



# **A COLLABORATIVE APPROACH TO RAPIDLY ADDRESSING NEEDS IN THE GLOBAL CRISIS**

**A RAPID ACTION PROPOSAL FOR ACTION**

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## A FRAMEWORK FOR ACTION

### FOREWORD

*Millions of young women who have migrated to urban areas to work in factories supplying apparel and footwear worldwide are being made unemployed and homeless* because of the economic crisis. This unprecedented collapse in their and others' livelihoods threatens their personal safety and prospects, the economies of their families and communities, and social stability.

Simultaneously, *the apparel and footwear sector, the developing world's single largest source of manufacturing employment and export earnings is undergoing permanent structural changes*, accelerated by the recession. The competitive imperatives of lean and green manufacturing will drive future sourcing to those countries that provide the right skills, infrastructure and policy environment. Nations desperate for employment need to invest now in creating the right enabling conditions for the sector, without which today's recession-driven unemployment will become a permanent downturn in many countries.

*Exceptional circumstances calls for exceptional action.* Governments have recognized the scale of the crisis, most recently at the G20 Summit, through the estimated US\$5 trillion that governments have committed to spend in the next 18 months to kick start the global economy, and through a raft of specific initiatives such as the launch of the World Bank's Vulnerability Fund and the ILO's mobilization of key players in early June at its summit on the global crisis.

*Needed is a practical means to get help quickly and effectively to those most in need, whilst simultaneously investing for the medium and long*



*term.* Speed and scale are huge challenges approaches that more often take months or years to design and mobilize. Just knowing where to act is in itself a challenge with little ‘real time’ information existing outside of the business community. Moreover, to focus exclusively on the short term, whilst understandable, sows the seeds for deeper long term problems for vulnerable communities and economies

*A Framework for Action, now, has been developed by participants of the multi-stakeholder initiative, the MFA Forum,* which includes leading apparel and footwear companies, labor and civil society organizations, international organizations including the ILO, and all of the leading multi-stakeholder initiatives active in the sector. This Framework builds on the Forum’s on-going work on responsible transitions stemming back to the end of the Multi-Fibre Arrangement, as well as its country-level activities. Most of all, the Framework is grounded in the potential of collaboration to leverage knowledge, competencies and resources quickly and effectively to realize a scale and impact fit for the current circumstances.

*The Framework for Action advocates and describes how to act simultaneously on six, closely-linked fronts:*

- (1) *Catalyzing awareness* of the emerging crisis and real options for action, in the apparel and textiles sector but potentially using a comparable approach in other sectors.
- (2) *Establishing a real-time rapid assessment process* to assist in predicting where interventions are needed across sprawling global supply chains;
- (3) *Leveraging the brands* in their advocacy to their suppliers and engagement with other participants with public bodies of the Forum’s Responsible Transition Guidelines, focused especially on securing the rule of law where retrenchment is inevitable.

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(4) *Guiding the channelling of short term trade finance* to avoid wherever possible retrenchment and closures arising for this reason.

(5) *Mobilising and guiding direct support to those* retrenched by providing information, and mobilising resources and capacities on the ground.

(6) *Producing the longer term sustainability of the sector in key countries*, by generating strategic scenarios for key countries and encouraging enabling policy developments and investments.

***The proposed Framework for Action is one right starting point for immediate, practical and scaled action*** through the involvement of international agencies, governments, labour and civil society organizations, and the business community. It clearly cannot be for the MFA Forum's participants to address alone for the scale and effectiveness of its potential to be realized.



## INTRODUCTION

As the global economic crisis moves from Wall Street to Main Street and now to manufacturing, its impacts are being felt keenly by the working poor. One of the largest employment sectors in the developing world, apparel and footwear, also represents groups of the most vulnerable workers in the formal sector. Predominantly women, the industry profile also includes a large number of internal migrants, workers on short-term contracts, low levels of trade union representation, and generally unskilled. According to the International Textile, Garment and Leatherworkers Federation, approximately 11.5 million jobs have been lost in the sector already, with losses expected to increase by another 3 million over the next year. We anticipate that while GDP in the U.S., leading consuming country, will recover, the recovery will not be based on a resumption of prior consumption but rather government spending. Until other markets reach levels of consumption that replace the drop in U.S. consumption, global supply chains for consumer goods will continue to contract. Furthermore, conservative consumer behavior will continue the strong downward price pressure in the marketplace and continue to undermine attempts to advance labor rights.

