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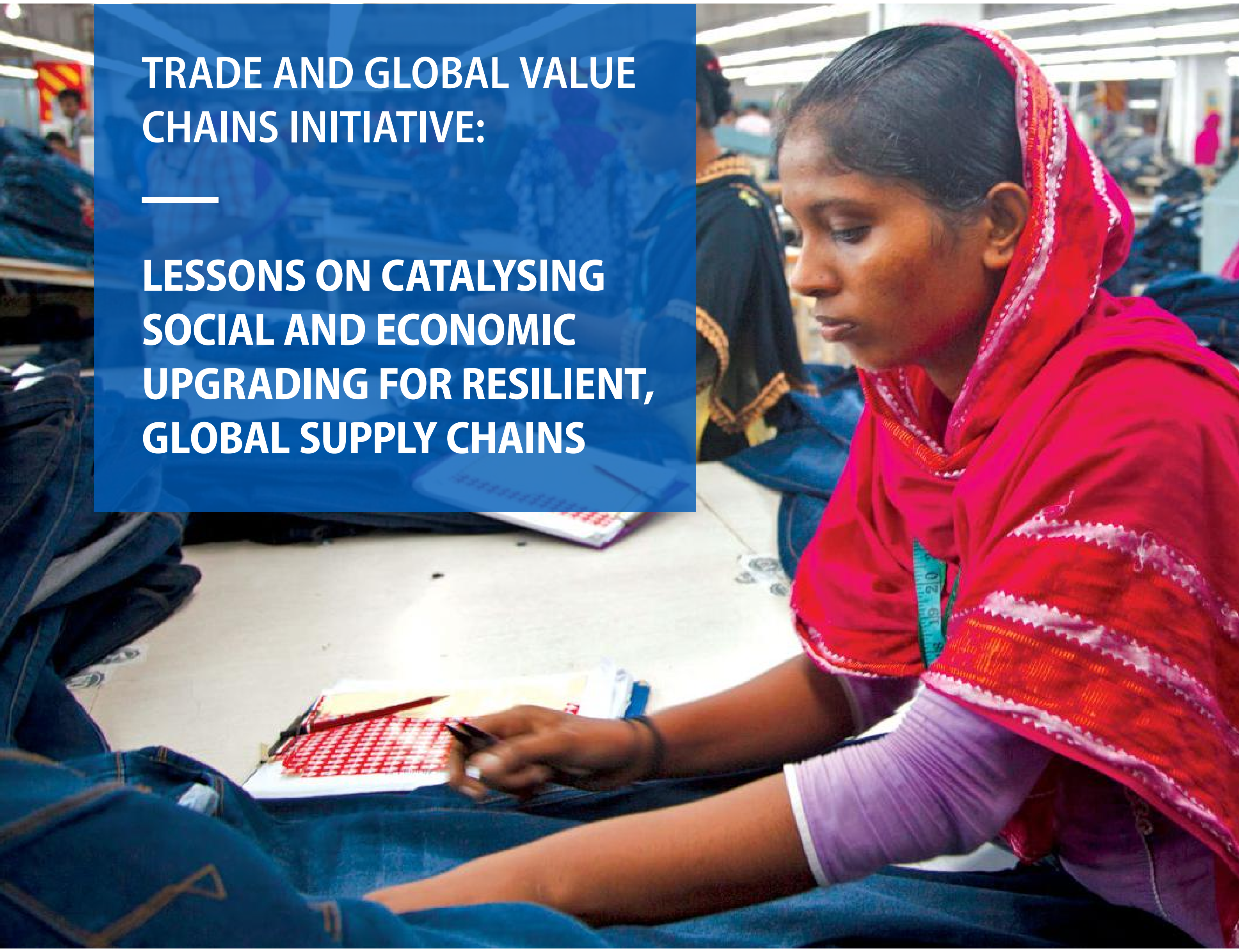
NRI DEVELOPMENT PROGRAMME
POLICY BRIEF

SUSTAINABLE TRADE AND RESPONSIBLE BUSINESS

TRADE AND GLOBAL VALUE CHAINS INITIATIVE:

LESSONS ON CATALYSING SOCIAL AND ECONOMIC UPGRADING FOR RESILIENT, GLOBAL SUPPLY CHAINS



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KEY LESSONS

- TGVCI was designed to benefit workers and businesses by supporting social upgrading, such as improving workers' skills and employability, worker / management relations and worker health. These initiatives were intended to generate business benefits or economic upgrading, such as improved worker productivity. The most promising approaches tested by TGVCI were intensive coaching for unemployed youth, worker equity / Joint Venture schemes, social dialogue processes between management and workers, and worker health interventions. However, interventions to tackle fundamental decent work issues are also needed, addressing more challenging issues such as wages, housing and freedom of association. Worker equity schemes appear to be highly promising in stimulating long-term improvement in worker social upgrading, but more time is needed for implementation to establish evidence that social upgrading is achieved, as well as business benefits. As well as improving conditions and rights for workers or smallholders, the desired win-win approaches need to deliver adequate benefits for buyers/brands and for suppliers, giving them incentives to act.
- Environmental sustainability should be addressed at the same time as social and economic upgrading for a holistic approach, better termed 'sustainability upgrading'. Companies should view environmental issues as a core business concern, rather than as an issue of corporate social responsibility. Challenges are likely to be shared by different companies across the sector, suggesting a stronger role is required for government, both in terms of policy and regulation and, in the facilitation of improved sector coordination between stakeholders to galvanize collective action. Sector targets should be set which refer to the change needed in a sector, derived from science-based environmental ceilings and agreed social goals, rather than referring to the year-on-year performance of companies or comparisons between peers.
- Donors, companies and the wider community of practice should be realistic about the extensive scale and complex nature of the challenges faced by workers, communities and environments in many industries in developing countries and emerging markets, and design programmes accordingly with appropriate time frames and adequate resources to test new approaches.
- Multi-stakeholder initiatives (MSIs) at sector level may be more effective than a demand-led catalyst funding for companies. MSIs can facilitate joint problem analysis and collective action. Engagement from government, civic actors, and private sector actors is necessary to address systemic issues in relation to decent work and to achieve resilient, global supply chains. Changes may be required in policies and regulation to create a level playing field that sets minimum sustainability requirements, sector coordination, accountability of management to workers and worker voice, and incentivising leading companies through identifying win-win business benefits. Such approaches can build up local ownership and legitimacy and allow for tailoring to local political and institutional contexts.
- Grantees of donor funds aimed at supporting sustainability upgrading should have clear plans for scaling linked to sector-wide visions and road maps to contribute to sector transformation. All catalytic funds should have a dedicated, real-time, adaptive learning mechanism, recognizing that companies do not have incentives to share new innovations with rivals. Sector-programming approaches should also include a learning mechanism to reach other companies and support 'crowding in'.
- Donors investing public funds in private sector-led development should require companies to participate in monitoring and evaluation to support learning about what works.

Smallholder vegetable producers in South Africa in a project exploring links to national supermarket supply chains via intermediary commercial hubs. Photo: Maaike Hartog.

South African workers participate in training on technical, life and leadership skills: Photo: Maaike Hartog.

INTRODUCTION

The Trade and Global Value Chains Initiative (TGVCI) was a £4 million fund mechanism (2013 – 2016) supported by the UK Department for International Development. Its purpose was to leverage private sector investment and changes in corporate behaviour to socially benefit workers and smallholders, while also providing benefits to suppliers and retailers - benefits that would catalyse further investment and corporate behaviour change as competitor companies copied new approaches (termed 'crowding in'. This briefing presents the key findings of a programme evaluation to inform donors, companies and researchers.

THE PROGRAMME

Research by the Capturing the Gains research network highlighted that global value chain companies do not invest sufficiently in social upgrading because they lack adequate incentives to act on their own, partly due to a lack of convincing evidence of the benefits of such investment. Investment with other stakeholders in social upgrading could deliver business benefits and help to ensure the longer-term profitability and sustainability of corporate supply chains[i]. DFID funded the Trade and Global Value Chains Initiative (TGVCI) programme to test the hypothesis that '*investing in social upgrading to benefit workers and smallholders also contributes to economic upgrading, and overall this would support the development of sustainable and resilient global value chains.*' Finding effective strategies would catalyse much wider change in global value chain industries, based upon a robust business case and bring development benefits at the same time. DFID anticipated that TGVCI would leverage private sector funding in collaboration with coalition partners to find ways to achieve these 'win-wins'. The TGVCI made public funds available to coalitions applying for the funds in a demand-driven approach. Many of the coalitions were led by global retailers and brands, but in a few cases national retailers, consultancy companies and an international NGO were involved. The programme had two target sectors and operated in three countries; horticulture in Kenya and South Africa, and Ready-Made Garments in Bangladesh. In two rounds of funding, nineteen different projects were funded.

