the Women’s Skills Development Organization, (WSDO), will receive the materials and designs from WSDO and are paid according to the quantity of woven cloth they produce.

Another category of informal workers which is of significance to global value chains are smallholders. Smallholders have been the focus of concern to both fair trade and ethical trade. The pursuit of export-led growth strategies by many developing countries has brought many smallholder farmers into global value chains. They are often the primary producers in the production of commodities such as cocoa, coffee and cotton. However, the definition of smallholders varies according to the crop and context, and there are a wide variety of models of how smallholders are integrated into global value chains. In spite of these differences, there are a number of characteristics common to smallholders, as detailed in the ETI Smallholder Guidelines (2005):

- They produce relatively small volumes of produce on relatively small plots of land.
- They may produce an export commodity as a main livelihood activity or as part of a portfolio of livelihood activities.
- They are generally less well-resourced than commercial-scale farmers.
- They are usually considered to be part of the informal economy (i.e. may not be registered, tend to be excluded from aspects of labour legislation, lack social protection and have limited records).
- They may be men or women.
- They may depend on family labour, but may hire workers.
They are often vulnerable in supply chains.

The Fairtrade Labelling Organisation (FLO) defines a smallholder as a producer who is dependent on family, as opposed to non-family, labour as a basis for its definition. Smallholder farmers supplying into Fairtrade markets are typically organized into cooperatives or producer associations which provide the link with the market and offer different levels of support to their members.

In terms of the size and significance of smallholders in agriculture, we know that half of the world’s population works in agriculture. Forty per cent, (some 440 million workers) are in waged employment and women account for 20-30 per cent of total agricultural waged employment (Fyfe 2002).

In Africa, agriculture accounts for 70 per cent of the labour force, over 25 per cent of GDP and 20 per cent of agribusiness in most countries. Agriculture remains largely traditional and is concentrated in the hands of smallholders and pastoralists (Economic Report on Africa 2009). In many countries women provide much of the labour in smallholder production systems, (Longley, 2011). In Ethiopia, for example, women are reported to provide more than 80 per cent of the labour in coffee production, yet they often receive little of the income.

In 2005, WIEGO was commissioned by UNIFEM to produce its flagship publication Progress of the World’s Women on the topic of Women, Work and Poverty. It highlighted the fact that while women contribute to income-generating activities – both agricultural and non-agricultural – they often do so as unpaid contributing family workers. Unpaid work on family agricultural enterprises was found to account for 20 per cent of women’s informal employment in Ghana, 34 per cent in India and 85 per cent in Egypt.

Smallholder production in many developing countries remains at subsistence level. Smallholders typically lack access to credit, receive little technical support and often have low productivity due to an inability to invest in things such as improved seeds and soil replenishment. Smallholders generally rely on labour-intensive production methods and family labour, although they often have to hire labour, especially at key moments in the production cycle like harvesting. Since they are in a situation of poverty themselves, the working conditions of hired labourers are usually very poor.

In spite of the importance of agriculture in areas such as Africa, as well as recognition by governments of the need to invest to increase productivity, under-capitalization in agriculture and a lack of investment in infrastructure remains a barrier to lifting smallholders out of poverty. A study, conducted in 2008 to verify how many African countries had met their 2003 commitment to dedicate more than 10 per cent of national expenditure to agriculture, found only 19 per cent had met this goal (Economic Report on Africa 2009).
4. Strategies for Improving the Working Conditions of Informal Workers in Global Value Chains

(a) Ethical Trade

Since the 1990’s a plethora of organizations and initiatives have emerged in the field of Corporate Social Responsibility, (CSR) and Ethical Trade, (ET). Although there are differences in definition and scope between organizations and their approaches, the commonality in relation to the application of standards to working conditions is their reference point: International Labor Standards as defined by the International Labor Organization, (ILO). Ethical Trade is just one aspect of CSR which may include corporate giving and community engagement, and environmental sustainability measures.

