

NICE WORK?

ARE WORKERS TAKING THE STRAIN IN THE ECONOMIC DOWNTURN?

An update of Impactt's data on the prevalence of labour standards issues from 2006-2012

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Jobs in factories, processing units and farms around the world play a pivotal, although often hidden role in our lives – workers doing those jobs provide us with the food we eat, the clothes we wear, the things in our houses and the electronic devices we increasingly rely on, at a price we can afford. These jobs are as important for our economies, now for many years dependent on consumption rather than our production of goods, as they are for the economies of producing countries.

For the workers themselves, these jobs offer the opportunity to earn, to fulfil ambitions and to provide a better life for the next generation, often at the price of migration far from home, and separation from family and community.

The stakes are high, but, as the effects of the global financial crisis continue to reverberate, are the workers of the world paying too heavy a price?

"We leave our villages with a heavy heart and come to Delhi for employment; any penny saved here by us is crucial to ensure food on the table back home. We have a lot of expectations from this factory; employment here will ensure education for our children."

Bimal, India

"My family back home is dependent on my employment at this factory; God bless this factory; the factory is an extended family for us."

Faisal, India



Four key questions are emerging for stakeholders in global value chains:

1 As alternative employment opportunities appear in many economies, working in offices, service-sector jobs, in 'clean' electronics factories rather than in 'dirty' garment factories, how long will skilled workers be prepared to continue working to service the markets of the West?

2 Where many of these jobs are held by migrants, will alternatives open up for these people to move up and out of manufacturing and take up jobs closer to home?

3 As workers become more demanding in terms of job quality, skilled labour willing to work in processing and manufacturing becomes scarcer, costs continue to rise and buyers' technical specifications become more demanding, how can manufacturers continue to service Western brands and retailers?

4 How can retailers and brands in the West maintain their access to products when new markets are opening up in Russia, across Asia and in the Middle East with buyers who are less demanding?

"When my child grows up that time I never want to let him join [a] garment factory. If I have to, then he will take a job in the office not on the production floor like me." **Rina, Bangladesh**

"Before workers followed us, nowadays we are following them back to operate factories in inland cities. If I had not invested big money to replace manpower by auto knitting machines years ago, our factory would certainly be closed by now. We could not have coped with increasing operational cost year by year. We can survive also because we have developed our own brand, which targets the high end domestic market. This will be our future focus." **Knitting factory owner, China**

Over the past six years, Impactt has visited nearly 700 production sites in 20 countries employing almost half a million workers, primarily in China, Bangladesh, India and the UK. The data from these visits takes in the views of over 17,500 workers across sectors including apparel, electronics, toys, homewares and food, primarily for the UK market.

We have also spoken to thousands of factory owners, managers and supervisors. In this report we identify trends in job quality and indicate the size of the challenge facing manufacturers, retailers and brands in developing and retaining sustainable supply bases for the food, clothing, household and electronic goods we rely on.



JOB QUALITY IS LOW, AND, FOR MANY, GETTING LOWER

According to Impactt's Global Exploitation Index, an overall measure of key factors weighted according to their importance to workers, the level of exploitation of workers remains at a high level, increasing slightly over the past six years (*Figure 1*), with people working harder, for wages which can buy them less of what they need, without the ability to bargain for more.

Long working hours, poor treatment and lack of access to bargaining are still the everyday realities for the majority of workers. Whilst statutory minimum wages in key producing countries are rising fast, and workers' take-home wages in many countries are also going up, the gap between actual wages, and the amount needed to support a household continues to widen globally.

Workers in the UK, often migrants from overseas, are feeling the pinch. One commented "Wages are coming down. I wonder if I should write and ask the Queen to support us".