MFA Forum is a group of stakeholders, representing buyers, trade unions, multi-stakeholder initiatives, and individual NGOs who originally came together to respond to anticipated shocks to the industry resulting from a removal of quota in the apparel sector. Our collective focus on promoting responsible competitiveness is being deeply challenged by the economic crisis in front of us, especially the work we have done to promote responsible transitions in the face of retrenchment.



Responding to this disaster requires a vision of scale and speed in supporting millions of women in making an effective transition to alternative livelihoods. We are encouraged by the G20 Statement of global commitment and the World Bank's response to the economic crisis's impact on developing countries, and equally eager to see programs that align with the ILO's overall proposal that recovery from the crisis is based on a decent work agenda. We believe efforts targeted at the apparel sector present a perfect opportunity to create an emergency and long-term response based on a) high level of coordination between actors; b) adjustments based on robust data, monitoring and evaluation and c) linkages between immediate crisis relief and longer-term investments in an environmentally sustainable industry that does a better job of advancing labor standards and economic development.

## **THE APPAREL AND FOOTWEAR INDUSTRY: A BRIEF OVERVIEW**

The apparel and footwear manufacturing industry employs anywhere<sup>1</sup> upwards of 80 million workers. A light manufacturing industry, the traditional model relied on economies that could supply plentiful labor for low skilled work. As such, it is usually the first stepping stone for a workforce emerging from agriculture, the informal economy, or poverty-line existence<sup>2</sup>. A large number of workers are either internal migrants from rural to urban environments, or in some countries, cross-border migrants. A large majority (estimated 70%) of workers are women, predominantly between the ages of 18-24 years. This workforce spread across emerging economies around the world, holds the keys to some critical triggers for pro-poor growth and economic development: by entering the formal economy, accessing skills and training, and financial independence, they have the opportunity to move up the ladder into higher

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<sup>1</sup> Supportive data required.

<sup>2</sup> *The Economist* - report on role of the industry in emerging economy growth.



paid, higher skilled jobs, advance gender equity, and invest in their children's education<sup>3</sup>.

As critical as this industry is to economic development, it has also been vulnerable to low labor standards and low wages. Over a decade of efforts by global brands to promote adherence to rule of law and additional voluntary standards have met limited success, and penetrate only a narrow segment of the total industry. Key system wide issues in the industry continue to be:

1. Absence of national enforcement of existing labor laws.
2. Base wages frequently based on minimum wage that does not keep in line with inflation, and failure to pay legally required premiums for overtime wages.
3. Excessive overtime, due both to poor business practices, absence of rule of law, and pressure on workers to increase their take home income.
4. Absence of adequate workers representation with management, either through formal union representation, employee councils or other mechanisms.
5. A vulnerable business model: low margins, strong dependency on credit, and inadequate management system relative to the level of risk.

## **FACING THE GLOBAL CRISIS: CYCLICAL AND STRUCTURAL SHIFTS**

### ***Research to Date***

Based on the trade data available, and anonymous surveys of buyers, we see the steep economic decline based on a synchronous drop in global activity impacting the global apparel industry in the following ways.

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<sup>3</sup> Supportive data and evidence required.



- Countries that were anticipated to be negatively impacted by the removal of quota are accelerating their decline.
- Leading manufacturing countries may be gaining market share, but still dropping in absolute trade volumes.
- Suppliers in all countries are under stronger price pressure.
- Some countries are making efforts to support liquidity and employment, e.g., China, but capital flight out of developing countries, lack of independent Central Banks in some manufacturing countries, and the steep drop in commodity prices all significantly impair national responses to the crisis.

Unlike post MFA predictions, which divided countries into “winners” and “losers”, the global economic crisis is impacting apparel workers across the globe, with many of the variables of vulnerability tied to individual employers: those with high levels of debt, marginal profitability, falling orders, depressed prices and shorter lead times for production, and delayed or defaulted payments by buyers (facing their own economic woes).

