



Better Factories

Cambodia

Strategic Vision 2019-2022

Partnerships to shape a future of compliance



International
Labour
Organization



Since 2001, Better Factories Cambodia (BFC) has joined with workers, employers and government to improve working conditions and to boost the competitiveness of the garment industry.

Originally, the project was linked to an innovative trade agreement between the Royal Government of Cambodia (RGC) and the United States (US) that provided market access in return for improving working conditions in the garment sector. After the expiration of the trade agreement in 2004, the Cambodian Government, together with trade unions and employers, requested the International Labour Organization (ILO) to continue with the implementation of the programme.

Overview

As its longest running country programme, Better Factories Cambodia (BFC) is in many ways the driving force behind ILO and International Finance Corporation's (IFC) Better Work Programme and has inspired the establishment of the programme in eight other countries including Bangladesh, Egypt (pilot), Ethiopia, Haiti, Indonesia, Jordan, Nicaragua, Vietnam. Central elements of the programme's approach began in Cambodia: from cultivating social dialogue through worker-management committees, to offering factories tailored advisory services to help them solve their own labour rights challenges, or using public reporting to spur improvements in factory working conditions and workplaces across the industry. With a current coverage of over 550 factories and 630,000 workers, BFC will continue to build on its success at the factory level, but also deepen its engagement with partners, and embark on a process that will define the necessary steps to create a culture of compliance in the sector.

By working with national and international partners to define and realize the sector's new vision, BFC will continue to promote decent and safe jobs for hundreds of thousands of workers, especially women. The programme will work with its key partners and industry stakeholders to help workers to develop new skills, businesses to bring in greater profits, and families up and down the country to escape poverty.

The vision of partners and constituents for the industry is to build on progress and collaborate on a transformative approach to sustain safe, healthy and productive factories supported by strong processes of social dialogue at factory and industry levels, good labour market governance and committed brands. The programme is ready for its next strategic phase, covering the years 2019 – 2022. A phase that will emphasise that a culture of compliance needs close collaboration between national partners as well as with international industry players and stakeholders.

This document presents a long term strategic direction towards an industry where good and stable working conditions are standard and supported by industry stakeholders and institutions. It presents the priorities for BFC's next strategic phase, including a process that helps to define the long term strategic direction for the industry into clear and measurable actions, outcomes and indicators.

This document is the product of an in-depth consultation process with BFC's key stakeholders and partners, including independent consultations with representatives of the Ministry of Labour and Vocational Training (MoLVT), the Ministry of Commerce

(MoC), the Ministry of Economy and Finance (MoEF), the Garment Manufacturing Association in Cambodia (GMAC), Cambodian trade unions, manufacturing groups, factory managers, international buyer partners, the United Nations (UN) in Cambodia, representatives of the ILO and IFC, and other stakeholders from the international development community in Cambodia.

BFC's Impact and Achievements

During the consultation process, partners reaffirmed the positive impact that the programme has had on the Cambodian garment industry and its workers, including:

- ◆ The increased confidence and commitment of major international buyers and brands in the programme and thus in the Cambodian garment sector;
- ◆ The significant improvement of working conditions in the industry over the past decade, with BFC as a key player and contributing factor, and the associated positive impact on Cambodia's international reputation as a sourcing location;
- ◆ BFC as a neutral, independent, well-managed, and responsive long-term player working with industry and other stakeholders as a positive agent of change;
- ◆ BFC's effective partnerships for cooperation with the RGC and Cambodian employers and trade unions;
- ◆ The improvement in industrial relations with a more responsible and constructive engagement by trade unions at the factory level on workplace issues and in tripartite consultation mechanisms;
- ◆ BFC's role in working in partnership with the MoLVT and its inspectorate to help build its capacity, skills, commitment and integrity in workplace inspection and compliance;
- ◆ The collaboration between BFC and MoC which has resulted in a recognition of partners of the importance of labour standards in the RGC's trade policy;
- ◆ BFC's significant contribution to the forthcoming MoEF garment sector strategy and a possible future role to monitor aspects of the strategy.

