

Reaching Living Wage for Garment Workers

Executive Summary

The Fair Labor Association (FLA) upholds fair compensation and living wage as a right held by all workers and believes that making progress on this issue is a priority. This report features three case studies on FLA members that improved working hours and workers' wages through buyer, supplier, and worker engagement and collaboration. Each case study showcases a practical approach that, in all three instances, led to wages that exceed the estimated rate of inflation and applicable Global Living Wage Coalition (GLWC) living wage estimates in China and Vietnam.¹

Excessive overtime is a persistent issue in apparel factories around the world. Buyer, retailer, and consumer pressure to produce low-cost products quickly exacerbates the problem of long working hours and low wages. Buyers and suppliers often explain that workers request to work overtime and frequently volunteer for overtime hours, making remediation difficult or impossible. However, this narrative masks the systemic and persistent issue of extremely low wages in the apparel industry. In reality, workers may seek extra overtime when they cannot afford their basic expenses or support their families with the money earned in a regular work week.

- **The FLA members and factories reduced excessive overtime and increased wages within two to three years.**
- **Net wage² increases ranged from 29 percent to 57 percent, exceeding the rate of inflation in all cases.**
- **Incentive pay played a key role to improving productivity during the regular work week; all examples show changes to productivity bonuses and other incentives leading to increases that ranged from 89 percent to 330 percent.**
- **Each case required workforce engagement and participation to ensure all workers understood why overtime hours would decrease and how a new wage system would improve wages during the regular work week.**

Too often, a living wage is considered an unattainable ideal for factory workers and long hours are seen as the only solution to low pay. These case studies defy such expectations and show that progress can be made.

¹ While the majority of the analysis included in this report is based on data collected prior to the COVID-19 pandemic, all company examples include how FLA members supported its factories during the pandemic.

² Net wage includes the basic contracted wage, in-kind and cash benefits, and deducts taxes and other deductions. Net wage does not include incentive or leave wages, unless otherwise specified, and never includes overtime wages.

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Introduction

According to the Fair Labor Association (FLA) Workplace Code of Conduct, all workers have the right to compensation that meets their basic needs and provides discretionary income during the regular work week, which should be no more than 48 hours³. This fundamental right is one of the most challenging to uphold. Despite private sector commitments and workplace codes of conduct, low wages are common and persistent. Civil society organizations and trade unions campaign regularly against garment workers' low wages and poor production practices. However, practical examples or approaches that improve wages and lower working hours for factory workers in the garment industry have been few and far between.

The FLA's 2020 Fair Compensation Strategy⁴ forges a path to living wages by holding apparel and footwear members accountable for improving wages in their supply chains. This strategy requires companies to collect and analyze wage data so that they can understand where low wages persist in their own supply chains, identify priority regions or facilities, and develop a blueprint for action. The FLA tracks the progress of its member companies through annual evaluations and awards accreditation to those that have met the FLA Fair Labor Principles of Responsible Sourcing and Production.⁵

3 Fair Labor Association. (2011). Fair Labor Association Code of Conduct. <https://www.fairlabor.org/our-work/labor-standards>

4 Fair Labor Association. (2020, April 7). 2020 Fair Compensation Strategy. <https://www.fairlabor.org/report/2020-fair-compensation-strategy>

5 FLA membership progress on these requirements will be reported in 2021. For more information on the FLA's fair compensation program, methods, and relation to other international standards, see [Appendix 1](#).

While data collection can identify the extent of the problem and help stakeholders set priorities, real change happens when buyers, suppliers, and workers come together to improve working conditions. The case studies in this report highlight how suppliers can improve wage payment and production planning systems through worker engagement and training and how buyers must support these changes through responsible purchasing practices. When change and improvement are supported by business and employee partnership, living wages for garment workers is achieved.

Key Terms & Definitions

This report focuses on improvements that can be made to a supplier's production practices to increase workers' compensation within regular working hours. The FLA defines these terms as:



BASIC NEEDS: The minimum earnings necessary for a worker and two dependents to have access to resources, including food, safe drinking water, clothing, shelter, energy, transportation, education, sanitation facilities, health care services, and other essential needs including provisions for unexpected events. Where internationally recognized living wage benchmarks are available (such as the regionally specific Anker research methodology), a more specific family size is utilized.



DISCRETIONARY INCOME: The remaining income of a worker after taxes, legal deductions, and basic needs expenses.



INCENTIVE PAY: Any earnings that vary each pay period according to a worker's or team's performance. Examples include bonuses for attendance, quality, skills, productivity, and compliance.



NET WAGE: When evaluating workers' compensation against internationally recognized living wage benchmarks, the worker's net wage includes the basic or contracted wage and benefits and subtracts mandatory taxes and legal deductions. Leave pay can be included when it is not already included in the basic or contracted wage. Incentive pay can be included when it is earned by all workers during the regular work week. Overtime pay and social security contributions are not included in the worker's net wage.



PIECE RATE: A predetermined amount paid per unit of output to workers executing piecework.



PIECEWORK: A method of wage payment solely based on the number of units produced, or any work for which piece rates are paid.

Working hours, wages, and responsible purchasing and production practices

The pressure of long hours and low wages has been felt by workers in the garment industry for as long as clothing production has been industrialized. While women in the garment industry have been fighting for decent working conditions, better wages, and a standard workday since the 1840s,⁶ the fight continues today. Even in the U.S., low-wage garment workers have experienced a decline in purchasing power and still must work long hours to achieve a standard of living that was considered poverty-level just a half century ago.⁷ A flurry of recent reports⁸ and legislative proposals⁹ addressing the garment sector call for businesses to ensure workers receive living wages, but progress has remained a challenge.

Globally, 85 percent of factories assessed by the FLA from 2012 to 2019 had violations related to hours of work. This means that many workers are regularly working more than 60 hours per week, not receiving the required rest days, or not being paid correctly

for their overtime work¹⁰. When faced with these violations, FLA affiliated companies balance factory-level remediation with improvements in their own headquarters-level purchasing and production practices. The FLA Principles of Fair Labor and Responsible Sourcing¹¹ requires brands to improve their planning practices, especially order forecasting and communication, to adequately support suppliers. With good planning and communication from their buyers, suppliers are better able to predict their own production schedules and plan their work without relying on overtime¹². When combined with other improvements at the factory level, these changes can have a dramatic positive impact on workers.

6 Dray, P. (2011). *There Is Power in a Union: The Epic Story of Labor in America* (Illustrated ed.). Anchor.

7 Cooper, D. (2019). Raising the federal minimum wage to \$15 by 2024 would lift pay for nearly 40 million workers. Economic Policy Institute. <https://www.epi.org/publication/raising-the-federal-minimum-wage-to-15-by-2024-would-lift-pay-for-nearly-40-million-workers/>

8 U.S. Department of Labor. (2016, February 24). Department of Labor's Wage and Hour Division continues fight against worker abuse in LA garment industry | U.S. Department of Labor. <https://www.dol.gov/newsroom/releases/whd/whd20160224-0>

9 Garment Worker Center. (2020). The Garment Worker Protection Act – Senate Bill 62: Garment Worker Protection Act. Garment Worker Protection Act. <http://garmentworkeract.org>

10 Employers shall not require workers to work more than the regular and overtime hours allowed by the law of the country where the workers are employed. The regular work week shall not exceed 48 hours. Employers shall allow workers at least 24 consecutive hours of rest in every seven-day period. All overtime work shall be consensual. Employers shall not request overtime on a regular basis and shall compensate all overtime work at a premium rate. Other than in exceptional circumstances, the sum of regular and overtime hours in a week shall not exceed 60 hours. Code of Conduct. (2012). Fair Labor Association. <https://www.fairlabor.org/our-work/code-of-conduct>

11 Responsible Purchasing Practices: Commitment to align planning and purchasing practices with workplace standards. Responsible Production Practices: Commitment to align sales, planning, and production practices with workplace standards. Fair Labor Association. (2020). Principles of Fair Labor and Responsible Sourcing and Production. <https://www.fairlabor.org/our-work/principles>

12 Duncanson, Kelly, Dickson, Marsha A., & Bhatt, Dipti (2020). Better Buying Index Report 2020: Purchasing Practices Performance in Apparel, Footwear, and Household Textile Supply Chains. <https://betterbuying.org/wp-content/uploads/2020/10/2020-Better-Buying-Index-Report.pdf>

China Hours of Work and Wage Analysis

China is the top sourcing country across FLA membership with more than 1,600 facilities across affiliated companies and suppliers. The first case study looks at an example in China, where an FLA brand, its factory, and its workers reduced excessive overtime. For context, China has the highest frequency of hours of work violations from FLA assessments: 97 percent of factories have an hours of work violation and 94 percent of factories exceed 60 working hours per week. The greatest challenge in China to reduce working hours is addressing how pervasive and consistent excessive overtime occurs in apparel and footwear factories despite calls for systemic change in the industry.

FLA Findings in China



170 factory assessments from 2012 to 2019



97% show hours of work violations



94% show violations in which workers work over 60 hours per week

NEW ERA CAP COMPANY

Three-time accredited participating company (2007, 2010, and 2020) and FLA affiliate since 2008

Location: Buffalo, New York, USA

Product: Headwear, Apparel, Accessories

Number of Contract Factories: 83

New Era Cap is a privately held headwear and apparel company headquartered in Buffalo, N.Y. New Era sources on a contract basis from 83 facilities in 16 countries and owns one facility in Florida. Its largest sourcing countries by volume and number of factories are China and Vietnam. This study focuses on one contract factory in Jiangsu, China, that manufactures apparel for New Era.

