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A paradigm shift for higher wages

Binding Agreements on Wages and Purchasing Practices and Industry Transformation

ACT

ACTFORCAMBODIA

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ACT

ACT is an agreement between global brands, retailers and IndustriALL Global Union to enable long-term improvements in wages and working conditions in the global garment industry through collective bargaining linked to purchasing practices, paving the way for living wages and facilitating win-win outcomes for workers, employers and global brands.

We sincerely thank the following contributors whose invaluable support and expertise are pivotal to advancing our mission:

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Foreword

Transformation through Action and Collaboration

Sudden transformative shifts in global supply chains and industrial relations are rare. Progress unfolds incrementally, making it crucial to recognise significant breakthroughs. ACT in Cambodia is just that: For the first time in history, a collective bargaining agreement between national social partners is supported by enforceable commercial commitments and legally anchored in the supply chain through binding agreements signed by global brands and retailers.

ACT was established with a clear purpose: to transform the garment, textile, and footwear industry through meaningful collaboration and bold action. We have worked to establish new standards of binding agreements and accountability on purchasing practices to forge pathways towards meaningful change for workers and the industry across global supply chains.

Systemic transformation requires change that is enduring, enforceable and grounded in the realities of industrial relations. It needs to be embedded in structures, not slogans. The Cambodia programme stands as an unprecedented milestone in this journey.

The ACT framework of Supply Chain Industrial Relations is not only new in its architecture but unique in its conception and development. It is this dual innovation - joint development and structural linkage of collective bargaining to purchasing practices through binding agreements - that makes the programme stand out.

Informed by trust and systematic dialogue, it is based on the shared belief that fair wages and decent working conditions can no longer be left to voluntary commitments or fragmented initiatives on purchasing practices or living wages.

In this report, we are proud to share in detail how this process unfolded, amplifying the voices of those who have been instrumental in shaping it.

As with any true transformation, the journey itself has been almost as significant as the destination. Pioneering an entirely new model where none existed before was a bold undertaking that tested our resolve. But it has also been deeply rewarding, and we can see that the process itself has already profoundly changed the modus operandi of the participating supply chain partners.

For those involved, the change is already tangible. We have witnessed extraordinary dialogue, rigorous negotiations, and a level of collaboration previously thought impossible in this field. Together, we have built trust, deepened mutual understanding and navigated a landscape once seen as inhospitable to win-win solutions on wages and working conditions.

What made this possible? A bold and yet pragmatic approach, a shared commitment to meaningful outcomes, and, above all, the extraordinary engagement of our Cambodian partners and ACT members. Their perseverance, creativity, and dedication to dialogue, not only as a gesture but as a means to binding results, were indispensable.

Critical feedback has strengthened the process of effectively mitigating risks and recognising that there is no one-size-fits-all solution. There are no shortcuts, progress has come step-by-step, aligned with the priorities and needs of all parties involved aiming for a win-win-win.

We feel privileged to have worked alongside so many committed individuals, organisations, companies, and institutions who have contributed to making successful supply chain industrial relations a reality. We are deeply grateful for the engagement, the constructive feedback and the shared ambition that have made this milestone possible.

ACT extends an open invitation to brands, manufacturers, trade unions and advocates alike. The work of transformation is far from complete. Join us in shaping a future where global supply chains are not only efficient but fair, not only productive but just. A future built on action and collaboration.

Mira Neumaier
Executive Director, ACT

"If living wages is a big apple, workers need a ladder to pick the apple. We are building that ladder. This is the first mechanism that includes buyers in the wage support structure. It is groundbreaking as no one has managed to set anything like this up before."

Athit Kong, *President, Coalition of Cambodian Apparel Workers' Democratic Union (C.CAWDU)*

"The programme presents an opportunity because, globally, it has never been done before. Buyers from our industry have never committed to paying wages higher than the minimum wage of each respective country. This is a groundbreaking commitment that the buyers sourcing from Cambodia have made."

Ken Loo, *Secretary General, Textile, Apparel, Footwear & Travel Goods Association in Cambodia (TAFTAC)*

Executive Summary

This report explores the ACT (Action, Collaboration, Transformation) programme in Cambodia and the historic brand-supported Collective Bargaining Agreements (CBAs) established in Cambodia's Garment, Textile and Travel Goods Industry.

Global garment supply chains are marked by competitive pressure that impedes wage improvements. The ACT programme in Cambodia is delivering scalable and sustainable improvements of wages while keeping the industry competitive.

For the first time, global brands and retailers have signed legally binding agreements with IndustriALL Global Union to support higher wages and better working conditions in their supply chain. These binding Support Agreements include legally enforceable purchasing practices commitments on country sourcing volumes, incorporation of wage increases into costing, and financial contributions to a skills training fund. They are monitored and enforceable through binding international arbitration.

At the national level in Cambodia, the social partners, the Employers Association and the Trade Unions, developed a template Collective Bargaining Agreement (CBA) that enables standardised and brand-supported CBAs at factory level across the sector. By engaging global brands and creating a standardised CBA template, the social partners in Cambodia ensure the connection to the legally binding brand agreements with IndustriALL. All factories adopting the template CBA (hereinafter "CBA") benefit from the binding brand commitments.

The CBA includes among other things wage increases and family leave provisions above the law, guarantees on freedom of association, prevention of harassment, industrial peace, and a dispute resolution mechanism. Complementary to national minimum wage increases, the CBA supports harmonious and productive workplace relations and ensures a common approach among factories.

The ACT programme in Cambodia offers a unique opportunity for the supply chain actors to become market leaders for predictable and future-proof garment production while delivering cutting-edge due diligence and more resilient supply chains.

With collective bargaining supported by binding purchasing practices commitments at the heart, the programme catalyses industry collaboration to achieve lasting transformation and success for employers, workers and brands.