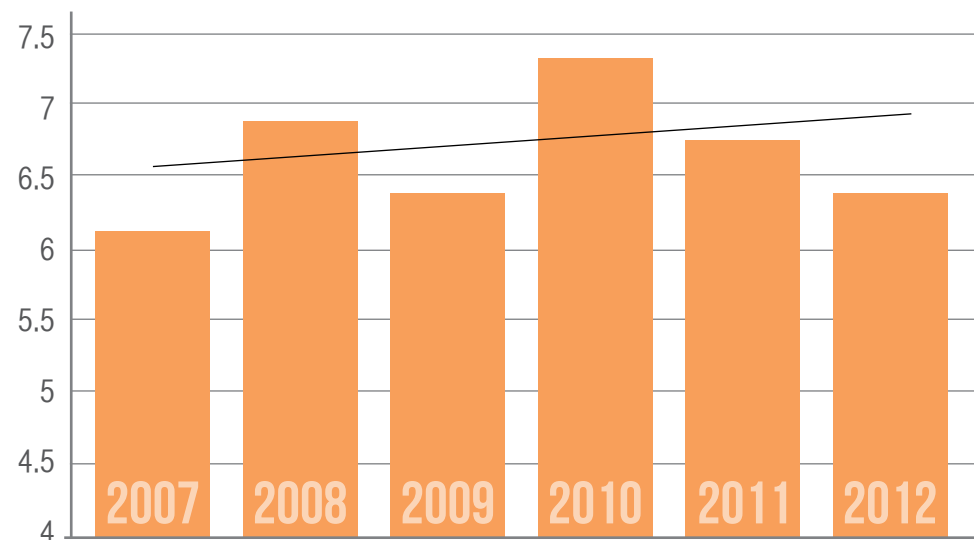


FIGURE 1: IMPACTT LABOUR EXPLOITATION INDEX - GLOBAL

| YEAR | GLOBAL | CHINA | INDIA | B'DESH | UK |
|------|--------|-------|-------|--------|------|
| 2007 | 6.22 | 6.17 | 6.14 | 6.47 | 4.53 |
| 2008 | 6.94 | 6.61 | 6.48 | 5.66 | 4.13 |
| 2009 | 6.36 | 5.31 | 4.76 | 4.83 | 5.00 |
| 2010 | 7.23 | 6.29 | 5.73 | 6.84 | 4.67 |
| 2011 | 6.82 | 5.42 | 6.05 | 6.84 | 5.06 |
| 2012 | 6.44 | 6.14 | 7.07 | 7.21 | 4.64 |

FIGURE 2: IMPACTT LABOUR EXPLOITATION INDEX – GLOBAL AND KEY COUNTRIES

Looking at four key countries in our data set, Bangladesh continues to rank highest on the exploitation index, providing the lowest quality jobs followed by India, then China, and finally UK (Figure 2), with job quality tracking the GDP ranking of these four countries. In China, job quality has improved slightly over the six-year period. The ongoing labour shortage is prompting some employers to provide a better deal for workers.

Many workers feel that they have the whip hand in deciding where to work, one worker commented, “The factory treats us OK. Otherwise, we will leave. It is very easy for us to find a job in this city, especially for a woman.” However, other employers in China are increasingly turning to child labour and labour agents to fill the empty benches in the factories and this largely accounts for the decline in job quality in 2011 and 2012.

In India, Bangladesh and the UK, the position for workers in our data set has deteriorated (Figures 3 - 6), most sharply in India and Bangladesh. In the UK, workers report that jobs are scarce and their opportunities limited. Pavel, working in a food factory in the UK says “Many people are looking for work and can do the job. Our managers say ‘The door is over there. If you want, you can go.’ They know we have nowhere else to go. They treat us like a number.”



