

Keynote Speech
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“Creating a Conducive Environment for Sustainable Enterprises”

45th Anniversary of the Mauritius Employers Federation (MEF)
-Sustainable Enterprises and Creating Jobs for the Future-
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It is an honour for me to address this distinguished gathering on the occasion of your celebration of the 45th Anniversary of the Mauritius Employers' Federation.

I would like to thank my good friend Azad Jeetun and all members of the Board of the Federation for your kind invitation.

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If I may start with a personal note: this visit, my first ever to Mauritius, is very significant for me, because for years I have been reading about the parallels between the development experience of Mauritius and that of my own country, Costa Rica.

I. Mauritius and Costa Rica

Even as both countries are facing particular challenges in 2007 and beyond, both Costa Rica and Mauritius are widely regarded as successful cases of integration into the world economy. In a short 30 to 40 years, the two countries clearly achieved what most developing countries want – a dramatic change from production and dependence from one or a few primary products to some degree of diversification into competitive production of manufactures and services in world markets, creating employment and decent work for a large majority of their populations and raising living standards.

I understand that Mauritius is now at a crossroads, as the loosing of trade preferences and developments in the world market for sugar, are affecting at least two of the four pillars of development. xx

But let me briefly look at the past. If one looks at the experience of CR and Mauritius one finds that, despite some important differences, both countries followed broadly similar policies. A comparative study by Nathan Associates in 2003 identified the following similarities between our countries:

1) Both countries began to move toward rapid, sustained export and economic growth in the early 1980s with sound macroeconomic policies, a

stable and competitive exchange rate, controlled government spending, but accommodating social expenditures and safety nets, and providing scope for the expansion of the private sector.

2) Export Processing Zones were important in both countries, and provided much of the investment and export dynamism as well as a very significant contribution to employment creation.

3) Both countries used foreign direct investment attraction policies heavily, but wisely. Environmental concerns were taken into account in promoting tourism in both countries.

4) Democracy has been a crucial asset in the economic success of both countries. Both have had a democratic system, respectful of political opposition, the rights of free speech and press, and, in general the rule of law.

5) Both are small economies. Costa Rica's population is 4.5 million and Mauritius is close to 1.5.

6) Both countries have promoted a welfare state. The political culture of both has emphasized the role of the government as provider of services, social protection and as distributor of benefits. In both countries this also has led to push the limits of fiscal capacity, facing difficult adjustment periods during downturns. But both countries have been able to adjust because of the strength of their political institutions.

7) Pragmatism. In both countries, real progress occurred after the early 80s after facing serious national crisis and rising external debt. Both faced the limitation of import substitution policies and adopted a gradual and pragmatic approach based on a mixed strategy: providing some moderate protection to domestic producers while vigorously promoting exports and attracting investment.

8) Both countries received significant amounts of foreign aid, and generally used it well for development projects with a good return.

9) Not everything was a planner's paradise of course. Both countries have muddled through. They never developed fully comprehensive and consistent policies. Rather, the political compromises required to achieve a consensus seem always to leave the reforms incomplete, at least in the opinion of external donors. In other words, we have not consistently made donors and international financial institutions happy. And have introduced a number of heterodox policies.

10) No army. Costa Rica abolished its army after the revolution of 1948. Mauritius never had one following Independence. This removed once source of political instability, and a major source of expenditure which could then be used for development purposes.

11) And finally, of course, progress has been no panacea. The obvious success of both countries compared to their neighbors has not brought popular contentment with the progress made. In both countries there is some degree of dissatisfaction with inequalities, wage levels, the quality of government services, the rate of growth of the economy, and the honesty of politicians among other issues.

So this is how one study views and compares our development paths. You are much better placed to say whether this short development story broadly fits the experience of Mauritius. I can tell you that these stylized facts quite closely fit the Costa Rican experience. I would only slightly correct this short story by placing more emphasis on the role of education and skills upgrading policies which, if I have to name but one factor, I would say has been the key for Costa Rica's success in climbing the ladder of competitive advantage. And I think there might be important lessons in this respect for Mauritius.

This brief comparison has already brought me to the core issues of the theme of your Conference: "Sustainable Enterprises and Creating Jobs for the Future".

II. Employment strategies

Let me now tell you briefly about the ILO's approach to employment policies, to then focus on the recently agreed upon approach to the promotion of sustainable enterprises.

Employment promotion is part of the core business of the ILO. The basic approach is contained in a document called the Global Employment Agenda, adopted by the Governing Body in 2003. This is the employment pillar of the broader Decent Work Agenda of the ILO.

