

# Revision of the Minimum Wage in the RMG Sector in 2013

## Proposals as regards Definition, Method of Determination and the Levels

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B A N G L A D E S H  

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# PART A

# 1. Introduction and Objectives

- The minimum wage of the RMG sector is now in the process for revision under the guidance of the 'Minimum Wage Board'.
- The discussion and negotiation on the minimum wage is taking place at a time when the RMG sector is in the spotlight at both local and global levels
  - The revision of the wage structure is also on the radar at all levels.
- A broad-based acceptable revision of minimum wage is therefore of critical importance
  - In order to rebuild the image of the RMG sector of Bangladesh.
- The process of revision of the minimum wage in the RMG sector is a highly debated and contentious issue.
- The revision process have three major concerns
  - *First*, no proper definition is available on the minimum wage in the national rules and regulations (Labour Act 2006; Amended Labour Act 2013)
  - *Second*, lack of an acceptable methodology and
  - *Third*, there is a dearth of available sector-specific and macroeconomic data on key indicators in the public domain.

# 1. Introduction and Objectives

The study has following objectives

- a) To provide a definition of a minimum wage based on globally accepted norms and legal structures
- b) To suggest a method for estimating the minimum wage for the RMG sector
- c) To make some recommendations for going forward based on a number of observations made during this research process including the required minimum wages

## 2. CPD Initiatives with Regard to Minimum Wage in the RMG Sector

- CPD has a long track record of conducting research and pursuing policy activism related to the RMG sector
- In previous initiatives on the revision of the minimum wage, CPD with the request of the Board and major stakeholders has submitted proposals
  - Those proposals were actively considered by the Board
- In continuation of those earlier initiatives, CPD has decided to submit this proposal to the minimum wage board
- A major distinctive feature of CPD's present initiative is to follow as far as possible scientific process
- CPD's initiative has been strengthened with the involvement of the international experts in cooperation with the Netherlands Embassy, Dhaka
- The initiative has advanced in iterative process starting with a multi-stakeholder discussion
  - About the importance of consensus around a definition of minimum wage with a global perspective



### 3. Methodology of the Study

- The study has been carried out in three stages.
- Firstly, the conceptual and methodological frameworks were developed
- Secondly, CPD carried out FGDs in August, 2013 with RMG workers
  - FGDs with workers in three locations including Savar, Tongi and Rampura
  - Collect information about workers' income and expenditure
  - 65 male and female workers of different grades participated in those FGDs
- Thirdly, detailed analysis was carried out based on
  - Collected data obtained through FGDs and
  - Secondary data on the household income and expenditure of different strata which are close to the living standard of RMG workers.
- Three levels of analysis have been carried out:
  - First, deriving a minimum wage to meet the upper poverty line;
  - Second, deriving a minimum wage figure required to meet the current expenditure of the individual/family; and
  - Third, deriving an aspirational minimum wage figure which would meet the basic needs of a family based on sound nutritional requirements

## 4. Understanding the Minimum Wage from the Global Perspective

### 4.1 Conceptual Issues of Minimum Wage

- According to ILO Minimum Wage Fixing Convention, 1970 the key elements in determining the minimum wages are
  - Needs of workers and their families include cost of living, social security benefits and relative living standards of other social groups;
  - Economic factors include requirements of economic development, levels of productivity and desirability of attaining and maintaining high level of employment.
- The concept of living wage is closer to the core theme of ILO convention of 131
  - A wage sufficient to meet the basic needs of workers and their families providing some discretionary income.
- Recent research conducted for the ILO has indicated four common key elements
  - Sufficient to support a worker and his or her family;
  - Should support 'basic needs' including more than the necessities of life: food, clothing, and shelter; as well as some discretionary income
  - Should be appropriate for the society and the time
  - Should be a take-home pay earned during normal working hours

# 4. Understanding the Minimum Wage from the Global Perspective

## 4.2 Empirical Issues of Minimum Wage

- Countries like India, Brazil, Mexico and Namibia include specific legal provisions with regard to the minimum wage that are referring to the living wage concept.

