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ASN Bank & Living Wage in Garments: The 2020 Overview

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For this year's on-line only presentation of the living wage results in the garment sector we chose a slightly different approach. Instead of repeating reports from the past two to three years, we want to jump straight into the key messages by the following three step overview:

Feel free to review more details on the background of ASN Bank's living wage project here. ASN Bank is part of De Volksbank.

1 Introductory Remarks

Now is the Time

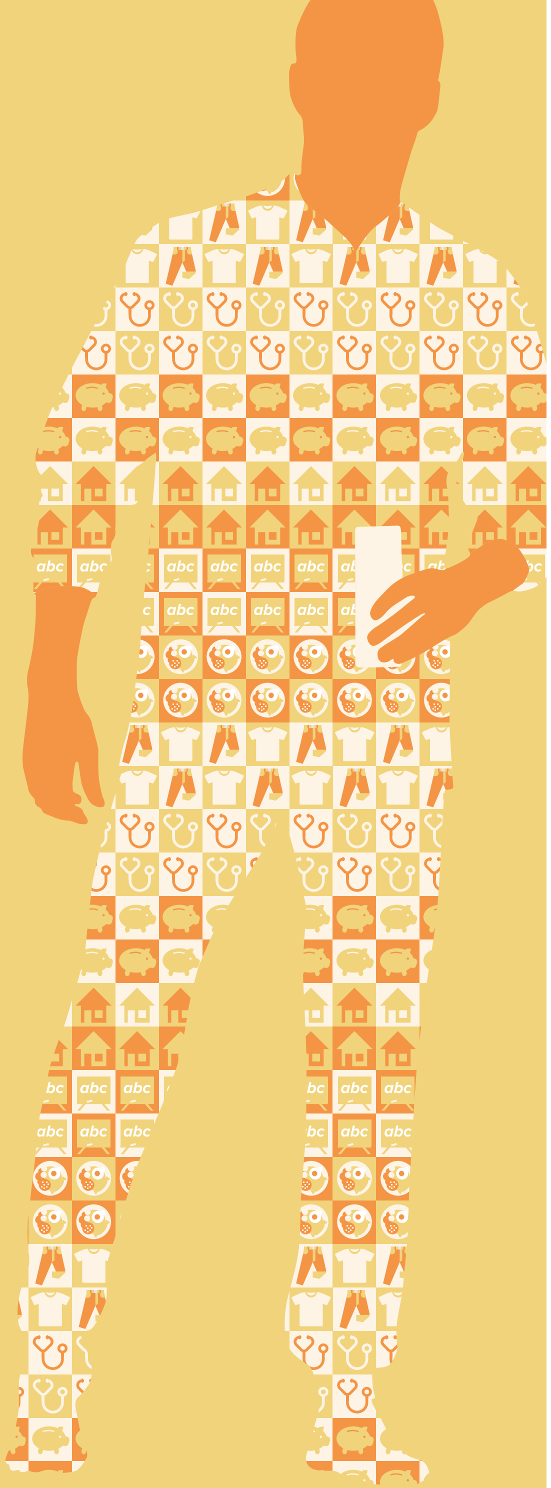
If there was ever a time for a living wage it is now. With the emergence of the global pandemic in the first quarter of 2020, both buyers and manufacturers had to adapt quickly to an unprecedented health crisis and loss of consumer demand. Yet while most governments in sourcing countries temporarily stepped in to cover the salaries of employees to help businesses survive, the vast majority of workers in the supply chain (of these same businesses) were left with little to no support. The fact that the monthly pay of these workers is often insufficient to allow them to save means they have effectively been hit twice as hard. Added to this heavy load, many needed to put their health at risk to find new ways of income.

Grim Truth

This is a grim truth to swallow given the promises of many stakeholders over the last 15 to 20 years to improve conditions in supply chains. Making good on that promise would have provided workers with the material resilience needed to weather the storm. Instead, as reports from the ILO and others show, the lack of a safety net was compounded by the refusal of some global garment brands to pay millions of factory workers, mostly women, for work they had already completed. Public pressure compelled several of these companies to reverse their position. But this whole course of events demonstrated once more that the most vulnerable in the garment business model carry the most risk.