### ***The Ripple Effect***

The apparel industry has the potential to be a significant actor for accelerating pro-poor growth due to the scale and the profile of workers employed. Conversely, because of its size and impact, it has the ability to send shock waves in a broader economy<sup>4</sup> that could reverse broader pro-poor growth gains made in the last years.

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<sup>4</sup> Requires further explanation – e.g. dependencies on the industry in poor communities.



As the OECD<sup>5</sup> has laid out, there are 5 strategies for accelerating pro-poor growth through support for private sector development:

1. Providing incentives for Entrepreneurship and investment
2. Increasing productivity: competition and innovation
3. Harnessing international economic linkages
4. Improving market access and functioning
5. Reducing risk and vulnerability

### ***Underlying Causes***

#### **A: Cyclical - The Economic Tsunami**

While the apparel industry has always suffered from a poor enforcement of workers rights, the sharp economic downturn has strongly exacerbated the negative impacts to workers. In many apparel producing countries, strong social protection schemes that provide government backed unemployment support are absent. Workers instead must depend on employers meeting their individual obligations to make severance payments. Unlike defined benefit or defined contribution schemes, where the obligation of the employer can both be accounted for in determining overhead costs, and governments can oversee compliance, there are no standard rules for funding the liability of severance. Not surprisingly, the manufacturers who are unable to keep their business running are also usually also unable to meet their severance obligations. Workers around the globe have not just lost their job. They may have also just lost access to health care, one decent meal a day, and for those living in

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<sup>5</sup> 'Promoting Pro-Poor Growth Policy Statement', OECD, 2006. *Analyze framework for potential synergies.*



dormitories, their home. In fact, migrant workers are often prioritized for retrenchment, as they present higher overhead costs for management.

Until six months ago, workers in countries with healthy, diversified economies might have had opportunities to pursue jobs in different sectors. The challenge was on work-preparedness for low-skilled workers. Now, with equal depression in other manufacturing and services sectors, prospects for other jobs in the formal economy are grim.

Finally, for those that remain employed within the industry, the value of their job is decreasing. Factories are cutting bonuses, overtime (and with it overtime pay) and other key components that represent large percentages of their previous total compensation. Workers' ability to negotiate with their employers has been significantly undermined. Often trade union organizers have been discriminated against in the retrenchment process, and everyone knows of the long queue of workers outside the factory door willing to work for less than what is on the bargaining table.

**B: Structural - Two key competitiveness related shifts are already underway**

a) Structural change began when the MFA was retired in 2005. At that point, the Apparel Industry began to slowly shift towards consolidation, with premium buyers preferring to work with fewer suppliers in order to obtain greater leverage, greater partnership and therefore co-investment in innovation and productivity. A major push to lean manufacturing principles by leading companies is paving the way towards an evolved industry, with higher productivity per employee, requiring higher levels of skills, greater continuity within the workforce. The pull from the market continues to be for products that are innovative, customized, quality driven and close to market. These



trends will challenge the supply chain to come closer to the market and to be able to deliver to a pull model, rather than a push model.

It is estimated that consumer brands in general will begin to see the internalization of the true cost of natural resources within 8-10 years (footnote Deloitte and or ATK). The three principle drivers for this internalization of true costs will be regulation, markets (pricing) and consumer pressure/demand. Shifting to a more eco-efficient, “green” supply chain will be required for financial sustainability reasons. Beginning to “jump the curb” on developing closed loop systems within supply chains will become a growth imperative.

As a result of these two key structural challenges, combined with the cyclical challenge, we see four major global challenges:

### Short Term Impacts

1. GENDER RIGHTS: Overnight, young women in emerging economies will be made jobless, and homeless, and plunged into survival existence. This will catapult them into being one of the world’s most vulnerable populations<sup>6</sup>.
2. SOCIAL UNREST: As factories close, instability and social unrest threaten the fabric of key countries around the world - which could ultimately present a security risk globally<sup>7</sup>. As an example, of the 20 MM workers who have already lost their jobs in China (10MM of them in the apparel sector), only 50% have gone back to their ancestral homes. The other remains in urban areas. Without employment, they contribute to a significant uptake in urban crime and social unrest.

