



**FLA Member/Affiliate Update**

Please note that s.Oliver ended its membership as an FLA Participating Company in 2023.

**INDEPENDENT INVESTIGATION REGARDING  
BANKRUPTCY OF PT JABA GARMINDO AND  
RESPONSIBILITIES OF TWO FLA AFFILIATES SOURCING FROM  
THE COMPANY'S CIKUPA FACTORY**

**Investigator: Bhima Yudhistira Adhinegara**

**July 2021**

**Requested by:  
Fair Labor Association**

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## • Background of the Investigation

On October 17, 2019, the Fair Labor Association (FLA) received a joint formal Third Party Complaint (Complaint, or TPC)<sup>1</sup> from the Clean Clothes Campaign (CCC) and the Federasi Serikat Pekerja Metal Indonesia (FSPMI), an Indonesian Labor Union, concerning allegations of violations of responsible purchasing practices by two FLA-affiliated brands, Fast Retailing<sup>2</sup> and s.Oliver, that had sourced products from PT Jaba Garmino's factory located in Cikupa/Tangerang, Indonesia.

Jaba Garmino was a garment manufacturing group with two different production locations; this TPC investigation covered the factory located in Cikupa, Tangerang, Indonesia. Prior to its closure, that factory was employing around 1.600 permanent workers<sup>3</sup> and was an active supplier of many different international brands. The Investigator has come across the names of at least eighteen different brands during the course of this investigation.<sup>4</sup>

The FLA carefully evaluated the Complaint and accepted it as meeting the threshold criteria under the FLA's Third Party Complaint system.<sup>5</sup> As the Investigator subsequently learned, this decision was made even though: (1) Fast Retailing was not an FLA affiliate at the time of this factory closure, becoming one only in June 2015; (2) there were questions as to whether the alleged sourcing activities of the two brands fell within the scope of the FLA's standards as they existed in 2014-15; and (3) the passage of five years since the closure of the factory was certain to make the investigation process much more difficult.

In addition, the Investigator understands that the decision to initiate the investigation was made with recognition that the responsibility of buyers/brands for compensating workers in case of a factory closure/bankruptcy remains a subject of considerable debate and disagreement.

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<sup>1</sup> **What is a Third Party Complaint?** : The FLA's Third Party Complaint procedure was established as a means for any person, group or organization to report serious violations of workers' rights in facilities used by any company that has committed to FLA labor standards. It is one of several Safeguards tools the FLA has available to address such issues. <https://www.fairlabor.org/transparency/safeguards>

**The process:**

*When a complaint is lodged, the FLA first verifies whether the factory in question produces for any participating companies or university licensees, and whether the complaint contains specific and verifiable allegations of noncompliance with the FLA's Workplace Code of Conduct. The FLA also considers whether local dispute resolution mechanisms were used to resolve the issues and what results they achieved. If the complaint meets the above criteria, the FLA will accept it for review and contact participating companies sourcing from the factory in question. If warranted, the FLA may engage a third party to investigate the allegations. The investigation report, where appropriate, is expected to recommend corrective actions to the affiliated company, and the company is then required to develop a plan to address any noncompliance issues.*

<sup>2</sup> Fast Retailing is the parent company that owns Uniqlo and several other brands. <https://www.fastretailing.com/eng/group/>

<sup>3</sup> This figure is based on a Ministry of Labor document. The WRC's December 2015 report references around 1,500 workers in the Cikupa facility, while the Complaint submitted to the FLA cites the number of workers as 2,000.

<sup>4</sup> Although some of those brands/companies have publicly acknowledged that Jaba Garmino is their supplier, that was not the case for some others. Since the scope of this investigation is limited to the two FLA affiliates, the Investigator decided not to disclose the names of those brands/companies.

<sup>5</sup> It is important to note that acceptance of a TPC by the FLA does not mean that allegations/claims of the complainants are warranted/confirmed, but rather that the relevant TPC meets minimum criteria for an independent investigation.

The FLA organized several calls with the parties to the TPC investigation (the brands and CCC/FSPMI) after initiating but prior to bringing the investigator on board to understand their points of view and to help with gathering some preliminary information about the case. The FLA also made clear that TPC investigations are conducted by an impartial and independent investigator. In order to find an independent investigator, FLA staff visited Indonesia and at that time and subsequently via phone/Internet, interviewed a number of qualified candidates, and eventually selected Mr. Bhima Yudhistira Adhinegara (the Investigator) on April 24, 2020.

The Investigator worked on this investigation from shortly after that date until completing his work in May 2021; his conduct of interviews, requests for and review of relevant documents, and other activities continued throughout the Covid-19 pandemic, but the process and timetable obviously were affected significantly by the challenges that presented. The Investigator would like to underline that this investigation was a fact-finding process, meaning that he reviewed all allegations/claims in the Complaint in light of supporting documentation and credible evidence provided by parties and reached his conclusions accordingly. Some of the information received conflicted with other evidence presented, and the Investigator did his best to base his analysis and findings on the information he was able to verify as credible and complete.

Finally, the Investigator acknowledges and thanks both the complainants (CCC and FSPMI) and the two FLA-affiliated brands (s.Oliver and Fast Retailing) for their cooperation throughout the course of this long and at times delayed investigation. It would not have been possible for the Investigator to complete this work without their support and assistance.

- **General Overview of the Complaint**

After careful review of the Complaint filed with the FLA, the Investigator grouped the allegations/claims against the two FLA affiliates under four main headings:

- 1) Fast Retailing and s.Oliver were major buyers of Jaba Garmino with the biggest share of total production volume as of 2014, and their failure to follow responsible sourcing practices helped eventually lead to the Jaba Garmino bankruptcy.**
- 2) There were alleged violations of worker rights at the factory, including unlawful termination of pregnant workers, unpaid overtime, health and safety hazards, and retaliation against workers involved in union activities.**
- 3) Workers and the recognized union did not get timely information related to the company bankruptcy and brands' decisions on stopping their business relationship with Jaba Garmino.**

- 4) Since brands failed to uphold their responsible sourcing obligations which helped lead to the factory closure, they should provide compensation for workers for the amount owed by the employer.**

The Investigator further identified a total of eighteen factual claims/allegations under those four main headings – some tied to specific documents and others supported by anecdotal information and/or declarations of different stakeholders.

- **General Overview of the Textile/Garment Industry and Social Protection Provided for Workers in Indonesia**

The Investigator believes it is important to first provide some general background information on the textile/garment industry and social protection system in Indonesia as of the time of the Jaba Garmino factory closure.

