



**Industry Response to the Economic Crisis:
MFA Forum Framework for Action**

Prepared by the MFA Forum

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The global economic downturn is having a devastating effect on one of the single largest sources of employment in developing countries.

As the global economic crisis moves from Wall Street to Main Street and now to the streets of Guangzhou, Bangalore, and Bangkok, 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. Composed predominantly of young women, workers in the industry profile also include a large number of internal migrants, workers on short-term contracts, low levels of trade union representation, and generally unskilled. Workers are frequently finding factory doors closed, with no other viable employment options, but cling to hope of finding new work in the city, rather than a return to subsistence farming. Large groups of unemployed migrants have been cited as contributing to new levels of social unrest and create concerns around political stability and security. 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 unless swift action is taken to protect and promote employment in this critical sector.

1. Regression of Millennium Development Goals: disenfranchisement of women devastates families

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. In some countries, garment manufacturing may be one of the only opportunities to move into the formal sector, and frequently one of the few jobs considered acceptable for women. This introductory step on the ladder of industrial development provides women with opportunities to learn marketable skills and develop financial independence. Frequently the single source of stable income in a family, young women are able to serve as a crucial safety net for other family members. Conversely, the shockwaves created by the abrupt removal of one of the few industries that employs unskilled women is having a negative ripple effect.



Millions of young women who have migrated to urban areas to work in factories supplying apparel and footwear worldwide are being made unemployed (and for the hundreds of thousands who were living in factory-controlled housing) 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. As these retrenched workers either participate in re-ruralization of countries at a time when commodity prices are low or worse, slip into the shadow economy, they will sadly contribute to steps backwards in achieving the Millennium Development Goals. Oxfam International has just released a discussion paper, *"Paying the Price for the Economic Crisis"* that starkly illuminates the choices in front of women who have recently lost jobs in the export manufacturing sector. These women's stories reinforce the basic choices in front of them on a daily basis: "how many meals can I afford to eat today?", "where will my family live?", "how do I keep my sibling in school?".

2. Regression of labor rights achievements in a precarious industry

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.

The cyclical downturn has accelerated structural shifts of the industry into two divergent pathways: a race to the top and to the bottom.

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.

Sector growth based on export businesses that leverage weak labor standards and poor enforcement are the root causes of significant vulnerability.

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, which do not keep in line with inflation or productivity, and failure to pay legally required premiums for overtime wages.
3. Excessive and/or compulsory 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.
6. Absence of strong social safety nets in the face of unemployment.



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

We must promote a new vision of success for the industry and raise the floor for workers, irrespective of competition strategy.

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. Responses to the short term crisis must orient themselves against the longer term aims of “Decent Work”, which as characterized by the ILO is work that is a) productive, b) protects rights at work, c) provides adequate pay, d) offers social protection and e) incorporates a tripartite approach of social dialogue to achieve these aims.

Some leading brands and suppliers have already begun to invest in a new model for the apparel industry: one that transforms labor from a basic commodity into a strategic asset. An industry focused on up-skilling its workforce, implementing



strong management systems, and emphasizing resource efficiency would transform lives for millions of workers around the globe and go much further in realizing the promise of formal employment for women around the world, and would accelerate development strategies.

The ability to move a larger amount of the industry toward decent work has been undermined by national competition strategies that focus on deregulation and weak standards as a means of attracting foreign investment. The global economic crisis provides a pivotal moment for international institutions, investors and stakeholders around the world to reset expectations for the industry, and wherever possible, to mitigate current negative impacts through investment strategies for a better future. Strong job creation is a fundamental aspect of economic recovery, and strategies that take incorporate a gender lens in promoting new employment opportunities will have significantly positive impacts on long-term development.

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.