"The amazing thing about ACT in Cambodia is that we have all the key players at the table - workers, employers, and us as buyers - each bringing their needs and priorities while taking on their roles and responsibilities. By committing to each other and agreeing on a way forward together, we can address complex issues with the necessary nuance and create a positive outcome for everyone."

Julia Bakutis, *Senior Sustainability Social Manager, H&M Group*

"ACT in Cambodia is a great example of a win-win outcome in the global supply chain. This is the first time in any supply chain, in any industry, that brands have signed a legally binding agreement with a global union to support pay increases outlined in a CBA."

Michael Bride, *Senior Vice President Corporate Responsibility, Global Affairs at PVH Corp.*

For the first time, global brands and retailers have signed legally binding agreements with IndustriALL Global Union to support higher wages and better working conditions in their supply chain.

"The agreement we now have with brands to support collective agreements in the Textiles and Clothing sector in Cambodia is innovative and groundbreaking. Brands have legally committed to upholding their production volume in Cambodia no matter what the outcome of the new collective agreement is and they have committed to ring-fencing labour costs of the same agreement. This means that the brands will bear the costs of the collective agreement, and that there is no risk for our affiliates or the production sites in signing the agreement. We have worked on this for many years, and we finally see the result. This shows that when you take time to build trust and understanding you can achieve great things."

Atle Høie, *General Secretary, IndustriALL Global Union*

1. A Groundbreaking Supply Chain Collaboration

For decades, reliable improvements in wages and working conditions have remained a pervasive challenge in the global garment industry. The industry's global supply chain is characterised by structural complexities and entrenched competitive pressures, making unilateral, voluntary initiatives by manufacturers or brands fundamentally limited and ineffective. Manufacturers, as well as international brands are operating under persistent competitive pressure that limits any possibility for raising prices along the supply chain.

The industry operates under a constant need to ensure lower costs through productivity increases. These supply chain dynamics have translated the steady productivity increases in large parts of the global industry into lower output costs, allowing suppliers to provide competitive pricing, rather than wage increases for workers. To ensure workers can benefit from productivity growth and receive a larger share of the added value, productivity and efficiency improvements need to be complemented by minimum wage setting mechanisms and collective bargaining frameworks.

A collaborative approach is the central pillar of the ACT model of supply chain industrial relations.

In the few circumstances where positive wage developments have taken place, like in Cambodia over the past decade as a consequence of government intervention through statutory minimum wage increases, they were the exception and were not supported through an adequate supply chain infrastructure to ensure long-term sustainability.

Facilitated through ACT (Action, Collaboration, Transformation), manufacturers, brands and trade unions in Cambodia have come together in a *Brand-Employer-Union Group* to jointly develop the first ever supply chain industrial relations framework to improve wages, strengthen industrial relations, and foster a stable and competitive industry. In a historic move, the parties agreed a groundbreaking brand-supported collective bargaining agreement framework.

Manufacturers, brands and trade unions in Cambodia have worked together to develop the structure for legally-binding agreements between brands and IndustriALL Global Union which support collectively bargained wages for workers in the Cambodian garment, footwear and travel goods sectors.

By addressing the underlying supply chain dynamics the agreed structure strengthens the industry and delivers win-win-win outcomes for the industry, for workers and for global brands.

> **“Based on more than 20 years of work in this industry, negotiations with manufacturers and suppliers alone have led to little success. That’s why these agreements between IndustriALL and brands are a major breakthrough—they enable collective bargaining and wage increases for workers.”**

Athit Kong, President, Coalition of Cambodian Apparel Workers’ Democratic Union (C.CAWDU)

The national social partners - employers and trade unions in Cambodia - are in the driving seat in a collaborative structure with international brands and retailers and IndustriALL Global Union.

Figure 1 - A Groundbreaking Collaboration

This collaborative approach is the central pillar of the ACT model of supply chain industrial relations. It is crucial in facilitating a fair sharing of risks and benefits, addressing underlying power imbalances and ensuring that wage increases and working conditions are systematically improved while keeping the industry competitive.
The inclusion of the supply chain actors is also necessary to ensure that all aspects of the programme are tailor-made to address the priorities of all the stakeholders: workers and trade unions, factories and suppliers, and global brands and retailers.

This sets a global benchmark for meaningful stakeholder engagement with social dialogue and collective bargaining at the heart of corporate human rights due diligence to address systemic supply chain challenges. It also creates a transparent and reliable framework to ensure brand action on purchasing practices is not a stand-alone activity but actually results in higher wages and better working conditions for workers in the supply chain.

> **“The ILO development has been a big breakthrough this year, ACT has also been a big breakthrough and I think from other sectors there are many eyes on this model, on how you create trust between partners but also through legally binding procedures and how that can help derisk the social dialogue process between the partners.”**

Allan Jorgensen, Head of Responsible Business Conduct Centre, Organisation for Economic Co-operation and Development (OECD)

