

GARMENT WORKER DIARIES



MFO

microfinance
opportunities

**Impact of H&M's
Fair Living Wage
Initiatives on the
Economic Lives of
Garment Workers
in Bangladesh**

December 2018



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Executive Summary

In 2013 H&M made a commitment to lay the foundations for a fair living wage by instituting two workplace initiatives in their supplier factories designed to increase the ability of workers to negotiate a fair wage with their employers and to ensure they were being paid accordingly. The first initiative was to ensure that supplier factories have democratically elected worker representatives in place to negotiate with the factory management over wages and work conditions. The second was to institute a wage management system in supplier factories so workers could know and understand why they receive the wage that they do. As of December 2017, H&M reported that:

- 100% of the tier 1 factories they work with in Bangladesh had democratically elected worker representation by December 2017. (H&M Group Sustainability Report 2017, p.62)
- 61 factories (employing about 236,000 workers) were instituting a wage management system (H&M Group Sustainability Report 2017, p.65) ¹

To assess the impact of these initiatives on the lives of garment workers, Microfinance Opportunities analyzed data from Phase One of its Garment Worker Diaries study.² This was a yearlong study of the lives of roughly 540 women garment workers in Bangladesh, Cambodia and India. In Bangladesh, MFO randomly selected 180 participants working in factories in Dhaka city, Chittagong, Gazipur district, and Savar upazila, where most of Bangladesh's ready-made garment (RMG) factories are concentrated.

MFO used H&M's supplier factory list to identify factories from which they sourced garments where participants in the study worked. We were able to identify 33 workers working in 14 H&M supplier factories for the full study period and a comparison group of 102 workers who worked in 55 other factories and worked in the same factory throughout the study period.

The data suggest that H&M's wage management system has had an impact on factory behavior, but its worker representation initiative has not. Workers in H&M supplier factories were more likely to receive a pay stub and that pay stub was more likely to contain pay details than those supplied by other factories. In contrast, union membership was almost non-existent across the full sample.

The data suggest that H&M's initiatives were translating into improved economic conditions for workers in their supplier factories. Workers in H&M supplier factories earned more than their counterparts in other factories, but they still faced considerable challenges. In areas relating to hours worked and wages, workers in H&M supplier factories worked fewer hours per pay period, earned more per pay period, and, as a result, earned higher wages per hour. But these wages were, on average, about 39 taka an hour (about 49 cents an hour). Furthermore, in half the pay periods covered by the study workers in H&M supplier factories earned an hourly rate that was not consistent with Bangladesh's labor laws and regulations.

¹ The full report is available at <http://sustainability.hm.com/>

² The study was funded by C&A Foundation.

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The higher wages of workers in H&M supplier factories seems to have translated into those workers spending about 650 taka (just over \$8) more on food per month, having a lower debt burden, and reporting better overall personal health than workers in other factories. However, workers in H&M supplier factories were just as likely as workers in other factories to report food insecurity and their children having fair or poor health. They were also more likely to report factory discrimination. In the case of gender-based discrimination, workers in H&M supplier factories were much more likely to report discrimination than workers in other factories. This may be due to the former's increased awareness of these issues due to workplace dialogue initiatives.

These data suggest that H&M's initiatives in their supplier factories are contributing to a better quality life for those factories' workers in comparison to workers in other factories, **but** there is still much work to be done to meet the basic needs of garment workers in Bangladesh. In the coming year MFO will be collecting similar data from a much larger number of workers across Bangladesh and we will be able to look in more detail at how H&M's and other global brands' initiatives are affecting the economic lives of the workers who make our clothes. These data can form the basis for a well-informed discussion about how brands, consumers, government policy-makers, factories, and workers can work together to promote a fair living wage.

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Introduction

In 2013 H&M made a commitment to lay the foundations for a fair living wage by instituting two workplace initiatives in their supplier factories designed to increase the ability of workers to negotiate a fair wage with their employers and to ensure they were being paid accordingly. The first initiative was to ensure that supplier factories have democratically elected worker representatives in place to negotiate with the factory management over wages and work conditions. The second was to institute a wage management system in supplier factories so workers could know and understand why they receive the wage that they do. As of December 2017, H&M reported that:

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MFO worked with BRAC, a local development organization, who trained a team of researchers and managed the weekly collection of data for all 180 respondents. The overall goal of the project was to uncover the economic realities that garment workers face. Phase 1 of the project lasted from the August 2016 to August 2017. It captured data on workers' earnings and expenditures, as well as their living and working conditions. Funding for the project came from C&A Foundation, which supports efforts to transform the fashion industry to improve the lives of the men and women who make our clothes.

C&A Foundation renewed funding for Phase 2 of the project in April 2018. Phase 2's goals are ambitious: to develop a scaled Financial Diaries protocol that collects data from 1,300 workers across Bangladesh, and to make the data accessible to workers, unions, policy-makers, factory owners, brands and the public in near-real time. Though the current scope of Phase 2 only covers Bangladesh MFO is planning to replicate it in neighboring countries in the region.

This report leverages the data collected during Phase 1 of the project to compare the economic condition of workers working in factories from which H&M sources its garments against the conditions of workers in other factories in Bangladesh. We were able to identify H&M supplier factories by matching the names of the factories in which participants in the study worked against the list of factories provided to the public on H&M's own website.

