

Financing Remediation Protocol

*Approved by the International Accord Steering Committee
in November 2023*

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I.

**RELEVANT PROVISIONS OF THE PAKISTAN ACCORD FOR
 HEALTH AND SAFETY IN THE TEXTILE AND GARMENT INDUSTRY
 (“PAKISTAN ACCORD”)**

SECTION X. SUPPLIER INCENTIVES

Article 25: In order to induce factories to comply with upgrade and remediation requirements of the CSO, signatory companies shall negotiate commercial terms with their suppliers which ensure that it is financially feasible for the factories to maintain safe workplaces and comply with upgrade and remediation requirements instituted by the CSO. Each signatory company may, at its option, use alternative means to ensure factories have the financial capacity to comply with remediation requirements, including but not limited to joint investments, providing loans, accessing donor or government support, through offering business incentives or through paying for renovations directly.

Article 26: The Secretariat shall be informed and monitor compliance in the event that a signatory’s supplier indicates that completion of the remediation is not financially feasible. The Secretariat shall refer any cases of unmet finance requests to the SC in accordance with a Financing Remediation Protocol (“FRP”) to be adopted by the SC, which will take into account the principle of proportionality as reflected in the United Nations Guiding Principles on Business and Human Rights (“UNGPs”).

Article 27: Signatory companies to this agreement are committed to maintaining a long-term sourcing relationship with Pakistan, as is demonstrated by their commitment to the Pakistan Accord and the terms of this agreement.

SECTION VI. REMEDIATION

Article 16: In cases of relocation under Article 15, Article 25 provisions relating to remediation financing will apply. In cases where a factory is closed under Article 14, workers will receive full severance benefits.

II.

OBJECTIVES

This Financing Remediation Protocol was developed in application of Articles 25 and 26 of the Pakistan Accord, whereby the retailers, brands and buying intermediaries of the Pakistan Accord commit to negotiate commercial terms as key incentives to induce Factories to comply with upgrade and remediation requirements of the CSO.

The key objectives of this Protocol are to ensure:

- Each Factory and all brands have a clear understanding of brands’ financing remediation commitments under Section X of the Pakistan Accord.
- Each Factory and all brands understand the estimated remediation costs based on the corrective actions identified by the CSO.
- Brands inquire into a Factory’s capacity to pay for outstanding remediation costs within the defined schedule established by the CSO.
- Each Factory and all responsible brands agree on a Finance Plan for the CAP.
- The Accord Secretariat has a record of the key components of the finance plan for every Factory.

III.

SCOPE

This Protocol applies to all Factories* under the Pakistan Accord in which signatory companies are active or inactive responsible. A signatory company shall remain inactive responsible for a period of 18 months (See the Pakistan Accord Factory Disclosure Protocol), after which the signatory company may be released of its responsibility, provided it commits to not source from such Factory for an additional 24 months, as specified in Article 28(b) of the Pakistan Accord and Factory Disclosure Protocol.

* As provided in Art. 1 of the Pakistan Accord and the Factory Disclosure Protocol.

IV.

ESTABLISHMENT OF A REMEDIATION FINANCE PLAN

Once an agreed, mandatory, time-bound CAP has been established as specified in the Inspections & Remediation Protocol, the establishment of a Remediation Finance Plan will be required for final CAP approval by the CSO.* This will include discussions of the remediation plans and necessary corrective actions, a determination of the costs that will be required to execute the CAP within the defined timelines established by the CSO and how the necessary resources will be secured.

A Finance Plan will be established as follows:

1. The Accord Secretariat will coordinate a meeting with covered Factories and responsible companies to explain the purpose and process of establishing a Finance Plan.
2. Factories will be asked to obtain at least two quotations from service and equipment providers with detailed breakdown of the remediation costs for each of the fire-, structural-, electrical- and boiler CAPs.
3. The Factory and responsible brands will agree on a workplan that outlines the stages of remediation and the approximate costs of remediation at each stage.
4. The factory and responsible brands will report the means of financing remediation (e.g., self-financing, third-party financing, and/or signatory brand support, etc.) to the Accord Secretariat. If brand support is being provided, the brand and factory will report the commercial terms agreed to ensure financial feasibility of remediation (e.g., advance payment terms, soft loans, guaranteed or increased order volumes, accelerated terms of payment, and/or increased pricing, etc.) to the Accord Secretariat.

A standard operating procedure shall be developed outlining the process to gather information on the finance plan status from all Factories and ultimately to obtain confirmation of the Finance Plan from the Factory and Accord responsible brands. To support the establishment of a Finance Plan, easy-to-use tools to calculate remediation planning and costs based on market prices, and how these could be covered through commercial terms shall be shared with the Factories and signatory brands.

In case a Finance Plan is not agreed or in case a previously agreed Finance Plan is no longer adequate to ensure remediation is financially feasible, the Factory can raise a request for remediation finance support under Articles 25 and 26 of the Pakistan Accord.

* See Inspections & Remediation Protocol.

V.

