

WEAR **FAIR**



**Ethical
Trading
Initiative**

For workers' rights. For better business.

COVID Lost Wages and Jobs Series

How to use this document

The Fair Wear / ETI COVID Lost Wages and Jobs Series is a four-part webinar series, which lays out guidance for member brands to uphold their responsibilities to workers in their supply chains who are laid-off or facing reduced wages in the context of COVID.

This document consolidates the slides from that 4-part webinar series. Where possible, we recommend brands use this as a complement to their participating in – or listening to – those webinars.

See Figure 1 on the following slide. The four-part series was designed to meet brands where they are in their COVID response process. Responding to, and redressing lost wages and jobs, is not a linear process. While some brands may wish to begin at the beginning (Part 1), others may find it useful to begin at Part 3 or Part 4. Just use the links to jump to the situation that best aligns with the stage your brand is currently at.

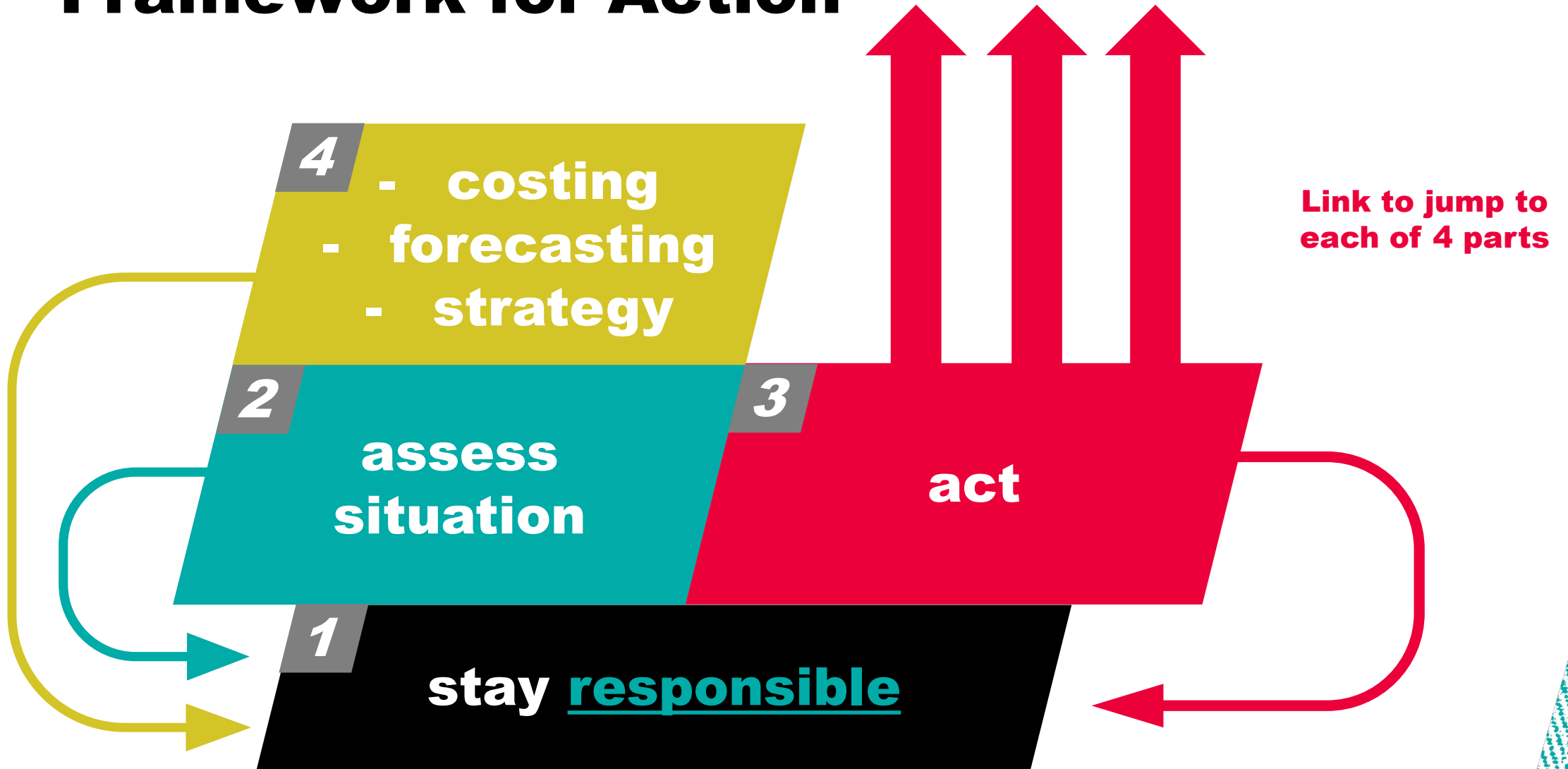
Table of Contents (with live links) COVID Lost Wages and Jobs Series



- [Introduction](#): The whats and whys, including relevant (BPC indicators)
- [Part 1](#): Staying responsible – paying in full and honouring obligations ([support documents](#))
- [Part 2](#): Assessing your supply chain to identify lost wages / jobs
- [Part 3](#): Taking action to address lost wages and jobs
- [Part 4](#): Forecasting, costing, and responsible exit strategies



COVID Lost Wages and Jobs Framework for Action



Introduction: COVID Lost Wages and Jobs Series

Table of contents – Brief introduction section

1. About the COVID lost wages and jobs series
2. Why these guidelines are needed
3. Very real risks for workers
4. COVID lost wages and jobs framework for action
5. Relevant Fair Wear Brand Performance Check Benchmarks



1. About the COVID Lost Wages and Jobs Series

- Four-part webinar series, endorsed by Fair Wear and ETI. This document complements participation in the webinars. The guidance supports brands in implementing Human Rights Due Diligence during this crisis.
- Guidance for brands sourcing from facilities where workers
 - have been laid off
 - have had wages reduced in the context of COVID-19
 - risk future wage reductions or layoffs
- Complements and expands upon other guidance
 - Joint MSI Statement with other MSIs
 - Fair Wear's COVID-19 Dossier – and country updates/webinars
 - Fair Wear Brand Performance Check Indicators
 - Fair Wear/ETI Joint Guidance on Occupational Health and Safety during COVID



2. Why these guidelines are needed

- One of the results of COVID is a decrease in garment demand now and expected changes for the future
- Government-mandated lockdowns
- Workers are not able to come to work due to sickness, being in quarantine or fear of infection at the workplace
- Brands = reported lack of liquidity, bankruptcy, etc
 - Cancelled, unpaid orders
 - Delayed payments
 - Anticipated reduced, future demand/orders
 - Uncertainty how the market develops in the rise of recession and stagnation in global economy
- Massive impact on many/most suppliers' cash flow



2. Why these guidelines are needed (cont)

- Workers bear the bulk of the fallout from industry vulnerability

- Layoffs
- Reduced pay and forced unpaid leave
- Unpaid wages and forced/unpaid overtime
- Unpaid severance pay
- Host of other violations common as human vulnerability increases



- Short cuts (notably low prices / low taxes) taken by the industry and production countries →

no/limited social safety net

- No access to supplementary funds for basic needs
- Migrant, foreign & temporary workers often face major bureaucratic hurdles or fall completely through the safety network

- Need for emergency funds from governments and international community (not covered here)

3. Very real risks for workers

- Better Buying Institute's survey of suppliers in March 2020 already found that 36% of suppliers had reduced workers' hours, and 30% had already laid off workers due to COVID
- In Fair Wear's telephone survey in April, more than 12% of suppliers interviewed reported that they would have trouble paying workers wages or would need to lay off workers related to COVID.
- Changes in legal protections/enforcement in production countries, e.g. India has lifted labour protections and workers in Vietnam have commonly been forced to take unpaid leave

ACT NOW!



Covid-19: Impact on brands and workers in garment supply chains

“ ... Immediate survival is now on everybody’s mind, but for long-term survival, the interdependence of all supply chain actors and the mutual interest of maintaining partnerships between brands and factories remain key. ”

