

Swedfund

# Swedfund's Guiding Note on Decent Work

2024-06-25



## Guiding Note: Decent Work

Guiding notes describe Swedfund's view and process for implementation of the key sustainability themes that are defined in Swedfund's Policy for Sustainable Development and Anti-Corruption such as Climate, Decent Work, Gender and Human Rights. We recognize that the key sustainability themes are closely interlinked and overlap, however only one theme is described per Guiding Note. Guiding notes are updated regularly as we develop. We welcome stakeholder feedback to continuously improve our work.

### 1. Background and Strategic Intent

Swedfund's mission is to fight poverty through sustainable investments in developing countries. Our investments should contribute to an increase in the numbers of jobs with decent working conditions, as stipulated in our Owner's instruction. The concept of Decent Work<sup>1</sup>, developed by the International Labour Organisation (ILO), implies an integrated approach to development and economic growth that takes into account both quantity and quality of jobs. Support for decent work is a prominent element of Swedfund's commitment to progress on the Sustainable Development Goals (SDGs), with particular emphasis on SDG 8 on Decent Work and Economic Growth.

Decent work sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity, and equal treatment for all women and men. Swedfund operates in countries where informal employment predominates and the provision of decent jobs is far from certain, which makes the task particularly important.

Swedfund seeks to fully integrate decent work considerations into the investment process rather than handling it as a stand-alone issue. Swedfund's decent work lens aims to systematically integrate a decent work

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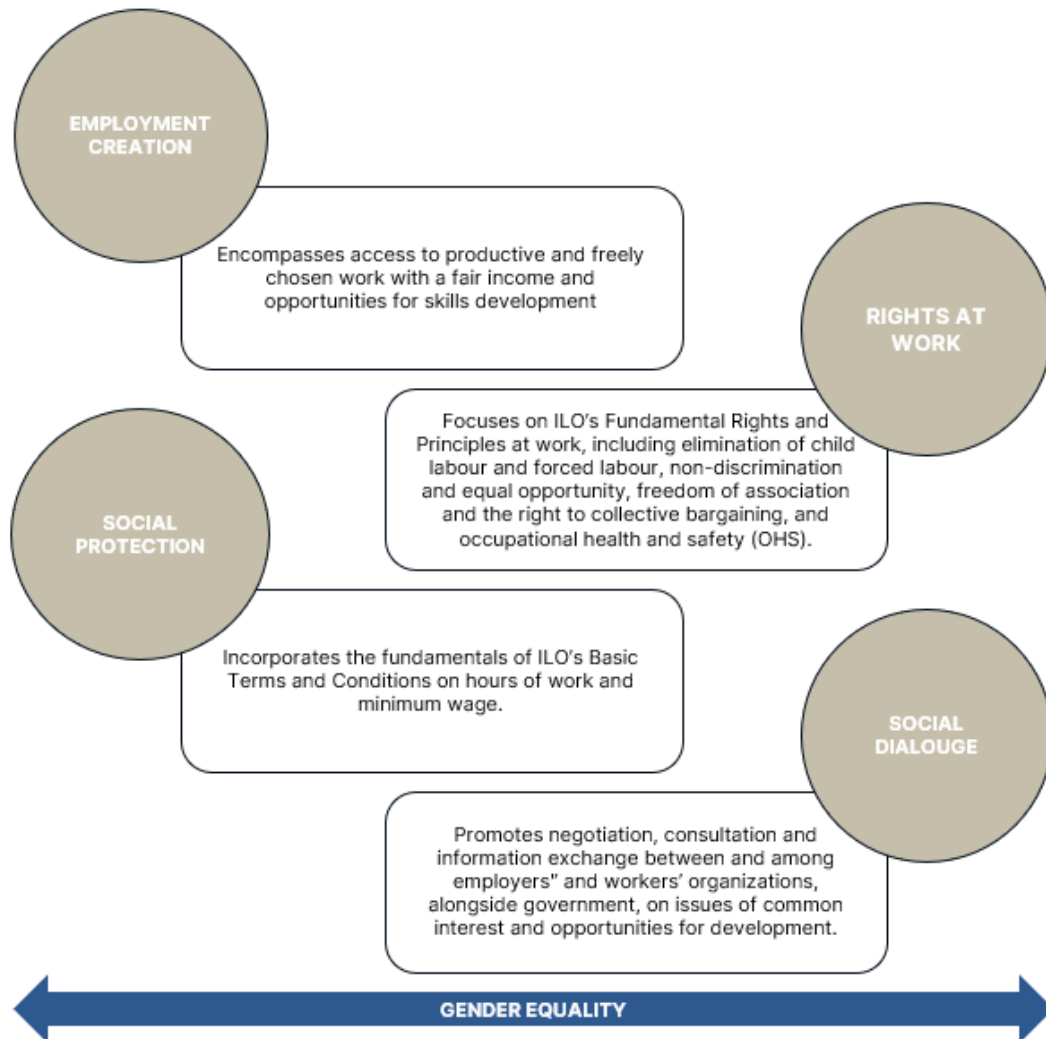
<sup>1</sup> Decent Work Agenda <https://www.ilo.org/topics/decent-work>

