

# The Elements of Labor Standards Performance

# 3



# Background on Labor Standards Performance & Labor Standards

When we talk about labor standards performance in a company or its supply chain, we are really talking about human rights and labor rights in the workplace. This may be a little simplistic, but most of the social standards, industry codes and corporate codes address the same basic elements. The core concepts defining the elements of labor standards performance come from the International Labor Organization (ILO) and the Universal Declaration of Human Rights (UDHR). The countries ratifying the ILO Conventions must integrate them into their national labor laws.

The ILO was created in 1919 from the Treaty of Versailles and it became the first specialized agency within the United Nations in 1946. Its purpose is to promote social justice and internationally recognized human and labor rights. The ILO has a unique tripartite structure with each country's representation consisting of:

- Government (two delegates)
- Employers' Associations (one delegate)
- Workers' Organizations (one delegate)

Corporate codes of conduct and the resulting industry codes of conduct are largely based on the same ILO and UN conventions. So there is a clear link between the national labor law of many countries and most labor codes or standards.

So don't think of labor codes or standards as just add-ons or additional requirements. Remember that the ILO conventions are integrated into the national laws of ratifying countries. Meeting corporate codes or other labor standards like PS2, which are based on ILO conventions, advances your efforts to comply with local and international law.

It is ILO's tripartite structure that served as a reference point for the creation of what are now called multi-stakeholder initiatives.

# Introduction to Performance Standard 2 (PS2)

Performance Standard 2 (PS2) recognizes that the pursuit of economic growth through employment creation and income generation should be balanced with protection of the basic rights of workers. For any business the workforce is a valuable asset, and a sound worker-manager relationship is a key ingredient to the sustainability of the enterprise. Failure to establish and foster a sound worker-manager relationship can undermine worker commitment and retention, which can jeopardize the business. Conversely, through a constructive worker-manager relationship and by treating workers fairly and providing them with safe and healthy working conditions, enterprises may see tangible benefits, such as the enhancement of efficiency and productivity.

The requirements set out in PS2 have been in part guided by a number of international conventions negotiated through the International Labor Organization (ILO) and the United Nations (UN).

## The overall objectives of PS2 are to:

Establish, maintain and improve the worker-manager relationship

Promote the fair treatment, non-discrimination and equal opportunity of workers, and compliance with national labor and employment laws

Protect the workforce by addressing child labor and forced labor

Promote safe and healthy working conditions, and to protect and promote the health of workers

“**W**e are using the term ‘Worker’ in the broader sense. It includes all non-management workers, supervisors and managers employed directly by the company or indirectly through contractors or agents.”

IFC Definition of Worker



**International  
Finance Corporation**  
World Bank Group

# Performance Standard 2

## Working Conditions and Management of Worker Relationship

### Human Resources Policy

→ The company will adopt a human resources policy that outlines its approach to managing workers consistent with the requirements of the Performance Standard.

### Working Relationship

→ The company will document and communicate all working conditions and terms of employment to all workers.

### Working Conditions and Terms of Employment

→ Where the company is a party to a collective bargaining agreement with a workers' organization, such agreement will be respected; the company will provide reasonable working conditions and terms of employment that comply with national law.

### Workers' Organizations

→ The company will recognize workers' rights to form or join workers' organizations regardless of the recognition of this right by the national law.

### Non-Discrimination and Equal Opportunity

→ The company will base employment decisions on the principle of equal opportunity and fair treatment.

### Retrenchment

→ The company will develop a plan to mitigate the adverse impacts of retrenchment on workers.

### Grievance Mechanism

→ The company will provide a grievance mechanism for workers to raise reasonable workplace concerns.

## Protecting the Work Force

### Child Labor

→ The company, contractors and suppliers will not employ children.

### Forced Labor

→ The company, contractors and suppliers will not employ forced labor.

## Occupational Health and Safety

→ The company will provide workers with a safe and healthy work environment.

## Non-Employee Workers

→ The company will verify the legitimacy of, as well as adherence to, the standard by contractors.

## Supply Chain

→ The company will address child labor and forced labor in its supply chain.



## ➤ The PS2 Standard

In this column is the actual text from PS2 related to the element.

# Guide to This Section

On the following pages we carefully examine each element of PS2. On these two pages, we are presenting a guide to help you easily navigate this section and get the most out of it.

There are two-pages on each PS2 element. They are all identical in design. On the left column is the actual text from PS2. In this column we provide some insight into the topic. We try to give you a broader perspective on the element and what it means to you. We also try to help you see some of the issues from the workers' point of view.

On the right page, we start with **Guiding Principles**. Here we summarize the text of PS2 to make it as clear as possible. We try to capture the underlying intent.

The far right column has three sections. Here we provide you with insight to see your company from an auditor's point of view. This is particularly helpful for your Internal Labor Standards Performance Team, and should be a useful reference for verification and monitoring.

**Monitoring Resources** are the things an auditor would look for at your company to verify you are following the guidelines for the PS2 element. **Common Non-Conformities** are the problems that occur in companies all over the world. **Potential Solutions** are ideas for addressing the problems. These are based on best practices from around the world.