4. COVID Lost Wages and Jobs Framework for Action

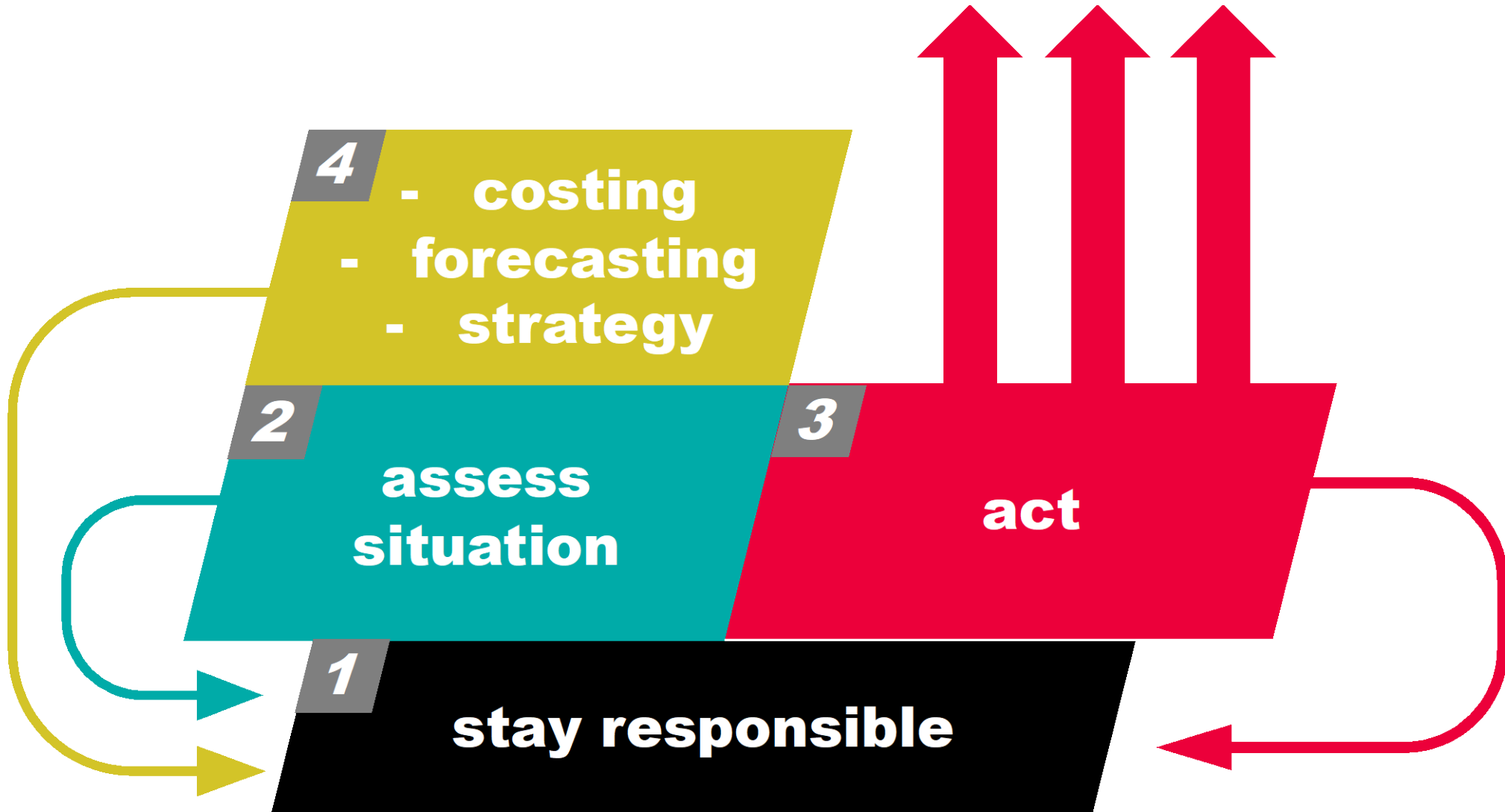
In an effort to respond rapidly to COVID, Fair Wear created a four part webinar series. The series was designed so that each of the four parts could be accessed in any order. Redressing and preventing wage and job loss is not a linear process, so brands should start where they are now, recognising they will likely need to return to other parts in this series later. For example, if a brand has identified job and wage losses in their supply chain, it might use guidance in Part 3, yet will likely need to return to Part 1. This process is captured in the framework on the following slide, which is made up of the following 4 parts:

- **Part 1:** Staying responsible – Paying in full and honouring obligations
- **Part 2:** Assessing your supply chain to identify lost wages / jobs
- **Part 3:** Taking action to address lost wages and jobs
- **Part 4:** Forecasting, costing, and responsible exit strategies



Arrows indicate that brands will likely need to return to previous parts in the series.

4. COVID Lost Wages and Jobs Framework for Action



5. Relevant Fair Wear Brand Performance Check Indicators

- Indicator 1.4 – due diligence and dialogue with suppliers
- Indicator 1.5 – responsible exit strategy
- Indicator 1.6 – production planning system
- Indicator 1.8 – knowing how your prices link to wage payments
- Indicator 1.9 – failure to pay minimum wage
- Indicator 1.10 – late payment
- Indicator 2.4 – remediation of identified problems
- Indicator 2.5 – monitoring visits
- Indicator 4.2 – all staff informed of Fair Wear requirements
- Indicator 5.2 – CSR staff actively share information about sourcing locations



Each of the four webinars offer further details as to the indicators that apply to each part in this series. Please contact your brand liaison for more about how the indicators will be considered in the context of COVID-19.

Part 1: Staying responsible

Paying in full and honouring obligations



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Part 1: Staying responsible

Based on Joint MSI statement about COVID, part 1 is made up of 7 parts:

1. Dialogue with suppliers is key
2. Pay in full for all orders placed
3. Be flexible about delivery date
4. Be flexible on payment terms, financial liability
 - What if your brand has already cancelled orders?
5. Plan, forecast and exit responsibly (see Part 4)
6. Involve workers & trade unions in decisions / solutions
7. Aligning human rights commitments with other brand colleagues



Part 1 is based on the Joint MSI Call for Urgent Industry Action on COVID



Fair Wear's Covid-19 Dossier >

Statement: Garment industry coalition lays out joint priorities for the garment sector

Statement: Garment industry coalition lays out joint priorities for the garment sector



1. Dialogue with suppliers is key

- Stay in close contact
- Transparent and mutual information-sharing
- Collaborative decisions (not unilateral)
- Flexibility = creating space for suppliers to signal delays ASAP
- Ongoing dialogue with focus on building trust

More about building trusting relationships in [Part 2](#)



2. Paying in full

- We have an industry with cash liquidity problems
- Liquidity unevenly hurts workers
- Less payment from brands = fewer wages for workers
- Critical to pay in full for all orders placed
- Pay on time
- A purchase order is a contract
- Make changes as a last resort, and if so: pay for cost incurred and assure wages are paid to workers



3. Flexibility on delivery

- COVID will delay delivery on some orders
 - Lockdown
 - Late/no material arrival
 - Reduced capacity due to lack of workers or legal restrictions on worker numbers
- Keeping to payment terms, even if COVID causes delays, provides liquidity to cover workers' wages
- Regular contact with suppliers and customers is best way to find cost effective solutions, e.g. if market situation changes



4. Flexibility on payment terms and financial liability

- Waive penalties for late delivery caused by COVID
 - Avoid air shipments automatically paid by suppliers
 - Work out partial shipment plans with suppliers
 - Do not enforce financial penalties on late deliveries resulting from lockdowns
 - Do not cancel orders based on later deliveries
 - “Force majeure” or other “special contractual regulations” clauses should not apply



4a. Liquidity issues?

- Financial difficulty does not mitigate obligations to suppliers and workers
- Keeping suppliers afloat is critical for your business in the future and for workers NOW
- Do not delay payment to suppliers
 - In rare cases, supplier may be able to weather the delay (e.g. government support) - open discussion is key
- Liquify brand assets to cover brand's operational costs and accounts payable
 - e.g. issue corporate bonds, draw down credit, secure loans
- Access funds from your government
- Possible bankruptcy? Prioritise payment to workers



See more: Better Buying Institute's [Guidelines for 'Better' Purchasing Practices Amidst the Corona Crisis and Recovery](#)

4b. What if your brand has already cancelled orders?

Tool: Minimum costs to cover after order cancellation



A quick reference tool – in the event brands are unable to avoid cancelling an order (i.e. last resort cases)

Brands are responsible for the business agreements they make. If a change happens on their end, they are responsible for covering the costs associated with that alteration. While supplier relationships differ, here are some thoughts on the minimum costs your brand should cover in the event of unavoidable cancellation. In discussions of payments with suppliers, focus on ensuring workers' wages are paid.

Purchase order placed and...	Minimum costs to cover
1 no material ordered from factory	Check with your supplier if your cancellation creates a production stop within the factory or if other orders, preferably yours or from other buyers, could fill the gap. If the factory experiences a stop due to the cancellation, buyer should at least pay for lost working minute cost (labour + overhead cost) of the factory related to the order.
2 material ordered from factory / produced / not received	If material was ordered from material supplier due to the purchase order of the buyer, the brand should pay for the cost occurred at the material supplier → material cost + labour minute cost, or to be discussed with the material factory if material can be used in future orders or from other buyers. Storage cost for the materials should be paid by the buyer. If the cancellation creates a stop within the factory the same procedure as above point 1. → pay for lost working minute cost of the factory related to the order.
3 material received, not processed (cut, embelished etc.)	Discuss with the factory if material can be used in future orders or in orders from other buyers. Storage cost for the materials should be paid by the buyer. If the cancellation creates a stop within the factory the same procedure as above point 1. → pay for lost working minute cost of the factory related to the order.
4 material processed, sewing not started	Buyer should pay for the material and the involved process cost in form of working minute cost. If the cancellation creates a stop

	within the factory the same procedure as above point 1. → pay for lost working minute cost of the factory related to the order.
5 order in manufacturing/sewing process	Buyer should pay for the entire order in accordance with the Purchase Order. Storage cost should be paid by buyer. (Do not destroy newly manufactured garments, find better solutions such as re-branding for local or other markets or even donations to people in need.)
6 order produced, ready for shipment / order shipped and in transit or not picked up	Buyer should pay for the entire order in accordance with the Purchase Order. Storage cost should be paid by buyer. (Do not destroy newly manufactured garments, find better solutions such as re-branding for local or other markets or even donations to people in need.)