MFA Forum: One Part of the Response

MFA Forum is a multi-stakeholder initiative that includes leading brands and retailers from the global apparel and footwear industry, trade unions, NGOs, international institutions including the ILO, and participation from the key existing MSI’s focused on advancing labor rights in the industry. Participants of MFA Forum came together in response to the removal of apparel quota in recognition that collective action was the strongest approach to promoting responsible competitiveness. Our efforts, both collectively and in our individual capacities,

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are guided by the *MFA Framework for Collaborative Action*. As the World Bank, the UN and bilateral donor organizations work together to respond to the economic crisis, MFA Forum believes it can facilitate effective responses to responding to the crisis within the apparel sector based on its ability to mobilize an extensive stakeholder network, and the extensive knowledge we already possess about the sector. Specifically, participants of MFA Forum can contribute the following:

Immediate, Short-Term Actions

1. Facilitating delivery of service

The International Labour Organization (ILO) predicts that the global economic crisis will plunge a further 22 million women into unemployment, making female unemployment higher than male unemployment, and make the ratio of women pushed into insecure jobs this year higher than for men. Embedded in that statistic is a significant number of women working in the apparel sector.

MFA Forum welcomes the commitment by the G20 to support the World Bank's Vulnerability Fund, and we believe that workers in the apparel sector must benefit particularly from efforts used in the Rapid Social Response mechanism of the VFF. And indeed, in order to make a difference in preventing new waves of unemployment and providing meaningful interventions to recently retrenched, global donor financial assistance need to translate into meaningful programs on the ground as soon as humanly possible.

To execute at the speed and scale required will be challenging. Based on prior experience in both retrenchment responses and promoting decent work, MFA Forum participants can provide useful experience project design, rapid assessment of options and mobilizing stakeholder networks to speed connections between resources and execution. While the MFA Forum itself is not anticipating a role as a delivery partner, it can raise awareness quickly within our networks to match needs to resources, including some specific capacities of existing participants. For example, ILO, BSR and buyers within MFA Forum can quickly bring together other brands and all the suppliers in Cambodia to discuss needs for trade finance and



mechanisms for supporting retrenched workers. In Indonesia, the overlap between MFA Forum participants and stakeholders in the sporting goods industry, e.g. Play Fair campaigners and engaged brands, can support quick mobilization of other brands, suppliers, civil society and bilateral donors - all of whom have worked collectively on significant retrenchment issues and/or capacity building of suppliers and workers. We know not only who can deliver, but what the particular stresses of the supply chain are during the economic crisis, and how that should shape execution going forward.

Our goal is simply to facilitate an effective translation of strong political will into action on the ground, immediately.

2. Assessing the industry for informed action

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.

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). MFA Forum participants are working to gather and assess data from a variety of sources to determine where two aspects of an emergency response to the crisis would be most effective: trade finance for suppliers and safety nets for retrenched workers.



I. **Trade finance and capacity building for suppliers:** 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. Brands within MFA Forum have the ability to identify strong candidates for new commitments to extend trade finance, such as the IFC’s Global Trade Finance Program and the creation of the new Global Trade Liquidity Pool. Ideally, we would like to see incentives (e.g., preferential rates) associated with demonstrated compliance to national labor laws.

In addition, there are opportunities to prevent retrenchment by leveraging the cyclical downturn as an opportunity to supplement shortened working hours with paid training programs that advance productivity. Again, MFA Forum can mobilize a network of suppliers that would be strong candidates for this type of response.

II. **Direct worker support:** MFA Forum participants, from conversations between brands and factory management to observations from trade unions on the factory floor also have detailed information about where workers are not receiving their legally owed severance payments and/or alternatives for economic support are limited.

3. Raising awareness of the challenges and solution pathways: within apparel sector and across other industries.

Apparel and footwear, although hugely important to many developing countries, is clearly not the only sector in short term freefall. 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. We believe that



the multi-stakeholder dialogue and development of recommendations in the apparel sector can be of use to other labor-intensive industries. Indeed, we recognize that as countries rethink their overall approach to economic development and the promotion of low-carbon, energy and water efficient strategies, multi-sector engagement is critical. The apparel industry's long history of stakeholder engagement, including many of the existing MFA Forum participants, enables this sector to move the necessary dialogue for joint approaches quickly and catalyze action in other industries.