It is estimated that 67,000 people were laid off in the textile and apparel industry in Indonesia alone in 2015.<sup>6</sup> Mass layoffs were followed by declining investment in the industry by 50% in 2014 compared to 2013.<sup>7</sup> There were 18 apparel and textile companies that closed permanently in the same year as Jaba Garmino (2015). Meanwhile, 78 companies in the Banten-Indonesia region (the same area as the Jaba Garmino factory) applied for a suspension of the payment of the minimum wage because of the financial difficulties that they were experiencing at that time.<sup>8</sup>

Based on data from the Ministry of Labor, only 7% of companies pay severance according to the Indonesian Labor Regulation (UU 13/2003), while 27% of companies pay severance on a voluntary basis without following the regulation (at lower amounts than described in relevant regulations).<sup>9</sup>

With regard to the quality of labor regulations, the Labor Rights Index 2020 places Indonesia at a level significantly lower than the Philippines, Thailand, and Myanmar (prior to the military coup). This means that Indonesia's labor regulations are categorized as Limited Access to Decent Work. Specifically, regulations on social security score even lower.<sup>10</sup>

The mandatory severance pay is based on the Indonesia Labor Regulation No.13 of 2003, especially Articles 156 and 165.<sup>11</sup> In the event of bankruptcy proceedings, the court will prioritize

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<sup>6</sup> Data from KSPSI (The Confederation of All Indonesian Workers' Union)

<sup>7</sup> Indonesian Investment Board (BKPM), 2014

<sup>8</sup> The Banten Governor Act No. 561.2/Kep.16-Huk/2014

<sup>9</sup> Data from Ministry of Labor, October 2020; <https://ekonomi.bisnis.com/read/20201015/12/1305342/menaker-hanya-7-persen-perusahaan-yang-bayar-pesangon-sesuai-uu-ketenagakerjaan>

<sup>10</sup> <https://labourrightsindex.org/data-visual>

<sup>11</sup> There have been some changes in the existing structure of severance pay with the recently introduced Omnibus Law, but those changes are not retrospectively applicable and therefore they are not relevant for this Jaba Garmino case.

unpaid workers' salaries. Then from the remaining sales of assets that are distributed to creditors, if there is an excess, part of that is given to the workers, including remaining severance.

According to Supreme Court Rule No. 67/PUU/XI/2013, "Payment of workers' wages owed takes precedence over all types of creditors including claims of separatist creditors, claims for state authorities, auction offices, and public bodies established by the Government, while payments for other workers / labor rights take precedence over all invoices including claims for state rights, auction offices, and public bodies established by the Government, except for claims from separatist creditors."

On the other hand, this Supreme Court Rule does not secure severance pay of the workers, as it only refers to unpaid wage and wage components. As a result, problems arise when the company's remaining assets are not sufficient for covering the severance pay of the workers after creditors takes their share during the insolvency process, which practically means severance pay often cannot even be paid under such circumstances.

Indonesia's social security system is mainly funded by contributions from employers and workers with a minimal amount of government contribution/funding. The country's social security system spending compared to its GDP is only about 2.1%, which is very limited. It is also worth mentioning that the access to the social security system is limited to those working communities which engage in formal employment.<sup>12</sup>

The existing social security system is providing four different social security benefits to workers covering the following areas:

- Work Accident Security Insurance
- Death Security Insurance
- Old Age Security Insurance
- Pension Security Insurance

Unemployment benefit/insurance coverage, which is a crucial part of social security systems aiming to provide adequate income support for workers during the unemployment period,<sup>13</sup> has been a missing component of Indonesia's social security system since its establishment.

Although the government has recently introduced an unemployment benefit/insurance system as part of its controversial Omnibus Law, this is quite new and does not provide any actual protection for workers in its current form, primarily because of a lack of funding and additional issues concerning its implementation.

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<sup>12</sup> BPJS Ketenagakerjaan History, [https://www.ilo.org/wcmsp5/groups/public/---ed\\_protect/---soc\\_sec/documents/publication/wcms\\_secSOC\\_6595.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/publication/wcms_secSOC_6595.pdf)

<sup>13</sup> [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms\\_723778.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_723778.pdf)

- **Brief History of Business Relationship and Communication between Jaba Garmino and FLA Affiliates**

It was important for the Investigator to understand the business relationship and communication between the two FLA affiliates and Jaba Garmino from beginning to end, especially in the months prior to closure of the factory. To that end, the Investigator requested information from both of the FLA affiliates, and both shared a brief history of their business relationship with Jaba Garmino along with several supporting documents.

The following is a short summary of the information received from FLA affiliates.

- **Jaba Garmino – s.Oliver Business Relationship:**

- s.Oliver started its business relationship with Jaba Garmino in 2010 and had continuous business with the factory over the years until its closure. In March 2014 s.Oliver was informed by its local agency about labor-related conflicts in the factory as well as the intervention of the Worker Rights Consortium (WRC).
- s.Oliver, together with several other brands/agencies sourcing from the factory, tried to help mediate the conflict in a constructive manner rather than withdrawing/cancelling any orders or terminating its business relationship with the factory.
- In January 2015, s.Oliver was informed by its local agency that local media reports were mentioning that Jaba Garmino was experiencing some financial difficulties in paying off its debts to its creditors.
- s.Oliver had not experienced any significant quality issues or shipment delays in the five- year span of its business relationship with Jaba Garmino and never implemented any chargebacks or claims based on those issues.
- s.Oliver's payments to Jaba Garmino were always on time and there was not any pending payment and/or unpaid amount at the time of the factory closure.
- Unlike some other brands sourcing from Jaba Garmino, despite the above problems s.Oliver continued its business relationship even after it became aware of the severe financial troubles that factory was experiencing.
- Purchasing orders placed by s.Oliver did not change significantly throughout 2014 and 2015. According to detailed shipment data provided by s.Oliver, the company's products were being produced at the Jaba Garmino Cikupa factory until the bankruptcy. s. Oliver also declared that their actual orders placed at Jaba Garmino for 2015 were higher than the shipment figures, but they had to shift some of their orders to some other suppliers after the factory closure.

- **Jaba Garmino – Fast Retailing Business Relationship:**

- Fast Retailing started its business relationship with Jaba Garmino in 2012 through an intermediary agent and continued working with Jaba Garmino actively until October 2014, when it decided to suspend its business relationship mainly because of quality issues. According to the company, labor unrest and confrontation with unions was only a secondary reason for that decision.
- Fast Retailing informed Jaba Garmino management about its decision on the reduction of its orders and suspending its business relationship because of persistent quality issues.
- Although Fast Retailing suspended its business relationship with Jaba Garmino as of October 2014, the company never delivered a termination letter to Jaba Garmino.
- Representatives of Jaba Garmino management visited Fast Retailing headquarters in Tokyo in January 2015 and delivered a detailed presentation about their new Majalengka factory and improvements in production and quality control systems.
- Fast Retailing's payments to Jaba Garmino were always on time and there was not any pending payment and/or unpaid amount at the time of the factory closure.
- Fast Retailing never implemented any chargebacks or claims based on quality issues encountered, and there was no case where already shipped Fast Retailing products were sent back for repairs; quality concerns were able to be resolved by the factory prior to shipment.
- Fast Retailing provided a detailed list to the investigator of the shipments from Jaba Garmino. According to the shipment figures, the business relationship with the factory continued until being suspended in October 2014.