5. Plan, forecast and exit responsibly



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- Do not terminate the business relationship without having first discussed scenarios and solutions
- If exit is unavoidable, ensure workers are protected and paid
 - Ensure severance laws are upheld
 - Is supplier financially able to cover costs?
- Work with suppliers to plan and secure capacity
- Provide updated forecasts.
- More in Part 4.



6. Involve workers and trade unions in decisions and solutions

- Part of discussions with suppliers should also involve workers' voices
- Often workers are the source of effective and cost efficient solutions. Solutions are only sustainable if workers are involved.
- Vital role: trade unions provide structures for workers to engage collectively
- COVID action has great potential to lay the groundwork for healthy social dialogue in the workplace
- Grievance channels need to be reinforced in the context of COVID
 - Increased risk of violations during times of crisis



7. Upholding commitments as brand, working remotely during COVID



- Staff of a brand have committed to these principles
- Colleagues are scattered due to COVID
- Everyone is working hard to stay afloat
- How to keep everyone up to date on the commitment?
- How to integrate the commitment into daily work? And consistently?



Bring it all together: Part 1

- Dialogue with suppliers is key
- Involve workers
- Pay in full
- Do not cancel (and remediate if you have)
- Be flexible on delivery, payment terms and financial liability
- Plan and forecast responsibly
- Align commitments across your brand

See part 2 for more about building supplier trust and part 4 for more on forecasting, costing, and planning



Part 2: Assessing your supply chain to identify lost wages / jobs

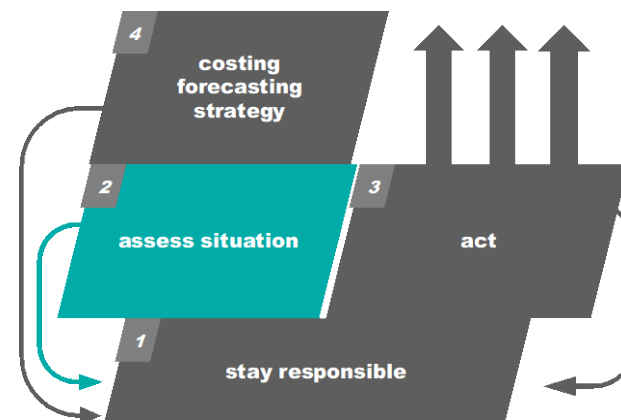
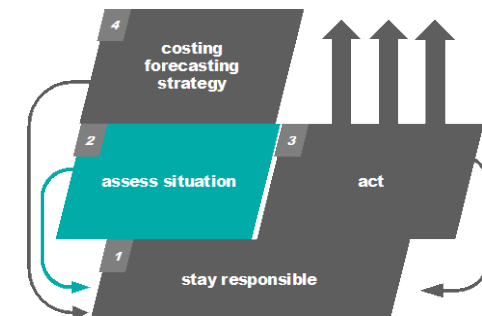


Table of Contents - Part 2: Assessing your supply chain

1. Key points to keep in mind:
 - Assessment process should not delay action
 - Recognise the need for alignment across departments in your brand
2. Understand relevant production country situations
3. Identify brand resources
4. Dialogue with suppliers
5. Identify actual and expected wage and job losses
6. Consolidate & strategize ACTION for workers (where to start?)
7. Quantify financial gap (how much are workers short?)



1a. Key point: This step should not delay real ACTION



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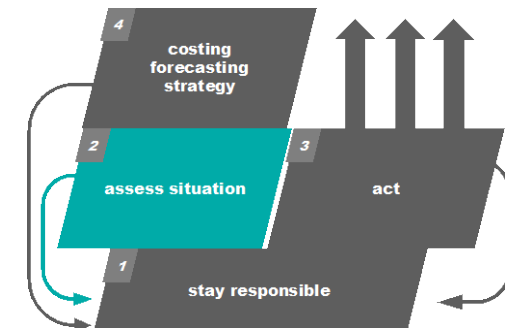
Upon embarking on assessment processes:

Avoid perfectionism when undertaking proposed steps in this assessment. This is a rapid response attempt to identify workers who are in a real bind and take action to help them.

Remember this is an ever-evolving situation, so it will be necessary to reassess periodically. Refine your understanding (and impact) over the course of time.

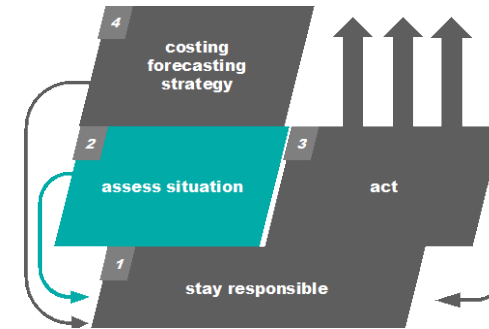
Initial assessment is a task that should span days rather than weeks.

START NOW – with a view to act QUICKLY. Then return to refine.



1b. Key point: Alignment across brand's departments is vital (though difficult)

- This will not work if CSR staff work alone
- Challenges created by COVID – working remotely
- Different departments' roles in finding solutions
 - CEO and leadership
 - Finance
 - Sourcing
 - Sales
 - Marketing
 - Design
- Co-own solutions (rather than force rules)
- How to improve the situation, clarity about actions that can cause harm to workers
- Be as concrete as possible in solutions – and share with colleagues



Brainstorm creative approaches to alignment within your brand with brand liaisons and other brands

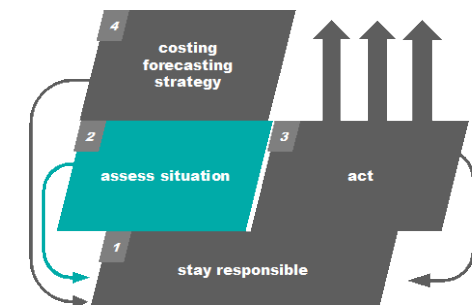
2. Understand production country situations



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For each country, consider

- Situation with lockdown, for example:
 - Are suppliers running again?
 - Risks for workers in terms of contraction of the virus
- Are state funds available for layoffs and/or reduced hours?
 - Are funds accessible?
 - Specific risks with regard to funds actually reaching workers
- How can your brand help with accessing such support?



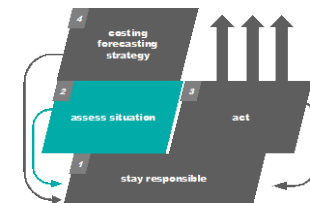
Please access vital updates provided in production country webinars.

See also [country reports on fairwear.org COVID dossier](https://www.fairwear.org/country-reports-on-fairwear.org-covid-dossier).

3. Brand resources

Assess internal resources that brand brings to collaborations with suppliers to find solutions.

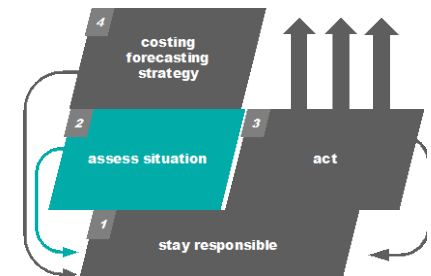
1. Sustained business is the best way to help:
 - Orders in demand
 - Orders which can be pre produced if possible → high runners, foreseeable demand peaks, 'Never out of stock' programs (NOS)
2. Direct payments - e.g. to help offset unpaid wages/severance for workers who otherwise could starve or lose housing
3. Relationships with other brands and MSIs – collaborating might help to find solutions
4. Legal –help SMEs and workers to access funds
5. Political– help to lobby government or international institutions for worker access to adequate support and funding



4. Dialogue with suppliers

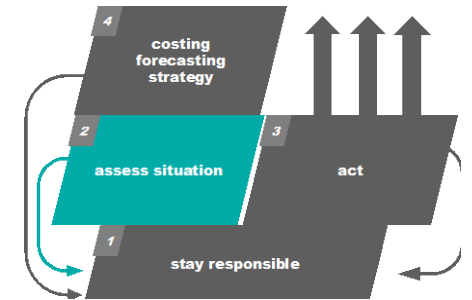
- By now, you've all been in touch with suppliers. This needs to continue in trust.
- Trust only works if it is authentic
- Seek information by sharing information
- Understand suppliers' predicament (real disincentives for transparency around liquidity and other problems)
- We recommend phone calls, and focus on countries where risks are highest

'We are in this together and if we are going to solve it, we need to be transparent and work together'



4a. Understanding the suppliers' predicament

- Suppliers will likely be averse to reporting the need to lay off workers; or a lack of cashflow to cover labour costs.
- Suppliers may not admit their struggle (e.g. cash flow issues) in fear of resulting buyers consideration and action, such as possible:
 - reduction of orders
 - moving orders to suppliers that communicate lower risk



How to deal with this reality?

- Open, two-way communication towards suppliers and assuring that you are looking to support rather than move. (But this is only to be communicated if this is genuine.)

4b. Seeking information by sharing information

When collecting information, be ready to share with the supplier the same information you are asking for.

- Consider using supplier conversation tool.

