



# 2017 ANNUAL REPORT



FAIR LABOR  
ASSOCIATION®



**ABOVE:** A worker in Ivory Coast dries cocoa beans destined for products made by FLA Participating Company Nestlé.  
**ON THE COVER:** A worker operates a manual fabric cutting machine at a garment factory in El Salvador owned and operated by FLA Participating Company League Collegiate.

*The 2017 Annual Public Report for the Fair Labor Association covers program and financial activity for 2016.*

## TABLE OF CONTENTS

2016 Board of Directors .....	3
Foreword .....	4
Letter from the President .....	5
The Social Responsibility Journey .....	6
Upholding International Labor Standards in Factories Worldwide .....	14
Special Investigations: The FLA Third Party Complaint Process .....	22
Protecting Workers in Agricultural Supply Chains .....	24
Tracing Supply Chains Beyond the First Tier .....	28
Advocacy and Collaboration to Advance Workers' Rights .....	32
Financial Review .....	38

## 2016 BOARD OF DIRECTORS

The following representatives from each of the Fair Labor Association's three constituent groups — companies, universities, and civil society organizations (CSOs) — served on the FLA's Board of Directors in 2016, along with an independent chair.

### CHAIR

**Kathryn "Kitty" Higgins**

*Former U.S. Deputy Secretary of Labor*

Company Representatives	University Representatives	CSO Representatives
<b>Cara Chacon</b> <i>Patagonia</i>	<b>Karen Daubert</b> <i>Washington University in St. Louis</i>	<b>Marsha Dickson</b> <i>Educators for Socially Responsible Apparel Business</i>
<b>Monica Gorman</b> <i>New Balance</i>	<b>Bob Durkee</b> <i>Princeton University</i>	<b>Linda Golodner</b> <i>National Consumers League</i>
<b>Brad Grider</b> <i>Hanesbrands</i>	<b>Richard Fairchild</b> <i>University of Utah</i>	<b>Meg Roggensack</b> <i>Georgetown Law School</i>
<b>Gregg Nebel</b> <i>adidas Group</i>	<b>Kathy Hoggan</b> <i>University of Washington</i>	<b>Jim Silk</b> <i>Yale Law School</i>
<b>Marissa Pagnani</b> <i>PVH</i>	<b>Maureen Riedel</b> <i>Pennsylvania State University</i>	<b>Nina Smith</b> <i>GoodWeave</i>
<b>Tammy Rodriguez</b> <i>Esquel Group</i>	<b>Craig Westemeier*</b> <i>University of Texas</i>	<b>Karen Tramontano</b> <i>Global Fairness Initiative</i>

## FOREWORD

Michael Posner

**Trust is the most important attribute** of any successful institution. Yet according to the Edelman Trust Barometer, “[t]rust is in crisis around the world. The general population’s trust in all four key institutions — business, government, NGOs, and media — has declined broadly.” In today’s highly competitive global marketplace, this decline in confidence presents a serious challenge for companies, whose long term success depends on the trust of customers, investors, employees and people in the communities where they operate. Companies can build trust by offering quality goods and services, operating with integrity, and treating well the workers they rely on. But these practices alone are not always enough. An increasingly skeptical public, wary of company promises, wants proof that companies are indeed walking their talk.

For a growing number of leading apparel, footwear, and agricultural companies, the Fair Labor Association fulfills this role. With nearly two decades of experience, the FLA is helping companies to address global supply chain labor issues in a manner that is both operationally effective and publicly credible. Every FLA company adopts the organization’s rigorous Code of Conduct, which covers issues ranging from wages and hours to forced and child labor to workplace safety, discrimination, and freedom of association. Companies are assessed on their adherence to the Code using strict benchmarks, and these evaluations are made public on the FLA’s website. Remediation strategies are put in place. To strengthen performance over time, companies also receive technical support and benefit from shared learning of best practices among industry competitors.


Not surprisingly, many of the most committed and best brands and suppliers are affiliated with the FLA. They demonstrate their leadership both through the resources they devote to addressing challenges in their supply chains and through their willingness to be held publicly accountable

to a high industry standard. This commitment sets them apart and deserves to be recognized by investors, consumers, and the media.

I was an active participant in the creation of the FLA in the late 1990s and served on the Board until 2009 when I joined the State Department as Assistant Secretary for Democracy, Human Rights and Labor. As the newly elected Board Chair, I am very excited to be succeeding Kitty Higgins, and to be working with Sharon Waxman and her excellent team.

This is a pivotal time to be addressing the roles and responsibilities of businesses. There is a growing demand for reliable information on how companies are tackling the challenges inherent in the globalized economy. In the last decade governments around the world have enacted legislation requiring company reporting on issues like forced labor. Simultaneously, labor and human rights activists are using technology and social media to call attention to rights violations with greater speed and reach, presenting unprecedented reputational risks to companies. Women and millennials are pressing the investment community to identify and recognize companies with strong environment, social, and governance practices.

The FLA provides an ambitious but practical response to this ever-changing landscape with its unique accreditation program, a reflection of the FLA’s leadership in the field. Nearly two decades since its inception, the FLA is the gold standard for industry-level commitment and accountability.



*Board Chair, Fair Labor Association (as of May 2017)  
Jerome Kohlberg Professor of Ethics and Finance, and  
Director, NYU Stern Center for Business and Human Rights*



## LETTER FROM THE PRESIDENT

Sharon Waxman

**Since assuming the duties of president** of the Fair Labor Association, I have been consistently inspired by the solutions-oriented spirit of cooperation I have seen among our affiliates across all three major stakeholder groups — civil society, universities, and businesses, both brands and suppliers.

Among the success stories of 2016 recounted in this report, perhaps the most encouraging are those that describe the ways that our affiliates collaborate to achieve common goals — building fair supply chains and solving systemic problems.

For example, our ongoing cooperative agreement with the US Department of Labor (p. 31), demonstrates how diverse collaborators can come together to develop lasting solutions for difficult supply chain issues. To test approaches for mitigating the risks of child and forced labor, the FLA is working closely with a brand and its primary suppliers, local civil society organizations, agents and farmers, and local and national governments. Together, we are identifying the steps each should take to improve workplace practices and ensure that children spend their days pursuing education and play rather than working in the fields.

We are working to find similar solutions in our projects to trace supply chains for raw materials used by the apparel and footwear industry, like cotton and leather (p. 28), drawing on some of the lessons we learn through our work improving conditions in agricultural commodities. As always, for lasting solutions, we find trust, relationship building, and strong collaboration are key. A problem that might appear daunting or intractable to one stakeholder working alone can become more manageable when all voices are heard, and stakeholders come together in a shared commitment.

Our long-standing third-party complaint procedures (p. 22) also demonstrate how a process that values the contribution of each stakeholder’s voice can reinforce the strength of our core work and safeguard workers’ rights. In 2016, three universities and seven unions reached out to the FLA to initiate investigations that ultimately resulted in improved conditions — including back pay and restoration of work, where applicable — for nearly 20,000 workers, over and above the 180,000 workers affected by the FLA’s 2016 factory and farm assessment cycle. The process depends on universities committed to selling products made fairly, unions and civil society keeping workers’ voices at the forefront, and brands and suppliers unafraid of transparency in implementing strong social compliance programs.

I’m proud of the results that we see in this report, while we also work toward a future with even greater impact. Global companies and suppliers from 20 countries around the world are now involved with the FLA, and an increasing number have successfully achieved FLA accreditation. Our commitment to promoting high standards and continuous improvement is the engine that drives progress. As we build an even more effective FLA, we keep dignity and fairness for workers as our North Star, remaining mindful that each product we buy and sell is made from the labor of women and men around the world, stitching seams, sewing buttons, weaving fabric, spinning yarn, tanning leather, growing and harvesting crops, and pursuing a better life for themselves and their families. Appreciation for their hard work motivates our own, each and every day.



*FLA President and CEO*



# THE SOCIAL RESPONSIBILITY JOURNEY:

## *Committing to Continuous Improvement*

*“Achieving accreditation shows that we value social compliance on par with other aspects of our business, in terms of our commitment and priorities.”*

– Mike Rodgers,  
General Manager of  
Brooklyn Manufacturing

**Companies working with the FLA** — across all categories of affiliation — commit to building and maintaining strong and sustainable social responsibility programs that continuously pursue improved working conditions across their supply chains.

Among many positive developments in 2016, the FLA celebrated two encouraging indicators of progress within two different affiliation categories, with a number of international suppliers and US-based collegiate licensees making significant advancements in their social compliance commitments.

First, three FLA Participating Suppliers — Brooklyn Manufacturing, Textiles Opico, and Chenfeng Group — achieved accreditation of their social compliance programs by the FLA Board of Directors, and second, three Category C Licensee affiliates<sup>1</sup> chose to deepen their engagement with the FLA by becoming Participating Companies. Participating Companies and Suppliers pursue the most rigorous version of the FLA program, allowing the FLA to publicly report the findings from independent assessments of workplace conditions in their supply chains, and working to develop a headquarter-level social compliance program strong enough to earn FLA accreditation.

<sup>1</sup> See box on page 9 for a description of licensee engagement with the FLA.



Workers inspect completed garments for shipment at a Chenfeng manufacturing facility in Jiangsu Province, China.

The three Participating Suppliers achieving accreditation in 2016 were the most ever in one year, demonstrating clear progress for the FLA’s supplier program, since its launch in 2006. Accredited Participating Suppliers are able to demonstrate that they have put effective systems in place to prevent violations of the FLA Workplace Code of Conduct, and have made a strong commitment to remediating any violations that occur.

“Achieving accreditation shows that we value social compliance on par with other aspects of our business, in terms of our

commitment and priorities, and in terms of how we present ourselves to customers and to the world,” says Mike Rodgers, General Manager of Brooklyn Manufacturing, which earned accreditation in 2016. “So, in addition to quality, development, service, and competitiveness, our commitment to social compliance is at the forefront.”

Similarly, three collegiate licensees made their social compliance commitment a high priority by committing to the strong accountability measures required of Participating Companies.

## NEW PARTICIPATING COMPANIES IN 2016:

- **Burton Snowboards** – A producer of outdoor sporting gear, Burton originally sold handmade products by founder Jake Burton, before opening a production facility in 1978 employing five workers in southern Vermont. Since then, Burton has achieved almost 50 percent of the global snowboard market, and now manufactures in one owned US production facility and contract factories in 19 countries. Burton launched its sustainability program in 2012.

- **Fanatics Apparel** – California-based Fanatics Apparel became a Participating Company in 2016 after several years of engaging with the FLA as a Category C Licensee. Fanatics is a producer of licensed “fangear” for universities and professional sports associations, including the NFL, the NBA, and Major League Baseball and Major League Soccer. The company manufactures in two owned US production facilities and contract facilities in 11 countries.

- **League Collegiate Outfitters** – Based out of Bridgeport, PA, League Collegiate Wear specializes in producing collegiate apparel and accessories. The company manufactures its products at two owned facilities in the US and El Salvador, and at an FLA-affiliated Participating Supplier based in Pakistan. The League facility in El Salvador maintains a commitment to providing employment for at-risk populations. Prior to 2016, League Collegiate engaged with the FLA as a Category C licensee for more than ten years.

- **MV Sport** – Family-owned and -operated MV Sport sources blank products directly from manufacturers – including FLA-affiliated Participating Companies Gildan and Hanesbrands – and subsequently embellishes these products at its Bay Shore, NY screen-printing facility. The company’s licensing program, which has developed over the course of ten years of FLA engagement as a Category C licensee, includes many FLA-affiliated universities as well as the United States Marine Corps.