There are a number of different modalities to approaches to Ethical Trade:

- Multi-stakeholder initiatives working together for the application of voluntary codes of conduct such as the Ethical Trading Initiative (ETI) which deal with multiple supply chains/sectors,

- Multi-stakeholder initiatives which are industry-specific such as in garments, e.g. Fair Wear Foundation, (FWF), founded in the Netherlands by the Union FNV, the Clean Clothes Campaign and Employers’ Organizations and Fair Labor Association, (FLA), in the US combining the efforts of industry, NGO’s, colleges and universities. In the food sector, The Global Banana Forum combines efforts of retailers, NGO’s and trades unions to improve conditions for workers in the banana industry,

- Multi-stakeholder initiatives that are engaged in certification and/or reporting, e.g. Social Accountability International, (SAI), multiple supply chains with a certification standard based on international labor standards, the Global Reporting Initiative, (GRI) and the Global Compact which provide a reporting framework,

- Industry-led initiatives such as the International Council of Toy Industries, (ICTI), British Social Compliance Initiative, (BSCI), Electronic Industry Citizenship Coalition, the Global Social Compliance Programme, (GSCP), established by the world’s largest retailers: Tesco, Wal-Mart, Carrefour and Metro,

- Campaign organizations advocating for workers rights such as the Clean Clothes Campaign/Labor Behind the Label, War on Want, Banana Link some of which are also involved in multi-stakeholder initiatives, but some of whom choose not to sign up to such initiatives as they see themselves as having more freedom to campaign from the “outside”.

Many campaigning organizations and activists argue that a key weakness of many of these initiatives is that they rely on the companies within them to “self-regulate”. Although there is often a requirement for disclosure through mechanisms such as annual reporting, or third party certification, such as with SAI, the processes rely to a great extent on the quality of the
information provided. The ETI annual reporting process requires companies to report against a framework based on its six principles of implementation which, in turn, have defined management indicators. The company self assesses where it believes its performance is in relation to a rising scale from Foundation, (at the beginning of tackling the issues), to Improver, Achiever, and Leader. The report is subject to review from an independent body which provides feedback to the company on the quality of its reporting with recommendations for improvement. The report is also examined by an NGO member of the ETI who is responsible for assessing whether the self-assessment is accurate in relation to performance based on the content of the whole report which is a combination of narrative and performance data on code compliance by supplier site. The NGO also feeds back to the company with observations and recommendations and may request a meeting with the company to discuss performance. This is seen by many NGO’s as the quid pro quo for time and effort invested in the initiative and an important plank of the credibility of the system. Since 2009, ETI has experimented with “validation visits” where a team composed of Secretariat staff, a representative of the external, independent body who examine the report, an NGO and a Trade Union representative visit the Company member to inspect internal management information systems, processes of supplier selection, approval and management, resource allocation, and senior management buy-in and involvement to determine whether the annual report is an accurate reflection of the reality. A further pilot is being tested to examine selected companies’ in the Achiever/Leader category to potentially substitute the reporting of site-by-site data, (which is often extremely time-consuming), with verification of the management information systems to ensure that there is an efficient and effective mechanism for capturing data on suppliers’ ethical performance and if this compliance data is actually informing purchasing decisions.

A further weakness of many of the ethical trade approaches is their reliance on third party auditing. Most of the data collected on suppliers’ performance in relation to the application of the code of conduct is through external audits of supplier sites. Evidence has emerged of what has come to be known as “audit fraud”. This is when suppliers, often those who have experienced years of being audited by third party auditing companies, have become adept at presenting information in a way which conceals the true picture of working conditions in their production sites. A secretly-filmed video commissioned by the Ethical Trading Initiative in 2007, Secrets and Lies, exposes how many factories in China were providing false information on working conditions to auditors, sometimes with the full backing of auditors themselves. Software packages have been developed to aid multiple record-keeping. For this reason, ETI has been advocating for companies to “go beyond auditing” to a capacity-building approach with suppliers. This is built on the premise that a cooperative approach with suppliers is more likely to result in improved working conditions than a policing one. This has led many companies to develop alternative and innovative approaches to managing their ethical trade programmes. The company that discovered the presence of 80-100 per cent contract workers in the first tier of its supplier chain did so through working with a local NGO who interviewed workers in their homes under conditions of anonymity. Many of the production sites had been audited multiple times and contract working had not been detected. Others have developed a “balanced score card” approach where suppliers are graded according to their performance on a number of counts including ethical performance as well as commercial factors such as on-time delivery, quality, price, etc. Well-performing suppliers are rewarded with longer term contracts.

