

# COOL IDEAS 146 (PTY) LTD

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## SOLIDARIDAD / MADE-BY STAKEHOLDERS MEETING AN AFRICAN PERSPECTIVE

### 0. Introduction

My name is Belinda Edmonds and I am the founder, Managing Director and majority Shareholder of Cool Ideas 146 (Pty) Ltd. I have been employed in the textile and garment industry for the past 20 years and have for the past 10 years managed the exports of a variety of garment types and styles produced in several African countries to many customers in the United States of America, the United Kingdom and the European Union.

### 1. Profile

Cool Ideas 146 (Pty) Ltd, established in 2003 is an African based Sourcing Agency providing sourcing support services to customers who do not have staff and/or infrastructure in the African locations from which they source garments, textiles and associated items. In order to provide pro-active support and services, whilst containing travel costs, we have offices and/or staff situated throughout Sub-Saharan Africa. The locations are dynamic and are adapted according to our customers sourcing patterns and requirements. Our Head Office is based in Durban, South Africa whilst all Production Co-ordination is managed from our Merchandising team in Cape Town, South Africa. Quality Auditors are currently based on Lesotho, Kenya and Madagascar.

We are fortunate to represent a diverse range of customers including Russell Athletic (USA), Edun (USA & Ireland), Starbucks (USA) and Tesco (UK) as well as a number of smaller brands and retailers.

In the 12 months of January to December 2008, we will manage approximately USD 20 million or Euro 15 million worth of production for our customers.

We also work closely with various organizations throughout the world to promote Africa as a sourcing destination – this includes NGO's, Regional Governments, and international Trade Consultants. The scope of our collaboration with these partners includes improving trade conditions between Africa and other countries, improving working conditions and quality systems in factories wishing to export and the promotion of Africa in general and specific sustainable pipelines in particular.

To assist us in keeping up to date with developments, technologies and the trade environment, we are members of the Organic Exchange ([www.organicexchange.org](http://www.organicexchange.org)) and the South African Garment and Textile Export Association. We are also Certified WRAP (Worldwide Responsible Apparel Production – [www.wrapapparel.org](http://www.wrapapparel.org)) Consultants.

We offer a range of tailor-made sourcing solutions depending on our customer requirements. Our full package Sourcing Agency provides the following services :

- Continuous evaluation and identification of potential sourcing partners
- Price Negotiations and submission of detailed costing analysis
- Delivery negotiations ensuring realistic time and action calendar
- New style development - including sampling from proto to final approval
- Order tracking and reporting including : sourcing and shipping of raw materials, trims and findings; fabric and color approvals; customer specific independent testing; and, detailed cut, sew and pack monitoring.

- Quality Audits - pre-production, in-line and final - to AQL level indicated by customer. In factories where our customers run significant and ongoing volumes of product, we provide full-time quality auditors who monitor production and quality on a daily basis.
- Assistance with preparation and checking of shipping documents
- Training of Vendors on customer specific procedures, systems and reporting

## 2. CSR Context

Prior to 2006 we primarily worked with factories owned by Asian investors intent on maximizing the benefits of the various trade agreements (AGOA, Cotonou etc.). Buyers who sourced from Africa focused on large volumes of basic product at very competitive prices. Whilst exports from Africa enjoyed tremendous growth (primarily to the United States under AGOA) and job creation responded accordingly, the majority of this growth was really significant only in 3 or 4 countries – with Lesotho being significantly the largest, followed by Kenya and Madagascar. As the MFA system reached its demise and the quota's limiting China's exports to both the USA and Europe fell away, so too did the exports from the African continent. In several cases, foreign owners of factories simply closed their businesses and shipped their equipment to other low-cost countries. Most workers did not receive any termination benefits and in some cases were not even paid outstanding wages due to them.

We found this trend very disturbing and took a decision to try to develop niche market products where the price of the product, whilst still important, was not the over-riding factor in an order placement decision. Two sectors of the market were immediately apparent – organic product and/or ethically traded product. Significantly, at this time, we were fortunate to meet with Edun and that Company's ethos and goals for Africa re-affirmed our aims and inspired us to increase our efforts.

We soon identified many challenges that small factories, not already established as exporters, faced :

- Lack of market access, limited marketing skills and even more limited marketing budgets;
- Shortage of skilled and/or experienced supervisory and middle management personnel;
- Limited access to international technologies, methodologies, material inputs etc.; and in some cases
- Geographical and logistical challenges – time to market, cost of transport etc.

