

Minimum Wage Implementation in Bangladesh's Garment Sector

A research study conducted by
Alternative Movement for
Resources and Freedom (AMRF) Society
with the support of
Fair Wear Foundation

June 2012



Alternative Movement for Resources and Freedom Society



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Introduction

In 2010, Fair Wear Foundation wrote a letter to the Bangladesh Wage Board to express concern about low wage levels in the garment industry. This letter was co-signed by several FWF member companies that source garments from Bangladeshi factories. These companies shared FWF's concerns about the extremely low legal minimum wages in Bangladesh. At the time, the legal minimum wage was 1662.50 BDT per month – approximately €17, which left families below the United Nations Poverty Line. Many other organisations expressed similar concerns at the time, and in 2010 a new minimum wage law was introduced, increasing the legal minimum wage to BDT 3 000.

The increases required by the law are an important step forwards, although local trade unions have called for a minimum wage of at least 5 000 BDT, and various stakeholder groups have estimated a living wage in Bangladesh to be three to four times the current minimum wage.

After the 2010 law came into effect, FWF began to hear reports from local stakeholder groups about irregularities and problems in the way the law was being implemented at the factory level. This report was commissioned by Fair Wear Foundation to further investigate the issues being reported by workers. It provides guidance to FWF members and other companies sourcing in Bangladesh on commonly-reported issues related to implementation of the new minimum wage law.

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Special thanks to the FWF member brands who helped to provide access to factories and to all the workers who made time to participate in this survey, and shared their insights and experiences.

Study Objectives

- To provide information to FWF, its member companies, and their suppliers to support proper implementation of the 2010 minimum wage law.
- To better understand possible non-compliances related to legal wage.
- To capture views and perspectives of garment workers on issues relating to rights and living wage levels.
- To serve as a baseline data set for a proposed ongoing monitoring of wage law implementation in Bangladesh.

Data Sources

The survey data that this report is based upon was collected by staff from the Dhaka-based Alternative Movement for Resources and Freedom (AMRF) Society, one of FWF's key stakeholder partners in Bangladesh. AMRF has extensive experience in conducting off-site worker interviews. An eight-member team from AMRF, composed of female and male interviewers, was responsible for worker interviews and data collection and analysis.

Factory selection

Workers from 20 factories that supply FWF member brands were interviewed for this study. The factories were chosen to provide a mixed sample of experiences in factories of different sizes, locations and manufacturing specialties. Several FWF member brands gave their consent for workers from their suppliers to be interviewed as part of this study.

The names of the brands and factories involved in the study are not published, given the sensitive nature of the results and of the business relationships involved. Detailed results of the survey have been forwarded to the appropriate FWF member companies so that they can integrate these issues in their monitoring and remediation activities.

Worker Interviews

FWF and AMRF share a long-standing commitment to interviewing workers away from factories. Workday time pressures, fear of intimidation and risk of coaching all mean that interviews at factories are both difficult to conduct and often produce unreliable results.

Following a well-established methodology, interviewers approached workers outside of factories, at cafes, kiosks, shops, and other locales where workers commonly gather after work. Most interviews were conducted in the workers' homes in the evening, or during the weekend.

The primary data sources for this report are worker interviews based on a structured questionnaire. Interviews were conducted in both one-on-one and group settings. Further informal discussions, covering topics beyond the structured questionnaire, provided an additional level of insight into the experiences and concerns of workers. Interviews were conducted in Bangla.

The study also draws on secondary information (reports, books, studies) and information from other sources (unions, labour NGOs, labour right activists and researchers) were also used for the study.

Context: Wage structure in Bangladesh

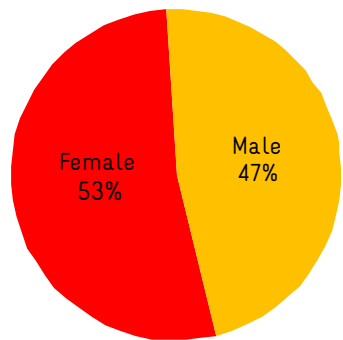
Wages in Bangladesh are comprised of a basic hourly wage which is augmented with a variety of legally-required and optional allowances, bonuses and incremental payments. Overtime wages form another part of most workers' take-home pay. Wages are calculated according to a seven-step grading system for each job classification, which is based on seniority and experience. Taken together, these factors can make it difficult for workers to know exactly how their wages are calculated.