Workers from South Africa horticulture farms and packhouses participate in training. Photo: Maaike Hartog.

Smallholder farmers producing vegetables. Photo: Maaike Hartog.

BOX 1: SOCIAL UPGRADING LEADING TO ECONOMIC UPGRADING CATALYSING WIDER SECTOR CHANGES

Social upgrading is 'the process of improvement of the rights and entitlements of workers as social actors and enhancement of the quality of their employment. This includes access to better work as well as better conditions at work contributing towards sustainable development and poverty reduction'.

Economic upgrading - 'a process by which firms improve profitability and move from low-value to relatively high-value activities in the value chain'

Supply chain resilience/sustainability: the ability of a supply chain to be able to continue operations over time. This is determined by a range of factors, including availability and skill level of labour and levels of social and political stability in countries of operation'.

Source: (TGVCI EMU TOR, 2013, p3).

An evaluation of the TGVCI (2013 – 2017) was commissioned as a strategic accompaniment to the fund mechanism, to generate evidence on whether social upgrading can lead to economic upgrading, and if this catalyses wider changes amongst participating businesses, competitors and across target sectors. The two main evaluation questions were: 1) Does social upgrading lead to economic upgrading and if so, in which sectors and under what conditions? 2) Is the implementation model of a modified challenge fund effective and efficient for achieving social and economic upgrading?

Four subsidiary evaluation questions focused upon: a) sustainability; b) the buy-in of participating companies, c) demonstration effects, and d) the effectiveness of coalition building. The evaluation approach was Theory-Based Evaluation (TBE). A theory of change, including assumptions, (see Figure 1) was developed to guide data collection and Contribution Analysis. Nested within the theory of change are four key impact pathways focused on different types of interventions and causal pathways to social and economic upgrading:

IMPACT PATHWAYS WHICH NEST WITHIN THE BIGGER THEORY OF CHANGE

01 WORKERS' LIFE SKILL, TECHNICAL SKILLS AND LEADERSHIP SKILLS ENHANCED IN SOUTH AFRICA AND KENYA EXPORT FRUIT AND HORTICULTURE INDUSTRY.

Different pedagogical approaches were employed, such as intensive coaching of unemployed youth to get them into work for the first time in a pack-house, or group-based motivational leadership training or individual worker skills training. The enhanced skills of workers were intended to lead to improvements in productivity, for example, which is beneficial for the company, as well as enabling workers to have more opportunities for promotion and increased employability.

Horticulture industry workers completing training, South Africa. Photo: Joachim Ewert.

02 IMPROVED WORKERS' HEALTH AWARENESS, ACCESS TO HEALTH SERVICES AND REDUCED EXPOSURE TO HEALTH HAZARDS IN KENYA HORTICULTURE AND BANGLADESH RMG.

Examples included training of workers to act as peer-health educators who then cascade health information to fellow workers; radio programmes and written materials to inform workers on social issues; creation of a sustainable agriculture and nutrition garden on an estate, in combination with worker training and supply of fresh produce to the canteen; development of a health insurance scheme for workers in a Bangladesh RMG factory. Healthier workers are less likely to be off work and more likely to be productive and satisfied, which is also a benefit to employers.

Packhouse workers, South Africa. Photo: Joachim Ewert.

03 MANAGERS AND WORKERS TRAINED IN SKILLS ON BETTER MANAGEMENT AND SOCIAL DIALOGUE FOR MATURE INDUSTRIAL RELATIONS AND ETHICAL COMPLIANCE.

Some projects targeted training of middle managers, in one case training them in human resources management and productivity and in another engaging workers and managers on anti-sexual harassment and gender equality improvements. Using digital technology, one grantee trained workers and managers on fire and building safety and in ethical compliance respectively. One initiative piloted facilitation of social dialogue processes in RMG factories to improve manager-worker relationships. Another project trained disabled workers to enable them to access decent work and to generate evidence for companies that this is a viable as well as ethical employment strategy. In South Africa, one project trained managers and workers in their labour rights and sought to establish a registration system for migrant workers to increase employability and to give farmer owners access to a reliable, seasonal workforce.