This section will provide you with an understanding of the management systems and related human resource management procedures to address PS2. It will also help you to assess your current performance with PS2 and determine corrective measures to be implemented.

At the top of this page is a navigational tool that will help you see how the elements fit together in the PS2 categories. The poster on the previous page is also helpful for this.

Additional labor-related publications can be found at:

[http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications\\_PS2\\_Labor](http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_PS2_Labor)

[http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications\\_LaborStandards](http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_LaborStandards)

## ▣ Guiding Principles

- In this column we summarize the guiding principles behind the PS2 element.
  - We try to give you the idea in a simple, clear way.
  - You may want to use this language for communicating the concepts to workers through posters, hand-outs, etc.
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## Monitoring Resources

- Monitoring resources are the things you would look for to see if you are meeting PS2.
- You can use these as a reference for conducting internal audits and to prepare for audits by external groups.

## Common Non-Conformities

- Common non-conformities are the common problems found in companies around the world.
- You can use these as a quick reference to evaluate yourself.

## Potential Solutions

- Potential solutions are suggestions for you to consider.
- These are based on best practices from companies around the world.
- You'll see that having clear policies and procedures and trained people is a solution that spans every element of PS2.



# Human Resources Policy

## Human Resources Policy Standard

The client will adopt a human resources policy appropriate to its size and workforce that sets out its approach to managing workers consistent with the requirements of this Performance Standard.

Under the policy, the client will provide workers with information regarding their rights under national labor and employment law, including their rights related to wages and benefits.

This policy will be clear and understandable to workers and will be explained or made accessible to each worker upon taking employment.

It is clear that management systems have become the key to improving labor standards performance in a company. At the most basic level, management systems consist of policies and procedures. But you need trained, motivated people to make it work.

Put more simply, the policies are the rules, and the procedures are the steps required to consistently follow the rules. People are key to the implementation of your management system; you need people that have the right attitude, skills and knowledge. People that are committed and motivated. Policies and procedures are just the start; effective communication to your organization is crucial to the implementation process. How you decide to communicate to your organization will be up to you, but you ultimately want to send everyone in your company the same understandable message.

The use of management systems can also provide you with operating benefits. Many companies around the world have documented improvements in worker retention as well as lower defect rates as they use management systems to improve labor standards performance.

## ▣ Guiding Principles

- The company will have a documented policy and procedure related to PS2
- The company will inform workers of their rights under PS2, national labor and employment law
- Policy must be clear and understandable to all workers

## Monitoring Resources

- Complete review of all policies and procedures
- Review of management-worker committee meeting minutes
- Communications (memos, letters, etc.) to workers, suppliers, contractors and multi-stakeholder groups
- Interviews with management and workers
- Interviews with external stakeholders
- Budgets related to implementing labor policy
- Training curricula and logs

## Common Non-Conformities

- Policies not complete, up-to-date and centrally maintained
- Policies not implemented at all subsidiaries
- Policies do not conform to all aspects of national labor law and PS2 standard
- Policies not clearly communicated or understandable to workers
- Procedures do not support stated policies
- Job performance measurements do not support stated policies
- Senior management actions do not substantiate stated commitment
- Lack of regular, systematic training

## Potential Solutions

- Centrally organize all policies and procedures; identify and record responsible person and last date modified
- Conduct an annual review of all policies and procedures
- Prominently display policies and procedures in all local languages
- Appoint a person responsible for monitoring policies and procedures related to PS2 and national law
- Implement standardized routine training





# Working Relationship Policy

## Working Relationship Standard

The client will document and communicate to all employees and workers directly contracted by the client their working conditions and terms of employment, including their entitlement to wages and any benefits.

Imagine you are a worker. You are excited to start a new job. You arrive at your new job and the HR supervisor tells you about the company and how things work. You begin working in your new job, but nobody mentions your contract. A few weeks later, you receive your first paycheck. You were expecting to make more money. You are unsure of how your pay was determined. You don't know who to ask. Your excitement has turned to frustration and distrust.

In just a few weeks your new worker is no longer enthusiastic. Part of creating a productive working environment is creating a shared, clear understanding between you and your workers. All of your workers, from senior executives to hourly production workers, have a right to know their contract terms. Your workers have a right to know how their pay is calculated and what benefits they will earn. They have a right to understand the company's rules about working hours and overtime. They have a right to understand pay deductions.

By making sure they understand this fundamental information, you are creating a positive communication channel between your managers and workers. Your workers are more likely to feel motivated, to develop an attitude of trust and to provide greater benefit to your company.