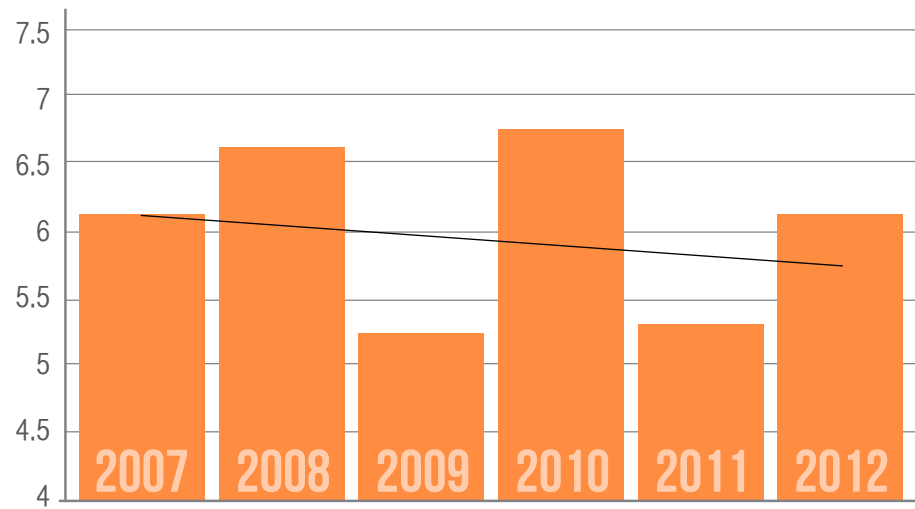


FIGURE 3: IMPACTT LABOUR EXPLOITATION INDEX - CHINA

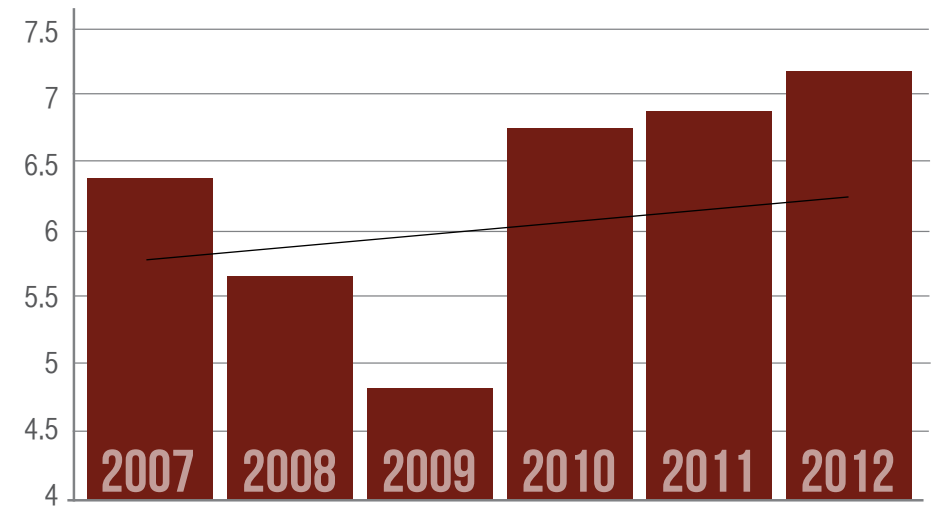


FIGURE 5: IMPACTT LABOUR EXPLOITATION INDEX - BANGLADESH

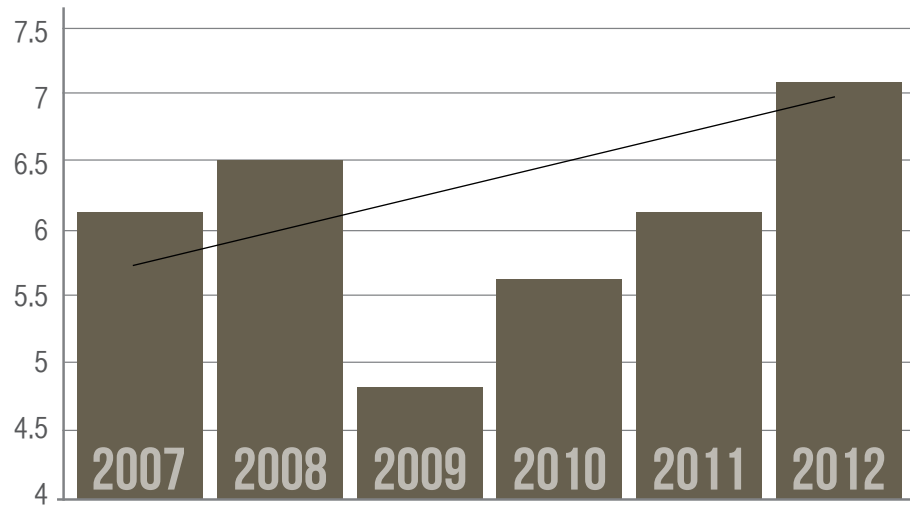


FIGURE 4: IMPACTT LABOUR EXPLOITATION INDEX - INDIA

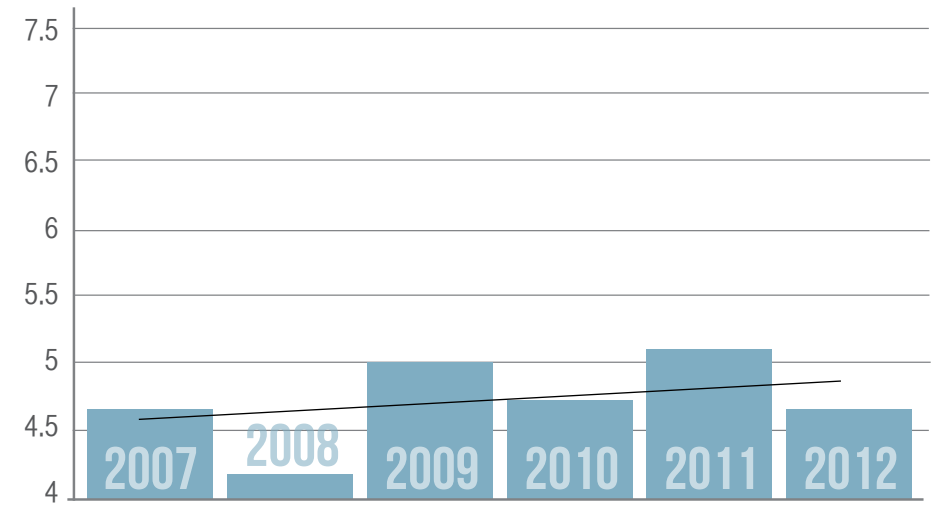


FIGURE 6: IMPACTT LABOUR EXPLOITATION INDEX - UK

In other countries, more attractive opportunities are opening up, prompting workers to question whether they will stay in export manufacturing. In China, jobs in the electronics industry are attracting workers away from garment, footwear, toys and homewares factories.

Employers around the world report that difficulty in attracting and retaining skilled workers is a key business problem. In China, export factories often experience between 7 and 10% labour turnover monthly, in Bangladesh, the average is closer to 12% and in India up to 15%. This lack of workforce stability has a massive impact on productivity and quality, with managers spending all their time trying to fill the gaps in the line. However, employers in general are making slow progress in implementing the obvious solution of providing jobs which motivate workers and meet their needs. Worker satisfaction levels are extremely low. In a recent Impactt survey of workers across China, 0% reported being 'very satisfied' with any aspect of their employment.

"Work as a garments worker is not a good job to continue for long years. I will leave this job after some years and go to village and start my own business." **Sohrab, Bangladesh.**

"Electronic factories have much better working environment than garment factories, electronic factories have air conditioners while garment factories are full of dust, it is really annoying when you work later at night and still need take some time to wash yourself thoroughly." **A Xia, China.**

"I hate coming to work, managers don't care about us. They just sit in their offices." **Magda, UK**

"Factory work is really exhausting; I would like to work in service sector like catering, hairdressing, supermarket and etc....jobs with more dignity." **A Jie, China**

FORCED LABOUR IS STILL COMMON

