

Background Paper:

Promotion of sustainable management in developing countries by the seco

In the framework of the economic and trade policy measures that form part of Switzerland's development cooperation efforts, the State Secretariat for Economic Affairs (seco) is the competence centre for the promotion of sustainable economic growth in developing and transition countries, as well as for their better integration into the world economy. SMEs in the chosen partner countries are an important target group for seco-supported measures. In numerous developing countries, it the SMEs that form the basis for economic growth, which in turn is a prerequisite for achieving poverty reduction. In the globalised economy the division of labour is becoming ever more prominent. It provides increasing numbers of companies in developing countries with the possibility of directly exporting finished or semi-finished products or of acting as suppliers to transnational corporations. Today, these products must on the one hand satisfy international technical standards and on the other meet the demands of international consumer needs. Increasingly, the same also applies to production processes and cycles undergone by products in these firms. In the majority of partner countries, the knowledge relating to these correlations and the corresponding standards is at best patchy, if available at all; the reason being that the necessary know-how and corresponding local institutions are lacking or are simply too weak. At the same time, companies wanting to upgrade or expand their production facilities are forced to turn to financial intermediaries for long-term capital or seek technology cooperation agreements with other companies from industrialised countries. However, these are only possible if the basic rules of modern corporate management can be respected.

At the forefront of these measures, which seco implements with the help of specialised mediation organisations on site, either bilaterally or with multilateral partners, are the following particular approaches along the national and international value-added chain:

- i) Access to long-term financial and investment resources; seco projects provide support to SMEs in accessing long term capital or joint venture partners.
- ii) Optimisation of technical production processes; seco projects provide SMEs with knowledge about environmentally efficient technical production methods.
- iii) Optimisation of production cycles and working practices of employees; seco projects strengthen the basic labour conditions in SMEs.

In order to successfully implement these three approaches at company level, management must be convinced and the company has to provide active support. However, management is only prepared to cooperate as long as there is suitable economic return. Environmentally and socially acceptable production and access to long term capital has to be worthwhile at company level. The measures supported by seco in the field of sustainable management are based on practical measures and are often of an indirect nature.

Introduction of Corporate Governance in South Eastern Europe and Central Asia: Corporate governance is a set of mechanisms by which a company is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the company, including Shareholders, the Board of Directors, managers and other stakeholders. The corporate governance structure also establishes the rules and procedures for making decisions on a company's affairs. A key objective of corporate governance is to adequately protect the best interests and fair treatment of the shareholders in a company, as a company's objective should be to maximize shareholder value for all its shareholders, both local and foreign. Corporate governance does not relate to the day to day management of the company, other than defining the rights and responsibilities of the management team. Partners in the promotion of Corporate Governance are the OECD, the International Finance Corporation of the World Bank Group and the European Bank for Reconstruction and Development.

Promotion of environmentally-friendly forms of production through Cleaner Production Centers: Cleaner Production is a strategy which enables service and goods companies to produce in a way that is more sparing on resources and consequently more economical (environmentally-efficient). Cleaner Production is the consistent implementation of the principle whereby production processes and companies must be efficient in order to remain competitive on the international market. With a systematic search for possibilities to optimally process energy and material resources in products and services, resources can be used more efficiently and environmental burdens reduced because less waste and emissions are produced per unit of production. Such environmentally-efficient methods of production will not be achieved through technical improvements and investments alone, but depend in particular on changes in behaviour by management and employees. Partners in the promotion of cleaner production include the UN Industrial Development Organization, the Inter-American Development Bank, technology and engineering facilitators such as universities and independent experts.

Promotion of basic labour standards through the Factory Improvement Programme: Providers of big multinational companies in developing countries are on the one hand required to achieve every time higher quality standards while the pressure on the prices in the globalised economy keeps being strong. On the other hand, the multinational companies themselves suffer consumer pressure, in order to work only with suppliers complying with international labour conventions. Further more, new communication media such as internet as well as a stronger commitment of NGOs, which communicate labour abuses in short time around the globe, leads to a raising concern of big multinational companies resulting in a strict provider control.

The methodology of FIP was designed on these latest global developments, and as well on the fact that progress must be based on a change of attitude on the top company level. Therefore FIP suggests to train managers of a group of selected providers in development countries in issues such as productivity, overtime and pay, social dialogue and communications, human resources and organization culture and discrimination as well as

on issues of health and safety. Achieving higher productivity and quality standards through improved labour conditions will be the main message of the manager skill training. Monitoring will be based on indicators such as absenteeism, labour turn over and accident rate, which are closely linked to productivity and quality issues. Project designer and partner during the implementation phase is the International Labour Organization (ILO) in Geneva.

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