## ▣ Guiding Principles

- The company will document and communicate working conditions and terms of employment to all workers
- Wages and benefits must be clearly communicated and understood by all workers

## Monitoring Resources

- Contracts for all workers
- Policies and procedures related to worker contracts and wages
- Communication and training on wage calculation, including local laws
- Payroll records, time sheets and pay stubs
- Piece rate or performance pay calculations verified against minimum wage
- Worker interviews
- Engineering studies used to set performance pay quotas and bonuses

## Common Non-Conformities

- All workers do not receive a contract
- Employment contracts are not understandable or provided in workers' language
- Workers do not understand wage, benefit and deductions calculations
- Companies unfairly mix hourly and performance wage calculations
- Overtime is not paid at a premium rate according to local law
- Quotas and performance targets are unrealistic and unattainable

## Potential Solutions

- Provide all workers with a contract in their native language
- Provide documented training on contracts, wages, benefits and deductions for all workers
- Routinely provide workers with a clear record of pay calculations
- Utilize credible engineering studies to set production quotas and performance targets



## Working Conditions & Terms of Employment Standard

Where the client is a party to a collective bargaining agreement with a workers' organization, such agreement will be respected. Where such an agreement does not exist, or does not address working conditions and terms of employment (such as wages and benefits, hours of work, overtime arrangements, overtime compensation, and leave for illness, maternity, vacation or holiday) the client will provide reasonable working conditions and terms of employment that, at a minimum, comply with national law.

# Working Conditions & Terms of Employment Policy

As the management in your company, you have the obligation to meet national labor laws. This is the minimum that is acceptable for meeting PS2. This means providing the minimum to every worker in your company. It also means having clearly defined policies and procedures that reflect your commitment to labor standards performance by everyone – at all levels of your company.

If you have negotiated a collective bargaining agreement with your workers, your responsibility is to uphold this agreement and integrate the terms of the agreement into your policies and procedures. All workers should be covered by the collective bargaining agreement. If you are in the process of negotiating a collective bargaining agreement, do so in good faith. Some companies report more orderly and efficient labor relations after collective bargaining agreements are in place.

In some countries, the enforcement of labor laws may be relatively lax. This does not mean that you are excused from meeting the labor laws within your own company. It all ties back to operating your company in a way that treats all workers with dignity and respect.

## ▣ Guiding Principles

- If there is a collective bargaining agreement, the company will respect its terms
  - The company must provide reasonable working conditions and terms of employment, at a minimum complying with the national labor law
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## Monitoring Resources

- Collective bargaining agreement (if one exists)
- Worker contracts
- Policies and procedures related to wages, benefits, hours and leave
- Wage calculations as they relate to local laws
- Worker and external stakeholder interviews
- National law as it relates to wage and benefit minimums
- Employment and termination records

## Common Non-Conformities

- Workers hired through a series of short term contracts to avoid paying benefits
- Company does not provide workers with wages and benefits that comply with national labor law
- Contractors not provided with medical or social insurance
- Company only counts base hours, not actual working hours, in pension calculations

## Potential Solutions

- Ongoing internal verification that all workers are receiving wages and benefits as prescribed by law
- Ongoing communication and training on legal labor rights and company personnel policies
- Worker rep meets regularly with HR and company management
- Training on minimum legal benefits for all workers, including contractors, and employment agencies
- Cooperation with local labor ministries



## Workers' Organizations Standard

In countries where national law recognizes workers' rights to form and to join workers' organizations of their choosing without interference and to bargain collectively, the client will comply with national law. Where national law substantially restricts workers' organizations, the client will enable alternative means for workers to express their grievances and protect their rights regarding working conditions and terms of employment.

In either case described in the prior paragraph, and where national law is silent, the client will not discourage workers from forming or joining workers' organizations of their choosing or from bargaining collectively, and will not discriminate or retaliate against workers who participate, or seek to participate, in such organizations and bargain collectively. Clients will engage with such worker representatives. Worker organizations are expected to fairly represent the workers in the workforce.

# Workers' Organizations

Freedom of association (FOA) and the right to collective bargaining are key and fundamental rights in the workplace. This core element empowers workers and gives them a collective voice. It involves them in the production process and fosters dialogue between workers and managers.

Management that does not allow freedom of association and collective bargaining is not embracing one of the core labor standards. Embracing freedom of association and collective bargaining does not mean promoting unionization. There is a fine but clear line between the two.

Freedom of association can be one of the most challenging labor principles to implement. How do you ensure your workers understand this is one of their principal rights? Beyond this knowledge, how can you tell whether or not your workers feel free to bargain collectively? How can you tell if they really do not want a union or are too intimidated to form one? How do you make sure your workers understand their rights, but you are not seen as influencing their decisions? The situation is complicated.

You may fear that allowing freedom of association in your company will lead to unionization, which can lead to higher costs and workflow interruptions. Your role is both to ensure that workers are educated on their freedom of association rights and to maintain an environment where this is possible.

It is not the purpose of this Handbook to argue the pros and cons of unionization. However, it is worthwhile to repeat:

- Freedom of association (FOA) and the right to collective bargaining are key and fundamental rights in the workplace.
- Embracing freedom of association and collective bargaining does not mean promoting unionization.

Developing trust and credibility with local NGOs and unions is a critical part of understanding the real situation around freedom of association. It is a critical part of any serious effort to improve labor and working conditions.