The New Era Responsible Sourcing & Production team is responsible for administering its monitoring program, approving new facilities, upholding licensor requirements, and supporting the remediation of labor violations and further capacity building in its supply chain. Like many apparel companies, New Era found excessive working hours to be a persistent concern in its supply chain, especially in China.

Hours of work and compensation practices in 2017

The FLA first conducted a factory assessment at this contract factory in 2014. A verification assessment was conducted in 2017 to measure the factory's remediation progress, and identified the following hours of work and compensation violations:



93% of workers worked 40 to 74 overtime hours a month, for an average of 64 overtime hours a month. This exceeds China's legal requirement of a maximum of 36 overtime hours per month.



The factory's production plan required all workers to work a 56-hour "regular" work week, meaning overtime hours is included in the production planning, violating FLA standards.



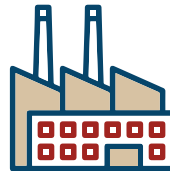
Workers earned during regular time just 55 percent of the GLWC Living Wage Estimate for Suzhou, China in 2017.

Actions and results (2017-2019)

New Era and the factory increased workers' wages and decreased excessive overtime by engaging worker representatives, improving communication about their purchasing plans and production capacity, and investing in new machinery and worker training. They worked together to identify root causes in their respective practices. This is how it happened:



2017



2018



2019

New Era improved coordination amongst purchasing departments and social compliance.

The factory began sharing production and worker capacity to support buyer planning and engaging with worker representatives on upcoming changes to the wage system.

New Era updated its Responsible Purchasing Practices Policy and improved sampling and development practices.

The factory began to train workers on the salary and benefits structure; and began to invest in new machinery to improve efficiency.

The factory increased workers' base wages; with the new machinery, workers' efficiency improved and so did their wages during the regular work week.

New Era launched its product lifecycle management system to better improve purchasing and planning practices with its suppliers.

Year	New Era Responsible Sourcing & Improvements to Purchasing Practices	The Factory Working Conditions & Improvements to Production Practices
2017	<ul style="list-style-type: none"> Began holding regular meetings between the sourcing, production, planning, raw materials, and sales teams. Instituted frequent conversations with suppliers to flag situations that could cause production backlogs. Developed a scorecard to measure supplier capabilities, delivery, pricing, quality, and compliance to incentivize and implement long-term sourcing strategies. This scorecard formally integrated social compliance into decisions on order allocation and continued business. 	<ul style="list-style-type: none"> Began to regularly share production and worker capacity with its customers, assigning priorities based on customer needs and production availability. Lowered its weekly production plan to 40 regular working hours per week. Invested in new machinery to simplify the production process and improve product quality and worker efficiency. Consulted with experts to transition a higher base wage payment system. Met with worker representatives about the changes to the working schedule, compensation system, and machinery. Worker representatives provided feedback and voted to support the changes to the system through a secret ballot.

Year	New Era Responsible Sourcing & Improvements to Purchasing Practices	The Factory Working Conditions & Improvements to Production Practices
2018	<ul style="list-style-type: none"> Updated the Responsible Purchasing Practices Policy to outline how long-term capacity planning, fair pricing, and reasonable lead times can help prevent negative impacts in the supply chain. Developed a consistent measurement pack for sample approval. This means several factories produced the same item, so New Era could shift production between factories if one is over or under capacity. Updated procedures to ensure suppliers learn about fabric changes earlier, to reduce delays in samples and strike-off approvals. Monitored working hours at the factory through monthly audits. 	<ul style="list-style-type: none"> Trained workers on the salary and benefits changes as well as the new machinery. Shifted worker pay from an hourly wage to a higher base wage for each occupation, which incentivized productivity during regular hours instead of overtime hours.
2019	<ul style="list-style-type: none"> Launched a product life cycle management (PLM) system for the Global Supply Chain Department allowing various purchasing practices, such as purchase order placement, lead time, and approvals, to be tracked in a single system. 	<ul style="list-style-type: none"> The gradual adjustments to production planning and efficiency allowed the factory to decrease its workforce. As workers voluntarily left the factory, the factory closed positions; workers were not retrenched. The workforce decreased by 35 percent, from 90 to 58 workers from 2017 to 2019.¹³ Workers' wages increased significantly for regular working hours from applying higher base wages and improving productivity incentives; while overtime hours decreased.

The improvements and changes made by New Era and the factory were initially verified through an FLA reaccreditation assessment, which reviewed New Era's headquarter level processes.¹³ New Era made system-level improvements to its Responsible Sourcing & Production program, including factory monitoring and purchasing practices, and worked to remediate all outstanding findings from FLA factory assessments. New Era conducted an internal audit in March 2019 to confirm remediation at the factory and found no evidence of excessive overtime. New Era found the factory in compliance with both its code of conduct and China legal standards.

¹³ The factory's workforce decreased due to increased efficiency from the manufacturing upgrades and workers' productivity. In all cases, workers voluntarily left to pursue other opportunities.

¹⁴ Fair Labor Association. (2020, February 26). New Era Cap Company Assessment for Reaccreditation. <https://www.fairlabor.org/report/new-era-cap-company-assessment-reaccreditation-0>

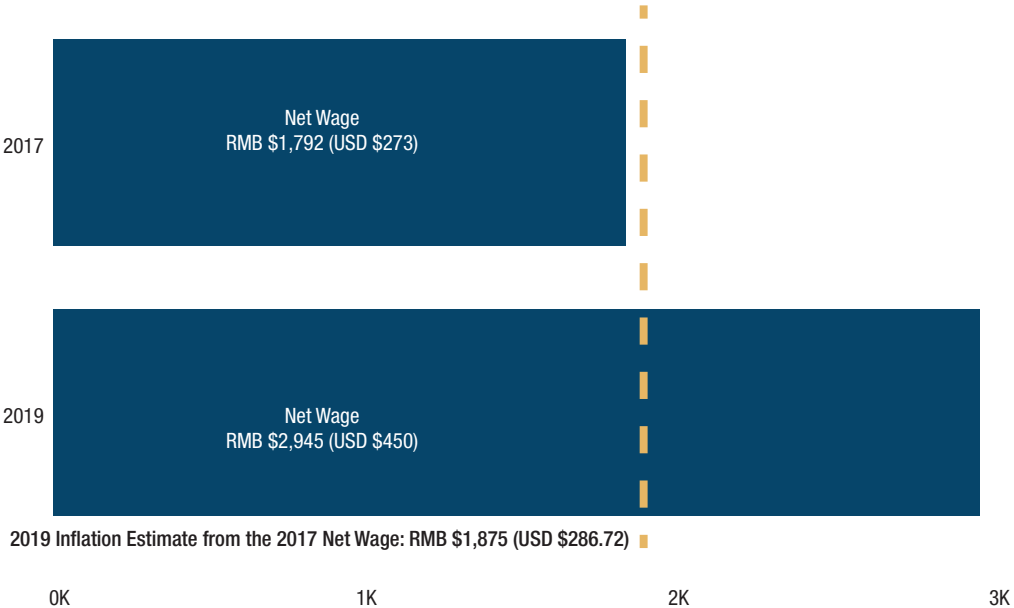
Living wage progress

New Era and the factory made significant living wage progress between 2017 and 2019 because of the improvements to responsible purchasing and production practices. In 2017 workers’ average monthly net wage¹⁵ was 1792 Chinese yuan renminbi (USD\$273), just 49 percent of the Global Living Wage Coalition’s Living Wage Estimate in urban Suzhou, China in 2017 – RMB\$3661 (USD\$557).

Workers’ monthly net wages, adjusted for the rate of inflation, increased 57 percent between 2017 and 2019 (Chart 1). When including incentive and leave pay, the worker monthly net wage increased to RMB\$3507 (USD\$536), surpassing the Global Living Wage Coalition living wage estimate for Suzhou, China – RMB\$3468 (USD\$531) – by four percent (Chart 2). All workers earned incentive pay during the regular work week and leave pay was included separately from workers’ base wages.