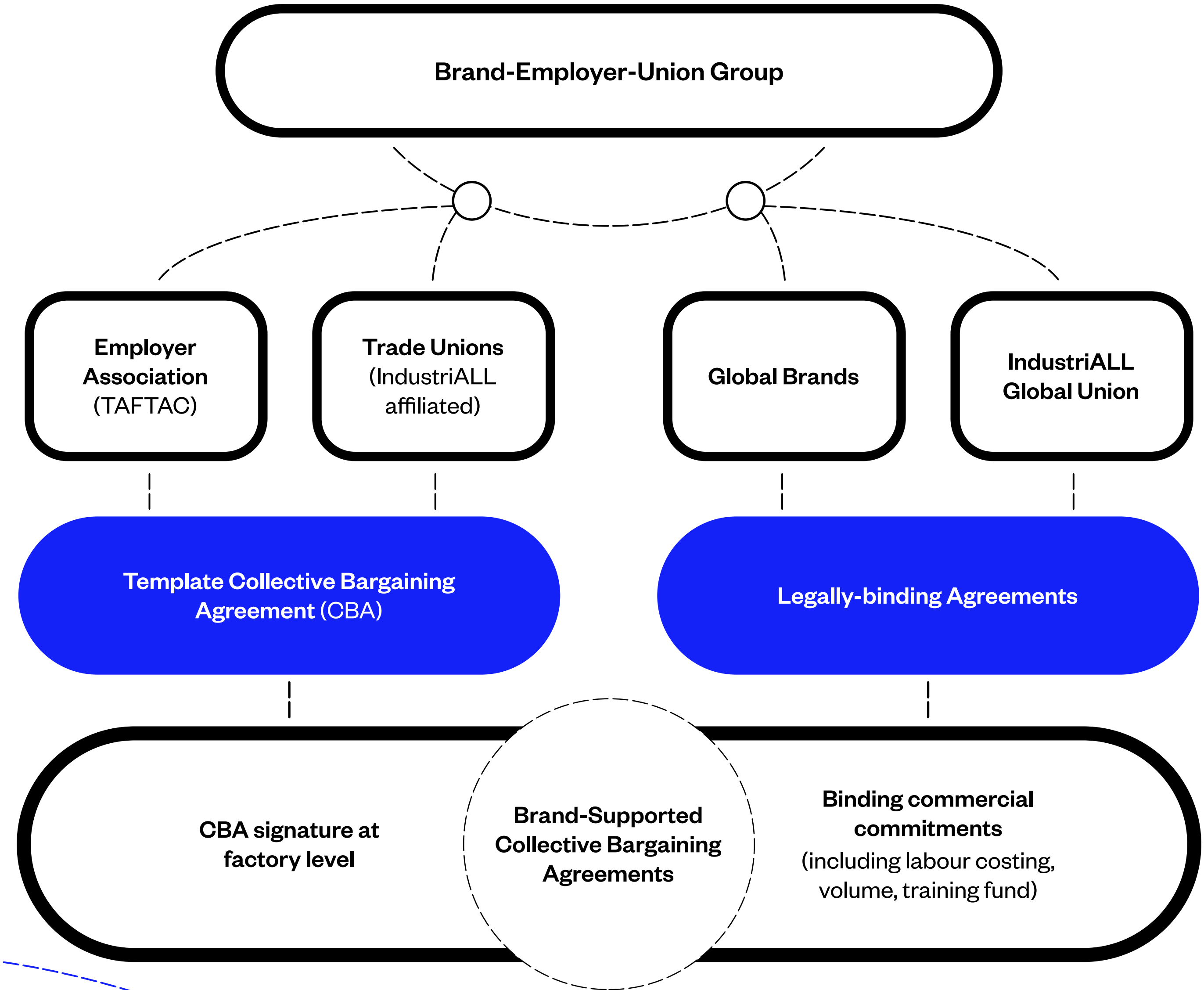
2. Supply Chain Industrial Relations: How does it work?

The ACT Framework of Supply Chain Industrial Relations was developed to address the long-standing challenges in the garment sector through social dialogue and the implementation of negotiated, binding agreements.

The negotiation process and its outcomes as shown in figure 2 represent the first of its kind Supply Chain Industrial Relations infrastructure in any global industry.

The structure is as complex as it is comprehensive.

Figure 2 - ACT Framework of Supply Chain Industrial Relations



Achieving lasting change in the global supply chain required aligning multi-level and multi-pronged negotiations between diverse entities with different corporate and organisational structures across multiple jurisdictions. Progress required steady development of trust between stakeholders, the identification of joint priorities and a commitment to overcome challenges together.

While the structure is complex, the outcome is straightforward. Binding collective bargaining agreements increase wages while ensuring employer and worker priorities and expectations are met. And a second set of binding agreements between global brands and IndustriALL Global Union ensures higher wages and improved working conditions in the supply chain through these CBAs can be sustainable and any potential risks mitigated.

Through the *Brand-Employer-Union Group*, global brands, manufacturers and trade unions, therefore agreed on a framework consisting of two sets of complementary binding and enforceable agreements:

- Legally binding Support Agreements between global brands and IndustriALL Global Union, where brands are committing to support standardised collective bargaining agreements (CBAs) in their supply chains in Cambodia.
- A CBA template developed by the Cambodian social partners, setting coherent wage and benefit standards for implementation at factory level. All factories implementing this standardised CBA benefit from the enforceable brand commitments in the binding Support Agreements.

These two sets of binding agreements – Support Agreements on the international level, and CBAs at the national level – enable trust and accountability across the supply chain. While maintaining the integrity and independence of the national collective bargaining process, a trilateral *Brand-Employer-Union Group* jointly developed the framework to connect the CBA to the Support Agreements and identified the key areas of brand support, which would incentivise and support the implementation of CBAs in Cambodia. In highly complex global supply chains, the development of the two sets of agreements is the result of an agile and responsive supply chain industrial relations process.

The engagement of national social partners with global brands has fostered a more coordinated approach to industrial relations, laying the foundation for sustainable growth in Cambodia's garment industry.

"The key thing for us is the collaboration. We couldn't make this difference by ourselves, it's a collaboration working with all the different brands, working with ACT, the unions and TAFTAC. That is the emphasis for us, if you all work together you can actually start to make a difference."

Melissa Craft, Head of Responsible Sourcing and Quality, New Look

"If this model that we have been working on is able to be replicated in other countries, we will be able to shift from auditing and voluntary commitments to real industrial relations, that brands have a role in. This is a real breakthrough."

Christina Hajagos-Clausen, Director, Textile and Garment Industry, IndustriALL Global Union

In highly complex global supply chains, the development of the two sets of agreements is the result of an agile and responsive supply chain industrial relations process.