In most cases, these factories had no or very few export orders and were barely surviving by supplying product to their domestic markets.

Worker abuses were not apparent, however, CSR, Social Compliance and/or Training Policies were generally not in place, or where they were, were very basic, and general maintenance, particularly in relation to Health and Safety were generally run down. It was difficult to assist these factories to market themselves as ethical or socially compliant factories as they neither had the systems in place to “prove” their claims nor the finances to maintain, upgrade or install equipment to meet internationally accepted requirements.

Both factories had been assessed several times before: an evaluation by Verité and pre-compliance audit for WRAP. At neither Verite evaluation nor WRAP pre-compliance, were any actual statistics recorded. All aspects were looked at from the perspective of identifying potential non-compliances. There had been no baseline audits that recorded the economic status of the workers, in order to review later to evaluate whether they are actually enjoying the benefits of improved conditions/wages. Cool Ideas has adapted its pre-compliance method to include more statistics for later reference.

In response to these findings, Cool Ideas committed itself to assisting these factories to whatever extent we could, with no cost to the factories themselves. The major factor driving this initiative is our sincere belief that poverty in Africa, and all its associated ills (health, education, infrastructure etc) can only be alleviated through the development of sustainable trade and its associated job creation. Social Compliance becomes a strong tool to ensure that once jobs are created, the value and conditions of those jobs increase in-line with the improved trading and financial conditions of the factory.

During the past 2 years, our efforts have been largely focused on Phenix Logistics and Lap Textiles, both in Uganda and both producing product for EdunLive. Any specific findings mentioned in the balance of this report will refer to these factories unless otherwise specified.

### **3. Social Compliance**

#### **3.1 Background and Context**

For several years, the majority of our customers have required annual Social Compliance Audits at all facilities from which they source product. Historically, this was an area in which a Sourcing Agent's responsibility was limited to simply co-ordinating and ensuring that the Audits were conducted. Results of these audits were sent directly to the Customer, who in some cases would share these results with us but again, follow up, was limited to simply ensuring that Corrective Action Plans were prepared and submitted.

Our team learned a significant amount from these reports, but felt that our regular and ongoing presence in the factories in which our customers sourced product could be put to better use. We therefore started to develop our own internal pre-compliance audit, which we worked through with each factory prior to their Audit and used this as an evaluation tool when considering new factories for introduction to our customer base. This process was to some extent successful as factories were able to identify and correct most items that would be highlighted in the Social Compliance Audit. However, it did not address issues such as the implementation of policies and procedures and it did not go far enough toward ensuring that Social Compliance and Worker Conditions became entrenched in the Management philosophy of the factories, whose primary focus was on increasing output and to a slightly lesser extent to improving quality standards of such output.

During 2006, whilst working with "development" factories we identified a need for practical on-site assistance that would help find cost-effective solutions to various aspects of Social Compliance. This need was primarily identified through the progress made after extensive discussion followed by visible improvement and/or implementation within a short time – in most cases we followed up on approximately a monthly basis. This reinforced our initial opinion, that shareholders and management of these factories have a firm commitment to improving the conditions of their workers, but don't necessarily have the knowledge or experience to find practical solutions.

In response to the limited benefit of one-off Social Compliance Audits, we recommend the implementation of a system that requires fully documented policies and procedures and which also requires historical evidence of implementation at the audit. Workers are subject to interview in most, if not all Social Compliance Audits, however, the value of their input can, in our opinion be misleading as, in many cases, these workers do not really understand the context of the audit, may not fully understand the question and if in doubt may respond as they think the auditor would like to hear, and are often nervous of possible repercussions (although all auditors guarantee confidentiality of findings, it is difficult for a worker to trust in someone who will only be in the factory for a day or two).

The implementation of written policies and procedures provides a strong forum from which Management can and should educate workers. Through drafting and publishing policies, Management is forced to open communication channels with all employees who become an inherent part in the implementation process. As employees of all levels become familiar with policies and procedures, so too are they better able to understand the audit process and therefore contribute far more effectively in the interview process.

