

Evaluation of BIO's contribution to decent work and quality jobs

Summary of findings



Introduction

Increasing employment and ensuring decent work for all is an essential part of the 2030 Agenda for Sustainable Development. This is acknowledged by Belgian development cooperation as well as BIO as a core actor in this system. Contributing to decent work is an integral part of BIO's mandate and a central objective in its strategy and operations. The focus on decent work is guided by SDG 8, which calls for employment and decent work for all, as well as the ILO's Decent Work Agenda and its four pillars: promoting jobs and enterprise, guaranteeing rights at work, extending social protection, and promoting social dialogue.

As part of its mandate and in line with its Theory of Change, BIO aims to support more, inclusive, and better jobs. Coupling the quantity of jobs with elements of job quality encourages sustainable economic growth by increasing productivity, sustaining employment, and assuring safe and healthy working environments. Against this background, BIO commissioned an evaluation on its contribution to decent work. This was carried out by independent consulting firm Steward Redqueen between April and December 2023.

Methodology

The study followed a mixed-methods approach. Five key sources were used to retrieve both quantitative and qualitative information: i) a desk review of BIO strategy, policies, project documents and external literature; ii) analysis of BIO portfolio data; iii) an online survey of BIO direct investee enterprises in the agri-manufacturing sectors; iv) 50+ in-depth interviews with BIO staff and investees; and v) a field visit to two companies and one financial institution in Peru invested in by BIO.

Conclusions

Key findings of the evaluation are summarised below. The findings centre on the question *why, how and to what extent does BIO contribute to decent work and quality jobs?*

Rationale of BIO's focus on decent work

The global workforce faces distinct challenges in achieving job quality, especially in developing markets. More and more workers are experiencing job insecurity, inequality and discrimination, poor working conditions, and violation of freedoms. About 60% of the world's employed population are in the informal economy, one third are regularly working more than 48 hours per week, two thirds do not have their income security protected by law in case of sickness, and 28 million are in forced labour. The concept of decent work endeavours that

all workers receive productive employment, a fair income, job security, and social protection.

The current global response to the challenges that workers face is primarily driven by the ILO's Decent Work Agenda. Decent work objectives are also articulated in SDG 8, which puts additional emphasis on the promotion of inclusive employment. However, while these global initiatives provide requirements, they do not provide operational frameworks for application in practice. National regulation is still leading in emerging markets but is often not as ambitious and equally centres on guidance rather than implementation.

Promoting decent work is a critical objective for actors that can promote international standards, such as MDBs and DFIs. Development financiers are uniquely positioned to set an example for the wider financial sector and support enterprises to advance the Decent Work Agenda. They can do so by stimulating adoption of environmental and social standards (by applying standards such as IFC Performance Standard 2 on Labour and Working Conditions) and inclusive practices in challenging environments, providing investment and business development support, supporting the creation of formal jobs, and bolstering employers' sustainability offering and impact.

Although smaller than other development financiers, BIO has some unique features that make it well positioned to contribute to the promotion of decent work in developing countries. These include a willingness to invest smaller, individual amounts in higher risk geographies and industries, enabling it to influence companies that may have a tendency to operate in more informal economies. BIO has also set out ambitions to promote decent work even among low and medium risk companies, which makes BIO one of the more ambitious DFIs for decent work.

Decent work in BIO's strategy and policies

Decent work is firmly embedded as a key objective in BIO's mandate, investment strategy and Theory of Change (ToC). BIO's position on promoting decent work was further made concrete through the introduction of a new Decent Work Policy, introduced in early 2023. The policy formalises its commitment to the global Decent Work Agenda and sets out BIO's requirements regarding various aspects of decent work. The policy provides clear guidance on expectations and requirements, although the operational narrative on how BIO's inputs and activities lead to safeguarding or enhancing performance on decent jobs and key performance indicators to assess decent work aspects can be further sharpened.

BIO's decent work requirements are characterised by a compliance-driven, do-no-harm perspective with emphasis on job decency but also job quality aspects. As summarised in

Key element of ILO's DW Agenda	ILO's Standard/ criteria	Covered by BIO's DW policy	
		Must have	Nice to have*
Employment opportunities	• Full and formal employment	✓	-
Adequate earnings and productive work	• Minimum wage	✓	-
Decent hours	• Set maximum of 48h/week	✓	-
	• Paid annual leave	-	-
Combining work, family and personal life	• Maternity leave	-	✓
	• Parental leave	-	-
Work that should be abolished	• No child labour	✓	-
	• No forced labour	✓	-
Stability and security at work	• Termination of employment conditions	✓	-
	• Limited casual work	✓	-
Equal opportunity and treatment in employment	• Anti-discrimination measures	-	✓
	• Equal career opportunities	✓	-
	• Equal remuneration	✓	-
Safe work environment	• Employment injury benefits	-	✓
Social security	• Pensions scheme	-	✓
	• Social security	-	✓
	• Sick leave, invalidity leave	-	✓
Social dialogue, workers' and employers' representation	• Freedom of association and right to organise	✓	-
	• Collective bargaining right	✓	-