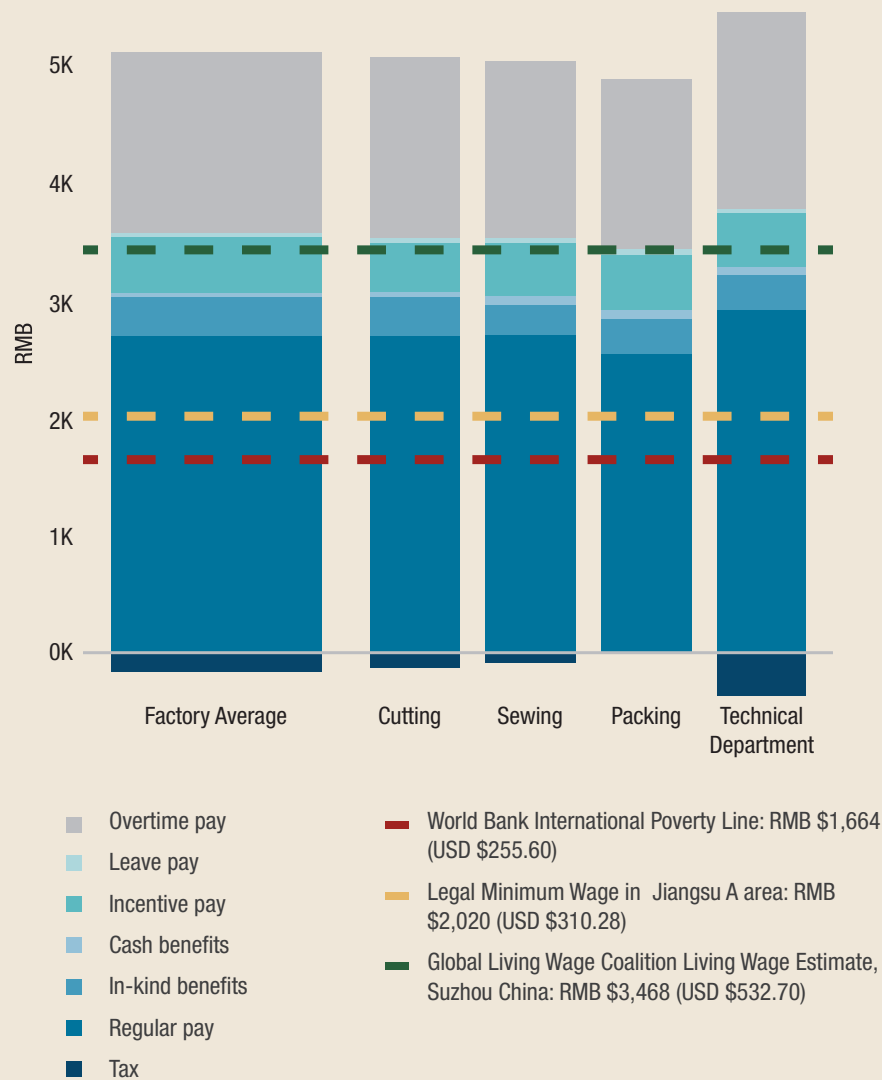
The net wage progress made in two years at the factory shows that living wage progress is achievable in a relatively short period of time when suppliers and buyers make a sincere commitment and take actions to improve workers’ wages.

Chart 1: Net wage progress from 2017-2019 against the estimated rate of inflation



15 Net wage includes the basic contracted wage, in-kind and cash benefits, and deducts taxes and other deductions. Net wage does not include incentive or leave wages, unless otherwise specified, and never includes overtime wages.

Chart 2: Total compensation against wage benchmarks (2019)



New Era's living wage journey continues

The progress New Era and the factory made toward a living wage shows that a scalable approach is possible. Their actions resulted in measurably improved worker wages in two years. New Era will scale its fair compensation program to foster better wages for workers in other countries.

The global pandemic has caused disruption to global supply chains in all sectors, and New Era has sought to mitigate harm to workers in their supply chain. New Era quickly shared COVID-19 recommendations and best practices with their suppliers; and, despite record numbers of cancelled orders from retailers, committed to not dropping any suppliers. The company quickly established mutually agreed upon payment plans with all core suppliers. In 2021, New Era will integrate suppliers' fair compensation performance into its sourcing decisions. New Era will incentivize its suppliers by growing business with high-performing suppliers that provide better wages for workers. This formalized system will drive living wage progress for workers in New Era's supply chain.

While excessive overtime is an endemic issue in the apparel sector globally, this case study shows the practical steps companies can take to partner with suppliers to protect workers, reduce working hours, and raise wages for regular working hours. New Era and the factory succeeded by removing overtime hours from the production plan, investing in new equipment and worker training, and committing to substantive supplier, union, and worker engagement. This achievement underscores that living wage progress is possible and practical with strong commitment and collaboration between buyers, suppliers, and workers.

Vietnam Hours of Work and Wage Analysis

Vietnam is the FLA's second highest sourcing country among FLA members, with more than 600 factories across affiliated companies and suppliers. Similar to China, Vietnam has systemic issues with long working hours in apparel and footwear factories. The FLA found in assessments conducted from 2012 to 2019, 85 percent of factories had an hours of work violation and 74 percent have longer work weeks than 60 hours. While these violation frequencies are lower than in China, 12 percent and 22 percent respectively, the FLA's analysis shows higher frequencies in other types of hours of work violations. More than half of factories assessed in Vietnam had violations of workers not receiving at least one rest day every week and 44 percent had violations of workers not receiving the correct amount of overtime pay. The next two company examples show how each company remediated excessive overtime violations by shifting away from piece rate wages to hourly wages.

FLA Findings in Vietnam



54 factory assessments from 2012 to 2019



74%

show violations in which workers work more than 60 hours per week



56%

show violations in which workers did not receive a rest day during the week



44%

show payment violations in which workers did not receive the correct amount of overtime pay



Living Wage and Hours of Work Case Study

MAXPORT LIMITED

An accredited participating supplier since 2019 and FLA affiliate since 2009

Location: Ha Noi, Vietnam

Product: Apparel

Number of Factories: 3

Maxport Limited is an apparel supplier group founded in 1991 and headquartered in Ha Noi, Vietnam with production facilities located in Nam Dinh and Thai Binh. Its three owned facilities produce for many popular brands, including FLA Participating Companies Gymshark, Kathmandu, Lululemon, and Nike.

Maxport's social compliance, human resources, and production planning staff work collaboratively to uphold workplace standards. The social compliance staff regularly assesses each facility against the code of conduct, facilitates buyer audits, and ensures remediation of any code violations. The human resources staff implements worker training programs and oversees Maxport's employment and management systems. The production planning staff ensures that material procurement and production scheduling align to meet deadlines within appropriate working hours. To earn FLA accreditation of its social compliance program, all three departments worked closely to resolve Maxport's excessive overtime issues.

Hours of work and compensation practices in 2015

The FLA conducted a factory assessment at Maxport's owned facility in Nam Dinh, Vietnam in 2015 and identified hours of work and compensation violations.



Sixty-eight workers worked up to 65 hours in one week, and consecutively for 13 days.



The legally required overtime break was not provided to workers who worked two overtime hours or more in a day; however, workers received additional compensation in lieu of this 30-minute break.



Workers were not compensated at the legal rate for training, breaks, and downtime. The factory used the standard piece rate instead of the hourly rate to compensate workers for non-production time.



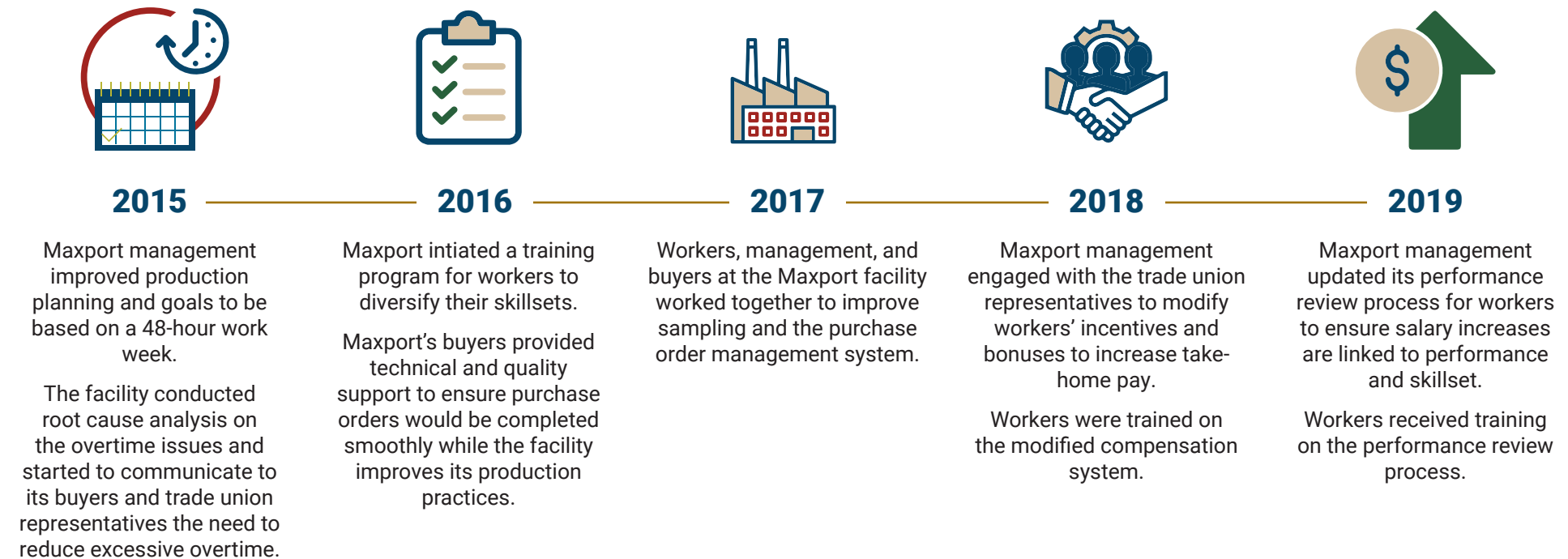
Wage allowances were not included when calculating the factory's contribution to social insurance, as legally required.



All workers received the lowest level of base wages, regardless of their seniority, violating legal requirements and negatively impacting contributions to their social insurance coverage.