Medium and Longer-Term Actions

4. Influence best practice in retrenchment through the Guidelines:

The MFA Forum also developed recommendations for each actor (brand, supplier, exporting and importing governments, international agencies, trade unions and NGOs) for doing the utmost to protect workers rights in retrenchment and minimize negative impacts. At the core of the MFA Forum's Responsible Transition 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.

While uptake of the Guidelines has been challenged by the economic downturn, participants within the Forum have actively tried to apply aspects of the voluntary guidelines. Brands have developed their own factory exit policies and have trained suppliers on retrenchment expectations, particularly legal requirements. The Guidelines have also served as a basis for dialogue and knowledge development between participants, including highlighting areas where policy shifts, such as moving to a higher rate of social insurance over severance, would be more effective than individual, voluntary actions.



5. Shaping development of a new model of competitiveness in the sector

Global brands within MFA Forum represent a wide range of geographic strengths and areas of market focus within the apparel and footwear industry. As such, they can contribute significant insights into the development of new competitiveness strategies for the apparel sector.

I. Growth in developing market consumption: 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. As such, MFA Forum participants have a shared interest in stimulating economic development and consumer demand in manufacturing countries.

II. Global supply chains of the future: offsetting natural resource constraints through investments in technology, human capital and positioning close to market: Leading brands in the industry have already begun evaluating necessary shifts in supply chain strategy that focus on a broader geographic distribution of consumption, the need for a more skilled workforce to deliver critical gains in productivity, and innovations in environmental sustainability. In partnership with innovative suppliers, they can provide critical insight into the global supply chains for the next decade, and the best competition strategies for countries wishing to play a role going forward.

The dire circumstances facing millions of women and men in the apparel and footwear industries demands an immediate response, and also presents a catalyzing moment to truly engage in a “responsible transition” to a better model for the industry. MFA Forum participants came together as a collective voice only just as the quota protections of the Multi-Fibre Arrangement and the Agreement on



Textiles and Clothing were coming to an end - not nearly early enough for suppliers and governments around the world to adjust to new competitive pressures and develop effective responses. All stakeholders engaged in development and rights based work must meet the humanitarian crisis before us, and leverage this moment to create a better, sustainable future.

If you have any comments or queries about this document, please contact Sasha Radovich Partner, MFA Forum Secretariat at sasha@accountability21.net or Caitlin Morris, Compliance Director, Integration and Collaboration at Nike and Chair of the Responsible Transitions Working Group at Caitlin.morris@nike.com.



About the MFA Forum

The MFA Forum was established in the first quarter of 2004 and is an open network of companies, trade unions, non-governmental organisations, and international institutions promoting and working toward responsible competitiveness in the textile and garments industry. It was established in response to the growing need throughout the garment and textile industry to manage the transition to a post - Multi-Fibre Arrangement (MFA) trading environment responsibly or there would be several possible dangers and threats. Anticipated consequences included Negative impact on workers, communities and local and national economies in vulnerable countries. In addition, businesses and governments, as well as other institutions, would face risk of culpability in not preventing this negative impact. And finally, these two consequences would erode trust in the broader agenda of development through trade. The MFA Forum's organising principles are published in The Collaborative Framework for Guiding Post-MFA Actions.

Currently, the MFA Forum works in Bangladesh, Lesotho, and Morocco. In addition, the Forum has a working group on issues in the Americas and has begun engaging in Mexico, Nicaragua and the Dominican Republic. In addition, a critical issues working group focuses on responsible closures.

In July 2008 the Responsible Transitions working group published the Responsible Transitions Guidelines - A process that brought together, for the first time, companies, trade union, multilateral agencies, NGOs and multi-stakeholder initiatives to discuss the expectations for different actors regarding the mitigation of negative impacts to workers affected by large-scale retrenchment, either at the firm or country level. The Responsible Transitions Guidelines can be downloaded at http://mfa-forum.net/responsible_transitions.asp on the MFA Forum website <http://mfa-forum.net>.

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