### Mention of Minimum Wage/Living Wage Concept in the Constitutions of Selected Countries

Countries	Mention of Minimum Wage/Living Wage Concept in the Constitutions
Mexico (constitution)	“The general minimum wage must be sufficient to satisfy the normal necessities of a head of family in the material, social and cultural order and to provide for the mandatory education of his children”.
India (Directive Principle No. 43 of State Policy in the Constitution)	“Living wage, etc. for workers - - The State shall endeavor to secure, by suitable legislation or economic organization or in any other way, to all workers ... a living wage ...”.
Namibia (Article 95 in Principles of State Policy in the Constitution)	“Ensure that workers are paid a living wage adequate for the maintenance of a decent standard of living and enjoyment of social and cultural activities”.
Brazil (constitution)	“National minimum wage be capable of satisfying their basic living needs and those of their families with housing, food, education, health, leisure, clothing, hygiene, transportation and social security, with periodical adjustments to maintain its purchasing power”.

## 4. Understanding the Minimum Wage from the Global Perspective

### 4.2 Empirical Issues of Minimum Wage

- The process for determining the minimum wage varies between countries.
  - India and China follow a decentralized policy
  - Bangladesh has opted for a nation-wide sectoral approach
- In most cases major factors related to the minimum wage include those which are related with basic needs of the workers and their families
- Bangladesh is supposed to consider a mixed set of factors which include basic needs, as well as growth, productivity and capacity of the enterprise.
- Whilst actual pay may reflect a market wage, the determination of the minimum wage in the context of Bangladesh has yet to take all these factors into consideration on the basis of rigorous analysis.

# 5. Minimum Wage in the RMG Sector of Bangladesh: Rules, Regulations and Practices

## 5.1 Rules and Regulations regarding the Minimum Wage

- The term minimum wage is not defined in the *Bangladesh Labour Act 2006*, nor in the *Amended Labour Act 2013*
  - “In making its recommendation the Wage Board shall take into consideration cost of living, standard of living, cost of production, productivity, price of products, business capability, economic and social conditions of the country and of the locality concerned and other relevant factors”
- Definition of wage in the act is rather more specified
  - It indicates a set of benefits which are not to be considered as wage including the value of any house accommodation, supply of light, water medical attendance or other amenity or of any service;
  - It excluded by general or special order of the government, (a) any contribution paid by the employer to any pension fund provident fund, (b) any traveling allowance on the value of any traveling concession, and (c) any sum paid to the worker to defray special expenses entitled on him by the nature of his employment.

# 5. Minimum Wage in the RMG Sector of Bangladesh: Rules, Regulations and Practices

## 5.2 Structure of Minimum Wage

- In the last revision, minimum wage for entry-level increased 80 per cent, but a similar rise did not happen in other grades (grades 3, 4, 5, and 6).
- The relationship between wage level and seniority (skill plus experience) was not reflected in the structure as evidenced by low wage differentials between these grades - Tk.322, Tk.231, Tk.308 and Tk.357 respectively
- An ‘informal’ grade below grade 7 has been introduced during the time of last revision of minimum wages in 2010 with the job title ‘trainee’.

**Current Minimum Wage Structure (Effective since 1 November 2010)**

Grading (Main Posts)	Basic	House rent (40% of Basic)	Medical Allowance	Net Salary
Grade 1: Pattern Master, Chief Quality Controller	Tk. 6,500	Tk. 2,600	Tk. 200	Tk. 9,300
Grade 2: Mechanic, Electrician, Cutting Master	Tk. 5,000	Tk. 2,000	Tk. 200	Tk. 7,200
Grade 3: Sample Machinist, Senior Machine Operator	Tk. 2,870	Tk. 1,148	Tk. 200	Tk. 4,218
Grade 4: Sewing Machine Operator, Quality Inspector, Cutter, Packer, Line Leader	Tk. 2,615	Tk. 1,046	Tk. 200	Tk. 3,861
Grade 5: Junior Machine Operator, Junior Cutter, Junior Marker	Tk. 2,395	Tk. 958	Tk. 200	Tk. 3,553
Grade 6: Operator of General Sewing/ Button Machine	Tk. 2,230	Tk. 892	Tk.200	Tk. 3,322
Grade 7: Assistant Sewing Machine Operator, Assistant Dry washing man, Line Iron Man	Tk. 2,000	Tk. 800	Tk.200	Tk. 3,000
Trainee				Tk. 2,500