Impatience Mounts

At the same time, we are well aware that workers around the world have been affected by this unexpected crisis, both in producing and buying regions. Stories about employees in buying regions on furlough have not escaped our attention. Still, the lack of a social floor in countries where our clothes, electronics and food come from is not new. Global brands have included a 'living wage' in their



Codes of Conduct for the supply chain for over10 years, some even for over 20 years. This begs the question: will the current business model in the garment industry ever be compatible with living wage requirements? We think it can, if everyone is dedicated enough to follow through on promises made.

At ASN Bank we have been stressing the need for living wage levels in (garment) supply chains for **several** years now. We therefore feel we have some right to vent the outrage that comes with the severe impact of Covid-19 on developing economies. Alongside this outrage is impatience that, despite the good intentions of *all stakeholders* to uphold basic labour rights, these rights have not been upheld in regions where national laws fail to protect workers sufficiently. Systemic change is required to make seismic shifts possible and lift millions of workers out of poverty.

Legislation Needed

We purposely include *all stakeholders* here, not just the buying brands. This means governments, financial institutions, trade unions, global unions, consumers, academia and civil organizations. We fully empathize with some of our investee companies that are doing their utmost to support factory management and lobby governments in fighting for better wages and working conditions. Their efforts can only bear fruit in fertile ground, which would mean a base floor and obligatory supply chain responsibility for all. We are pleased to see that in recent months, the European Commissioner for Justice Didier Reynders has championed **mandatory** human rights due diligence.

Meaningful Engagement

Let us come back to what we can do as a financial institution to use our leverage in creating a living wage for workers. In February, we **launched** the term ‘meaningful engagement’ together with our 14 financial partners in the Platform Living Wage Financials (**PLWF**). In the finance world, the tool of engagement can be **effective** in approaching topics such as human rights with investee companies. And in the slipstream, this can have beneficial effects on financial resilience as we recently saw when the so-called ESG stocks **performed best** during the Covid-19 slump. For ASN Bank, engagement is useful alongside clear divestment from the highest risk sectors for human rights abuses (e.g. weaponry).

There is also a risk around this tool, as engagement can become repetitive and ineffective in cases where no clear targets are set. ASN Bank’s perspective on engagement is to set a long-term objective, determine milestones to reach, conduct our own detailed research that supplements data from service providers and, where possible, engage collectively with other financial organizations. And if the investee company does not progress towards the clear milestones set, escalation measures as well as divestment can follow. In short: meaningful engagement to make the most use of our leverage as financial institutions.

2 This Year's Assessments

Method Upgrade

Before we share our main observation following the living wage assessments of 2020, we would like to briefly remind readers of what we do. Part of 'meaningful engagement' involves conducting our own research into the status of a living wage in the supply chains of investee companies. Note that the focus of ASN Bank is on the garment industry, whereas many PLWF members (also) include companies in food retail and food agri. We have been assessing garment companies since 2017. The experts at accountancy firm Mazars have been supporting us by drafting our assessment method and by providing assurance to our work.