- **Brief Timeline of Events (2013-2015)**

- October 31<sup>st</sup> 2013—Jaba Garmino lays off six member of labor union FSPMI
- January 30<sup>th</sup> 2014—Local government issues suspension of wages approval for 37 companies, including Jaba Garmino
- March 4<sup>th</sup> 2014—Local Ministry of Labor advises companies to hire contract employees to become permanent employees.
- March 28<sup>th</sup> 2014—seven pregnant workers are laid off by the company
- July 3<sup>rd</sup> 2014—Leader of labor union FSPMI is laid off
- July 14<sup>th</sup> 2014—Creditor bank issues first warning letter to Jaba Garmino related to the company’s inability to pay debt
- July 14<sup>th</sup> 2014—WRC launches initial assessment report of workers’ right violations focused on retaliatory transfer of union leaders and members
- July 23<sup>rd</sup> 2014—Jaba Garmino lays off another 230 workers
- October 28<sup>th</sup> 2014—Jaba Garmino HR manager transfers nine reinstated labor union officers to facilities outside of the factory
- January 28<sup>th</sup> 2015—Court announces bankruptcy process after the application of creditor banks
- April 8<sup>th</sup> 2015—Jaba Garmino officially announces to workers that the entire production process is stopped
- April 9<sup>th</sup> 2015—Company pays the remaining February salary (this was the last salary payment prior to insolvency)
- May 7<sup>th</sup> 2015—Ministry of Labor issue letter related to severance pay calculations for workers based on its regulation

- **Objectives and Methodology**

The Investigator undertook the task with the following objectives:

- Investigate all allegations of Complainants related to the two FLA affiliates, including on how their actions played an important role and contributed to the bankruptcy of Jaba Garmino and their responsibility for severance pay compensation as FLA member companies.
- Investigate the range of events and activities that led to the closure of the factory, including a review and analysis of the roles played by different parties starting from 2013, including but not limited to buyers, other business partners, unions, financial institutions/creditors, and government institutions.
- Review any information related to any pertinent legal process, including records from the bankruptcy proceedings in the aftermath of the closure of the factory.

As the goal was to gather detailed information regarding the alleged practices of two FLA affiliated brands concerning a factory that had closed five years earlier, it was clear to the Investigator from the start that access to reliable information would be one of the biggest challenges during this investigation.

The Investigator started this investigation with detailed desktop research where he had a chance to identify different stakeholders involved into this case and prepared a timeline and action plan for the investigation accordingly. He identified interviews with different stakeholders and review of documents provided by them as the main information sources, and thereafter held interviews with representatives of the parties and reviewed many documents of relevance he received from different stakeholders.

Unfortunately, the Investigator was not able to reach the representatives of some parties involved for interviews or documents:

- Ex-managerial staff of Jaba Garmino
- Representatives of creditors (commercial banks)
- Representatives of non-FLA member brands which sourced from Jaba Garmino
- Representatives of two other multi-stakeholder initiatives which had affiliated companies sourcing from the factory

A list of interviews conducted during the investigation process is as follows:

	Description of Parties Interviewed
1	Local CCC representative FSPMI (national, Tangerang and Jaba Garmino labor union)
2	Worker Interviews covering both FSPMI and Gabungan Serikat Buruh Indonesia (GSBI) members <sup>14</sup>
3	Representatives of FLA-affiliated brands (Fast Retailing and s.Oliver)
4	Local WRC representative
5	Curator involved in the Jaba Garmino insolvency process
6	Local Ministry of Labor at Tangerang
7	The Indonesia Employers Association
8	National trade union (SPN)

Additionally, the Investigator reviewed the following documents/records:

- Court bankruptcy document January 28, 2015 No. Putusan 4/Pdt.Sus/PKPU/2015/PN. Niaga Jkt Pst.
- Calculation of Severance pay, letter of Local Ministry of Labor, May 7, 2015
- Production and Export Plan Jaba Garmino, October 2014
- Handover by quantity and value of Jaba Garmino to s.Oliver for period 2014-2015
- Presentation material on Majalengka factory by Jaba Garmino to Fast Retailing, January 2015
- Payroll information and severance pay owed by Jaba Garmino workers from 2014-2015

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<sup>14</sup> Unions in Indonesia typically have two layers of representation: at the national and local levels. The Investigator reached out both at the factory level and national (HQ) level to representatives of both unions (FSPMI and GSBI) during the investigation process. GSBI (Gabungan Serikat Buruh Indonesia) was the first union established at Jaba Garmino prior to FSPMI in 2013, GSBI held a majority of workers with an active Collective Bargaining Agreement until labor unrest at Jaba Garmino followed on the company obtaining a minimum wage waiver from local authorities. After an FSPMI organizing campaign many GSBI members resigned from their union and joined FSPMI. GSBI still had 480 members by the time of the closure.

- Recommendation Result of Mediation by Local Ministry of Labor, March 23, 2015, related to termination of employment of FSPMI Leader
- Recommendation by Local Ministry of Labor, January 28, 2014, related to rehiring of six laid off workers
- Proof of Registration, FSPMI by Local Ministry of Labor, October 13, 2013
- Emails and notes regarding an unpublished WRC report related to findings on worker rights violations relating to retaliatory transfer of union leader and member, July 2014
- Letter of Normative Right of Women Workers, issued by Local Ministry of Labor, April 27, 2015
- Verdict from court in the case of termination of pregnant worker no.83/PHI-SUS/2014/PHI.SRG, May 4, 2015
- BMZ letter to s.Oliver related to mediation of Jaba Garmino, June 15, 2018
- Letter of Transfer of six workers to other facilities, issued by Jaba Garmino manager, October 28, 2013
- Mutual agreement between Jaba Garmino and FSPMI related to rehiring of 396 workers and payment of Eid Mubarak (THR) allowance, signed April 8, 2014
- Verdict from court in case of termination of six worker members of FSPMI no. 35/PHI.G/2014/PN.Srg, October 27, 2014
- Delay permit of wage payment by Jaba Garmino, issued by Governor of Banten (local government), No.561/Kep.13-Huk/2013, January 18, 2013
- Notification regarding the provision of a list of the third stage distribution of the proceeds from the sale of remaining Jaba Garmino assets, issued by Curator to labor union FSPMI (Mr. Nurhayat), no. 3049/kurator/jago/XI/2018, December 12, 2018
- End of bankruptcy process, letter issued by Curator to labor union FSPMI (Mr. Nurhayat), no. 3131/kurator/jago/II/2019, February 1, 2019
- Documents received from FLA affiliates s. Oliver and Fast Retailing, including:
  - Shipment records
  - Quality control records
  - Emails to/from Jaba Garmino management
  - Emails to/from external stakeholders (including CSOs and unions)
  - Minutes of different meetings between FLA affiliates and external stakeholders