# 5. Minimum Wage in the RMG Sector of Bangladesh: Rules, Regulations and Practices

## 5.2 Structure of Minimum Wage

- The minimum wage structure per se in the RMG sector provides little incentive for workers to work long term at the same factory.
  - This can be done by factory based loyalty incentives.
  - At present there is high labour turnover within the RMG sector as workers seek the best remuneration package for themselves.
- Some companies have been introducing informal sub-grades, for example, A, B, C and D with a view to recognizing and remunerating different skills levels.
  - This sub-grouping is confusing and would appear to be creating bottlenecks in certain grades which prevent the upward mobility of workers from one grade to the next.

## 5. Minimum Wage in the RMG Sector of Bangladesh: Rules, Regulations and Practices

### 5.3 Pay elements other than the Minimum Wage

- **Overtime Payments:** Dependency on excessive overtime to attain a level of earnings to meet the cost of living is harmful to workers' health and general well-being.
- A minimum wage needs to be based on improved compensation for normal working hours.
  - For this reason overtime is not included in calculations of a minimum wage.
- **Fringe benefits:** attendance allowances, transport allowances, festival bonuses and production bonuses, are also not treated as part of the basic wage in this research.
  - These benefits foster 'presenteeism' where workers attend work to earn their allowance, even though they may not feel fit to work.
  - Annual leave encashment: not treated as wage as well as not all factories do provide this benefit.
- **In-kind benefits:** included food, transport, medical care, and child care, which are not provided by all employers and are not guaranteed by law.



# PART B

## 6. Methodology for Calculating the Minimum Wage

### 6.1 Definition of Minimum Wages

- “A wage that is sufficient to meet the basic needs of workers and their families and provide some discretionary income”
  - Basic needs mean more than necessities of life: food, clothing and shelter.
- Additional elements used in the definition of basic needs are clean water, healthcare, childcare, transportation, education, energy, and some discretionary income or savings.
- Basic needs are not simply the nutritional and non-nutritional requirements at ‘poverty level’; rather it means requirements higher than that level.

### 6.2 Generic Formula

- In order to determine what a minimum wage in the RMG sector would be, one needs to calculate the costs of living of a worker and his family.

**$$\left[ \frac{\{(\text{Food Costs} + \text{Non-food Costs}) \times \text{Household Size}\}}{\text{Number of Earners}} \right] + X\%$$**  
**Discretionary Income or Savings**

## 6. Methodology for Calculating the Minimum Wage

### 6.3 Main Considerations for the Calculations of a Minimum Wage

#### 6.3.1 Two units of analysis

- *A married couple with children*
  - RMG workers having their own 'nucleus' family household are very common in Bangladesh.
  - The national average household size and the number of full time earners per household is 4.08 and 1.47 respectively for the monthly per capita income groups in urban areas between Tk.3000 and Tk.5000 (Household Income and Expenditure Survey (HIES) 2010).
- *An unmarried worker – not necessarily single*
  - It is widely known that a large part of the RMG workers in the lower grades are unmarried though in most cases they maintain an extended family.

## 6. Methodology for Calculating the Minimum Wage

### 6.3 Main Considerations for the Calculations of a Minimum Wage

#### 6.3.2 Focus on the workers in the lower pay grades

- This research focuses on the wage paid to workers in most populated pay grades.
  - Interviews with different stakeholders indicated that approximately 60 per cent of workforce is concentrated in lower grades of the pay scale, i.e. 7, 6 and 5 and most of them are female.

#### 6.3.3 Focus on cost of living aspect of the wage determination process

- This research focuses on the aspects of *cost of living* and *standard of living* that should according to the Labour Act 2006.
  - Minimum wage for workers is considered from the perspective of meeting the basic needs of the family of workers.
  - The costs of living include costs of food and non-food expenditures of the family where both costs are equally important for urban garment workers

## 7. Estimation of the Minimum Wage

### 7.1 Three Methodologies

- Three different methodologies have been followed.
  1. A methodology based on the upper poverty line- based on national statistical data on family and dependent size and using upper poverty line values.
  2. A methodology based on a real picture of existing expenditures and purchasing power, based on up to date data from worker focus groups.
  3. A methodology based on a model diet which incorporates energy and nutritional values rather than just energy values.

