

Responsible Recruitment Policy for Li & Fung’s Supply Chain

INTRODUCTION

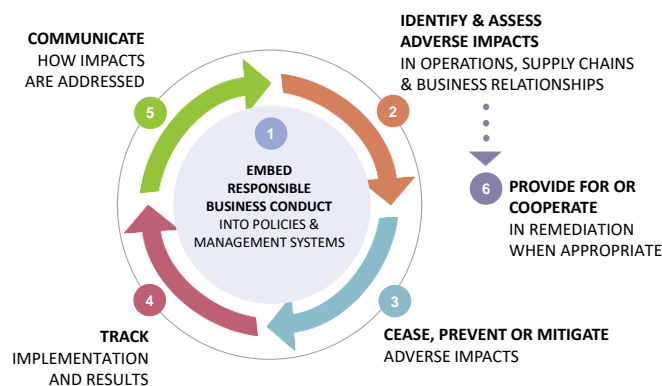
Modern slavery – including all forms of forced labor¹ – is a business and legal risk and strictly prohibited by Li & Fung’s (LF) [Supplier Code of Conduct](#) (Supplier Code).² The 2021 International Labor Organization (ILO) Global Estimates indicated that almost 50 million people are living in situations of modern slavery on any given day, with nearly 28 million in forced labour, and the Asia and Pacific regions having the highest number of people in forced labour (15.1 million). Migrant workers are found to face a higher risk of forced labour than other workers, and the forced labour prevalence of adult migrant workers is more than three times higher than that of adult non-migrant workers.

Migrant workers often pay excessive fees to multiple intermediaries to secure jobs.

Migrant workers are most at risk of excessive fee charging as they often pay twice – both in their home country and the destination country.³ The fees go to multiple intermediaries, which may not be regulated by local authorities. Workers who fall into debt may become trapped in abusive working conditions with low or no wages. This situation is called debt bondage because the debt can be used to hold a person in a job for an extended period of time until it has been paid off. Debt calculations are often manipulated to further exploit the worker.

The ILO, in its Recommendations of Supplementary Measures for the Effective Suppression of Forced Labor, calls out the corporate responsibility of “protecting persons, particularly migrant workers, from possible abusive and fraudulent practices during the recruitment and placement process” to help combat forced labor. Additionally, the ILO issued General Principles and Operational Guidelines for Fair Recruitment, stating that companies should include “human rights due diligence assessments of recruitment procedures and should address adverse human rights impacts with which they are involved”.⁴

This aligns with other International Standards including the OECD Due Diligence Guidance for Responsible Business Conduct, which sets out a six step framework for companies to develop and strengthen their own systems and processes in order to assess and address risks in operations and the supply chain.



¹ Forced Labor is defined by ILO C. 29. Worst Forms of Child Labor is found in ILO C. 182.

² Supplier Code of Conduct, Forced Labor, Pg. 24.

³ Destination country refers to the country where the migrant worker secures employment.

⁴ ILO General Principles and Operational Guidelines for Fair Recruitment, S. 15B, available at www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---migrant/documents/publication/wcms_536755.pdf



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OUR COMMITMENT

Li & Fung is committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. Our Supplier Code of Conduct, Combatting Forced Labor Policy, Child Labor Policy, this Responsible Recruitment Policy, and the Certification Letter for Global Trade Regulations Compliance reflect our commitment to act ethically in our business relationships and to enforce controls and systems to eradicate any form of modern slavery in our supply chain including enforcing responsible recruitment practices.

LF is a signatory to the [American Apparel and Footwear Association \(AAFA\) Commitment to Responsible Recruitment](#), along with other leading brands, retailers, and suppliers to:

- Incorporate the Commitment to Responsible Recruitment into company social compliance standards, including the Supplier Codes of Conduct.
- Report on actions to embed Responsible Recruitment in policies and processes through sustainability reporting and legally-required modern slavery disclosure statements. This policy will be communicated to all employees, suppliers and supply chain partners in a language that they can understand.

SCOPE

This policy applies to all companies and undertakings of Li & Fung and is mandatory for all supply chain suppliers involved in the production of merchandise or any materials for Li & Fung and our customers.

The policy is intended to cover the recruitment of all types of workers, including migrant workers, whether directly by employers or through intermediaries. It applies to recruitment within or across national borders, as well as to recruitment through temporary work agencies and third-party employment agencies.