³ The full report is available at <http://sustainability.hm.com/>

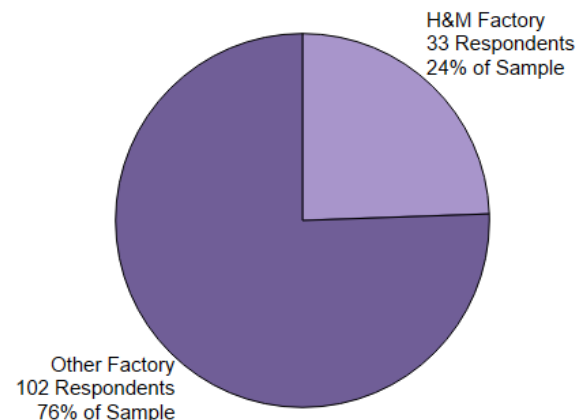
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Sample of Respondents

In total, the sample for this analysis is based on 135 respondents from Dhaka City, Gazipur, Savar, and Chittagong City.⁴ Data on work hours and wages cover 1,486 pay periods that were observed between August 2016 and August 2017. Data on debt and expenses cover 6,824 weeks, or about 50 weeks per respondent. Any other data in this report are based on cross-sectional surveys conducted with the participants during the same yearlong observation period.

There were 33 workers who worked full-time at H&M factories and made up one-quarter of the sample. Together, the 33 respondents worked in 14 different H&M factories. The other 102 workers worked in a total of 55 factories.

Figure 1: Sample



⁴ We restricted our analysis to data on workers who worked in the same factory throughout the study period to ensure comparability across H&M supplier factories and the rest of the sample.

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Evidence of H&M Initiatives at Work

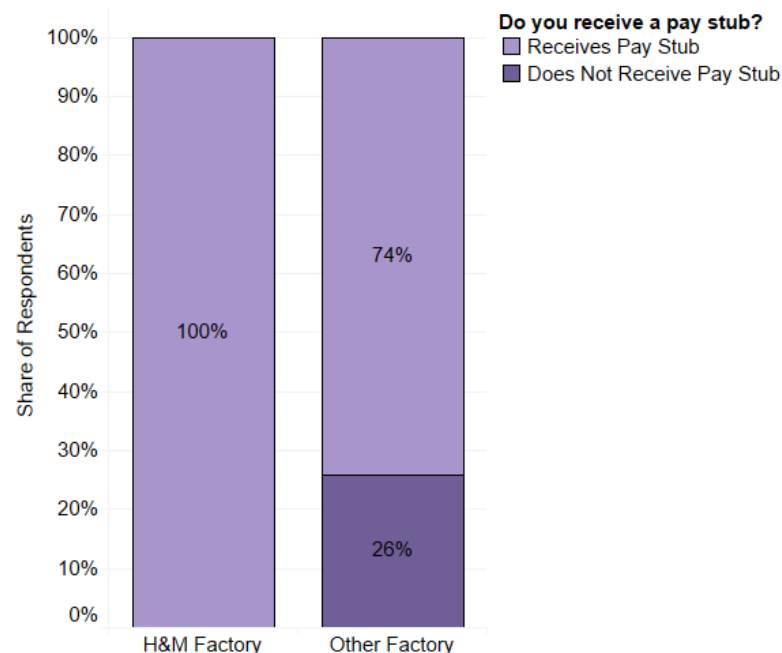
H&M's initiatives focus on improving factories' wage management systems, worker representation, and initiating workplace dialogues to bring worker concerns to the attention of factory management. During the GWD study MFO asked workers questions related to these issues.

Wage Management System Indicators

We asked two questions that are directly relevant to H&M's wage management system: Did workers receive a paystub? What information was on that paystub? The data suggest that H&M factories included in this study were more likely to give their workers a paystub and that paystub was more likely to contain more detail about the composition of the worker's payment.

All respondents who worked in H&M supplier factories reported that they received a pay stub from their factory, compared with only 75 percent of workers in other factories. This suggests that H&M factories' wage management systems operate better than those at other factories.

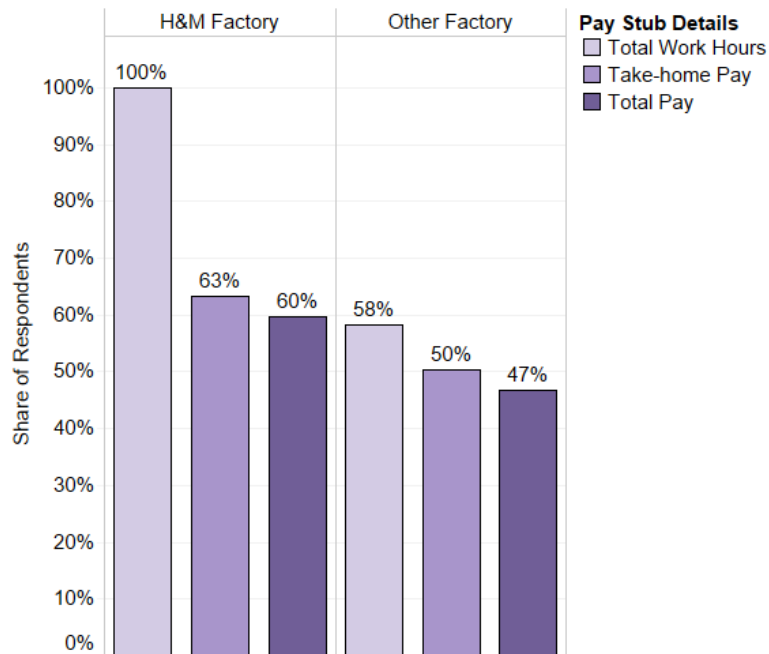
Figure 2: Workers Receiving Paystubs



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While all of H&M factories' workers reported that their pay stubs included the total hours worked, only about two-thirds reported that their pay stubs included information regarding pay. However, H&M factories appeared to be more likely to provide these types of information than other factories were.