Ready-made garment industry workers in Bangladesh in a factory participating in a productivity and human resources training project for managers. Photo: Maaike Hartog.

04 IMPROVING MODELS FOR ENGAGING SMALLHOLDERS AND WORKERS IN MORE PRODUCTIVE AND RESILIENCE HORTICULTURE SUPPLY CHAINS.

In South Africa, one project established a joint venture scheme between management and workers focusing on mango production, aiming to generate dividends for workers, as well as business benefits. A second initiative sought to link smallholder producers to a national retailer, via commercial hubs, enabling actors along the value chain to capture increased value.

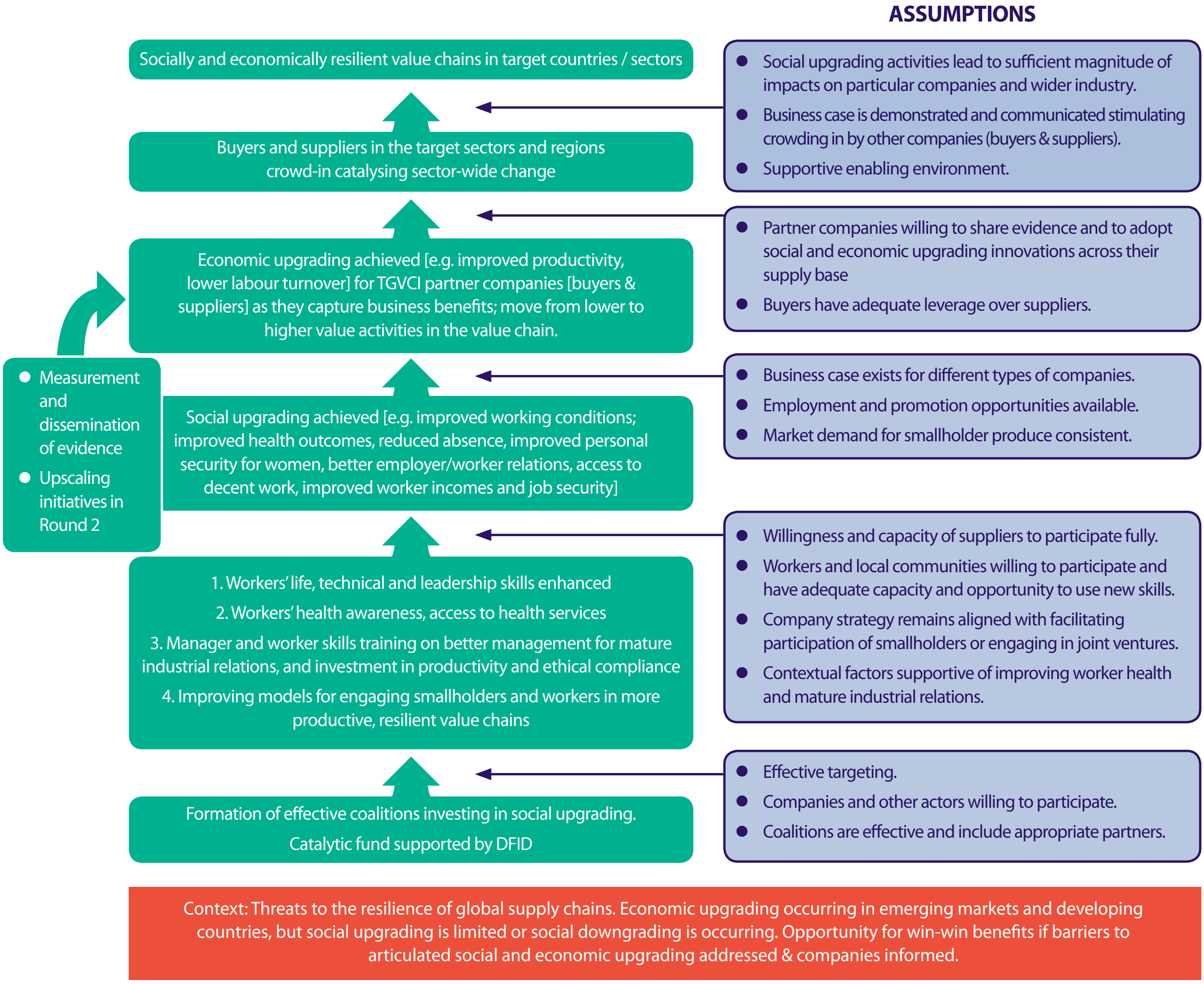
Smallholder farmer in South Africa engaging in vegetable production. Photo: Maaike Hartog.