- **Investigation Process**

### **Challenges faced during the investigation process**

Investigating a corporate bankruptcy case has its challenges, as it takes much longer compared to investigations where factories are still operational and there are many different ways for investigator to access reliable information. The difficulty mainly stems from the capacity to collect complete and original documents during the bankruptcy proceedings and prior to the company's bankruptcy. One of the additional challenges faced is the difficulty in accessing management and company owners because most of them have changed their contacts, domicile, and even their whereabouts which often cannot be traced.

Some stakeholders also did not wish to provide information, such as commercial banks and former managers of the company. The Investigator also attempted to conduct interviews with Gabungan Serikat Buruh Indonesia (GSBI) trade union officials at the national level, but they refused for several reasons, one of which was that the case had been closed by the court so they considered it to be resolved.

Another problem that the Investigator experienced was communication issues between national level and factory-level trade union representatives, which is a common issue in Indonesia where there can be a disconnect between those two levels and their approaches.

Last but not least, the global pandemic of Covid-19 also delayed the face-to-face meetings and interview process with several sources for safety reasons.

But in general, the Investigator was able to overcome most of the obstacles during the process and managed to collect necessary data from a range of different information sources.

- **Assessing the Allegations Presented in the Third Party Complaint**

**Allegation #1:** Evidence obtained from the factory confirms Fast Retailing and s.Oliver were major buyers from this factory.

**Assessment:**

According to different information sources that the Investigator reviewed, the estimated capacity of the Cikupa factory was around 660,000-792,000 pieces per month. The Investigator crosschecked different information sources while evaluating this allegation and found that the production capacity figures provided by both parties (Complainants and brands) were generally consistent and indicated the capacity of this factory as in the above range.

The Investigator therefore decided to use the average of those two figures (726,000 pieces/month), which yields an estimated annual capacity of the Cikupa facility of 8,712,000 pieces. Given that the total orders of the two brands in 2014 were 2,005,636 million pieces (s.Oliver: 1,159,000 (13%) and Fast Retailing: 846,636 (10%)), their combined order volume represented around 23% of the total annual production capacity of the factory.<sup>15</sup>

The Investigator does not agree with the complainants' claim that the two FLA brands were dominant buyers from this factory. Based on the production and export documents reviewed, there were many other brands that collectively substantially exceeded (by more than 3 to 1) the total orders of the two FLA brands in 2014 and continuing to the time of the factory closure the following Spring.

**Allegation #2:** Both brands (Fast Retailing and s.Oliver) confirmed that they were sourcing from the factory within the last 12 months prior to its closure in April 2015.

**Assessment:**

The Investigator has verified this claim by checking the shipment data of the two FLA affiliates: the last shipment for s.Oliver was in March 2015 while the last shipment for Fast Retailing was in October 2014.

Neither of the FLA affiliated brands has denied its business relationship with Jaba Garmino prior to the closure. According to information and documents provided by the

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<sup>15</sup> The order distribution and shipment figures varied over the years preceding the closure of the factory, The Investigator focused on the data from 2014 and 2015 since this timeframe was clearly relevant and complainants referred to activities occurring during this period in their Complaint.

FLA affiliates, s.Oliver continued its business relationship until the factory closure although aware of financial difficulties that factory was experiencing. Fast Retailing suspended its business relationship with the factory due to quality issues in October 2014 and was considering resuming when it held a meeting with factory management in January 2015 (the Investigator has reviewed relevant documentation from that meeting).

**Allegation #3:** Complainants estimate Fast Retailing and s.Oliver were the most significant buyers and collectively responsible for over 50% of the production volume by 2014.

**Assessment:**

As explained in the evaluation of Allegation #1 above, according to 2014 production and export figures, the total share of the two FLA affiliated brands was around 23%.

Therefore, the Investigator finds the over 50% figure to be inaccurate and perhaps based on incomplete data concerning the sum of all brands sourcing from the factory.

**Allegation #4:** Fast Retailing was a significant client of Jaba Garmino and many production/quality systems in the factory changed after the factory started its production for this brand. According to worker testimonies, those changes resulted in excessive overtime work in the factory.

**Assessment:**

In order to evaluate allegations of excessive overtime<sup>16</sup> the Investigator reviewed social compliance audit reports of the two FLA affiliated brands and also asked about this issue during meetings with former workers and union representatives.

In none of those meetings was this raised as a major issue. Based on the audit reports and interview results, the Investigator was not able to verify this allegation; the reports do not include any excessive overtime work-related issues at Jaba Garmino in 2013 and 2014. Below are the excerpts from FLA affiliated brands' audits:

**Brand: s.Oliver**

**Date of the Audit:** December 2013

Review of working hours: Low season was March 2013 where the maximum weekly working hours were 52 hours/week on average, while this figure was higher during the high season with a 59 hours/week average for September 2013.

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<sup>16</sup> As explained in correspondence with the complainants, the Investigator analyzed "excessive overtime" based on the fact that the Jaba Garmino factory was operating under a five days working week structure.

**Brand: Fast Retailing**

**Date of the Audit:** April 2014

One-year Period: From April 2013 to March 2014

Maximum working hours per day: 8 hours.

Maximum overtime working hours per day: 2 hours.

Maximum working days per week: 5 days.

Maximum overtime working hours per month: 16 hours (January 2014); 22 hours (February 2014); 14 hours (March 2014)

Total maximum working hours per week:

January 2014: 50 Hours

February 2014: 54 Hours

March 2014: 54 Hours.

**Allegation #5:** Court documents from the bankruptcy proceedings cite the buyers' purchasing practices (including unpaid invoices and delayed orders) as in part responsible for the collapse of the business.

**Assessment:**

The Investigator carefully reviewed the court documents from the bankruptcy proceedings and in particular sections related to the buyers' purchasing practices.

