

**DFID and ETI**  
**PPA 2006/07 – 2010/11**

## **1. Introduction to DFID and ETI**

### *1.1 ETI description and strategy*

The Ethical Trading Initiative (ETI) is an alliance of companies, trade union and non-government organisations that work together to promote the credible implementation of corporate codes of labour practice. ETI is widely recognised as the field leader in defining and disseminating corporate responsibility for promoting the rights of workers in global supply chains. ETI is a membership organisation which was founded in 1997 with the strong support of DFID.

ETI members share a vision of a world where all workers are free from exploitation and discrimination and work in conditions of freedom, security and equity. ETI's aim is to enable workers throughout global supply chains to secure their fundamental rights by ensuring that they are treated in accordance with national laws and international labour standards. ETI pursues this aim by encouraging its members to work together in order to:

- identify and promote good practice in how companies implement the principles in the ETI Base Code<sup>1</sup>
- support practical initiatives that promote respect for workers' rights and improve working conditions
- measure and seek continuous improvement in the efforts and achievements of our company members.

### *1.2 DFID description and strategy*

DFID is responsible for leading the UK Government's contribution to the international effort to reduce poverty. It works as part of a wider international effort, collaborating with many organisations, including: other UK Government Departments, international development agencies, governments of developing and transition countries, civil society, business and academia.

To increase the impact of development assistance on poverty, DFID focuses on helping the poorest countries and on supporting agreed longer-term financial commitments, which will mean beneficiaries will be able to predict their income. We have moved away from stand-alone projects – where the donors decide the agenda – towards support for poverty reduction strategies led by developing countries themselves. DFID also works to improve the work of the main multilateral agencies through which we channel funding.

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<sup>1</sup> The ETI Base Code underpins all ETI's work and contains nine principles, which reflect the national laws and international standards (ILO conventions) which define fundamental human rights at work. The code also includes five key principles of implementation.

## 2. PPA rationale

### 2.1 DFID wants a PPA with ETI because

In 2004, the Secretary of State for International Development launched a DFID paper *Labour Standards and Poverty Elimination*. It sets out the social and economic case for including labour standards as part of our strategy for poverty elimination and the achievement of the MDGs. For the vast majority of poor people the route out of poverty must be through decent work. This means that: they are not subject to forced labour; their jobs do not threaten their health or safety; they can earn a living wage that enables them to support their family and their children do not have to work to survive; and that they have a say in decisions that affect their working lives through the freedom to participate in democratic, representative organisations such as trade unions.

Over the last seven years, ETI has developed its position as the leading player in the UK and one of the key multi-stakeholder organisations supporting the development and implementation of codes of conduct for ethical trade around the world. The value added to DFID of a strategic partnership with ETI will be in taking forward our commitments on labour standards and also in developing new partnerships for poverty reduction with business, workers and consumers.

The Partnership will be an important channel for DFID to pursue its poverty reduction goals through support to core labour standards. It will also help the UK to meet its obligations as a member of the International Labour Organisation to support the global implementation of the core labour standards. It will support the commitment to broaden the coalition for poverty reduction by greater involvement of labour organisations (*Labour Standards and Poverty Reduction DFID 2004 and the How to Note on Working with Trade Unions 2005*), and help to take forward our commitment to pro-poor private sector growth in developing countries (*Working with the Private Sector to Eliminate Poverty, DFID 2005*). The partnership demonstrates the importance we attach to an issue of strong public interest, and to empowering the UK consumer to make informed choices about the goods they buy (*White Paper - Making Globalisation a force for Good, DTI 2004*). PPA will help to support the Government commitment to corporate social responsibility and sustainable development (*White Paper - Making Globalisation a force for Good, DTI 2004 and Food Security Sustainability Strategy DEFRA 2005*), and raise development awareness in communicating DFID messages to a wide and diverse audience in the UK and internationally.

### 2.2 ETI wants a PPA with DFID because

ETI and DFID share policy priorities and ways of working that provide a strong basis for continued partnership. These include a commitment to strengthening the role of business, trade unions and civil society in development and recognition of the importance of promoting the rights of workers in strategies that aim to reduce poverty. During our engagement with DFID, ETI has valued the space given to develop its distinctive role, to experiment and take risks in order to explore the full potential of corporate codes of labour practice as a tool for promoting workers' rights.