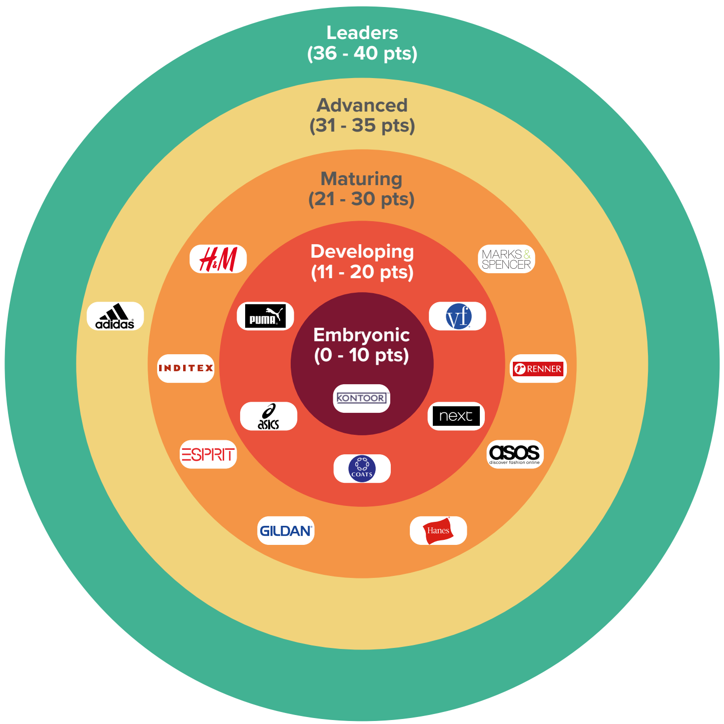
From the start, we made clear to investee companies and stakeholders that the method would change over time. Not drastically, as we still follow the UNGP Reporting Framework to the letter, but we aim to make changes that challenge companies to improve over time. So the first two years we applied a weighting system that provided scope to receive a better score at the beginning of the questions, the so-called 'easier questions to answer'. This year we evened out the weighting so that each of the 8 questions are weighted at 12.5%. We consider this a key part of our engagement strategy to nudge investees further. The 2018 methodology and the 2020 Method Upgrade can be found here under Documents.

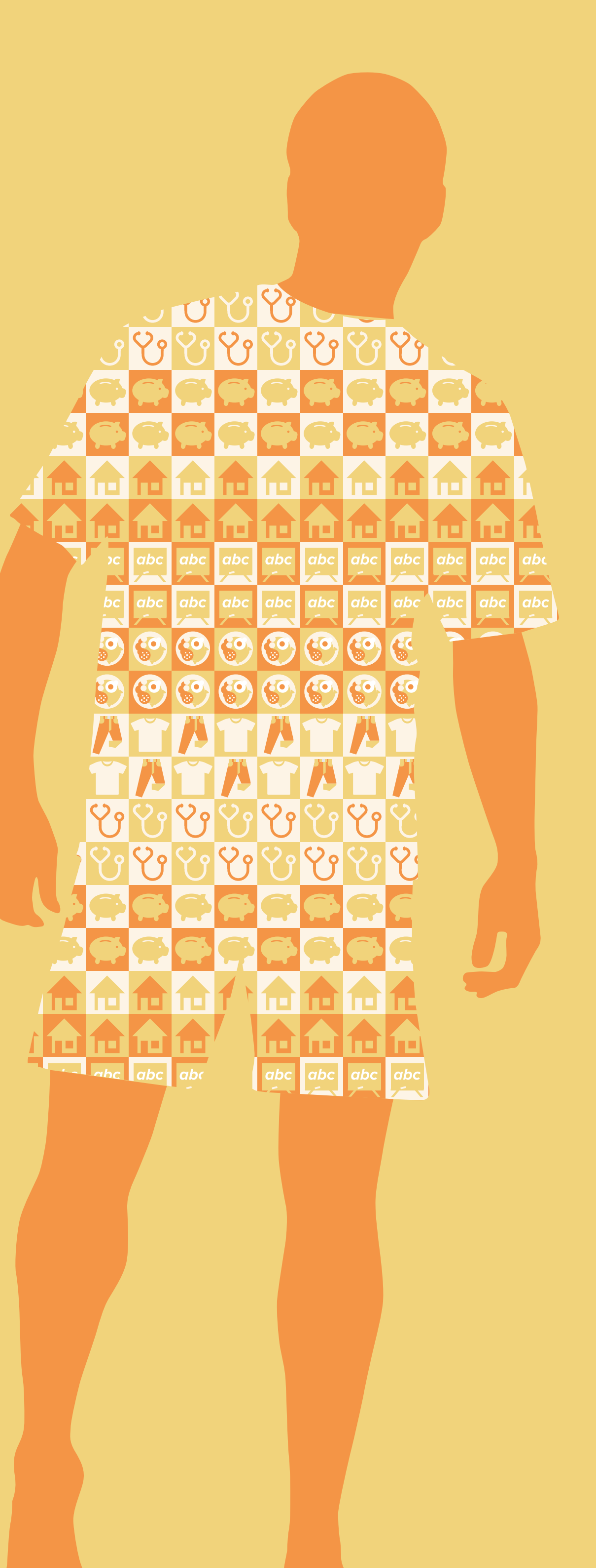
Another change from previous years is that we added a new category in communicating the results. Instead of a maximum of 40 points divided into 4 categories, we now have 5 categories whereby we reserve the last 36-40 points for companies that truly lead – meaning they do everything to use their leverage to enable a living wage to be paid in their supply chains. It is not enough to achieve a score of 31 – 35 points. We need to see a minimum of 36 points here associated with being transparent about pricing, costing, purchasing and progress.