Table 1: Summary of how BIO's Decent Work Policy requirements align with the ILO's framework on the measurement of decent work

Table 1 above, BIO's Decent Work Policy largely aligns with ILO's global decent work standards. There are two exceptions where the policy goes beyond compliance to support 'fulfilling work': living wages and management of grievances. BIO has aspirations to support living wages through its investments, technical assistance, and engagement with investees and supply chains. On grievance mechanisms BIO not only requests one to be in place but also expects an appropriate level of management. However, BIO's approach is only partially aligned with relevant SDG 8 targets, whose objectives are more ambitious on job inclusiveness, specifically the protection and promotion of decent work for vulnerable groups, women, and youth.

BIO takes a pragmatic and 'progressive approach' to ensuring an investment meets environmental and social (E&S) standards. This means that a client does not have to be (fully) compliant as from the start of the loan but has to demonstrate the potential and commitment to meet the required standards. Based on the evaluators' analysis, this 'progressive approach' aligns with DFIs' incremental approach: while there may be no perfect compliance with IFC Performance Standard 2 in all investments, they actively support clients to work towards these standards.

BIO applies realistic and tailored decent work requirements for clients. BIO's decent work standards are adjusted based on the type of investment, risk level, company size, and country context as well as its leverage over clients. BIO's specific requirements on decent work apply to direct investments in

enterprises, infrastructure projects, and the employees of financial institutions. This represents about 39% of BIO's total supported employees. Among them, 37% are FIs' direct staff, which can be considered higher-skilled and better quality jobs. BIO has further indirect outreach to employees that it supports through its commitments to investment funds. To ensure that partners funds enforce BIO's decent work requirements at the level of investees, BIO partners with other DFIs to assess funds' environmental and social management systems (ESMS). BIO also has a significant indirect outreach to workers through its FIs' portfolio. High-risk FIs are expected to enforce decent work requirements for end clients through their ESMS. BIO is currently working on an enhanced approach to systematically monitor and verify their implementation (see paragraph on monitoring on the right).

Decent work in BIO's investment process

Decent work is embedded throughout BIO's investment process, from screening, due diligence, contracting to monitoring.

During the screening phase, BIO assesses the positive or negative impact of potential investments on decent work. BIO conducts a contextual risk assessment, screening questionnaire and development assessment which inform the admission approval document. This allows BIO to detect red flags in relation to the key inherent decent work issues identified for enterprises (e.g., employment security, wages, equal treatment, occupational health and safety, work-life balance including for

subcontractors as well as child and forced labour in supply chains).

During due diligence, BIO further investigates clients' decent work practices in accordance with IFC PS2. This is supported by on-site visits conducted by BIO or consultants, or remote interviews. Findings are summarised in an environmental and social review summary (ESRS), which covers all key inherent risks identified for enterprises and infrastructure projects through the application of IFC PS2. BIO also engages with clients at this stage, for instance by asking SMEs to formalise their casual workers, which means higher salary but also better job security. BIO staff noted an increased emphasis and scrutiny on decent work at this stage, although it recognises that gaps remain when it comes to reliably assessing investees' supply chains. During its due diligence for financial institutions and funds, BIO focuses on their overall E&S risk management capacity and processes, although it is less active in engagement with FIs and funds on specific decent work risks (e.g., wages, employment security) compared to enterprises.

In the contracting stage, BIO does not require investees to have complied with all E&S requirements as long as the investee is open to concrete improvements. This aligns with BIO's progressive approach. When improvement is required, BIO develops an environmental and social action plan (ESAP), which contractually requires investees to implement measures to address decent work issues identified during due diligence.

During monitoring, BIO tracks decent work aspects through annual E&S and development effectiveness monitoring reports. However, BIO's current approach to standardise monitoring to ensure that investees remain compliant with its requirements and/or implement the agreed ESAP is limited to its E&S monitoring tool. In addition, only limited performance data on decent work aspects are aggregated at portfolio level, which limits BIO's ability to more actively monitor and take action where necessary. BIO is currently developing an E&S monitoring strategy including guidelines for monitoring visits, which is a pivotal step to enhance monitoring and steer towards decent work and quality jobs.

Portfolio contribution to decent work

Data analysis of BIO's direct investments in the period between 2018-2021 shows that 11,035 new jobs were created in BIO's portfolio of companies, representing 2.5% net job growth. Growth is mostly driven by microfinance institutions (MFIs) and non-bank financial institutions (NBFIs), while job losses have mostly taken place in agricultural companies and commercial banks. At the same time, it is hard to draw conclusions on BIO's contribution to job creation as this is dependent on the type of investment and the use of capital, which is not captured in monitoring data.