DEFINITIONS

Due diligence refers to an enterprise's ongoing process which aims to identify, prevent, mitigate, and account for how it addresses the adverse human rights impacts of its own activities or which may be directly linked to its operations and products. The process should include assessing actual and potential human rights and modern slavery impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed.

Employer refers to a person or an entity that engages workers, either directly or indirectly.

Labor recruiter refers to both public employment services and to private employment agencies and all other intermediaries or sub-agents that offer labour recruitment and placement/temporary services.

No worker shall pay for a job: Consistent with the ILO Definition on Recruitment Fees and Related Costs (see Box 1), employers should cover the fees and costs associated with recruitment, deployment, employment and return of migrant workers, irrespective of whether labor recruiters are involved or a government hiring program is used. Migrant workers are at no stage required to advance any recruitment fees and related costs that are otherwise to be paid by the employer.

Recruitment Fees and Related Costs: Recruitment fees and related costs as defined by ILO refer to any fees or costs incurred in the recruitment process in order for workers to secure employment or placement, regardless of the manner, timing or location of their imposition or collection.

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REQUIREMENTS FOR RESPONSIBLE RECRUITMENT

The requirements below are particularly relevant to migrant workers but, to the extent applicable, suppliers and employers should also follow them when engaging with non-migrant workers. This policy applies to suppliers and their labor recruiters in the Li & Fung supply chain.

No worker shall pay for a job

- Employers shall take steps to ensure that workers do not pay recruitment fees or related costs to get a job. This includes payments, which are made in either the home country or the destination country.⁵ Indirect fee charging (such as through deductions) is prohibited.
- Employers must ensure that where workers have paid recruitment fees, that fees are fully reimbursed in a timely manner.⁶

Policy

- Employers shall maintain a written no-fee-charging policy incorporating the principles and best practices contained in the Responsible Recruitment policy for Li & Fung's supply chain.
- Employers shall communicate the policy to any next-tier Suppliers, management personnel, workers and any labor recruiters (including labor agents, contractors etc.) used in the recruitment or management of workers in the relevant language.

Contracts

- Workers shall be provided with a written copy of the labor contract in a language they understand before leaving their country of origin. Labor contracts shall be signed by both workers and the employer (not by the local labor recruiter). Labor contracts shall specify all basic terms of employment including rights with regards to payment of wages, overtime, retention of identity documents, freedom of movement and other issues related to preventing forced labor and shall be in a language understood by the worker. If the worker is illiterate, the contract should be read clearly to them in their own language.
- Worker's informed consent to the terms of the contract should be obtained voluntarily without deception or coercion.
- Workers shall not be required to sign an incomplete labor contract. Terms of employment promised to the worker during recruitment and hire shall meet the actual terms of employment.
- Workers shall not be restricted from terminating employment (other than restrictions pertaining to legal notice periods) through debt bondage, physical or verbal abuse, threats of abuse, or other forms of coercion or deception.
- No additional contracts should be offered to the worker upon arriving in the destination country. The original contract should be the only one in use.

No holding of identity documents

- Employers shall ensure all workers have possession of their personal documents. Workers must be able to access their personal documents directly and immediately without restrictions.
- At employer-provided accommodation (such as dormitories), workers must be provided with an individual and secure place to store their personal documents and valuables.

⁵ See question 1 for definition of recruitment fees and related costs.

⁶ See question 7 for guidance on fee repayment.

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- Employers may only request and take possession of a worker's original identity documents when required by law for administrative or legal purposes, such as processing residency permits. Employers must return these documents immediately to workers when no longer required.
- Employers shall obtain written consent from workers when taking their personal documents and provide workers with a receipt.
- Employers shall ensure that business partners (labour recruiters, accommodation providers, next-tier suppliers and others) follow the same practices.

Freedom of movement

- Workers shall enjoy freedom of movement beyond their workplace and accommodation. Employers shall ensure that workers can enter and exit their accommodation freely at any time of the day or night. Their freedom should not be limited by curfews, security guards or the locking of doors, even when done for their perceived safety.
- In remote locations, provide workers with regular transportation and access to stores, markets and services that are not operated by the employer or any business partners.
- Ensure workers are free to return to their place of origin during periods of annual or personal leave, or if they choose to terminate their employment early.
- Employers shall establish and maintain a comprehensive information and orientation system to help migrant workers understand employment terms and conditions and their rights during life and work abroad, and to prevent fee-charging and other forms of exploitation, especially during recruitment. Orientation shall be offered in a language workers understand, before they leave their home country and upon arrival.