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<sup>6</sup> Supporting evidence required.

<sup>7</sup> Supporting evidence required.



### Longer Term Impacts

3. **INEQUITY AND POVERTY:** While the MDG on poverty aspires to see poverty halved by 2015, this newly vulnerable group will almost entirely swell the numbers of people living beneath the global poverty line. The ability to reinsert them into the economy, for them to regain financial security, will take years<sup>8</sup>.

4. **CLIMATE ADAPTATION<sup>9</sup>:** In the longer run, every industry in the world will need to adapt to climate change, as well as new costs and new regulations that enter into play with low carbon economic strategies. While the apparel industry is not targeted as a large emitter, the impact of regulatory and business model shifts will demand significant change of the industry, without which financial sustainability will be jeopardized<sup>10</sup>. The apparel industry has the potential to move into low carbon business models and in doing so increase productivity as well as spawn a new set of green SME's as offshoots to the evolved closed loop supply chain models<sup>11</sup>.

### MANAGING A GLOBAL RESPONSE: MFA FORUM RECOMMENDATIONS

In anticipate of retrenchment based on a post-MFA consolidation strategy, MFA Forum created a working group focused on Responsible Transitions. To date, a key output of the group has been the MFA Forum Guidelines for Managing Responsible Transitions. This document draws from a number of already existing international standards, such as ILO Convention No. 173, the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), the OECD Guidelines for Multinational Enterprise, and the

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<sup>8</sup> 'Promoting Pro-Poor Growth Policy Statement', OECD, 2006

<sup>9</sup> See multiple studies on low carbon prosperity strategies green jobs, etc.

<sup>10</sup> It will impact living costs. Show as a side box the impact of oil on supply chains (Nike study)

<sup>11</sup> Examples of recycling required.



IFC Guidance Note on Retrenchment. The strength of the document is twofold: 1) it reflects a discussion, and an effort to build consensus, to address the challenges associated with retrenchment between a wide range of stakeholders and 2) it outlines responsibilities and opportunities for all actors: buyers, manufacturers, governments of exporting and importing countries, trade unions, NGOs, and international institutions.

At the core of the Guidelines is an expectation that key actors work together to achieve the following:

- Divestitures by buyers and manufacturers that respect fundamental rights at work, international labor standards, and national law;
- Workers' receipt of legal entitlements, including social security, pensions and severance and should have access to job banks and retraining programs;
- Promotion of opportunities for employment for displaced workers; and
- Access by displaced workers to government provided social safety nets.

In reality, even under more favorable global economic conditions, stakeholders in the apparel industry have found it difficult to secure adherence to these recommendations. The massive scale of unemployment in the sector and its global impact, however, call for a global response that a) prevents unnecessary closures and retrenchment, b) meets the immediate needs of impacted workers and c) builds a framework for a stronger industry going forward. The participants of MFA Forum believe the five key pillars of that response are as follows:



## **1. Ongoing/Integrated Research to Provide Targeted and Timely Responses**

For multi-laterals and development agencies to be most effective in responding to the needs of apparel and footwear workers, we collectively need as much real-time information as possible about where factory closures or mass lay-offs are taking place. Better yet are predictive mechanisms for determining likely vulnerabilities at the supplier or community level. We believe that a model that combines information from buyers, suppliers, trade unions, civil society, and governments themselves needs to be reviewed frequently to best determine where immediate responses are needed.

## **2. Extension of Credit to Suppliers that Promotes Labor Compliance**

One of the challenges of the financial crisis is that frozen lending by banks has hurt “good suppliers” (those that have worked hard to respect labor and environmental laws) in equal measure to “bad suppliers”. The simple reality in apparel manufacturing is that without a letter of credit with which to purchase raw materials, a factory will close. We applaud the commitment by the IFC to expand the Global Trade Finance Program and the creation of the new Global Trade Liquidity Pool (and welcome similar initiatives by the ADB and others). Ideally, we would like to see extraordinary access to credit would have contingencies or incentives (e.g., preferential rates) associated with compliance to national labor laws.