It's easy to see why satisfaction levels are low. Rather than incentivising workers to stay, many businesses are still focusing on finding ways to force workers to remain. Although globally these practices appear to be diminishing, nevertheless we found forced labour practices including disciplinary fines (at 33% of sites we visited globally in 2012), deposits (at 5%) and withholding of workers' ID documentation (at 1%) (see figure 7).

The decline in forced labour is principally experienced by workers in China, and masks increases in India and Bangladesh.

"The factory does not allow workers to resign; if you leave, you lose your last month's wages." **Zhi Hua, China**



ACCESS TO COLLECTIVE BARGAINING IS THE EXCEPTION NOT THE RULE

Workers continue to have poor access to effective trade unions, with workers at 91% of sites saying that they do not have access to fully effective worker representation mechanisms. Workers express frustration at their powerlessness to tackle problems at work. One worker in the UK commented that the general atmosphere in his workplace was “Got a problem, just get on with it”.

In general, workers in our UK sample report increasing frustration with their experience of trade unions’ lack of power to make change at the workplace level in the current tough economic situation with higher unemployment. In Bangladesh and India, trade unions were entirely absent from factories in our sample.

However, at 59% of the sites we visited, workers reported that there was some form of worker representation: 24% had trade unions, 20% had worker committees and 14% had worker representatives. Whilst many of these structures are inactive, or a paper-based response to brands’ compliance efforts, in China at least, there are some indications in that more workers are increasingly being able to access some form of redress.

In China we are seeing a relaxation in crack-downs on strikes and disruption, and strong encouragement from the government for enterprise level bargaining and negotiation. We also see more employers seeing benefits in consulting with workers to understand their needs. Whilst still a vast distance from proper freedom of association and collective bargaining, increasing numbers of Chinese workers are reporting more small scale go-slows and strikes over specific issues, usually related to pay, and more willingness amongst employers to settle these grievances.