Due diligence

- Prior to selection, employers shall undertake a formal screening of labor recruiters to assess commitment and capacity to meet the requirements set forth in this policy. Employers shall also research recruitment-related laws in home and host countries to better understand and be able to comply with the legal framework.
- Employers shall use registered or licensed labor recruiters when recruiting workers. Employers shall have a written contract with all labor recruiters, incorporating the following requirements:
 - No workers shall pay for a job – Recruitment fees and related costs are transparent, itemized and timely paid by the employer.
 - The labor recruiter performs ongoing due diligence of any additional labor recruiters, sub-agents and other partners in the recruitment process.
 - The labor recruiter has an effective, operational-level grievance channel available and communicated to migrant workers in a language they understand.
 - The employer has the right to carry out regular audits of the contracted labor recruiter, including those through specialized third-party service providers. This includes unannounced audits when deemed necessary.
 - Agreements with labor recruiters shall include penalties in the case of non-compliances.

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- Employers shall conduct ongoing risk assessments and audits, including interviews with migrant workers in their own language to monitor and offer regular checks on labor recruiters' licenses and management systems to track compliance with the established contract.
- Employers should keep a copy of any current contracts with labor recruiters along with any other records of due diligence (e.g. audit or worker interview records).

Safe return

- Migrant workers shall be free to return to their home country, in accordance with applicable laws. Employers shall ensure the safe return of foreign migrant workers at the expiry of the worker's contract, or at an earlier date in accordance with applicable laws.
- Employers shall respect the right of workers to seek employment and change employers at the destination country, or onward migration in accordance with applicable laws and regulations and without restrictions that go beyond the law.
- Prior to workers returning to their place of origin, employers shall pay all outstanding wages, benefits and any other amount that is still owed to migrant workers according to their written contract.
- In coordination with the labour recruiter, facilitate the safe and orderly return travel of migrant workers to their communities in the country of origin, including any government-required exit or re-entry requirements, and at no cost to migrant workers.

Grievance & remedy

- In accordance with the UN Guiding Principles on Business and Human Rights, employers shall establish or participate in effective, operational-level grievance mechanisms that are inclusive to migrant workers taking into account social, cultural factors and language differences.
- Employers shall follow a non-retaliation policy that prohibits reprisals against migrant workers for information provided or grievances filed at all stages of the labor migration process. Complaints can be lodged confidentially and without fear of recrimination, reprisal or dismissal.
- Employers must commit to remediating violations of the LF Supplier Code of Conduct, including repayment of any recruitment fees and related costs to the worker in a timely manner.
- Employers shall confirm with the workers when the remedy has been fully provided and if there have been any positive or negative outcomes (for example better treatment or retaliatory treatment, adequate or inadequate health care or stigma). If negative outcomes are confirmed, employers shall take additional actions to address the remaining issues before the incident can be closed.

Anyone who observes violations of this Supplier Code may contact Li & Fung anonymously by e-mail to our Group Chief Compliance and Risk Management Officer (GroupCCO@lifung.com), or through Li & Fung designated third-party whistleblowing channel by scanning the QR code and enter access code: **lifung**



Please refer to the Li & Fung company website to access our guidelines on [Reporting of Concerns and Misconduct](#) in our Code of Conduct and Business Ethics for more details.

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ANNEX

FREQUENTLY ASKED QUESTIONS (FAQ) ON THE RESPONSIBLE RECRUITMENT POLICY

Q1. *According to international and national standards can workers be charged any recruitment fees or costs?*

- The International Labor Organization (ILO) adopted a Convention in 1997 (No. 181) that recognizes that workers shall not be charged (directly or indirectly) any fees or related costs for their recruitment. In March 2019 the ILO developed an international definition that clearly outlines the financial obligations of the employer during the recruitment process (see Box 1).
- Most national laws do not allow fee charging to workers, particularly for the manufacturing sector. Some countries within Asia do allow a predefined amount recruitment fees and costs to be paid by workers (usually in the form of a recruitment fee cap or itemized cost breakdown between employers and workers). A minority of countries have no laws regulating the payment of recruitment fees and related costs.⁷ Employers shall contact relevant embassies or undertake desk research to understand the legal framework in home and host countries.