Sewing operators manufacture clothing at the Textiles Opico facility in San Juan Opico, El Salvador.

### SUPPLIERS WITH ACCREDITED SOCIAL COMPLIANCE PROGRAMS



“Fanatics has been strengthening its social compliance program over the many years of its affiliation with the FLA as a collegiate licensee,” said Michaela Corr, Compliance Manager for Fanatics. “Our company feels that as students and consumers become more eager to understand where and how their clothing has been made, we wanted to demonstrate a stronger public commitment, by publicly disclosing the FLA’s assessments of our factories and pursuing FLA accreditation as a Participating Company.”

A Participating Company’s accreditation signifies that it understands and takes into consideration the consequences of its business practices on workplace conditions at its supplier factories, and has aligned its sourcing and purchasing practices with its commitment to improve conditions for workers in its supply chain.

Along with the three newly accredited suppliers, FLA Participating Company Dallas Cowboys Merchandising also earned accreditation for its social compliance program in 2016. Select exemplary features of each company’s program are noted below; full accreditation reports explaining the depth and breadth of each company’s social compliance program appear on the FLA website.

### 2016 Accreditations

#### Brooklyn Manufacturing

Brooklyn Manufacturing, which runs one wholly owned-and-operated manufacturing facility in San Salvador, became the first FLA Participating Supplier in the Americas region to earn accreditation for its social compliance program in February 2016.

*“FLA standards and methods are comprehensive and of very high quality, but it doesn’t end there. The program provides the tools and roadmap to continuously assess and improve in the future.”*

– Juan C. Zighelboim,  
President, Textiles Opico

In addition to Brooklyn’s overall commitment to social responsibility, the FLA has recognized a number of features of the company’s program that make the factory a better place to work for its employees, including English and technical classes for workers, and a women’s empowerment program known as “Mujeres en Fábrica.” Implemented in partnership with the civil society organization World Vision, “Mujeres en Fábrica” is designed to increase workers’ self-confidence and self-esteem, train workers to identify signs

of harassment or abuse, and strengthen workplace communication skills.

#### Textiles Opico

Participating Supplier Textiles Opico (“TexOps”) owns and operates a manufacturing facility in San Juan Opico, El Salvador. On campus at the facility, TexOps offers a certified Montessori school for workers’ children, and

maintains a project in partnership with the Secretary of Social Inclusion of El Salvador that teaches sewing skills to young women. The factory offers a notable housing benefit to workers, providing no-cost building materials to any employee who requests financial support for home improvements.

TexOps has also invested in a number of social and recreational projects that benefit the factory’s local community, such as providing space for workers and their families

## COLLEGIATE LICENSEE ENGAGEMENT WITH THE FLA:

Colleges and universities that affiliate with the FLA require the producers of their collegiate-logoed products to affiliate with the FLA. Some of these licensees affiliate at the Participating Company level and pursue accreditation of their social compliance program. Others, based on the size of their business, affiliate with the FLA in one of three categories: B, C, or D.

Annually, the FLA assesses working conditions in five percent of the factories producing university products for “Category B Licensees.” These, and all, factory assessment reports from the FLA appear online at [www.fairlabor.org/transparency/workplace-monitoring-reports](http://www.fairlabor.org/transparency/workplace-monitoring-reports).

Three new Category B Licensees affiliated with the FLA in 2016:

- CamelBak – Petaluma, CA
- Life is Good – Boston, MA
- Panini – Irving, TX

The FLA also provides all collegiate licensee categories with support for continuously improving their social compliance programs. Resources available to licensees include online training courses, educational opportunities via FLA webinars and in-person meetings, and published guidance materials distributed to all FLA affiliates.

to play soccer and softball, and an off-road track for BMX racing and bike riding.

**Chenfeng Group, Ltd.**

Chenfeng Group, which became the FLA's first-ever Participating Supplier upon its affiliation in 2006, owns and operates six manufacturing facilities in Jiangsu Province, in China. The company's accreditation report to the FLA Board of Directors recognized significant

improvement over time on a number of key issues for suppliers operating in China, such as ensuring payment of all five forms of social insurance benefits for workers and compliance with the Chinese disability-employment quota.

The FLA also noted Chenfeng's continuous progress on reducing excessive hours of

*“The accreditation process helped us to improve our CSO-engagement strategy, and has helped to refine and improve the process of production plan management.”*

– Yin Guoxin,  
Chief Executive Officer,  
Chenfeng

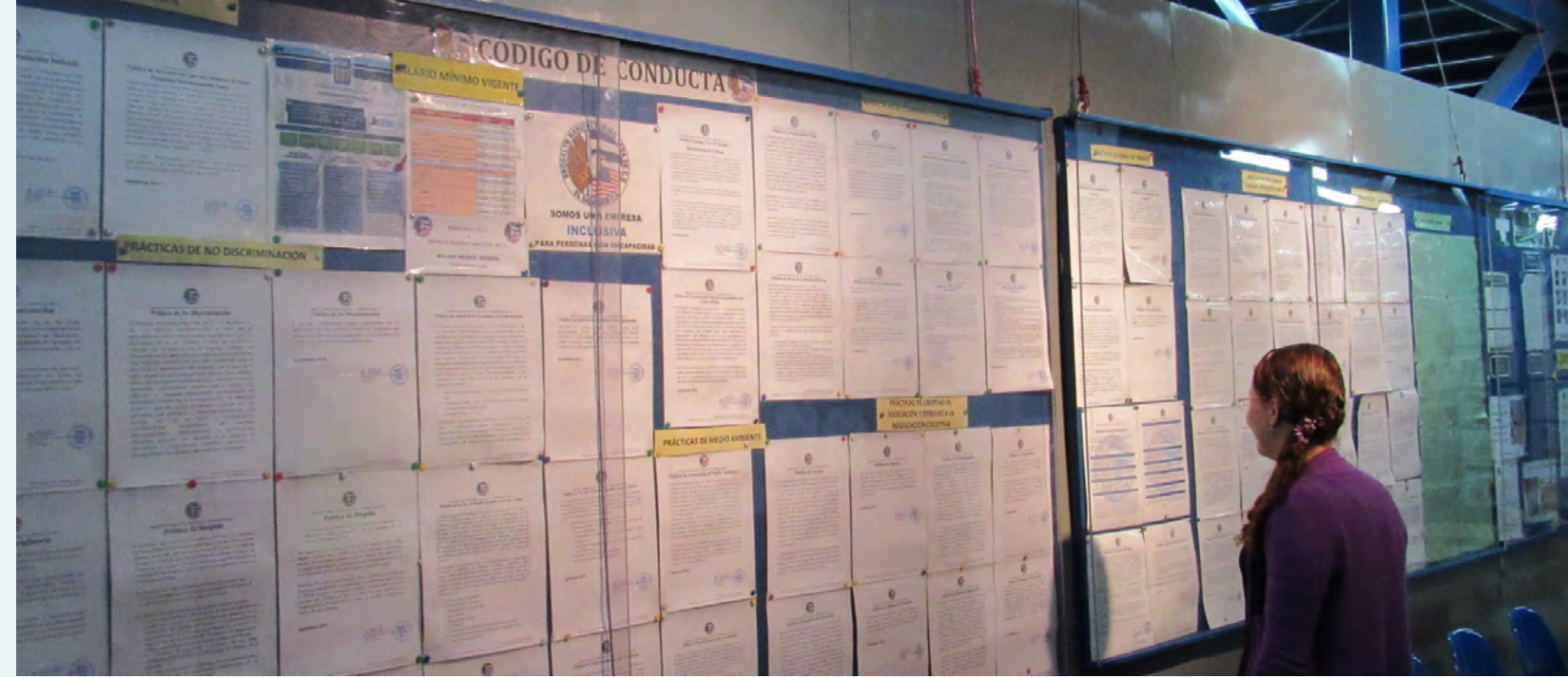
work to bring its production practices in line with Chinese national law, with the company on target to achieve a weekly maximum average of no more than 49 hours of work by 2019.

**Dallas Cowboys Merchandising (DCM)**

Dallas Cowboys Merchandising's achievement of accreditation earned notice for demonstrating that even smaller companies

without a very large social compliance staff can find support and guidance for their work from the FLA and build strong and effective social compliance programs.

One way that DCM enacts its commitment to social responsibility at the headquarter level is by conducting pre-sourcing audits to



A worker reads the Brooklyn Manufacturing Code of Conduct (Codigo de Conducta), posted publicly in Brooklyn's facility in San Salvador, El Salvador.

investigate a factory's working conditions and the willingness of a factory's leadership to meet DCM's labor rights requirements. Once DCM begins a relationship with a factory, DCM staff track that factory's performance over time on a scorecard that measures adherence to the FLA Workplace Code of Conduct and responsiveness to the company's expectation to remediate any violations found. The FLA also recognized DCM's proactive efforts to communicate effectively with unions, to protect workers' freedom of association, and to engage with factories — and other brands sourcing from those factories — to resolve and remediate third party complaints filed with the FLA.

**2016 Factory Assessments**

The following charts demonstrate where the FLA conducted assessments for all Participating Companies

and Suppliers in 2016. For companies working toward FLA accreditation, assessors visit five percent of all first-tier facilities. Companies with accredited social compliance programs receive assessments at one percent of their owned or contracted first-tier facilities. If a company operates or sources from a small number of facilities, achieving the required threshold of participation may not require an assessment every year.

*“We found it helpful to have the FLA as both a thought partner and a critic. The FLA encouraged us to confront complex issues, such as fair compensation, and our program is more robust for the experience.”*

– Audrey Ogawa Johnson,  
Head of Compliance, Dallas Cowboys Merchandising (DCM)

In cases where FLA-affiliated brands publicly disclose the names and locations of factories from which they source their products, the charts below indicate how to find these lists. As more companies move toward this level of transparency — and with some even disclosing suppliers beyond the first tier — the FLA commends companies that have chosen to provide this type of information to the public.