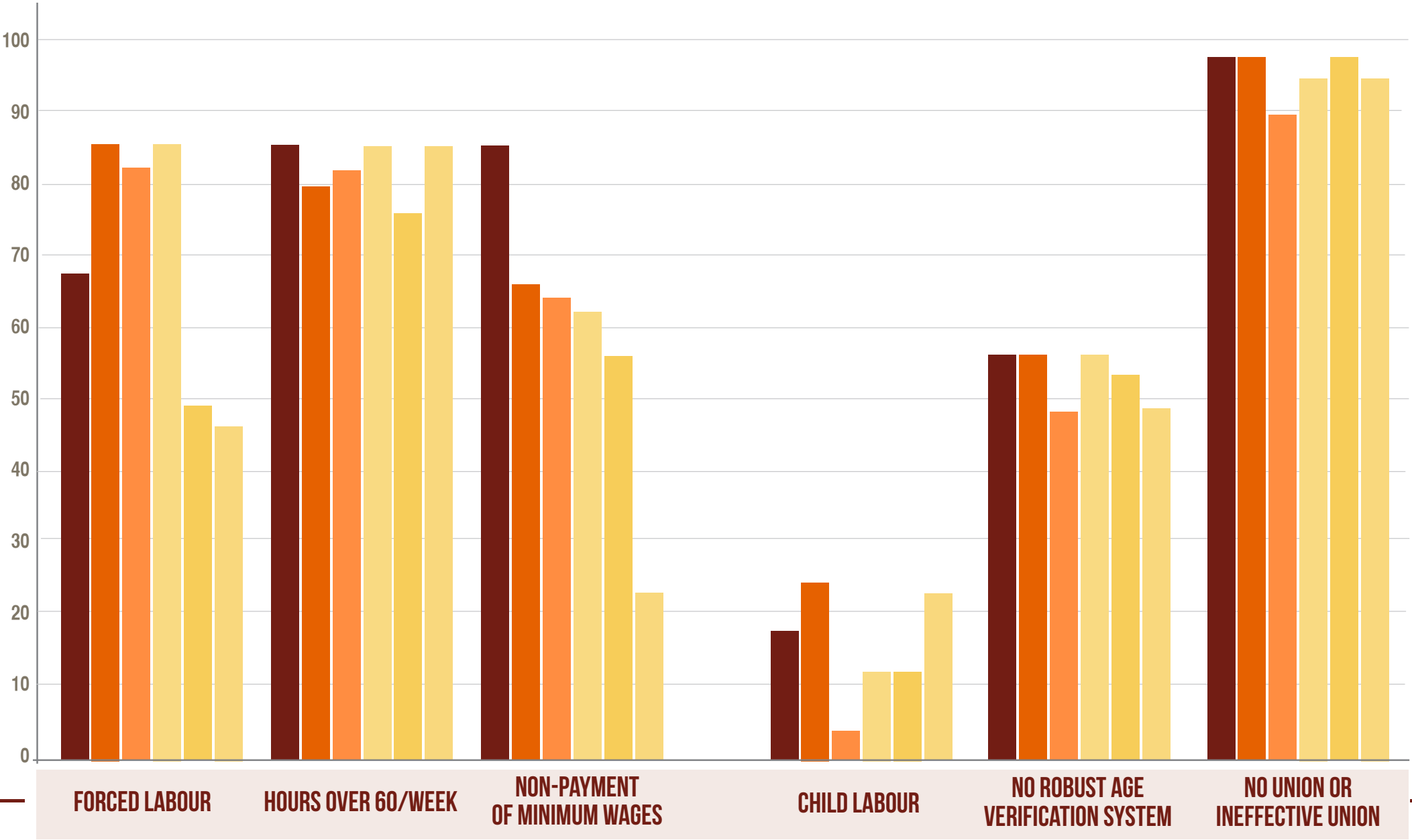
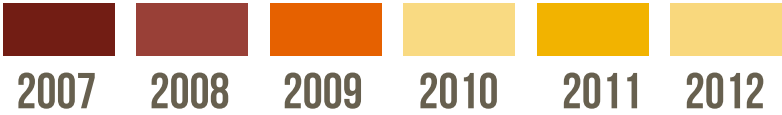
“We don’t go to the trade union, because we don’t have any faith that they will really do something good for us.” Soheli, Dhaka, Bangladesh

“We will listen to what workers are saying to keep them work longer. For example, we just conducted a survey to all the workers to get their opinions on building new dormitory. We let them to choose how many workers they would like to live in one room. After the survey we have clear idea to design our new dormitory.” HR manager, garment factory in South China

“We have a worker committee with seven representatives. I know who the representatives are. They are here to help us if we have any problems in the factory.” A Hui, China



FIGURE 7 - GLOBAL PREVALENCE OF ISSUES



CHILD LABOUR INCREASINGLY PREVALENT IN CHINA

In the context of labour shortage, child labour continues to be an issue, with children being found at 22% of all the worksites we visited during the year. This is mainly due to a rapid increase in the incidence of child labour in China, where we found children working at 36% of the sites we visited in 2012, with scattered instances in India and Bangladesh.

This is coupled with a continued failure in age verification systems, with 50% of sites visited globally not having sufficient safeguards to prevent the recruitment of children. In China, the availability of large numbers of under-age workers who have quit school, the lack of availability of schooling for the children of migrants, ongoing labour shortage, and rapid wage inflation for adult workers have prompted an epidemic of child workers.