## 7. Estimation of the Minimum Wage

### 7.2 The Upper Poverty Line

- Calculation for the total food costs for the family consists of 2.08 adults consuming 2,122 calories and 2 children aged 1 – 3 consuming 1,060 calories each.
  - HIES 2010 calculates the costs of this food bundle per person per month were 1,018 Taka for the Dhaka Urban Area in 2010.
- The ratio of food to non-food costs is determined by using the ratio of food poverty line- upper non-food allowance. The ratio is 57: 43
- The estimated required monthly income for workers having families in case of upper poverty line is Tk.6919

#### Estimation of Required Monthly Income for Married Worker in case of Upper Poverty Line

Issues	Tk./month		
Monthly per person food cost in 2010	1018	Household size	4.08
Monthly family food cost in 2010	4153.44	No. of earners	1.47
Monthly food cost in 2013 after inflation adjustment	5679.36		
Monthly non-food cost (43% of total cost)	4284		
Monthly total cost for a family (Tk.)	9963.36		
Estimated Required Monthly Income for a married worker = (Food costs + Non food costs)/1.44	6919		

Source: CPD's calculation based on HIES 2010 data

## 7. Estimation of the Minimum Wage

### 7.3 Actual Expenditures

- The three FGDs have revealed little difference between structure of household between married and unmarried workers.
  - In most cases unmarried workers live with their parents and other family members are involved in jobs.
  - The effective participation in jobs of members of unmarried workers is rather high compared to those of married workers.
  - Hence, we would question the logic of the rate for entry level as being a wage for 'single' workers.
- A major observation from the field survey is that non-food costs are a major expenditure for workers and their families.
  - The ratios of food to non-food costs for families of married and unmarried workers are likely to be 50.1:49.9 and 47.8:52.2 respectively
- Ratios of food to non-food consumption as well as size of the family has difference in between sample workers and national average
- For a large number of families and in the case of unmarried workers, if there have more than 1 earner in their family, these are not always fulltime earners.
  - So the non-full time earners contribute relatively less to the family income.

## 7. Estimation of the Minimum Wage

### 7.3 Actual Expenditures

- With an average family size of 3.2 and an average number of earning members of 1.6, the required monthly income for sample married workers will be Tk.6430.
- Effective' monthly income of these married workers would be about Tk.8216 as the contribution of the families other earning member is only 24 per cent.

**Estimation of Required Monthly Income for Married Worker to meet Actual Expenditures**

Issues	Tk./month		
Monthly expenditures for the family		Household size	3.2
Food Costs	5180.154	No. of earners	1.61
Non Food Costs	5172.308	No. of 'effective' earners	1.24
Total Food + Non-Food Costs	10352.46		
Estimated Required Monthly Income =(Food costs + Non-food costs of the family)/no. of earners)	6430		
'Effective' Monthly Income = (Food costs + Non-food costs of the family)/no of full-time earners	8216		

Source: CPD figures based on data collected from the FGDs in August, 2013



## 7. Estimation of the Minimum Wage

### 7.3 Actual Expenditures

- The required monthly income for sample unmarried workers will be Tk.4937.
- Considering the effective contribution of other member the “Effective” monthly income of these unmarried workers would be about 7173.7

#### Estimation of Required Monthly Income for Unmarried Worker to meet Actual Expenditures

Issues	Tk./month		
Total monthly expenditures for unmarried worker		Household size	3.13
Food Costs	4405.7	No of earners	1.86
Non Food Costs	4776.6	No. of effective earners	1.28
Food + Non-Food Costs	9182.3		
Estimated Required Monthly Income=(Food costs + Non-food costs)/no of earners	4936.7		
‘Effective’ Monthly Income=(Food costs + Non-food costs)/no of fulltime earners	7173.7		