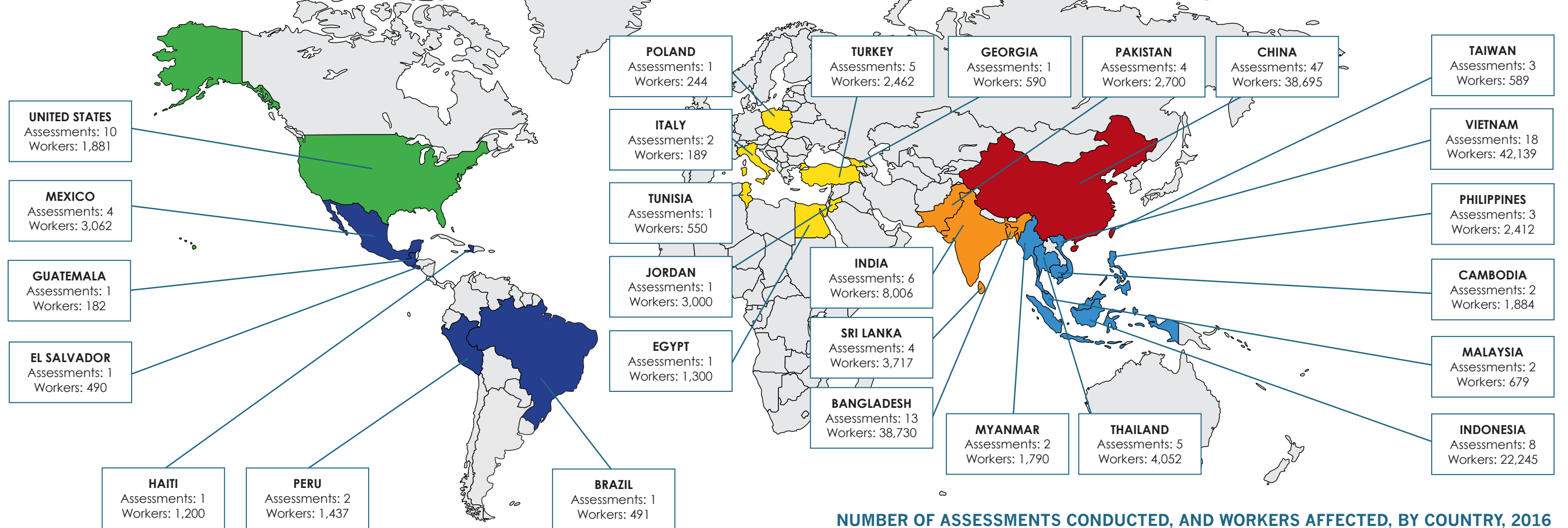
**BRANDS WITH ACCREDITED SOCIAL COMPLIANCE PROGRAMS**

\* The FLA accredited Syngenta's social compliance program in India.

2016 PARTICIPATING SUPPLIERS WITH THE FLA			
PARTICIPATING COMPANY	2016 ASSESSMENTS	PRODUCTION COUNTRIES	#OF SITES/FACTORIES
Brooklyn Manufacturing	No assessment conducted (not due)	El Salvador	1
Chenfeng Group	China	China	6
Delta Galil Industries Ltd.	Thailand	Bulgaria, Egypt, Israel, Jordan, Thailand, Turkey	7
Esquel Group	Sri Lanka	China, Malaysia, Mauritius, Sri Lanka, Vietnam	23
Forward Sports, Ltd.	No assessment conducted (not due)	Pakistan	1
Grupo Miguel	No assessment conducted (not due)	El Salvador	1
Kay & Emms Pvt. Ltd.	Pakistan	Pakistan	1
KTC Limited	No assessment conducted (not due)	China, Laos	2
Liz Fashion	Bangladesh	Bangladesh	1
Mainland Headwear	Bangladesh	Bangladesh, China	2
Maxport Ltd.	Vietnam	Vietnam	8
Pou Chen Group	Bangladesh	Bangladesh, Cambodia, China, Indonesia, Mexico, Myanmar, Vietnam	26
Textiles Opico	No assessment conducted (not due)	El Salvador	1
VT Garment Co. Ltd.	Myanmar	Myanmar, Thailand	3
Yee Tung Garment Co. Ltd.	Cambodia	Cambodia, China, Jordan, Vietnam	8

2016 PARTICIPATING COMPANIES WITH THE FLA			
PARTICIPATING COMPANY	2016 ASSESSMENTS	UNIVERSITY LICENSEE?	PUBLIC FACTORY LIST?
ABC Gruppen	Poland		
adidas Group	Bangladesh, India, Thailand <a href="http://www.adidas-group.com/en/sustainability/compliance/supply-chain-structure/">www.adidas-group.com/en/sustainability/compliance/supply-chain-structure/</a>		
arena Group	Malaysia, Thailand		
Burton Snowboards	New in 2016; no assessment due		
Colosseum Athletics Corporation	Vietnam		
Cutter & Buck	Peru		
Dallas Cowboys Merchandising, Ltd.	Guatemala		
Delta Apparel, Inc.	China, El Salvador, Mexico		
Fanatics	New in 2016; no assessment due.		
Fast Retailing	Bangladesh (2), Cambodia, China (10), India, Indonesia, Pakistan, Peru, Turkey, Vietnam (2) <i>For the UNIQLO brand:</i> <a href="http://www.fastretailing.com/jp/sustainability/business/pdf/UniqloCorePartnerFactoryList_20170228.pdf">www.fastretailing.com/jp/sustainability/business/pdf/UniqloCorePartnerFactoryList_20170228.pdf</a>		
Fenix Outdoor AB	China (3), Vietnam (2) <a href="http://www.fenixoutdoor.se/hallbarhet/">www.fenixoutdoor.se/hallbarhet/</a>		

PARTICIPATING COMPANY	2016 ASSESSMENTS	UNIVERSITY LICENSEE?	PUBLIC FACTORY LIST?
Forty-Seven Brand	China		
Fruit of the Loom (Russell Brands)	Haiti <a href="http://www.fotlinc.com/pages/supply-chain.html">www.fotlinc.com/pages/supply-chain.html</a>		
GFSI, Inc.	Indonesia <a href="http://www.gearforsports.com/social-responsibility/index.php/factory-disclosure/">www.gearforsports.com/social-responsibility/index.php/factory-disclosure/</a>		
Gildan Activewear, Inc.	Bangladesh <i>Owned facilities:</i> <a href="http://www.gildancorp.com/location">www.gildancorp.com/location</a>		
Hanesbrands	Vietnam <i>Owned facilities:</i> <a href="http://hanesforgood.com/content/uploads/2017/04/2017-HBI-Self-Owned.pdf">hanesforgood.com/content/uploads/2017/04/2017-HBI-Self-Owned.pdf</a> <i>Contractors for collegiate market:</i> <a href="http://hanesforgood.com/content/uploads/2017/04/2017-HBI-Collegiate-Market.pdf">hanesforgood.com/content/uploads/2017/04/2017-HBI-Collegiate-Market.pdf</a>		
Hugo Boss	Bangladesh, China (3), India, Sri Lanka, Turkey <a href="http://group.hugoboss.com/en/sustainability/partners/">group.hugoboss.com/en/sustainability/partners/</a>		
J. America Inc.	China		
Kathmandu	China (3), Indonesia, Vietnam (2)		
Lakeshirts, Inc.	China, Pakistan		
League Collegiate	New in 2016; no assessment due		
Mountain Equipment Co-op (MEC)	Taiwan <a href="http://www.mec.ca/en/explore/factories/">www.mec.ca/en/explore/factories/</a>		
MV Sport	New in 2016; no assessment due		
New Balance Athletic Shoe, Inc.	Indonesia <a href="http://www.newbalance.com/about-new-balance-content-assets/inside-nb-investing-in-people.html">www.newbalance.com/about-new-balance-content-assets/inside-nb-investing-in-people.html</a>		
New Era Cap Co., Inc.	Vietnam		
Nike, Inc.	China (3), Georgia, India, Indonesia, Vietnam (2) <a href="http://manufacturingmap.nikeinc.com">manufacturingmap.nikeinc.com</a>		
Outerknown	Sri Lanka <a href="http://www.outerknown.com/suppliers">www.outerknown.com/suppliers</a>		
Outerstuff, Ltd.	Pakistan		
Patagonia	Sri Lanka <a href="http://www.patagonia.com/us/footprint">www.patagonia.com/us/footprint</a>		
prAna	China		
Puma SE	Georgia, India, Malaysia, Turkey, Vietnam <a href="http://about.puma.com/en/sustainability/supply-chain/public-factory-list">about.puma.com/en/sustainability/supply-chain/public-factory-list</a>		
PVH Corp.	Bangladesh, Brazil, China (2), India (2), Indonesia, Italy, Mexico, Philippines, Sri Lanka, Taiwan, Thailand, Tunisia, Turkey, Vietnam <a href="http://pvh.com/~media/PVH/Files/PVH_Factory_List%20Disclosure.ashx?la=en">pvh.com/~media/PVH/Files/PVH_Factory_List%20Disclosure.ashx?la=en</a>		
s.Oliver Group	China, Indonesia		
SanMar Corporation	China		
Under Armour	Bangladesh, China, Indonesia, Peru, Philippines <a href="http://www.uabiz.com/company/sustainability.cfm">www.uabiz.com/company/sustainability.cfm</a>		
Volcom	China		
W.L. Gore & Associates GmbH	Myanmar		
Zephyr Graf-X	Bangladesh <a href="http://www.zhats.com/blogs/csr/updated-supplier-disclosure">www.zhats.com/blogs/csr/updated-supplier-disclosure</a>		



NUMBER OF ASSESSMENTS CONDUCTED, AND WORKERS AFFECTED, BY COUNTRY, 2016

## UPHOLDING INTERNATIONAL LABOR STANDARDS IN FACTORIES WORLDWIDE

### *In-Depth Assessment of Adherence to the FLA Workplace Code of Conduct*

In 2016, the FLA conducted a total of 149 assessments of facilities owned or contracted by Participating Companies, Participating Suppliers, and Category B collegiate licensees. FLA assessors conducted these site visits in facilities employing more than 175,000 workers in 27 countries, including factory visits in Myanmar, Poland, and the Republic of Georgia for the first time. FLA staff chose these factories for assessment from a total of 4,750 facilities within the scope of the FLA program, which together employ more than 4.65 million people.

The FLA conducts two forms of Sustainable Compliance Initiative (SCI) assessment. In 2016, FLA field staff conducted 136 “foundational” assessments at contract facilities used by FLA-affiliated brands, with 13 “baseline” assessments (a more in-depth evaluation) conducted at facilities owned and operated by FLA-affiliated brands and suppliers. Foundational assessments include FLA recommendations on how to remediate each finding requiring immediate action; baseline assessments include a root-cause analysis and FLA recommendations for each and every finding.

With both forms of evaluation, FLA assessors measure a factory’s success at fulfilling each of the nine elements of the FLA Workplace Code of Conduct. To elaborate on the specific requirements for each code element, and to guide assessors’ reporting on working conditions in each facility, the FLA has developed a comprehensive list of 162 benchmarks,<sup>2</sup> delving deeper into the conditions an employer must fulfill to succeed in implementing each of the nine broad labor standards. The chart on page 16 shows the top three benchmarks for each code element that FLA assessments indicate most often require improvement. This chart also indicates the frequency with which FLA assessors report non-compliance with each of the top benchmarks.