Box 1: ILO Definition of Recruitment Fees and Related Costs (Paid by Employer)

Recruitment fees include:

- Payments for recruitment services offered by labor recruiters
- Payments made in the case of recruitment of workers with a view to employing them to perform work for a third party;
- Payments made in the case of direct recruitment by the employer; or payments required to recover recruitment fees from workers.

When initiated by an employer or labor recruiter and required to secure employment the following costs should be considered related to the recruitment process:

- Medical costs: payments for medical examinations, tests or vaccinations;
- Insurance costs: including enrollment in migrant welfare funds;
- Costs for skills and qualification tests: costs to verify workers' language proficiency and level of skills and qualifications.
- Costs for training and orientation: including on-site job orientation and pre-departure or post-arrival orientation of newly recruited workers;
- Equipment costs: costs for tools, uniforms, safety gear etc.
- Travel and lodging costs: expenses incurred for travel, lodging and subsistence within or across national borders in the recruitment process.

⁷ ILO Background paper for discussion at the Tripartite Meeting of Experts on Defining Recruitment Fees and Related Costs (Geneva, 14-16 November 2018)

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Q2. *What is the start date of the Responsible Recruitment Policy?*

The policy comes into effect for workers recruited after November 1, 2020. The supplier is required to repay all recruitment fees and related costs paid by its workers which exceeded the limits under or were otherwise not permitted by the applicable laws. Li & Fung will review and update this policy at regular intervals to ensure compliance with changing laws and regulations.

Q3. *Is the supplier responsible for reimbursing fees or related costs to workers recruited before November 1, 2020?*

LF recognizes that Responsible Recruitment has financial and administrative implications, which must be planned for; hence the policy will not be applied retroactively.

Q4. *Why are suppliers being held accountable for fees which may have been charged to workers in their home country?*

We understand that responsible recruitment is a complex issue and that monitoring the payment of recruitment fees and related costs in home countries can be challenging for suppliers as they may not have visibility over the whole process.

This being said, it is within the control of suppliers to carefully select their recruitment partners, to ensure contracts with recruitment partners reflect the principles of responsible recruitment, to implement due diligence measures to monitor the recruitment process and to ensure workers receive a timely refund of fees and costs paid to obtain or maintain their job.

Suppliers who independently identify worker payment of recruitment fees or recruitment related costs and put a plan in place to reimburse workers **will not** be cited a non-compliance⁸

Q5. *When would the payment of fees by workers be a non-compliance issue and how will the non-compliance issue be rated?*

Suppliers will be cited as non-compliant if LF (or its customers or representatives) discover through their own means of investigation (e.g. audits, customer reports etc.) that workers have paid any recruitment fees and related costs **in either their destination or home country.**

⁸ There must be evidence showing the supplier has at least partially repaid back fees to workers.

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Table 1: How ratings will be applied

| Audit Finding | Severity | Rating |
|--|--|---------------------------|
| Recruitment fees and/or related costs paid by workers | • Recruitment fees and/or related cost amount is more than 3 months of wages | F – Zero Tolerance |
| | • Recruitment fees and/or related cost amount is less than 3 months of wages | D |
| | • At Li & Fung’s discretion only – minor fee/cost payment (e.g. under USD 50) | C |
| Workers recruited/employed under coercion or deception | • Workers recruited under forced labor through threat/coercion/deception/bondage | F – Zero Tolerance |
| | • Workers will be penalized for leaving earlier at any reason | D |
| | • Workers were not provided with a copy of written employment and/or not explained clearly | C |

Q6. *What should suppliers do if they find out workers have paid recruitment fees or related costs?*