2 Stakeholders also recognize that BFC's work remains unfinished. Building on steps already taken in the previous strategy, partners need to look ahead to long-term options which sustain the outcomes, impact and development of capacity that have so far been supported by BFC. This will need joint collaboration to focus on embedding a culture of good performance and sustained compliance to transform the industry into one where factories are not dependent on external audits, inspections or assessments. Instead, the sector will consist of factories where good working conditions and the upholding of standards are internalized as the norm in business planning and industry competitiveness; where workers do not have to worry that their rights may not be respected; where union leaders need not to fear that they might be fired for their union activities; where factory managers do not have to be afraid that wildcat strikes might happen; where brands do not have to be concerned about potential risks, abuses and work stoppages; and where national actors do not need to be anxious about the possible next incident.

Although much needs to happen, a transformed sector is possible when factory managers, workers and their representatives understand the labour law, and when there are effective mechanisms of social dialogue at the factory level allowing workers and managers to meet regularly to discuss progress and find solutions for workplace issues.

A transformed sector is possible if there is a strategic vision from the government supported by industry players for a competitive, productive and fair garment industry in which good working conditions and social dialogue are a core component.

A transformed sector is possible if there is strong labour market governance, with labour laws in place that are well understood, comply with international labour standards and are supported by mature systems of social dialogue, oversight, inspection and enforcement.

A transformed sector is possible if factories have strong occupational safety and health (OSH) and human resources (HR) systems in place that support rigorous application of international labour standards and good practices, and where buyers and vendors support factories in making positive changes and reward good performing factories with more and stable orders and fair prices.

A transformed sector is possible when all stakeholders - the government, the unions, manufacturers, employers and brands - take full responsibility. They need to collaborate in open,

transparent and accountable ways, use evidence-based research to inform policy making and provide transparent and verifiable data about the state of the industry.

Translating this into reality in Cambodia needs further efforts and should be seen as a long-term objective. Stakeholders have asked BFC to accelerate this process over the next strategic phase so that partners more clearly define what they will need to do to transform the sector into a fair industry with sustained compliance; what success looks like; and what partnerships are necessary to transform the industry. This includes a strategy on how BFC would evolve to support the vision for the sector.

Towards a stable and fair sector

When BFC was set up in 2001, Cambodia was in the midst of rebuilding its country after a long period of conflict. The country had just developed its labour law, and the trade agreement between Cambodia and the US was an important step for the start of the country's industrialisation process. It led to a rapid increase in factories, jobs, export earnings and thus important social and economic development of the country. At the same time, workers and employers had little knowledge of the labour law, inspections were insufficient, social dialogue lacking and the sector was characterised by violations of the labour law, wild cat strikes, and unpredictability. However, much has changed since.

While it is recognised that there is not yet a culture of sustained compliance in the sector, important progress has been made. For instance, with its 17 years of existence in the country, stakeholders agree that BFC (i) played a major role in sustaining overall growth of Cambodia's garment industry; (ii) contributed to improvements in the lives of approximately 2.4 million Cambodians dependent on garment sector earnings; (iii) created a level playing field for labour across all Cambodian garment exporting factories; (iv) influenced business practices through leveraging factory data to drive improvement and becoming a core element in the risk management strategies of international buyers; (v) made Cambodia's garment factories safer overall; (vi) contributed to the virtual elimination of child labour in the sector; and (vii) ensured that workers are receiving the correct levels of wages and social protection benefits.