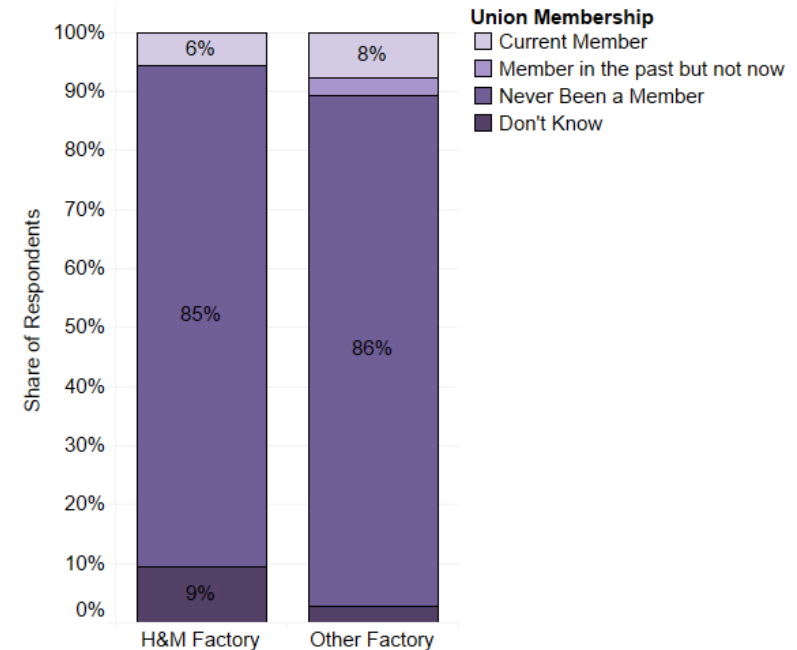
Figure 3: Paystub Details



Worker Representation

We also asked workers about union membership and workers' views of unions. As with respondents from other factories, respondents in H&M factories largely reported that they were not members of their factory's union.

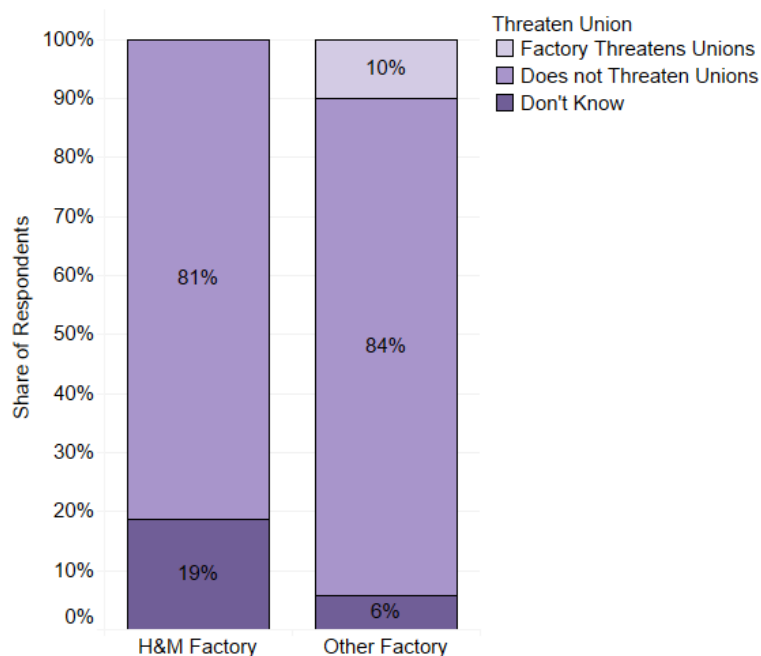
Figure 4: Union Membership



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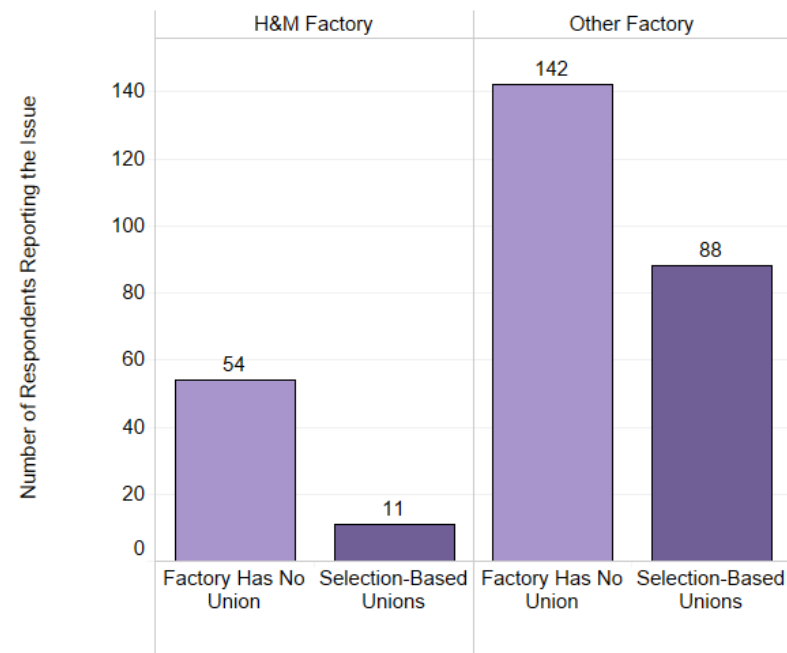
While no H&M respondents reported that their factory management threatened or harassed union members, 21 percent admitted that they did not know whether or not this practice took place. However, most were confident that factory management did not threaten/harass union members. This contrasts with 10 percent of other factory workers who reported union members being threatened/harassed.