There was no official increase in minimum wages in Bangladesh between 2006 and 2010. The real incomes of many workers in Bangladesh were increased by use of a variety of optional bonuses.

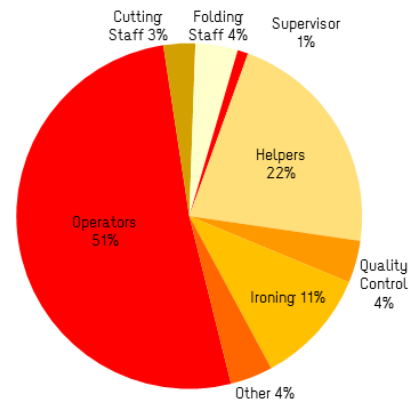
Survey findings

334 workers from 20 factories supplying FWF affiliates were interviewed from October to December 2011. Figures 1 and 2 show the gender and job description breakdowns of the survey group.

Gender Breakdown



Job Descriptions



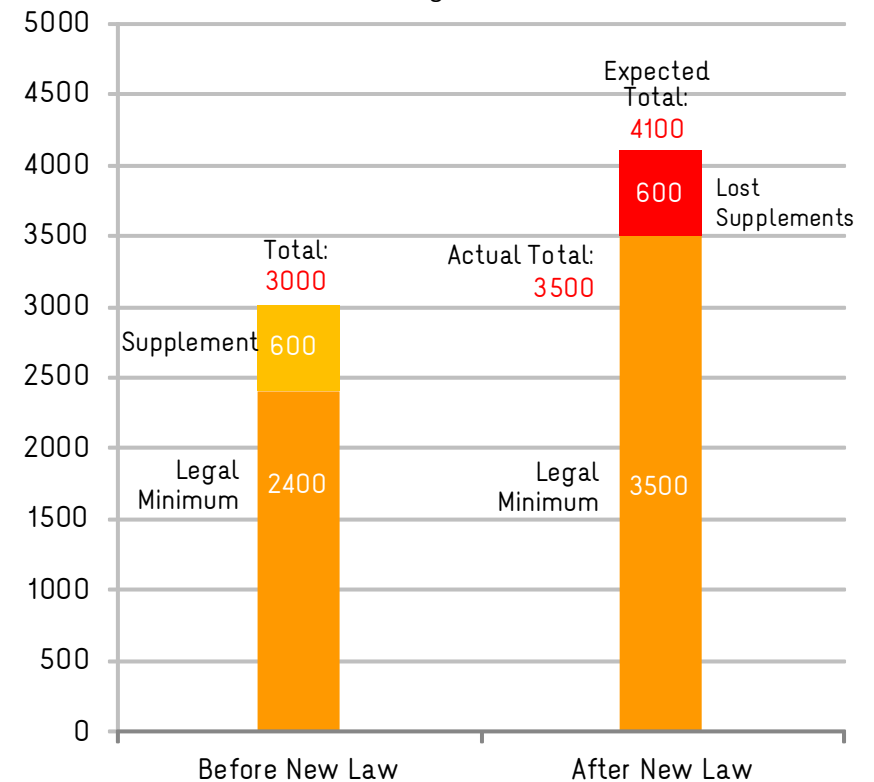
Pay structure manipulation

One of the major problem areas identified by workers in the survey relates to the way bonuses and other pay augmentations were translated into the new wage grading system created by the 2010 law. Problems of this sort were reported by a majority of the survey participants.

Under the old minimum wage law, workers received a basic salary + bonuses. Because overtime payments are calculated based on the basic salary, many factories prefer to add bonuses rather than increase basic salary levels—as this results in lower payments for overtime work. Many workers reported that under the new law, basic salaries have increased, however **the bonuses have been taken away**, rather than applied to the new basic salaries. Real income has increased, but not as much as workers expected or believed was fair, based on previous bonuses. Such practices do not appear to be illegal, however they are widely considered to be unethical.