Maxport's action and results (2015-2019)

After the 2015 assessment, Maxport immediately reviewed its working schedule for the year to reduce excessive overtime and ensure at least one day off every week for each worker. By 2019, workers had a 48-hour workweek with a voluntary maximum of 60 hours per week. Here is how it happened:



Year	Maxport's production and facility improvements	Stakeholder engagement with buyers, trade union, and FLA
2015	<ul style="list-style-type: none"> The weekly production plan was updated based on a 48-hour work week. Maxport management only set production goals that could be achieved within these regular hours. Workers consistently received a 30-minute break for every two hours of overtime, as legally required. 	<ul style="list-style-type: none"> Started to identify purchasing and planning issues that led to excessive overtime. For example, Maxport found that long working hours were often triggered by unanticipated technical problems during bulk production. Communicated with its buyers and explained the need for balanced planning so it could reduce excessive overtime. Maxport then revamped its production plan to balance order volume and built in time to tackle any unexpected problems during production. Engaged with the trade union representatives about the violations found during the FLA's assessment and received feedback on remediation steps.

Year	Maxport's production and facility improvements	Stakeholder engagement with buyers, trade union, and FLA
2016	<ul style="list-style-type: none"> Maxport began training its workers to handle different types of products, production processes, and new machinery so that they could become multi-skilled workers. 	<ul style="list-style-type: none"> Maxport's buyers sent technical and quality experts to directly engage in fixing manufacturing challenges so that production could run smoothly within targeted timelines. Its procurement staff proactively worked with material suppliers to resolve material issues and adjust delivery dates, where needed more quickly. Maxport provided a plan to the FLA to remediate all factory violations and continued to report progress until remediation was complete.
2017	<ul style="list-style-type: none"> Workers became more engaged in the sampling process. This meant that when styles were approved for bulk production there was a more efficient transition from sampling to production. 	<ul style="list-style-type: none"> Maxport and its buyers implemented an improved purchase order management system. This system alerts buyers and factories of any possible delays or issues with upcoming orders. This allows planning to be adjusted earlier so that factories are not relying heavily on unexpected overtime.
2018	<ul style="list-style-type: none"> Modified allowances and bonuses add-on to hourly pay for non-sewing workers so that they can optimize income based on personal and collective performance. Sewing workers remained on a piece rate system but were given additional performance incentives based on metrics other than production. These incentives rewarded sewing workers for attendance, performance, and workplace compliance. 	<ul style="list-style-type: none"> Before the compensation system changes were executed, Maxport engaged with the trade union and their factory representatives. The factory trade union representatives talked with workers to understand their reactions to the upcoming changes. Trained workers on the new system so that they could understand the new performance metrics.
2019	<ul style="list-style-type: none"> Updated its human resource practices to link annual salary increases to performance reviews. Performance reviews were conducted for all workers and workers were entitled to salary increases if the required criteria were met, such as accumulative length of service and skill test results. 	<ul style="list-style-type: none"> Additional training was provided to workers to emphasize that better performance would lead to a higher salary. Maxport reported full remediation of the hours of work violations to the FLA.

Maxport conducts internal assessments of all owned facilities to ensure remediation progress is made and reported to its buyers and the FLA. To ensure Maxport's compliance program meets FLA standards for accreditation, the FLA conducted a follow-up factory assessment to verify that all violations from 2015 had been remediated. Additionally, the FLA conducted two audit field observations¹⁶ to ensure that Maxport was monitoring these issues on an ongoing basis. Finally, the FLA conducted a headquarter assessment to evaluate Maxport's responsible production practices. Each of these evaluations showed progress and improvement in working conditions, and the FLA-accredited Maxport's social compliance program in October 2019.¹⁷

¹⁶ See [Appendix 1](#) for more details on these FLA due diligence activities.

¹⁷ Fair Labor Association. (2019, November 19). Maxport Limited Assessment for Accreditation. <https://www.fairlabor.org/report/maxport-limited-assessment-accreditation>

Living wage progress

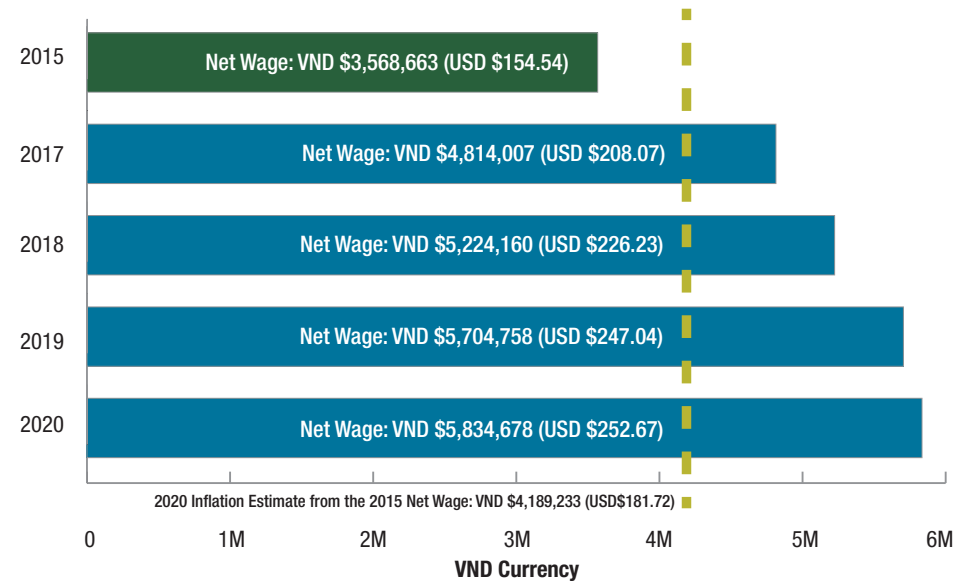
Maxport's living wage progress over five years shows the success of management, worker, and buyer commitment to improve production practices. In 2015, workers' average monthly net wage was 3.6 million Vietnamese dong (USD\$154). Living wage progress was most significant from 2015 to 2017, when implementation of production improvements was first executed; the real wage increase was 35 percent.

In 2017, a Maxport worker's average monthly net wage was VND\$4.8 million (USD\$208); four percent more than the FLA's reported average in Vietnam of VND\$4.6 million (USD\$201)¹⁸ and eight percent more than the Global Living Wage Coalition's living wage estimate for rural Vietnam adjusted for 2017 inflation – VND\$4.7 million (USD\$203). After 2017, Maxport continued to increase workers' compensation year-over-year; workers' wages increased an average of 2.2 Vietnamese dong (USD\$86) or 21 percent every year (Chart 3). In total, the real wage increase was 39 percent from 2015 to 2020¹⁹. This progress shows the improvement of responsible purchasing and production practices and the compensation system contributed to the living wage progress beyond inflation.

18 Fair Labor Association. (2019, April 10). Toward Fair Compensation in Vietnam: Insights on Reaching a Living Wage. <https://www.fairlabor.org/report/toward-fair-compensation-vietnam-insights-reaching-living-wage>

19 See [Appendix 3](#) for the inflation calculation methodology.

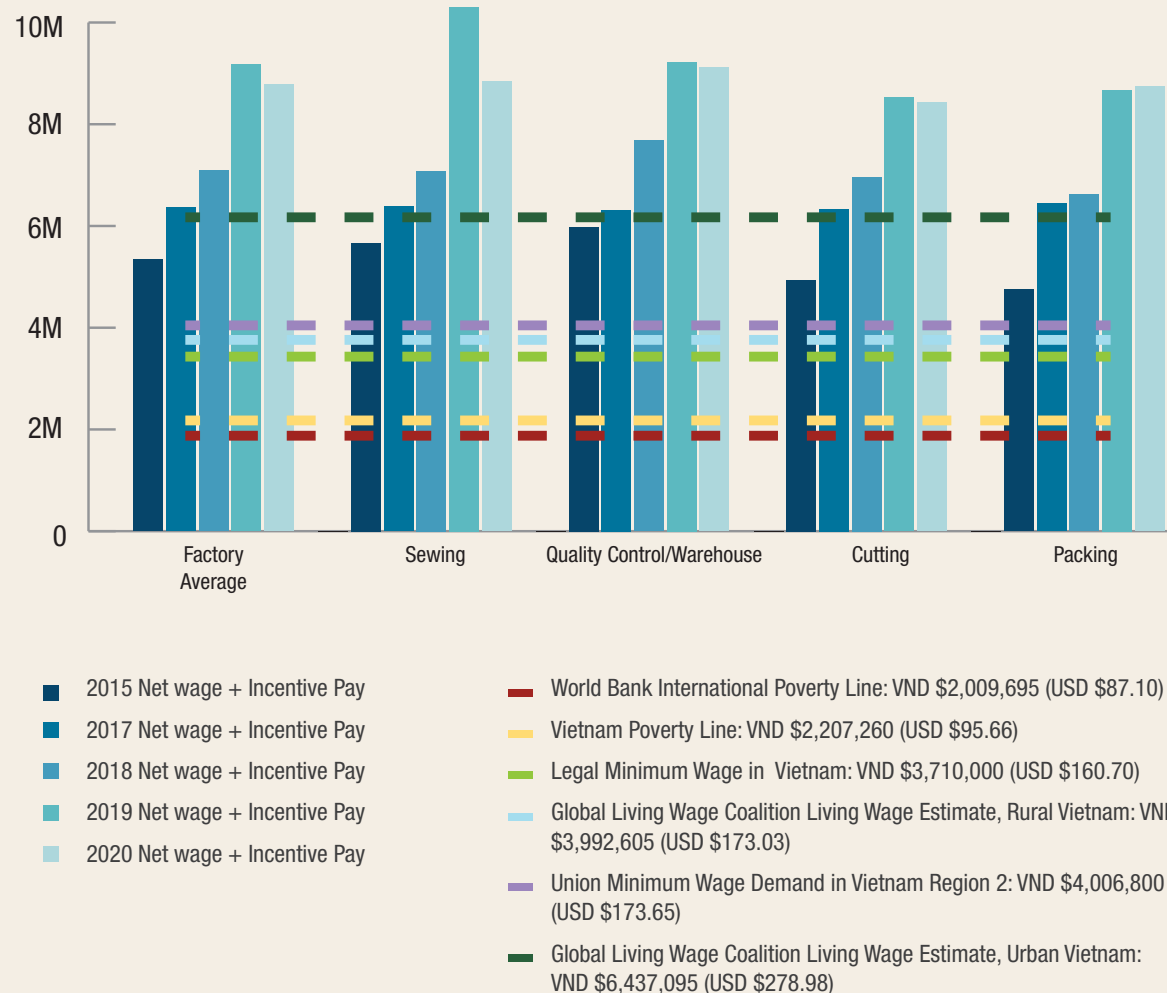
Chart 3: Net wage progress from 2015-2020 against the estimated rate of inflation