A further area of progress is the acknowledgement that there is a direct correlation between the poor ethical performance on working conditions by suppliers and core business practices of
Informal Workers in Global Value Chains: Lessons from the Ethical and Fair Trade Movements
– Elaine Jones, Director, Global Trade Programme, WIEGO

retailers. Starting in 2008 WIEGO engaged in an experimental project with a High Street retailer of fast fashion to analyze the impact of purchasing practices on working conditions in one factory in Turkey. The project involved undertaking an analysis of purchasing practices along the supply chain from the buying and technical functions in the UK through the intermediary agent in Turkey down to the sub-contracted stitching unit in Istanbul. Individual interviews were conducted with members of each of the buying teams in the company’s head-quarters in the UK and with each of the departments at the joint-venture supplier in Istanbul. A physical inspection was carried out of the sub-contracted stitching unit in Istanbul and interviews were conducted with the factory owner and a number of workers with the support of an experienced Turkish social auditor. The social auditor subsequently conducted a number of off-site, confidential interviews with workers. A meeting was held with the General Secretary of one of the largest trades unions TExSIF.

It was found that the working conditions in the production unit were typical of many lower-end factory units in the Cut, Make, Trim (CMT) sector of the garment industry. The unit had around 120 workers of which over 60 per cent were unregistered workers. This was reported by the national trade union to be the norm in Turkey. Turkey is an important sourcing country to the fast-fashion industry in Europe due to its geographic proximity. Lead times are typically very short and this has a direct impact on working hours. Workers who try to join the trade union are immediately fired and black-listed along with their relatives.

The following purchasing practices were found to have a direct, negative impact on working conditions in the production unit:

1. There was a disconnect between the ethical trading strategy and the supplier sourcing strategy within the company. In spite of the company’s high-profile commitment to its membership of the ETI, buying decisions were made chiefly on the basis of commercial considerations such as price. There was little awareness within the buying function of the impact of purchasing decisions.

2. The critical path analysis, (CPA), of a product from concept to shelf is the planning tool used to plot the timing and dead-lines along the chain from retailer to supplier and down to the production unit. In many cases, the CPA is an idealized time-table drawn up by a production planner whose best intelligence on production times may be the over-zealous ambitions of a supplier who will commit to any lead time and quantity in order to secure the business from the buyer. Any delays to the CPA at the front end of the process will impact down the chain and eat up production time. This is one of the chief factors which drive excessive over-time.

3. Poor communications and changes to styling post-sealing:- this is the process of signing off on designs. Theoretically, once a design and specification is “sealed” that is the final product against which orders are placed and no further changes should occur. However, it is common practice industry-wide, that buyers will change designs, colors and specifications post-sealing. This has a significant impact on the time allocated to production as new fabrics and trims need to be sourced. Every day that is shaved off production time leads to increased pressure on the supplier and the workers.

4. Another critical factor in the relationship between buyer and supplier and the impact on workers is forecasting accuracy on quantities. It is often the case that buyers will under-
estimate or over-estimate the popularity of a product in the shops. If the forecast is below the take-up of the product it will usually lead to repeat orders which are typically un-planned for at the production unit level. A supplier may have committed to other business subsequent to the delivery of the order on the understanding that this would be down-time from that buyer. This will result in a surge of pressure which in turn may also lead to further sub-contracting to units with even worse working conditions - often unbeknown and un-authorized by the buyer. On the other hand, if the buyer has over-estimated the popularity of a fashion trend and is suddenly faced with the prospect of holding high inventory, it is quite typical for buyers to cancel orders that are already in production. It is normal practice for buying companies to expect the supplier to take the “hit” and workers may be laid off at a moments’ notice.

5. Financial penalties are often leveled against suppliers when orders are late even when the causes of the delay may rest chiefly with the buying company. This may be in the form of charging air freight to the supplier when an order has to be shipped urgently to stop a product from going out of stock or not making the launch of a new range. This financial pressure often forces the supplier to squeeze the workers on wages, on unpaid and forced overtime and on non-payment of statutory benefits.