Governance

Over the course of 4 months we, a team of researchers at ASN Bank, assess 15 investee garment companies based on annual reports and websites. Each assessment takes about 2 weeks to fully conclude. There is a 'four eye' principle which means each assessment is read by a second reader. Then the assurance process with Mazars starts. Their team challenges us further on answers given and evidence found. After a few rounds of discussions and moderation across all investees under assessment for additional information, the assessment cycle is concluded and assurance is given after approval of the Board of De Volksbank , our mother company.

The 2020 Results





Despite the slight change in scoring and weighting, we see quite a similar picture this year compared to previous years. That picture shows overall progress. Please note that our assessment was made based on the 2019 sustainability reports, which do not include the Covid-19 effect. We expect the pandemic will lead to a change in these scores next year. Already this year, together with all the PLWF-members, we issued a **statement** and engaged on the crisis as it unfolded since March. A PLWF webinar, scheduled for October 6th of 2020, will go further into this.

But for now, we see still a solid group in the maturing and developing phase which is a good sign that living wage remains on the agenda. Adidas still receives the highest scores, but not enough to be considered a leader in this year's division of categories. Kontoor, which recently split from VF Corp, is new to our group under assessment. As such, the company is new to the topic of a living wage.

In past years, when we presented our assessments results we were keen to show detailed progress on these individual steps. However, in light of this year's global health crisis as well as the three-year assessment cycle we concluded, we now want to zoom out a little and share our overall impressions of how garment companies conduct due diligence and what we believe must improve to ensure an actual impact. In other words, we strongly urge international brands 'not to waste this good crisis' and make the necessary improvements for systemic change in the garment business. And to prove to the world once and for all that a living wage can be compatible with the current business models.

3 What is needed Now

Needed: Set a Target Wage

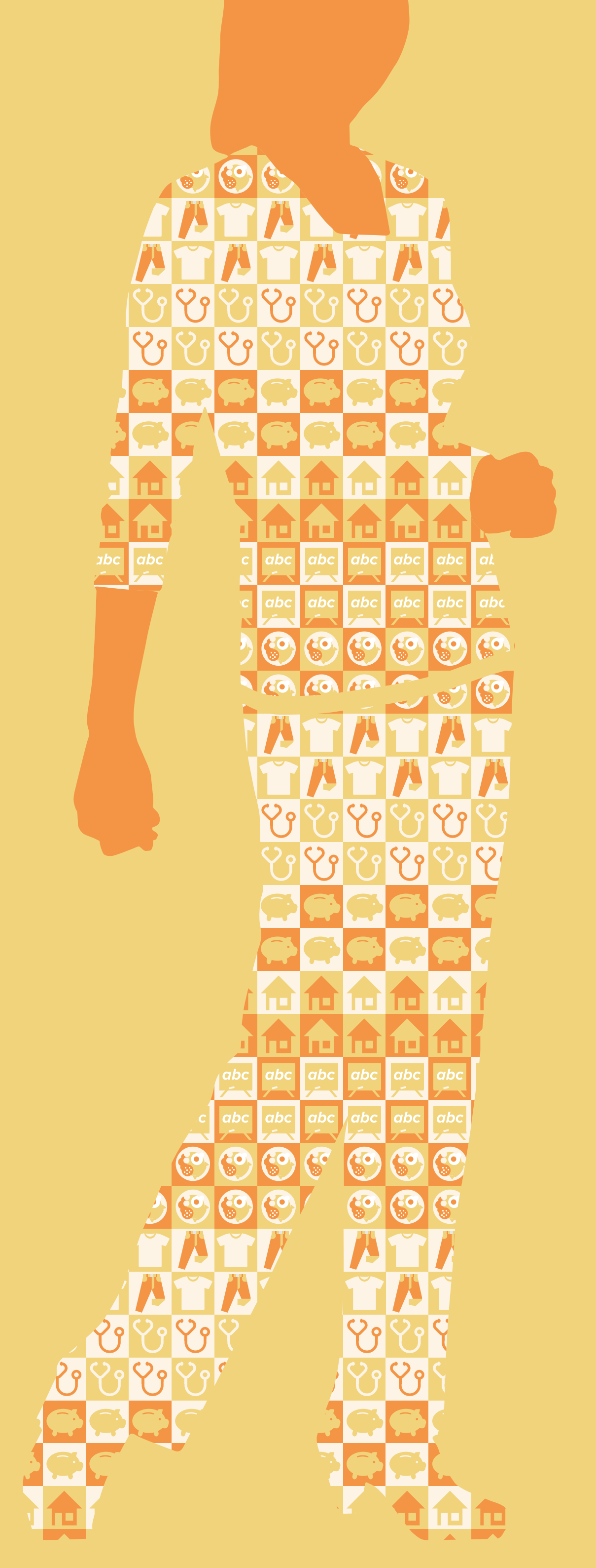
When we look at the due diligence process prescribed by the UNGPs, it sounds relatively straightforward: draft a policy, conduct a risk assessment, implement action to mitigate the risk, track the performance of these actions and provide a remedy where a negative impact could not be mitigated. Every step follows from the previous step and feeds into the next. This cycle should then be repeated to continuously mitigate any negative impact. But when we look at what happens in practice around wages, the picture is quite different.