3. Binding Support Agreements: What are the Benefits?

The binding Support Agreements signed by global brands and retailers ensure concrete support to factories and workers for the implementation of collectively bargained wages in Cambodia. Their key features are a set of commitments designed to support the industry and specifically those factories that sign a CBA, based on the agreed template CBA, and a monitoring and dispute resolution process which allows enforcement of the support commitments.

The agreements ensure that all direct and indirect labour costs are incorporated in purchasing prices and ring-fenced during price negotiations.

Binding Brand Commitments: A transformative shift

The binding Support Agreements include commitments on:

1. **Country Sourcing Volumes:** Secure volumes of orders placed in Cambodia and incentives to factories to sign CBAs.
2. **Ringfencing Labour Costs:** Incorporating wage increases into purchasing prices, ensuring wage increases are fully reflected in brand costing calculations.
3. **Skills and Training Fund:** Financial contributions to a dedicated fund that compensates workers during training and skills development, enabling factories with CBAs to provide paid training opportunities.

The fund is designed to ensure that workers do not experience a loss of income while participating in training by providing financial support to workers to attend skills training.

1. Commitments on Sourcing Volumes

Commitments on sourcing volumes ensure that brands stay committed to Cambodia as a sourcing destination as the CBA sets a new standard in the industry. The commitments are also structured to incentivise individual factories to sign CBAs and for factories to benefit from being part of the process.

2. Ringfencing and Incorporating Labour Costs in Purchasing Prices

The binding Support Agreements ensure that all direct and indirect labour costs are incorporated in purchasing prices and ring-fenced during price negotiations. This means that all increases in labour costs from the CBA are reflected in the prices that brands pay for products from CBA factories. The commitments on labour costing and their accountability mechanism outlined in the individual Support Agreements include all the standards outlined in the ACT Labour Costing Protocol and go further by addressing specific priorities of manufacturers in Cambodia, especially related to the determination of factory efficiency and expectations on efficiency growth.

This commitment allows for clear definitions, transparent communication, and predictable management of how brands will support labour cost increases and improvements in working conditions.

3. Skills and Training Fund

Signatory companies also commit to contributing to a Skills Training Fund (STF), providing incentives and funding to increase training and skills development in factories that have signed a CBA. The fund is designed to ensure that workers do not experience a loss of income while participating in training by providing financial support to workers to attend skills training. This ensures that workers do not face a financial penalty when choosing to participate in training.

The activities supported through the STF were developed collaboratively and discussed by an expert roundtable of Cambodian industry stakeholders, including employers', trade unions, representatives of training institutes and industry experts. The development and engagement with relevant stakeholders aimed to ensure that the Skills Training Fund reflects the needs of the industry and is aligned with relevant national frameworks and overarching sector strategies. The activities supported by the training fund are specifically structured to strengthen existing national frameworks of skills development and vocational training and prioritising the overarching strategy of developing a skilled workforce which can adapt to the changing labour market in Cambodia.

The fund aims to increase individual workers' skills and the overall productivity in the sector and is designed to advance the priorities of the social partners and the governments' strategic outlook reflected in the sector strategies and roadmaps on training and skills development. Therefore, the fund aims to support and increase the participation rates by workers in training focused on technical skills, including sewing operator training, training on new and different machinery, production management, and quality assurance.

The priorities and governance of the fund were jointly developed between the brands, employers and unions to overcome some of the barriers to skills training in the industry, accelerate the delivery of training to a large number of workers and ensure the skills development articles agreed as part of the template CBA can be implemented in CBA factories.

Ensuring Accountability: Monitoring and Enforcement of Brand Commitments

Unlike voluntary initiatives or commitments, these legally binding Support Agreements signed between global brands sourcing from Cambodia and IndustriALL Global Union are enforceable through international arbitration. The agreements include clear monitoring and reporting obligations, and compliance is monitored through:

- External verification audits assessing wage cost integration.
- Annual third-party reporting on volume commitments and fund contributions.
- A structured dispute resolution process, with arbitration at the Permanent Court of Arbitration in The Hague.

The mechanisms and reporting tools for monitoring the brands commitments on volumes, labour costing and contribution to skills development are clearly outlined in the Support Agreements. In addition to regular monitoring meetings between IndustriALL Global Union and the respective signatory brand, each commitment is monitored through a specific mechanism. IndustriALL receives annual reports from a third party clean room partner on the compliance with the volume commitment and from the ACT secretariat on the payments to the STF.

The commitment on labour costing is monitored through an external verification process, based on an agreed verification protocol which outlines the evidence and information brands have to submit to an independent audit firm for verification. This includes both increases in labour cost as a consequence of the CBA as well as all other direct and indirect labour costs.

Any disputes on the implementation of the agreement between the Signatory Parties are to be resolved through an agreed Dispute Resolution Process outlined in the Agreements. Either party may seek a final and binding resolution of the dispute by arbitration in accordance with the International Labour Arbitration and Conciliation Rules at the Permanent Court of Arbitration in The Hague.

> **“This is part of our larger strategy as IndustriALL: we want to move from voluntary CSR to binding agreements to mitigate risks in the supply chain. Low wages in the garment sector is an identified risk and we knew that to be able to move past this risk and ensure that brands are held accountable. For that we need legally binding support agreements.”**

Christina Hajagos-Clausen, Director, Textile and Garment Industry, IndustriALL Global Union

Win Win Win

The ACT Cambodia programme is a unique opportunity to achieve win-win-win outcomes for manufacturers, workers and buyers.