## ▣ Guiding Principles

- The company will comply with national law that recognizes workers' rights to form and to join workers' organizations
- If national law restricts the right to organize, the company will enable the means for workers to bargain collectively and organize
- If national law restricts workers' organizations, the company will establish an alternative way for workers to file grievances
- The company cannot interfere with or discriminate against workers who choose to organize
- Worker representatives must have access to management
- Worker organizations are expected to fairly represent the workforce

## Monitoring Resources

- Documented policy regarding collective bargaining
- Minutes and records from collective bargaining sessions, reviews or other actions
- Procedure for workers to select worker representative without management interference
- Interviews with workers, NGOs and trade unions
- Worker-manager training curriculum
- Collective bargaining agreements
- Grievance mechanism

## Common Non-Conformities

- No clear policy allowing collective bargaining
- Collective bargaining agreement not negotiated or honored in good faith
- Management nominates worker rep or favors one worker organization over another
- Workers or others involved in organizing are fired or harassed
- Management does not clearly inform workers of their legal rights
- Company advises workers that unions will discourage investment

## Potential Solutions

- Clear communication to workers on their rights to collective bargaining
- Allow workers to meet to address workplace issues
- Worker rep as in PS2
- Regular training on worker-manager communications
- Regular meetings of management and worker reps
- Periodic documented communication with local unions and NGOs





## Non-Discrimination & Equal Opportunity Standard

The client will not make employment decisions on the basis of personal characteristics unrelated to inherent job requirements. The client will base the employment relationship on the principle of equal opportunity and fair treatment, and will not discriminate with respect to aspects of the employment relationship, including recruitment and hiring, compensation (including wages and benefits), working conditions and terms of employment, access to training, promotion, termination of employment or retirement, and discipline. In countries where national law provides for non-discrimination in employment, the client will comply with national law. When national laws are silent on non-discrimination in employment, the client will meet this Performance Standard. Special measures of protection or assistance to remedy past discrimination or selection for a particular job based on the inherent requirements of the job will not be deemed discrimination.

# Non-Discrimination & Equal Opportunity

Discrimination is an extremely complex issue. Negative discrimination is used to prevent equal opportunity for people. Less commonly, positive discrimination is used to correct the wrongs of past discrimination and provide advantages to those people who are or have been discriminated against or socially excluded.

Realistically, in almost every culture there is some form of deeply ingrained discrimination. Even where discrimination can be easy to spot, it can be an enormous challenge to change. It may be centuries old. It may be woven into the fabric of society.

In some cultures it is religious discrimination. In some cultures it is racial discrimination. In some cultures it is gender discrimination. In some cultures it is age discrimination.

Within a workplace, people should be hired, evaluated and compensated based only on their ability to do a job. Policies and procedures must be clear and understandable to all workers, supervisors and managers. They must be effectively communicated.

It is your responsibility to make sure that discrimination is clearly not tolerated in your policies and procedures. It is also your responsibility to make sure that it is not a problem in your day-to-day operations. Because discrimination can be so ingrained in people, you need to maintain constant vigilance against it appearing in your company.

## ▣ Guiding Principles

- People should be hired, promoted and compensated solely based on their ability to do the job
- All workers should have equal access to training, tools and opportunities for advancement
- All workers should be free from harassment by management or other workers
- Positive discrimination may be allowable in cases where it protects disadvantaged or excluded groups and provides them special opportunities

## Monitoring Resources

- Discrimination policy and related employment policies and procedures
- Company policy and procedure to address and manage discrimination issues when found
- Comparative demographics of workers and managers
- Documentation of handled discrimination cases
- Diversity training curriculum and attendance log
- Interviews with workers and managers, including those who may be likely to be discriminated against
- Interviews with local NGOs and trade unions
- Hiring, promotion and termination records
- National law as it relates to discrimination

## Common Non-Conformities

- Minorities or women denied equal benefits and job opportunities
- Manager distribution not reflective of workplace demographics
- Pregnancy testing to deny women employment or advancement
- Hiring or advancement retribution for union activities
- Workers over a certain age not hired or retained
- Workers hired or advanced based on religion or race
- Ads specifying gender, race, country of origin, etc.

## Potential Solutions

- Clearly define anti-discrimination policy in hiring, training, promotions and compensation
- Regularly review worker and manager demographics
- Develop long term remediation plan to address past discrimination
- Provide regular training to workers and managers
- Establish confidential and secure communication channels for workers to reach managers
- Actively promote a harassment-free workplace





# Retrenchment

## Retrenchment Standard

The client will develop and implement a plan to mitigate the adverse impacts of retrenchment on workers, if it anticipates the elimination of a significant number of jobs or a layoff of a significant number of workers.

The plan will be based on the principle of non-discrimination and will reflect the client's consultation with workers, their organizations and, where appropriate, the government.

Naturally, within any business environment, change is a constant factor. It is impossible for you to control all of the variables that impact your business. What if a big customer of yours were to go out of business? What if raw material costs were to increase, making you less competitive in a key market? What if improved production processes cut your labor requirements? What if a merger required a reduction in your workforce?

All of these things can necessitate dramatic adjustments within your company. Understandably, business survival becomes your number one concern. But you still have a responsibility to those that work for you.

Imagine you are a worker. You live from one paycheck to the next. You hear there will be layoffs. You wonder who will remain employed, and whether or not you will be one of them.