The Global Employment Agenda, or GEA, as we call it for short, contains a comprehensive approach to employment policies. It is based on a number of principles and values, as well as a list of key policy areas. It argues that best results are achieved under a comprehensive and integrated approach that pays attention to the demand-side and the supply-side; the macro and the micro-policies, the quantity but also the quality of jobs.

This graph, which we call the Policy Framework in One Page, contains all the relevant elements. Let me explain them briefly.

On the right hand side, there is a list of the **outcomes** or goals that any national growth and employment strategy might wish to achieve. These goals should not focus only on the reduction of unemployment, but also on the rate of employment and the reduction of informal employment. They should also include targets for women, youth and other groups. And they should include **qualitative** goals, not just because the country should comply with International Labour Standards, but also because good standards are positively associated with higher productivity, innovation and competitiveness.

On the left side, you have the **four building blocks** of a sustainable growth, employment and development policy: Values and principles, including full respect for fundamental workers' rights and International Labour Standards; Economic Growth; Equity and Social Inclusion, and Good Governance and social dialogue.

In the middle green column, you have the Checklist of **Key Policy Areas** and sub-areas:

- First, economic policies for employment expansion. This is the demand-side which includes macroeconomic policies, trade policies, the investment climate, and sectoral policies. These are all policies that affect opportunities for the private sector for growth and therefore influence the creation or demand for jobs.
- The second policy area is skills, education and technology policies which affect the employability of workers, the competitiveness of particular sectors and the flexibility of the whole economy to attract investment and climb the ladder of comparative advantage.
- Third, is enterprise development policies, which in turn can be conceived as including four elements: the general policy and regulatory environment; policies to support linkages and upgrading along value-chains; local economic development policies; and workplace practices to improve productivity.
- The fourth area is labour market institutions, regulations and policies, including employment services to better match supply and demand for labour, as well as active labour market policies to facilitate adjustment to change.
- Fifth, governance, empowerment and organizational capital, which includes the quality of institutions as well as capacities for representation and social dialogue.

- Finally, social protection policies, which not only promote social justice by protecting workers, but also influence the flexibility of the labour market to respond to changes in competitive conditions.

The third column is an illustrative list of employment policy TOOLS under each policy area, in particular tools that we have in the ILO for technical assistance and capacity building of constituents, such as the KAB programme launched in Mauritius yesterday.

Of course the most difficult challenge is how to prioritize policy interventions in these different areas. We believe that a good understanding of the local circumstances and an inclusive social dialogue process are the best methods to prioritize these areas into an effective and coherent employment strategy adapted to the particular circumstances of each country.

As you can see enterprise development is central as a driver of employment creation in this vision. Indeed, the ILO has quite a strong enterprise development programme that has been strengthened in recent years.

III. A 21st Century vision from the ILO on enterprises and development

But what then is the ILO's Tripartite view about the role of the private sector for growth, employment creation and poverty reduction?

Recognizing the importance of the private sector for employment and development, the ILO constituents decided to have this precisely as the main subject of discussion in their International Labour Conference in 2007.

The conclusions of this discussion are truly forward looking. They draw on the latest thinking on sustainable development, entrepreneurship promotion and good corporate citizenship. They add real value and guidance to policy-makers, employers' and workers' organizations, and companies as well.

And since they are a global consensus arrived at by tripartite discussion between governments, employers and workers, they provide a powerful shared vision, very useful for consensus building processes at the national level.

The ILO constituents agreed on three fundamental issues:

- First, they defined in a rather precise manner the pillars of what constitutes an environment conducive to sustainable enterprises development.
- Second, they outlined six guiding principles enterprises must follow in order to be sustainable and maximize their contribution to society, and

- Third, they outlined the main elements of the roles of governments and of social partners in the promotion of sustainable enterprises.

1. A conducive environment for business

On the first issue, our constituents agreed that a conducive environment is one that combines the legitimate quest for profit – a key driver of economic growth – with the need for development that respects human dignity, environmental sustainability and decent work.

They also agreed that the enabling business environment is one that comprises a large array of factors, the relative importance of which may vary at different stages of development and in different cultural and socio-economic contexts. However, there are some basic conditions that are generally considered to be essential. These interconnected and mutually reinforcing conditions can be divided into four broad categories: political, economic, social and environmental. (See **Slide 2**).

Political pillar

First and foremost sustainable enterprises require *peace and political stability*. War and civil conflict do not only destroy lives and dreams, they also poison the soil where entrepreneurship can grow.

Peace and political stability of course requires nurturing. They can only be sustained in societies that strive to improve *governance* and *social justice*. Only where there is *respect for universal human rights and international labour standards* and where *social dialogue* is valued rather than feared, enterprises can grow to their full potential.