## **2. Immediate Assistance for Retrenched Workers and their Families**

The Vulnerability Financing Facility of the World Bank is a critical facility for streamlining effective responses to negatively impacted apparel workers and their families. Both the *Global Food Crisis Response Program (GFRP)* and the



new *Rapid Social Response Program (RSR)* could make a substantial positive impact on the vulnerable populations of retrenched apparel workers and their families. Given the scale of the crisis, we believe a full suite of safety net programs are required: from conditional cash transfers, access to basic services and general price subsidies. The *ILO Guide to Worker Displacement: Some tools for reducing the impact on workers, communities and enterprises* could serve as a framework document for discussions at the national level that tailor programs specific to discrete population's needs.

Re-employment is a top priority, and as such, access to large-scale employment programs is essential. Given the gender dynamic of the industry, we are interested in seeing how all family members have access to job training opportunities, as well as understanding how well public works programs affect retrenched women.

### **3. Prevent Unnecessary Retrenchment: Joint Training Programs With Suppliers**

There are significant opportunities to enhance the productivity and efficiency of the apparel industry. Historically, factories have been challenged to engage their workforce in training opportunities given the extensive hours of work. The economic downturn has provided an opportunity for factory managers to consider reorganizing their workforce, particularly if there is financial support from national governments or donor agencies, to subsidize fewer hours of work with OTJ training or other types of capacity building.



#### **4. Protection of Labor Rights throughout Employment: Immediate Need to Protect Rights in Retrenchment**

There is a clear need to prioritize protection of workers' rights in retrenchment and enhance mechanisms for promoting compliance by employers to existing legal requirements. Workers in many countries need a stronger complaints mechanism and swifter legal recourse to deal with issues such as:

- Compelled declarations of health or releases of rights in order to receive severance
- Lack of support for occupational health issues
- Discriminatory firing

As part of rapid building of national governments' capacities, we recommend programs that promote:

- Monitoring of social security payments and mechanisms for investigating defaults
- Integration of data regarding social security payments and layoffs between different government bodies, such as Commerce, Trade and Labor.
- Procedures for prompt settlement of workers' claims
- Enhanced databases of the sector that track foreign investment and international buyers

#### **4. Investment Strategies for the Sector that promote environmental sustainability and decent work**

If International Finance Institutions and Bi-lateral Donor organizations cooperate with national governments solely on the short-term responses



needed to the global economic crisis, we will have wasted an opportunity to significantly raise the floor of the formal employment sector.

Equally important, we will find ourselves in another crisis before the end of the next decade as the industry struggles to organize itself in the face of much higher input costs. The apparel industry is a pyramid, with brands and major apparel manufacturers operating at the top of the pyramid, producing high quality, premium products. The remainder of the pyramid is made up of smaller, less branded, lower quality, cheaper products. At the bottom of the pyramid is unfortunately a vibrant sweatshop industry, largely illegal, informal and producing low quality products for import and export markets alike.

The crisis is accelerating two divergent pathways: 1) global supply chains that organize around the benefits of being close to market and emphasize productivity and technical innovation and 2) supply chains that continue to depress labor and environmental standards as a means to compete in an increasing “commoditization” of apparel by consumers, using price as their sole competitive advantage.

We believe an integrated discussion about the future of the apparel industry globally: one that looks at poverty reduction, social protection, export competitiveness and “green investments” is required to set an international framework within which countries can develop sound competitiveness strategies at the national level. As an example, a push to promote “closed-loop” supply chains will create needs for new SMEs that enable take-back of post-consumer goods, and larger capital investments to efficiently reintroduce material back into manufacturing.



## LEVERAGING COMMITMENTS: A REQUEST FOR COOPERATION

**Global Cooperation between the World Bank, IMF, and ILO in setting a recovery and growth agenda.**

The Global Plan for Recovery and Reform statement issued by G20 leaders on April 2, 2009 is a promising first step in establishing a cooperative framework for a rapid response at scale that supports sustainable, equitable growth. We believe the commitment to voluntary contributions to the World Bank's Vulnerability Financing Facility; including the Rapid Social Response Fund, as well as incorporation of recommendations from the London Jobs Conference and the Rome Social Summit represent strong political intent to address the significant human impacts of the crisis.