With incentive pay earned during the regular work week, all worker occupations earned higher than the GLWC urban living wage estimate for Vietnam²⁰– VND\$6.4 million (USD\$278.87); the average monthly wages were 50 percent higher than the GLWC urban living wage estimate in 2019 (Chart 4). This living wage progress ensures that workers living in rural or urban areas working for Maxport are earning a living wage. The most significant improvement for sewing workers came in 2018, after the factory implemented additional types of incentive pay related to metrics other than production speed. Within one year, sewing workers earned an average increase of VND\$3.5 million (USD\$151) or 49 percent of their monthly net pay.

20 This factory is located in Vietnam's Region 2; the GLWC's living wage estimate for Vietnam's Region 1, adjusted for inflation, was used for the analysis in this report since GLWC has not published a living wage estimate for Region 2. Using a ratio estimate based on the GLWC's living wage estimate for Region 1 and the minimum wage ratio for Region 2 compared to Region 1, the estimated GLWC living wage estimate for Region 2 is VND\$5.7 million (USD\$245.63). Workers' monthly wage – including net wage, incentive pay, and leave pay in 2019 – is 78 percent above the estimated GLWC living wage estimate for Region 2.

Chart 4: Net wage & incentive pay against wage benchmarks (2015-2020)



Maxport's living wage journey and COVID-19 response

Maxport is a unique example within this case study, showcasing the actions a supplier group can take to improve wages beyond a living wage benchmark. An important finding was its consideration of living wage benchmarks as an initial goal, but not as a final target, especially since excessive overtime remained a persistent violation. As an FLA supplier, Maxport was able to apply a comprehensive approach to understanding wages, working hours, and productivity bonuses and incentives through the FLA's wage data collection tools, analysis, and accreditation recommendations. Furthermore, Maxport took ownership by applying FLA guidance and internationally-recognized labor standards to improve conditions for its workers.

Like many suppliers during the pandemic, Maxport experienced some setbacks due to the spread of COVID-19. A decrease in orders particularly affected sewing workers, whose pay still relied somewhat on individual productivity incentives. However, the changes made before the pandemic cushioned its effect on worker compensation. Despite a decrease in incentive pay from 2019 to 2020, workers' net wages increased two percent more in 2020 than in 2019.

The pandemic affected other parts of the business as well. Maxport reduced its workforce at the production facility at its company headquarters in Ha Noi. Workers were engaged throughout this process, which included a meeting with Maxport's board of directors and the executive committee of the trade union. Since many workers had already gone to job opportunities in other

industries, that were not as harshly impacted by the pandemic, workers agreed to a retrenchment proposal by Maxport's management team. Maxport reported this retrenchment to the FLA in July of 2020, including details of its workforce reduction and severance pay plan. Workers had access to Maxport's grievance mechanisms throughout the engagement and retrenchment process. In September, the remaining Maxport facilities resumed a full schedule.

Historically, the FLA's wage analysis in Vietnam has shown that overtime wages are consistently used to help workers fill the gap between what they earn and what they need to survive.²¹ Too often, factories or companies try to solve the problem of low wages by pushing workers to be more productive. This approach is unsustainable and comes at a significant cost to workers' quality of life. Maxport, however, pivoted away from the standard playbook and took time to reconsider its entire incentive structure. By shifting focus away from individual productivity and redefining worker performance, Maxport succeeded in both reducing hours and raising wages. This approach is an example of how practical changes in factory systems, coupled with strong collaboration, can dramatically improve workers' ability to afford their basic needs and save for the future.

21 Fair Labor Association. (2019, April 10). Toward Fair Compensation in Vietnam: Insights on Reaching a Living Wage. <https://www.fairlabor.org/report/toward-fair-compensation-vietnam-insights-reaching-living-wage>

PUMA SE

Three-time accredited participating company (2007, 2010 and 2019) and FLA affiliate since 2004

Location: Herzogenaurach, Germany

Product: Apparel, Footwear

Applicable facilities: 225

PUMA produces athletic and casual footwear, apparel, and accessories. Its highest production countries by volume are Vietnam, China, and Bangladesh. The Sustainability and Social Compliance teams work to uphold the FLA Principles of Fair Labor and Responsible Sourcing and PUMA dedicates substantial resources to this work. Its annual sustainability reports include data analyses of audit findings by region and year-to-year comparisons, including trends on average payments above minimum wages, overtime hours, and percentage of workers covered by collective bargaining agreements.²² PUMA has publicly committed to social and environmental compliance through its code of conduct, which is supported by sustainability standards and guidance dedicated to social compliance, environmental compliance, health and safety, and chemical management.

²² PUMA SE. (n.d.). PUMA's annual sustainability reports. PUMA Sustainability Reports. Retrieved January 6, 2021, from <https://about.puma.com/en/sustainability/reporting>

Hours of work and compensation practices in 2016

The FLA conducted a factory assessment in 2016 at a strategic contract factory in rural Tay Ninh Province, Vietnam, that produces footwear. A follow-up assessment to measure remediation progress was conducted in 2019 and identified hours of work and compensation violations.



Workers worked over 60 hours per week and often 13 days in a row.



Factory management calculated overtime pay based on an hourly rate, not at 150 percent of the regular piece rate, as required by local law.



The piece rate system discouraged workers from taking sick leave or breaks during the workday, which put pregnant workers and new mothers at disproportionate risk.



Workers at the factory earned an average monthly net wage at 74 percent of the GLWC living wage estimate. Further, the average worker's overtime wages represented 60 percent of their overall wages.

Actions and results (2016-2019)

PUMA and the factory worked together to identify the root causes of the violations related to hours of work and compensation. PUMA’s resources and support as the sole buyer of the factory empowered factory management to make swift improvements in production planning. At the recommendation of PUMA and BetterWork,²² the factory also transitioned to a pay and incentive system that was more transparent and equitable. These creative solutions ultimately raised worker wages and reduced excessive overtime. This is how it happened:



2016

PUMA and the factory develop a corrective action plan to address the hours of work violations and engage with workers.



2017

PUMA address responsible purchasing practices to ensure the factory can improve its payment and production systems.

The factory works with management, the union, and workers to begin making improvements to production practices and implement PUMA’s LEAN system.



2018

The factory transitions to the new system and workers are trained on the new payment and production systems.



2019

PUMA reports to FLA and BetterWork remediation progress of overtime violations.

Factory continues to make improvements and shows workers are earning more money through incentives and cash benefits.

23 PUMA is a brand partner of [Better Work](#) in Vietnam, a country-level factory accountability and capacity building program supported by the UN's International Labour Organization and International Finance

Year	PUMA Social Compliance & Improvements to Purchasing Practices	Factory Working Conditions & Improvements to Production Practices
2016	<ul style="list-style-type: none"> PUMA engaged in discussions with the factory on the violations identified in audits by the FLA, BetterWork, and PUMA's internal auditors. Together, PUMA and the factory set the important goal of ensuring that workers could easily understand how they are paid. PUMA ensured the factory effectively communicated this change to workers, with an emphasis on how productivity and quality bonuses would help workers earn more with a fixed hourly rate. 	<ul style="list-style-type: none"> Based on discussions with PUMA, the factory formulated plans to simplify the payment system and by changing from a piece rate to an hourly rate. The factory felt that an hourly rate system would be more equitable, especially to new mothers and other workers who needed breaks throughout the day. To incentivize workers who were accustomed to a piece rate, the factory implemented new productivity and quality bonuses.
2017	<ul style="list-style-type: none"> PUMA's costing team continued to include new minimum wage and social security benefit increases in Vietnam in their pricing calculations. PUMA's sourcing and production team worked with the factory to ensure that their orders were appropriate, given the changes the factory was implementing. They specifically considered whether there would be changes in efficiency or productivity as overtime decreased and accounted for these changes in setting order timelines. 	<ul style="list-style-type: none"> Factory management met with the finance department, human resources, the union, factory supervisors, and workers to explain the rationale behind the factory's shift from a piece rate to an hourly rate payment system, along with the new hourly wage calculation. The factory began implementing the change in September 2017. The new hourly wage calculation allows for workers to understand how much they earn each day; and allows for management to more easily calculate the overtime wages based on the simplified hourly wages. The new hourly rate system is based on 26 workdays per month to ensure workers receive rest days each week. The factory integrated the PUMA Lean approach, a data-led process to make factory production lines as productive and efficient as possible. This approach diversified workers' skillsets and allowed for workers to reach production targets more easily as a team within their production lines. As a result, a third of the workers earn the factory's new production bonus each month through the revised hourly wage system.
2018	<ul style="list-style-type: none"> PUMA's Social Compliance Department began to collect wage data to understand the workers' average wages and how those wages may have been affected by the changes being implemented. 	<ul style="list-style-type: none"> Throughout the transition, workers received training on the new system and changes to their production bonuses. The factory started producing for new buyers and took steps to ensure that they maintained the improvements in working hours and production planning. The factory completed the full transition from piece rate to hourly rate in September. Due to the factory's training and communication efforts, the worker turnover rate was minimal during the transition.
2019	<ul style="list-style-type: none"> PUMA regularly updated FLA and BetterWork on the factory's progress in reducing working hours and improving working conditions. 	<ul style="list-style-type: none"> The factory adjusted their production targets to be more achievable for workers during the regular work week. This improved the productivity during the regular work week and showed workers that an hourly rate allows a higher and more consistent monthly salary than a piece rate system. Additionally, workers earned more cash benefits in 2019, including a year-end bonus, and fuel, telephone, and lunch benefits. The factory analyzed wage data in neighboring factories in Tay Ninh province and found it pays its workers slightly higher than nearby factories.