The long term commitment and strategic support offered by the PPA enables ETI to approach the next stage of its development enabling ETI to be more flexible and responsive to the needs of our civil society partners in the south. The strategic nature of the partnership offers ETI and DFID the opportunity to strengthen our engagement on policy issues, on raising awareness of the importance of ethical trade and to develop closer co-operation with DFID regional and country offices that share ETI's priorities.

### **3. Current areas of synergy between ETI and DFID**

- Shared priorities: ETI works towards achieving MDGs with the overarching goal of eliminating poverty by enabling workers to secure their fundamental rights.
- Importance of partnership with the private sector: Companies in the north and south have a key role in reducing poverty through stronger partnerships with trade unions, NGOs and government. Facilitating the formation of such partnerships is a core aspect of ETI's work.
- Importance of civil society in development: Trade unions and NGOs play a key role and must be strengthened to participate in decisions that affect the poor people they represent. Strengthening the capacity of trade unions and NGOs to defend the rights of poor workers is central to our work.
- Rights-based approach: ETI's founding principle is that the rights of individual workers need to be respected by corporations that have a responsibility to promote a culture of compliance with the law.
- Rules-based approach to trade: The south must be allowed to compete on a level playing field and the rule of law, which ETI actively promotes, is one aspect of this.
- Participation: Poor workers and their representatives must be meaningfully involved in all initiatives to assist them to realise their rights. The central role of the trade union movement and labour rights NGOs within ETI's structure helps to ensure this.
- Gender: Approaches to tackling exploitation of workers need to recognise the different roles and abuses that men and women face. This recognition exists throughout our work, and the need to tackle gender discrimination is enshrined in our Base Code.
- Sharing lessons learned: ETI's mission is to share lessons and good practice. ETI has recently completed a rigorous impact assessment and the lessons from this have shaped the strategic direction of the next five years' work.
- International advocacy links: ETI supports global companies, trade unions and NGOs to form alliances with counterparts in the south to urge governments to make better laws and enforce existing laws.
- Geographical synergies: ETI and its members work in many of the poorest countries prioritised by DFID for development assistance.

#### 4. PPA outcomes

Strategic outcomes of partnership that the Ethical Trading Initiative will be monitored on.

	Indicators	Means of verification	Risks and assumptions
<p><b>Goal:</b> To assist poor workers employed in the private sector to secure their fundamental labour rights, thereby contributing to DFID's strategic objectives and the advancement of the Millennium Development Goals 1, 3 and 8.</p>			
<p><b>Purpose</b> Improve the incomes, working conditions and respect for the rights of millions of poor workers who are employed by companies that supply ETI members.</p>	<ul style="list-style-type: none"> <li>▪ 5% annual increase in the "average supplier workplace ratings" of ETI member companies. A baseline figure will be established for 2006-2011 from the 2005 annual reports. <sup>i ii</sup></li> <li>▪ Case studies show workers and managers in a sample of suppliers demonstrating improvements in working conditions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual analysis of ETI corporate members' reports (as specified by ETI's corporate annual reporting framework) by independent data analysts</li> <li>▪ ETI project reports</li> </ul>	<p>ETI member companies continue to recognise the need to integrate ethical principles into their core commercial practices and make tangible advances in this area.</p> <p>Political conflict and changes in international trading regime makes it difficult to work in ETI priority countries.</p> <p>Internal conflict between ETI members slows down achievement of outputs.</p> <p><i>These risks are relevant to all the outputs below although not repeated.</i></p>
<p><b>Outcome 1:</b> More poor workers have greater awareness of their rights and are supported by civil society initiatives that help to realise them.</p>	<ul style="list-style-type: none"> <li>▪ 5% increase in the use of ETI worker awareness tools by trade unions, NGOs, employers and ETI members. Baseline to be established from 2006/07 data.</li> <li>▪ 50% increase by 2009 in the number of workers that have attended ETI supported training activities designed to promote awareness of their rights and strategies to help workers realise them. Baseline figure established from 2005/06 activity.</li> <li>▪ Workers in target groups report ETI training and materials raised awareness of their rights</li> </ul>	<ul style="list-style-type: none"> <li>▪ ETI web download statistics<sup>iii</sup></li> <li>▪ ETI publication distribution records in UK and supplier countries</li> <li>▪ ETI training and project records</li> <li>▪ ETI project documentation</li> <li>▪ Feedback from workers attending ETI training courses</li> </ul>	<p>ETI can enable employers, trade unions and NGOs to work together on labour issues in each priority country.</p> <p>Civil society organisations make labour standards a priority issue and use the ETI Base Code as a useful tool to progress their own agenda.</p> <p>Increasingly open attitude of global brands to work with trade unions and NGOs is maintained.</p>
<p><b>Examples of activities</b></p> <ul style="list-style-type: none"> <li>▪ ETI working through TU and NGO members will engage southern counterparts to (1) assess their capacity to engage business organisations on</li> </ul>			