As a manager, you have a responsibility to communicate with the workers and to involve them in the difficult decisions that lay ahead. A decision to reduce your workforce will be a difficult one. You must make your lay-off process fair and transparent. You also need to consider the impact on the community and do what you can to minimize any negative repercussions. At a bare minimum, you need to provide severance that meets national labor laws and company policy.

**Good Practice Note:** Managing Retrenchment:

[http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications\\_GPN\\_Retrenchment](http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_GPN_Retrenchment)

## ▣ Guiding Principles

- The company will develop and implement a plan to mitigate the adverse impact of retrenchment if it anticipates a large number of layoffs
- The plan will incorporate non-discrimination principles and include the input of workers, their organizations, where appropriate, the government

## Monitoring Resources

- Policy and procedure related to workforce reduction, severance and transition
- Analysis of alternatives
- Procedures for selecting workers impacted by workforce reduction
- Documentation of prior instances of workforce reductions
- Minutes from management meetings and discussions
- Communications with workers related to workforce reduction
- Communications with external stakeholders and community groups
- Interviews with current and past workers

## Common Non-Conformities

- Company has no plan for retrenchment
- No alternatives have been analyzed
- Workers are suddenly laid off without advance notice or any required severance
- Company does not consult workers or outside parties
- Company uses lay-offs to discriminate or retaliate
- No legal benefits are paid

## Potential Solutions

- Policy and procedure for workforce reduction, including worker selection
- Analysis of alternatives to workforce reduction
- Engage workers in discussions with workers related to workforce reduction as early as possible
- Communication to all workers about why and how the reduction will take place
- Discussions with local NGOs about how the community impact of workforce reduction could be minimized



## Grievance Mechanism Standard

The client will provide a grievance mechanism for workers (and their organizations, where they exist) to raise reasonable workplace concerns. The client will inform the workers of the grievance mechanism at the time of hire, and make it easily accessible to them. The mechanism should involve an appropriate level of management and address concerns promptly, using an understandable and transparent process that provides feedback to those concerned, without any retribution. The mechanism should not impede access to other judicial or administrative remedies that might be available under law or through existing arbitration procedures, or substitute for grievance mechanisms provided through collective agreements.

# Grievance Mechanism

Despite all of your efforts, there will be problems in your company. You are dealing with people in a constantly changing environment. Every worker in your company has pressures. Frustrations build. Maybe a worker feels a supervisor discriminates against him or her. You need to make sure that there is a clear, safe channel for the worker to communicate his or her concerns to management. You need to make sure that the worker feels that you heard his or her concerns, took them seriously and acted on them.

Remember, improving labor standards performance is a journey – a process of continual improvement. There will always be problems that arise. The key is to have systems in place so you identify and address the problems early and effectively. Everyone needs to understand the process. Everyone need to think the process is fair and transparent. It needs to be credible.

Providing a grievance mechanism for workers is smart for your company. Without a communication channel workers can feel trapped. It leads to resentment and rumors. It leads to an “us against them” attitude.

You need to create an environment where workers feel safe expressing their concerns. They should be able to file anonymous complaints. They should not fear retaliation. You need to create a system for workers that is simple and secure. The system needs to be responsive and fair.

## ▣ Guiding Principles

- The company will establish a transparent process for workers to express concerns and file grievances
  - There will be no retaliation or discrimination against those that express grievances
  - Management will treat the grievances seriously and take appropriate action
  - The company's grievance mechanism does not replace other channels as defined by law or collective bargaining agreements
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## Monitoring Resources

- Documented policy and procedure for worker grievances
- Worker and manager interviews
- Training curriculum and log on grievance handling
- Communications to workers, supervisors and managers
- NGO and trade union interviews
- Records of complaints lodged and actions taken on grievances
- Employment and termination records

## Common Non-Conformities

- Non-existent or incomplete policy and procedure
- Workers are not aware of the grievance mechanism
- Workers distrust the process or fear retaliation
- No action is taken by management based on grievances
- No way to file anonymous complaints

## Potential Solutions

- Establish clear policies and procedures for grievances
- Communicate the grievance process to all workers in a clear, understandable manner
- Provide ongoing training to all workers
- Document all grievances and the resulting actions
- Make worker reps a key part of the process



# Child Labor

## Child Labor Standard

The client will not employ children in a manner that is economically exploitative, or is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral, or social development.

Where national laws have provisions for the employment of minors, the client will follow those laws applicable to the client. Children below the age of 18 years will not be employed in dangerous work.

On the surface, child labor seems to be an easy issue to combat. It is the marquee issue in international labor standards performance. This is the issue that attracts the media. People around the world have all heard horror stories regarding child labor, and many people equate “no child labor” with labor standards performance.

Many experts in the field of labor standards performance have said that we are past the use of child labor. But it seems that while some of those inside the field have moved onto other issues, the reality on the ground is different. Child labor is still an issue in some sectors and in the supply chain of some products or services. It is still a huge, complex issue. It is still a long way from being solved.