In addition, other important accomplishments and initiatives in support of a stable, competitive and fair sector have taken place and include:

- ◆ A minimum wage setting process in which the National Council of Minimum Wage annually recommends a revised minimum wage to the

government. Consultations on the changes to the minimum wage are based on a set of agreed social and economic indicators;

- ◆ The MoLVT's commitment to increase the effectiveness of its inspections, which has so far resulted in, amongst others, a revised checklist, an ethics protocol as well as a strategic compliance approach to its annual inspection plans;
- ◆ The MoC's commitment to have good working conditions as a key component in its trade policies for the garment and other important export sectors;
- ◆ The Arbitration Council, which is seen by employers as well as workers and unions as a neutral and fair arbiter for labour related conflicts and the rulings of which are often respected by the parties. The Council and Foundation are also a cornerstone to buyers' risk management strategies and as a result are important for the confidence of business in Cambodia as a sourcing destination;
- ◆ An increased number of factories that have bi-partite (worker-management) committees in their factories that are responsible for improving workplace issues. While not all these bi-partite committees function effectively, often they are the first mechanism of structured forms of social dialogue that helps to improve working conditions in the factory as well as communication between worker representatives and factory managers;
- ◆ The public presentation of individual factory level performance on critical legal labour issues as well as an annual report on the state of the industry's compliance levels all based on BFC assessment data;
- ◆ Collaboration between MoC, MoLVT and BFC to address zero tolerance issues in factories as well as work with low compliance factories to improve their performance;
- ◆ A collaborative initiative of more than 20 large, mostly European brands in support of fair wages and collective bargaining called Action, Collaboration, Transformation (ACT). Cambodia is one of the four countries where ACT is working with manufacturers, unions and employers to use the CBA to include language around fair wages, which, once agreed, will be supported by a volume and price commitment of brands to the Cambodian garment sector. While negotiations are still ongoing, the deal would positively impact better purchasing practices of brands as well as more predictability on volumes and prices for factories;

- ◆ Important national strategies include priorities related to stronger labour market governance, particularly for the garment sector. Examples are the Industrial Development Policy as well as the Rectangular Strategy which both include several priorities related to stable and mature industrial relations and stronger inspection and enforcement mechanisms;
- ◆ A draft sector strategy of which good working conditions are a cornerstone.

An important conclusion of the consultation process for BFC's next strategic phase is that industry stakeholders and the tripartite constituents realise that important progress has been made towards building a strong and fair sector with safe, healthy and productive workplaces. Industry stakeholders and tripartite constituents also realise that more needs to be done to ensure that progress continues and eventually leads to a garment sector that has transformed into a competitive industry where workers rights are being respected, employers and worker representatives can solve problems through mature social dialogue, where institutions can intervene, advise and enforce where required and where brands support continuous improvement through stable orders and fair prices.

The consultations focussed on soliciting feedback on the priorities for BFC's next four-year strategy and these more operational priorities will be discussed in the next section of this document. However, it also became clear from the consultation that constituents and partners expect BFC to embark with them on a process to define what needs to be done to realise this long-term vision for the industry, including a set of outcome roles and responsibilities for each of the stakeholders, including for BFC, as well as strong indicators that measure progress.

Stakeholders' vision and priorities

Under this overall long-term strategic direction, partners also recognize the immediate role that BFC should continue to play at factory level, with an emphasis on factories that perform below average, as well as creating role models of leaders amongst factories that can inspire the rest of the industry. These models to communicate publicly about what is working. In addition, and linked to creating a renewed vision for the industry as described in the previous section, partners also highlighted the following priorities for the next four years:

- ◆ Strengthen and deepen the relationship and partnership with MoLVT to build its capacity, skills and credibility, and ensure consistency of



interpretation of the Labour Law, regulations and conventions;