- ethical trading issues and (2) design programmes that meet identified needs.
- ETI members implement capacity-building programmes with southern partners (may include providing training, materials, and examples of strategies used in similar industries in other southern countries)
- ETI corporate members and their suppliers work with southern trade unions and NGOs on initiatives that increase their access to workers.
- ETI will support co-operative working between industry stakeholders on initiatives that identify poor working conditions and develop local solutions to improve them.

	<b>Indicators</b>	<b>Means of verification</b>	<b>Risks and assumptions</b>
<p><u>Outcome 2:</u> A growing number of businesses (north and south) take actions to ensure labour laws and standards are implemented.</p>	<ul style="list-style-type: none"> <li>ETI gains five new corporate members each year.</li> <li>At least 75% of ETI corporate members reporting in any year, demonstrate progress in applying the ETI's 5 principles<sup>iv</sup> of implementation across their business.</li> <li>20% increase in the number of businesses engaged in ETI facilitated multi-stakeholder initiatives by 2009. A baseline figure will be established in 2006.</li> <li>Case studies show that companies (north and south) are implementing ETI's good practice guidelines including guidelines of purchasing practices</li> <li>ETI receives at least 1000 requests from businesses for good practice guidelines in any one year.</li> <li>5% annual increase in the "average supplier workplace ratings" of ETI member companies. A baseline figure established for 2006-2011 from 2005 reports.</li> </ul>	<ul style="list-style-type: none"> <li>Published ETI membership list</li> <li>Annual analysis of ETI corporate members' reports by independent data analysts<sup>v</sup></li> <li>ETI project documents</li> <li>Feedback from users</li> <li>Monitoring downloads and sales of ETI best practice guidelines and number of companies attending training</li> <li>ETI member annual reports</li> <li>ETI project documents and review meetings</li> <li>Annual analysis of ETI corporate members' reports by independent data analysts</li> </ul>	<p>Companies see the human rights and business case for implementing best practice in ethical trade.</p> <p>The issue on Capacity building in Supplier Countries being sufficiently developed to take these actions</p>