Figure 3 illustrates a situation reported by a typical worker. Under the old wage structure, a sewing machine operator's legal monthly minimum wage was set at 2 400 BDT per month. By October 2010 she was receiving 3 000 BDT per month because of yearly increments and other bonuses. In 2010 the new minimum wage for the same person was set at 3 500 BDT, and she no longer received the additional 600 BDT in bonuses and other payments. This worker's wage increase should have been 1 100 BDT; but in practice it was 500 BDT.

Figure 3



Implementation of the new minimum wage

The new minimum wage has been implemented in all the factories covered by the survey, according to the interviews. It is worth noting, however, that a few workers from one factory claimed that they receive 75 BDT **less than the minimum**; workers of another factory claimed that they receive 57 BDT less. Other workers from two factories reported that helpers and ironmen did not receive increased wages according to the new minimum wages set for their grades.

Pay Grade Manipulation

24% of workers interviewed said they had been **reassigned to a lower pay** grade following the 2010 wage increases. While these workers received net pay increases, reassigning them to lower pay grades meant that they did not receive the full increase to which they were entitled.

Additional problems were reported by workers who have been held at the same pay grade for many years, and had **not received reasonable promotions** which would be expected based on their skills and experience.

Wage, benefits and leaves

Before the 2010 law, the monthly average pay of surveyed workers was 3 371 BDT. Under the new minimum wage scheme, the average increased to 4 027 BDT.

80% of the workers stated that pay slips are given to them.

Most of the workers said that they were paid within the first and second week of the month; only 4% said that they were paid in the last week of the month.

Most of the workers stated they had 4 days' leave in October, 4 days' leave in November and 5 days' leave in December.

82% of the workers said that they are entitled to 4 months' maternity leave with pay, 18% say that either they get **only 2 months' pay or receive no benefit at all**.

Bonuses and Allowances

Figure 4 provides an overview of the reported bonus and allowances received by surveyed workers. In addition, only 50% of workers reported that a provident fund was made available to them. The fund, which is established by the factory owner, is a type of long-term savings plan where roughly 50% of the fund is contributed by workers and 50% is contributed by the employer. For example, upon leaving the company, workers receive a payout from the fund. Provident funds are generally regarded as an effective type of financial savings security scheme for workers.

Governmental, semi-governmental and other autonomous offices are mandated to offer provident funds, and they are implemented in many private companies. Failure to provide such a fund effectively deprives workers of another income component.

Bonuses and allowances overview

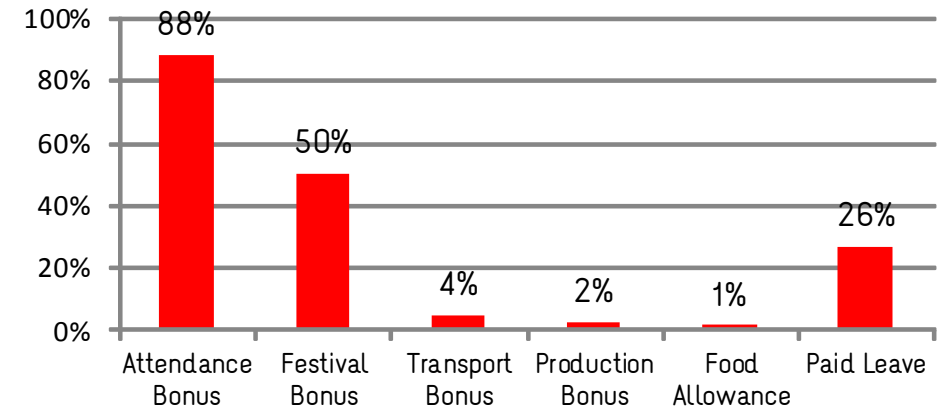


Figure 4

Overtime

Reported **days with overtime** per month ranged from zero to 30.

Reported **overtime hours worked** in October ranged from zero-192 hours, in November from zero-180 and in December from zero-188.

The reported **overtime payment** in October ranged from 55–5 011 BDT, in November from zero–4 986 BDT and in December from zero–5 137 BDT. The overtime hours are paid with the regular salary, sometimes on different days or varied amounts in a number of days.