To further encourage factories to implement a full Social Compliance Policy, we recommend that they aim to achieve some form of certification and to set a time-line against that target – usually about 6 months. Having a timeline to work against and a defined target to achieve motivates the management team responsible for each aspect of the Policy. Achieving Certification of some form also provides personal satisfaction to each of those involved in the process. Certification also assists these factories in marketing themselves through providing some confidence in potential buyers that the Management is aware of international

requirements and has credible independent data to back claims they make as ethical employers.

There are many Certification Bodies and standards and unfortunately selecting one is particularly difficult. No single system appears to meet all the criteria of all the buyers or other interested parties and stakeholders, however, SA8000 and WRAP are notably more generally accepted – SA8000 primarily by EU based buyers and WRAP primarily by US based buyers.

We, at Cool Ideas have, with the support of Solidaridad undergone training and Accreditation with WRAP. Our selection of WRAP was based after significant consideration on the following apparent advantages :

- Meets universally recognized minimum standards – ILO Conventions whilst recognizing and respecting national laws and local cultures;
- On-going update program;
- Policies, Procedures and Implementation Based – requires policies to be in place and historical evidence of functional implementation and own monitoring, reaction and update thereof;
- Widely accepted in the US market (which is a significant trading partner for garment and textile production in Africa), and increasing acceptance amongst EU buyers – this eases the financial burden of multiple audits if factory has several customers; and
- Cost-effective in comparison to others.

### **3.2 Workers Perspective**

Phenix - Worker Demographics (taken end 2007, but only slightly changed) :

- Total number of employees 267
- Number of Females 118
- Number of males 149
  
- Number of females between 18 and 30 years 75
- Number of females between 31 and 55 years 42
- Number of females over 55 years 1
  
- Number of males between 15 and 30 years 81
- Number of males between 31 and 55 years 63
- Number of males over 55 years 5

Lap Textile – Worker Demographics are not at this stage available, as the company has only recently finalised its legal status and can only now confirm employment with its work-force.

The demographics of Phenix are interesting in that this is a vertical plant – including Spinning, Knitting, Dyeing and Finishing as well as garment make-up. The proportion of male workers is higher than is usually anticipated in African garment making facilities where the majority of workers are women.

All workers and a significant number of supervisors at Phenix are Ugandan citizens, whilst a small number of expatriate managers are employed – one from South Africa and 3 or 4 from India. No workers live on the premises, expatriates are provided apartments in the City by the Company. There is one apartment on the Phenix premises that could potentially house workers however, it is not at this time used.

### **3.3 Start of the Process**

The start of the process at both Phenix and Lap can be directly attributed to the support and encouragement provided by Edun, both in terms of placing orders and in discussing, evaluating and urging these Companies to upgrade their policies, procedures and

implementation. An initial evaluation was conducted by Verite on behalf of Edun and the feedback from that evaluation became the initial working document. Unfortunately no baseline audit was conducted, however, the notes taken from the initial evaluation could be used to provide comparison with recent WRAP pre-audit to show improvements made. We would recommend that a base-line audit be conducted at Lap Textiles who have only recently started officially operating as a separate company.

The main challenges at both companies were :

- Lack of maintenance of Health and Safety Equipment
- Lack of training and procedures for emergency evacuation
- Limited formal policies and procedures

Another challenge faced was that there is no legal minimum wage in Uganda. Therefore, the WRAP pre-audit focused on ensuring that workers were paid according to their contracts, for all hours worked, and that overtime was paid in accordance with the law.

With respect to Trade Unions, these are present in Uganda, but there is no clear picture on how effective they are. @@ BE will give current % of workers who are joined up at Phenix. @@

With respect to Discrimination, the auditors have not seen any evidence of this, but not looked into it very closely. Personal observations through Uganda have also not given evidence of this. In Uganda, there are some historical divisions between people from the North and people from the West, and this sometimes becomes a political issue - the Northern people claiming they have less input from the Government, as the President is from the West. However, this does not seem to have repercussions in day to day interactions or on factory work floor.

The initial working documents were used to structure and formalize meetings during which each issue was discussed in detail, the implicated seriousness of each issue debated and the cost/time associated with resolving each was estimated. Any issue which did or could potentially endanger workers in any way was immediately highlighted as a top priority. Agreed corrective actions were noted and the updated report was used as the basis for the next monitoring meeting which were usually held about once per month.