Source: CPD figures based on data collected from the FGDs in August, 2013

## 7. Estimation of the Minimum Wage

### 7.4. A Minimum Wage based on a Model Diet

- We wanted to derive a minimum wage figure which would allow Bangladeshi workers to access a basket of food
  - It includes the required daily allowances in terms of energy (kilocalories), macronutrients (fat, carbohydrates, and protein) and micronutrients (vitamins and minerals).
- Such a model diet listing a number of food items and their amount that should constitute a person's daily intake, does not (yet) exist for Bangladesh.
- In the interests of a healthy workforce and a healthy society, we think such a calculation, whilst aspirational, would make a useful contribution to the debate.
- Calculation of food items amount based on family size (4.08) and composition (1 moderately working man, 1.08 moderately working woman and 2 children aged 1-3) as on a monthly basis.
- The non-food costs are therefore calculated on the basis of the average ratio of food costs: non-food costs as reported by workers in the FGDs.

## 7. Estimation of the Minimum Wage

### 7.4. A Minimum Wage based on a Model Diet

- The estimated required minimum wage for married and workers would be Tk.14553. However, this estimation needs to be adjusted to include some discretionary income.

#### Estimation of Required Minimum Wage for Married Worker based on Aspirational Model Diet

Issues	Tk.		
Daily Food costs			
Male	117.92	Household size	4.08
Female	107.2818	No of earners	1.47
Child (2)	131.36		
Total Daily Food Costs for a Family	356.5618		
Monthly Food Costs for a Family	10696.854		
Monthly Non-Food Costs for a Family (50% of total cost as per the FGD)	10696.854		
Monthly Food + Non-Food Costs for a Family	21393.708		
Required Monthly Minimum Wage=(Food costs +Non-food costs)/no of earners	14553.54		

## 7. Estimation of the Minimum Wage

### 7.4. A Minimum Wage based on a Model Diet

- The estimated required minimum wage for unmarried workers would be Tk.6750.
- Though this estimation needs to be adjusted to include some discretionary income.
  - There is little no room for savings in the Bangladesh RMG sector.

**Estimation of Required Minimum Wage for Unmarried Worker based on Aspirational Model Diet**

Issues	Tk.		
Daily Food Costs (average of male and female)	108	Household size	3.25
Monthly Food Costs	3240	No of earners	1
Monthly Non-Food Costs (52% of total cost as per the FGD)	3510		
Food + Non Food Costs	6750		
Required Monthly Minimum Wage=(Food costs + Non-food costs*hh size)/no of earners	6750		

Source: CPD figures

# 8. Assessment of the Costs of Living, Prevailing Wages and Gap with Estimated Monthly Income

## 8.1 Costs of Living

- The highest overall expenditure is observed in Tongi followed by Ashulia and Rampura (Dhaka); reflect the general perception of differences in the expenditure pattern.
- In contrast, the distribution of consumption of food and non-food items varies in the opposite direction - from the share of high food ratio in Rampura followed by Ashulia and Tongi.

### Distribution of Food and Non-food Costs in Different Locations

	Ratio of food cost: non-food cost		
	Ashulia	Tongi	Dhaka
Food	50	55	44
Non Food	50	45	56
Total	100	100	100

Source: CPD figures based on data collected from the FGDs in August, 2013

## 8. Assessment of the Costs of Living, Prevailing Wages and Gap with Estimated Monthly Income

### 8.1 Costs of Living

- Among the food items, the cost of rice constitutes over one-fifth of total food costs both for married and unmarried workers
- The main non-food cost items include house rent (15.3 per cent and 7.7 per cent respectively), education (12.9 per cent and 6.9 per cent), medical (5.0 per cent and 4.3 per cent) and mobile bill (4.7 per cent and 5.9 per cent) respectively
- The average monthly borrowing for married and unmarried workers varied between Tk.770 and Tk.1830 respectively

#### Distribution of Monthly Food and Non-food Costs for Married and Unmarried Workers

	Married	Unmarried
<b>Food Costs</b>	<b>5180</b>	<b>4406</b>
Of which: Cost of rice	1118	997
<b>Non-Food Costs</b>	<b>5172</b>	<b>4777</b>
Of which:		
House rent	789	367
Educational expenses	665	330
Medical expenses	261	206
Mobile phone bill	242	281

# 8. Assessment of the Costs of Living, Prevailing Wages and Gap with Estimated Monthly Income

## 8.2 Prevailing Wage

- Wage data have been collected from different sources
  - Data from 3 European retailers with a combined supply base of 412 factories
  - Wage data from 11 factories that are suppliers to European brands and retailers
  - Three FGDs with workers
- There is a difference in the structure of wages between the two, perhaps due to asymmetry in factories on various accounts
- It is interesting to note that in all cases workers reported lower figures than retailers did based on the data obtained at their suppliers, in some cases differences are substantial (approximately 2000 Tk.)