We also believe that the ILO Paper: *The Financial and Economic Crisis: A Decent Work Response* provides a detailed framework against which to evaluate the implementation activities of IFIs.

As stakeholders of the apparel and footwear industry, we are keen to see these implementation initiatives positively impact the highly vulnerably populations of those who have just lost their foothold in the formal economy. We commend the Bank's commitment to coordinate with other development partners to leverage scarce resources and capacity. A direct linkage between mitigation and investment strategies and enhancement of labor and environmental standards (or at a minimum, enforcement of existing ones) is essential to sustainable growth.

We believe there must be inter-organizational cooperation, but also inter-departmental cooperation (coherency in plans between experts in social protection and export competitiveness, for example) to deliver long-term success.



**Expand the consultation and engagement of civil society and the private sector in the existing commitments to use established in-country systems to coordinate support.**

Given the strength of stakeholder networks within the apparel and footwear industries and the long history of examining challenges in labor rights enforcement, we believe there is an opportunity to mobilize a wide range of actors beyond the donor community to execute a rights-based approach to development in the apparel sector.

A number of existing initiatives in the sector, from the ILO's Better Work program, to bilateral programs focused on productivity, such as the USAID SENADA program in Indonesia, should be consulted for lessons learned and opportunities to execute new programs through existing networks.

The private sector and civil society can also be mobilized for a wider network of data collection. Brands can provide information on shifts in strategy around global supply chains. Suppliers can collect information from workers about needs, whether employed or facing retrenchment. Civil society networks can provide additional information about efficacy of different social safety net responses. Trade unions should be engaged and strengthened in the development of worker mechanisms for protecting their labor rights.

### **Clear Linkage of Relief Responses to Longer-Term Structural Change**

While all workers in the industry are equally innocent victims of the global economic crisis, strategic response demands that the immediate humanitarian needs are used as an opportunity to begin dialogue on the broader needs for global reform in the industry. The ILO has rightly called out that global cooperation is required to prevent countries that rely heavily on apparel or other labor-intensive industries for export a “downwardly mobile” competition

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strategy. We advocate that there be incentives in the allocation of humanitarian funding to promote a longer-term plan for developing stronger social protection mechanisms, building deeper capacity within governments to enforce rule of law, and driving investment strategies around a low-carbon economy.

## CONCLUSION

Exceptional circumstances calls for exceptional action. Above all, this requires the rapid and scaled mobilisation of many actors: brands and their suppliers, labour and development organisations, national governments, donors and international agencies. Together, they need to act on four fronts simultaneously: catalyzing awareness of the emerging crisis with its short and longer term dimensions and implications, establishing a basis for real or near-time<sup>1</sup> predicting of where interventions are needed across sprawling global supply chains; promoting enabling policies, in the short term focused on the rule of law being upheld where retrenchment takes place, and in the medium term developing the policies to support low-carbon growth opportunities in this and other sectors; and finally the provision of direct support to young women being made unemployed, at scale in the short term.

Implementing this four-point program at the requisite scale and in a meaningful timeframe can be done. More than a decade of alliance building around labour issues in the sector provides the necessary collaborative platforms and underlying trust between the key players. Additional actors are needed, most notably from the development community to assist in implementing the counselling, training and direct support to young women.



And resources are needed now to implement such programmes, as well as to advance on the other elements of work to be done.

Apparel and footwear, although hugely important to many poorer economies, is clearly not the only sector in short term freefall, and is certainly only one of many going through deeper changes to align to low-carbon, and energy and water efficient strategies going forward. We believe that the approach being advocating here provides insights into how others may also act. Core to this approach is to address the crisis with a two-fold focus on mitigating shorter term difficulties and simultaneously addressing longer term needs and opportunities. Core to the how is to leverage collaborative action that blends knowledge, competencies and financial resources in institutional arrangements that are dynamic and can go to scale quickly and effectively.