4. Collective Bargaining in Cambodia's Garment, Footwear and Travel Goods Industry

The counterpart to the binding Support Agreements signed by global brands and retailers are standardised CBAs, based on an agreed CBA template. The social partners in Cambodia – the Employers' Association and the Trade Unions – developed a template CBA which allows factories to sign a standardised CBA. This enables brand-supported Collective Bargaining Agreements (CBAs) at factory level across the sector. Through this supply chain industrial relations framework, the social partners in Cambodia ensure the connection of the standardised CBA to the brand commitments in the binding Support Agreements.

> **"If living wages is a big apple, workers need a ladder to pick the apple. We are building that ladder. This is the first mechanism that includes buyers in the wage support structure. It is groundbreaking as no one has managed to set anything like this up before."**

Athit Kong, President, Coalition of Cambodian Apparel Workers' Democratic Union (C.CAWDU)

Forming a foundation for sound industrial relations and stable workplaces, the standardised factory-level CBAs based on the template introduce new industry standards that complement national laws while securing brand support for wage developments that are transparent, accountable, and sustainable. This structure ensures wage growth for Cambodian garment workers by providing predictable and reliable wage increases determined through social dialogue.

Building on the minimum wage process, the CBAs help to ensure real wage growth for Cambodian garment workers.

> **"The CBA can build better industrial relations between the employers and worker unions, and it can provide crucial benefits for workers and the industry. Workers can expect higher wages, additional maternity and for the first time in the industry paternity leave. The CBA will also contribute to the productivity and peace for factories and the industry through the social dialogue."**

Pav Sina, President, Collective Union of Movement of Workers (CUMW)

The standardised factory-level CBAs set clear expectations for both workers and employers, enhancing stability and productivity while reducing turnover. This common approach ensures a level playing field for all factories implementing CBAs.

Key provisions include wage increases, Freedom of Association, family leave, prevention of harassment, industrial peace, and a transparent dispute resolution mechanism. The CBA ensures wage growth is transparent, accountable, and sustainable, complementing national wage policies while securing long-term benefits for manufacturers and their workforce.

Snapshot of the CBA Benefits for Workers and Employers

- Guarantees on Freedom of Association (FoA)
- Wage increases ($6 USD per month on top of the base wage)
- Special Leave (3 days extra above the law)
- Maternity Leave (10 days extra above the law)
- Paternity Leave
- Skills Development Fund
- A Dispute Resolution Mechanism (DRM)
- Industrial Peace

The CBA wage increase is complementary to the national minimum wage process. Building on the minimum wage process, the CBAs help to ensure real wage growth for Cambodian garment workers.

This means that the CBA wage increases are not abstract benchmarks but are established through collective bargaining between the social partners, it provides predictable and reliable wage increases supported through the supply chain.

"The CBA template brings real, tangible improvements to workers' lives—benefits that we've never had before. In addition to meaningful wage increases, it introduces extended maternity and paternity leave, improved working conditions, and job security. Most importantly, it guarantees the protection of our right to freedom of association, which empowers workers to raise their voices without fear. This is not just a contract — it's a foundation for dignity, respect, and a better future for all workers."

Sam Sreymom, Women' s Committee Chair, Free Trade Union of Workers of the Kingdom of Cambodia (FTUWKC)

By signing the CBA, factories can address the priorities of workers and employers through new standards which are complementary to existing national laws and mechanisms and secure binding and enforceable support from global brands.

"The CBA has negotiated higher wages, it has increased maternity benefits and a new piece is that it has paternity benefits as well. It also has a grievance mechanism where the two parties - the industry and the trade unions - have agreed on a process to handle violations of the agreement. What is also important is that it is legally binding. It is a contract between employers and their trade unions that both parties are bound by."

Christina Hajagos-Clausen, Director, Textile and Garment Industry IndustriALL Global Union

5. ACT for Cambodia: What's in it for employers, workers and brands?

"The industry used to operate on a zero-sum logic - the ACT approach has fostered a win-win-win."

Ken Loo, Secretary General, Textile, Apparel, Footwear & Travel Goods Association in Cambodia (TAFTAC)

By establishing this innovative supply chain framework, the industry in Cambodia is demonstrating global leadership and setting a new benchmark for other countries and industries. The ACT Cambodia programme is a unique opportunity to achieve win-win-win outcomes for manufacturers, workers and buyers.

The Binding Support Agreements demonstrate a commitment by brands to supporting substantial and sustainable progress. Using legally-binding agreements to cement trust and foster collaboration sets an important precedent for the global industry. These agreements are profoundly different from what the global garment industry has seen in the past as they can ensure that benefits and responsibilities can be equitably distributed among brands, employers, and workers.

- **The ACT programme represents the first mechanism that directly includes buyers in the wage support structure for Garment workers.**
- **The approach addresses competitive pressures in the supply chain through social dialogue and legally binding accountability.**
- **The CBA and Binding Support Agreements enhance transparency, accountability, and predictability in managing labour costs for manufacturers.**
- **They also enable manufacturers to uphold the highest standards in compliance with international due diligence regulation, further strengthening the reputation with global buyers.**
- **The brand-supported CBAs at factory-level increase wages and benefits for workers while setting agreed mechanisms for dispute resolution and industrial peace, facilitating stable and productive supply chains.**

Stable and productive workplaces with binding brand support

For Manufacturers, the CBA and Binding Support Agreements enhance transparency, accountability, and predictability in managing labour costs and ensure binding brand support to cover all direct and indirect labour costs. The CBAs allow manufacturers to uphold the highest standards in compliance with international due diligence expectations, further strengthening their reputation with global buyers.

Through ACT, employers, brands and trade unions have developed the first mechanism that directly includes buyers in the wage support structure, addressing the competitive pressures in the supply chain through social dialogue and legally binding accountability. The binding Support Agreements and CBAs are designed to overcome historic supply chain dynamics, which acted as barriers to improvements in wages and working conditions.