perspective to (i) identify relevant decent work risks in our investments and portfolio, (ii) manage the material decent work impacts of our investments and portfolio, and (iii) identify opportunities for Swedfund to support its investments and portfolio companies to improve working conditions.

## 1.1 Key Focus Areas

Swedfund's work is guided by the ILO decent work agenda's four pillars, focusing on employment creation and promoting jobs, guaranteeing rights at work, extending social protection and promoting social dialogue, with gender equality as a cross-cutting theme/objective:

1. **Promoting decent jobs** – through investments in and support to sustainable and responsibly run companies in developing countries. Freely chosen and productive employment with a fair income and terms of employment is the principal way out of poverty and is fundamental to peace and security, and above all human dignity.
2. **Guaranteeing rights at work** – by scrutinizing workers' rights and pushing for workers' representation and protection of their interests. Rights at work help empower individuals to escape from poverty and guarantee a path of development that does not allow labour abuses.
3. **Extending social protection** – including reasonable working hours, right to free time for rest, a fair income and other material areas such as parental leave. Social protection, both at work and in the absence of work, safeguards against falling back into poverty.
4. **Promoting social dialogue** – involving workers' and employers' organizations to avoid and manage disputes and create cohesive companies and societies. Social dialogue is the basis for democracy and good governance, ensuring the participation of both employers' and workers' organizations in shaping government policies for poverty reduction.



One of the main channels by which Swedfund promotes decent work is through a firm commitment to the International Finance Corporation's Performance Standards on Environmental and Social Sustainability, particularly the requirements set out in Performance Standard 2 (PS2) on Labour and Working Conditions<sup>2</sup>. It is aligned with the ILO's Declaration on Fundamental Principles and Rights at Work<sup>3</sup> on abolition of child labour, elimination of forced or compulsory labour, non-discrimination and equal opportunities, freedom of association and right to collective bargaining, and occupational health and safety, and other labour standards. PS2 also provides requirements in relation to inter alia working conditions and terms

<sup>2</sup> [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/performance-standards/ps2](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps2)

<sup>3</sup> **The ILO's Declaration on Fundamental Principles and Rights at Work**, after update in July 2022, refers to The Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87); Right to Organise and Collective Bargaining Convention, 1949 (No. 98); the Forced Labour Convention, 1930 (No. 29); Abolition of Forced Labour Convention, 1957 (No. 105); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182); the Equal Remuneration Convention, 1951 (No. 100); the Discrimination (Employment and Occupation) Convention, 1958 (No. 111); Occupational Safety and Health (No. 155); and the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187).

of employment, collective dismissals, grievance mechanisms and worker accommodation. In addition to IFC PS 2, Swedfund promotes adherence to the ILO Basic Terms and Conditions of Employment<sup>4</sup> on hours of work and minimum wage, in its efforts in contributing to decent and fulfilling jobs in the markets with less stringent labour laws. Furthermore, we recognise the importance of gender equality in workplaces and decent work as a part of internationally recognised human rights, see Guiding Notes on Gender and Human Rights for further information.

## 1.2 Collaborations and Stakeholder Engagements

*Collaborations.* Swedfund is often a strategic minority investor and therefore collaborates with carefully selected partners to align efforts and amplify impact. The European Development Finance Institutions (EDFIs) offers an important platform for dialogue and cooperation on decent work between EDFIs.

*Stakeholder Engagements.* Swedfund recognizes the importance of conducting structured stakeholder dialogues and having meaningful consultation associated to our activities and investments and with relevant partners such as trade unions, private sector actors, experts or civil society organisations, and IGO's such as ILO, to increase contribution to the Decent Work Agenda.