6. In the case of this Turkish supplier, there was a high degree of dependency on the orders from the High Street retailer. This places a supplier and the workers in the production unit in a highly vulnerable situation. The project with the factory ended when the supplier declared himself bankrupt in spring 2009. The High Street retailer assumed responsibility for the payment of outstanding wages and supported workers with the fees to seek legal re-dress. However, there is a “duty of care” dimension to the ethical management of supplier relationships and this was lacking in this case.

As a result of the project with the sub-contracting unit in Turkey, WIEGO worked with the company in the second half of 2009 and the first half of 2010 within the scope of the ETI Purchasing Practices programme to establish a series of work-streams with a team of “ethical champions” from across the buying and technical functions within the business with the endorsement of the senior management within the company. The areas of purchasing practices that had been identified as problematic as they impacted negatively on working conditions with the Turkish supplier were assumed to be having a similar effect across all supply chains in the business. The champions were tasked with working on one product area of purchasing practices with one of their key suppliers (e.g. teens, women, or men’s garments, or accessories) to verify the impact and come up with solutions to change the way in which business was done. The team members came up with some innovative solutions which proved to be beneficial in alleviating pressure points.

Within the scope of the ETI programme working group on Purchasing Practices other NGO members engaged with different Brands in a variety of ways to tease out the impact on working conditions. Out of a total of 6 pilot projects within the programme working group, all were found to come to similar conclusions around similar business practices. The broad consensus was that these issues are endemic to the garment industry’s way of doing business. The industry is characterized by a high degree of competitiveness with a race to the bottom on price at the lower end of the market. This inevitably places pressure down the supply chain and those at the very bottom of the chain are affected worse. Industrial out-workers in India were found to be
Informal Workers in Global Value Chains: Lessons from the Ethical and Fair Trade Movements
– Elaine Jones, Director, Global Trade Programme, WIEGO

earning less than a quarter of the minimum wage. Invisible and unauthorized sub-contracting often involves child-labour. Unregistered workers in Turkey make up an estimated 70% of the work force and they and their families are persecuted if they try and join a trades union. The evidence is that many facets of the fashion and garment industry’s way of working drives poor working conditions and an increasing informalization of labour.

Where smallholders are linked into export markets – either through Fairtrade markets that apply standards for commodities such as cocoa and coffee, or through outgrower schemes in horticulture where buyers such as supermarkets have committed to varying ethical codes of conduct – then closer attention has been paid to working conditions.

A specific example of Gereffi’s “regulatory governance” in ethical trade in relation to smallholders in global value chains can be found in the Ethical Trading Initiative’s 2005 guidelines for those working within international supply chains that source from smallholders. The guidelines were developed out of a tri-partite project working group made up of representatives from companies, trade unions and NGO’s who worked on their development from 2002-2004. The aim was to ensure the implementation of international labour standards, specifically as stipulated by the ETI Base Code in recognition of the increasing prevalence of smallholders in international supply chains. The guidelines usefully identified the variety of different supply chain models that exist whereby smallholders may sell directly to an exporter or cooperative, or to another farm or plantation, indirectly through a merchant, or through an auction. (ETI Smallholder Guidelines, p.14, 2005).

The ETI also developed a set of Guidelines for Home-workers, (Second edition May 2010) which call on companies to apply ILO C.177 to home-workers in their supply chains. ([http://www.ethicaltrade.org/in-action/projects/homeworkers-project/guidelines](http://www.ethicaltrade.org/in-action/projects/homeworkers-project/guidelines))

(b) Fair Trade

The Fair Trade movement has grown to be a strong social movement which has been characterized as a ‘new globalization’, (D. L. Murray and L. T. Raynolds). Originally known as “alternative trade” and as a response by Church organizations to the after-math of the Second World War it has now grown to be a multi-million pound and growing business. Fair Trade is primarily concerned with offering a ‘response to the failure of conventional trade to deliver sustainable livelihoods and development opportunities to people in the poorest countries of the world’ (WFTO 2010a).