You may feel certain there are no children working at your company. How do you ensure you do not have children working? Can you answer this with certainty? How do you verify with confidence the age of the people you hire? What about children working at your supplier's facility or at a contractor's? Are you as certain about that? There are also nuances within child labor that need to be addressed from country to country.

Young workers are those between the legal age and 18 years of age. Local laws may allow apprentice programs as a way to train young workers. Properly managed apprenticeships can certainly be a valuable part of education; however, many extensive studies has shown there are abuses.

Finally, you must have a remediation plan in place should children be found working in your company, or in a supplier's or contractor's company. You need to be able to instantly tell the media and your external stakeholders exactly what you will do. If you wait to develop the plan until child labor puts you on the front page of the newspaper or in widely read blogs, it is too late.

**Good Practice Note:** Addressing Child Labor in the Workplace and Supply Chain: [http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications\\_GPN\\_ChildLabor](http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_GPN_ChildLabor)

## ▣ Guiding Principles

- The company will not employ workers under the minimum age for employment as defined by national law
  - Workers between the minimum age and 18 will not be employed in dangerous work or work that interferes with their education or development
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## Monitoring Resources

- Policies and procedures for age verification in hiring
- Documentation regarding apprentice programs
- Interviews with workers, local children, trade unions and NGOs
- Visual observation
- Pay records, medical records, birth certificates, IDs, school records

## Common Non-Conformities

- Child labor policy not effectively communicated to workers and interested external parties
- Lack of procedures to effectively verify age when hiring
- No remediation plan in place
- No procedures to assure proper use of young workers
- Apprentice programs permitting children to work or improperly using young workers
- No clear policy communicated to contractors and suppliers

## Potential Solutions

- Write clearly defined policies and procedures for age verification – make them publicly available
- Offer an apprentice program designed with the involvement of external stakeholders
- Develop remediation plan for use in cases where children are unknowingly employed despite your No Child Labor policies and procedures (ex: child presents false ID)
- Engage with local stakeholders to develop proactive plans to address child labor issues
- Communicate your child labor policies to your suppliers and contractors – and provide them with the training and tools to address the issue





# Forced Labor

## Forced Labor Standard

The client will not employ forced labor, which consists of any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty.

This covers any kind of involuntary or compulsory labor, such as indentured labor, bonded labor or similar labor-contracting arrangements.

Like child labor, forced labor presents a nightmarish image in the minds of many people: workers chained to their work tables, prisoners working at manufacturing facilities. However, the reality of forced labor is often far more insidious. It is not always so easy to spot and can be hidden within actual fair labor practices. Your company may have a mix of direct employees and people working at your company through employment agencies or third parties. Do you know the details of those arrangements?

The increase in the use of contracted workers has created new models of forced labor whether you are in the farming, construction or manufacturing industry. Combine this with the increase of cross-border migrant labor and you have even more cases.

Imagine an employment agency that recruits workers for you. The agency may send the workers to you from another country. The agency might hold their passports, allegedly for safekeeping. In some cases, the company may deliver pay to the employment agency instead of the contracted workers. What if the agency charges the workers a recruitment fee? What if the agency deducts money from the workers' paychecks for the recruitment fee? Or dormitory fees? Or tools and safety equipment? These fees may be hidden from you.

You may not be aware that the workers do not have their passports. You may think that the workers are being paid a fair wage for their work. The workers may then be left with no money and no passport; without these things, they become victims of forced labor.

If you are confident you have these issues under control in your company, your work is not done. As part of PS2, you also need to think about these same issues for your suppliers.

## ➤ Guiding Principles

- The company will not employ forced labor
- Workers have the right to retain their personal documents and money
- Workers are free to leave the workplace after work
- Workers have the right to resign

## Monitoring Resources

- Employment contracts in all appropriate languages
- Contracts with employment or recruitment agencies
- Payroll records, timesheets and wage deduction calculations
- List of permanent workers and contracted workers at your facility
- Worker passports or IDs
- Interviews with all workers, employment agencies and external stakeholders
- Interviews with security guards

## Common Non-Conformities

- Company uses employment agencies to avoid paying workers legal wages and benefit
- Workers do not possess their passport or working papers
- Workers do not have a copy of their contract in their language
- Company or agency holds wages as a deposit
- Company or agency requires worker to pay for recruitment, job training, protective equipment, tools or excessive fees for housing
- Company requires worker to sign termination letter as condition of employment

## Potential Solutions

- Clearly define worker's freedom in employment contract, including right to personal documents at all times
- Provide employment contracts to all workers in their language - direct or contracted
- Define and enforce policy regarding use of employment agencies and expectations
- If employment agencies are used, audit relationship between the agency and the workers
- Provide training for all workers to explain their rights
- Pay all job related training and equipment expenses





PS2

## Occupational Health and Safety Standard

The client will provide the workers with a safe and healthy work environment, taking into account inherent risks in its particular sector and specific classes of hazards in the client's work areas, including physical, chemical, biological, and radiological hazards. The client will take steps to prevent accidents, injury, and disease arising from, associated with, or occurring in the course of work by minimizing, so far as reasonably practicable, the causes of hazards. In a manner consistent with good international industry practice, the client will address areas, including: the identification of potential hazards to workers, particularly those that may be life-threatening; provision of preventive and protective measures, including modification, substitution, or elimination of hazardous conditions or substances; training of workers; documentation and reporting of occupational accidents, diseases, and incidents; and emergency prevention, preparedness and response arrangements.