Figure 5: Factories Threatening Unions



As noted above, H&M has stated that all of its supplier factories in Bangladesh have democratically-elected worker representatives. However, we found anecdotal cases that suggest factories may not be complying with this practice. Five respondents who worked in H&M factories reported that their factory had no union at all, and one respondent reported that the factory management hand-picked union members. Further analysis of these cases revealed that the respondents all worked at Tier 1 factories.

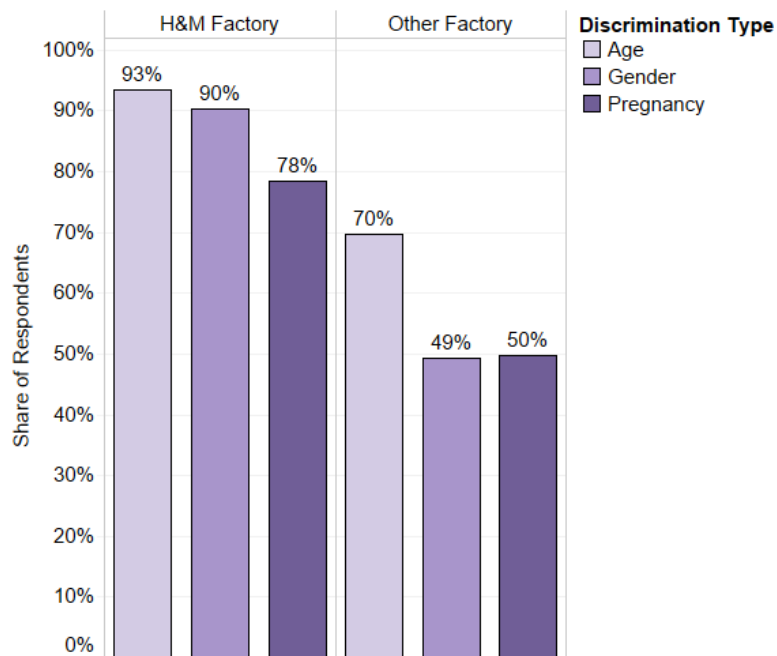
Figure 6: Worker-Reported Issues with Unions



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Lastly, MFO found high levels of age-based, gender-based, and pregnancy-based discrimination reported by workers in H&M supplier factories. On average, these rates were higher than those reported by workers in other factories. This may be a product of the fact that workers were more aware of these issues because of the work H&M has been doing around these issues.

Figure 7: Factory Discrimination



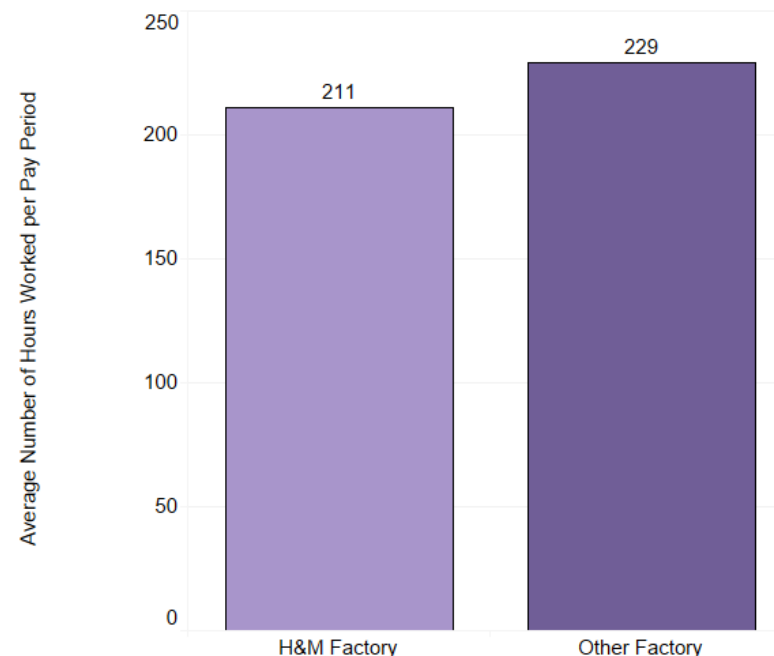
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Work Hours and Wages

The data in the previous section suggest that H&M supplier factories are behaving differently from other factories in ways that possibly reflect the results of H&M's wage management initiative. Did these translate into any type of economic benefit to the workers? In this section we look at their work hours and wages using data covering 1,486 pay periods from 135 workers—over 10 pay periods per worker. H&M factories covered 33 respondents: 1 from Dhaka City, 8 from Gazipur, 8 from Savar/Ashulia, and 16 from Chittagong.