The enforceable commitments on volume and preferential sourcing ensure that global brands support stable and growing orders for the Cambodian industry. In addition, commitments on ring-fencing of labour costs ensures the incorporation of higher wages and all labour costs as itemised costs during fact-based price negotiations.

The Skills Training Fund will be accessible to factories signing the CBA manufacturers, supporting the development of a highly skilled workforce to enhance productivity and competitiveness of CBA factories and the industry overall.

> "A unique commitment under ACT is a commitment from the brands to contribute towards a training fund which factories that have signed the CBA can call upon to provide an allowance to their workers so they can be sent for training for upskilling and reskilling."

Ken Loo, Secretary General, TAFTAC

Higher wages, better working conditions and effective access to remedy

For workers, the supply chain industrial relations framework which incentivises and supports manufacturers in signing the CBA provides a fundamental shift in workplace relations.

In the economic environment of global supply chains, increasing the output per worker - raising productivity - will not automatically raise wages. Collective Bargaining Agreements, however, can ensure that workers benefit from productivity growth and that a larger share of the added value stays with workers in the producing countries.

Workers and their trade unions benefit from the higher CBA wage and improved conditions, as well as from the constructive industrial relations infrastructure at factory and sector level.

The Dispute Resolution Mechanism (DRM) and industrial peace clause in the CBA ensures that grievances can be effectively handled without disrupting production and through an agreed framework which builds trust between manufacturers, workers and their trade unions, and global brands.

Workers and trade unions benefit from having a mechanism through which they can raise grievances directly with manufacturers, supported by a supply chain industrial relations framework with global brands.

At the same time, both manufacturers and brands directly benefit from having stable sourcing locations with an industrial relations framework that respects national law and International Labour Standards.

> "It's also about building trust, and by having this mechanism, this collaborative environment through ACT, we are able to listen and understand and learn what is required. This allows us to support this process of social dialogue in order for the social partners to come to an agreement of what a collective bargaining agreement would be for Cambodia."

Frances Goodwin, Living Wage Lead, Primark

ACT Cambodia: Cutting-edge due diligence on purchasing practices, wages and freedom of association

Purchasing practices, wages and freedom of association are some of the most challenging areas of due diligence as they are subject to intense competitive pressure and hard to implement and monitor in a way that delivers measurable impact for rightsholders. While the link between brand purchasing practices and wage levels in the supply chain is largely recognised, many initiatives and frameworks focus on improving purchasing practices as a stand-alone measure to *enable* wage increases for workers. However, only enabling wage increases through better purchasing practices without providing a mechanism to actually *deliver* wage increases for workers in a sustainable and scalable way falls short of ensuring the necessary impact.

The ACT Cambodia programme delivers measurable and scalable impact by (a) jointly developing the necessary purchasing practices commitments to facilitate wage increases, (b) making them binding and enforceable, and (c) connecting them to collective bargaining between the social partners as the proper modality for wage setting in line with the conclusions of the ILO Meeting of Experts on wage policies, including living wages.

With the ACT programme, global brands and employers prove leadership in delivering on international human rights due diligence standards including the UN Guiding Principles on Business and Human Rights (UNGP), the EU Corporate Sustainability Reporting Directive (CSRD) and the EU Corporate Sustainability Due Diligence Directive (CSDDD) by:

- **integrating due diligence into policies across the supply chain**
- **systematically implementing meaningful stakeholder engagement**
- **effectively preventing and addressing adverse impacts on freedom of association and wages as some of the most complex areas of due diligence.**

ACT in Cambodia is also the first programme globally to offer a concrete mechanism to operationalise the 2024 ILO conclusions on wage policies, including living wages (see section 6) in the context of global supply chains.

Cutting-edge due diligence, resilient supply chains and investor expectations

For signatory brands, the binding agreements with IndustriALL Global Union provide a credible due diligence mechanism to improve wages and working conditions in their supply chains as well as demonstrable proof of meaningful stakeholder engagement and an effective locally embedded grievance mechanism. CBAs provide stability and predictability in supply chains and the supply chain industrial relations framework brings brands closer to employers and workers allowing an innovative and effective approach to supply chain risk management.

Global companies continue to face challenges in meeting investor expectations on brand actions regarding progress on wages and respect of the fundamental rights to freedom of association and collective bargaining in their supply chains.

In 2023, the Platform Living Wage Financials (PLWF) - a coalition of 24 financial institutions, managing over €7 trillion in assets, who are committed to enabling living wages and living incomes in global supply chains - highlighted the importance of systematic involvement of trade unions and employers' organizations and the signature of binding agreements to improve working conditions in supply chains[1]. Recognizing the systemic issue of underpayment in supply chains, the financial institutions under PLFW urge companies to assume their responsibility in enabling labour standards in global supply chains and annually review investee companies' performance on living wages and incomes.

Reporting on improvements in purchasing practices alone cannot provide conclusive evidence on their effectiveness and their results in delivering improved working conditions. Through supply chain industrial relations, brands and retailers can provide evidence of meaningful stakeholder engagement with trade unions and employers, demonstrate credible accountability on purchasing practices through enforceable commitments with external verification, and show that increased wages occurred as a direct result of tangible brand action on purchasing practices. Through the ACT framework of supply chain industrial relations, global brands and retailers can show a direct causal relationship between purchasing practices commitments and an increase in wages and improved working conditions.

The implementation of the CBAs in the supply chain also requires a close engagement with suppliers and factories during the dissemination of and communications regarding the commitments in the binding agreements.

> **"At the Platform Living Wages Financials, we see the ACT programme in Cambodia as part of an architectural shift to strengthen the voices of workers and create accountability within due diligence processes. For us as investors it is an important reassurance mechanism in the move away from voluntary mechanisms."**

Petter Forslund, Engagement Manager, AP2 | Management committee Member of the Platform Living Wage Financials

1 *Platform Living Wages Financials (2023):* Commemorating Rana Plaza, available at: https://livingwage.nl/2023/04/commemorating-rana-plaza/.