<sup>2</sup> Find the complete FLA Workplace Code of Conduct and benchmarks at [www.fairlabor.org/our-work/labor-standards](http://www.fairlabor.org/our-work/labor-standards)

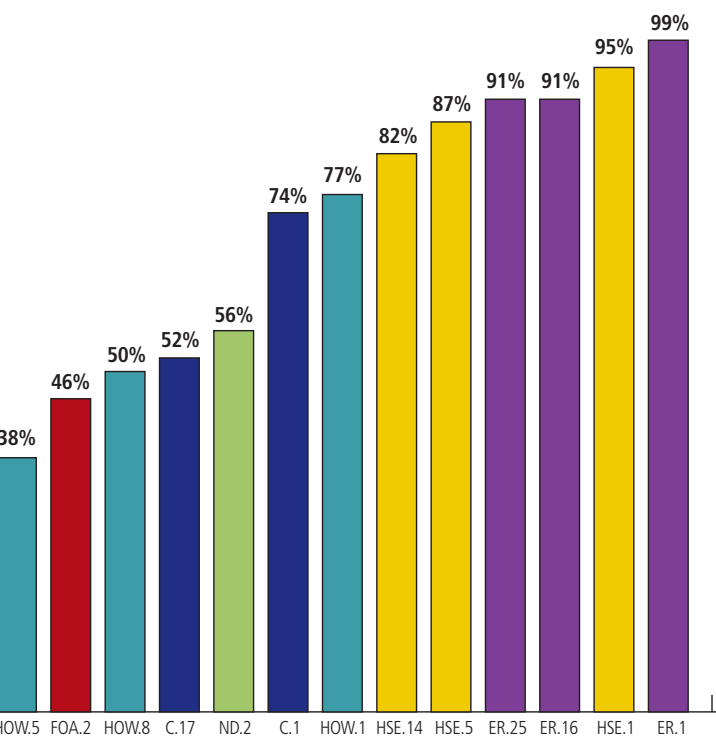
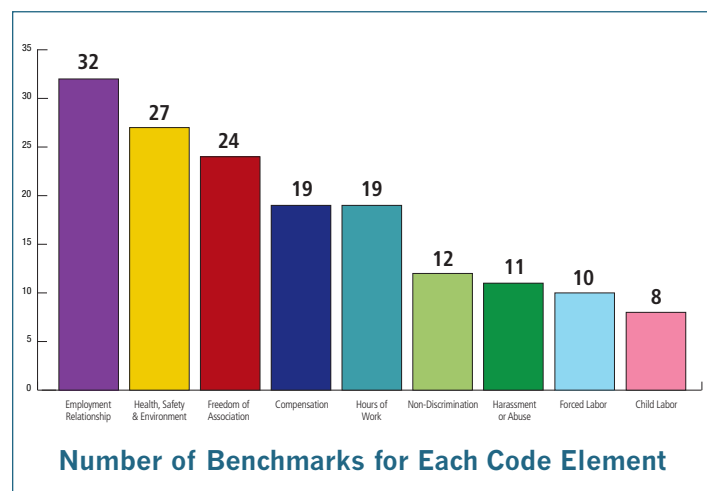
-  **149** assessments
-  **27** countries
-  **175,472** workers affected

### Low Incidence of Child and Forced Labor Findings

Consistent with FLA reporting from recent years, the chart illustrates the relative success most assessed factories have achieved in fully implementing FLA standards on child labor and forced labor. For example, FLA assessors found no underage workers during their site visits, and reported that around 85 percent of all facilities violated no child- or forced-labor benchmarks whatsoever.



## TOP THREE BENCHMARK VIOLATIONS PER CODE ELEMENT, 2016



### EMPLOYMENT RELATIONSHIP

- ER.1 General/Human Resource Management Systems
- ER.16 Terms and Conditions/Communication
- ER.25 Industrial Relations (Grievance Procedures)



### NON-DISCRIMINATION

- ND.1 General Compliance, Non-discrimination
- ND.2 Recruitment and Employment Practices
- ND.8 Protection and Accommodation of Pregnant Workers and New Mothers



### HARASSMENT OR ABUSE

- H/A.1 General Compliance Harassment or Abuse
- H/A.2 Discipline/Monetary Fines and Penalties
- H/A.10 Security Practices/Body Searches



### FORCED LABOR

- F.4 Freedom of Movement
- F.7 Workers' Ability to Terminate the Employment Relationship
- F.8 Forced Overtime



### CHILD LABOR

- CL.1 General Compliance Child Labor
- CL.4 Employment of Young Workers
- CL.8 Apprenticeships and Vocational Training/Legal Compliance



### FREEDOM OF ASSOCIATION

- FOA.2 Right to Freely Associate
- FOA.10 Employer Interference in Formation or Operation of Unions
- FOA.11 Employer Interference in Election and Administration of Unions



### HOURS OF WORK

- HOW.1 General Compliance, Hours of Work
- HOW.5 Protected Workers/Record Keeping
- HOW.8 Forced Overtime



### HEALTH, SAFETY & ENVIRONMENT

- HSE.1 General Compliance, Health, Safety & Environment
- HSE.5 Evacuation Requirements and Procedures
- HSE.14 Machinery Safety, Maintenance and Worker Training



### COMPENSATION

- C.1 General Compliance, Compensation
- C.5 Calculation Basis for Overtime Payments
- C.17 Record Maintenance



Workers in Myanmar conducting a fire drill at a facility assessed by the FLA. The FLA conducted assessments in Myanmar, Poland, and the Republic of Georgia for the first time in 2016.

In facilities with a violation of the forced-labor code element, the most common benchmarks triggered — in a total of 18 facilities — involved interference with workers' freedom of movement, due to physical barriers like locked doors, or practical barriers like the holding of legal documents by factory management, or the imposition of fees or deposits that hold workers in debt to an employer or recruiter. Under the child labor code element, a total of 13 facilities fell short of full compliance with legal protections for young workers (those of legal working age, but younger than 18), or for workers participating in apprentice or vocational education programs.

### Emergency Preparedness, Hours of Work, and Minimum Wages

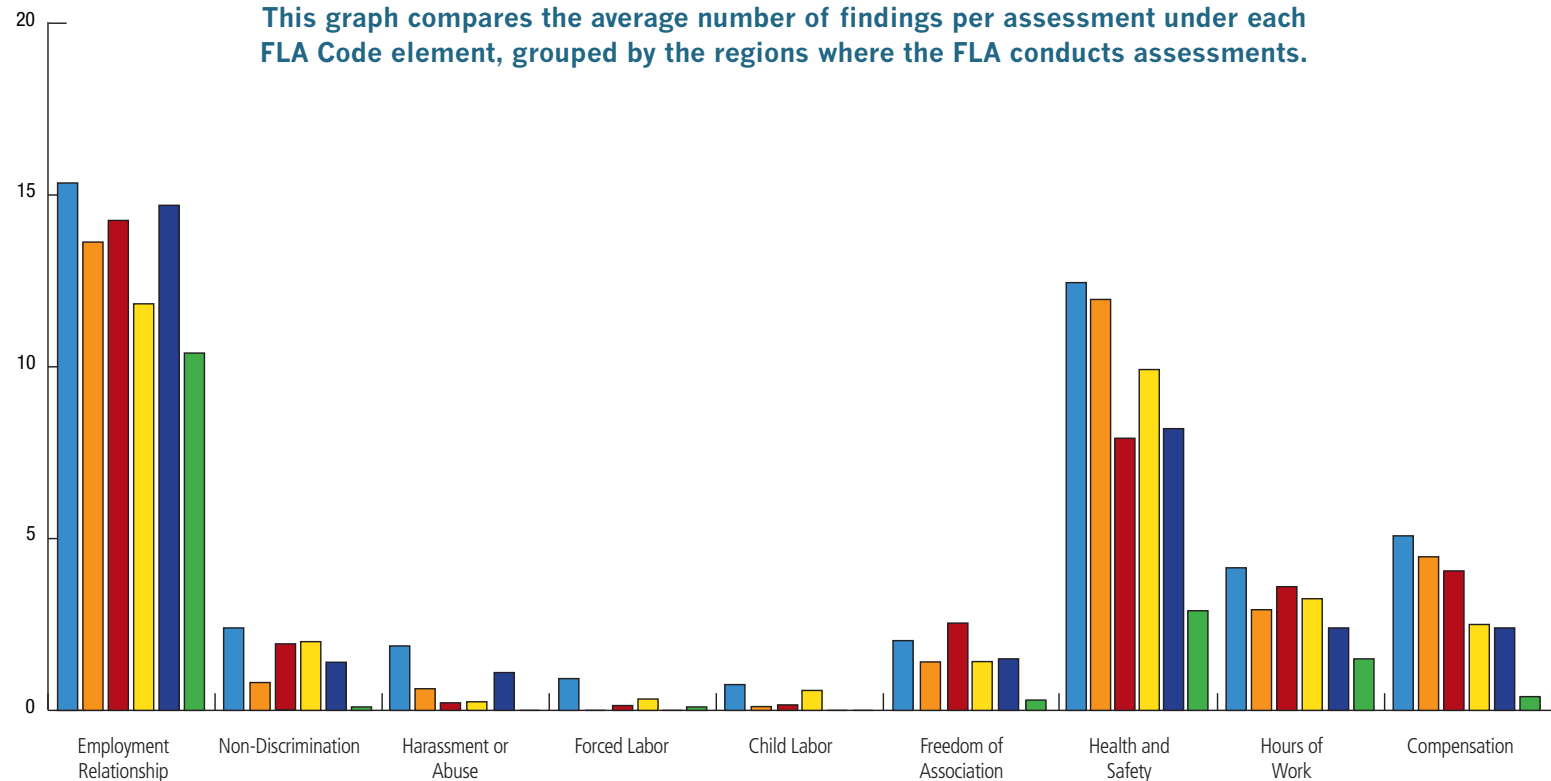
Also consistent with recent FLA reporting, for the third year in a row the need to improve evacuation preparedness appears among the top-five areas requiring factory attention, as found in 87 percent of all assessments in

2016. To assess for full compliance with this benchmark, FLA assessors check for posting of evacuation plans, maintenance of alarm and emergency lighting systems, worker training on evacuation procedures, and other indicators. Of the 19 facilities assessed as fully prepared for emergency evacuation, eight were US facilities operated or contracted by Category B licensees. Four facilities in China, two in Mexico, and one each in Bangladesh, Cambodia, Taiwan, and Thailand also achieved full compliance with the emergency preparedness benchmark.

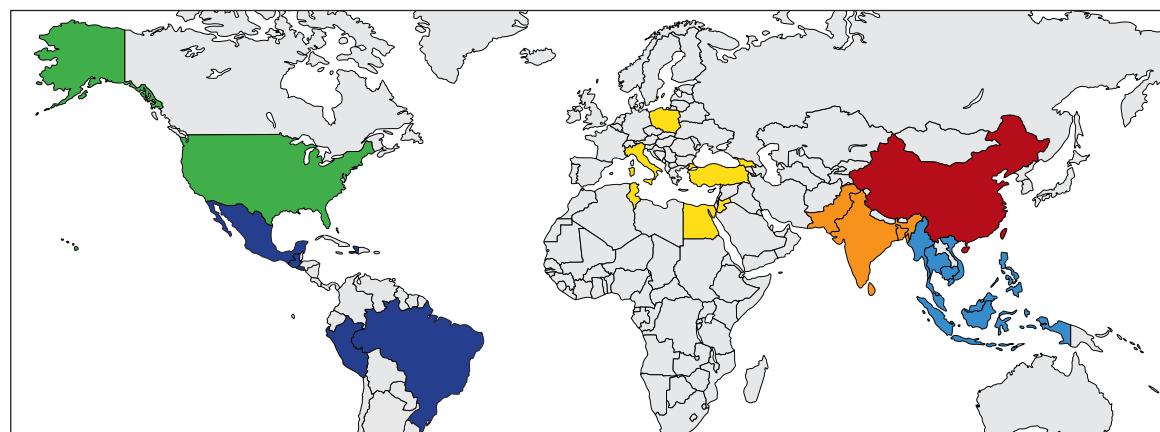
Also in 2016, FLA assessors found more than three-quarters of all facilities in need of improvement regarding excessive hours of work. To be in full compliance with the FLA Workplace Code of Conduct, facilities must base their production planning on a regular workweek of no more than 48 hours, and total hours per employee must not exceed 60 per week, or legal limits, whichever is lower, with special hours-of-work considerations for

## COMPARISON OF CODE ELEMENT VIOLATIONS BY REGION

This graph compares the average number of findings per assessment under each FLA Code element, grouped by the regions where the FLA conducts assessments.