Senior Management was extremely supportive of a Social Compliance Policy and sincerely appreciated input and guidance. Some hesitation and defensiveness was experienced from the middle management and in particular the Personnel Manager, however, it quickly became apparent that this was more due to a lack of understanding and/or a fear of appearing to have a lack of understanding than his being against the implementation.

Immediate attention was paid to evacuation plans, procedures and the servicing of fire hydrants so as to ensure that workers could be protected in case of emergency. Evacuation signage was also installed in all sections of the factory. Subsequent to that, training was conducted in both First Aid and Fire Emergency. First Aid kits (supervised by selected and trained first aiders) are installed and maintained in each section of the factory. A fire drill has been conducted under the management of the Fire Monitors trained by the city's fire department. Finally an audible Fire Alarm was installed and is regularly tested.

Funding for what were perceived to be costly improvements were a serious challenge. For example:

- Training costs for fire, evacuation and first aid were thought to be excessive. The Kampala Fire Brigade (rather than a Safety and Security Company) was approached with this problem, which provided a 'Fire and Evacuation Monitor Training' at little or no cost.
- With respect to First Aid - same as above but St John's provided the service
- Signage quotes for emergency exits were high (limited suppliers and imported products). In many cases, it was determined that Reflective Paint direct onto walls and floors could be used - this results in more frequent need to for maintenance, but is significantly cheaper.

- Implementation of computerised payroll: the introduction of a Computerised Payroll system was delayed, but the Excel spreadsheet was improved and added to, so that all information was available.

### 3.4 Implementation

The implementation of the Social Compliance Policy was not formalized as such, however, as mentioned above, priority was given to any and all issues that directly affected the potential safety of workers. There were limited and in some cases no formal policies documented and procedures appeared to be a little haphazard and possibly subjective. However, as there was no evidence to indicate workers or workers rights were being abused, the preparation and implementation of policies was relegated to third priority – after health and safety and the development and implementation of procedures.

Within the required Policies and Procedures needed, those that appeared to most directly affect workers were prioritized – for example, policy and procedures relating to Discipline were implemented before addressing Child Labour Policies – as clearly no child labour was employed, nor was likely to be employed in the timeframe.

Procedures were developed and implemented and from these policies are being further developed to address the following principles:

- Code of Conduct – Completed
- Child Labour – procedure to prevent in place, policy in progress
- Employment of Young Workers – procedure in place to prevent, policy in progress
- Forced or Compulsory Labour – procedure in place to prevent, policy in progress
- Prevention of Harrasment or Abuse – policy and procedures in place
- Prevention of Discrimination – policy and procedures in place
- Wages<sup>1</sup> and Benefits – policy and procedures in place
- Working Hours – policy and procedures in place
- Freedom of Association – policy and procedures in place
- All permanent workers have a written Employment Contract – this is to be rolled out to include temporary workers.
- A Grievance Procedure has been implemented
- Workers Rights, Company Policy and/or Procedures are communicated to workers through the Trade Union and are displayed on a prominent notice board.

The primary “Manager” of the Social Compliance Policy at Phenix is the Human Resource Manager – a local Ugandan. As mentioned earlier, he was somewhat hesitant and defensive during initial discussions, however, explanation, follow up and acknowledgement of each achievement has been rewarding and he has a clear grasp of the need for and principles of such a policy.

It is my opinion that the interest and regular follow-up by all parties – buyers, ourselves and the shareholders of the company – have all provided significant impetus to the process.

In a country with limited industrialization, and therefore limited jobs and outdated Labour Legislation<sup>2</sup> and a factory that until recently had few or no export orders, Social Compliance was not seen to be a major priority by Management and most workers were completely unaware of their rights. Fortunately the shareholders of Phenix did not abuse the

<sup>1</sup> In the absence of a legal minimum wage, the auditor will apply a different method will be used. This method is currently in development.

<sup>2</sup> At time of original evaluation, the Labour Law had not been updated for some time, however, it was updated in 2006, but items such as Minimum Wage are not included. This comment is fairly general for several African countries - for example the Ethiopian Labour Law leaves many very significant issues open to be resolved in Collective Bargaining Agreements. On the other hand, Tanzania and Kenya both updated and produced very progressive Labour Laws which put their Industries (Clothing and other) into turmoil - both have either revisited and revised or are in the process of doing so.

weaknesses in the system and certainly fully endorsed all suggestions to improve and formalize their workers conditions and knowledge of their rights. The ongoing direct and indirect (via Cool Ideas) follow up by Edun and the interest of other potential customers have certainly provided ongoing motivation to the team at Phenix.