6. Action, Collaboration, Transformation: A First of its Kind Blueprint for Industry Change

The global garment industry is constantly driving to increase efficiencies, innovate and minimise costs. In the context of global competition this drive can stand in contrast to the impetus to increase wage and labour costs. Attempts by individual manufacturers, brands or governments to achieve higher wages in the garment sector need to be complemented by the coordinated binding support of international brands and retailers.

Through brand-supported CBAs, the ACT programme in Cambodia established a supply chain industrial relations framework that is a blueprint for sustainable wage-setting mechanisms in global supply chains in line with ILO recommendations (see box below).

Core to the ACT approach are that (1) the interventions are jointly negotiated by global brands, employers and trade unions from production countries and therefore tailor-made, allowing for the specific interests and priorities of national industries to take centre stage and (2) that purchasing practices improvements do not stand on their own but are embedded into binding agreements in support of collective bargaining agreements which deliver higher wages.

As recommended by the ILO, the ACT framework systematically supports social dialogue and collective bargaining between the social partners in production countries.

The ILO on wage policies, including living wages

The International Labour Organisation (ILO) is a specialized agency of the United Nations that brings together governments, employers and workers to set International Labour Standards for the world of work. Until now, meeting the ILO's constitutional call for promoting a *"minimum living wage to all employed"* has largely remained an enigma in global supply chains.

In 2024, the tripartite constituents of the ILO - governments, workers and employers - have provided clear guidance for operationalizing the concept of living wages. The tripartite ILO Meeting of experts[2] concluded that *"**Collective bargaining** and/or statutory minimum wage fixing through tripartite social dialogue should be the proper modality for setting and adjusting wages"* (ILO 2024, p.1-2, emphasis added).

Prior to that, the ILO already emphasized in a technical brief from 2022 that *"national governments and **social partners** should be in the driving seat when it comes to identifying actions and measures that can contribute towards achieving living wages"* (ILO 2022[3], p.5, emphasis added). It is furthermore highlighted that *"**national wage setting institutions**, such as minimum wage commissions or **collective bargaining mechanisms**, should be **strengthened and empowered in the process**. This also implies that living wage benchmarks or estimates, where they exist, should serve to **inform - not replace - evidence-based social dialogue, including collective bargaining**, and facilitate the setting of wages considered as adequate by the parties involved."* (ibid., emphasis added).

While collective bargaining between social partners is an established concept, supply chain dynamics make it very hard to implement it in the context of global supply chains unless it is supported by the purchasing practices of global buyers (brands and retailers) to provide manufacturers with the economic space to negotiate and agree on collectively bargained wage increases.

2 ILO (2024): Conclusions of the *Meeting of experts on wage policies, including living wages*, Geneva, MEWPLW/2024, available at: https://www.ilo.org/sites/default/files/wcmsp5/groups/public/%40ed_norm/%40relconf/documents/meetingdocument/wcms_918126.pdf.

3 ILO (2022): *Setting adequate wages: The question of living wages*, available at: https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed_protect/@protrav/@travail/documents/briefingnote/wcms_857876.pdf.

Tailor-Made: Social Dialogue and Negotiations at the Centre of Industry Change

Future-proof wage setting in global supply chains requires a comprehensive supply chain approach, while ensuring national social partners are in the driving seat. This is the only way in which sustained real wage growth can be achieved on a sustainable basis, and the industry can begin to pave the way to living wages.

As recommended by the ILO, the ACT framework systematically supports social dialogue and collective bargaining between the social partners in production countries. In order to ensure competitiveness and strengthen the industry, ACT integrates global buyers into the wage support structure through the joint *Brand-Employer-Trade Union Working Group*. Together, they jointly developed both the content and the structure of the ACT Cambodia programme.

> **"These binding brand agreements are the embodiment of supply chain industrial relations because you have two agreements supporting each other, the brands making specific agreements to support an industrial relations model, and then you have the country CBA that is really what TUs and employers do. We know that this is the way to foster long term industrial relations and for us, it moves us away from the voluntary CSR, we see this as a paradigm shift within the industry."**

Christina Hajagos-Clausen, Director, Textile and Garment Industry, IndustriALL Global Union

> **"Mutual trust is the absolute foundation of this process and of this agreement. If it was not there, we wouldn't have been able to put anything on paper or define it in such detail."**

Johan Genneby, Global Sustainability Area Lead, H&M Group

In order to ensure competitiveness and strengthen the industry, ACT integrates global buyers into the wage support structure through the joint *Brand-Employer-Trade Union Working Group*.

Towards living wages: from benchmarks and measuring to impact

Low wages in global supply chains being a key due diligence risk, most certification standards, brand initiatives and Multi-Stakeholder-Initiatives (MSIs) include a reference to *"living wages"*.

For decades, the discussion on living wages has mostly centred on measuring gaps towards external living wage benchmarks through auditing and other tools. While the development of cost-of-living evidence is important to inform discussions on wage adequacy, living wage benchmarks alone cannot deliver meaningful wage increases..

As pointed out by the ILO in 2022[4], living wage benchmarks or estimates, where they exist, should serve to inform - not replace - evidence-based social dialogue. The focus on benchmarks and measuring in the global discussion is sidestepping the critical systemic shifts that are required to actually *achieve* higher wages and engender long-term wage growth.

To achieve measurable and tangible results in terms of wage growth, practical and scalable structures with ownership at both ends of the supply chain and tailor-made solutions negotiated by the national social partners are needed.

4 ILO (2022): *Setting adequate wages: The question of living wages*, available at: https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed_protect/@protrav/@travail/documents/briefingnote/wcms_857876.pdf (p. 5).