- SOUTHEAST ASIA:** Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Thailand, Vietnam (40 assessments)
- SOUTH ASIA:** Bangladesh, India, Pakistan, Sri Lanka (27 assessments)
- EAST ASIA:** China, Taiwan (50 assessments)
- EMEA:** Egypt, Georgia, Italy, Jordan, Poland, Tunisia, Turkey (12 assessments)
- MEXICO, CENTRAL & SOUTH AMERICA:** Brazil, El Salvador, Guatemala, Haiti, Mexico, Peru (10 assessments)
- UNITED STATES:** (10 assessments)



young, elderly, or pregnant workers, where required by law. In addition, the FLA code requires all overtime work to be voluntary, although in half of all facilities visited in 2016, assessors found that overtime work was mandatory. More than a third of all facilities also failed to provide one rest day in every seven to their workers, or to provide annual leave in accordance with local law.

While the FLA has been finding minimum wage violations declining in recent years, data for 2016 show an uptick over 2015, with 13 percent of facilities worldwide falling short of full compliance. In some cases, these violations arise from factories outsourcing work (security, maintenance, food service) to outside vendors not paying the minimum wage, as assessors found in Malaysia, Sri Lanka, and China. In other cases, assessors found facilities following outdated minimum wage rates, failing to make up the difference to piece-rate workers whose earnings fall below the minimum wage, or unable to provide records to confirm that minimum wages were paid. Facilities in Myanmar and Vietnam were found to pay regular workers at least the minimum wage, but to pay a lower rate to temporary workers.

### Employment Relationship: Assessing Policies and Procedures

To better help brands and suppliers address workplace issues like those identified above, FLA assessors also provide a comprehensive review of factory policies and procedures, against the 32 benchmarks related to the “Employment Relationship” code element. Success with these benchmarks indicates that a factory has strong management systems and communications functions in

## FLA COMMITMENT TO FAIR COMPENSATION

**FLA-affiliated companies** commit not only to remediating all wage-related violations of the FLA Workplace Code of Conduct, but also to progressively pursuing fair compensation for all workers. In 2016, FLA assessors continued to collect wage data during each factory visit, as part of a process launched in 2015 to help companies, civil society, universities, and other stakeholders better understand the compensation landscape for workers, and prioritize areas for improvement. Data collected in 2016 will inform a series of FLA reports on the production countries where higher compensation is most urgently needed.


place that can help ensure that individual instances of non-compliance with other code elements and benchmarks do not recur. For example, FLA assessors check that factories maintain proper proof-of-age documentation to safeguard against child labor. Likewise, factories are evaluated on whether they maintain a comprehensive system for tracking and recording hours of work, to control excessive overtime. Factories must also provide regular training for workers on legal wages and factory compensation procedures, so that greater worker awareness might prove a check on future pay errors.

Complete reports on all FLA factory assessments, including improvement plans submitted by brands or suppliers, are available on the FLA website, under the “Transparency” and “Workplace Monitoring Reports” tabs. Below, brief summaries present noteworthy findings from the top-four countries where the most workers were affected by FLA assessments in 2016. On

**NOTABLE FEATURES:**  
**Exceptional factory performance reported by FLA assessors**

In 2016, assessors noted the active support for the employment of disabled or elderly workers by a factory in Mexico, resulting in its recognition by the Mexican Secretary of Labor for company-wide commitment to diversity. A factory in Bangladesh was recognized for paying higher base wages to textile workers, who can legally be compensated less than higher-paid garment workers. And assessors noted two factories in China that provide free-of-charge recreational opportunities to workers, including billiards, ping pong, basketball, and weekend film screenings.

the FLA website, greater detail on findings in these and other countries can be found at [fairlabor.org/2016-findings](http://fairlabor.org/2016-findings)

 **CHINA:**  
**47 assessments,**  
**38,695 workers**

FLA assessors in China reported progress in employer provision of all five types of social insurance for the third year in a row. In 2016, assessors found 69 percent of workers receiving retirement benefits, 66 percent receiving medical insurance, 75 percent covered by work-related injury insurance, 68 percent covered by unemployment insurance, and 72 percent receiving maternity benefits. Twelve of 47 facilities were providing all five kinds of social insurance for all workers, though only three of these facilities were found to be calculating all benefits from the correct legal contribution base. No facility was providing full contributions to China's legally mandated Housing Provident Fund, a social program designed to help workers with the rent, maintenance, or purchase of a home,

despite the FLA Workplace Code of Conduct mandate to provide all legally required social benefits. In China, all assessments also include at least one finding under the "Freedom of Association" code element due to government restrictions on union activity.

 **VIETNAM:**  
**18 assessments,**  
**42,139 workers**

Similar to assessments conducted in China, in Vietnam each assessment includes at least one freedom of association finding, as all recognized unions are required by law to affiliate with the Vietnam General Confederation of Labor (VGCL). Among the 18 factories visited by the FLA in Vietnam, assessors recorded that 13 failed to provide workers with one day of rest in every seven, and half of all facilities required workers to work overtime. Additionally, assessors recorded discriminatory recruitment practices in 11 factories, where some male workers were forced to undergo tattoo checks as a condition of hire, and some migrant workers were required to undergo mandatory health screenings. In five facilities, assessors recorded that not all workers were earning the minimum wage.

 **BANGLADESH:**  
**13 assessments,**  
**38,730 workers**

In Bangladesh, assessors flagged several workplace communications or policy issues as requiring improvement under the FLA's "Employment Relationship" benchmarks. For example, no factory was found to have functioning workplace disciplinary procedures that were accurately communicated to workers. Similarly, only 12 of 13 facilities had developed and communicated adequate procedures for

termination and retrenchment or for workplace health and safety. Consistent with the lack of health and safety procedures, all factories in Bangladesh were found to have gaps in their management of hazardous chemicals, and the high majority of facilities were found to require improvement in evacuation preparedness, machinery safety, fire safety and first aid training, and use of personal protective equipment. All facilities required improvement in avoiding excessive hours of work, and in one facility assessors recorded that not all workers were earning the minimum wage.


 **INDONESIA:**  
**8 assessments,**  
**22,245 workers**


Among the more common widespread findings in Indonesia, FLA assessors found that seven of eight factories failed to


compensate workers correctly for their overtime. In some cases, factories calculated overtime using an outdated minimum wage as base pay; in other cases, factories did not provide the legally required 200 percent premium wage rate for overtime conducted on a scheduled rest day. Furthermore, working through a rest day without a compensatory day off within any seven-day period violates FLA hours-of-work standards, which assessors found in two of the factories with overtime pay issues. In addition, under the "Harassment or Abuse" element, the FLA code forbids compulsory body searches or pat downs, and requires that all security practices must be gender appropriate and non-intrusive. One-fourth of all pat-down violations (3 of 12) recorded worldwide by FLA assessors occurred in Indonesia, second to only the Philippines in frequency of incidence.

Workers sewing clothing in Bangladesh.



 **9 investigations resolved**

 **20,000 workers affected**

 **175 workers received back-pay or reinstatement**

## SPECIAL INVESTIGATIONS:

### The FLA Third Party Complaint Process

To safeguard against workplace violations that may go undetected by company or FLA assessment processes, the FLA's Third Party Complaint process allows any worker, union, university, civil society, or other stakeholder to request an investigation into violations of the FLA Workplace Code of Conduct or the Principles of Fair Labor and Responsible Sourcing.

Because violations related to workers' fundamental rights — such as systemic freedom of association violations — may be more difficult to detect on a single site visit by a workplace assessor, the complaint process is an important tool to help ensure safe and fair working conditions at factories and farms. The process requires companies to develop and implement meaningful remediation for each violation confirmed by the FLA investigation.

In 2016, the FLA's complaint process improved working conditions for nearly 20,000 workers over a total of nine investigations that led to several overall workplace improvements such as revised pay systems, revised termination systems, and training for workers and management on the right to freedom of association. At least 175 workers received payment of wages or severance pay owed to them or were reinstated in their jobs as a direct result of FLA investigations.









The following chart summarizes complaints resolved by the FLA in 2016. Detailed reports of each investigation are linked from a complaint tracking chart on the FLA website at [www.fairlabor.org/third-party-complaint-tracking-chart](http://www.fairlabor.org/third-party-complaint-tracking-chart).

### HANSAE VIETNAM: Comprehensive Factory Assessment to Resolve Repeat Complaints

In 2016, the FLA received two investigation requests from FLA-affiliated universities concerned about reports of sub-standard working conditions at a supplier to Nike and producer of collegiate goods — the 12-factory Hansae complex in Vietnam.

After conducting an initial investigation in March, limited to the scope of the original complaint, the FLA determined that the issues in question were broad enough to warrant conducting a comprehensive factory assessment upon receiving the second complaint in July. The FLA conducted a subsequent factory visit in collaboration with the Worker Rights Consortium (WRC), and published a complete assessment report (available on the FLA website) in December. The assessment identified 30 specific findings and 177 sub-findings, across all nine elements of the FLA Workplace Code of Conduct. Some findings had already been addressed by the time the investigation was concluded. For example, factory management organized a training for supervisors to ensure workers were not being charged recruitment fees, and took a number of immediate steps to ensure health and safety for workers.

As the FLA prepared this annual report, Nike and Hansae continued to work together to remediate other findings. They were working to find an agreeable way to provide back-pay for work conducted during mid-day breaks, continuing to investigate the cases of workers who may have been fired for becoming pregnant, and testing new cooling systems to control for excessive heat. Updates on their progress can be found among Nike's assessment reports on the FLA website.

THIRD PARTY COMPLAINTS RESOLVED IN 2016				
FACTORY	FLA AFFILIATE INVOLVED	COUNTRY	INVESTIGATION REQUESTED BY	CODE ELEMENT(S) OR PRINCIPLE
F&D	Hanesbrands	 El Salvador	Union	Hours of Work, Compensation
<b>Resolved:</b> February 2016	The factory revised its paystubs to better demonstrate payment of overtime hours, and reviewed its production bonus system in dialogue with the union to ensure that targets are achievable during work hours.			
Mongru Neckwear	Vineyard Vines	 United States	Union	Remediation
<b>Resolved:</b> February 2016	FLA assessors returned to this previously assessed facility to verify progress on remediation of violations, after the brand ceased its oversight of this process, and shifted its production to another facility.			
Troon	adidas Group	 Nicaragua	Union	Freedom of Association
<b>Resolved:</b> March 2016	Improperly dismissed workers were reinstated with back pay, and the factory revised its procedures to explicitly forbid termination of workers while they are pregnant, on short-term disability, on vacation, or while afforded any other legal protection from termination.			
NBG Too	PVH	 Guatemala	Union	Compensation
<b>Resolved:</b> June 2016	NBG Too had closed its operations while performing unauthorized subcontracting for a PVH licensee. PVH intervention in the case caused the licensee to contribute to the welfare fund for workers who were owed six weeks of wages, bonuses, severance, and other benefits; the union agreed to this solution.			
Han Embroidery	Zephyr Graf-X	 Bangladesh	University	Compensation
<b>Resolved:</b> July 2016	Zephyr Graf-X and its supplier Han Apparels committed to pay the amount of \$72,157 in severance pay to the affected 168 former workers of Han Embroidery, a Han Apparels subcontractor that abruptly closed.			
Hugo Boss Izmir	Hugo Boss	 Turkey	Union	Freedom of Association
<b>Resolved:</b> July 2016	This complaint was terminated when the complainants filed legal cases against the factory in local courts that supersede the authority of the FLA to help negotiate a solution between the brand, its owned facility, and the union.			
Troon (Second Investigation)	adidas Group	 Nicaragua	Union	Freedom of Association, Harassment or Abuse
<b>Resolved:</b> December 2016	During the investigation of this complaint, the Troon factory closed due to a sharp reduction in orders over the course of 2016. Staff at adidas confirmed that Troon workers received payment of their outstanding wages and all severance-related benefits by the end of November 2016.			
Aydinli Deri	Fast Retailing, Hugo Boss	 Turkey	Union	Freedom of Association
<b>Resolved:</b> December 2016	The investigation was unable to confirm that workers had resigned from the union under pressure from factory management. In response to the complaint, factory management conducted a training on freedom of association for workers and managers, and released a statement recognizing workers' rights to freedom of association and collective bargaining.			