44% of the workers **do not know how their overtime is calculated**. Some think it is double the rate of the basic pay. The overtime rate ranges from 13–38 BDT per hour.

Many workers keep their own overtime records; 23% of those keeping their own records report that **employer calculations did not match their own**. Generally, workers report that there is no functional process to reconcile complaints about underreporting of overtime hours worked.

18% of workers reported that they were **not fully paid for recorded hours**.

Most of the interviewed workers reported that the overtime work was required by employers. **Workers who refused overtime reported scolding or other verbal abuse**.

Workload and targets

92% of the workers said that there are targets to fulfill in their factory. If they cannot fulfill the targets given, they are scolded, threatened to be fired or given reduced pay.

82% of the workers said that their targets have been increased after the implementation of the minimum wage. As payment is hourly, managers have increased the work pressure and expectations for production in the same time period.

Remediation of found problems

Detailed results of the survey have been forwarded to the appropriate FWF member companies so that they can integrate these issues in their monitoring and remediation activities.

Recommendations & Conclusion

FWF recommends that companies sourcing in Bangladesh incorporate the problem areas highlighted in this report into their monitoring systems. In particular, attention should be given to:

- Ensuring that workers are paid the new legal minimum wage
- Ensuring that supplements and bonuses are not lost as a consequence of the new minimum wage implementation
- Ensuring that workers are not downgraded or prevented from achieving appropriate pay grades
- Ensuring that proper wage documentation is provided to workers
- Reducing excessive overtime
- Ensuring that all overtime is voluntary
- Ensuring that all overtime is properly compensated
- Maintaining reasonable workload targets

Limitations of data collection & recommendations for followup studies

Interviewers encountered several difficulties in collecting the survey data. Future surveys should take these issues into account:

Many of the workers approached by the interviewers, in particular female workers, were reluctant to participate in the survey. Commonly reported difficulties included:

- Time pressures related to running households
- Reluctance to spend limited free time discussing work issues
- Fear that interviewers will report negative comments to factory managers or European garment companies and that their jobs would be at risk if negative comments were made.

Interviewing a representative sample of workers covering the main job categories is difficult. Workers from a single factory rarely live in the area, increasing the time needed to complete the desired sample.

As noted earlier, the composition of wages in Bangladesh is complex, involving a basic salary plus various bonuses. Many workers either do not receive or do not fully understand their pay slips. This, combined with a reluctance to disclose information to strangers, poses challenges in collecting data, and made the survey process more time-consuming than expected.

Any future research should ensure that adequate time is allowed to allow for complications of data collection.

About AMRF

Alternative Movement for Resources and Freedom (AMRF) Society was established in 1999 by a group of local and expatriate development professional, activist, social scientist and technical experts. Our mission is to achieve a fair balance of trade gains among the stakeholders of industrial production systems.

We honour the owners who gamble their money in the production processes; we honour the management bodies who work hard to manage these investments in a fruitful means; we honour the middle parties/bodies who engage themselves as the helping hands to make the bridge between different segments of the total chain of production and distribution channels; and we humbly admire the workers whose input into the production systems is the key factor for any economy.

AMRF Society has worked with FWF on stakeholder development and country research since 2006. www.amrfd.com

About Fair Wear Foundation

Fair Wear Foundation's mission is to improve labour conditions for the hundreds of thousands of workers involved in making clothes for FWF member companies. FWF has invested more than 10 years in developing effective solutions to problems facing workers in the garment industry. FWF's four main areas of activity are:

- checking that member brands respect human rights in their supply chains
- checking working conditions in garment factories
- providing worker complaint hotlines in 15 production countries
- ensuring cooperation between factories, brands and all other stakeholders

FWF is an independent non-profit organisation that is jointly governed by representatives of business, labour and non-profit sectors. FWF assures the sustainability of improvements through its intensive partnerships with local stakeholder organisations.

FWF's 80 member companies are based in seven European countries, and represent around 120 brands. FWF member products are sold in 20,000 retail outlets in more than 70 countries around the world. FWF is active in 15 countries in Asia, Europe and Africa. www.fairwear.org



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