Workers participating in the study kept a record of the number of hours they worked each day, and these data were aggregated during weekly data collection. On average, workers who worked in H&M supplier factories worked about 18 hours less per pay period (about four hours less per week) than workers in other factories.

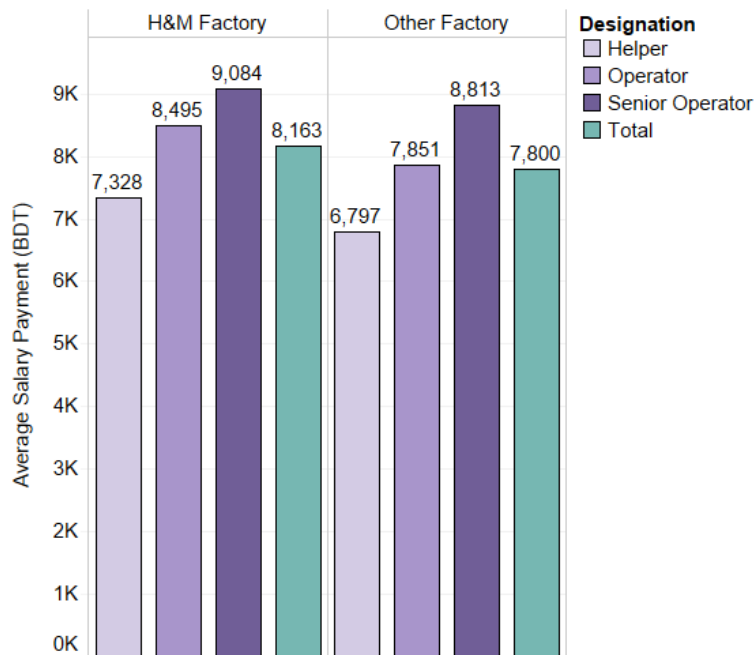
Figure 8: Average Work Hours per Pay Period



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The RMG sector in Bangladesh has a graduated pay scale based on skill and experience—occupation designations—which determine the workers' monthly base salary and allowances. For the three most-represented designations in the study, H&M workers received slightly more per pay period than workers in other factories did. Workers designated as Operators had the widest salary gap, with H&M workers receiving an average of BDT 650 (about \$7.75) more per pay period than other factory workers.

Figure 9: Average Salary by Designation

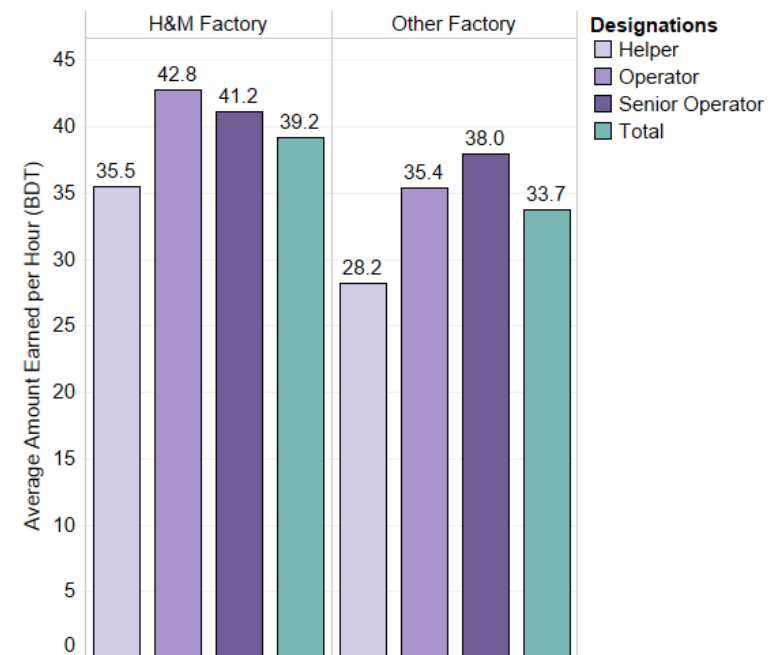


Workers were paid a monthly “salary” in Bangladesh

⁵ Bangladesh’s minimum monthly salary varies by designation and is composed of a base salary and allowances for housing, health, and

and in general the Garment Worker Diaries study found that workers were all receiving the minimum monthly salary as set by the Bangladesh Minimum Wages Board in 2013. But the monthly salary is composed of 208 hours of regular work hours (8 hours a day, 6 days a week) and overtime. Solely reporting the monthly salary amount can obscure the fact that it was earned through overtime work, for which workers are supposed to earn double their regular, base hourly wage.⁵ With this in mind, MFO calculated the average hourly wage rate.

Figure 10: Average Hourly Wage Rate by Designation



transportation. The overtime pay rate per hour is the base salary divided by 208 hours multiplied by 2.