There are two broad categories of Fair Trade products: handcrafted products which are mostly traded through World Shops and commodities and food products which are now mostly sold through main-stream supermarkets. Handcraft products tend to be imported and sold through Fair Trade organizations belonging to the World Fair Trade Organization, (WFTO), (although not exclusively), and food products sold through supermarkets tend to be governed by the Fairtrade Labeling Organization, (FLO) certification system. As mentioned above, the handcrafted products are produced by a mixture of home-based workers and those who have come together to work in cooperatives or more formal production units. Under the FLO system, there are a
Informal Workers in Global Value Chains: Lessons from the Ethical and Fair Trade Movements
– Elaine Jones, Director, Global Trade Programme, WIEGO

combination of smallholders producing commodities such as cocoa and coffee and plantation production which has a variety of forms of hired labor.

In 2001, a number of Fair Trade actors came together to agree upon a common definition of Fair Trade as follows:

“Fair Trade is a trading partnership, based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair Trade Organizations, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade” (F.I.N.E. 2001).

With the subsequent development of the Fairtrade Labelling Organisation, a distinction was made between the smallholder system where a smallholder is defined as a producer who is dependent on family rather than non-family members and “hired labour” production systems such as on large farms and plantations. However, further analysis of the different types of employment relationship within the Fair Trade system would be beneficial to a more nuanced understanding of the different types of informal workers engaged in these production systems.

The primary preoccupation of Fair Trade has been to ensure that “producers” receive as great a return as possible. Under the Fairtrade labelling system, the requirement is for buyers to ensure that producers are paid a minimum “fair” price which is set by FLO as well as a social premium which is aimed to deliver developmental benefits to the wider community. There is evidence to suggest that where a producer organisation is exporting a high percentage of its output to Fair Trade markets, this will improve the returns to producers and generate sufficient social premium to undertake wider community projects such as improvements in water and sanitation systems. However, in spite of the significant growth of the Fair Trade market it still constitutes a small percentage of total world trade especially in the commodities markets.

One of the most significant outcomes of Fair Trade has been the organization of producers into collective forms of enterprise such as cooperatives and associations. The early Alternative Trade Organizations encouraged the formation of cooperatives as the most effective trading entity for both building volume of product for export markets and maximising economic and developmental returns. One of the ongoing challenges with the FLO certification system is the costs to the producer organization of remaining certified. This requires an annual inspection which they must pay for. The size of the sample of producers to be inspected is based on a percentage of the total number of producers in the organization. With very large organisations such as Kuapa Kokoo in Ghana which has over 40,000 farmers, the costs of certification can be very high indeed. The costs of certification are seen by many producer organisations as a barrier to entry to the Fairtrade system. This has drawn criticism by some observers who note that this can lead to exclusion of the poorest producers which the system is meant to benefit.
(c) **Membership Based Organizations**

Many informal workers in global value chains have begun to organize themselves to increase their visibility as workers, to advocate for their rights and to influence the policies that affect them.

**Organization and Voice of Home-Based Workers**

In spite of the difficulties of organizing home-based workers, significant progress has been made in the last 10 years. In 2000, in a conference organized by UNIFEM and WIEGO home-based workers and their organizations, South Asia governments’ policy-makers and researchers met and formulated the Kathmandu Declaration for the rights of South Asian home-based workers. The Kathmandu Declaration recommended the formulation of a national level policy and a plan of action on home-based workers by the governments of the South Asia Region. These discussions led to the formation of HomeNet South Asia by SEWA and UNIFEM in 2000. It has emerged as a vibrant network made up of representatives from five countries: India, Pakistan, Sri Lanka, Bangladesh and Nepal. It seeks to be the collective voice of the HBWs of the region, and use this voice at the national, regional and international levels to influence legislation, policies and programmes; the network also extends technical support to its members. (Sudarshan and Sinha, IUP Research Report 10 *op cit*)

**Organization and Voice of Smallholders**

Many smallholders have organized themselves into cooperatives and producer associations for production and marketing. With the growth of Fairtrade certification initially in coffee, cocoa and bananas, there was originally a focus on smallholder production systems. The certification requirements to qualify under the smallholder standards, as well as the costs of certification, in turn acted as a driver to organizing among smallholder farmers. Fairtrade certified smallholder farmers in Latin America are formed into a regional network (CLAC) and in Africa into the Africa Fairtrade Network (AFN). Farmers certified under the Fairtrade certification scheme receive a social premium over and above the Fairtrade minimum price. The fixing of a minimum price and the social premium can be seen as two of the mechanisms of “redistributive governance” (Gereffi et al) in global value chains under the Fairtrade system.