It should be noted that the documents related to the factors causing the company's bankruptcy were based on the statements of the owner/management of Jaba Garmino and not on verified facts as part of a court verdict. Those statements blame various external factors and players, excluding the Jaba Garmino management itself. Even so, there is not a single specific example given by Jaba Garmino management during those hearings and through the bankruptcy process about unpaid invoices, delayed orders, and related practices.

In order to gain a better understanding about those claims and the bankruptcy process, the Investigator arranged a meeting with the curator who handled the bankruptcy process and received some detailed information about the process and court hearings.

Based on the information received from the curator, and after careful examination of the case during the legal process the main reasons for the financial problems that led Jaba Garmino to bankruptcy were: financial mismanagement of the factory, including



irregular and irresponsible credit use which resulted in excessive debt (more than five times higher than Jaba Garmino's assets by the time of bankruptcy).

It was further observed that the owner of Jaba Garmino received several loans from different banks by using the same factory machinery/assets as collateral for those different loans. Jaba Garmino management registered the same factory machines with same serial numbers as collateral for more than one bank for different credits. (It was revealed by the curator during the insolvency process that some production machinery/assets of Jaba Garmino were collateralized by more than three different banks for different credits/loans.) Such irregularities eventually created a major financial problem as the amount of debt significantly exceeded the collateral asset value.

It is also worth mentioning that, according to the bankruptcy documents that the Investigator reviewed, Jaba Garmino's financial trouble started long before its bankruptcy; as noted in the timeline provided above, the first warning letter issued by one of the creditor banks dates back to July 14, 2014.

Based on the bankruptcy documents that the Investigator reviewed, the total outstanding debt as of December 22, 2014 was US\$48.18 million for Bank CIMB Niaga and US\$37.9 million for Bank UOB Indonesia. The total outstanding debt with twelve different creditors was US\$109 million, including one Japanese textile machinery company that sold some machinery to Jaba Garmino prior to its bankruptcy and was not able to receive any payment in return.

During the process of liquidation while selling assets to pay the creditors, the curator estimated the total market value of the assets as only US\$19 million, or around 17% of total outstanding debt. Therefore, it became obvious to the curator that the proceeds from the sale of assets would not be sufficient to cover the unpaid compensation and termination payouts of the Jaba Garmino workers.

In light of the above information, the Investigator is unable to accept the allegation that buyers' purchasing practices led to the bankruptcy:

1. All of the allegations of unfair purchasing practices (unpaid invoices, delayed orders, etc.) are based on declarations/statements of Jaba Garmino management during the bankruptcy proceedings.
2. No specific/tangible evidence was provided to the court, which did not endorse or verify any of those claims, just registering them as declarations.

3. The financial irregularities of Jaba Garmino management, as described above, further call into question the declarations made during the proceedings.

**Allegation #6:** The WRC audit in April 2014 revealed several major workers' rights violations, including unlawful termination of pregnant workers; unpaid overtime; health and safety hazards; and retaliation against workers involved in union activities.

**Assessment:**

The two FLA affiliates, and most likely other brands sourcing from Jaba Garmino, received this report in July 2014; as noted, it mainly focused on violations of freedom of association rights of the workers and cases related to the retaliatory transfer of union leaders and members. (The Investigator asked to see the report, but was informed that it had not been published.)

Both FLA affiliates engaged separately with Jaba Garmino management after this point (though note that Fast Retailing was not yet an FLA affiliate at that time). Several emails reviewed by the Investigator shows that s.Oliver, together with some other brands sourcing from Jaba Garmino at that time, tried to mediate the situation, including with respect to reinstatement of union members. Fast Retailing organized an audit to investigate those allegations in October 2014.

**Allegation #7:** The issues mentioned above in #6 concerning the WRC Report were also submitted to the government Manpower Office, which issued recommendations in favor of workers.

**Assessment:**

The Manpower Office, which played a mediating role, did in fact provide recommendations regarding complaints from the union.<sup>17</sup> One recommendation was to rehire employees who were laid off, both in the case of the FSPMI representative's dismissal and also with respect to some female workers who were laid off by the company while they were pregnant.

After the intervention of sourcing brands, eight out of the nine union members were reinstated and Jaba Garmino management committed to rehire terminated contract (temporary) workers whose contracts had expired.

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<sup>17</sup> Letter number from Local Ministry of Labor: 560/1817.1 disnakertrans to the leader of the FSPMI union concerning that the company needed to pay the wages from July 2014-February 2015. Letter number: 560/428/ disnakertrans recommendation for company to hire six workers who previously had been laid off.

**Allegation #8:** Both s.Oliver and Fast Retailing were contacted by the WRC and requested to ensure implementation of the FLA's Workplace Code of Conduct and Compliance Benchmarks at Jaba Garmino, in particular with respect to ending anti-union practices.

**Assessment:**

The understanding of the Investigator is that the WRC did not approach the FLA directly and inform it about this situation. There was, for example, no complaint process initiated with the FLA concerning the alleged violations.

Fast Retailing was not an FLA affiliate at the time the WRC was investigating these issues. s.Oliver was an affiliate of the FLA at that time and decided to work together with other brands sourcing from the factory in an effort to mediate the situation.

**Allegation #9:** In November 2014, Fast Retailing withdrew orders from Jaba Garmino citing quality issues. But the real reason behind this move were the labor rights violations revealed during the WRC investigation. Bankruptcy documents<sup>18</sup> cite withdrawal of orders in the wake of that investigation as the primary reason for the bankruptcy.

**Assessment:**

As explained in the Assessment of Allegation #5 above, the "bankruptcy documents" referred to are in fact the declarations of the Jaba Garmino management during the bankruptcy process, not a court verdict or adjudication of factual claims.

The Investigator believes that the Complaint presented Jaba Garmino management's arguments as proven in the proceeding, when in fact they were intended to serve the strategic interests of the company's owner in the wake of Jaba Garmino's financial mismanagement and irregular credit use.

The Investigator has carefully checked these claims from different information sources, including the curator involved in the bankruptcy process, who dismissed those claims as not considered to be compelling evidence during that process.

Here is the statement in the bankruptcy report related to the main reasons for the bankruptcy as declared by Jaba Garmino management:

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<sup>18</sup>Putusan 4/Pdt.Sus/PKPU/2015/PN. Niaga Jkt Pst.

1. A demonstration by the garment and sweater factory workers belonging to Jaba Garmino who demanded an increase in the regional minimum wage (UMR) every year. The actions of the WRC have influenced buyers abroad, so that many of the buyers canceled their orders. This disrupts the smooth running of the production process and complicates the company's cash flow.
2. There is export product returned/rejected, even though before delivery it has been re-checked by the buyer/brand.
3. There is a delay in the delivery of goods so that more expensive air freight had to be used.
4. There is a delay in delivery at the request of the buyer so that the payment is delayed.
5. Value added tax refund which takes a very long time to return, which is one year later.
6. PLN's electricity tariff increase (which was around 40% in 2014).