**Comparison of Prevailing Wages in Different Factories**

	Supply base of brand/retailer 1	Supply base of brand/retailer 2	FGDs with Workers; CPD
Number of factories	106	54	
Number of factories in EPZ	9	11	
Average regular wage, excluding overtime, and excluding fringe benefits (month)			
Grade 5	5305	3973	3329
Grade 6	4550	3525	3161
Grade 7	3768	3300	2925
Average earnings including overtime, but excluding fringe benefits (month)			
Grade 5	6500		4454
Grade 6	5500		4200
Grade 7	4921		3786
Average earnings including fringe benefits, excluding overtime (month)			
Grade 5	5947	5754	3865
Grade 6	5167	5306	3796
Grade 7	4260	5081	3373

# 8. Assessment of the Costs of Living, Prevailing Wages and Gap

## with Estimated Monthly Income

### 8.2 Prevailing Wage

#### Data from FGDs

- Basic pay for different categories of sample workers were at best at par with the level set in the minimum wage board of 2010.
- House rent allowance which is supposed to be 40 per cent of total basic pay is much lower than the legally entitled limit.
- In some cases, house rent is provided on a lump-sum basis instead of the legally provisional level.

#### Structure of Wages and Other Allowances Received by Sample Workers

	Wages in legally entitled payment (Tk./month)				Wages with other payments (Tk./month)					
	Basic pay	House rent	Medical allowance	Actual wage	Attendance allowance	Transport allowance	Production allowance	Total overtime allowance	Monthly eid bonus	Take-home pay
Grade 3	3434	1012	227	4673	289	41	0	1268	318	6588
Grade 4	2805	673	203	3682	293	33	95	1134	336	5573
Grade 5	2586	543	200	3329	286	0	0	1125	251	4991
Grade 6	2445	516	200	3161	278	33	0	1039	324	4835
Grade 7	2204	517	204	2925	158	67	8	861	215	4234
Average of all	2833	723	211	3767	264	38	23	1115	297	5505



## 8. Assessment of the Costs of Living, Prevailing Wages and Gap with Estimated Monthly Income

### 8.2 Prevailing Wage

- Workers however receive various other kinds of payments which increase overall take-home pay of the workers.
- These additional payments include attendance allowance, transport allowance, production allowance and overtime payments;
  - Three out of four being mostly related to enhancing production.
- The legally entitled wages of workers should have to be met first before factoring in production-based and other non-legally entitled allowances for workers.
- There are variations in the payments of different allowances in different locations which lead to differences in the overall receipts of workers.

## 8. Assessment of the Costs of Living, Prevailing Wages and Gap with Estimated Monthly Income

### 8.3 Assessment of the shortfall between the costs of living and the prevailing wage

- There is a huge gap between the required level of monthly income and the existing regular wage .
- The highest gap exists between the prevailing wage and a living wage based on a model diet and the lowest gap exists in relation to the upper poverty line calculation.

**Gap between Actual Wage received by workers and Take-home Payments with Required Monthly Income in Different Scenarios (Tk./month)**

		Monthly income	Actual monthly income/expenditure	Monthly income
1	Basic + Housing + Medical	3292	3138	3292
2	Monthly take-home pay (grades 5,6 & 7) based on FGDs	4686	4686	4686
		<b>Poverty line</b>	<b>Actual expenditures</b>	<b>Model diet</b>
3	Required Minimum wages	6919	8216	14553
4	Gap between (3) and (1)	3627	5078	11261
5	Gap between (3) and (2)	2233	3530	9867

## 9. Recommendations

- Based on the findings of the study, CPD would like to make the following specific recommendations to the Minimum Wage Board with respect to entry level workers.
  - The Minimum Wage Board should consider the definition of minimum wage as a wage which meets the basic needs of these workers and their families and provides discretionary income as savings.
  - The Minimum Wage Board should consider accepting the method suggested for calculating the minimum wage for workers.