## PROTECTING WORKERS IN AGRICULTURAL SUPPLY CHAINS

### FLA Monitoring and Verification

Following the FLA's 2015 adoption of enhanced monitoring benchmarks for agricultural assessments, in 2016 the FLA conducted comprehensive training for all assessors who would be visiting farms over the course of the year. The subsequent 2016 farm assessments were the first to adhere to these new benchmark standards, resulting in stronger and more detailed reporting on issues facing farmworkers.

The FLA conducted these assessments at farms in seven countries, visiting producers of cocoa, hazelnuts, vegetable seeds, and field

crops including hot peppers, sweet peppers, squash, soybeans, sunflowers, and corn.

#### Diversity of Farms Visited by FLA Assessors

The enhanced monitoring benchmarks allow assessors to adapt their inspections to both formal and informal working environments, producing reports that help companies design remedial solutions to code violations that are applicable to the workplace setting where they have occurred.

**ABOVE:** In 2016, the FLA assessed working conditions at farms in seven countries, visiting producers of cocoa, hazelnuts, vegetable seeds, and field crops including hot peppers, sweet peppers, squash, soybeans, sunflowers, and corn. Seen here, hot peppers in India.

In Argentina, Brazil, and Hungary, assessors primarily visited farms with formal labor structures, where hired workers are covered by employment contracts and workplace protections. In Thailand, India, and the Ivory Coast, assessors primarily encountered small-holder farms or cooperative farm structures, with fewer formal employment systems and workplace protections, and higher proportions of seasonal, migrant, or family labor involved in production. In Turkey, assessors visited both formal and informal workplaces. The FLA Workplace Code of Conduct applies in all workplace settings.













#### 2016 Verification of Company Remediation

Among the 42 farm-level assessments completed in 2016, the FLA conducted five verification visits, returning to previously assessed villages or farms to review and report on progress in correcting past violations. Assessors conducted one verification in Andhra Pradesh, in India, visiting a total of 28 rice farms; two verifications in the Guitry region of Ivory Coast, visiting a total of 60 cocoa producers; and two verifications in the Düzce and Sakarya regions of Turkey, visiting a total of 30 hazelnut gardens. Key findings from these verification visits include:

**India, rice:** Comparing 2016 findings with the results of 2013 farm visits, assessors observed significant progress in worker and farmer awareness of the Code of Conduct requirements governing conditions at the farms, especially related to prohibitions on

child labor and health and safety protections for workers. Awareness of minimum-wage and hours-of-work requirements remained low, however, and assessors reported that some workers — primarily women — were still not earning the minimum wage, a violation that FLA assessors find repeatedly in agricultural supply chains in some states in India, including Andhra Pradesh, Karnataka, and Maharashtra (see sidebar, p. 26).

**Ivory Coast, cocoa:** Returning to three cocoa-farming communities previously visited in 2013, the FLA confirmed the successful remediation of the two child labor cases reported on the previous visit, and encountered no current child workers on any of the farms visited.

2016 AGRICULTURAL SUPPLY CHAIN ASSESSMENTS		
	Argentina	2 assessments
	Brazil	2 assessments
	Hungary	2 assessments
	India	4 assessments, 1 verification
	Ivory Coast	18 assessments, 2 verifications
	Thailand	3 assessments
	Turkey	6 assessments, 2 verifications
<b>TOTAL</b>		<b>42</b>
	Farms visited	680
	Total workers	3790
	Young workers (15 – 18)	413
	Child workers (younger than 15)	105
	Workers interviewed	2090



An FLA assessor conducts a worker interview at a farm in Thailand.

The visit also confirmed cooperatives' progress in developing strong health-and-safety policies and procedures, and in conducting trainings to communicate this information to workers. Assessors reported that record keeping at cocoa cooperatives still required improvement to help assessors verify proper payment of workers' wages, and full payment of cocoa-certification premiums to farmers.

## TACKLING SYSTEMIC ISSUES IN AGRICULTURE

**Despite significant progress** in recent years raising farmer and worker awareness of the labor standards companies must uphold at the farm level, FLA-affiliated agricultural companies continue to encounter some repeated systemic issues that require special efforts to improve. By establishing strategic projects with the FLA, working with local civil society and government stakeholders, and enhancing the efforts of their own social compliance programs, companies are working to tackle these issues.

**MINIMUM WAGES:** In some cases, especially in Turkey, FLA assessors have determined that while farmers may be paying at least minimum wages, workers' take-home pay falls below the legal minimum after labor contractors

deduct their commission. In Thailand, FLA assessors encounter the challenge that minimum wages are not defined for the agriculture sector, and that workers are earning around half the minimum wage for other sectors. And in areas of rural India, while the minimum wage is defined by law, assessors regularly find that prevailing agricultural wages across a given region fall below legal limits. To work toward correcting this, in January 2016 the FLA and Syngenta held a multi-stakeholder consultation in Hyderabad with a group of peer companies, civil society, and government to discuss pilot projects for ensuring minimum wages. Later in 2016, in cooperation with the FLA and Glocal Research & Consultancy Services, Syngenta began planning for 2017 interventions in select



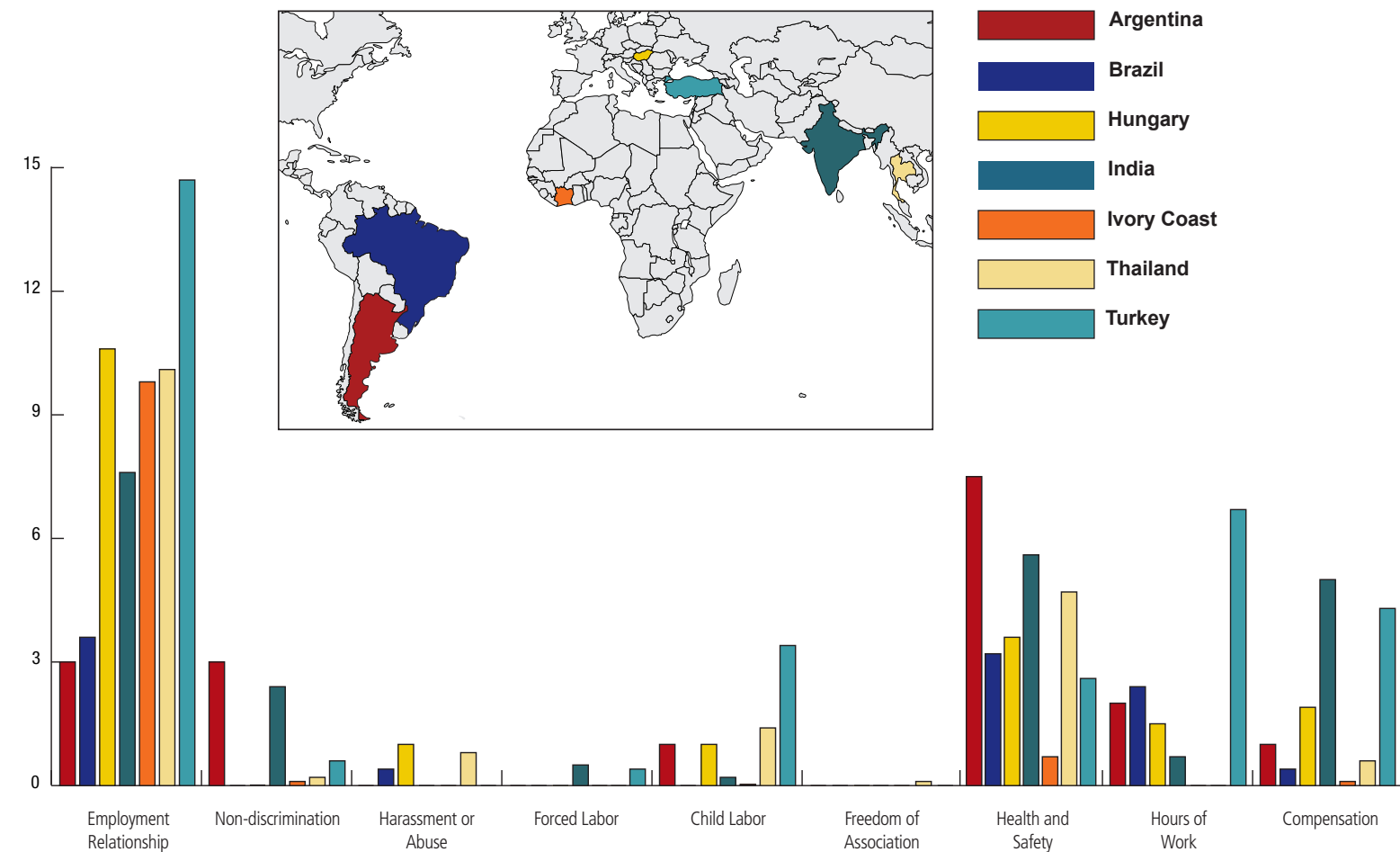
### Turkey, hazelnuts: Assessors

confirmed a continued need for improvement in a number of issues facing migrant workers in hazelnut supply chains, after comparing results from 2014 and 2016 assessments. Migrant workers must often work longer hours for less money than local workers, sometimes without

one rest day in seven, resulting in several violations of the FLA Workplace Code of Conduct governing compensation, hours of work, and discrimination. Although assessors continued to report instances of child labor, they cited company progress in establishing and implementing child labor prevention and remediation systems.

Find complete verification reports, and full reports of all FLA agricultural assessments at [fairlabor.org](http://fairlabor.org).

## AVERAGE CODE OF CONDUCT VIOLATIONS PER FARM, BY COUNTRY



supplier farms in Andhra Pradesh and Maharashtra to raise wages levels.

**CHILD LABOR:** In general, FLA assessors find instances of child labor in agricultural supply chains more frequently than in inspections of tier-one manufacturing facilities, particularly in cocoa supply chains in Ivory Coast and hazelnut supply chains in Turkey. However, assessors have seen a clear commitment to reducing these instances, with the progressive expansion of Nestlé's Child Labor Monitoring and Remediation System (CLMRS) in Ivory Coast, and similar efforts by Nestlé, Olam, and Balsu in Turkey. In 2016, Nestlé reported that its CLMRS system had extended to 69 cooperatives, and FLA assessors confirmed that they observed no child labor in cooperatives covered by this system.