Data was gathered across the programme and for a range of project case studies clustered within each Impact Pathway, each with a robust, bespoke design. Where feasible, comparisons were drawn between participating and non-participating workers or factories through baseline or final evaluation surveys. The methods employed were diverse, including qualitative and quantitative approaches and tools, selected to fit the project design. The data was assembled to test the theory of change and associated assumptions in a process of Contribution Analysis.

Sewing garments in factory, Dhaka, Bangladesh. Photo: Maaike Hartog.

Workers from South Africa visiting a UK supermarket to better understand their place in the supply chain and the associated quality requirements of supermarkets. Photo: Maaike Hartog.

FIGURE 1: PROGRAMME THEORY OF CHANGE



Evidence on the four impact pathways was assessed and each was scored according to a 4-point scale of performance (very strong, strong, moderate, weak) in terms of achievement of social upgrading, the extent to which it led to economic upgrading and evidence of adoption and adaptation by partner companies and wider scaling of the type of interventions. The assumptions between the key causal steps were also interrogated using the available evidence to generate lessons on how and why change may or may not have occurred. There are limitations on the available evidence for several reasons relating to project data availability and access.[ii]

KEY FINDINGS

Social and Economic Upgrading

All four Impact Pathways were assessed as having achieved a moderate degree of effectiveness on a four-point scale – 'very strong', 'strong',' moderate' or 'weak', i.e. there is some evidence of social upgrading achieved, but limited economic upgrading in target factories, farms or communities for this cluster of projects and types of intervention. Given that this was an experimental programme, it is unsurprising to find a mixture of successful initiatives and those which were only partially successful, or failures. A couple of projects were not fully implemented for a variety of reasons. The analysis of the different Impact Pathways in terms of their achievement is summarized in Annex 1. Findings per pathway are as follows:

- **Impact Pathway 1, Worker technical, life and leadership skills:** There was very strong evidence that worker technical, life and leadership skills interventions can deliver social upgrading by enhancing workers' quality of employment and working conditions. There were some instances of improvement in workers' access to better work on a limited scale, but limited evidence on economic upgrading (i.e. on business benefits or improved position in value chain, although worker and management feedback has been positive. There is evidence of adoption/adaptation by partner companies, although somewhat mixed, and no wider scaling. Other contributing factors include suppliers' own human resource development plans and a supportive organisational culture.
- **Impact Pathway 2, Worker Health and Nutrition Interventions:** There was some evidence that worker health and nutrition interventions can deliver social upgrading, in terms of benefits for workers' health, but no evidence on the achievement of business benefits (e.g. productivity benefits or change in position in the value chain for the enterprise as a whole). One project had considerable success in raising health awareness in the Kenyan horticulture context and interest is being generated in the other models (health insurance, nutrition gardens). Other factors shaping outcomes for workers in terms of their health included the level of workers' wages and the extent to which nutritious food is available. For the nutrition garden project, workers' access to capital and land were also influencing factors.
- **Impact Pathway 3, Management Skills, Social Dialogue and Worker Representation:** There was some evidence that social upgrading can result from such interventions, in terms of enhanced quality of employment and work conditions, although there is no evidence of improvement in workers' access to better work or in workers' rights and entitlements. Evidence on business benefits is lacking except for one project providing training on worker productivity and human resources which demonstrated savings due to productivity and efficiency. There is some evidence of adoption/adaptation and wider scaling, but it is limited in scope.
- **Impact Pathway 4, Models for Smallholder Value Chain Participation and Worker Equity:** There was mixed evidence. Out of two projects, one appeared very promising, having successfully established a Joint Venture, indicating that social upgrading can be achieved in terms of improving workers' rights and entitlements. However, more time is needed to observe whether and how financial dividends will be distributed to worker-owners and their magnitude. The other project, linking smallholder producers to supermarket supply chains through commercial producer hubs, did not achieve the intended outcomes due to a shift in strategy of the retailer away from smallholder sourcing. While there are lucrative returns for smallholders that can participate in global value chains, even when supported by commercial hubs, the barriers to participation can be prohibitive with significant risks for vulnerable participants. One project promises a likely 20% Social Return on Investment, but the other has not been successful. There is no evidence of adoption/adaptation and scaling to date, although the Joint Venture model is promising. Overall, the assessment for Impact Pathway 4 is moderate.