While BIO itself has a 46% share of female employees, its direct investments are behind the 2X Challenge targets in most economic sectors. Across the board, the relative portion

Investment cycle step	Description on link with decent work	Enterprises	Infrastructure	FIs	Funds
1. Screening					
Contextual risk assessment	Assessment of country workers' rights, ratification of core labour standards, living wage gap & sector specific topics (child/forced labour, inclusiveness, H&S)	✓	✓	✓	-
Screening questionnaire	Assessment of investees compliance with IFC PS2	✓	✓	-	-
Development assessment	Assessment of contribution to employment effects and gender equality	✓	✓	✓	✓
Screening committee	Discussion and requirements set for DD on decent work	✓	✓	-	✓
2. Due diligence					
On-site visit	On-site E&S due diligence including on IFC PS2	✓	✓	✓	✓
E&S DD questionnaire	Assessment of investees compliance with IFC PS2	✓	✓	✓	✓
ESRS	Summary of in-depth assessment of investees compliance with IFC PS2	✓	✓	✓	✓
Gender DD questionnaire	Assessment of investees 2X eligibility	✓	✓	-	-
Stakeholder consultations	Consultations with belgium embassy, NGOs which may include discussion on decent work topics	✓	✓	-	-
3. Contracting					
ESAP	Action items specifically enhancing investees contribution to decent work	✓	✓	✓	-
4. Monitoring					
Annual monitoring report	Annual monitoring including indicators tracking direct or indirect contribution to decent work	✓	✓*	✓	✓
AME DE monitoring	Development effectiveness monitoring tracking number of jobs, personnel expenses, contribution to gender equality, contract types	✓	✓*	✓	✓
Site visit	On-site E&S monitoring conducted by BIO's staff	✓	✓	✓	✓

Table 2: Summary of how different elements that include a focus on assessing decent work are integrated into each stage of the investment process

Share of survey respondents for which BIO played a role in stimulating improvements on the job quality dimension



Figure 1: BIO's contribution to job quality according to survey respondents

of female employees decreased since BIO's investment, except for companies in manufacturing and infrastructure sectors. On the other hand, in investments where BIO has higher attribution shares and thus more influence, an increase in the female share of employees can be seen. There is room for more focus on gender-related business development support, as all of BIO's gender-focused technical assistance (TA) projects target FIs that already perform relatively well on the topic. BIO's contribution to job inclusiveness is not limited to gender equality and should also be assessed considering other underserved groups. However, currently no data is collected on these groups.

The survey of direct investees shows that the average score for each decent work dimension is around, or above, compliance, although performances differ significantly (Figure 1). BIO tackles aspects of job quality in more than 80% of ESAPs provided to its 2021 direct portfolio investees and through five TA projects, which have delivered concrete results. BIO's contribution to job quality prioritises specific dimensions, such as secure employment, equal treatment, occupational health and safety, and workers' representation.

Case studies

The case studies identified a number of risks to job decency in agriculture. The field work included visits to two companies in Peru that operate in the agri-value chain. It showed that job insecurity is a common issue, especially due to agricultural seasonality. Other risks revolve around wages and working hours as employees in the sector tend to receive wages far below the living wage (although meeting the minimum wage) and can work excessive hours. Another finding was that having the right policies in place is no guarantee for ensuring all decent work standards, and that

the inherent motivation of a company's leadership to provide decent employment is at least equally, if not more important than having the right policies. In addition, the visits unveiled that when companies operate in a rural area with little economic competition, there is a higher risk of unbalanced power dynamics between employers and employees.

Two key risks have been identified for FIs. The field work also included a visit to a leading Peruvian commercial bank. The visit showed the limitations for BIO to influence decent work aspects when investing in FIs. BIO relies on FIs to

implement their own processes for assessing and managing risks on job quality through the development of an ESMS. However, it is challenging for BIO to verify and ensure the effective implementation of the FI's ESMS and the application of BIO's standards, underscoring the importance of the ongoing process for strengthened monitoring, especially for low-risk transactions. Another challenge faced by FIs to implement BIO's requirements is the informality of the economy in which their clients operate. BIO recognises the importance of improving the quality of informal employment by helping to raise standards within supply chains and provide more stable sources of income.

One of the case studies also revealed that supporting job creation and job quality can at times conflict or present dilemmas. Hiring vulnerable populations such as irregular Venezuelan migrants can be perceived as non-compliant due to the lack of formal contracts. However, by hiring such groups, there is an opportunity to improve their living standards and to pursue regular migration routes. This supports job access for vulnerable populations but job quality cannot be ensured. Overall, DFIs recognise the tension between job quality and quantity. A common example is when an investment increases a company's productivity. This improves job quality but may also reduce the quantity of jobs available.

A number of factors can be considered as 'success factors' for BIO's contribution to decent work and quality jobs. This includes (i) BIO's financial additionality which may provide BIO with important leverage when engaging with the investee and developing ESAPs; (ii) the investee's intentionality on the topic and readiness to improve current practices; and (iii) the investee's local context and competition in the local labour market.