Good governance means democratic political institutions, transparent and accountable public and private entities, effective anti-corruption measures and responsible corporate governance. Good governance thus defined is a key condition for making markets work and be more responsive to the values and long-term goals of society.

Competitiveness is key for open economies under globalization. But competitiveness should be built on values. *Respect for human rights and international labour standards*, especially freedom of association and collective bargaining, the abolition of child labour, forced labour and all forms of discrimination, is a distinctive feature of societies that have successfully integrated sustainability and decent work. Effective exercise of the right to organize and bargain collectively is also an effective means to ensure fair distribution of productivity gains and adequate remuneration of workers.

Economic pillar

Let me turn now to the second pillar. It refers mainly to sound economic policy, appropriate incentives and the provision of adequate support services

to make enterprises globally competitive and socially and environmentally responsible.

The first condition is of course *sound and stable macroeconomic policy*. Sound economic management should balance the twin objectives of creating more and better jobs with combating inflation and provide for policies and regulations that stimulate long-term productive investment. Attention should also be given to increasing aggregate demand as a source of economic growth.

Trade and sustainable integration into the world economy is also a fundamental condition. Lifting barriers to domestic and foreign markets expands markets and generates efficiency gains that can lead to positive and significant employment growth. Developing countries should build their capacity to export value-added products, manage change and develop a competitive industrial base. In this process, adjustment costs including job dislocation, are inevitable, therefore measures must be taken by governments in consultation with the social partners, to better assess and address the employment and decent work impact of trade policies.

Countries must also establish an *enabling legal and regulatory environment*. Poorly designed regulations and unnecessary bureaucratic burdens on businesses limit enterprise start-ups and the ongoing operations of existing companies, and lead to informality, corruption and efficiency costs. Well-designed transparent, accountable and well-communicated regulations, including those that uphold labour and environmental standards and promote *fair competition*, are good for markets and society. They facilitate formalization and boost systemic competitiveness. Regulatory reform and the removal of business constraints should not undermine such standards.

The *rule of law and secure property rights* are also indispensable conditions. A formal and effective legal system which guarantees all citizens and enterprises that contracts are honoured and upheld is a key condition not only for attracting investment, but also for generating certainty, and nurturing trust and fairness in society. Property is more than simply ownership. Extending property rights can be a tool for empowerment and can facilitate access to credit and capital.

Equally indispensable for sustainable enterprise development is *access to financial services, information and communication technologies, and adequate physical infrastructure*. They provide the competitive production platform on which employers can exercise their creative power to innovate and build successful enterprises.

Social pillar

The third pillar of a conducive environment for business refers to social conditions and the need to invest in people. *Social justice* is of paramount importance. Inequality and discrimination are incompatible with sustainable

enterprise development. A high level of inequality can be a brake on growth and development. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed. Business thrives where societies thrive and vice-versa.

One dimension of social justice but also of competitiveness is investing in people. *Education, training and lifelong learning* are the starting points. Human talent is the single most important productive factor in today's economy. Focusing on the development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning is important for helping workers to find good jobs and enterprises to find the skilled workers they need.

The education system should include amongst its aims the development of a solid *entrepreneurial culture*. Entrepreneurial culture is not an easy concept to define. Most people have a reasonably clear view of what an entrepreneur is but may struggle to define what qualities best describe an entrepreneurial person. Are they born or made? Does the spirit of enterprise rise out of necessity or from the luxury of choice? Perhaps the following parable most neatly distinguishes an entrepreneurial mindset:

A shoe manufacturer sent two sales persons to Africa to study the prospects for expanding its business. The two travelled together to rural Africa and observed the same things. After a few days, the first sent back an email saying: "No one wears shoes; situation hopeless". The other wrote back triumphantly: "No one wears shoes; glorious opportunity".

Adequate social protection is also acknowledged by successful countries as a key competitive advantage and as symbol of their commitment to social progress. Universal social security that provides citizens access to key services such as health care, unemployment benefits, maternity protection and a basic pension, are key to improving productivity and fostering transitions to the formal economy, and ILO estimates suggest that a minimum social floor is not just a luxury of developed societies, but it is an aspiration that can be financially feasible in many developing countries.

Environmental pillar

Last but not least, an enabling environment for sustainable enterprises includes what our constituents defined as *responsible stewardship of the environment*. In the absence of appropriate regulations and incentives, markets can lead to undesirable environmental outcomes. Tax incentives and regulations, including public procurement procedures, should be used to promote consumption and production patterns that are compatible with the requirements of sustainable development.