In 2003, the Food and Agriculture Organization of the United Nations warned that the proliferation of supermarkets could marginalize small farmers in Africa unless they organized themselves into cooperatives to meet new marketing, credit and technology requirements (FAO 2003). At an FAO workshop on food systems in developing countries, Thomas Reardon of Michigan State University noted that Kenya’s 200 supermarkets and 10 hypermarkets were already buying three times more produce from local farmers than Kenya was exporting globally. In South Africa, supermarkets were accounting for more than 55 per cent of national food retail. The FAO has been helping small farmers organize into groups and cooperatives to meet the new realities.
The International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF), with 367 affiliates in 122 countries has also been actively engaged in a number of initiatives to protect the rights of smallholder farmers as well as waged agricultural workers as they combat the pressures of trade liberalization, industrialization, commercialization and globalization. The largest agricultural workers' trade union – CONTAG - is an IUF affiliate in Brazil. It has a membership of 9 million, including both agricultural workers and small farmers (Fyfe 2002).

While progress has been slow, there have been successes. For example, agricultural workers, sharecroppers and small farmers in India undertook sustained protests to stop Tata Motors from building an automobile production facility on prime farmland expropriated by the state government in Singur, West Bengal. Despite heavy criticism from the state government, grassroots and union leaders were able to inspire a large-scale and sustained movement. Eventually, Tata Motors abandoned its Singur plans and moved production to an area near Ahmadabad where it would not destroy productive land and the livelihoods of tens of thousands of people.

5. **Conclusions – lessons for future strategies**

The emergence of new forms of private governance such as ethical and fair trade have served to highlight the presence and conditions of informal workers in global value chains. There is evidence to suggest that companies are responding to increasing consumer pressure to assume responsibility for the working conditions in suppliers’ production sites and that they have gone beyond the first tier down the chain to sub-contracting units and to home-workers. The recognition by companies that their own core business practices have a direct impact on working conditions is a step forward. However, the global economic recession has introduced renewed pressures on costs and increased competitiveness between global Brands. Prices are being squeezed down the supply chain and it is the workers who are paying the cost. The conflict between the ethical trade imperative and the commercial drive to maximize profit remains an inherent contradiction. The evidence from the experience of ETI member companies is that the number of formal waged jobs is being reduced while the number of contract, and even bonded, labor in formal manufacturing units is on the rise. There is clearly a need for governments to respond to the effects of this increase in “governance deficit” and enforce labor legislation. However, industry bodies such as the British Retail Consortium resist efforts to legislate for the enforcement of ethical trade by companies.

In 2005 the UN Commission responded to the increase in awareness around the issue of business and human rights with the creation of a mandate for a Special Representative of the Secretary-General. The final report of the Special Representative, John Ruggie, which summarizes his work from 2005 to 2011, presents the “Guiding Principles on Business and Human Rights: Implementing the United Nations ‘Protect, Respect and Remedy’ Framework” for consideration by the Human Rights Council. The report does not call for any new legal obligations on companies or states but rather looks at the implications of existing standards, identifies where regimes fall short and where improvements should be made. The three pillars of the framework are grounded in the following:
(a) States’ existing obligations to respect, protect and fulfill human rights and fundamental freedoms;

(b) The role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights;

(c) The need for rights and obligations to be matched to appropriate and effective remedies when breached. (Ruggie, 2011)

Ruggie recognizes that there is often a gap in the enforcement of existing law. This poses a serious challenge for businesses who are concerned to apply ethical trade principles in their supply chains. If public governance is failing to uphold the rule of law, then private governance initiatives such as those in ethical trade have only their buying power as a lever to influence change.

Ethical trade and fair trade initiatives need to be complemented by public governance that applies the rule of law if they are to bring about the desired results for all workers, including informal workers in global value chains.
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References


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