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H&M respondents worked fewer hours and received more per pay period. As a result, we found that the average amount they received per hour of work was greater than the amount received by respondents in other factories. The gap in average hourly rate was similarly widest between workers designated as helpers and operators, and less wide between senior operators.⁶

Digging deeper into the hourly pay of workers, we calculated what their salary should have been if they had been paid their minimum monthly salaries and their minimum hourly overtime wage rate according to the rates set by the Minimum Wage Board back in 2013 and updated with a five percent per year increment as stipulated by the 2013 regulation. The data suggest that many factories did not pay workers a fair wage given the amount of overtime hours they worked. Workers in H&M supplier factories were more likely than workers in other factories to receive a salary that was at or above the legally required minimum for the number of hours they worked. However, in almost half of the pay periods we observed workers in H&M supplier factories still received a salary that was below the amount expected if the payment had been in compliance with the legally required minimum.⁷

⁶ The anomaly that Operators in the H&M sample earned more per hour than senior operators has to do with the fact that the Operators in the H&M sample worked considerably fewer hours per pay period than Senior Operators. This is likely due to clustered small sample issues.

⁷ To calculate this we identified all pay periods when workers worked a full month. We then calculated the amount of overtime a

Figure 11: Did Monthly Salary Exceed Expected Monthly Salary Based on Bangladesh Laws and Regulations?



worker worked each pay period, based on their daily work hour record, and multiplied their total overtime by their legally set minimum hourly overtime rate and added that amount to their legally set minimum monthly salary. We then compared that to the amount they actually earned during the pay period.

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Indications that Workers Received a Fair Living Wage

There is much debate about what constitutes a “fair living wage.” The Ethical Trading Initiative (ETI) defines it as “one which satisfies the basic needs of workers and their families as well as providing some discretionary income.” H&M provides the same definition but steers away from anything more detailed.

MFO has conducted Diaries across 11 different countries and we draw on this experience to identify what we consider to be key indicators of how well a person is doing economically. We focused on workers’ overall spending and their spending on food, and some basic indicators of financial stress: their debt levels, food insecurity, and overall health. These findings are based on the same 135 respondents (including 33 H&M respondents).

MFO found that workers in H&M supplier factories spent almost BDT 1,000 more per month than workers at other factories did. The bulk of the extra spending mostly went to food. On average, respondents from H&M factories spent almost BDT 600 per month more on food than respondents in other factories did, suggesting that, as will be confirmed below, workers were focused on meeting basic nutrition needs. H&M factory workers also spent, on average, about BDT 200 more on basic services, including things like education, transportation, communications, and other general services.