At the programme level, the evaluation team judged that overall **the programme had achieved a moderate score**, i.e. some evidence of social upgrading has been achieved, but there has been limited economic upgrading (e.g. limited evidence on business benefits such as enhanced worker productivity, no changes in enterprise position in the value chain) in target factories, farms or communities for this cluster of projects and type of intervention.

Worker training in South Africa. Photo: Valerie Nelson.

There are key differences in the target industries, with respect to scale and the severity of sustainability issues. The RMG sector context, in Bangladesh and elsewhere, is extremely challenging. The size of the sector, the number and scale of other initiatives, and, arguably, the systemically unsustainable conditions in the RMG industry, mean that it is difficult to see how the initiatives implemented could have made a significant difference. In Kenya and South Africa there has been a longer history of ethical trade and corporate responsibility initiatives. The industries in the latter two countries also face diverse sustainability challenges. There is currently less intensity of upgrading initiatives compared with the RMG sector post-Rana Plaza and compared with in the past, with previous initiatives addressing ethical issues to a certain extent. A small number of horticulture sector TGVCI initiatives are experiencing some scaling and there is the potential for further scaling to occur. But it is clear that not only is a critical mass of initiatives and pressure needed for change to occur at a sector level, that sector stakeholder coordination, local ownership and clear sector sustainability visions are all key components in system-wide change. Appropriate regulation to create a level playing field, strong market demand for sustainability in production methods, and incentives for suppliers are also critical components of wider sector change.

None of the projects which emerged through the demand-led process, in any of the three target countries, focused on more challenging, ***fundamental issues*** for workers and local communities relating to social upgrading, such as living wage issues, housing, and environmental issues. These have not been tackled, yet they remain central to achieving social upgrading and sustainable, resilient supply chains and sectors. Combined with the lack of scaling in many instances this means that the TGVCI has not been able to catalyse systemic change. Several grantees suggested that it might have been better to have targeted other countries or sectors with fewer donor and corporate interventions.

Effectiveness of Modified Challenge Funds as an Implementation Model for Social and Economic Upgrading

The Modified Challenge Fund (termed a catalytic fund within DFID) has supported the implementation or scaling of a diverse set of projects aimed at testing whether social upgrading can lead to economic upgrading. Given that the TGVCI was envisaged as experimental, it is not surprising that several projects failed, while others have been more successful. However, an improved approach to the design of projects, and a greater investment in technical assistance and in-country facilitation, would have better enabled testing of the theory and comparative analysis.

In terms of programme ***effectiveness in building coalitions***, we found that there were instances in which more innovative relationships were facilitated, with retailers able to work collaboratively with civil society actors, but there were few incentives in the programme to expand coalitions, once projects were funded. Furthermore, few of the coalitions involved combinations of diverse sets of actors. Most projects were led by individual retailers, and/or by service providers. NGOs tended to participate only as service providers, e.g. trainers. In no cases were there sector-wide processes facilitated which could generate a range of responses to jointly identified problems and pre-competitive collaboration in developing solutions. In some cases, retailers reported transaction costs and difficulties in recruiting suppliers to participate in their projects.

With respect to whether a ***demonstration effect*** occurred, with the projects leading to a change in attitudes and/or behaviour of other value chain actors not involved in the programme, the lack of inclusion of a learning mechanism within the programme meant that active promotion of positive results did not occur. Even where positive outcomes were demonstrated by the projects, there were limited incentives for companies to share such approaches in an in-depth manner with their competitors. The fund manager did not pursue opportunities to facilitate synergies between TGVCI grantees in design, implementation and learning.

Worker training in South African horticulture. Photo: Joachim Ewert.