**MIGRANT LABOR ISSUES:** In addition to internal migrant labor discrimination in Turkey (see above left, p. 26), in 2016 FLA assessors found migrant workers from Myanmar facing special challenges on farms in Thailand. These workers often face health and safety issues, such as lack of access to protective equipment and exposure to hazardous chemicals, and no instructional materials available in their native language. Farms often fail to verify ages of young workers, leading to the risk of child labor among the migrant Burmese population. Often these workers are not permitted legally to work in Thailand and therefore lack any legal recourse for any violations they face. Furthermore, migrant workers sometimes accept cash advancements to cover moving costs, or pay labor recruiters to help them find employment, resulting in risks of forced labor violations.

# TRACING SUPPLY CHAINS BEYOND THE FIRST TIER

## *Improving Conditions at Farms and Informal Workplaces*

*“In the coming years  
we hope to see the  
results on the ground  
with fewer children  
working in the cotton  
supply chain  
and more children  
going to school.”*

– Gerard Oonk,  
Senior Advocacy Officer,  
Stop Child Labour Coalition

**Garment and footwear manufacturing** are complex processes, with workers facing diverse labor-rights environments at each step of production. Socially responsible brands understand that their commitment to human rights must extend throughout their entire supply chains — that no worker should be exploited along a product’s journey from its original raw materials, through the various levels of processing and production, and into the hands of consumers.

To help brands enact their commitments to fair supply chains — and to help governments, civil society, and consumers better understand the issues that need to be addressed — the FLA collaborates on research projects that examine working conditions prior to the final assembly of brands’ products. In 2016, the FLA and its project partners in business and civil society completed work on two rigorous studies on conditions in workplaces supplying raw materials — cotton and leather — for the apparel and footwear industries.

The FLA intends these projects as catalysts to help multiple stakeholders working together devise innovative strategies for improving conditions for all the workers whose labor plays a part companies’ success.

### **Cotton and Garment Supply Chains in Turkey**

Over the course of 2016, the FLA and the Development Workshop Cooperative, a civil society organization based in Turkey, implemented a pilot project to trace the garment and cotton supply chains of seven multinational companies sourcing from Turkey and doing business in the Netherlands.

The Stop Child Labour Coalition, UNICEF Netherlands, and the seven garment companies (including FLA-affiliated PVH) initiated the project to help companies identify and prevent



A young worker pauses while picking cotton in Şanlıurfa in southeastern Turkey. Project staff reported that the worker's father owns this farm and she will return to school after the harvest is complete.

child labor risks in garment supply chains. Project results will also help companies meet their goals under the Dutch Agreement on a Sustainable Garment and Textile Sector, a voluntary social responsibility initiative that six of the seven companies have signed.

The pilot team found that comprehensive supply chain tracing in this sector was challenging, with traceability breakdowns at deeper levels of the supply chain, where it is common for companies to interact through agents, keep few records, and maintain no direct business relationships. Despite this, the researchers were able to document working conditions through four supply-chain tiers — garment manufacturers (tier one), textile and

spinning mills (tier two), ginning mills (tier three), and cotton farms (tier four).

In the final tier — the cotton farms — researchers documented instances of child labor, but these farms were not directly linked to cotton supplied for garments sold in the Netherlands by the participating brands. Visiting five medium-sized cotton farms on the Syrian border, the team encountered Syrian refugee children and Turkish children working alongside relatives to increase family income. The team found that child labor was most prevalent in farms with little mechanization, where cotton is picked by hand, and where weak regulation and lack of government oversight exacerbate the problem.

Overall, the project team recommended further efforts between brands and suppliers to collaborate on supply chain tracing and overcome the traceability challenges experienced on this project, along with collective advocacy for governmental solutions at deeper supply chain levels. Full recommendations appear in the project report at [www.fairlabor.org/cotton-2016](http://www.fairlabor.org/cotton-2016).

### Leather and Footwear Supply Chains in India

Also in 2016, the FLA and implementing partner iMentor continued work on a second project commissioned by the Stop Child Labour Coalition — an investigation of the use of child labor in the footwear industry in the city of Agra, India.

The goals of the project were to measure the prevalence of child labor in this sector, detect where child labor is used most often, and determine root causes of the instances of child labor uncovered. Three locally sourcing footwear brands and one retailer participated in the project, supporting supply-chain research early in the process with Agra-based exporters and committing to participate in a project-end meeting in 2017 to discuss next steps.

In May, the project team conducted an in-depth survey for 200 households across four Agra shoe-manufacturing communities and hosted eight focus group discussions — two in each community, one for child workers, and one for adults. Of the total school-age children in the families surveyed, just over half were attending school; respondents reported that most

children begin to work in the footwear industry between the ages of eight and 14. The project team found that while boys may travel to informal workshops to make shoes, most girls help with stitching projects brought into the home. Three-fifths of those surveyed reported poverty as the root cause of child labor, explaining that parents alone are not able to earn enough from making footwear to adequately provide for their families.

In August, the team examined risks of child labor in ten tier-one suppliers. All ten suppliers stated that the minimum age to be hired in their facilities was 18. However, nine of ten also confirmed that the majority of their workforce is composed of informal, piece-rate workers, rather than regular hired workers, and the team could not independently confirm the factories' age-verification of piece-rate workers. Half of the factories indicated some level of subcontracting, such as the subcontracting of hand-stitching work to households.

While this sub-contracting represents a risk to international companies sourcing from Agra, the project did not document any connections between child labor and international brands. The project team did find child labor to be widespread in the informal sector producing mainly for the domestic market. The project team recommended that any brands sourcing from Agra closely assess their supply chains for the use of child labor in factories, among piece-rate workers, or among subcontracted informal workplaces. Brands should foster direct collaboration with their supplier factories to build trust and clearly communicate brand expectations about the use of child labor. Full recommendations appear in the project report at [www.fairlabor.org/leather-2016](http://www.fairlabor.org/leather-2016).

Half of factories surveyed by FLA project staff in Agra, in northern India, indicated some level of subcontracting, including to household workshops and other informal workplaces.



## HAZELNUT SUPPLY CHAINS IN TURKEY

The FLA's long-term project on strategies to mitigate child and forced labor in the hazelnut supply chain in Turkey, funded by the US Department of Labor, continued in 2016, with a first round of site visits to 28 hazelnut-producing communities covering 1000 hazelnut gardens participating in the project.

During the year, the project team completed a baseline survey of partner companies' capacities to implement USDA guidelines on child and forced labor, and profiled worker demographics during the harvest season at the farms supplying to FLA affiliates Nestlé, Olam, and Balsu. The survey results and community profiles comprise a baseline report, against which the success of the project will be measured. During initial site visits, a local civil society partner on the project, the Young Life Foundation (Genç Hayat), also began to test intervention strategies for child labor cases found, such as raising awareness among migrant hazelnut pickers about local educational opportunities for their children and piloting summer schools for the children of the workers' families.

The project will return to the hazelnut gardens for the 2017 harvest season to build on the previous year's remediation report on conditions and measure improvement. When the project concludes in 2018, the FLA will release guidance for agricultural companies based on lessons-learned in Turkey, to help any company implement USDA guidelines on child and forced labor across its supply chains.

**ABOVE:** Following baseline reporting of conditions in hazelnut gardens in 2016, the FLA project began piloting intervention strategies, such as referring working parents to local education centers and other safe spaces for their children.





## ADVOCACY AND COLLABORATION TO ADVANCE WORKERS' RIGHTS:

### *Protecting Refugees, Women, and Children in Supply Chains*

Throughout 2016, the FLA continued its work on several productive collaborations with civil society organizations, governments, companies, and others working to protect vulnerable populations in supply chains, producing guidance on these issues for FLA-affiliated companies.

#### **Helping Refugees Gain Access to Work in Turkey**

Following the January 2016 announcement of a new work permit option for Syrians seeking employment in Turkey (a reform sought and

supported by the FLA and its affiliates and allies), the FLA collaborated throughout the year on several initiatives to safeguard against the exploitation of Syrian refugees working in Turkey.

Together with FLA brands sourcing from Turkey, the Ethical Trading Initiative, and the Business Social Compliance Initiative, in April the FLA distributed guidance — in Turkish and Arabic — for suppliers seeking to help refugees obtain legal employment. The guidance documents explain the steps to obtain work permits, and provide an

overview on topics like minimum working age and minimum wage, the Turkish social security system, the right to refuse unsafe working conditions, and other aspects of national labor law. The materials were distributed through Turkish Ministry of Labor offices in many manufacturing cities across the country.

In October, the FLA followed up with distribution of guidance for employers (developed in collaboration with the Ministry of Labor, the UN High Commission for Refugees [UNHCR], and adidas) on the risk of child labor in the Turkish ready-made garment industry, a risk heightened by changes to the labor market in Turkey due to a growing refugee population. These materials included guidance for suppliers on the employment of young workers (older than 15 and younger than 18), and the penalties associated with various violations of national law related to child labor and young workers.

**ABOVE:** The FLA and UN High Commission on Refugees brought together a diversity of perspectives to strategize how to better integrate Syrian refugees into the labor market in Turkey.

*“At our meeting in Istanbul, brands, suppliers, government, and civil society came together to collaborate on decent work for refugees in Turkey. Working with the FLA has been a great example of how multi-stakeholder engagement can succeed.”*

—Damla Taskin,  
UN High Commission on  
Refugees

## ISSUE BRIEFS:

### FLA Guidance on Global Supply Chain Issues

The FLA publishes regular issue briefs for affiliated companies on conditions in specific countries that might pose special challenges in complying with the FLA Workplace Code of Conduct. Among the issues covered in 2016:



#### 1) Minimum Wage Setting in

**Indonesia** – In February 2016, workers in Indonesia engaged in strikes and

demonstrations to protest new limits on workers' participation in national minimum wage-setting procedures. The FLA explained the details of the government's changes, and reiterated brands' responsibility to protect workers' collective bargaining rights and to pursue fair compensation, even where national minimum-wage-setting mechanisms may fall short.



#### 2) Limit on Temporary Workers in

**China** – To address excessive use of precarious labor, as of March 1, 2016, the

Chinese government mandated that temporary workers must no longer exceed 10 percent of the total employees at any workplace. Factory assessors report whenever over-reliance on temporary work results in other Code of Conduct violations, such as discriminatory wages, or lack of social benefits. As of March 2016, brands must also evaluate for factory compliance with the new legally mandated 10 percent cap.



#### 3) Independence of Trade Unions in

**Egypt** – In March of 2016, the Ministry of the Interior in Egypt took actions that

many interpreted as revoking the right of independent trade unions to negotiate and publish collective bargaining agreements (CBAs). The FLA urged brands sourcing from Egypt to ask their suppliers to honor all CBAs negotiated by any unions representing workers in their factories, including those unaffiliated with the state-controlled Egyptian Trade Union Federation (ETUF).

Find all FLA issue briefs online at

[www.fairlabor.org/global-issues/issue-briefs](http://www.fairlabor.org/global-issues/issue-briefs).

Finally, in December, the FLA and the UNHCR jointly hosted a roundtable meeting in Istanbul, to discuss the challenges and opportunities of integrating Syrian refugees into the Turkish labor market. The roundtable attracted 120 participants from international brands sourcing from Turkey, local manufacturers, international and local trade unions, non-governmental organizations (NGOs), workers' rights organizations, municipalities, and representatives from Turkish Ministries of Labor and Social Security and the Interior. A refugee working for a local supplier of an FLA-affiliated brand shared his story as part of the meeting, and roundtable participants identified several high-priority steps for brands sourcing from Turkey, and others, to take to help more Syrian refugees find decent work in the garment industry.