## 1.3 Measurement & Goals

Swedfund's goal in relation to SDG 8 and decent work as specified by our owner, the Swedish government is that *100% of Swedfund's portfolio companies shall act consistently with the ILO's Declaration on Fundamental Principles and Rights of Work within 3 years from investment.*

In addition, Swedfund has adopted the following strategic target regarding jobs: *Majority of portfolio companies shall display growth in terms of number of employees.*

Annually, Swedfund measures and reports the following KPI:s on decent work (SDG 8):

- i) The share of portfolio companies acting consistently with the ILO's Declaration on Fundamental Principles and Rights of Work;
- ii) The share of portfolio companies that have implemented an Environmental and Social Management System, including Human Rights;
- iii) Number of fatalities and other incidents reported from the portfolio companies;
- iv) Number of jobs in the portfolio;

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<sup>4</sup> **ILO Basic Terms and Conditions of Employment** in line with EDFI definition refers to Hours of Work (No. 1) and Minimum Wage (No. 26, 131).

- v) Number and share of companies showing growth in number of jobs; and
- vi) Indirect job creation.

The results are reported in Swedfund's Integrated Report.

## 2. Decent Work Lens Process

Swedfund's investment process applies a decent work lens to all investments; this entails an integrated approach to analyze investment opportunities from a decent work perspective. The lens aims to address decent work aspects throughout the entire lifetime of an investment, i.e. at the initial due diligence, during the active ownership phase and during the exit phase.

A fundamental aspect of the decent work lens is to safeguard and promote adherence with national labour legislation and respect for international labour standards. Swedfund applies: IFC Performance Standards (primarily PS2), which is guided by ILO's Declaration on Fundamental Principles and Rights of Work; ILO's Basic Terms and Conditions of Employment; and the United Nations Guiding Principles on Business and Human Rights (UNGP), in the assessment and management of its investees.

### 2.1 Concept Clearance - Initial Risk and Impact Analysis

The aim during the Concept Clearance phase (CC), is to assess the preliminary environmental and social aspects of the project as well as understand the initial key decent work risks and impact, at the country, contextual and sector level, and project level. Where contextual labour risks are high, or where certain specific labour risks are already known, it is a trigger to undertake an enhanced labour due diligence.

Under the EDFI Declaration of Principles for Responsible Finance, there is a universal Exclusion List, which prohibits investments that involve any form of child labour or forced labour.

The findings from the assessment are documented in the CC memo.

### 2.2 Due Diligence - Decent Work Risks and Impacts Analysis

During due diligence, an expanded and refined analysis of decent work impact and risks of the potential investment is conducted. Based on the understanding of the contextual and company-specific risks, the aim of the due diligence is to assess the investment's management systems and capabilities required for managing these risks and improving labour standards performance.

For financial inclusions (FI) and funds, additional assessment is conducted of the investment's management capacity and practices to assess and manage relevant labour risks in underlying portfolio.

Information and data are collected through Due Diligence Questionnaires and other investment documents, covering essential decent work aspects within the scope of IFC Performance Standard 2 (PS2), ILO's Declaration on Fundamental Principles and Rights of Work, and ILO's Basic Terms Conditions of Employment and other standards that are applicable. Furthermore, interviews with management and staff representatives, document review, on-site visits or other assessments are conducted to assess and verify adherence with required standards. In addition, labour standards and labour laws can be included in the scope of the legal due diligence to ensure compliance with local labour laws.

Where the due diligence findings are satisfactory but reveals gaps in compliance and/or client capacity to ensure compliance, these are addressed in the ESG Action Plan, which sets out a time-bound plan with priorities, goals and targets for reaching the necessary standards.

## 2.3 Active Ownership – Monitoring and Support

During the active ownership phase, Swedfund undertakes ongoing monitoring and engagement with the portfolio company, to assess ongoing performance regarding decent work, ESG Action Plan implementations and to identify which areas that can be positively impacted and improved. Performance is assessed based on data collected in the annual sustainability reports, site visits and audits, and through other collaborations. As part of the active ownership Swedfund can provide capacity building and technical assistance to support the implementation of decent work specific projects and related requirements in the ESG Action Plan.

Swedfund leverages its potential roles on boards or other relevant governance structures to monitor and promote the value of decent jobs, to create more sustainable and productive businesses.

Swedfund expects its portfolio companies to develop a grievance mechanism available for employees and stakeholders. To complement this, Swedfund has its own grievance mechanism that is also available for portfolio companies' stakeholders.

## 2.4 Exit – Assessment of Withstanding Impact

An integrated commitment of Swedfund's responsible ownership is to assess (i) the results of risk mitigating and value adding activities, and subsequently (ii) the withstanding impact of Swedfund's engagement in the company's continued activities. This is an integral part of the investment cycle as the realisation of wider impact primarily occurs in the long-term.

### 3. Further Information

For further information and feedback, please contact Swedfund's ESG & Impact team – [johanna.raynal@swedfund.se](mailto:johanna.raynal@swedfund.se).



## Swedfund's Decent Work Lens Process