2. Six enterprise-level principles for responsible business

Establishing an enabling or conducive environment for sustainable enterprise development is a shared responsibility. Governments, employers and workers are of course all vital players. This process however is only half of the story. Paraphrasing John F. Kennedy, it is important to ask not only what governments and society can do or should do to make the most of the forces of entrepreneurship. It is also necessary to ask what enterprises and entrepreneurs must do to maximize their contribution to society.

This question was also discussed by the ILO's tripartite constituents. And they agreed on six enterprise level principles that enterprises should abide by:

(1) Sustainable enterprises should engage in *social dialogue and good industrial relations*, such as collective bargaining, consultation and participation. These are effective instruments to promote shared values, trust and cooperation.

(2) *Human resource development*. Sustainable enterprises view skilled workers as a major source of competitive advantage and view employees both as assets and agents for change.

(3) *Conditions of work*. Sustainable enterprises offer conditions of work that provide a safe and motivating working environment and mutually beneficial flexible work organization. They adopt workplace practices that are free of discrimination, harassment and intimidation. They promote gender equality and equal opportunity and treatment of vulnerable groups. They apply workplace practices that maintain a sustainable balance between work, life and family, and recognize the role of women in sustainable development. Sustainable enterprises are also respectful of the fundamental labour standards.

(4) *Productivity, wages and shared benefits*. Workers need to be able to participate in the success of enterprises and to gain a fair share in the benefits of economic activities and increased productivity. This helps to contribute to a more equitable distribution of income and wealth.

(5) *Corporate social responsibility (CSR)*. CSR can provide workers and other stakeholders with further opportunities to engage enterprises on the social and environmental impact of their activities. The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) and the OECD Guidelines for Multinational Enterprises provide guidance on good corporate behaviour and citizenship.

(6) *Good Corporate governance and business practices* are based on values such as accountability, fairness and transparency, respect for the rule of law and for fundamental principles and rights at work.

3. Role of governments and social partners

The third element of the shared Tripartite vision on the promotion of sustainable enterprises refers to the roles of governments and social partners.

For the ILO, the role of governments is threefold:

- (1) First, creating an enabling environment by ensuring the basic conditions I have just discussed
- (2) Second, going beyond these basic conditions by proactively establishing programmes and policies to create incentives for enterprises to develop and behave in a responsible and sustainable way.
- (3) Behaving themselves as sustainable enterprises, both as employers and procurers of goods and services.

Employers, workers and their organizations, in turn, have a vital role to play. Employers can contribute via advocacy, representation and services.

- *Advocacy* would include active participation in the design of policies and regulations that encourage sustainable enterprise development.
- *Representation* requires broadening and deepening membership, including to micro and small enterprises, and those operating in the vast informal economies of poor countries, and,
- *Services* involves providing business services to members, including knowledge management, training, awareness raising, advice and guidance, research and consultancy, on matters like innovative practices at the workplace, industrial relations and corporate social responsibility.

Indeed, on this point, I am aware of the many excellent initiatives launched by the MEF in such areas as business development, entrepreneurship promotion and productivity management through a range of successful programmes which we in the ILO have been very glad to support in a number of different ways. In fact just yesterday I had the pleasure of participating in the opening of two of your most recent such programmes - the new Know About Business and the Create Your Own Business programmes.

Concluding remarks

So there you are: A comprehensive and modern vision for the 21st Century from the ILO regarding the role of the private sector in socio economic development.

A vision that speaks to entrepreneurs about the need to manage their enterprises following modern principles of responsible management for the triple bottom line (economic, social and environmental); that speaks to governments and societies about the need to create a conducive environment

for business if they want to create wealth, good jobs and reduce poverty; and that speaks to social partners about their responsibilities in sustainable development and social dialogue.

Sustainable development is about getting a number of balances right. Development experience around the world has taught us that this is not an easy task. Development is not a linear process, and it is not necessarily a historical destination for all societies. Societies need to do many things and do them all well.

Having a blueprint like the one I just described, agreed globally by governments, employers and workers, may be helpful for your national discussions to put some of these issues in perspective. All of this calls for new forms of cooperation between government, business, labour and society at large. At the ILO it is our hope that this document might be helpful in your search for the unique answers required by Mauritius in terms of export diversification, technological and skills upgrading.

In the past, Mauritius and Costa Rica have done many of these things and it has payed-off. You have a working democracy, you have quality institutions and you already have a lot of success on which to continue to build virtuous circles. And as success breeds success, and the most valuable resource of a country is its people, and you recognize this and have invested and continue to invest in them, I have no doubt that in the future the entrepreneurs and the workers of Mauritius will continue to surprise the world with your creativity and innovation, and that Mauritius will continue to create more and better jobs for the new generations.

Thank you for your attention.