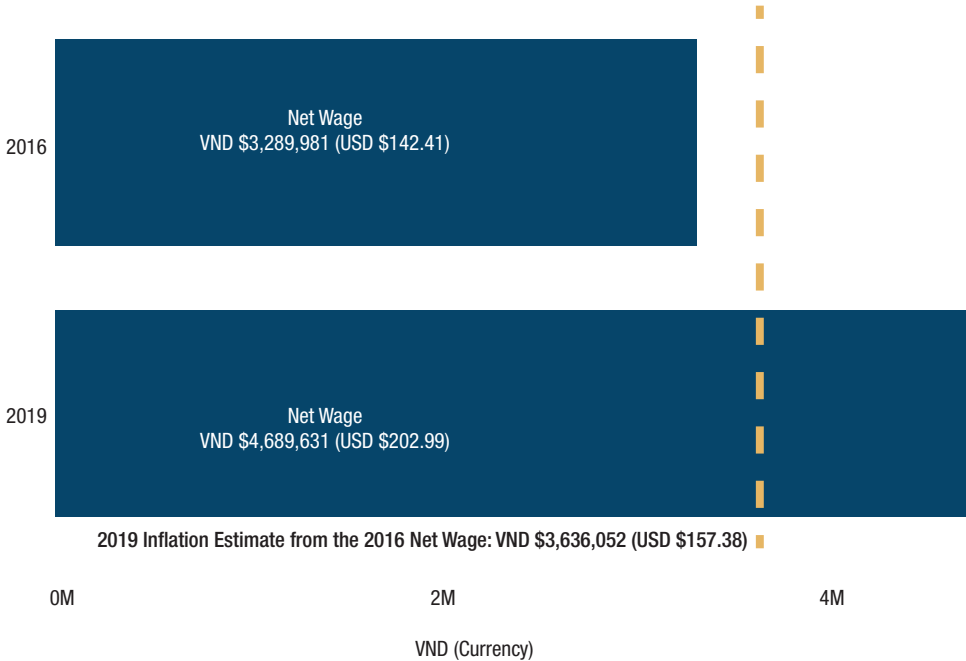
PUMA audits its suppliers annually. At the suggestion of PUMA, this factory joined the International Labour Organization Better Work program and is regularly assessed through this program. The Sustainability Team regularly visits the factory to ensure that management is executing continuous improvement plans. Additionally, PUMA publicly reports the average income for factory workers in its supply chain by country every year. In advance of PUMA's reaccreditation in 2019, the FLA observed several PUMA audits to verify that the company's factory monitoring program continues to meet the FLA responsible sourcing principles. The FLA also conducted a follow-up assessment at the factory in 2019 to confirm whether it had remediated the issues uncovered in 2016. The FLA assessor found the factory had fully remediated the findings related to wage calculations and transparency and had decreased working hours. Compared to 2016, workers working excessive overtime hours decreased by 50 percent in 2019.

Living wage progress

In three years, the factory, its workers, and PUMA worked to close the living wage gap. In total, workers' monthly average net wage increased 30 percent between 2016 and 2019. In 2016, the factory's monthly worker average net wage was VND\$3.3 million (USD\$142). While this average was 22 percent above Vietnam's minimum wage for Region 3 – VND\$2.7 million (USD\$117), it was 18 percent below the Global Living Wage Coalition living wage estimate in rural Vietnam in 2016. At that time, workers relied on an average of VND\$5.6 million (USD\$243) in overtime wages to afford their basic needs.

By 2019, the average monthly net wage for workers increased to VND\$4.7 million (USD\$202). After the rate of inflation for 2019, workers earned a 29 percent increase in wages (Chart 5). By making concrete changes to their

Chart 5: Net wage progress from 2016-2019 against the estimated rate of inflation

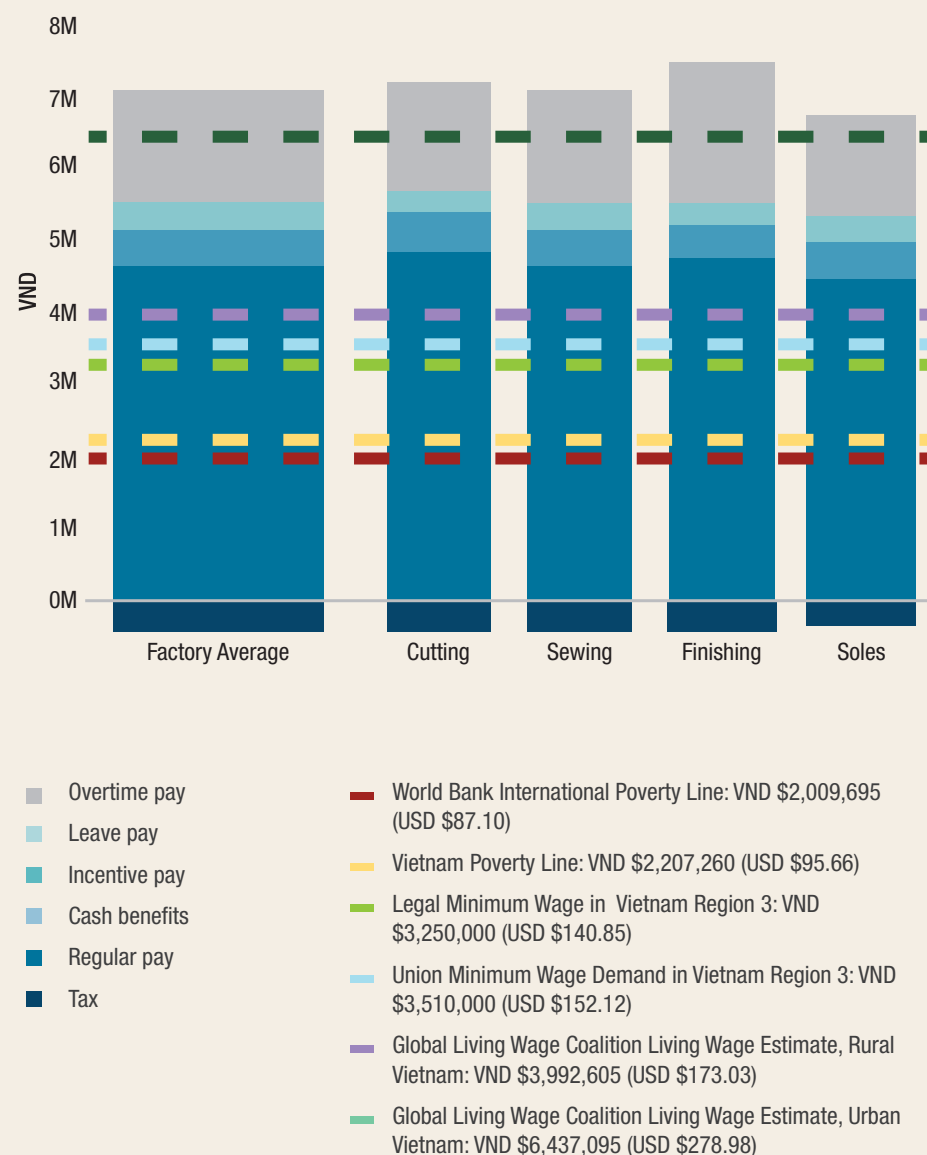


payment system and production planning, PUMA and the factory successfully increased wages for workers during the regular work week. One concrete change was the improvement made to cash benefits. In 2016, workers' cash benefits were minimal, barely adding to up to 10 cents USD. By 2019, workers received far more cash benefits, an average of VND\$1.1 million (USD\$46) per month.

With incentive pay and leave pay, workers' monthly net wage increased 43 percent from 2016 to 2019 and is 26 percent above the GLWC rural living wage estimate for rural Vietnam²⁴ (Chart 6). Meanwhile, the average monthly overtime pay decreased to VND\$1.6 million (USD\$71), a 71 percent decrease from 2016 to 2019 as the factory incentivized production efficiency during the regular work week. Workers were able to earn higher wages during the regular work week through incentive bonuses. By 2019, workers' incentive pay during the regular work week increased more than 200 percent to VND\$470,000 (USD\$20) per month. They earned a production bonus for completing 80 percent of their production target during regular time and for regular attendance. The progress made by the workers, the factory, and PUMA ensured living wage improvement across various payment types and for all production workers.