Proposed brand-supplier conversation framework

Ideas for an open, transparent conversation with suppliers – in order to collect the wage/job loss data brands require

In discussions with each supplier, for every piece of information a brand seeks, it should also share information. This is fair and is one of the best ways to build trust.

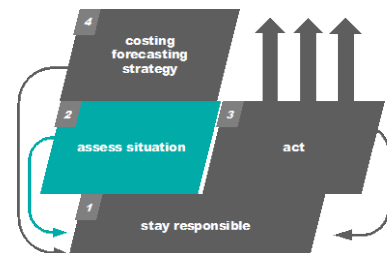
Information needed from supplier	Comparable information to share from brand
Order situation Overall situation of the factory, especially the current and future order situation. Future orders - how long can you fill your lines with work based on available information	Order situation (essential!) What you as a brand foresee in terms of future orders (see Part 4 of the guidance) Try to give a clear as possible picture to your supplier about forecasting and planning for future orders based on actual situation
Supplier's liquidity <ul style="list-style-type: none"> Degree of liquidity of the factory in current crisis Liquidity solutions being considered, if needed What has factory done already to access funding and other intermediate support? <ul style="list-style-type: none"> Short-time pay / furlough with government support National & International support options available? Does the factory know where to access this information and more important how to apply for such funds? 	Your brand's liquidity <ul style="list-style-type: none"> Degree of liquidity of the brand in current crisis (only to be shared in the spirit of collaboration, not as an excuse) Liquidity solutions being considered, if needed

Information needed from supplier	Comparable information to share from brand
External support needed Brand, professional expertise, technical support – e.g. legal or human resource support?	External support available Brand capacity to lend support (e.g. legal or HR department) <i>Note: this is a good topic to convey a real commitment to collaboration to find solutions.</i>
Wages <ul style="list-style-type: none"> Is supplier paying workers full wages Can wage payments be kept going forward, or when does it start to become critical and in what way? If there was a COVID closure, did workers receive income (from factory or state sources) to compensate lost wages? 	Wages <ul style="list-style-type: none"> Information about cuts to hours and wage levels at HQ and any closures <i>Note: Be prepared to share but do not force – may not be interesting to all suppliers</i>
Layoffs and reduced capacity / production levels <ul style="list-style-type: none"> Public health closures (ongoing, foreseen or previously) Have workers been laid off, or are layoffs planned? Reduced capacity <ul style="list-style-type: none"> due to workers not coming to the factory due to health and safety regulations necessary, e.g. bigger space requirements, restrictions of persons per m² factory ramp up in phases 	Layoffs and reduced capacity <ul style="list-style-type: none"> Past, current, or anticipated lockdowns in brand locations Recent or foreseen layoffs <i>Note: Be prepared to share but do not force – may not be interesting to all suppliers</i>
Total financial gap <ul style="list-style-type: none"> How many workers are affected and in what way? 	Brand's ability to contribute

4c. Information exchange with trade unions



- In addition to suppliers and country information sessions, workers are the key information source.
- Talk to trade unions and workers, wherever you have access – this can be the key to finding workable solutions.
- Fair Wear and ETI will continue to send assortment of information to members, based on a range of sources, e.g. interviews, contacts made to Fair Wear or ETI production country staff, complaints, news stories, etc.



4d. Hypothetical: Reports of layoffs

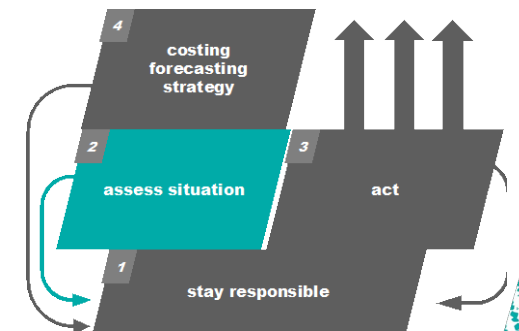


Your brand is notified that your supplier has laid off 20% of its workforce last month. You call the supplier to inquire. The factory explains that the workers just left in the context of COVID-19.

What do you make of this? What action can you take?

Activity:

- What trust building considerations are there here?
- What information would you need to collect? How?



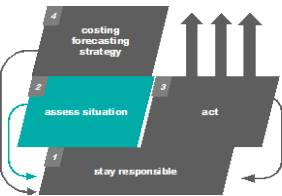
4d. Hypothetical: Reports of layoffs



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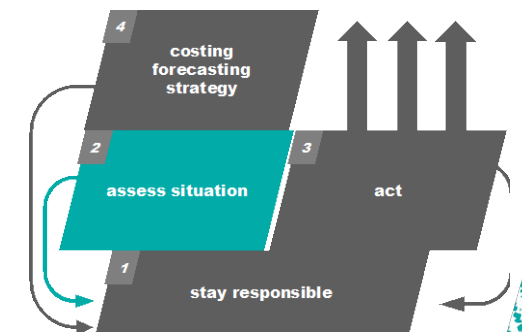
Some ideas....

1. Challenge of verifying supplier claims in times of COVID. Consider underlying reasons supplier may not be forthcoming with full disclosure about layoffs. Is there cause for lack of trust / sense of partnership with you? If a supplier has fired workers but denies it, what are they concerned about? For example: 1) inability or unwillingness to cover costs; 2) penalties for noncompliance; 3) fear of conveying impression of unstable business if they admit they lack the cash to pay their workforce, which management knows can snowball to jeopardize future orders and lead to more layoffs. Your brand communicating its shared responsibility for addressing these problems is primary path to truth. Cat-&-mouse approach rarely leads to sustained solutions. Now is the time for joint responsibility and creative problem solving.
2. Once there is trust, brands and factories can collaborate to compensate workers according to relevant labour law legislation. Some key considerations:
 - Consult workers – both those laid off and those still at work: Is there alternative option to layoffs of a portion of the workforce? (Note: trade unions are particularly well placed to offer solutions when an employer encounters true financial troubles.)
 - What resources are available to cover the costs of severance pay, if indeed layoffs are unavoidable, including:
 - Government loans for supplier, government programmes for workers (e.g. ‘short-term work’ or furlough schemes; unemployment insurance)
 - Brand resources to complement or ‘top up’ supplier and government funds available to uphold severance requirements
 - Consider country-specific programmes underway to support suppliers and workers, both those driven by government and those organized through MSIs
 - Can the workers get their jobs back if the situation changes / improves? How to communicate this to them? Would they be agreeable to a return? How can factory remain in regular contact with laid-off workers?
 - Find creative solutions for laid off workers (or workers ‘social plan’ for laid off workers, e.g. severance, job finding support, retraining)
 - How else can you as a brand support → place or advance orders and other actions – to provide liquidity and secure jobs for remainder of workforce. See Parts 3 and 4.



5. Identify actual and expected wage/job losses

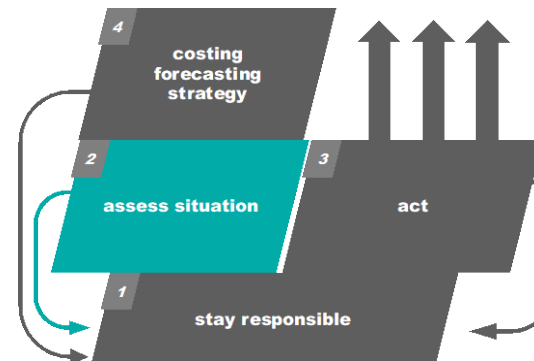
- Based on conversation with suppliers and production country specific information, clarify which factories have workers that are at risk
- What is the scale of the problem? Roughly how many workers? What proportion of wages is missing?
- Organise information in order to determine where to focus efforts (now and in the future)