- ◆ Develop with partners a stronger model to monitor working conditions in the industry sub-contractors and second-tier producers;
- ◆ Identify and promote best practice case studies to demonstrate the cost/productivity benefits of high quality compliance, and take a more entrepreneurial approach to 'marketing' its benefits and resource mobilisation;
- ◆ Expand and establish new partnerships of expertise in occupational health and safety, environmental and waste management, innovation, new technology and other areas that are essential for sustainable and productive factories;
- ◆ Continue and deepen initiatives and partnerships on the elimination of child labour, women's reproductive health, workplace sexual harassment and discrimination;
- ◆ Continue and deepen awareness-raising and training of trade unions and their workplace representatives on the Labour Law and associated regulations and conventions, with more specific locally designed workplace training and associated materials that better reflect the education and literacy levels of garment workers;
- ◆ Expand existing work with manufacturing groups to increase and influence good practices within manufacturing groups.
- ◆ Utilise engagement with the MoEF and Supreme National Economic Council (SNEC) on the garment sector strategy to influence the coherency of government policy, and stakeholder partnerships, to 'reinvent the industry';
- ◆ Further enhance synergies with Better Work globally and with the totality of ILO engagement in Cambodia under the Decent Work Country Programme (DWCP) for 2019-2023, to ensure integrated approaches to creating quality jobs, especially for women, with a more positive industrial relations environment and associated working conditions.

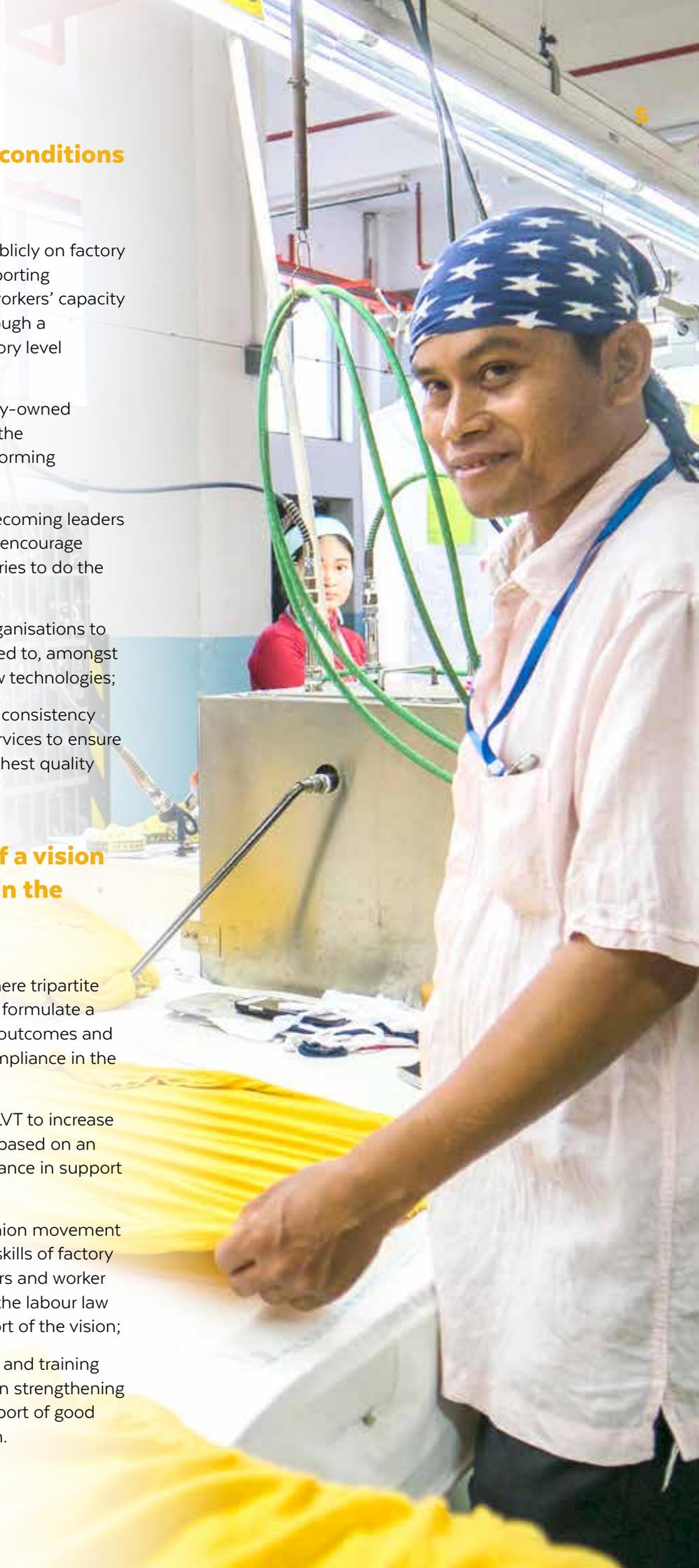
These priorities are presented in more detailed outcomes and actions in the next section.