There are increasingly close relationships between schools and colleges and factories, with many students being required to work in a factory in order to receive their qualification, and others funding tuition fees through factory work in school holidays. In 2012 we have found larger groups of younger workers than ever before.



"As parents, sometimes we feel guilty to let our kid work in a factory at such young age. However, he would like to go out with friends and classmates, and we don't have any other better idea to better arrange his summer holiday. In our village here, it is not rare every summer the students will go out to work under recommendation by local village people. This is opportunity to gain social experiences and to earn some money."
Parent of under-age student worker, China



WORKERS ARE RELIANT ON EXCESSIVE HOURS

The percentage of sites where workers work more than 60 hours per week remains high at 85%. This indicates that the pressure is on workers to try to earn enough to cope with rapidly increasing living costs, by boosting their overtime hours.

It also masks increased irregularity of hours, particularly in the UK, where workers are increasingly asked to work flexibly, largely to meet the demands of 24-hour retailing, with little advance information about their working hours.

"No matter how long my days are the pay is the same, 25RMB/day – it does not change. Men will not do this job because the pay is too low. Young people will not do this job because the pay is too low. So it is left to the women who cannot find another job easily and we are still healthy enough to complete the work. Really though, it is a man's job."
Ting Ting, China

"We're not aware of what's going on. It's sometimes illogical. Some are told to work 12 hours [straight], others are let go early."
Kristina, UK

THE GAP BETWEEN EARNINGS AND THE LIVING WAGE CONTINUES TO WIDEN

Globally, we are seeing rapid inflation in statutory minimum wages, the average minimum wages in our data set have increased by 57% since 2006 and by 11% over the last year. In India and China, this is the result of proactive government policy to increase workers' standard of living, whereas, in Bangladesh, there has been no movement in the minimum wage since 2010. In the UK, minimum wages have increased annually since 2000.

We are seeing improved compliance with paying the applicable minimum wage; in 2006, 84% of the sites we visited were failing to pay the local legal wages for standard time, whereas in 2012, only 22% were failing to do so. This is clearly important progress, but what is more important to workers is the amount they get to take home every month, and how this compares with the cost of living, supporting their families and saving for the future.

Take-home wages are increasing more slowly across our four key countries than statutory minimum wages, by 48% over the period and by 2% last year.

Crucially for workers, the gap is widening between the amount they are earning per month, and calculations of a living wage

"I have very little to live on for the rest of the month after I have paid my bills. I find it much harder to find money to pay for petrol." Emilia, UK

"Life is too difficult in Punjab as the salaries are very low to meet our basic needs and run the life smoothly."
Sweetie, India

"Wages don't increase with inflations-I feel like I have less money."
Xiu Li

Quantifying this gap is difficult. Living wage calculations are controversial and there is considerable debate surrounding particular figures. Nevertheless, it is very clear that living wages are running ahead of workers' earning ability. We have drawn on a wide variety of sources for our calculations which indicate that calculated living wages figures in our key countries have gone up by 145% over the period, and 7% over the past year.

In our data set, the gap between take-home wage and the applicable living wage has widened steadily (figure 8). This year, the average global gap for workers in our data set is 34%, so, in other words, workers are only able to earn 34% less than the living wage.

"Earlier income was less but daily expenditure was also low. That time my family was with me. I could manage the whole family, but now I send my family [to the] village due to expensive daily life", Afsal, Bangladesh

"I plan to go back and work in my hometown after New Year. Living in Shenzhen is getting more and more expensive and I can't get enough money left to send back. My son is living with my parents, who are too old to take care of him. I would like to stay with them in Chongqing and work in a factory near my home"
Hua Ru, China

FIGURE 8: : % GAP BETWEEN TAKE-HOME AND LIVING WAGES.

| WAGE GAP | GLOBAL | CHINA | INDIA | B'DESH | UK |
|----------|--------|-------|-------|--------|-----|
| 2007 | 2% | -32% | 12% | 19% | 11% |
| 2008 | 22% | -16% | 41% | 48% | 14% |
| 2009 | 23% | -1% | 35% | 42% | 14% |
| 2010 | 33% | 3% | 52% | 62% | 16% |
| 2011 | 32% | 10% | 46% | 57% | 13% |
| 2012 | 24% | 14% | 47% | 62% | 14% |