At Phenix, the genuine commitment from the management to social compliance has always been present. Director Mr Kashiwada had always insisted that his workers be treated with respect and fairness and had to an extent passed on this philosophy, but not in a formal policy. Cool Ideas raised Social Compliance in an initial meeting and made it clear that NO recognised brand/retailer would place business if there were human rights' violations. Commitment may have grown further during the project and with the encouragement of the formal social compliance process. After the Verite evaluation, Cool Ideas insisted on monthly update reports - which were generally discussed in person during regular visits. Initially progress was slow, but after the second meeting, the HR department started to take the initiative – this was reason to lessen the monthly reporting requirement.

Lap Textiles, with support from Phenix management are pursuing the same goals and there is regular communication and support between Lap and Phenix. With the support of Solidaridad, Cool Ideas is providing consulting services, including pre-audit evaluation and assistance in development of policies and procedures to both Lap and Phenix and we are confident that both will achieve WRAP certification by January 2009.

#### **4. Learnings and Follow Up**

The two most significant things we have learned over the past 18 months are :

##### *1) Genuine management commitment*

It is imperative that shareholders and management of the factory have a genuine commitment to Social Compliance, their motives for improving worker conditions, be it for improved profit or less material reasons, are irrelevant, but their commitment is key. We have experienced dismal failure, despite significant input in both time and resources, in a couple of factories (other than those specifically being addressed in this report), where the owners and/or management implemented Social Compliance, only because their customers demanded it. Typically these factories “pretty up” their facilities ahead of scheduled audits but soon revert to old practices soon after and no ongoing improvement in workers conditions is achieved

##### *2) Ongoing discussion between the parties involved*

Ongoing discussion, debate, follow-up and recognition of each step by buyers, agents and any other stakeholders distinctly encourages those people directly responsible for implementing Social Compliance. It is imperative that care is taken, not only to explain the principles and need therefore, but also to engage all personnel in developing the policies and procedures as this is the only way to effectively and tactfully determine what is understood and not. In many cases, the expectations of the Western World are very far removed from, and have not even been considered as possible by those in the Developing World. The Western World needs to understand Developing World's conditions and cultures better and be less imposing of their own expectations.

The following examples may illustrate this:

- Toilet Paper - many standards require that toilet paper be provided freely and at all times - a very simple apparently non costly expectation by our standards! But when looking at this more deeply, you have a work-force who have little or no access to any personal hygiene items western consumers consider as basic necessities - therefore toilet paper, if provided completely freely, is taken and used for a multitude of purposes beyond 'normal' usage in the West. This can become incredibly costly.
- Overtime Limitations and Day of Rest - in many cases, workers come from far afield - they leave their families in the care of extended family and seek basic lodgings near or in factories and return home approximately monthly. They have no physical family

(child-care, housecleaning, growing crops etc) demands on their time and in many cases have limited number of relations/family to socialise with, and all earnings are saved to be remitted home. These workers are seeking jobs purely to fund their families at home - their preference is often to work as much overtime as possible in order to maximise earnings. Where workers come from rural areas, the concept of a day of rest is largely unheard of - cows need to be milked, crops need to be tended and protected, families fed every day.

Both Phenix and Lap have run over the past period at well under their maximum capacity and therefore, we need to ensure that their policies and procedures make allowance for issues such as overtime, which until now has been limited.

A significant issue in most African countries and very specifically in Uganda is a high-borrowing level amongst workers. This results in unacceptably high deductions from wages leaving workers in a borrowing "trap". This is very challenging for factories to deal with – they are able to limit the amount lent by themselves to workers, however, in many cases, the Courts in the country will enforce Garnishee orders<sup>3</sup> (typically for child or spousal maintenance) and the workers themselves or their Unions will negotiate credit purchases at "Convenience Stores" which are secured through the assurance by the Employee to deduct outstanding amounts from the workers salaries. Training for workers, alerting them to the dangers of excessive credit exposure, and for Employers to manage this is being investigated and is urgently required.

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<sup>3</sup> Garnishee order is a Judicial Order from a Court of Law instructing an Employer to deduct funds from Wages/Salaries and pay to a specific person/institution - often issued for outstanding spousal/child maintenance, taxes and other distressed debts.