The policies of many companies around issues such as child labour and forced labour are clear: these practices are prohibited. But when it comes to wages, companies suddenly apply a different standard. Although many companies' policies make reference to a living wage, the hard requirement for suppliers is most often compliance with the national minimum wage. And as we all know, in many garment-producing countries this wage is not even close to being sufficient to meet basic needs. Why do companies state that they respect human rights, while they clearly do not with regard to wages?

Wages are a complex issue involving many stakeholders at different levels, all of whom have their own interests. We recognize that, as well as the need to be cost-efficient to stay afloat in a competitive market. But a living wage is a human right that companies should not downplay. Most claim to respect human rights while failing to set target wages around a living wage benchmark. When there is no target, there is often no purpose for shooting. And that is also what we observe when we research garment companies.

Needed: Link Target to Actions

While in theory the due diligence steps follow each other in a logical order, this order is not observed in practice around wages. There is



often, at best, only a loose connection between a risk assessment, the actions implemented and the performance tracking of these actions. For example, one would expect a prioritization of actions in countries with the largest wage gap, a rationale behind the actions implemented and how these should lead to higher wages as well as measurement of the effectiveness of these actions. These are basic steps that, when applied in a consistent and coherent manner, could and should lead to improvement.

Needed: Link Actions to Analysis

Together with the need for more clarity on living wage benchmarks and coherent , logical actions to reach that target, we also see many living wage pilot projects, however well-intended, that have no clear sense of how a roll-out could work throughout the supply chain. We like to see country-specific actions that are commensurate with the identified wage gap and that are embedded in the particular socio-economic and political context of that country. Ideally, the performance of these actions is tracked and assessed against a set objective.

We encourage companies to explain in detail what their analysis has been, what they are doing in their sourcing regions, what they expect from these actions and what they concretely aim to change. We also think that aside from pilot projects, solely implementing generic supply chain-wide actions will not be enough to effectively mitigate the adverse impact of low wages. In short, what we need to see is: a better integration of a living wage in business operations/ strategies and more transparency of what, why and how these strategies work or fail to work in practice.

The emphasis of the UNGPs lies on avoiding adverse impacts on human rights and if they cannot be avoided, they should be mitigated. Therefore, when companies commit to the UNGPs and to respecting human rights, they should take these rights into account in their sourcing strategy. Why would you source from a country in which the human rights situation is so bad that mitigation becomes an almost impossible task? And if you continue sourcing from such a country, then it is needed to do your utmost to explain how mitigation works. There should be much more attention devoted to how human rights are integrated into a company's sourcing strategy and business model and how a company aims to avoid adverse impacts on human rights.