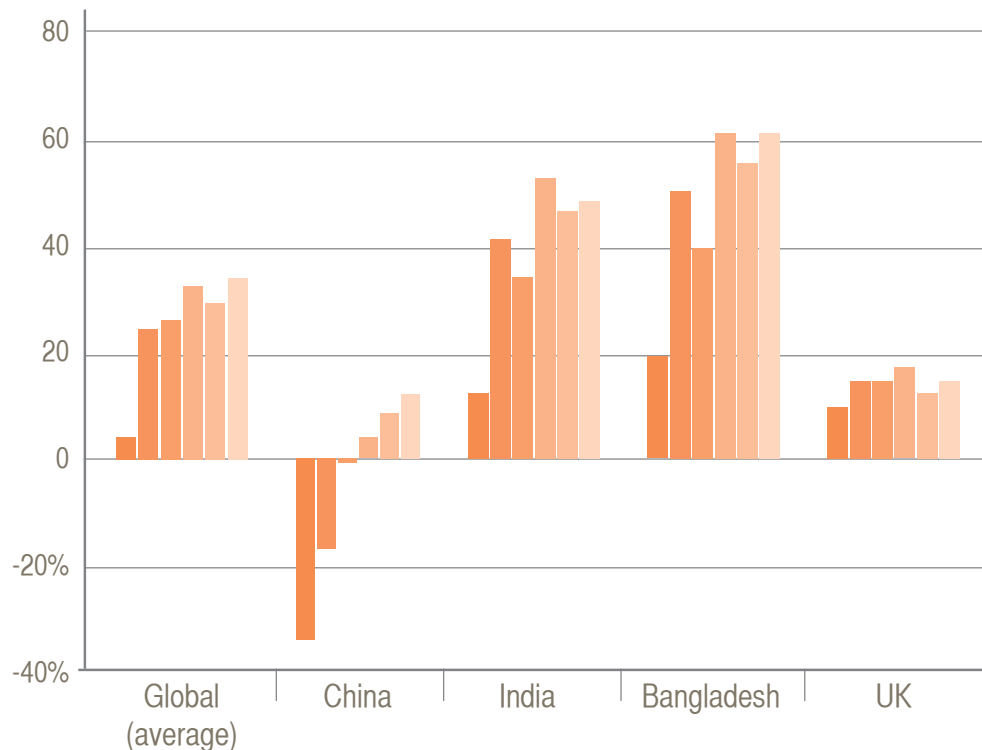


FIGURE 9: GLOBAL WAGE GAP

2007 2008 2009 2010 2011 2012

Figure 9 shows the gap is largest in Bangladesh, where workers in our data set take home 62% less than the living wage. In China, back in 2007, workers were able to earn 32% in excess of the living wage. This position has now reversed, with workers able to earn 14% less than current calculations of a living wage.

In India the gap has grown, and stabilised at around 46%, in other words, workers in our sample are able to make just over half a living wage.

In the UK, the position is relatively stable, with workers in our sample throughout the period, having been able to earn on average 14% less than the living wage on a monthly basis – the same wage gap as in China.



"I live alone in Gurgaon and I have to support my parents, wife and children back in the village. I try to eat as little as possible so I can send more money to my family. The cost of vegetables has increased a lot recently. My current salary is not enough to meet our needs." **Vijay, India**

"I think I should earn at least RMB 3000. But right now, the only way to do this is by working a lot of overtime which I can't do because of my children. I have to work here until I pay off my debts, but then I will leave...", **skilled sewing operator, China**

"People's salaries have gone down 30% and now you you can't work a 6-day week." **Peter, UK**

CONCLUSION

The gap between what workers are able to earn and a living wage is increasing, leaving many workers unable to provide for their families as they would wish. Poor job quality and lack of access to redress is the dominant picture in these jobs around the world. But it is important to recognise that employers are also in a bind.

Wage costs are increasing rapidly, far faster than the prices they are able to get for their products. Employers' salary bills have gone through the roof over the past six years, but this is still not enough to meet workers' needs. The resulting high worker turnover means it is hard to increase productivity and quality so as to fund wage increases. Where there is a shortage of skilled workers, employers are often pushed towards employing children or using more vulnerable migrants under yet worse conditions.

Anecdotal evidence from around the world suggests that manufacturers' margins are increasingly thin. Fragile consumer demand and lack of confidence from consumer markets means that lack of certainty and forward visibility of orders are the order of the day for many consumers and brands. It is difficult for business owners to justify investment in changing ways of working to improve workforce stability and productivity, when the return on this investment is so uncertain. It is hardly surprising that managers fall back on traditional negative management practices, and are slow to adopt incentives and rewards, and in turn that workers are increasingly looking to leave the export manufacturing jobs as opportunities open up elsewhere.

