

Annual Activity Report and Financial Statement 2018

In 2018, ACT focussed on (1) global purchasing practice commitments and country support commitments as specifications of the MoU, (2) country activities in Cambodia, Myanmar, and Turkey, (3) organisational infrastructure and working groups, (4) public outreach, (5) resources mobilisation.

1. Global purchasing practices commitments and country support commitments as specifications of the MoU

Intensive internal consultations including with buying and sourcing experts were conducted to agree on a set of country support commitments and purchasing practices commitments. The adopted country support commitments (Annex I) and purchasing practices commitments (Annex II) are specifications of the overall brand commitment in the MoU with IndustriALL to ensure through their purchasing practice the payment of living wages.

2. Country activities

ACT delegations had follow-up meetings with national stakeholders in Cambodia and Turkey. Initial country consultations were held in Myanmar. Given the challenges in some of the initial priority countries and the dynamics in the global market, ACT will start consultations with Bangladesh and Ethiopia to explore the potential for future engagement in 2019.

3. Organisational infrastructure and working groups

Member Council and working groups

Four new members joined ACT in 2018: Bestseller, Cotton On, PVH, and zLabels.

The Member Council, consisting of representatives of member brands and IndustriALL and supported by the ACT Secretariat, is the decision-making body within ACT. It met in London, Istanbul, Hong Kong and Phnom Penh, to discuss and decide on activities and the strategy of the foundation. The ACT Governing Board held two meetings in 2018.

ACT country groups were established for each priority country (Cambodia, Myanmar, Turkey, Bangladesh, Vietnam). Furthermore, four working groups were established in several technical areas. All working groups comprise of representatives from IndustriALL and member brands and are supported by the ACT Secretariat. In order to facilitate and drive the country engagement of ACT two new staff members were hired and cooperation with local facilitators was established.

1. Purchasing Practices Assessment Pilot working group (PPAWG)

A working group was established to mirror the questions of the Purchasing Practices Self-Assessment (PPSA) by brands through a feedback tool for suppliers, the Purchasing Practices Assessment of brands by suppliers (PPA). The PPA was piloted in Turkey, 42 representatives of suppliers were invited, 15 complete responses were received. An independent third party functioned as a clean room collecting and processing the data and writing a general report about the outcomes.

2. Ring-fencing labour costs working group (LCWG)

The working group has developed two labour costing models and held a working group meeting on labour costing in London and a workshop in Phnom Penh with suppliers producing in Cambodia.

3. Communications working group (COMMS WG)

The ACT Secretariat developed a number of background briefs, country-specific information briefs, internal discussion papers and news items. The ACT website and factsheet were restructured, updated and translated into Khmer, Turkish, and Burmese. The COMMS WG advised and edited all communication materials that are used on the ACT website.

4. Accountability and Monitoring working group (AMWG)

This working group is developing a joint approach to monitor compliance of ACT members with the country support commitments and purchasing practices commitments (see “specifications of the MoU”).

4. Public outreach

ACT has been engaging with different international organisations, inter-government fora and national governments. ACT joined the “Global Deal for Decent Work and Inclusive Growth”, signed a letter of intent with the German Textile partnership on cooperation in promoting living wages. ACT furthermore engaged with international organisations like the OECD and the ILO and with different initiatives and foundations including the FLA, the Dutch the ETI to share information and to explore potential for synergies and collaboration.

5. Resources and resource mobilisation

The activities of the foundation are currently funded by membership fees and in-kind contributions of the members. In order to acquire funding from donors the foundation applied for the registration as a Public Benefit Organisation under Dutch law.

Membership fees of all 19 brand members (21 brands) amount to 856,250 Euro. A financial reserve of 20% (170,650 Euros) was planned to be established as precautionary measure to deal with unexpected expenditures. In addition, the foundation will carry over 72.280 Euro (continuity reserve total of 242,930 Euro) because of higher than budgeted membership fees. Furthermore, larger capacity building programs will only start after signature of CBAs. This will allow the foundation to respond to the growing needs in 2019 when an increasingly intensive dialogue on country level is expected.

Balance sheet as of 31 December 2018

	<u>31-12-2018</u>	<u>31-12-2017</u>
	€	€
ASSETS		
Non-current assets		
- Computer equipment	<u>2.755</u>	<u>1.955</u>
Total non-current assets	<u>2.755</u>	<u>1.955</u>
Current assets		
- Receivables	184.298	628.298
- Cash and cash equivalents	<u>409.827</u>	<u>301.807</u>
Total current assets	<u>594.125</u>	<u>930.105</u>
Total assets	<u><u>596.880</u></u>	<u><u>932.060</u></u>
LIABILITIES		
Reserves		
- Reserve ACT activities	65.000	65.000
- Continuity reserve	<u>393.393</u>	<u>150.463</u>
Total reserves	<u>458.393</u>	<u>215.463</u>
Debts		
- Short term debts	<u>138.487</u>	<u>716.597</u>
Total debts	<u>138.487</u>	<u>716.597</u>
Total liabilities	<u><u>596.880</u></u>	<u><u>932.060</u></u>