It is quite obvious that the above points reflect the factory owner's point of view, shifting the blame away from financial mismanagement and irregular credit use. Moreover, Jaba Garmino management was not even able to provide tangible information/data on many of the points that they declared:

- What was the effect of the issues mentioned in #1 on Jaba Garmino's business volume?
- Which brand(s)/buyer(s)' orders are those mentioned in #2 and what was the number and value of the products being returned and re-processed by those brand(s)/buyer(s)?
- Which brand(s)/buyer(s)' orders are those mentioned in #3 and what was the amount and value of those products because of the air freight transportation provided?
- Which brand(s)/buyer(s)' orders are those mentioned in #4 and what was the amount and value of those products subjected to late payment by this brand(s)/buyer(s)?

In the absence of factual evidence and proof provided to the court, the curator who followed the court proceedings stated that the main problem was not issues related to workers' demands and reactions to those, but rather the company's inability to pay its unreasonably inflated debt to its creditors.

**Allegation #10:** In April 2015, Jaba Garmino unexpectedly closed down and entered into bankruptcy. It came as a surprise to the workers as they were not given any warning and learned of this closure through media reports.

**Assessment:**

The Investigator learned through interviews and documentation review that workers were aware of the bankruptcy process and it was not a surprising outcome for them since they had experienced payment delays several times prior to then. In fact, bankruptcy information was obtained by the union faster than the information was received by the Tangerang Manpower Office.

Even until the end of the bankruptcy process, representatives of the workers were in close touch with the curators who oversaw the process and had responsibility for transferring assets to different parties according to court verdicts.

**Allegation #11:** As the Jaba Garmino workers have not yet received all legally required coverage due, we believe that Fast Retailing and s.Oliver are responsible to ensure that the workers receive the payment they are owed.

**Assessment:**

This Allegation goes to the heart of the claims against the two buyers/brands.

However, it is the Investigator's understanding that there is not either a national or international regulation, or other widely recognized standard, today or back in 2015 to hold companies sourcing from Indonesia responsible for unpaid wages or for termination payouts such as severance pay. None of the existing human rights due diligence laws include such requirements for the companies, nor is there clear guidance in the UN's Guiding Principles on Business and Human Rights.

It is true, as is mentioned in the Complaint, that some international brands have provided full or otherwise significant financial coverage for the workers of their bankrupted suppliers in similar cases. But those actions were not undertaken as a result of legal requirements.

In this particular case, the Investigator has not found that the FLA affiliates sourcing from the factory contributed to the bankruptcy of Jaba Garmino. Furthermore, as noted above, it was revealed that the business volume of the FLA affiliates was actually much less than what the Complaint cited. In the absence of a role in causing the bankruptcy,

the Investigator concludes that the brands could have contributed to a fund for the affected workers, but were not under any legal obligation to do so. (This is further discussed in the Recommendations section below.)

**Allegation #12:** Court documents from the bankruptcy proceedings state that cutting orders following complaints of labor violations at the factory were a significant factor in the bankruptcy.

**Assessment:**

As explained in detail in the Assessment of Allegations #5 and #9 above, the “court documents” here are in fact the declarations of Jaba Garmino management during the bankruptcy hearings, not verified facts or a verdict of the court. Furthermore, as explained in the Assessment of Allegations #1 and #2 above, FLA affiliate s.Oliver did not cut its orders; on the contrary, it increased its orders prior to the closure.

Fast Retailing, which was not an FLA affiliate at that time, started to reduce its orders in April 2014 and then suspended its business relationship with Jaba Garmino as of October 2014, citing persistent quality issues. As noted above, according to information provided by Fast Retailing, the company never terminated its business relationship with Jaba Garmino by following what would be the standard procedure and issuing a termination letter; Fast Retailing was looking into resuming its relationship if management could demonstrate improvement in product quality, and Jaba Garmino officials visited Fast Retailing headquarters in Tokyo in January 2015 to discuss the possibility of resuming the relationship.

**Allegation #13:** The real motivation behind Fast Retailing’s decision to end its business relationship with Jaba Garmino was the WRC investigation and its results, not the quality issues. The timeline clearly shows the correlation between these events.

**Assessment:**

As explained above, Fast Retailing declared that the main reason why the company ceased its business relationship with Jaba Garmino was persistent quality issues that Jaba Garmino management failed to address. As also noted, just four months before the bankruptcy, a Jaba Garmino team visited Fast Retailing’s headquarters where they discussed the possibility of resuming the business relationship.

The Investigator reviewed several quality control reports provided by Fast Retailing and those reports do appear to verify Fast Retailing’s claims.

In addition, according to shipment figures provided, Fast Retailing significantly reduced its orders due to quality issues back in May 2014 and became a smaller customer prior to stopping its sourcing in October 2014.

**Allegation #14:** Other practices of the brands were cited in bankruptcy procedures as contributing factors to the bankruptcy, such as: return of already exported products (which had been quality checked prior to export) and delivery and shipping delays that increased production cost and delayed payments.

**Assessment:**

As explained under the Assessment of Allegation #9, Jaba Garmino management declared a number of things during the bankruptcy hearings but failed to provide specific evidence or data to support those claims.

s.Oliver and Fast Retailing representatives asserted that they did not implement any of the above measures, including chargebacks or returning already exported products.

Without any further evidence, the Investigator is not in a position to accept those allegations, in part because there is no information to determine that the claims are related to the two FLA affiliates rather than one of the numerous other brands also sourcing from Jaba Garmino prior to its bankruptcy.

**Allegation #15:** Both s.Oliver and Fast Retailing were significant buyers and should have been aware that their decision to withdraw from the factory would carry significant risk and could lead to bankruptcy.

**Assessment:**

As explained in detail under the Assessment of Allegation #1 and Allegation #2 and in the above description of the Business Relationships, the combined share of the two companies in 2014 was around 23% of total factory capacity. In addition, as noted s.Oliver actually had increased its orders within the first four months of 2015 compared to 2014. Fast Retailing had significantly reduced its orders as of May 2014 but never formally terminated its business relationship with Jaba Garmino, as described above.

**Allegation #16:** The recognized union in the factory, which the brands were aware of, never was informed about their ending their business relationships with the factory just months prior to bankruptcy of the Jaba Garmino.

**Assessment:**

As explained in detail above, s.Oliver was actively sourcing from Jaba Garmino until its closure, while Fast Retailing stopped sourcing in October 2014 but did not formally terminate its business relationship with the factory. Therefore, at no point would either brand have had reason to notify the union about terminating its relationship.