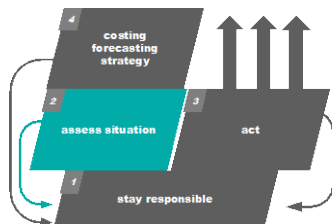
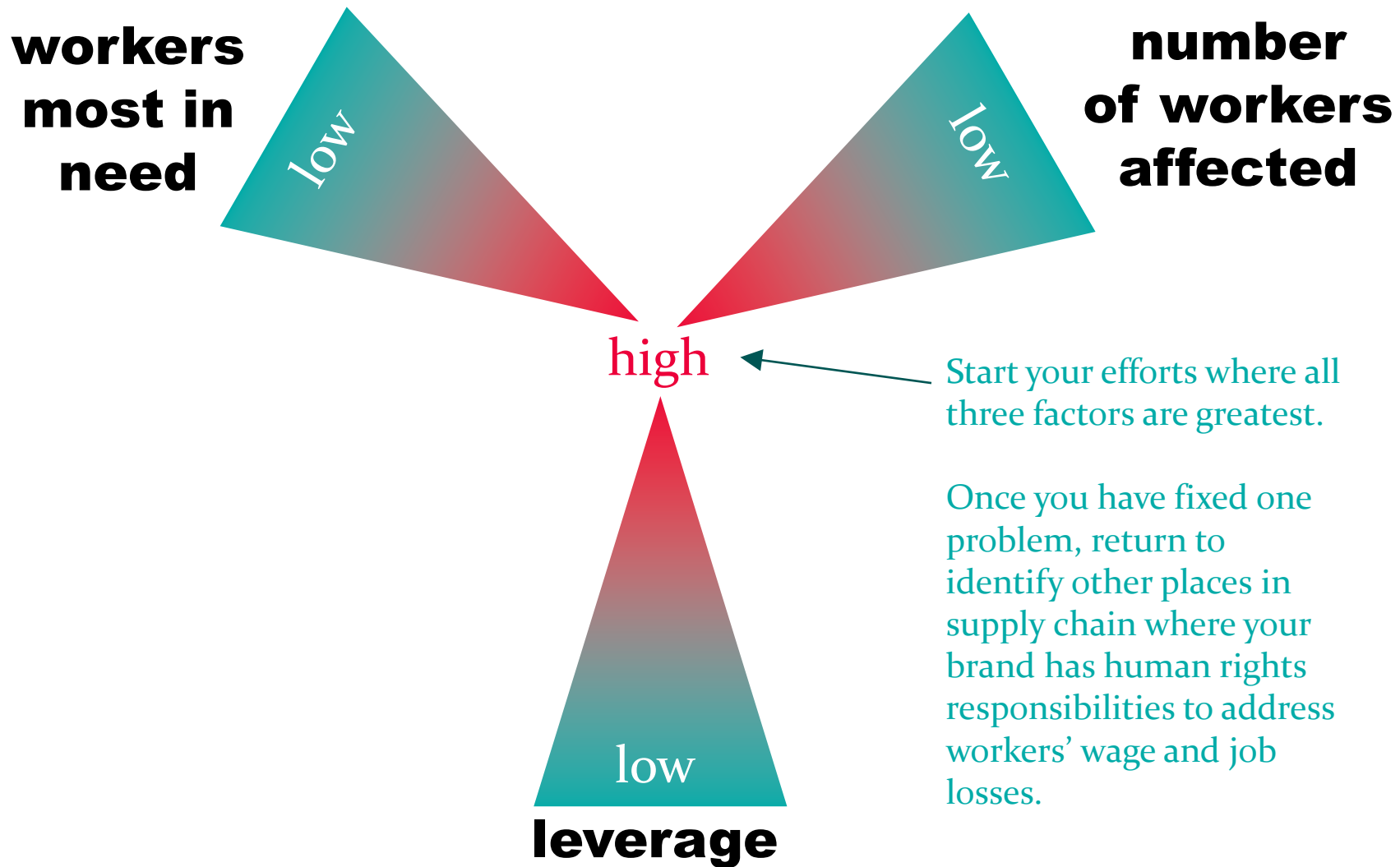
6. Consolidate and strategize remediation efforts

*Synthesise all information of the holistic evaluation
of your entire supply chain.*

*Where to start your efforts to help workers with lost wages or jobs?
(Start there, and then keep going.)*

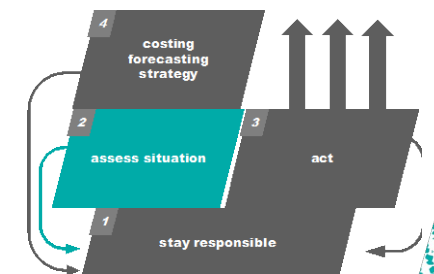


6a. Where to start to help workers?



6b. Where to start your rapid response?

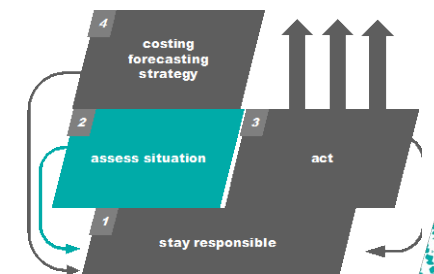
- Locations where outside state support is not readily accessible
- Where workers have the greatest (relative) wage losses
- Gauging where brand efforts can have effect (relationship leverage, as well as relationships with other brands/MSIs)
- Where greatest number of workers are affected
- Where there is a complaint



7. Quantifying the gap

In seeking to help workers who have lost wages, consider:

- How much workers were earning before COVID (including overtime)?
- Remember workers need to earn while factories are closed
- Be creative about distribution channels
 - Coordinate with suppliers and local stakeholders
 - Trade unions are key!

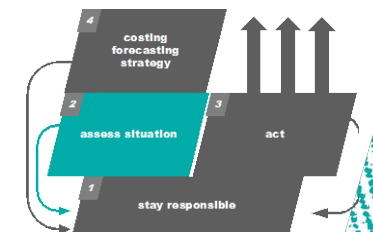


7a. Lost wages/jobs: Be principled and practical

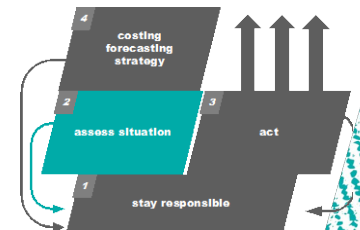
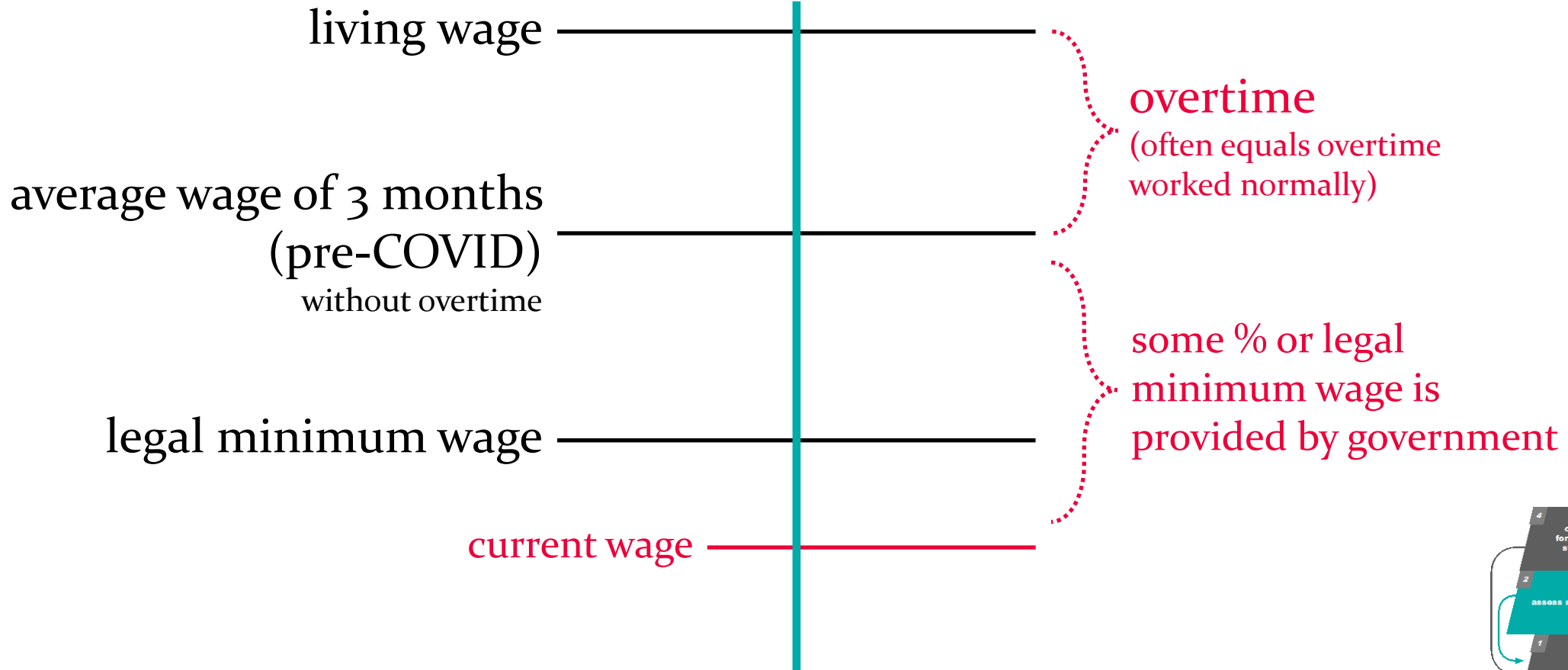
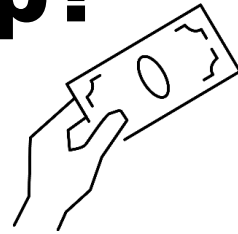


- Fair Wear and ETI maintain that a living wage is a code element and a human right
- Financial difficulties do not mitigate code responsibilities
- Living wage should be the goal
- In emergency context, a good rule of thumb is:

Seek to help the greatest number of workers, starting with those who are experiencing the greatest wage losses. Principle should not get in the way of immediate action.



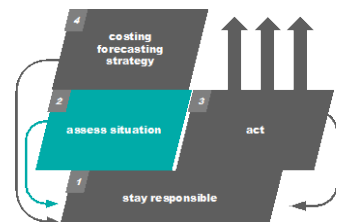
7b. Which numbers to use in calculating the gap?