<b>Examples of activities</b>			
<ul style="list-style-type: none"> <li>• ETI will develop additional guidelines and procedures for international businesses and their suppliers.</li> <li>• ETI member companies implement ETI guidelines including aligning their core commercial and ethical sourcing business practices.</li> <li>• ETI will deliver a training programme to businesses and civil society organisations in the north and south.</li> <li>• ETI will assess the performance of each corporate member each year, ensuring all members continue to improve.</li> </ul>			
	<b>Indicators</b>	<b>Means of verification</b>	<b>Risks and assumptions</b>
<u>Outcome 3:</u> Increased civil society engagement with government improves legal protection for poor workers.	<ul style="list-style-type: none"> <li>▪ 20% increase in number of civil society organisations that engage with government in ETI facilitated forums. (A baseline figure will be set in 2006)<sup>vi</sup></li> <li>▪ Civil society organisations in 2 countries report that participation in ETI facilitated engagement with government has contributed to improved legal protection for poor workers by 2009 with 2 more by 2011<sup>vii</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>▪ ETI project monitoring reports</li> <li>▪ Ministerial reports and government press statements on labour law issues</li> <li>▪ Reports from civil society organisations to ETI</li> </ul>	<p>Trade unions, NGOs and businesses have a shared interest in promoting better law and better law enforcement.</p> <p>Limited national government resources for law enforcement</p>
<b>Examples of activities</b>			
<ul style="list-style-type: none"> <li>▪ ETI partners will seek co-operation (joint activities) with governments in order to effectively communicate legal rights to workers (for example information explaining basic rights distributed in suppliers' workplaces).</li> <li>▪ ETI will facilitate exchanges between civil society organisations in different southern countries in order to share strategies and experiences.</li> <li>▪ ETI members will use their influence (for instance as senior representatives of global companies and trade unions) to engage Ministers and senior government and industry figures on labour policy and legal protection for poor workers (for example major brands seek better government enforcement of labour law in Bangladesh in exchange for promises to continue sourcing from that country).</li> </ul>			
	<b>Indicators</b>	<b>Means of verification</b>	<b>Risks and assumptions</b>
<u>Outcome 4:</u> More retailers and suppliers in North and South are aware of ethical trade and the benefits it can bring.	<ul style="list-style-type: none"> <li>▪ Maintain current level of coverage of ethical trade issues in business media citing ETI sources (UK and south). Baseline figure from 2005/06 data.</li> <li>▪ ETI receives at least 1000 requests per year from businesses (north and south) for awareness raising materials.</li> <li>▪ A growing proportion of businesses surveyed (north and south) are aware of</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitoring of media coverage</li> <li>▪ Web downloads</li> <li>▪ ETI publications distribution data</li> <li>▪ ETI/DFID annual survey</li> </ul>	<p>Workers' rights in developing countries remain a matter of strong concern to the public, business and media.</p>

	ethical trade and benefits it can bring them.		
<b>Examples of activities</b>			
<ul style="list-style-type: none"> <li>▪ ETI will conduct media campaigns to raise the profile of ethical trade issues, of ETI and of the good practice tools available to business.</li> <li>▪ ETI will produce tools for members to help raise the profile of ETI and ethical trade issues in north and south</li> <li>▪ Workshops and training for suppliers</li> <li>▪ Work with ETI members to raise awareness of ETI and ethical trade issues with consumers</li> </ul>			
	<b>Indicators</b>	<b>Means of verification</b>	<b>Risks and assumptions</b>
<p><u>Outcome 5:</u> ETI enables the private sector to participate effectively with the trade union movement and NGOs in support of DFID's objectives.</p>	<ul style="list-style-type: none"> <li>▪ Annual feedback from 50% of ETI corporate members shows that ETI has enhanced their ability to engage with trade unions and NGOs in order to improve conditions for workers.</li> <li>▪ Each year, ETI organises at least 60 forums for companies, trade unions and NGOs to engage on ethical trade issues.</li> <li>▪ There is a 10% increase in the number of companies that participate in ETI organised forums. A baseline figure will be established from 2005/06 data and measured again in 2008/09.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual review meetings with company members</li> <li>▪ Minutes and records of meetings</li> <li>▪ Minutes and records of meetings</li> </ul>	<p>As ETI Corporate membership grows, NGO and Trade Union capacity to engage with increasing numbers of companies may not be sufficient.</p> <p>NGO and Trade Unions continue to see voluntary codes of conduct as a viable strategy to bring about change for workers</p>
<b>Examples of activities</b>			
<ul style="list-style-type: none"> <li>▪ ETI maintains and facilitates structures through which companies, trade unions and NGOs can engage with each other and develop initiatives to improve working conditions (for example, quarterly meetings of members, a complaints procedure, conferences, seminars and projects to engage on key issues in the south).</li> <li>▪ ETI will bring its members and other organisations together in order to standardise codes of labour practice and good practice implementation principles</li> </ul>			

## **5. Monitoring and Evaluation**

### *5.1. Annual Reporting*

ETI will demonstrate its progress towards PPA outcomes through annual reporting giving evidence on the indicators listed in the PPA outcome table.