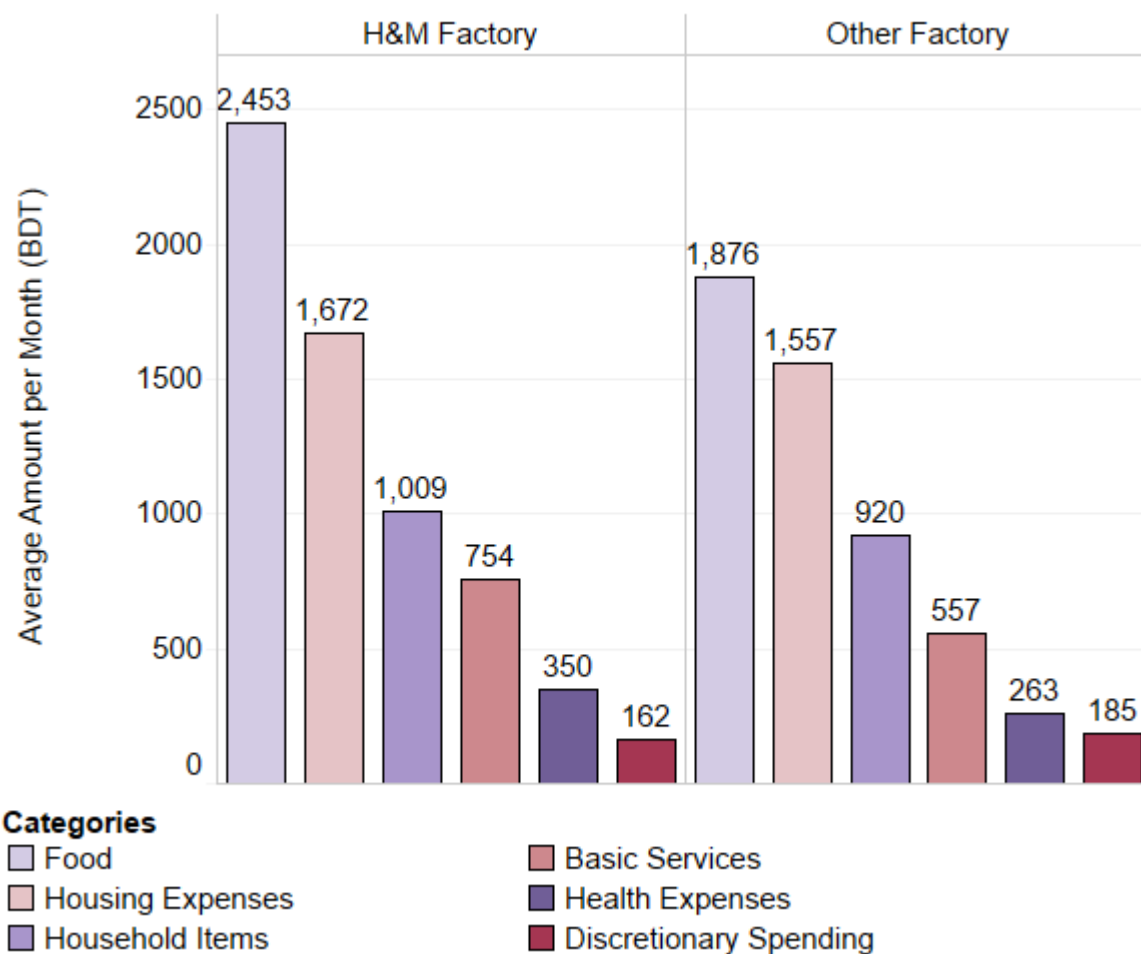
Figure 12: Average Monthly Expenses



There was little difference across workers in spending on housing, which averaged about BDT 1,600 per month. This amount is not the actual rent workers were paying each month—not all workers were responsible for rent payments so the average is lowered by these non-payers. The average monthly rent paid by those who did pay rent was BDT 2,800 for both workers in H&M supplier factories and other workers.

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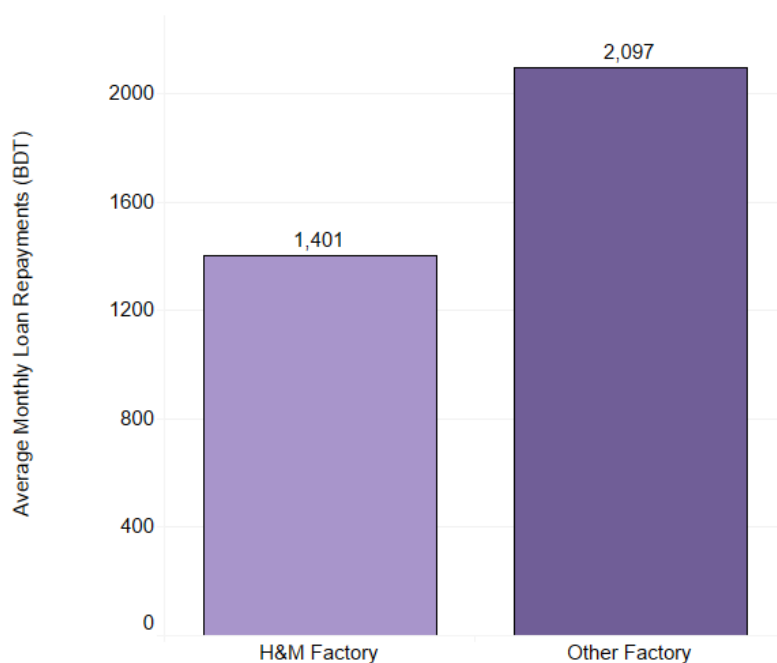
Figure 13: Average Monthly Expenses by Category



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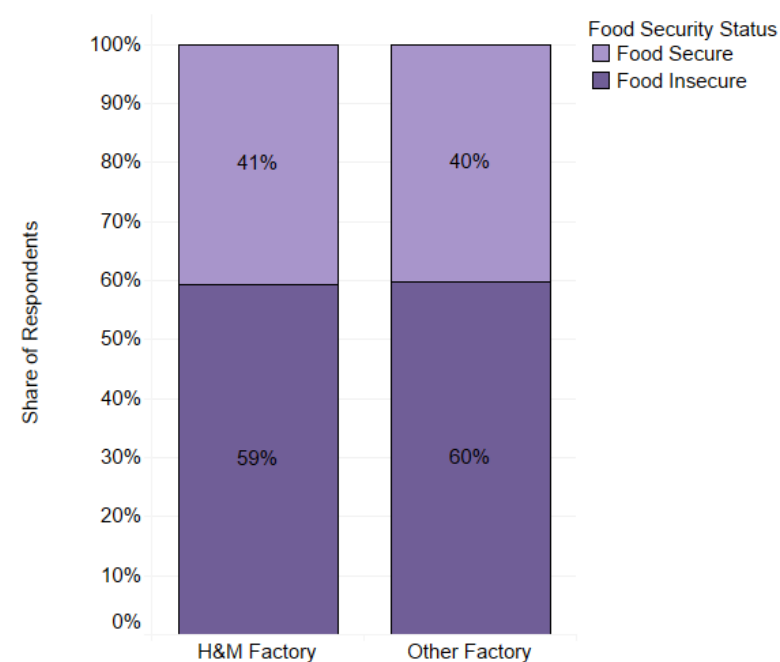
The extra BDT 1,000 that workers in H&M supplier factories spent is not fully accounted for by their higher salaries—on average they earned about BDT 300 extra per month. Where did they get the extra money? The data suggest that workers in H&M supplier factories, were making about BDT 700 per month less in loan repayments than their counterparts in other factories. This suggests that not only did workers in H&M supplier factories have more money available to spend on food and other necessities, but they were also under less financial stress because they were not having to worry about how to cover large loan repayments

Figure 14: Average Loan Repayments per Month



Though the data suggest that workers in H&M supplier factories were spending more money on food per month and were under less of a debt burden, they did not look substantially different from other workers on one important measure of financial stress: food insecurity. Workers in H&M supplier factories were just as likely to suffer from food insecurity as workers in other factories. This suggests that even at their higher levels of pay workers in H&M supplier factories may not have been receiving a living wage as they were not always able to meet their basic food needs.