7c. Alternative options for calculating wages due to workers in context of emergency



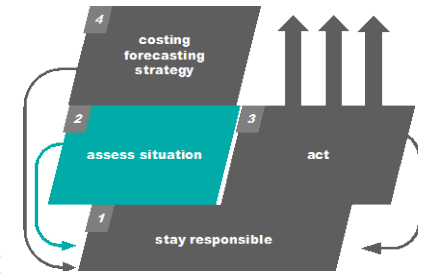
- **Average of past 3 months of earnings** (note: often when OT for these periods are included, it averages around a LW level, indicating workers usually work overtime to meet basic needs)
- **Legal minimum wage** - a quick and simple method of ensuring a baseline of funds to as many workers as possible (usually less preferable, given usually far from a living wage)
- Notes:
 - Some government provision represent a percentage (e.g. 60%) of current wages or legal minimum wages. Ideally this would be topped up by other sources (e.g. brand/supplier) per worker.
 - None of these options represent full compliance with payment of a living wage, but a brand, in consultation with workers and management, may opt for a strategy that brings more workers closer to the standard. This is a process.



7d. A note about living wages

Living wage estimates are calculated to ensure that workers earn enough to cover the costs of their basic needs, and those of their family. Had more workers been earning living wages prior to this crisis – including associated payments into social security systems – the extent of extreme vulnerability for workers would be far less at this time.

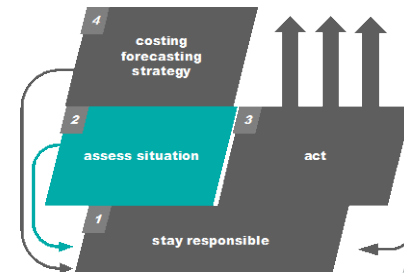
During this crisis, those basic needs do not change. And brands' human rights obligations are not mitigated by financial difficulties. Fair Wear's Code of Labour Practice still stands intact in times of COVID-19. Yet in a time of limited liquidity in this industry, we may need to think even more creatively about ways to meet these basic needs. This is where collaboration with workers is so critical. They are best placed to find affordable ways to meet the basic needs of as many workers as possible. Remember to start with the most vulnerable workers that you are able to help.



7e. Overtime and living wages



In current crisis, overtime has seen a sharp decline. This is good news for workers who may have been forced to work overtime, or working excessive overtime hours. Yet for years Fair Wear has observed that workers wage levels, with overtime, sometimes bring workers' wage levels roughly to levels consistent with relevant living wage estimates (e.g. Asia Floor Wage or Anker, depending on country). In many cases, workers work overtime simply to live. In the current crisis, this begs the question about how to calculate the gap that workers need to fill in order to survive this crisis.



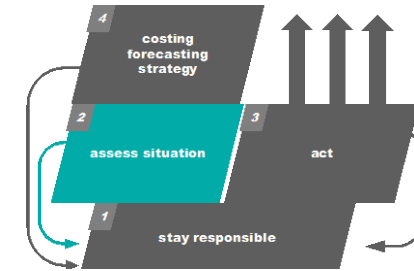
With questions such as these we can see the urgent need to involve workers in such discussions. We have already observed workers leading the way to solutions in workplaces where their input was sought in terms of trying to cover workers needs while also keeping as many workers on payroll as possible. Building trust with suppliers will be equally important to allow for a constructive discussion on actual (possibly excessive) working hours before and during the crisis.

The discussion continues...

Please keep your brand liaison abreast of cases linked to these complex questions.

7f. Calculate costs now (and flag future expenses to anticipate)

- Consider overall situation among suppliers
 - Short/mid term support needed
 - Very fragile unpredictable situation
- In factories identified to focus first: How much is the factory short?
 - Actual situation
 - Needed liquidity plan for the next 3 to 6 months
 - Identify workers most at risk (and total cost here if this is a subset of total cost)
 - Keep workers aware of current and potential future situations – communication is important. Also important to ask for suggested solutions from workers.

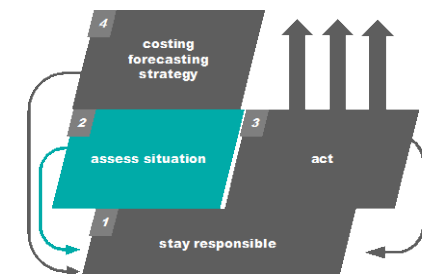


* This process cannot be done successfully except in collaboration with management and workers

Bring it all together: Part 2



- Assessment process is meant to help you target where to start your efforts to workers. Not to delay or distract from action.
- Start by understanding the context in countries where you produce – attend the country webinars.
- Find solutions with suppliers – share responsibility and build trust. No time for ‘cat and mouse’ approach.
- CSR cannot do this alone – this is the time to align your business with your values.
- Where to start? Workers who are most at risk (have lost the most), in facilities where you have the most leverage.
- Financial problems do not lesson a brand’s human rights responsibilities. If living wages had been paid, workers would not be as ‘at risk’ now.
- Principle should not paralyze either. Be practical in finding fast solutions as a start. Involve workers in solutions, and keep them informed all the way along. And then keep going...



Part 3: Taking action to address lost wages / jobs

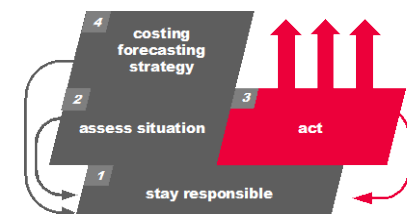
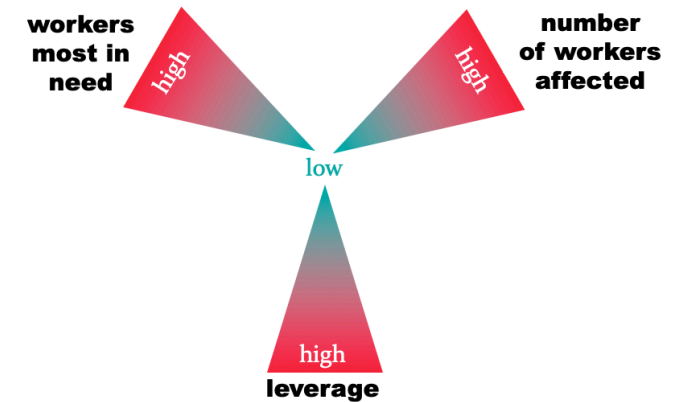


Table of contents - Part 3: Taking action to address lost wages / jobs



Based on assessment process, get started. Most impact will be through:

1. Brand solutions around sourcing (review from Part 1)
2. Accessing national and international funds
3. Engaging workers for other creative solutions
4. Direct financial support beyond sourcing and costing
5. Collaboration with other brands and/or MSIs
6. Last resort: Paying into joint funds for workers / Donations to worker-focused charities



1. Brand's solutions around sourcing



- Stay responsible for placed orders (see “paying in full” section 1)
- Re-check forecasts based on your market situation and communicate openly with your factories → enabling planning security going forward and evaluating their future situation
- Support factories with orders (if your liquidity allows)
 - long running and basic styles
 - break demand peaks which you can flatten with pre orders
 - NOS



1a. Brand's solutions around sourcing **FAIR WEAR**

- Adjust payment terms to support liquidity and security of your supplier (considering your own liquidity)
- Pre- and down payments for orders
 - improves the liquidity of supplier
 - reduces the financial risk of supplier
- Shortening payment terms
- Letter Of Credit

Avoid postponing scheduled payments.



1b. Brand's solutions around sourcing



- Anticipate changes or delays in production and be flexible about delivery dates, payment terms, and financial liability. In collaboration with suppliers, consider the following measures where possible:
 - Prioritize orders based on real demand.
 - Accept extended lead times and push back sales meetings to allow for later delivery.
 - Investigate whether slowing down capacity and spreading orders over a longer period is an option.
 - Or whether some orders can be split or prioritized over others.



1c. Brand's solutions around sourcing

- Integrated supply chain approach - join forces with different actors (retail, brand, factory)
- Best practice example from a Fair Wear member:
 - Fair Wear Workwear brand asked its customers whether they needed other things to be produced which led to extra orders that they could give to their supplier.



1d. Proposed solution: Letter of Credit



- Letter Of Credit was common in the past and meant more safety for the suppliers.
- With LC the current situation would probably look different, because it would have been very difficult to cancel placed orders.

Letter of Credit payment was common practice in the past and widely accepted throughout the industry. The continuous and ongoing overall pressure within the industry to optimize and streamline processes and the need to improve the cash flow for brands in order to support growth led to ever worse payment terms on the side of the suppliers.

We propose this as a responsible approach going forward.



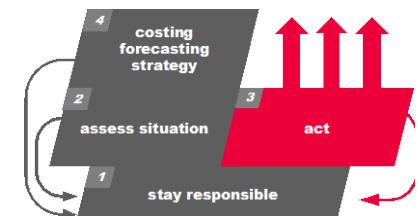
2. Public resources available (Per country)



National level:

- Cash subsidies for workers and/or suppliers → e.g. Daily cash allowances for workers
- Short-time work model (wage substitution payments from government)
- Corona emergency loans for companies
- Payroll cost substitution- and deferred payments
- Tax reductions and deferred tax payments
- Support social security models
- Social security - part of national obligation, mostly through taxes -- legal obligations.

