

ACTION RESEARCH IN PERU'S WOOD AND FURNITURE SECTOR: CARVING OUT A NEW APPROACH FOR BETTER JOBS

By Callie Ham, September 2017



International
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In the field of development consider the following scenario: Tara works on a project in Country X that aims to increase income for 800 small enterprises and create 1,000 new jobs. Six months of analysis, 4 years of implementation, and a post-project two-year evaluation later, Tara's team finds out that the project failed to have the impact they were hoping for. \$1 million dollars down the drain. Frustrated by the evaluation results, Tara wishes she could have steered the ship in another direction.

Often in development, projects are so bound by project documents that detail the activities for achieving the project's objectives, that it makes it nearly impossible to correct them when new information indicates they are wrong. What's more, programs often do not collect data that indicate if interventions are veering off course during implementation – results are collected and evaluated only after the project finishes.

So we at 'the Lab' tried something different. In searching for the best means of improving working conditions in Peru's wood and furniture sector, a sector wrought with safety hazards, insufficient health coverage and high labor turnover, the Lab explored the idea of 'action-research' but with the soul of a market systems approach.

The process was relatively simple. After looking at several sectors in Peru and determining the wood and furniture sector to be the most relevant, inclusive, and feasible to change—the founding principles of an market systems approach—the project complemented the research with a scoping exercise to figure out the likely underlying causes to poor working conditions in the sector. This allowed the project to develop well-defined hypotheses about why they existed and what would remedy them. Over the ensuing year the Lab then tested its hypotheses and adapted them to reflect evolving insights. No arbitrary benchmarks, no rigid planning, and no unreasonable expectations. Just trying things that can do no harm, seeing what sticks, learning from it, and building on it.



FOUR HYPOTHESES GUIDED THE RESEARCH

HERE IS A GLIMPSE OF EACH ONE:



THE SKILLS GAP

In the wood and furniture sector, employers found it nearly impossible to find qualified workers. Skilled workers struggled to find work. With plenty of work available, why then the gap? We looked to training services, who told us that while they used to offer courses in some furniture-related professions, namely carpentry, no one enrolled. The lights were up, but the chairs were empty.

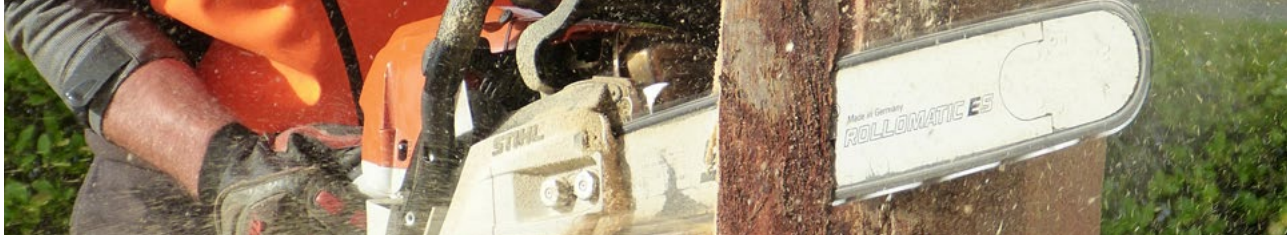
Our first thought was that curriculums used by institutions were out of date. So we planned a survey to capture what worker skills enterprises needed. However, we eventually found out that most workers actually learned on the job through mentorship-type relationships. Plenty of workers had the right skills, but didn't possess a formal document proving it, and contractors weren't willing to take a risk on hiring workers based on their word that they were properly skilled workers. So we switched tactics.

Luckily, one of the key market players—CITE Madera, the technology and innovation center for wood under the Ministry of Production—was also keen to address this skills-gap problem. Together, and with

the support of other development agencies like GIZ, we backed the development of a skills certification system in which workers could get certified for the skills that they learned on the job. Simultaneously, they could identify any holes in their current skill-sets that would allow them to upgrade into stronger job applicants. To test the waters, we funded two “occupational profiles” (out of 14 defined under the sector). This allowed us to first gauge the effectiveness of the certification system—and whether or not workers would actually enroll—before putting all our eggs in one basket.

As it turned out, not only did it work, but the success of the pilot profiles was enough to pique the interest of the Ministry of Finance. The Lab then coordinated with the Ministry of Labour and the Ministry of Production to find a way to jointly apply for a public investment project (PIP) to fund the remaining profiles under a larger project of 170 million soles (over 52 million USD). This is a prime example of how a relatively small investment and a facilitative approach can get you a lot with a little.