Sustainability, Scaling and Sector-Wide Change

There are mixed results with respect to the ***sustainability*** of the benefits of the individual TGVCI interventions. The Worker Life, Leadership and Technical Skills Training and health related interventions are likely to provide participants benefits, but continued investment is needed, and in some cases additional training.

There is mixed evidence on the Management Skills, Social Dialogue and Worker Representation interventions with some presenting positive plausible evidence and others clearly not. In terms of the adaptation of business models by project partners in their own supply chains in the absence of donor interventions, participating brands/retailers and suppliers vary in the extent to which they are convinced of the business case. There are instances of, or the potential for ***wider adoption/adaptation across the sector***; however, in other cases this has not been demonstrated. For several projects, more time is still needed to see if the adoption/adaptation is really embedded in corporate strategy or not. Some of the approaches represent the business of consultancy companies and NGOs and so they will continue to promote them in the relevant industries.

Sector-wide change requires effective coalitions, including private sector and public actors, but these alone are insufficient. They can help to pilot social upgrading initiatives, but if these efforts are to be scaled and be more widely disruptive of the status quo in a competitive and dynamic industry, a broader set of simultaneous changes is required. Stronger evidence on return on investment is needed to persuade more companies across a sector to invest, including smaller and medium-sized enterprises. However, it is difficult for external actors to obtain return on investment data and our research shows that the cause-effect relationship between social and economic upgrading is often complex and context specific. Stronger incentives are necessary to galvanize changes in company practices. Governments can help through implementing public procurement procedures which prioritize social and environmentally sustainable production and by enforcing labour laws. Investment by retailers/brands in their suppliers should be accompanied by changes in their sourcing practices. Capacity-building support for NGOs is also important, as well as ensuring that trade unions have adequate space to operate. Newly emerging international laws requiring human rights due diligence may change the legal case for retailers/brands and suppliers to invest in social upgrading, by mobilizing a deterrent effect on poor practice. In conclusion, we find that sole levers are insufficient; a diverse set of levers is required to achieve social and economic upgrading.

FOR MORE INFORMATION, PLEASE CONTACT:

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www.nri.org/development-programmes/sustainable-trade-and-responsible-business/overview

Click here to see the Mid-Term Evaluation Report:
https://devtracker.dfid.gov.uk/projects/GB-1-203448/documents

Click here to see the Final Evaluation Report:
https://???

Annex 1: Rating of Impact Pathways

TGVCI Catalyst Fund Portfolio	**Evaluative Scales**						
Impact Pathway	**Social Upgrading**	**Economic Upgrading**	**Sustainability**	**Adoption / Adaptation by partners**	**Wider Scaling**	**Overall scoring**	**Other contributing factors**
Worker Technical, Life and Leadership Skills	●	●	●	●	●	●	Suppliers' own human resource development plans. Organisational culture within suppliers.
Worker Health and Nutrition	●	●	●	●	●	●	Workers' wages & availability of nutritious food.
Management Skills, Social Dialogue and Worker Representation	●	●	●	●	●	●	Supplier corporate culture; Relative influence of buyers over suppliers.
Smallholder Value Chain Participation and Worker Equity	●	●	●	●	●	●	Willingness of existing business owners to engage in joint ventures with sufficient incentives and pressure from buyers. Supportive policy. Corporate business strategy aligns with sourcing of product by commercial hubs.

Impact Pathway Assessments: Rating Scale

Very Strong: Very strong evidence of social upgrading achieved leading to economic upgrading, plus emerging evidence of adoption/adaptation by partner companies and wider scaling for this cluster of projects and type of intervention	●
Strong: Strong evidence of social upgrading achieved, leading to some economic upgrading in target factories, farms or communities for this cluster of projects and type of intervention, and some adoption/adaptation by partners	●
Moderate: Some evidence of social upgrading achieved, but limited economic upgrading in target factories, farms or communities for this cluster of projects and type of intervention	●
Weak: Limited or no evidence of social upgrading achieved with no evidence of economic upgrading in target factories, farms or communities for this cluster of projects and type of intervention	●

i DFID TGVCI Business Case, 2013.
ii including insufficient project monitoring and evaluation data, unwillingness of some private sector actors to share commercially sensitive data on business performance, which is crucial for measuring business benefits and multiple interventions in the sector.

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Front cover photo: Apparel factory in Bangladesh. Photo: Maaike Hartog.