Be careful not to instate a separate system



3. Engage workers and ensure they understand the factory's situation

- Workers need to be aware of the factory's situation in current climate
- Need a voice and can help find solutions
- Workers often are already earning 'poverty wages'; they should not bear the burden of lacking liquidity (e.g. wage cuts etc)
- Trade unions are best placed to represent workers' collective voice – particularly where there are risks to job losses
- Remember to build local grievance systems / complaints hotline: important to identify problems quickly, so as to find effective solutions



4. Direct financial or in-kind support to supplier from brand

- Financial support to supplier to subsidize missed wage payments
 - Direct payment: brand to supplier, or via other third party, to workers
 - In particular such support is recommended where brands have a:
 - Wholly owned factory
 - High leverage
 - Strategic supplier



This can be a short term solution but should not replace payment of higher prices to finance higher wages

5. Collaborating / pooling with other brands/MSIs



- Coordinate with other brands sourcing from the same factories if possible
 - Are other Fair Wear or ETI brands there?
 - Are other brands there that are member of an initiative that committed to the joint MSI statement?
- Is there an existing vehicle to access in order to quickly get money to the workers/workplace?
- Connect with local institutions
- Participate in country-level actions organised by Fair Wear, ETI and other MSIs to facilitate collaboration and action



6. Option of last resort: Payments into a fund / charity / donations



- Payment to local NGO or charity supporting workers (e.g. buying massive bags of food for the charity to use with communities where laid off workers live). Relief work is not a replacement for responsible supply chain credibility. It is something entirely different.
- Asia Floor Wage proposal
 - SCR (Supply Chain Relief) 2% of total previous annual buying volume per supplier as a direct payment to each supplier structured as a direct pass through to workers

If brands are doing this in addition to sourcing solutions, then brands may want to consider. Be careful not to set up a separate system!



Hypothetical

A strategic supplier calls you and tells you that, due to cancellations from some other brands, it lacks liquidity to pay wages in the current month and asks you for help.

What do you do?



Letter of credit for new orders

Place additional orders

Pre- & down payment for orders

Advance shipments of orders and pay immediately

Advance payment for orders received

Assure that workers representatives are informed and involved

Shortening payment terms

Can you support with local experts to check, secure and accelerate government or other available funds

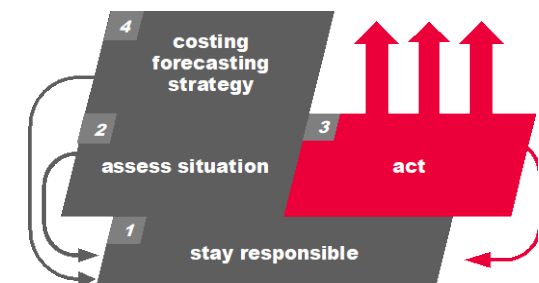
Involve other MSI brands if they can support in any way

Direct payment to secure wages

Not exhaustive

Bring it all together: Part 3

- Brand's most powerful way to affect worker wage and job loss is through the way it does business. Start here (building on Part 1).
- Solutions need to be production country specific, and tie to existing government structures for support.
- Brands can supplement supplier and government sources to help workers get by.
- Workers must stay involved and informed – trade unions are key in current context.
- Work with other MSIs – and, as a last resort where other solutions are not present, consider joint funds and donations to local charities (this never replaces a brand's responsibility to pay a fair price and cover costs associated with its responsibilities).



Part 4: Forecasting, costing & responsible exit strategies



Table of contents – Part 4: Forecasting, costing, responsible exit



1. Forecasting effectively emerging from COVID (collaboration with suppliers)
2. Acknowledge the extra costs associated with COVID-19
 - PPE, disinfection, plexiglass, safe transportation, other infrastructure provisions
 - Lockdown and ramp up
 - Efficiency / productivity losses
3. Due diligence in costing - need to expect higher costs
 - Labour minute value and product costing calculator updated for COVID
4. Downsizing & Exiting Responsibly



1. Forecasting effectively emerging from COVID

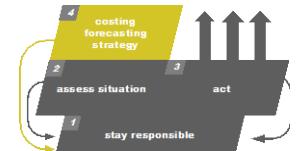
- Situation is unclear for brands to plan. How will the market react after lock down period?
 - Each brand has a different market reality, business model and market locations
 - Development of demand difficult to foresee
 - Customers in survival mode may act unexpectedly → cancellations / payment terms / future orders
- Factories are facing similar challenges
 - How many workers will/can come back to work?
 - How can a factory ramp up be planned?
 - What additional cost will occur and how to build them into the price → OHS
 - How do OHS measures, lack of workers, and ramp-up procedures impact the factories efficiency?



1a. Forecasting effectively emerging from COVID



- Communication, collaboration and overall integrative planning are now extremely important
 - We are in a very dynamic situation which is challenging for any form of collaborative planning
 - Yet continuous communication and updating of the situation is critical at this point



All stakeholders in the value chain depend on each others' information and action



1b. Forecasting effectively emerging from COVID



Communication, collaboration and overall integrative planning are now extremely important – consider tools, such as:

Category	Product	Country	Factory	Leverage @factory	Labour Minute price per minute	No. Workers	Qty Season x	Qty Season y	Qty Season z
Running	Pant	Myanmar	Factory 1	10	0.04	650	15000	5000	16000
Outdoor	Jacket	China	Factory 2	30	0.1	450	2000	3000	2000
Workwear	Trouser	Bangladesch	Factory 3	5	0.05	1100	30000	35000	40000
Workwear	Safety Jacket	Bangladesch	Factory 4	15	0.05	1100	45000	20000	45000
Equipment	Sleeping bag	Vietnam	Factory 5	5	0.08	850	2500	7000	3000
Fashion	Skirts	North Macedonia	Factory 6	70	0.05	350	15000	5000	16000

2. Acknowledge the extra costs associated with COVID-19

Brands should expect higher costs due to COVID

- There is a high risk that the situation will get even worse!
 - Industry reality has shown that when costs at the factories increase, brands are often not willing to pay.

*Research shows → when minimum wage rises, brands' prices do not increase; often decrease. This is not responsible business.

[*Mark Anner 2017, ETI supplier surveys, ILO global survey 2016](#)



2a. Acknowledge the extra costs associated with COVID-19

Brands should expect higher costs due to COVID

- Costs for health and safety measures = PPE, plexiglass partitions, safe transportation, etc.
- Due to lockdowns & ramp up procedures
 - Reduced capacity
 - Ramp up in stages, with reduced number of staff & uncertainty about development
 - Additional spacing requirements
 - Increased workers absenteeism
 - Impact on factories efficiency
- Subsidizing severance funds

[See Fair Wear / ETI COVID guidance on OHS](#)

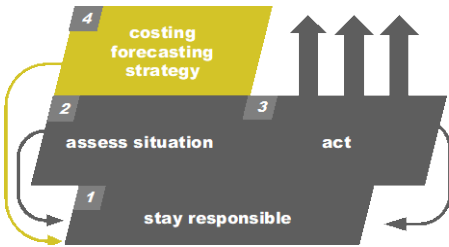


3. Use the Labour Minute Value (LMV) & Product Costing Calculator



Updated Fair Wear Labour Minute Value & Product Costing Calculator to integrate additional cost of COVID-19.

Please use it!



Distribution of workers per Pay Grade in % (adjust to actual)				
Must add up to 100%		Skilled	Semi-skilled	Unskilled
18)	100.0%	25.0%	50.0%	25.0%

Wage	Description	Labour Cost avg. worker	Capacity Minutes	INR Labour Minute Value	US\$ Labour Minute Value	Difference (absolute)	Increment (in%)
₹8'364	Labour Minute Value (based on Legal Minimum Wage)	11'372	12'110	₹0.9391	\$ 0.0132		
₹14'670	Labour Minute Value (based on Target Wage)	19'625	12'110	₹1.6205	\$ 0.0228	\$ 0.0096	72.6%

Monthly Operational Expenses in the Factory				
	in INR	in USD	per minute	(operational expenses in USD divided by the total monthly sewing minutes (C15))
19)		\$0	\$0.000	Insert the total amount paid for Direct Labour (i.e. sewing operators) per month in INR .
20)		\$0	\$0.000	Insert the total amount paid for Indirect Labour (all other labour costs besides sewing, e.g. cutting, QC, maintenance, security, cleaning, office staff etc.) per month in INR .
	₹0	\$0	\$0.000	Total labour costs per month in INR / Labour Minute Costs (calculated by dividing with sewing capacity minutes: C12)
21)		\$0	\$0.000	Insert the average overhead costs in the factory: rent, fuel, electricity, training, interest payments, depreciation on building, safety measures, etc. per month in INR .
22)		\$0	\$0.000	If applicable, Insert the total additional costs per month for Covid-19 measures (e.g. face masks, disinfectants, temperature scanning, etc.).
	₹0	\$0	\$0.000	Total factory expenses per month in INR / working minute costs (which can be compared with the working minute costs based on prevailing (2018) min. wage (Cell I-63) as a plausibility check).