THE INFORMATION GAP ON OCCUPATIONAL RISKS

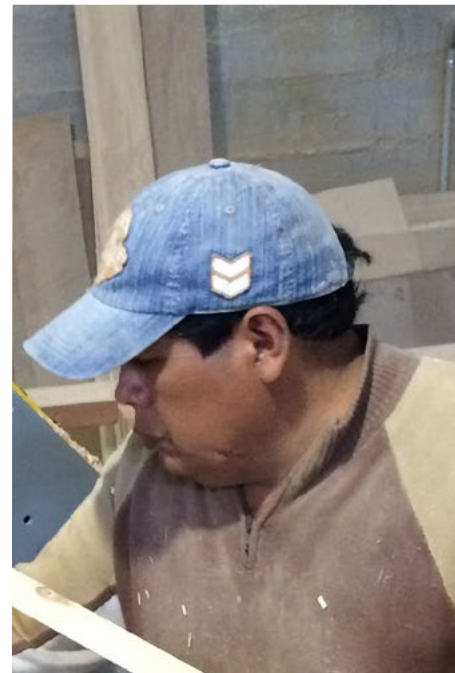
In Peru, the standard public health insurance often requires patients to wait months before seeing a doctor. In the case of a severed finger, this is far too long. Because of this backlog in the health care system, workers see little value in the health benefits associated with formal contracts. But this isn't the case with *all* jobs. The Ministry of Health classifies certain sector occupations as *hazardous*, extending special health insurance to workers in those industries – quicker service to better clinics with additional coverage.

Construction is one of those sectors. In the wooden furniture value chain¹, most activities are linked to construction. However, 'carpentry'—a segment of the value chain that is the last step in production—is not associated with construction. This is a problem for several reasons: one is the simple fact that carpenters don't get access to the appropriate services. Another is that it may actually discourage carpenters from working formally and, in effect, expose them to further precarious conditions inherent to informal work. Because in reality, many carpentry workers preferred informal working arrangements and declined formal contracts as the contractual benefits, including regular health insurance of a formal contract failed to outshine the appeal of payment of cash-in-hand.

Interestingly enough, when we conducted interviews with carpentry companies contracted to do work on construction sites—and who were therefore obligated to pay the extra insurance—both workers and employers conceded that extended health coverage, though more costly for the enterprise, was actually beneficial. Workers acknowledged they received timely services at better clinics and appreciated that the risk associated to their work was officially recognized. Employers admitted that the additional costs they had to pay for the extended services were marginal when compared to the fine they may otherwise incur from the national labor inspection agency (over US\$10,000 in one case), and that the extra insurance removed the dilemma of having to 'deal with' workplace accidents.

The Lab took these findings to the Ministry of Health, which acknowledged that carpentry should, in fact, be on the list of hazardous sectors and has taken steps to change legislation to incorporate it. It is a long path, but the ILO will continue to fight for this change, which could improve health coverage for up to 18,600 workers.

1 'Wooden furniture' is a value chain within the broader 'wood and furniture' sector





THE KNOWLEDGE GAP ON BEST PRACTICES

While looking for ways to improve documentation of workplace accidents at the forestry level, we came across an opportunity we may have missed if we hadn't been so flexible. The National Forestry and Wildlife Authority (SERFOR), under the Ministry of Agriculture and Irrigation, was developing new regulations for forest management. Included in these was the provision of discounts on timber concessions to enterprises that could prove they complied with best practices in one or more categories covered under formal guidelines.

One such category was best practices for working conditions. From the ILO's perspective this meant a huge plus for improving job quality. The problem was that SERFOR lacked the expertise and resources to develop this before the deadline for finalizing the regulation, so there was a risk that working conditions wouldn't be included at all. The Lab, with support from the PAGE program², offered to take it on, and SERFOR gladly accepted.

Once developed and refined, the guidelines were then validated in focus group discussions with enterprises working in forestry. As soon as it is up and running, the Lab expects the business model to be a win for all parties. Employers lower their business costs on purchasing concessions, workers experience better workplace practices, and the government improves forest management. SERFOR projects that this could potentially improve working conditions for 13,000 workers in over 3,600 enterprises in the country. If it works, it could serve as a model for how to build incentive structures to improve working conditions alongside business growth and responsible resource management. This is a case for how being adaptive can lead you to the 'right', locally owned solutions.