24 The GLWC's living wage rural estimate is specific to Vietnam's Region 4. The FLA adjusted this estimate for inflation and used this figure for the analysis in this report since GLWC has not published a living wage estimate for Region 3. Using a ratio estimate based on the GLWC's living wage estimate for Region 1 and the minimum wage ratio for Region 3 compared to Region 1, the estimated GLWC living wage estimate for Region 3 is VND\$4.9 million (USD\$215.09). Workers' monthly wage including net wage, incentive pay and leave pay in 2019 is 6% above an estimated GLWC living wage estimate for Region 3.

Chart 6: Total gross compensation against wage benchmarks (2019)



PUMA's living wage journey and COVID-19 response

It is important that buyers and suppliers understand the relationship between living wages, excessive overtime, and worker communication and engagement. PUMA and the factory understood and tested this relationship, driving living wage progress. The full shift from a complicated piece rate system to a simpler hourly system, coupled with productivity bonuses, other incentives, and cash benefits, resulted in higher wages for workers.

Looking forward, PUMA is using new tools to measure and ensure living wage progress is being made. PUMA continues to invest in the scalability of its fair compensation program and is actively using the FLA's Fair Compensation Dashboard to monitor wages on a regular basis and ensure progress toward a living wage. PUMA also utilizes strong partnerships with BetterWork, the Fair Wage Network, and other living wage experts to drive improvements at the factory level.

This case study showcases PUMA's commitments to fair compensation and responsible purchasing practices. The commitment was thoroughly tested during the COVID-19 pandemic during 2020. PUMA canceled fewer than one percent of its orders with its suppliers.²⁵ The PUMA Sourcing and Sustainability teams remained in frequent communication with factories and conducted quarterly surveys to address concerns regarding orders and retrenchment. The changes implemented with the factory, as well as PUMA's actions during the pandemic, are examples of best practice in protecting workers.

²⁵ PUMA SE. (2020). PUMA'S Response to COVID-19 and the Supply Chain. <https://about.puma.com/en/sustainability/social/covid-19-supply-chain>

Conclusion and recommendations

Garment workers in the apparel and footwear supply chains can and should earn a living wage within the regular work week. This report provides examples of how improved production and purchasing practices, along with worker engagement, can decrease overtime and significantly improve worker wages. In all three case studies, the FLA found significant progress on workers' wages, including:

- Excessive overtime reduced significantly across all three examples.
- Workers' monthly net wage²⁶ increased, adjusted for inflation, between 29 percent and 57 percent, exceeding the estimated rate of inflation in the applicable countries.
- Incentive pay played a vital role in increasing workers' wages. The FLA found incentive pay in a regular work week increased between 89 percent and 330 percent across the three examples; and
- Progress was made due to the engagement and commitment from workers, factory management, and buyers.

²⁶ Net wage includes the basic contracted wage, in-kind and cash benefits, and deducts taxes and other deductions. Net wage does not include incentive or leave wages, unless otherwise specified, and never includes overtime wages.

The changes made are real, practical, and sustainable solutions; and show common themes:



Buyers and suppliers should ensure production planning is based on the legal work week, without assuming overtime. Buyers' purchasing practices—including their order timelines, forecasting, and communication—must compliment and support suppliers' production planning.



Incentive pay should be structured to reward workers' performance during the regular work week and be achievable within regular working hours. Our examples show success particularly when incentives are diversified beyond piece rate and efficiency, including incentives for skillset, teamwork, and workplace compliance.



Worker engagement, collaboration, and training is essential so that workers understand why changes are being made to payment systems and manufacturing practices.

For any of these actions to result in living wage progress, companies in the apparel and footwear sector must have solid data analysis, commitment from top management, thoughtful and transparent communication (internally and with supply chain partners), and collaboration and engagement with stakeholders—including unions, workers, and governments.

Appendix 1: Methodology

The FLA uses a variety of methods to assess participating companies and suppliers against its standards, described in the chart below. The FLA standards are grounded in the International Labor Organization (ILO) Resolutions and the United Nations Guiding Principles of Business and Human Rights (UNGPs),²⁷ and aligned with the United Nations Sustainable Development Goals (SDGs), among other international benchmarks.²⁸ This case study also upholds SDG 1, No Poverty, SDG 8, Decent Work & Economic Growth, and SDG 17, Partnerships for the Goals.

FLA's Social Compliance & Fair Compensation Approaches

FACTORY ASSESSMENTS



The FLA's Sustainable Compliance Initiative (SCI)²⁹ evaluates factory conditions of members using the FLA's Workplace Code of Conduct and Compliance Benchmarks³⁰. The assessment lasts three to five days and includes worker interviews, management interviews, document review, factory walk-through, union and worker representative interviews, and health and safety inspection. As part of the assessment, the factory provides wage data that FLA assessors review and verify. After the assessment is conducted, the FLA company and the factory develop a corrective action plan to remediate the violations, and the final report and action plan are published on the FLA's website. FLA companies and suppliers are required to provide regular remediation updates. After two to three years, the FLA conducts a verification assessment to understand if sustainable progress has been made to improve conditions for workers.

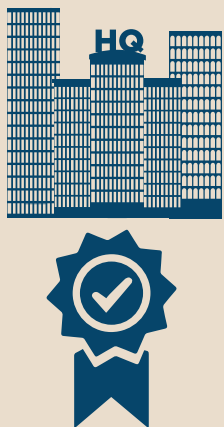
27 UN Human Rights Council, Protect, respect and remedy: a framework for business and human rights: report of the Special Representative of the Secretary-General on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises, John Ruggie, 7 April 2008, A/HRC/8/5, available at: <https://www.refworld.org/docid/484d2d5f2.html> [accessed 6 January 2021]

28 UN High Commissioner for Refugees (UNHCR), The Sustainable Development Goals and Addressing Statelessness, March 2017, available at: <https://www.refworld.org/docid/58b6e3364.html> [accessed 6 January 2021]

29 Fair Labor Association. (n.d.). Our Methodology. Retrieved January 6, 2021, from <https://www.fairlabor.org/our-work/our-methodology>

30 Fair Labor Association. (2020, October 28). FLA Workplace Code of Conduct and Compliance Benchmarks. https://www.fairlabor.org/sites/default/files/fla_workplace_compliance_benchmarks_rev_10.2020.pdf

ACCREDITATION ASSESSMENTS



All companies and suppliers³¹ are required to implement the Principles of Fair Labor and Responsible Sourcing and Production (Principles)³². To verify members are upholding the Principles, the FLA conducts a series of assessments over multiple years to review headquarters-level practices that improve factory conditions. The assessments evaluate the company's top management commitment, responsible purchasing and production practices, the compliance program, remediation progress, workers' access to grievance mechanisms, civil society engagement, training programs for staff, suppliers, and workers, and social compliance data management and analysis systems. Progress is measured through the FLA's annual evaluation, FLA's factory assessments, quantitative analysis of audit and training observations, remediation progress, and fair compensation progress. The final headquarter assessment includes interviews and extensive document review from top management, and the relevant purchasing, production, and social compliance departments, to verify proactive execution of the FLA's Principles.

FAIR COMPENSATION DATA COLLECTION & ANALYSIS



The FLA's wage data collection methodology was developed through consultation with a working group of living wage practitioners and experts. The FLA's Fair Compensation Data Collection Tool measures workers' average monthly net wage across factory occupations and production seasons and is designed to be scalable across large supply chains. The FLA utilizes the Ankers' net wage definition:

Net Wage = Basic or Contracted Wage + In-Kind Benefits + Cash Benefits – Legal Taxes & Deductions³³

Incentive pay is included when it is verified that all workers earn it during the regular work week. Leave pay is included if it is not already included in the basic wage. Overtime is never included when evaluating workers' living wages.

The FLA collects wage data in all of its factory assessments. Additionally, all FLA companies are required to collect wage data from a representative sample of their tier one facilities, analyze the living wage gap, and set priorities for improving wages within their own supply chain.

In February 2020, the FLA launched a data analysis tool to support members' understanding of wages and the living wage gap. The FLA's online Fair Compensation Dashboard allows companies to upload and analyze their wage data against wage benchmarks for 25 sourcing countries. In 2021, the FLA will report on all companies' and suppliers' progress in developing fair compensation programs to improve wages in their supply chains.

31 Fair Labor Association. (2020). Accreditation. <https://www.fairlabor.org/accreditation>

32 Fair Labor Association. (2020). Principles of Fair Labor and Responsible Sourcing and Production. <https://www.fairlabor.org/our-work/principles>

33 Anker, R., & Anker, M. (2017). *Living Wages Around the World: Manual for Measurement*. Edward Elgar Pub.

Appendix 2: Wage benchmarks used in this study

The wage benchmarks used in this study are all from credible research organizations and government-related studies and surveys, as listed below. The FLA reviewed the research and methodologies prior to using the selected benchmarks for wage analysis in this report. Where applicable, benchmarks have been adjusted for inflation by the FLA, which is detailed in the methodology notes below. Wage benchmarks used in the analysis are used as a reference to measure progress on living wages in a specific country and region and should not be interpreted as a certification. The levels of confidence are determined by the organization or government responsible for the wage study or benchmark which can be reviewed through the direct source, if applicable.