**Allegation #17:** At a meeting between the FSPMI union and Fast Retailing at the Better Work office in Jakarta on 4 July 2017, Fast Retailing acknowledged its limited capacity to conduct regular social compliance audits. Although having a follow up meeting was discussed and agreed to between parties during this meeting, Fast Retailing refused to reengage afterwards. Only after the CCC campaign and protests did Fast Retailing agree to resume meetings and accepted having second meeting in November 2018. However, Fast Retailing came with strict time constraints for that meeting and then refused to agree to participate in any subsequent meetings with the union.

**Assessment:**

After evaluating the responses of both Fast Retailing and the Complainants, the Investigator has concluded that the main reason behind the disagreement between Fast Retailing and the union were the different expectations of the parties. It was clear that the union's main agenda item and demand was compensation of severance pay of the workers, which Fast Retailing was not willing to accept.

The Investigator notes that although Fast Retailing offered assistance to find employment for former Jaba Garmino workers in other Fast Retailing suppliers in the region, the company failed to come up with a realistic plan on how exactly it was planning to accomplish such a task. Although Fast Retailing shared some documentation showing that it communicated with its suppliers on finding employment for former Jaba Garmino workers, that effort was limited to some emails and ended without any success.

**Allegation #18:** In 2018, the German Federal Ministry for Economic Cooperation (BMZ) hosted a mediation meeting between CCC Germany and s.Oliver and one other German brand to discuss the compensation owed to the Jaba Garmino workers. Both brands stated that, in contrast to some others, they did not cut and run, and in one case placed orders until the closure of the factory. However, documentation from the factory showed that s.Oliver had reduced its orders significantly prior to the closure of the factory (November and December 2014) as mentioned in the bankruptcy documents, which cite the actions of multiple buyers as contributing factor to the bankruptcy.



**Assessment:**

As set out above, s.Oliver increased its orders from 23,800 pieces between January and March 2014 to 45,000 between January and March 2015, and had not indicated any plans to stop its production at Jaba Garmino.

The Investigator also had the chance to review documentation related to the BMZ-hosted meetings. s.Oliver declared that it had fulfilled its contractual responsibilities as a business partner of Jaba Garmino and therefore did not accept having any liability for unpaid severance payments of the workers. And BMZ's response letter stated that they could not find any evidence to justify allegations against s.Oliver and that there was no legal liability for s.Oliver to cover unpaid severance pay of the workers.

s.Oliver, similar to Fast Retailing, reached out to its suppliers in Indonesia to seek to find employment for former Jaba Garmino workers. Unfortunately, the effort was fruitless and none of the ex-Jaba Garmino workers were placed in other s.Oliver suppliers in the Indonesia.

s.Oliver also shared documentation to show efforts to reach out to the curator in charge of the Jaba Garmino bankruptcy process and encourage him to prioritize unpaid wages and severance pay during the insolvency process.

## • **Conclusions**

The closure of the Jaba Garmino factory has had a significant impact on workers and their families. Workers who lost their jobs have become more vulnerable to poverty and deprivation. Most of them worked for more than 10 or even 15 years at Jaba Garmino, which makes it very difficult to find new jobs in this region – particularly because of the industry’s shift to other parts of the country which have lower minimum wage levels.

The issue, then, comes down to who bears responsibility for the failure to provide adequate remedies for these workers. From the evidence gathered and interviews with key stakeholders involved during and after the bankruptcy process, the Investigator concludes:

- Allegations of improper purchasing practices, including brands withdrawing or cancelling their orders because of the labor disputes, industrial actions, and WRC investigation, are found to be without sufficient proof and merit.
- Contrary to what is alleged in the Complaint, s.Oliver kept placing orders even during the bankruptcy process until the factory closure.
- Fast Retailing started to reduce its orders as of May 2014 and eventually stopped its orders later that year mainly because of the ongoing quality issues. As noted, Fast Retailing held a meeting with the management of Jaba Garmino in January 2015<sup>19</sup> to discuss the possibility of resuming its business relationship and how to improve production/quality systems at the new Majalengka factory.
- The main problem that put Jaba Garmino in financial trouble, which eventually resulted in its bankruptcy, came from a \$USD 109 Million irregular credit use by Jaba Garmino management. It is not realistic to assume or expect brands working with Jaba Garmino to receive information related to Jaba Garmino's irregular financial practices.
- There were not any unpaid invoices for Fast Retailing or s.Oliver by the time of the bankruptcy; it was observed that both of these brands paid their invoices on a timely and full manner. There was no evidence found by the Investigator to show that these brands deliberately delayed their invoice payments due to quality issues and/or made deductions from any payment because of that reason. Jaba Garmino management made some vague claims during the bankruptcy hearings but never mentioned any specific brands nor provided any evidence to support those claims.

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<sup>19</sup> Fast Retailing provided details of this meeting to the Investigator, along with a copy of the presentation that was delivered by Jaba Garmino management.

- Brands did not become aware of the bankruptcy lawsuit filed by the creditor commercial banks until the same time or later than when workers became aware of this bankruptcy. Expecting brands to realize the situation and notify workers or union officials about the bankruptcy was not realistic.
- While there was communication and several meetings between the two brands and representatives of the workers after the bankruptcy process ended, differences in views and expectations about legal responsibility prevented any resolution between them.
- s. Oliver also produced information that in 2016-17 it tried to reach out to the curator in charge of the Jaba Garindo insolvency process to prioritize workers' salaries and severance in the distribution of corporate assets.
- Meanwhile, efforts by the brands to help ex-workers find them new employment at other suppliers in the region were not successful.

In addition to all those points, the Investigator has reviewed a report of a similar complaint filed against a Fair Wear Foundation (FWF) member brand, Jack Wolfskin, which was also sourcing from Jaba Garindo;<sup>20</sup> following this complaint, FWF conducted an investigation.

Although the full report is not publicly available, the conclusion of the FWF investigation states:

*“FWF cannot find reason to believe that its sourcing practices may have caused or contributed to the bankruptcy. Furthermore, Jack Wolfskin tried to mitigate the harm of the bankruptcy to the workers (as it did with the harm of an earlier complaint). Jack Wolfskin meets FWF's requirements: Even though FWF did not require, and there is no legal obligation for Jack Wolfskin to pay outstanding wages and other outstanding payments to workers, FWF does recommend Jack Wolfskin, on a voluntary basis and as gesture of solidarity with the workers, to contribute to (setting up) a solidarity fund for/consider solidarity payments to the former workers working at its supplier, the factory in Cikupa, Tangerang.”*

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<sup>20</sup> <https://fairwear.force.com/public/s/complaints#!complaint-189-jack-wolfskin>

## • **Recommendations and Possible Actions**

This was a difficult and challenging investigation, especially coming so long after the events at issue took place. At the same time, there is an opportunity to learn from what occurred and try to address the failures.