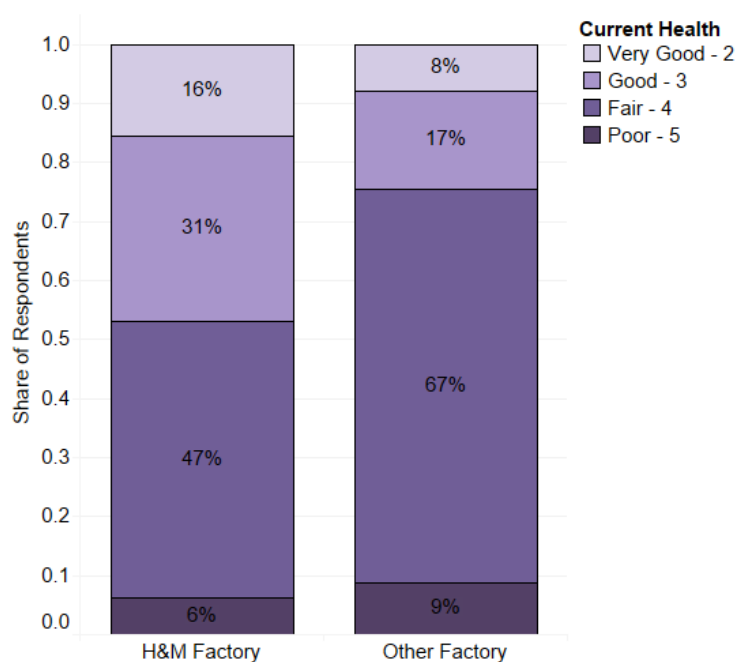
Figure 15: Share of Respondents Reporting Food Insecurity



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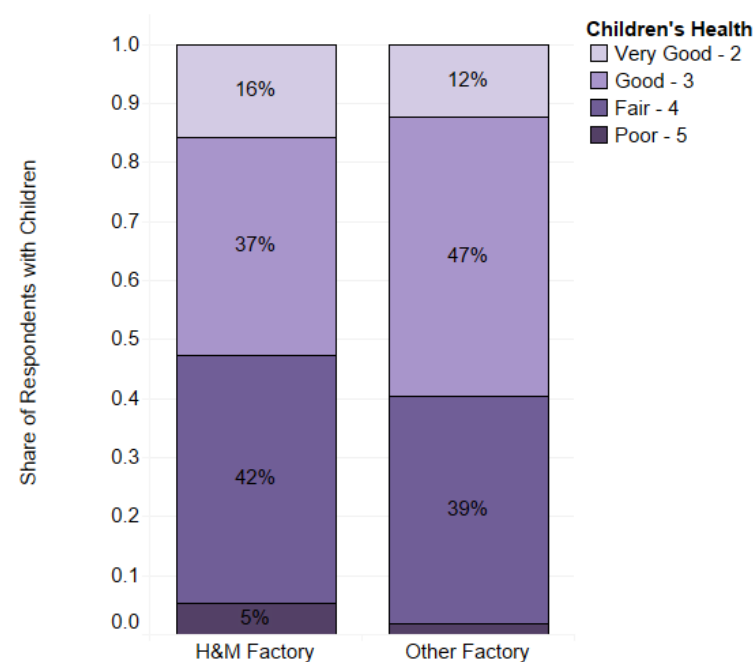
We also asked respondents to rate their current health on a scale of 1 to 5 with 1 being Excellent and 5 being Poor. None of the 135 respondents in this sample indicated that they had Excellent health. Workers in H&M supplier factories were more likely than workers in other factories to report having Good or Very Good health, but over half of the H&M workers also indicated that they had Fair or Poor health. Again, these findings suggest that workers' basic needs were not being met.

Figure 16: Workers' Self-Reported Health



Finally, we asked respondents who had children to rank the current health of their children on the same scale (1 as Excellent, and 5 as Poor). For this question, workers from H&M factories reported roughly similar results to workers from other factories: 47 percent of workers in H&M supplier factories reported that their children had Fair or Poor health compared to 41 percent of workers in other factories. No respondents indicated that their children's health was Excellent.

Figure 17: Workers' Children's Health



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Conclusion

To assess the impact of H&M's Fair Living Wage initiatives on the lives of garment workers, Microfinance Opportunities analyzed data from Phase One of its Garment Worker Diaries study. The data suggest that H&M's wage management system has had an impact on factory behavior, but its worker representation initiative has not. Workers in H&M supplier factories were more likely to receive a pay stub and that pay stub was more likely to contain pay details than those supplied by other factories. In contrast, union membership was almost non-existent across the full sample.

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The higher wages of workers in H&M supplier factories seems to have translated into those workers spending about 650 taka (just over \$8) more on food per month, having a lower debt burden, and reporting better overall personal health than workers in other factories. However, workers in H&M supplier factories were just as likely as workers in other factories to report food insecurity and their children having fair or poor health. They were also more likely to report factory

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These data suggest that H&M's initiatives in their supplier factories are contributing to a better quality life for those factories' workers in comparison to workers in other factories, **but** there is still much work to be done to meet the basic needs of garment workers in Bangladesh. In the coming year MFO will be collecting similar data from a much larger number of workers across Bangladesh and we will be able to look in more detail at how H&M's and other global brands' initiatives are affecting the economic lives of the workers who make our clothes. These data can form the basis for a well-informed discussion about how brands, consumers, government policy-makers, factories, and workers can work together to promote a fair living wage.