# Occupational Health & Safety

Health and safety can be a challenging issue. There is often misunderstanding about what it takes to properly address it. Companies often tackle health and safety first as it seems like the easiest element to quickly address. However, often the focus is too narrow, on just immediately visible risks. Companies often don't have the technical expertise and management systems to properly assess and mitigate health and safety aspects throughout their operations.

Since it can often provide material evidence, you might think health and safety is easier to audit than issues such as freedom of association or discrimination. But let's look deeper. Within health and safety, some aspects are very straightforward, with visible evidence. Does your facility have the proper number of fire extinguishers? Are there fire escape plans? Are there current and accurate accident and medical treatment logs? Do workers have the appropriate personal protective equipment? However, other aspects are not so easy to spot. For example - adverse effects from workplace chemicals, diseases that develop decades later, abnormalities in children born to workers. You need to be aware of such risks specific to your industry.

Also, even the visible aspects need expertise and attention to handle properly. How can you determine what other fire fighting equipments are necessary? Are the means of egress appropriate? What are the technical characteristics of the smoke detectors? Personal protective equipment is the last option an expert will take to mitigate impacts. So, it is not just a matter of observation, but of appropriate analysis and proactive action. This requires technical expertise and managements systems.

The purpose of PS2 is to provide a system for continually improving health and safety in your company. Implementing management systems is the best way to address systemic problems. Policies, procedures and effective training are imperative for ongoing performance. A good system will prevent injuries. The main problem is often management commitment to dedicate the appropriate resources and time to health and safety issues. Don't overlook health and safety procedures when you are finalizing production targets. Commit to meeting international standards for health and safety performance. Set clear performance targets for each operation. Also, identify, communicate the risks and educate all workers and managers.

## ▣ Guiding Principles

- The company will take all reasonable precaution actions to protect the health and safety of workers
- The company will ensure that workers are not exposed to unnecessary or unreasonable risks at the workplace, dormitories and transport systems
- The company will implement an OHS management system consistent with international standards such as OHSAS 18001 and ILO-OSH 2001
- The company will systematically assess all of the OHS risks, conducting a comprehensive job safety or job hazard analyses.
- The company will implement preventive and protective measures according to the order of priority: Eliminating the hazard, Controlling the hazard at its source, Minimizing the hazard, Providing appropriate personal protective equipment
- The company will document, investigate and report all accidents and occupational diseases.
- The company will investigate and identify the root causes of all accidents with working time loss, and implement appropriate corrective actions

## Monitoring Resources

- Visual observation
- Exposure to hazardous agents monitoring log
- Manager and worker interviews
- Accident and medical treatment logs
- Equipment maintenance logs
- Fire and safety drill logs
- Health and safety risk analysis
- Health and safety inspection logs with test results
- Government health inspection reports
- Training curriculum and logs

## Common Non-Conformities

- Inadequate OHS management capacity
- Inadequate risk assessment or job hazard analyses
- Inadequate plant lay-out and subsequent risk exposure
- Inadequate equipment maintenance and procedures
- Inadequate monitoring and control of workers' exposure to hazardous agents (e.g. noise, vibration, heat/cold, pressure environments, ionizing energy, chemicals and biological agents)
- Inadequate protection equipment measures such as Collective Protection Equipments (PPC) and Personal Protection Equipment (PPE)
- Lack of commitment from production area leaders and managers
- Safety training not reinforced, not updated, not effective
- Policies and procedures not written, not clearly communicated

## Potential Solutions

- Structuring an OHS team and an OHS accountability framework (including production area)
- Conducting a comprehensive job safety or job hazard analyses
- Developing a Corrective OHS Action Plan based on the likelihood and severity of the consequence of exposure to the identified hazards
- Proper equipment design, maintenance and procedures, such as:
  - Designing machines to eliminate trap hazards
  - Turning off, disconnecting, isolating, and de-energizing (Locked Out and Tagged Out) machinery with exposed or guarded moving parts or being serviced
  - Marking and checking all energized electrical devices, cords and lines with warning signs
- Implementing proper monitoring systems of hazardous agents and proper control measures (eliminating risk, PPC, PPE)



# Non-Employee Workers

## Non-Employee Workers Standard

For purpose of this Performance Standard, “non-employee workers” refers to workers who are:

- i. directly contracted by the client, or contracted through contractors or other intermediaries; and
- ii. performing work directly related to core functions essential to the client’s products or services for a substantial duration. When the client contracts non-employee workers directly, the client will use commercially reasonable efforts to apply the requirements of this Performance Standard, except for paragraphs 6, 12, and 18.