Income statement 2018

	Actual 2018	Budget 2018	Actual 2017
	€	€	€
INCOME			
Revenues	<u>856.250</u>	<u>740.000</u>	<u>799.579</u>
Total income	<u>856.250</u>	<u>740.000</u>	<u>799.579</u>
EXPENDITURE			
Staff costs	394.715	540.000	306.899
Rents	23.119	40.000	18.075
Operational costs (travel, workshops, meetings)	166.542	149.000	258.651
Depreciation costs	597	0	217
Field Infrastructure	22.053	75.000	0
Provision doubtful debtors	5.255	0	0
Financial expenditure	<u>1.039</u>	<u>1.000</u>	<u>274</u>
Total expenditure	<u>613.320</u>	<u>805.000</u>	<u>584.116</u>
Balance income and expenditure	<u><u>242.930</u></u>	<u><u>-65.000</u></u>	<u><u>215.463</u></u>
Allocation			
Reserve ACT activities	0	0	65.000
Continuity reserve	<u>242.930</u>	<u>0</u>	<u>150.463</u>
Balance income and expenditure	<u><u>242.930</u></u>	<u><u>0</u></u>	<u><u>215.463</u></u>

ACT Country Support Commitments and Implementation Steps to support collective bargaining at industry level and living wages

Revised and agreed in this specific form for Cambodia at ACT Member Council Meeting, Hong Kong 15th – 16th of May 2018

List of ACT Country Support Commitments

I. Brands will make pilot countries a preferred destination for sourcing and investment for a defined period of time.	6
II. Brands will ask their suppliers to actively support the collective bargaining process. Compliance with the standards of the collective bargaining agreement at industry level will be requested from suppliers.	6
III. Brands will undertake a self-assessment and share these findings with suppliers to identify and change purchasing practices that are an obstacle for suppliers to move towards a living wage	7
IV. Brands will ensure that their purchasing practices support long term partnerships with manufacturers which enable and reward progress to paying a living wage.....	7
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I. Brands will make pilot countries a preferred destination for sourcing and investment for a defined period of time.

Implementation steps:

Commitment to give purchasing preference:

- i. A commitment to give purchase/ investment preference to a country starts when an industry CBA is signed. This commitment ends December 2022.
- ii. ACT members whose average sourcing volume measured in real value terms is growing will increase their purchases versus the base year from the ACT country. ACT members whose average sourcing value is decreasing will maintain average sourcing volume measured in real value terms from ACT countries, or at a minimum decrease less than the average versus the base year.

Base year: calendar year prior to the year of signing of the CBA.

- iii. Up to December 2022, brands make the country a preferred destination for sourcing and investment conditional on a collective bargaining agreement at industry level delivering substantive improvements of wages. This does not preclude sourcing and investment decisions caused by unexpected, compelling non-wage or non-CBA related shifts, extraordinary political changes or economic shocks in the country or in the global business
- iv. In such cases brands would explain in a transparent manner to their suppliers the reason for such decisions.
- v. ACT publishes year to year the percentage change of overall purchase value of ACT members from pilot countries. Third party to act as clean room.
- vi. Brands engage with governments, suppliers and trade unions in the development of an industrial upgrading, skills development and investment strategy.
- vii. As part of the joint modernisation strategy brands commit to technical assistance for industrial and process upgrading. Brands further commit to encourage employers and trade unions to include in the collective agreement skills development and support this.
- viii. ACT members will actively engage with other brands and retailers to participate and support the ACT approach.

II. Brands will ask their suppliers to actively support the collective bargaining process. Compliance with the standards of the collective bargaining agreement at industry level will be requested from suppliers.

Implementation steps:

- i. Suppliers need to fully respect Freedom of Association and allow trade unions access to the workplaces.
- ii. ACT members will demand immediate remedy of violation of workers' rights as condition for continued commercial relations.
- iii. ACT members encourage their manufacturers/suppliers to engage in industry wide bargaining.
- iv. ACT members will require that a supplier actively works towards the realisation of a collective bargaining agreement in order to become priority or premium suppliers. Brands would expect all suppliers to, at the very minimum, mandate someone to bargain on their behalf.
- v. Brands will commit to IndustriALL that - after a transitional period - they will concentrate their sourcing on those manufacturers who comply with the agreement.
- vi. Infringement of the collective bargaining agreement will - if not addressed timely and effectively - lead to termination of contracts with the factory.
- vii. A list of factories that are signatories of the collective agreement is published on ACT website or ACT will ensure it is published on the website of the relevant employer association.

- viii. Compliance with the collective bargaining agreement will be an essential assessment criterion of company audits.
- ix. Brands will emphasise the need for an efficient monitoring and enforcement system to be included in the national collective bargaining agreement.
- x. Compliance by the supplier with its obligation under the collective agreement will be included as a contractual obligation in purchasing contracts.