To that end, the Investigator would like to share a number of recommendations and possible actions for the different parties involved in this case. Some of these focus on relief to former Jaba Garmino workers, even several years after the bankruptcy and closure, and others look at ways to prevent similar issues from arising in the future.

### **1. To the brands:**

- It is recommended that brands conduct a risk assessment for sourcing countries (in this case, Indonesia) to identify the level of legal protection provided for workers in cases of business closure/bankruptcy – which would help them to put in place extra safety measures for high-risk countries.
- To help prevent the recurrence of such a case, the Investigator recommends brands carry out more regular financial audits of their suppliers. Such regular audits can help brands to understand potential financial troubles, including with respect to cash flow issues, debt problems, etc. and enable them to help/collaborate with their suppliers before it is too late.
- Although this investigation revealed that the bankruptcy and closure of Jaba Garmino was not due to any wrongdoings of the two sourcing brands targeted in the Complaint, the Investigator recommends that these two brands – as well as any of the eighteen others that also sourced from Jaba Garmino – come together under the leadership of an impartial organization and create an account for providing financial relief to the ex-Jaba Garmino workers. Such an effort would be a huge benefit, even several years later, for the workers and their families and would at the same time demonstrate the brands' willingness to assist – even in the absence of any legal obligation to do so. The Investigator is not in a position to determine whether such contributions should cover the full amount of severance owed to the workers by their former employer.<sup>21</sup>

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<sup>21</sup> The Investigator found that the total number of permanent workers in the factory at the time of the closure was 1,600, while the number of contract workers (workers who do not meet severance pay criteria under the existing regulation) was 3,471. A total of 1,376 out of the 1,600 permanent workers were union members (FSPMI:896 / GSB:480) while the remaining 224 workers were mostly white collar/managerial/administrative workers also legally entitled to severance pay.

## 2. To the Government:

- The Investigator notes that severance is a one-time payment that can only provide temporary financial relief to the workers; it is generally a part of job protection regulations and can prove very problematic because of several factors:
  - Payment responsibility is solely on the employer and therefore may be at risk where the company is in dire financial circumstances by the time of the termination.
  - Eligibility criteria for severance pay differs from country to country and not all of the workforce is provided with this benefit (varying by type of employment contract, job tenures, etc.).
  - Payment of severance pay is often subject to regulations with complicated calculation criteria that can result in prolonged legal battles between employers and workers.
- The Indonesian government should improve job loss guarantees for laid-off workers so that their purchasing power and livelihoods can be maintained in a more sustainable manner in a situation where companies close due to bankruptcy or other factors. Such a social protective measure is extremely important for protecting workers from situations like the Jaba Garmino closure.<sup>22</sup>
- Several different information sources show that payment of severance pay to workers in Indonesia is very problematic, as noted above, only 7% of the workers eligible have received it in accordance with relevant regulation. That is unacceptable and shows how wrong to leave such an important form of compensation acting as a lifeline for unemployed workers to the employers' discretion alone. To address this, the Government should organize tripartite meetings with representatives of workers/unions and employers/employer associations to address this issue and discuss proposals such as forming a severance pay fund which could be financed through monthly contributions of employers and/or government and managed by an independent body formed of representatives of workers/unions and employers/employer associations.
- As a stop gap measure, the Government should take steps to prioritize the severance pay of the workers during the bankruptcy/insolvency process. Current practice does not consider severance pay as a priority payment, only prioritizing unpaid wages during the bankruptcy and insolvency process.

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<sup>22</sup> Indonesia's recently introduced unemployment benefit coverage would be very limited without the Government's additional financial support. In its current form, there is no financial contribution from the Government at all.

The complexity and conflicting nature of existing labor laws and their implementation has always been a problem for Indonesia. The Jaba Garmino case is a reflection of the lack of a tripartite approach and social dialogue concerning decision making on important labor matters.

It is the primary role and responsibility of government to ensure decent working conditions, with responsibility also on the employer. Sourcing companies should support efforts to advance stronger national laws and enforcement mechanisms to address labor rights issues. All parties should work together to improve the government's capacities for due diligence activities, such as regular monitoring, timely intervention with respect to grievances filed by workers, better enforcement of legal requirements, and improved mediation efforts for labor disputes.

### **3. To the Banks:**

- Jaba Garmino showed how shortcomings in the country's financial regulations could result in a company receiving a huge level of credit from different banks without proper due diligence (the total credit given to Jaba Garmino was more than five times its assets).

Therefore, banks need to pay careful attention to the financial condition of a company and carry out a thorough due diligence process before giving loans to the company.

### **4. To the FLA:**

- It was observed that both the FLA's Workplace Code of Conduct and Benchmarks<sup>23</sup> and Principles of Fair Labor and Responsible Sourcing<sup>24</sup> documents do not provide guidance on how FLA affiliates should respond during factory closures/bankruptcies. The FLA's existing guidance document in this area, separate from the Code and Principles, dates back to 2006. At the same time, the Investigator was pleased to learn that over the past several months the FLA has been in the process of developing a much more detailed update to its guidance on responsible exit and closure policies and practices – reflecting best practices and insights over the last fifteen years.

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<sup>23</sup> [https://www.fairlabor.org/sites/default/files/fla\\_workplace\\_compliance\\_benchmarks\\_rev\\_10.2020.pdf](https://www.fairlabor.org/sites/default/files/fla_workplace_compliance_benchmarks_rev_10.2020.pdf)

<sup>24</sup> [https://www.fairlabor.org/sites/default/files/responsible\\_production\\_principles.pdf](https://www.fairlabor.org/sites/default/files/responsible_production_principles.pdf)

- Although the FLA has a strong safeguards/complaint mechanism available to workers, unions, and other relevant stakeholders,<sup>25</sup> this system is not visible enough for the workers and unions in Indonesia. It is recommended that the FLA promote this mechanism through trainings, local language support, and related programs.
- Similar to the recommendation to the brands above, the FLA can help its affiliates through detailed country-specific risk assessment studies to better understand the level of legal protection provided for workers in cases of business closures/bankruptcies. The FLA can also help identify different means for covering the unpaid termination payouts/severance of workers in high-risk sourcing destinations.
- The FLA also should continue its efforts to strongly encourage its affiliates to support and participate in efforts to fund accounts to assist workers in cases where their employer and/or the government has failed to cover the benefits legally due to those workers.
- Finally, the FLA should closely monitor implementation of all of recommendations made above, in particular those directed at the brands and the government.

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<sup>25</sup> <https://www.fairlabor.org/transparency/safeguards>