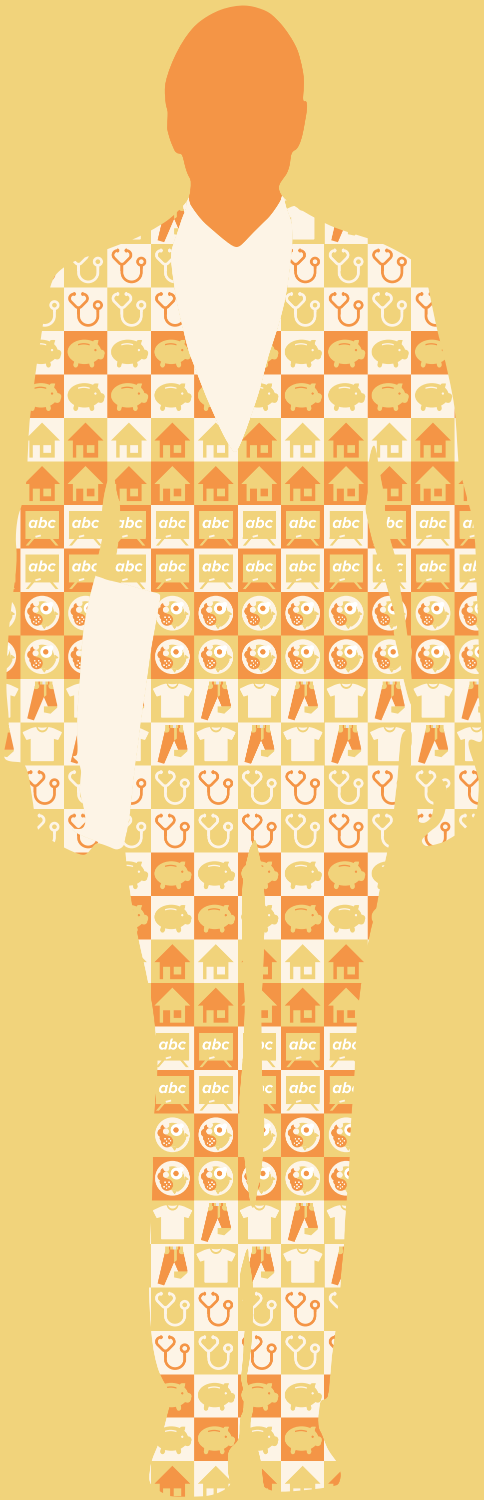
Needed: True Transparency

A lot of basic information, such as the wages of factory workers or concrete information about supplier relationships, is not being disclosed. We understand that this is a highly competitive market with low or even negative margins, but when the intention is to respect a living wage, actual follow-through is imperative. And if a living wage is not part of a company's competitive edge, as some say, then why not be transparent about it? What makes this even more difficult to understand is that many companies source from the same suppliers. We do not see why concrete wage information should be kept confidential.

The same goes for relationships with suppliers. The information provided to us is mostly limited to high-level supply chain standards, abstract commitments in a responsible sourcing policy or pilot projects driven by stakeholder initiatives. In the majority of cases, how these are implemented and how they are or could be leveraged to mitigate adverse impacts on human rights in the supply chain is entirely unclear.

In sum

We are positive about the actual results of our assessments cycle this year. The companies under assessment remained mostly in the same phase of development towards living wage leader, despite the more rigid weighting system we applied. However, when we zoom out and look at our impressions over the past three years of assessments, we largely find a lack of clear targets to work towards. Instead, we find a patchwork of projects that seldom link to a well-considered and researched analysis and strategy on implementing a living wage.



ASN Bank's engagement strategy will need to address this in the next three years, in close cooperation with colleagues from our PLWF. Companies must be pushed to look beyond the 8 questions and act in the true spirit of the UNGPs. They must start mitigating adverse effects in an integrated, coherent way so their business model includes the supply chain risks. Meanwhile, we will continue to lobby governments to set a base floor with mandatory due diligence to create a level playing field. This is especially needed for the frontrunner companies, many of whom are **publicly** advocating this legislation.

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