CHINA

Global Living Wage Coalition Living Wage Estimate	
2019 Value: 3468 RMB	Source: https://www.globallivingwage.org/living-wage-benchmarks/urban-suzhou-china
Methodology: Value is reported from 2019 GLWC report. This is value from original living wage report in 2015, adjusted for inflation since then. The inflation rate for Urban Jiangsu between August 2015 and August 2019 is 9.6% (average of 2.4% yearly). CPIs are obtained from the IMF World Economic Outlook. 2019 CPI value is an IMF estimate.	
Region: Suzhou	Urban or Rural: Urban
Household Size: 3.5	Gross or Net: Net

Legal Minimum Wage	
2019 Value: 2020 RMB	Source: https://www.china-briefing.com/news/minimum-wages-china-2018-19/ https://clb.org.hk/content/employment-and-wages
Methodology: Jiangsu area A (Nanjing, Suzhou, Zhenjiang, Changzhou, Wuxi). This wage was updated by local government in 2018. China's Employment Promotion Plan requires minimum wages to be between 40 and 60 percent of the average local wages. It is noted that this regulation is seldom held, with wages in Beijing and Chongqing being approx. 20% of the average local wage.	
Region: Jiangsu A	Gross or Net: Gross
Household Size: N/A	

World Bank International Poverty Line

2019 Value: 1664 RMB

Source: World Bank 2011 & 2019 <https://databank.worldbank.org/reports.aspx?source=2&series=FP.CPI.TOTL&country=>

Methodology: The World Bank International Poverty Line is PPP\$5.50/day. The daily rate is then converted into a monthly basis, assuming two consumption units and one earner. This figure is then adjusted using the World Bank's PPP conversion rate (based on private consumption) and the IMF's World Economic Outlook CPI.

Household Size: 2

Gross or Net: Gross

VIETNAM

Global Living Wage Coalition Living Wage Estimate

2019 Value: 6,437,095 VND

Source: Global Living Wage Coalition <https://www.globallivingwage.org/living-wage-benchmarks/rural-vietnam/>

Methodology: Urban zone. Calculated based on 2016 GLWC wage and adjusting for inflation. Value for 2016, multiplied by ratio of 2019/2016 CPI, yields the new value. Ratio used is 277.205/248.051, based on IMF World Economic Outlook.

Region: Ho Chi Minh

Urban or Rural: Urban

Household Size: 4

Gross or Net: Net

Global Living Wage Coalition Living Wage Estimate

2019 Value: 3,992,605 VND

Source: Global Living Wage Coalition <https://www.globallivingwage.org/living-wage-benchmarks/rural-vietnam/>

Methodology: Economic Zone 4. Calculated based on 2016 GLWC wage and adjusting for inflation since then. Value for 2016, multiplied by ratio of 2019/2016 CPI, yields the new value. Ratio used is 277.205/248.051, based on IMF World Economic Outlook.

Region: Economic Zone 4

Urban or Rural: Rural

Household Size: 4

Gross or Net: Net

Union Minimum Wage Demand (Region II)

2019 Value: 4,006,800 VND

Source: Việt Nam News, 2018

<https://vietnamnews.vn/society/451448/first-debate-on-regional-minimum-wage-2019.html#iZ7gSTyeBoWgqkFI.97>

Methodology: 2019 minimum wage reported as 3,710,000 VND for region II. An 8% increase yields a demanded wage of 4,006,800 VND ($3,710,000 \times 1.08$).

Gross or Net: Gross

Union Minimum Wage Demand (Region III)

2019 Value: 3,510,000 VND

Source: Việt Nam News, 2018

<https://vietnamnews.vn/society/451448/first-debate-on-regional-minimum-wage-2019.html#iZ7gSTyeBoWgqkFI.97>

Methodology: Trade Union VGCL conducts annual surveys of minimum living needs to determine their proposal for the new minimum wage. The Vietnam General Confederation of Labour (VGCL) has called for an 8% increase to all 2018 wages. It was reported that the increased wage could cover about 92% of minimum acceptable living conditions. Vietnam sets minimum wages per four economic regions, so the proposed increase would create a different currency amount change in each zone.

Gross or Net: Gross

Legal Minimum Wage (Region II)

2019 Value: 3,710,000 VND

Source: <https://www.vietnam-briefing.com/news/vietnam-hikes-minimum-wages-by-5-3-percent-in-2019.html/>

Methodology: Vietnam sets region-based minimum wages for workers. Region II covers rural Hanoi and Ho Chi Minh City along with urban Can Tho, Da Nang, and Hai Phong and has a monthly minimum wage of VND 3,710,000. This is a hike of VND 180,000 from the previous VND 3,530,000.

Gross or Net: Gross

Legal Minimum Wage (Region III)

2019 Value: 3,250,000 VND

Source: <https://www.vietnam-briefing.com/news/vietnam-hikes-minimum-wages-by-5-3-percent-in-2019.html/>

Methodology: Vietnam sets region-based minimum wages for workers. Region III includes provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc provinces and has a monthly minimum wage of VND 3,250,000. This is a hike of VND 160,000 from the previous VND 3,090,000.

Gross or Net: Gross

Vietnam Poverty Line

2019 Value: 2,207,260 VND

Source: World Bank Group, Vietnam Country Office, 2015 <https://openknowledge.worldbank.org/bitstream/handle/10986/21691/949390WP00PUBL0m0Feb0201500PUBLIC0.pdf?sequence=1>

Methodology: For two adult consumption units (ACU), the poverty line is 2012 VND 1,742,616 per month. According to the IMF's WEO, 2012 CPI is 216.396 and 2019 CPI is estimated at 274.095. Adjusting for inflation, the national poverty line is 2207260.45 VND.

Gross or Net: Net

World Bank Poverty Line

2019 Value: 2,009,695 VND

Source: World Bank 2011 & 2019 <https://databank.worldbank.org/reports.aspx?source=2&series=FP.CPI.TOTL&country=>

Methodology: On an average month (365/12), 2011 PPP\$3.10/day is 2011 PPP\$94.29 per month per person. For two adult consumption units (ACU), the poverty line is 2011 PPP\$188.58 per month. According to the World Bank, the 2011 PPP conversion rate (based on private consumption) is 7,624.97. Converting from PPP to local currency, the poverty line is VND 1,437,942.89 in 2011. According to the IMF's WEO, 2011 CPI is 188.58 and 2019 CPI is estimated to be 277.205. Adjusting for inflation, the World Bank International Poverty Line is VND 2,009,695.21 in 2019.

Gross or Net: Gross

Appendix 3: Inflation Estimates used in this study

The inflation estimates used in this study are calculated from FLA collected factory wage data. The FLA has reviewed the wage data quality and researched calculation methodologies based on World Development Indicators of World Bank Group. Where applicable, inflation estimates have been adjusted for inflation by the FLA, which is detailed in the methodology notes. Inflation Estimates used in the analysis are used as a reference to measure progress on living wages in a specific country and region and should not be interpreted as a certification. The levels of confidence are determined by the organization responsible for the consumer prices or inflations which can be reviewed through the direct source, if applicable.

CHINA

2019 Inflation Estimate from the 2017 Net Wage (New Era Case Study)

2019 Value: 1,875 RMB

Source: World Bank 2017 & 2019 <https://databank.worldbank.org/reports.aspx?source=2&series=FP.CPI.TOTL&country=>

Methodology: Calculated based on 2017 monthly average net wage from one New Era contract factory in Jiangsu, China and adjusted for inflation. Value for 2017, multiplied by ratio of 2019/2017 CPI, yields the new value. Ratio used is 108.382/103.592, based on IMF World Economic Outlook.

VIETNAM

2020 Inflation Estimate from the 2015 Net Wage (Maxport Case Study)

2020 Value: 4,189,233 VND

Source: World Bank 2015 & 2020 <https://databank.worldbank.org/reports.aspx?source=2&series=FP.CPI.TOTL&country=>

Methodology: Calculated based on 2015 monthly average net wage from one Maxport factory in Nam Dinh, Vietnam and adjusted for inflation. Value for 2015, multiplied by ratio of 2020/2015 CPI, yields the new value. Ratio used is 283.619/241.605, based on IMF World Economic Outlook.

2019 Inflation Estimate from the 2016 Net Wage (PUMA Case Study)

2019 Value: 3,636,052 VND

Source: World Bank 2016 & 2019 <https://databank.worldbank.org/reports.aspx?source=2&series=FP.CPI.TOTL&country=>

Methodology: Calculated based on 2016 monthly average net wage from one PUMA strategic contract factory in rural Tay Ninh Province, Vietnam and adjusted for inflation. Value for 2016, multiplied by ratio of 2019/2016 CPI, yields the new value. Ratio used is 273.311/248.051, based on IMF World Economic Outlook.

About the Fair Labor Association

The Fair Labor Association promotes and protects workers' rights and improves working conditions through collaboration among business, civil society, and colleges and universities. The FLA conducts transparent and independent monitoring to ensure that rigorous labor standards are upheld wherever FLA affiliates source their products, identifies root causes of non-compliances, and proposes solutions to workplace problems.

Report written by Tiffany Rogers, Senior Manager; Courtney Moran, former Senior Associate; Phuong Do, Regional Manager of South East Asia, and Renee Bowers, Senior Director of the Social Compliance Department.

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Opinions expressed are those of the Fair Labor Association and do not necessarily reflect the views of individual members.