- Undertake an investigation to determine an itemized breakdown of the fees and costs that were paid by each worker. Determine to the extent possible, who collected the money on what date and in which location.
- Carefully document all evidence relating to the charging of recruitment fees and related costs, including worker testimony from as many workers as possible. Please see Q8 for more information.
- Secure an agreement between parties (labor user, labor provider, worker representatives, affected worker(s), etc.) on the level of fees to be reimbursed and responsibility for reimbursing the agreed fees within an agreed timeframe. For example, workers may agree to a structuring of repayments that makes it more manageable, such as spreading out the repayments over the remainder of the migrant worker’s employment contract
- Consider termination of the contract with the labor provider if there is evidence that the labor provider was complicit in the exploitation and is unwilling to improve its practices. In such instances, the supplier should identify a recruiter that commits to “no fee charging” to workers, such as those working with IOM’s IRIS Initiative <https://iris.iom.int/>.
- Supplier, labor provider and any sub-agents work together to improve due diligence processes to ensure future job advertisements clearly state that no fees are charged to workers and that this is explained to workers in their own language as part of the application process.
- When all reimbursement payment has been completed, supplier should document all the payment detail included but not limited to: reimbursed workers information, payment amount and its breakdown detail, payment transaction proof, workers pay slip with their acknowledgement, etc. The supplier should share this information to relevant stakeholders including Li & Fung as part of the due diligence.

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Q7. *What is the timeline for remediation of violations and fee repayment?*

Please refer to the timeline below:

Table 2: Remediation Timeline

| Rating | Finding | Submit Corrective Action Plan | Repayment Initiated | Repayment Completed |
|--------------------|-----------------------------------|-------------------------------|---|---|
| Zero-Tolerance (F) | recruitment fees or related costs | 7 calendar days | 30 calendar days from discovery or sooner | 90 calendar days from discovery or sooner |

Note: Timeframes for payment completion may change depending on customer expectations and amounts. Larger sums may need a longer timeframe for repayment but should never exceed 6 months for complete repayment. Customer requirements may necessitate a shorter timeframe.

Fee repayment may be a complex operation to implement and may require the assistance of a third-party depending on the size and amount of the re-payment and customer requirements.

Q8. *What evidence base is required for worker reimbursement?*

- Workers are often not provided with receipts for fees paid or may be given fraudulent documentation that vastly understates the amounts paid. Many workers are told not to say anything about the fees they paid. In some cases, they are also threatened into silence. For this reason, Li & Fung and the supplier may need to rely on other evidence of fees paid, including oral testimony from workers (from worker interviews) on the levels of fees and/or communications between workers. A track record of such checks should be kept and updated regularly, and worker interviews will be cross-checked against third-party evidence (ILO, IOM and other third-party reports on average recruitment fee payment).
- When many workers are affected and linked to the same labor provider, there may be a need to cross-check information on fees reported by the workers. When information on the amount of fees paid is unclear, the supplier should take the average amount mentioned by workers from the supplier as the amount to be repaid.

Q9. *How will LF support suppliers to implement this policy?*

- Capacity building: LF offers virtual training/workshop on responsible recruitment in key production countries.
- Due diligence: LF is working with external partners to help identify good labor recruiters in Vietnam, Bangladesh and other key sending countries. We can also share guidelines and best practices.
- Industry engagement: LF will continue working with the American Apparel and Footwear Association (AAFA), the International Labor Organization, the International Organization for Migration, and others to raise awareness on responsible recruitment.
- Resources: Please visit: <https://responsiblerecruitmenttoolkit.org/> Create a free account to access the Guide “Eliminating Worker-Paid Recruitment Fees and Related Costs: A Practical Step-by-Step Guide for Retailers, Brands, Employers and Labor Providers in Global Supply Chains



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Q10. *If workers do not perform well during the first 2-3 months' probation, violate supplier regulations and/or get sick, can the supplier charge back partial recruitment fees to workers?*

Suppliers cannot charge back recruitment fees to workers as this may place them at risk of debt bondage. Suppliers should have training or capacity building program to help workers to improve their skills and performance to desirable level.

Q11. *If workers want to resign and move to another company, can the supplier charge back partial recruitment fees or related costs from workers?*

Suppliers cannot charge back recruitment fees to workers as this may place them at risk of debt bondage. If workers want to break their contract early to work at another supplier, suppliers should consider asking the new company to take on the remaining portion of the workers' fees.

Q12. *If workers are directly hired by a supplier in the destination country but paid recruitment fees with a past employer, is the current supplier still responsible for re-paying the fees?*

No, suppliers will not be penalized for workers paying recruitment fees with previous employers.

If you have any questions related to this policy, please contact Li & Fung Vendor Compliance at CorpVCSFeedback@LiFung.com