1. Accelerate sustained improvements in working conditions in factories

- ◆ Continue to monitor and report publicly on factory level compliance in all garment exporting factories and build factories' and workers' capacity to improve working conditions through a systems-based approach and factory level mechanisms of social dialogue;
- ◆ Facilitate the creation of an industry-owned strategic compliance approach for the subcontracting sector and low performing factories;
- ◆ Identify and support factories in becoming leaders on compliance in the industry and encourage these leaders to inspire other factories to do the same;
- ◆ Expand partnerships with other organisations to support factories on priorities related to, amongst others OSH, gender issues and new technologies;
- ◆ Further improve BFC's quality and consistency throughout its factory level core services to ensure that BFC consistently meet the highest quality standards.

2. Facilitate the creation of a vision for sustained compliance in the industry

- ◆ Embark on a facilitated process where tripartite constituents and industry partners formulate a change process with measurable outcomes and indicators to create a culture of compliance in the industry;
- ◆ Deepen collaboration with the MoLVT to increase their capacity, skills and credibility based on an approach towards strategic compliance in support of the vision;
- ◆ Work with the Cambodian trade union movement on a process that strengthens the skills of factory level women and men union leaders and worker representatives on understanding the labour law and bargaining effectively in support of the vision;
- ◆ Identify areas of joint collaboration and training with GMAC that support factories in strengthening their management systems in support of good compliance in support of the vision.



6 **3. Create and expand partnerships with stakeholders that support the transformation of the industry**

- ◆ Support the garment sector strategy through convening partners to contribute to the implementation of the strategy.
- ◆ Forge close collaboration with investment and manufacturing groups to support factories becoming leaders in the industry.
- ◆ Strengthen and leverage partnerships with buyers to further engage them in factory and sector level challenges and initiatives as well as the role they should play in the creation of sustained compliance in a competitive and fair industry.
- ◆ Implement existing and where feasible create new initiatives that address gender equality issues in the sector and strengthen the role that women workers and representatives play in improvement processes and social dialogue.

4. Measure and use data, experience and knowledge to communicate for improved practices in support of the vision for the industry

- ◆ Analyse BFC data to help inform sector and factory level policies and practices in support of sustained compliance in a competitive and fair industry.
- ◆ Use the results of the BFC impact assessment data to demonstrate how improved working conditions have an impact on worker wellbeing, business outcomes and communities.
- ◆ Develop and implement a public communications campaign to showcase sector and factory level successes with the aim of spreading these successes more widely.
- ◆ Assess and create partnerships with the private sector to support the use of new communication methodologies to broaden outreach, particularly to workers.

5. Lead and govern the programme towards continued improvements

- ◆ Ensure active engagement of tripartite constituents in the governance of the programme through the Project Advisory Committee.
- ◆ Facilitate dialogues on sector level issues and priorities between tripartite constituents and other stakeholders.
- ◆ Expand managerial capacity of BFC through supporting and developing local team leaders within the programme.
- ◆ Further a learning culture within the programme for continuous improvement.
- ◆ Ensure healthy and effective financial management in support of strong financial sustainability.

The key strategies for the next four years are deliberately ambitious for BFC and partners to deliver on the views of constituents and embark on the vision for a transformed industry. Essential conditions for the key strategies to be implemented successfully are the availability of (i) sufficient financial resources and (ii) strong commitment from all partners, which will enable BFC to deliver on its work both within as well as beyond the factory walls.



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