The format will be a short (no more than 12 pages) narrative of achievements documented with relevant case studies and appropriate further information in annexes, and including an executive summary for reference.

### *5.2 Evaluation*

Formal evaluation processes, including a possible mid-term review, will be discussed and agreed during the first 2 years of the PPA.

## **6. Core information**

### *6.1 Funding and Term of Agreement*

The PPA is a 5 year arrangement commencing 01/07/2006 and ending 31/03/2011. Total DFID funding (contribution) for the first 2 years of the PPA will be £875,000 (eight hundred and seventy five thousand pounds). Funding for the last three years will be agreed during the initial 2 year period. The contribution will be allocated within DFID financial years as follows:

<b>Year</b>	<b>Funding</b>
2006/07	£375,000
2007/08	£500,000
2008/09	To be confirmed
2009/10	To be confirmed
2010/11	To be confirmed

### *6.2 Memorandum of Understanding*

The formal administrative arrangements, which relate to this PPA, including full funding details, are provided in the associated Memorandum of Understanding (MOU).

## Appendix 1 Notes on logframe indicators and means of verification

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<sup>i</sup> Each ETI corporate member rates its suppliers' workplaces 1-4 for each of the 9 elements of the ETI Base Code. The rating is based on the most recent site inspection or assessment. 1 = major breaches detected; 2 = minor breaches detected; 3 = appears compliant; 4 = compliance confirmed by repeated inspections. The rating of each site is then weighted by the number of workers at the site multiplied by the share of the site's production which goes to the ETI member. This gives an "**average supplier workplace rating**" for each element of the Base Code for each ETI member and for the ETI corporate membership as a whole.

Increases in the average supplier workforce ratings should provide a direct indicator of improvements in labour standards amongst suppliers. However, the following limitations of this indicator should be kept in mind:

- a) This is a new rating system and it is inevitable that there will be some inconsistency between how different ETI members would rate a particular site.
- b) As ETI members become more experienced in monitoring labour standards they tend to find problems they would have previously overlooked. This increased rigour will have a negative impact on site ratings.
- c) Too much emphasis on this indicator alone could distort behaviour by creating an incentive for companies to avoid focussing their efforts on the most difficult areas.
- d) Changes in ETI membership will distort the ratings for the membership as a whole.
- e) 2005 is a transition year for introducing this new rating system. Many ETI members will only be able to provide partial data for 2005 which may distort the ratings which will be used as a base line for assessing performance in future years.

<sup>ii</sup> Adopting indicators based on ETI's Annual Reporting Framework contains an element of risk. Finding the best indicators of corporate performance is an area on which ETI has focussed a lot of attention. We have recently introduced a new Corporate Annual Reporting Framework designed to provide a range of indicators of corporate performance. While we hope we have arrived at the most robust indicators, only time will tell. We are committed to continual improvement, based on annual evaluation of our data and experience. This could result in changes in indicators that stem from ETI's corporate annual reports part way through the 5 year project.

<sup>iii</sup> This data includes quantitative data and a means by which ETI can identify which type of organisation is requesting the materials as well as a request for further contact information.

<sup>iv</sup> The five principles of implementation are: Commitment, Monitoring, Verification and Reporting, Awareness Raising and Training, Corrective Actions of suppliers and Management Procedures, Pricing and Incentives. A company's progress in implementing each principle is measured by assessing how far they have met 3-6 key performance indicators.

<sup>v</sup> ETI will use "pen pictures" to make this measurement – this is an agreed tool for assessing the management performance of ETI member companies.

<sup>vi</sup> While ETI recognises the principle role of trades unions in organising and representing workers on labour issues, for these purposes we have adopted DFID's definition of Civil Society Organisations which includes **Institutionalised groups**: such as religious organisations, trades unions, business associations and co-operatives. **Local organisations**: such as community associations, farmers'

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associations, local sports groups, non-governmental organisations and credit societies. **Social movements and networks.**

<sup>vii</sup> This indicator refers to “improved protection for poor workers” meaning changes in the law or better implementation of existing laws. Such engagements between civil society and government can stimulate enhanced enforcement of law through both government activity and that of private enterprise.