

On the 20 June 2008 PT Ernst & Young Advisory Services (EYAS) issued in final report on the Review on the Adherence to Supplier Code of Conduct to Canadian Red Cross (CRC). This Summary represents condensed summary of the findings of the Review.

In its Terms of Reference for this compliance review project, CRC stated that it has recently received reports, albeit largely unsubstantiated, of unreasonable (and possibly illegal) treatment of some construction works by the Contractors employed by CRC to undertake the housing program, in response to the devastation in Aceh province caused by the massive tsunami in December 2004. These reports include the issues of delay and incomplete wages paid, wages below prevailing local industry standards and the unfair treatment of the construction workers by Contractors.

Following certain due diligence and tendering processes, CRC selected contractors to undertake the construction works. In addition, firms were also selected as Engineering Consultancy Firms (ECFs) to provide day-to-day supervision on the Contractors.

Based on the above, CRC requested EYAS to conduct a review of the Contractors' compliance with the Supplier Code of Conduct (CoC) as outlined in the Letter of Engagement, including:

1. The review of CRC's Contractors adherence to the Supplier Code of Conduct.
2. The review of the monitoring, complaint and investigation mechanisms for violations of the Code of Conduct
3. Provide recommendations on improving awareness and effectiveness of the Supplier Code of Conduct among construction workers and Contractors.
4. Provide recommendations on improving the Supplier Code of Conduct monitoring, complaint and investigation mechanisms including the roles of ECFs as the Contractors' supervisors.

Our fieldwork review was conducted from 02 June 2008 to 20 June 2008 covering six selected villages in Aceh. These six villages were selected by CRC. Five additional villages (not included in the original scope of work) were also partially covered and their corresponding findings are disclosed in the full review report. All findings in the full review report were compiled as of the date stated above.

1.1 Background of Construction Working Relationships

CRC had selected Project Management Unit (PMU), which acted on behalf of CRC to manage all the shelter program held by CRC. PMU is the party which has direct contact with the Contractors and the ECFs for supervising on technical and non-technical sides in order to monitor the construction progress.

Contractors manage the construction process. The Contractors sub-contracted part of the construction jobs to other parties. It is common practice in Aceh and other parts of Indonesia to sub-contract to foremen the labor supply (workers) for construction of houses.

In view of the above, a contractual relationship existed between the Contractors and the foremen. The foremen arranged for the availability of workers on the sites by recruiting workers to be paid for their daily work. However, on some occasions, foremen also opted to give part of the subcontract (the building of some houses) to certain groups of workers for a bulk price per house (lesser than the original price per house as paid by the Contractors).

Working relationships between foremen and workers were based on verbal agreements. There were no formal written contractual agreement nor employment relationship between the foremen and workers. And neither between the Contractors directly with the workers, although some conditions relevant to workers (e.g. workers must wear PPE, barracks were provided by the Contractors and entitlement to go home for every 4 months, among others) were stipulated in the contracts between the Contractors and the foremen.

1.2 Adherence of the Supplier CoC

CoC is an integral part of the contractual agreements signed by CRC with the Contractors and ECFs. At the time of signing of the contracts, CRC communicated its CoC to the Contractors.

A. General Observations

General observations on the CoC adherence highlighted the following issues:

- CoC is not supported by detailed guidelines for implementation nor detailed interpretation regarding what comprises compliance for each Supplier CoC component
- The Supplier CoC has not been properly communicated by the Contractors to the foremen and workers to ensure a common understanding of what is expected from them in terms of compliance
- Adherence to the Supplier CoC has not been systematically monitored

In absence of a detailed interpretation of what comprises compliance of the Supplier CoC components, certain indicators for each component were used to verify adherence of the Supplier CoC by the Contractors. It should be noted that the following Supplier CoC components are not covered by this review namely working hours, discrimination, environmental commitment and anti-corruption commitment.

Detailed observations were disclosed in the full review report, under the following focus areas:

- Health and Safety (work environments, prevention of accidents or injuries, living facilities)
- Child Labor
- Disciplinary Practices/Coercion
- Wages and Benefits (legal requirements for wages/benefits, pay workers directly)

1.3 Recommendations

1.3.1 Adherence to Supplier CoC

The following recommendations are proposed to strengthen adherence of Contractors and foremen to the Supplier CoC:

- Development of agreed measureable indicators for Contractors and ECFs.
- Development of socialization program of Supplier CoC to foremen and workers.
- Development of policies and guidelines for (periodic) monitoring and review of Contractors' detailed records to substantiate their compliance with the Supplier CoC.
- Enforcement of sanctions regarding the non-compliance as stipulated in the Supplier CoC
- CRC should assign resources to independently monitor adherence to the Supplier CoC by Contractors.

1.3.2 Supplier CoC monitoring, complaint handling and investigation mechanisms

The following recommendations are proposed to strengthen Supplier CoC monitoring, complaint handling and investigation mechanisms:

- Development of policies and guidelines for proper handling of complaints.
- Establishment and socialization program of whistleblower hotline for anonymous reporting (complaint channelling) of any Supplier CoC violations.
- Development of investigation standards and procedures to follow up and respond to any reported Supplier CoC violations.
- Revisions/amendment of existing contracts between the ECFs and CRC to specifically include role of ECFs in monitoring of Supplier CoC implementation.