A new row to insert the additional cost for OHS measures to be added to the factory overhead cost

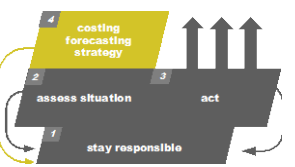


3a. Use the LMV & Product Costing Calculator



	Items provided by the factory	Details / Calculations		Notes
23)	Style Name			Style name or number of the Product
24)	Standard Allowed Minutes			Standard Allowed Minutes (sewing) of the style you want to calculate per piece.
25)	Efficiency Percentage			Depending on your cost calculation the factory or line efficiency value . Note: One could also adjust this % to calculate the impact of Covid-19 on labour (and product) costs due to possible efficiency loss. Note: if you don't know the SAM and efficiency percentage, simply indicate the actual labour minutes under 8, and 100% efficiency under 9.
26)	Fabric			Fabric costs per piece (incl. wastage %) in USD
27)	Accessories			Costs for accessories (buttons, zippers, etc) per piece in USD
28)	Polybag, packaging, labelling			Total amount per piece for polybag, packaging, hangtag
	Total Material Costs		\$0.000	
Total CM Costs	Labour Cost		at LMW	at Target Wage
	Direct	0.0%	\$0.000	\$0.000
	Indirect	0.0%	\$0.000	\$0.000
	Total labour cost		\$0.000	\$0.000
	Overhead Cost (electricity, fuel ..)		\$0.000	
29)	Outsourced processes			
30)	Logistic costs (inbound-outbound)			
31)	Import tax and duties			
	Total		\$0.000	\$0.000
32)	Profit Margin		\$0.00	\$0.00
33)	Buying House Commission		\$0.000	\$0.000
	FOB PRICE		\$0.000	\$0.000
	% increase			0.0%

We added a comment in the product costing section at “efficiency %” to capture the efficiency impact during factory’s ramp up and recovery phase of COVID.



3b. Use the *LMV/Product Costing Calculator

The use of the [LMV & Product Costing calculator](#) will

- Support the factory to transparently calculate the additional cost towards their buyers
- Enable fact-based discussions in cost price negotiations
- Support brands in their due diligence requirements in costing



3c. Costing for severance pay and increases in paid absences

- This crisis exposes many weakness of previous approaches to pricing (and its burden on workers).
- There is a need to invest in provident funds and/or unemployment insurance.
- Anticipated severance pay needs to be set aside in order to cover these costs in case of business failure.
- The actuarial costs for things like severance, paid absence, even death will likely increase. Need to take this into account in pricing.



Hypothetical

Factory management contact you and tells you that the post-COVID ramp up of the factory is very challenging. The factory needed to invest in OHS measures to properly ensure the health and safety of their workers. In addition the factory lost overall capacity due to new spacing requirements, so they have lost the capacity of numerous sewing lines. In addition, numerous workers have not returned due to quarantine, lack of public transport etc. Therefore several functions within the factory do not run smoothly which has a noticeable impact on efficiency. The factory management informs you that with the prices they quoted you pre-COVID will not suffice to cover their cost and especially to pay wages to their workers. The factory asks you for help. What do you do?

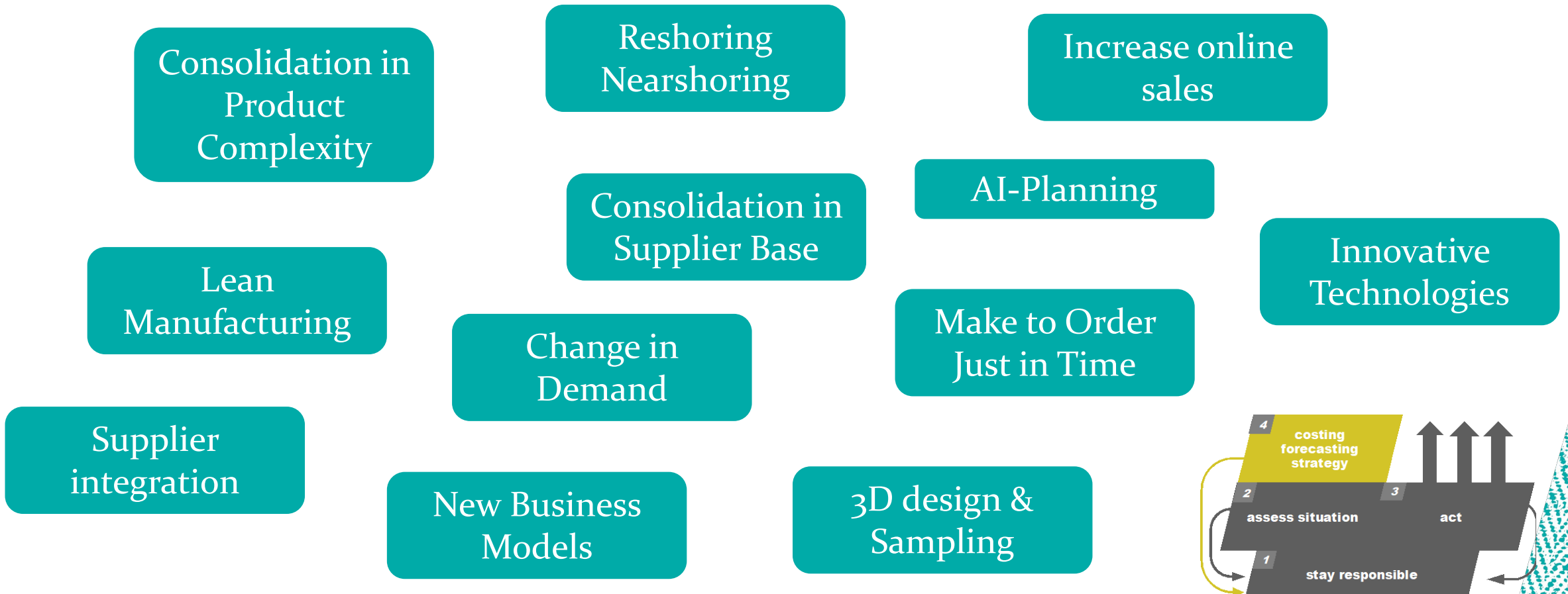
- Propose the factory to use the [Fair Wear LMV & Product costing calculator](#) to transparently add the additional COVID cost into the price
- If the factory is not familiar with the tool, ask Fair Wear to support with local teams
- Agree on higher prices for your products which the factory can make transparent
- Expect and accept later deliveries due to the reduced capacity and efficiency of the factory
- Check if you can support with other options based on steps in Part 3



4. Downsizing & Exiting Responsible



COVID inevitably will impact a brands overall- and its sourcing strategy – effect for human rights need to be considered from the start



4a. Downsizing & Exiting Responsibly



- Downsizing or exiting a supplier needs to be done responsibly, transparently, fairly and in a collaborative way without unilateral decisions.
- Downsizing is better than a complete exit
- Is it really the last option? → if "only" demand driven, the situation might still evolve
- Open and transparent information sharing as soon as possible is key
- Allow sufficient time for the factory to fill the gap
- Support creative solutions → can other MSI brands use free capacity?
- When exiting, your impact/responsibility increase proportionally with your leverage

See also [Fair Wear Responsible Exit Strategy Guidelines](#)



Fair Wear Foundation – Responsible Exit Strategy Guidelines (version February 2018)

Responsible Exit Strategy Guidelines

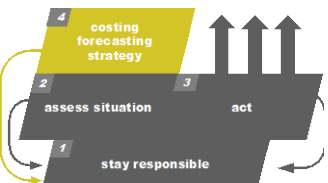
Fair Wear Foundation incentivises members to have a consolidated supply chain with long term business relationships. However, inevitably and for many different reasons, members also end business relationships. Through FWF's performance check system FWF assesses whether a member company evaluates its supplier base and how it takes working conditions into consideration in its business decisions. In recent years, FWF members have been asking for more specific guidance on steps that need to be taken when ending a business relationship. FWF has had several cases amongst others through its complaints helpline that made it clear more guidance was

4b. Downsizing & Exiting Responsibly



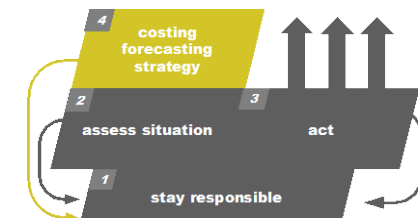
For workers' rights. For better business.

- When there is no other option you should:
 - Formally communicate the decision to the supplier as soon as possible
 - Involve relevant stakeholders → Unions, NGO's and/or labour inspection if applicable
 - In consultation with Fair Wear/ETI and local stakeholders, determine the social impact based on your leverage
 - Does your downsize-, exit strategy lead to layoffs, or even closure of the supplier?
 - If so, ensure that supplier is compliant with severance laws and financially in the situation to cover those
 - Monitor if supplier stays compliant with severance laws → Fair Wear staff or local stakeholders



Bring it all together: Part 4

- Your brand's sourcing and business strategy moving ahead must integrate the realities of COVID
- Collaborate with suppliers to plan – forecast better than ever
- COVID has unavoidable added costs relating to
 - COVID occupational health and safety
 - Lockdown and ramp up costs
 - Efficiency / productivity losses
- Make sure pricing reflects these realities
- Where downsizing is unavoidable, do it responsibly



**Thank you for your
attention**

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