REMEDATION FINANCE REQUEST

Article 25 of the Pakistan Accord provides that signatory companies shall negotiate commercial terms with their suppliers which ensure it is financially feasible for the factories to maintain safe workplaces and comply with upgrade and remediation requirements instituted by the CSO. If remediation is not financially feasible, the Factory and/or responsible brand(s) may raise a Remediation Finance Request (or Finance Request).

A Finance Request may be raised at any time during the remediation process, regardless of whether a Finance Plan was previously agreed. In such cases, the Factory and/or responsible brands may indicate to the Accord Secretariat, either verbally or via email, that the Factory does not have the financial resources to remediate within the timelines set out in the CAP. The Factory Remediation Coordinator (FRC) will inform the Factory of this Protocol and procedure and documents required to proceed with a finance request. The Factory shall then confirm whether it wishes to proceed with raising the finance request.

The Accord Secretariat shall strive to arrange a Finance Request Meeting within 2 weeks of the Factory having confirmed the FFR. The Factory and all responsible Accord brands shall participate in this meeting, i.e., active and inactive responsible brands.

Throughout the Finance Request process, the Secretariat will be responsible for facilitating discussions between the factory owner/management and the responsible brand(s) and supporting in the establishment of a Finance Plan that ensures remediation is made financially feasible. The Finance Plan shall include a workplan with remediation timelines agreed by the CSO.

A standard operating procedure will be developed outlining the Finance Request process following the key principles outlined below.

1. Cooperation from the Factory

The Factory shall cooperate with the Accord Secretariat and responsible brand(s) throughout the Finance Request process, including participation in the Finance Request meeting and delivery of documentation in a timely manner. The factory owner or factory management with decision-making power will be asked to participate in such meetings.

The Factory shall submit adequate documentation to the Accord Secretariat and responsible brand(s) 5 working days prior to the Finance Meeting to assess the financial situation of a Factory, including the following information:

- Complete audited Financial Statements, including notes, for the past 3 years
- Order books (all customers) for the past 3 years
- Minimum two quotations
- CAP Costing Form completed
- Information on remediation investments already made by the Factory
- Indication of the desired division of the costs between the Factory and responsible brands, and terms of support
- Other documents as needed (e.g., remediation workplans, factory production capacity, etc.)

The Accord Secretariat shall review and assess the completeness of the documentation submitted by the Factory and arrange the Factory Finance Meeting upon receipt and validation of the information and documentation stated above. Failure to submit all the required documents or cooperate with the Finance Request process may lead to the postponement of the Finance Meeting and/or dismissal of the Finance Request.

The Factory must also have completed all immediate and low-cost CAP items* as a show of good will that the Factory is committed to the completion of its CAP. Failure to remediate all immediate and low-cost CAP items may also lead to the dismissal of the Finance Request.

2. Cooperation from the Responsible Brand(s)

Finance Meetings are mandatory for the responsible brand(s). The brand representatives at the meeting must have sufficient decision-making power to resolve the financing issues and knowledge of the documents submitted by the Factory to engage in an informed discussion.

Pursuant to Article 25, the responsible brand(s) are required to negotiate commercial terms with their suppliers which ensure that it is financially feasible for the factories to remediate and comply with upgrade and remediation requirements instituted by the CSO. Each signatory company may, at its option, use alternative means to ensure factories have the financial capacity to comply with remediation requirements including but not limited to one or a combination of the following:

- Increased and/or guaranteed order volumes
- Advance payment terms: L/C advances or soft loans
- Opening an L/C for an imported CAP items (e.g. fire alarm, fire pump, certified equipment)
- Support in the opening of a bank loan
- Higher FOB prices
- Shortening payment delays
- Placement of orders in the low seasons
- Direct payments

The responsible brand(s) have 2 weeks from the date of the Finance Meeting to respond and propose a solution to address the finance request. During these 2 weeks, the Lead Brand is urged to coordinate with the other responsible brands in finding an agreement on an updated Finance Plan with the Factory, which ensures remediation is made financially feasible. The Accord Secretariat may grant a request for an extension of time on a case-by-case basis.

Once an agreement is achieved, the Accord Secretariat will confirm with the responsible brand(s) and the Factory that the Finance Request is resolved, outlining the terms of the agreement. Pursuant to Article 26, the Secretariat shall raise any unmet finance request with the IASC.

In the event a Factory receives information that business may be withdrawn as a result of the Factory raising a Finance Request, the responsible brands will address this concern by providing written clarification to the Factory. Failure to do so will result in the Secretariat raising the Finance Request with the IASC.

* To be defined by the Pakistan Accord CSO.

5. Alternative Financing Instruments

In addition to supporting the establishment of Finance Plans, the Accord Secretariat will investigate access to alternative financing instruments through national and international loan facilities and donations, and explore how such funding lines could be tailored for remediation purposes and made available to covered factories.

6. Reporting on Implementation of this Protocol

The Secretariat will provide quarterly reporting on the implementation of this Protocol to the IASC and in the Accord's Quarterly Aggregate Report.

Pakistan
ACCORD



for Health and Safety in the
Textile and Garment Industry