Leveraging Purchasing Practices for Higher Wages and Stable Supply Chains

In a global supply chain, where many elements which can affect the economic dynamics within workplaces and industries sit outside the national borders, the inclusion of brands ensures an enabling context for national social partners to negotiate. Purchasing Practices can contribute positively to wage developments and working conditions if they are targeted to ensure the implementation of a national process that delivers these improvements.

The binding support agreements and collective bargaining agreements in Cambodia ensure that purchasing practices reforms and efforts by brands to work towards responsible purchasing practices are met with effective mechanisms to deliver higher wages, improved working conditions, productivity and industrial peace.

As outlined in relation to purchasing practices due diligence, ACT is embedding brand commitments on purchasing practices into binding agreements that include accountability, monitoring, and enforcement mechanisms, to ensure they can be reliable and that manufacturers can trust they are implemented.

In order to ensure competitiveness and strengthen the industry, ACT integrates global buyers into the wage support structure through the joint Brand-Employer-Trade Union Working Group.

The specific areas of purchasing practices which manufacturers or national industries can expect as specific support pillars are developed through collaboration and negotiation to come to tailor-made solutions.

> **"ACT is a unique initiative in Cambodia, where brands join workers and employers to promote collective bargaining. By taking responsibility and leveraging their influence, brands can help drive sectoral change and meaningful improvements of working conditions on the ground."**

Froukje Boele , Programme Manager, Better Factories Cambodia (BFC)

Overview on ACT (Action, Collaboration, Transformation)

ACT (Action, Collaboration, Transformation) is an agreement between global brands and retailers and IndustriALL Global Union. ACT is not a multi-stakeholder initiative but a bipartite agreement.

The ACT Foundation implements the Memorandum of Understanding (MoU) signed between IndustriALL Global Unions and corporate signatories and subsequent decisions of the parties operationalizing the MoU.

Driven by action, collaboration, and transformation, ACT fosters impactful change in the industry to pave the way for living wages for workers supported by brand purchasing practices.

ACT as a catalyst for industry collaboration

ACT (Action, Collaboration, Transformation) is an agreement between global brands and retailers and IndustriALL Global Union that combines purchasing practices commitments with an integrated industrial relations approach – making ACT uniquely placed to enable collaboration between manufacturers, brands and trade unions to drive the transformation towards a future-proof global garment textiles and footwear supply chains.

In Cambodia, ACT provides a platform for manufacturers, trade unions and brands to come together to negotiate and develop the structure for implementing the brand-supported Collective Bargaining Agreements. The ACT Secretariat administers the individual binding Support Agreements between brands and IndustriALL Global Union and houses the Skills Training Fund.

The supply chain industrial relations framework, including the structure to connect the binding support agreements signed by brands and the template CBA, was negotiated between June 2022 and September 2024. Over that time, the *Brand-Employer-Union Group* identified key areas for brand commitments and developed accountability mechanisms which could ensure credibility and trust in the commitments. The Employers' Association and Trade Union Federations in parallel, and independently of the brands, developed the template CBA.

ACT supported a previously untested social dialogue set up which reflected the complexities of the supply chain, in order to build trust between all parties. This required engagement with and discussions between representatives from global, national and sectoral trade unions, employer representatives and multi-level and multi-departmental brand representation from a diverse group of brands and retailers.

All of these stakeholders in turn had constituents and internal hierarchies which would require consultation. This multi-level and multi-pronged negotiation process was funneled back to the *Brand-Employer-Union Group* which ultimately set the direction for the development and implementation of the ACT Programme in Cambodia.

An important side-effect of this structure was a bridging of the gap between buying and sustainability departments within brands and retailers and a close cooperation and collaboration amongst trade unions in Cambodia.

While ACT member brands have been instrumental in developing the programme, there is no requirement for supporters of the CBAs in Cambodia to be members of ACT. All brands sourcing from Cambodia can sign individual agreements with IndustriALL Global Union and support the implementation of collectively bargained wages for Cambodian Garment Workers.

"I am truly delighted by the success that has been achieved in the negotiations on collective agreements in Cambodia, which are globally unique. Social dialogue and collective agreements are crucial for implementing due diligence in supply chains, as this ensures fair working conditions and human rights standards, prevents wage competition through cost-cutting, and promotes long-term, stable and sustainable supply chains. These achievements in Cambodia are a significant step that highlights how social dialogue can foster fair labour practices and ensure sustainability in global supply chains. I believe that this outcome can now also be used as a best practice example by other countries."

Dr. Bärbel Kofler, Parliamentary State Secretary to the Federal Minister for Economic Cooperation and Development (BMZ), Germany

In Cambodia, ACT provides a platform for manufacturers, trade unions and brands to come together to negotiate and develop the structure for implementing the brand-supported Collective Bargaining Agreements.

7. Conclusion: Industry Transformation through Supply Chain Industrial Relations

Legally anchoring purchasing practices support for collective bargaining in the supply chain, ACT in Cambodia is the first programme globally to provide a structure for tangible wage increases in garment supply chains in a predictable and economically sustainable way.

Supported by Binding Support Agreements of global brands and retailers, collective bargaining is the pathway to more stable, sustainable and prosperous supply chains.

This is a unique opportunity for global brands to drive tangible improvements of wages and working conditions in supply chains.

By signing a brand-supported collective bargaining agreement, manufacturers in Cambodia can now directly benefit from brand commitments, better prices and improved relationships with their buying partners and worker representatives.

For garment workers in Cambodia, it offers for the first time an avenue for systematic improvements in relation to wages, freedom of association and benefits.

The potential impact of this supply chain industrial relations framework is profound and provides a blueprint for achieving higher wages and more stability in global supply chains.

This is a unique opportunity for global brands to drive tangible improvements of wages and working conditions in supply chains.

ACTION

COLLABORATION

TRANSFORMATION

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ACT