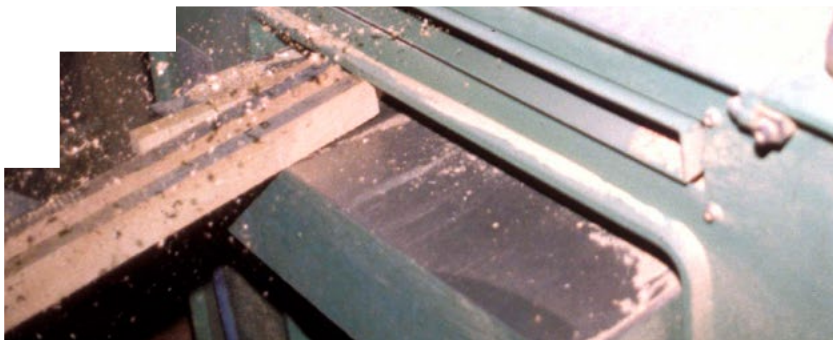
² Partnership for Action on Green Economy (PAGE), see <http://www.unep.org/greeneconomy/what-we-do/partnership-action-green-economy>



THE MARKET ACCESS GAP

Walk onto the factory floor of a furniture exporting enterprise and you see every worker wearing boots, helmets, goggles, gloves, ear muffs, masks and back braces. Machinery is regularly serviced. Scraps and waste are neatly stored in a designated place. However, walk onto the floor of an enterprise servicing the domestic market and you see zero protective equipment, outdated rusty machinery, and workers napping on piles of scraps that spill across and cover the majority of the work space. What's the difference? Enterprises serving foreign markets made the necessary investments to meet international standards, both in product quality and job quality. International buyers demand that the enterprises in their supply chain provide safe working conditions, and because they are operating in the formal sector, the government also regularly checks on compliance with national regulations. The domestic market, however, is driven by cheap low-quality products, and are difficult for the government to monitor. Here, informal enterprises forgo investment in occupational safety and health to undercut their competitors on price.

Clearly, access to foreign markets can have a positive indirect effect on working conditions. The question, then, is whether or not there are barriers preventing additional enterprises from reaching foreign markets. And if so, could we feasibly address them to draw more enterprises into the export business? It's a question worth exploring. The Lab financed a study to see if it could debunk some of the local perceptions held by many businesses we spoke to that international buyers just don't appreciate the local Peruvian designs. The study did, in fact, reveal that there is room for Peru on the international market, but some key investments were needed to first build the groundwork within its borders, including expanding certified forestry concessions, diversifying and rebranding the wood species used in furniture-making, improving mechanisms for drying cut wood, and standardizing production. Much of the needed changes could not happen without a unified public-private strategy, so the Lab presented its findings and recommendations to the key market players with a vested interest in developing the sector. It is still early days, but the proposed roadmap could lead Peru's furniture sector down a path of simultaneous export growth and safer working conditions.





IN SUMMARY

After one year of using this action-research approach, the Lab managed to work with public and private agencies to:

- Jump-start a program to validate the skillsets of workers without formal education to assist them in finding more secure and better paid employment;
- Start the legislative process for providing coverage to workers insufficiently protected by health insurance;
- Provide employers a financial incentive for improving working conditions on forestry plantations; and
- Expose the unlocked potential of the export market and its direct effects on job quality.

WE DID SO BY

- Paying close attention to the incentives and capacities of different stakeholders in choosing the sector. Without flexible key actors who want to invest in the sector, facilitating any kind of long-term sustainable impact is quite simply not feasible. Because we had these market champions, such as CITE Madera and SERFOR, many more opportunities emerged beyond what we even thought possible when first setting out.
- Being flexible and adaptive to new information. Open to making mistakes and free from the limitations that a narrowly defined project document or donor agreement often put on projects, we were able to reallocate resources to areas where we saw greater opportunity. This allowed us to make incremental progress towards systemic change.

All this for pennies on the dollar of what most projects would cost and quite possibly with longer lived impact.

For the full action research report (in Spanish), see http://www.ilo.org/empent/Projects/the-lab/WCMS_542016/lang--en/index.htm.



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