III. Brands will undertake a self-assessment and share these findings with suppliers to identify and change purchasing practices that are an obstacle for suppliers to move towards a living wage

Implementation steps:

- i. Development and publication of ACT guiding principles and KPIs for good purchasing practices that can help facilitating purchasing practices.
- ii. Elimination of those practices that are identified as barrier for suppliers to pay a living wage.
- iii. Ensuring that the progress towards a negotiated living wage (meaning full respect for freedom of association and substantive real wage growth at least at the level of productivity growth) becomes a KPI within their companies that measures continuous improvement.
- iv. ACT will create a process for suppliers and governments to raise concerns on ACT member commitments.

IV. Brands will ensure that their purchasing practices support long term partnerships with manufacturers which enable and reward progress to paying a living wage

V. Brands agree to incorporate the higher wages as a cost item in their purchasing price calculations

Implementation steps:

- i. Payment of the living wage as negotiated at country level is an explicitly stated obligation in the commercial contract between the buyer and the supplier.
- ii. Buyers and suppliers agree in their contracts that the price paid allows to pay the nationally agreed wage based on regular working hours.
- iii. Labour costs on the basis of a negotiated wage are a specific item in the cost sheet of any contract and order.
- iv. Brands will require that for price negotiations suppliers will provide labour cost calculations based on the negotiated wage.
- v. Increase in wages are covered by increases in the costing block of labour costs in the purchasing prices.

VI. ACT members (brands and trade unions) will work with governments to promote the idea that the full respect for freedom of association and the implementation of a living wage is supported through different government policies

Implementation steps:

- i. ACT members (brands and trade unions) will work with governments to promote the idea that the full respect for freedom of association and the implementation of a living wage is supported through trade policies, and development cooperation activities.
- ii. Brands and IndustriALL will outreach to large brands in the target sourcing markets and globally to increase scale and leverage.

- iii. Brands and IndustriALL will work at governmental level in sourcing markets and sales markets to find options of price reductions of selling prices through tax benefits, etc. (similar to environmental legislation).

Commitments on Purchasing Practices to ensure the ACT approach is implemented also when sourcing directly and indirectly

As adopted on 9th of November 2018 at MCM in Istanbul

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Commitments on Purchasing Practices to ensure the ACT approach is implemented when sourcing directly and indirectly

1: Brands commit that purchasing prices include wages as itemised costs.

Implementation measures:

- a) Write compliance with collective bargaining agreements into purchasing agreements between brands and suppliers¹ (manufacturers or intermediaries) terms and conditions of purchase.
- b) Adopt all direct and indirect labour cost components in costing calculations in line with the agreed ACT methodology (components to be fully defined and agreed).
- c) Provide [guidance](#) to suppliers (manufacturers or intermediaries) on labour costing for suppliers.
- d) Reflect increases in negotiated wages in the labour components of costing calculations.

2: Brands commit to fair terms of payments.

Implementation measures:

- a) Payment to suppliers is in line with agreed timeframe.
- b) Ensure the amount paid to suppliers is in line with the payment terms agreed and retrospective changes may only be made where it is mutually agreed and is not to the detriment of the supplier.
- c) Do not impose penalties that fall outside the terms of the [purchase agreement](#).²
- d) Ensure that the purchase agreement clearly references financial consequences for non-performance.
- e) Implement an internal monitoring mechanism to track terms of payment, on-time payments as well as penalties issued and their root causes.

3: Brands commit to better planning and forecasting.

Implementation measures:

- a) Improve forecasting processes with suppliers.
- b) Give clarity and ensure communication with suppliers regarding key critical path stages.
- c) Determine dates and frequency of adjusted forecasts.
- d) Release excess booked capacity in a timely manner, where possible setting internal deadlines or reaching agreement with suppliers.
- e) Improve dialogue with strategic suppliers to balance volumes through peaks and troughs.

¹ Supplier: intermediaries and manufacturers directly bound with brands through purchase agreement

² Purchase Agreement: The binding conditions agreed between the supplier and brand company that specifies the terms surrounding the purchase order

4: Brands commit to undertake training on responsible sourcing and buying.

Implementation measures:

- a) Design and implement a training programme with [common guidelines](#) on ACT commitments to purchasing practices.

5: Brands commit to practice responsible exit strategies.

Implementation measures:

- a) Consider reasons for and consequences of exiting.
- b) Conduct an impact/due diligence assessment (level of business).
- c) Allow appropriate phase-out time.
- d) Seek to avoid negative impact on workers.
- e) Take reasonable measures to assure that all wages and legally entitled severance payments are made.

Guidance on Purchasing Practices –to be finalised

The Guidance on Purchasing Practices is a set of detailed information on how to operationalize the different implementation steps of purchasing practices commitments (to be developed).

1. Set business KPIS to track actions on improving planning and forecasting
2. Give clarity and ensure communication with suppliers about key critical path stages in your forecasting and planning. This can include dates for delivery of material, expected times for sign off of samples, time required for production etc.
3. Undertake training for buyers and merchandisers in responsibly exiting factories.