**$$\left[ \frac{\text{Food Costs} + \text{Non-food Costs}}{\text{Number of Earners}} \times \text{Household Size} \right] + X\% \text{ Discretionary Income or Savings}$$**

- The Minimum Wage Board should consider accepting the concept of family as the unit of estimation of workers' minimum wage since most of the workers either married or unmarried bear part/full responsibility for their family.
- The Minimum Wage Board should pay due attention to both food and non-food costs of living of the workers and their families.

## 9. Recommendations

- The study estimates a revised minimum wage using three separate methodologies: poverty line data from national statistics, actual worker income and expenditures based on focus group discussions and a living wage based on an aspirational model diet.
- The minimum wage levels for the entry level grade generated using these three methodologies would therefore be as follows:
  - Tk.6919 at the poverty line; Tk.8200 at actual worker expenditures; Tk.14553 based on an aspirational model diet.
- Since the minimum wage should not be higher than the national average wage level, we are not recommending the aspirational figure (Tk.14553) based on a model diet at this time. However we would note that workers income needs to be increased sufficiently to ensure maintaining healthy living for their families.
- Since a minimum wage should be higher than the poverty line we recommend a minimum wage for grade 7 workers be set at least Tk.8200.

## 9. Recommendations

- An appropriate mechanism needs to be identified in order to implement the minimum wage at the factory level.
  - Taking into consideration of the limitations of different categories of factories, the Board may consider implementing the minimum wage in a phase-wise manner.
- In that consideration, the minimum wage for the first year could be 80 per cent of the required level which will be about Tk.6560.
  - To achieve this target, a basic salary of Tk.4300 with 40 per cent house rent (Tk.1720) and lump-sum of Tk.540 as medical allowances would need to be provided.
  - The rest 20 per cent could be provided in the second year after inflationary adjustment.
- The revision of the minimum wage as proposed will require more fund for the manufacturers to bear the burden of additional labour costs.
  - The adjustment of rise in wages could be implemented better if retailers and buyers are ready to provide better cutting and making (CM) charges.

## 9. Recommendations

- This would not be difficult for buyers/retailers to accommodate
  - A large number of European and North American retailers have agreed to work on improvement of social and physical compliances for RMG workers
- It is observed that workers are less aware about their entitlements related to minimum wage as well as the grade to which they belong to work in the factory.
  - Lack of awareness about those issues left the workers unable to get the benefits in full.
  - In fact, most workers show interest on monthly take-home payment instead of what is legally entitled for them as wages
  - This has adverse implications in case of hiring and setting basic wages for those unaware workers.
  - The Minimum Wage Board should request the ministry of labour to implement the minimum wage as per agreed terms and conditions.

## 9. Recommendations

- A further observation relates to the existing wage structure is that it is unattractive for workers.
  - The wage differentials between the lower grades are very low; and re-grading is not a common human resource management practice amongst manufacturers.
  - The low wage level inevitably means that workers will seek to maximise their earnings wherever they can.
  - The resulting high labour turnover in the RMG must be detrimental to factory performance.
- Fringe Benefits: Production bonuses are insufficient to improve efficiency.
  - Often the production benefit provided to the workers is based on unrealistic production targets which workers have to make up by working excessive overtime.
- The Minimum Wage Board may consider proposing fixing the tenure for workers in each specific grade
  - Provided workers in their working life get the opportunity to work at the upper grades (grade 3 and above)

## 9. Recommendations

- We would recommend that similar pieces of research be undertaken on other aspects the Minimum Wage Board may take into account when setting minimum wages,
  - Cost of production, Productivity, Price of Products, and Business Capability
- Finally we would recommend that a longer term research should be undertaken into wages in the RMG sector.
  - With the aim to building wage statistics in a publicly accessible database – and monitor wage developments closely and systematically.
  - These data should be made public and transparent for all stakeholders involved.
  - This will help business and trade unions because both parties agree there is a lack of reliable and systematically gathered data.
  - This longer term research should also look into the relationship between wages and productivity levels in more depth.



THANK YOU