The complete list of priorities and a full report from the meeting appear on the FLA website at [fairlabor.org/Dec-2016-refugees](http://fairlabor.org/Dec-2016-refugees).

### Raising the Status of Women in Ivory Coast

In 2016, the FLA completed work on a two-year project designed to empower women and make progress toward gender equality in two cocoa-producing communities in Nestlé's supply chain in Ivory Coast.

More than five years of reporting on working conditions at cocoa farms and cooperatives in the Ivory Coast have demonstrated to FLA assessors how improving conditions for women can result in positive change throughout the



Women participating in the FLA's gender equality dialogues received copies of the code of conduct outlining the labor-rights standards Nestlé requires of its cocoa suppliers.

community, helping to lift families out of poverty and to curtail the use of child labor. FLA staff based in Abidjan partnered with Dr. Linda Mayoux, a globally recognized expert on economic development and women's empowerment, to promote equality and economic independence for women in the Ivorian communities of Yaokouakoukro and Zaranou.

The project team in 2016 reported on the achievements of local women in maintaining small-scale entrepreneurial enterprises developed with project support in 2015 to supplement families' cocoa income. Over the course of the project, women in cocoa-producing families have developed successful

side-businesses raising pigs, sheep, goats, and fish; farming field crops; and trading in apparel, footwear, and prepared food.

In addition, project staff established and implemented two "dialogue platforms" — one in each community — designed to encourage gender equality in families. FLA assessments have found that often when families work together to harvest cocoa, women's work may go unrecognized, unreported, or insufficiently compensated, with men controlling the money the family earns. The dialogue platforms facilitated conversations within households about how to overcome the constraints of gender stereotypes and norms, and how to achieve greater equality.

This work included strong collaborations with local women's associations in each community, helping them to strengthen their functions and to raise awareness about grievance channels women can turn to within their communities, when problems arise. Nestlé used the partnership with these local associations to distribute information about labor standards to women working in cocoa, especially highlighting the importance of protecting women's health and safety during the cocoa harvest.

Based on the project's results, the World Cocoa Foundation (WCF) invited the FLA to facilitate community-based workshops for women in five additional cocoa-producing communities in Ivory Coast in 2017, and to train WCF brand partners to implement a similar approach in their field interventions.



### ADVOCATING FOR A FAIR MINIMUM WAGE IN GEORGIA

Following the FLA's first-ever factory assessment in the Republic of Georgia, the FLA hosted a multi-stakeholder meeting in December 2016 in Tbilisi to discuss the issue of private sector minimum wages in Georgia. The current minimum, set in the 1990s, is so low as to be meaningless for workers, and the FLA brought together apparel suppliers, the Georgian Trade Union Congress, government representatives, the International Labour Organization, brands sourcing from Georgia, and other stakeholders to discuss a way forward on meaningful and inclusive minimum wage setting for the private sector in general and the garment industry in particular. FLA-affiliated companies sourcing from Georgia continue to pursue their fair compensation goals, working with their suppliers to establish decent wages in the absence of meaningful national minimum. Find more on the Georgia minimum wage at [www.fairlabor.org/georgia-minimum-wage](http://www.fairlabor.org/georgia-minimum-wage).

### Protecting Children in India and Bangladesh

After passage of a new child labor law in India in the summer of 2016, civil society organizations raised strong concerns that child labor – especially in industries like garment and footwear production and agriculture – would be likely to increase due to at least three loopholes that would allow more children legally to work.

Prior to the law's passage, the FLA advocated for the government of India to maintain its existing protections against child labor; afterward, the FLA published guidance for how affiliated companies can guard against the heightened risk of child labor in their supply chains. Especially when suppliers are known to subcontract production to informal or family-based workplaces, the FLA recommends that brands strengthen their assessment mechanisms, by monitoring supply chain tiers beyond the direct supplier and bolstering age verification. As a safeguard, brands should also develop procedures for managing child labor cases, establishing local civil society contacts for company managers to consult for assistance in remediating any cases found.

To develop a more robust and coordinated response to the new law, the FLA began preparations to host a 2017 roundtable meeting in Delhi with 35 civil society organizations from different parts of India all working to protect children from workplace exploitation.



Changes to India's child labor law have increased the likelihood of children being employed in informal workplaces. The FLA has provided guidance to companies and is working with others on collaborative solutions.

In neighboring Bangladesh, the FLA also collaborated in 2016 with UNICEF and the Centre for Child Rights & Corporate Social Responsibility (CCRC) on a program to implement the Children's Rights and Business Principles (CRBP) in apparel factories. In this context, protecting "children's rights" encompasses more than ensuring that children are not working in the factories, but also that working conditions for parents and pregnant women will support a decent life for their children. Factory-level child-friendly policies covered by the CRBP include the provision of on-site childcare, limiting excessive working

hours so that working parents have more time with their children, providing breastfeeding facilities for working mothers, and support for fair compensation and benefits.

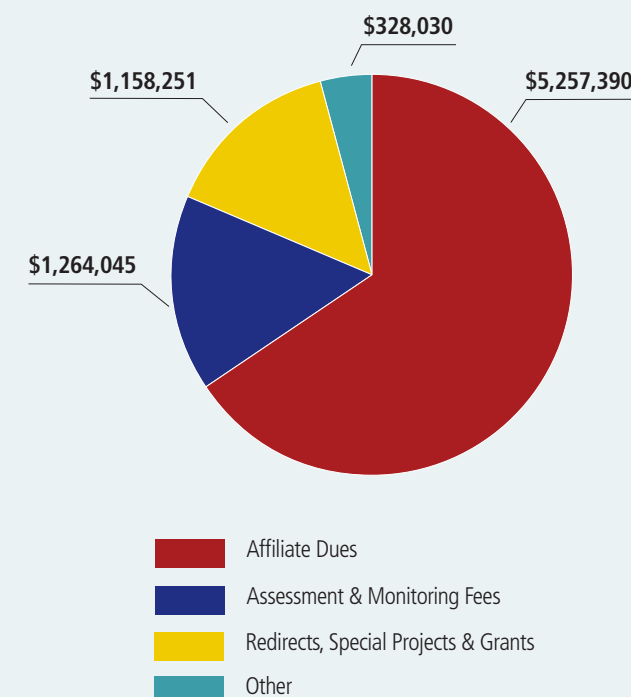
The FLA and CCRC developed assessment modules, progress indicators, and training materials on how to maintain a child-friendly workplace. With UNICEF's support, a local service provider provided no-cost training based on these materials ten garment suppliers in Dhaka seeking to improve working conditions for parents and improve the lives of children.

# FINANCIAL REVIEW

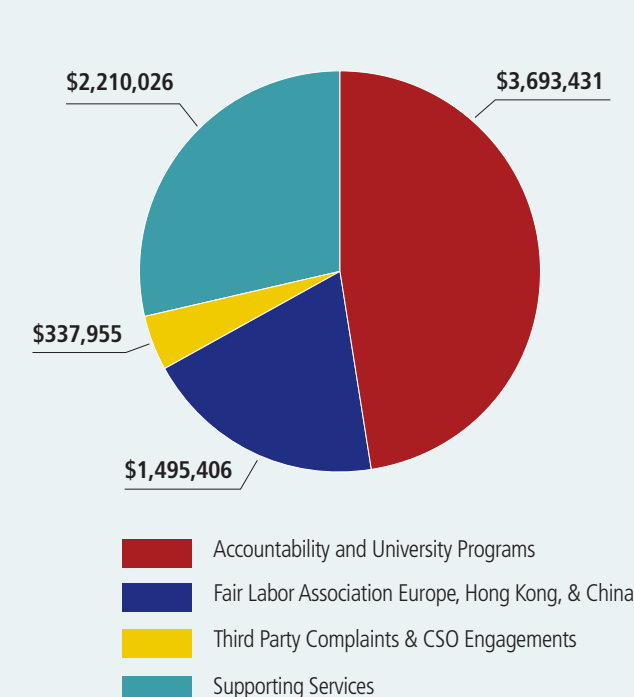
In 2016, the Fair Labor Association received just over \$8 million in revenues, including \$730,000 from a \$4.87 million cooperative agreement awarded by the Department of Labor (see p. 31). Assessment fees fully fund the corresponding expenditures related to performing assessments. Affiliate dues, strategic project fees, and grant revenue provide additional funding for FLA programs and supporting services.

FAIR LABOR ASSOCIATION CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEAR ENDING DECEMBER 31, 2016 WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015		
Unrestricted		
	2016	2015
<b>REVENUE AND SUPPORT</b>		
Affiliate fees	\$3,983,144	\$4,457,383
University affiliation fees	1,274,246	1,035,449
Assessments fees	647,386	788,154
Monitoring management fees	616,659	698,410
Redirects	154,527	245,021
Special projects	274,893	226,576
Contributed services	182,302	184,407
Rental income	111,678	98,975
Grants	728,831	79,478
Escrow forgiveness	—	45,833
Workshop fees	22,075	39,957
Other income	2,016	22,272
Investment income	9,959	969
<b>TOTAL REVENUE AND SUPPORT</b>	<b>\$8,007,716</b>	<b>\$7,922,884</b>
<b>EXPENSES</b>		
<b>Program Services:</b>		
Accountability	\$3,151,596	\$2,628,613
University	541,835	451,922
Fair Labor Association — Europe	811,170	676,563
Fair Labor Association — Hong Kong and Fair Labor Association — China	684,236	570,692
Third-Party Complaint	142,881	119,171
CSO Engagement	195,074	162,703
<i>Total program services</i>	<i>\$5,526,792</i>	<i>\$4,609,664</i>
<b>Supporting Services:</b>		
Management and General	2,210,026	1,843,289
<b>TOTAL EXPENSES</b>	<b>\$7,736,818</b>	<b>\$6,452,953</b>
Change in net assets before other item	270,898	1,469,658
<b>OTHER ITEM</b>		
Foreign currency translation loss	(6,992)	(69,970)
<b>Change in net assets</b>	<b>\$263,906</b>	<b>\$1,399,961</b>
<b>Net assets at beginning of year</b>	<b>\$2,704,710</b>	<b>\$1,304,749</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$2,968,616</b>	<b>\$2,704,710</b>

## 2016 AUDITED REVENUES: \$8,007,716



## 2016 AUDITED EXPENDITURES: \$7,736,818



FAIR LABOR ASSOCIATION CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016		
	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$5,119,524	\$5,033,497
Investments	362,140	354,964
Accounts receivable, net of allowance for doubtful accounts of \$68,920 for 2016 and 2015, respectively	819,649	595,340
Prepaid expenses	94,235	105,725
Fixed assets, net of accumulated depreciation and amortization of \$1,512,800 and \$1,280,854 for 2016 and 2015	59,083	351,462
Other assets	61,890	51,988
<b>TOTAL ASSETS</b>	<b>\$6,516,521</b>	<b>\$6,492,976</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$527,890	\$684,629
Deferred revenue	813,934	912,672
Agency payable	1,924,585	1,878,064
Capital leases liability	28,479	12,516
Subtenant deposit payable	15,889	15,889
Deferred rent	237,218	284,496
<b>TOTAL LIABILITIES</b>	<b>\$3,547,995</b>	<b>\$3,788,266</b>
<b>Net Assets — Unrestricted</b>	<b>\$2,968,616</b>	<b>\$2,704,710</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$6,516,611</b>	<b>\$6,492,976</b>



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IMPROVING WORKERS' LIVES  
WORLDWIDE.

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