With respect to contractors or other intermediaries procuring nonemployee workers, the client will use commercially reasonable efforts to:

- i. ascertain that these contractors or intermediaries are reputable and legitimate enterprises; and
- ii. require that these contractors or intermediaries apply the requirements of this Performance Standard, except for paragraphs 6, 12, and 13.

When you walk around any company or organization, ask yourself the following questions. Which people work directly for this company as full-time employees? Which people are contractors directly to this company? Which people work at this company as employees or as contractors to another company?

In some cases, it may be easy to guess. Security guards and cleaning staff commonly work for outside companies. In today’s economy it is not uncommon for a company to have its engineers physically located at another company. There are now multi-national employment agencies that specialize in managerial and professional staffing. The accountant or programmer is located at your company doing work for your company, but actually employed or contracted by the employment agency.

But what about looking at workers assembling components on a production line or picking produce in a field or teaching at a university or performing maintenance at a hospital? Can you tell who is the direct employee and who is the contractor? As we discussed in the section on Forced Labor, there can be many labor problems that arise with contracted labor.

Companies, especially seasonal businesses, need to carefully monitor fixed costs versus variable costs. There can be a clear business rationale for using contracted labor or for hiring through an employment agency. This is understandable. However, you are still responsible for meeting labor standards. You cannot use contracted labor as a way to avoid labor laws, or to undercut your PS2 responsibilities to workers. Look inside your company. Be honest. Are a lot of your core functions covered by contractors? Do contractors work for you for long periods of time without permanent contracts?

Do you have cases of direct employees and contractors doing the same job for radically different wages and benefits? Would you think it was fair if you were the contracted worker? You need to make sure that all workers, contracted or directly employed, are getting equal wages and benefits for the same job.

## ▣ Guiding Principles

- The company will extend labor standards performance to contractors hired directly or through employment agencies.
- The company will not use contracting as a means of circumventing labor rights and laws.
- Employment and recruitment agencies will be monitored to verify their adherence to labor rights and laws.

## Monitoring Resources

- Contracted labor contracts in all appropriate languages
- Contracts with employment or recruitment agencies
- Payment records, timesheets and wage deduction calculations for contracted workers
- Listing of direct employees and contracted workers at your facility
- Interviews with managers, employment agencies and external stakeholders
- Interviews with contracted workers - directly contracted and through agencies

## Common Non-Conformities

- Company uses employment agencies to avoid paying workers legal wages and benefits
- Contracted workers do not have a copy of their contract in their language
- Company or agency holds wages as a deposit
- Company pays employment agency and has no idea if and how workers are paid
- Company uses series of short term contracts to avoid paying worker benefits

## Potential Solutions

- Provide employment contracts to all workers in their language - direct or contracted
- Define and enforce policy regarding use of employment agencies and expectations
- If employment agencies are used, audit relationship between the agency and the workers
- Provide training for all contracted workers to explain their rights
- Include contracted workers in grievance process access and training



PS2

# Supply Chain

## Supply Chain Standard

The adverse impacts associated with supply chains will be considered where low labor cost is a factor in the competitiveness of the item supplied. The client will inquire about and address child labor and forced labor in its supply chain, consistent with paragraphs 14 and 15 above.

All companies and organizations have a supply chain. Products are bought from other companies for use in your company. They may be components used in making your product. They may be supplies. Services or manufacturing processes are often contracted to outside companies with the work taking place at their location. You are responsible for extending some elements of PS2 to these companies.

In some labor-intensive industries, your direct suppliers may sub-contract production and/or services to reduce costs. In some cases they reduce costs by evading legal obligations to workers. There is evidence that as you move further down the sub-contracting chain there is an increased risk of child labor or forced labor. In many industries, the use of unauthorized sub-contractors is common. You may contract the production of a component to a company – and without your knowledge they sub-contract part of the production to another company.

To implement this element of PS2, you'll need to establish your right to know if one of your suppliers is using sub-contractors. You need to make it clear to your suppliers that you expect them to at least meet the basic requirements of PS2 related to child labor and forced labor.

Just as management systems are critical for labor standards performance in your company, they are also the foundation for driving labor standards performance in your supply chain.



## ▣ Guiding Principles

- The principles of PS2 regarding child labor and forced labor extend from your company to your suppliers.
  - You are responsible for notifying your suppliers of the PS2 requirements concerning child labor and forced labor and trying to minimize its presence.
  - You are responsible for monitoring labor standards performance
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## Monitoring Resources

- Policies and procedures for controlling supply chain
- Map of suppliers and sub-contractors, with risk assessment
- Supplier labor standards commitment letter
- Labor standards clause in contracts with suppliers
- Audit reports on suppliers
- Production and shipping records at suppliers
- Contract requiring the disclosure of sub-contractors

## Common Non-Conformities

- Lack of written policies and procedures
- No communications with suppliers related to labor standards
- Use of unauthorized sub-contractors by direct suppliers
- Ignoring high risk areas for child and forced labor
- No monitoring

## Potential Solutions

- Provide suppliers with training and management system tools
- Offer incentives to suppliers for improved labor standards performance or transparency
- Include labor standards clauses in all contracts
- Train your purchasing staff in the basics of labor standards auditing
- Focus attention on high risk production processes