Global supply chains are vital for all our economies. In these times of rapid change, the challenge for retailers and brands and their suppliers is to develop and retain sustainable and fair supply chains for the food, clothing, household and electronic goods we rely on.



RECOMMENDATIONS

It is clear that no single actor can create change at the required scale alone. Our work in supporting supply chains to improve their social and economic sustainability indicates that there are key actions for all stakeholders:



EMPLOYERS:

- Recognise that a stable, loyal and productive workforce will support the economic sustainability of their businesses
- Take steps to understand worker viewpoints and develop packages to meet workers' needs
- Invest in management capability to deliver better jobs for more productive workers

RETAILERS AND BRANDS:

- Understand pressures on supplier businesses
- Develop purchasing practices which support and encourage suppliers to stabilise and incentivise their workforce

CONSUMERS:

- Gain an in-depth understanding of the challenges involved in improving job quality and workers' rights
- Judge a brand/retailer by the actions they have taken to improve conditions, rather than expecting them to have already perfect supply chains
- Recognise that ethical products often come at a higher price - and be prepared to pay the price

TRADE UNIONS:

- Invest in providing more workplace level support for workers
- Work to understand employers' viewpoints so as to build trust and improve workplace access

GOVERNMENTS:

- Regularly review and increase statutory minimum wages in line with the cost of living
- Strengthen labour inspectorates and support compliance with labour laws
- Encourage social dialogue, freedom of association and collective bargaining in the workplace



ABOUT IMPACTT'S FACTORY DATA



Impactt records and analyses information from our factory visits.

THE DATA SET COVERS:

- Six years from 2006/2007. The data year runs from 1st August
- 678 production sites around the world, predominantly in Asia and Western Europe, employing 496,697 workers
- Views of 17,549 workers
- Various sectors including apparel, electronics, toys, homewares and food. Most production sites, except those in the UK, are export-orientated

Impactt analyses this data, tracking the prevalence of issues and feeds it into the Impactt Exploitation Index – a measure of overall exploitation of workers by country each year.

| TOTAL NO. VISITS BY REGION | | | | | | | |
|----------------------------|-------|------|------|------|------|------|------|
| | TOTAL | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| ASIA | 476 | 67 | 75 | 74 | 72 | 105 | 83 |
| WESTERN EUROPE | 155 | 39 | 23 | 23 | 10 | 36 | 24 |
| EASTERN EUROPE | 18 | 3 | 6 | 0 | 2 | 7 | 0 |
| MIDDLE EAST | 23 | 0 | 1 | 2 | 20 | 0 | 0 |
| AFRICA | 6 | 0 | 0 | 0 | 0 | 2 | 4 |
| TOTAL | 678 | 109 | 105 | 99 | 104 | 150 | 111 |

IMPACTT'S APPROACH TO ASSESSMENTS

Impactt's methodology focuses on accurate diagnosis of issues. Assessments were carried out by specialists working with local worker interviewers, some of whom are former workers themselves. In some countries we work with NGOs to interview workers; in other countries we collaborate with social scientists. Assessments prioritise the testimony of workers, and create understanding of what is really going on in the workplace, and why.

The data is gathered from a mixture of announced and unannounced visits, using a range of on-site and off-site worker interviews. Workers are also encouraged to telephone the Impactt team to discuss issues in more depth after the assessment is completed.

Workplaces are assessed against the ILO Conventions and local laws and regulations where applicable.

DATA LIMITATIONS

- Comparisons between findings from different years should be treated with caution because the samples for each year vary in terms of country and industry.
- Data may over-represent the prevalence of issues since Impactt often visits workplaces, countries and sectors where there are already indications that standards may be poor.
- The data is collected from relatively short assessments. In Impactt's experience, when working with factories on a longer term basis, further issues and further complexities tend to emerge over time. This means that this data may under-represent the prevalence of issues.
- The prevalence of audit fraud distorts the findings as Impactt may have failed to identify all the instances of document tampering and worker coaching. When audit fraud is successful it prevents us from verifying the reality of working practices.
- Impactt was unable to collect data on every issue at every visit. Prevalence figures are calculated based on the number of sites for which we have data on that point.
- Impactt has not included health and safety concerns in the analysis. Health and safety issues were found at almost 100% of the sites visited, ranging from severe, life-threatening risks to relatively minor issues. These are not analysed here, since the focus of this report is on rights-based issues.
- China visits account for 72% of visits in Asia in 2012, in line with previous years. China represented an average of 71% of visits in Asia from 2006-11.



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