



**CPD Dialogue on
Recent Wage Debates in the RMG Sector: What is it All About?**

**Presentation on
Recent Wage Debates in the RMG Sector: Ten Lessons Learned**

Presentation by

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Discussion Points

1. Background

2. Framework for discussion

3. Objectives and Methodology

4. Ten lessons learned

Lesson 1: Institutional process ignored the minimum compliance requirement

Lesson 2: Level of appreciation varies between workers of different locations and grades

Lesson 3: Information and awareness about wages is at the least level

Lesson 4: Level of enforcement of wage 2018 varied with size and location of enterprises

Lesson 5: Workers were pushed to adverse situation in raising their demand

Lesson 6: Weak organizations lessened possibility to empower workers to claim their rights

Lesson 7: Absence of proper mechanism for demonstration to claim their rights

Lesson 8: Additional costs could be adjusted through fiscal support and cooperation with buyers

Lesson 9: Shared responsibility of brands and consumers is needed to accommodate additional costs

Lesson 10: Non-wage related measures are also needed to address workers' livelihood challenges

5. Conclusion

1. Background

- The RMG sector has experienced workers' procession/unrest during December, 2018-January, 2019 with the demand for addressing a number of concerns related to new minimum wages (Wage 2018).
 - On 29 November, 2018, the gazette of the new minimum wage (wage 2018) was published
- Workers' concerns were as follows:
 - Less basic wages/limited rise of basic wages in upper grades
 - Disproportionate rise of gross wages for different grades
 - Less rise in gross wages for skilled workers (grades III, IV and V)
 - A number of enterprises did not pay as per new wage structure (wage 2018) in December, 2018
 - A number of enterprises did not pay the annual increment as per the gazette 2013 (5% of basic wage)
- Workers' unrest was initially of localized nature which later spread to other industrial clusters
 - Dhaka city, Gazipur, Ashulia, Tongi, Savar and partly in Narayanganj but not in Chittagong
- Taking that into account a number of institutional measures had been undertaken
 - The *Crisis Management Committee* discussed the issues, and formed a 12 member tri-partite committee to suggest required revision in the new wage structure
 - A draft revised wage structure (wage 2019) was announced on 13 January, 2019 after few quick discussion meetings
 - After the announcement, workers' unrest was lessened; however, harassment to workers continued in different forms as reported in national dailies.

1. Background

- These incidences indicate non-compliance in implementing new minimum wages in newer forms.
- The issues of non-compliance include
 - Problems in the structure of new minimum wages (wage 2018)
 - Weaknesses in enforcement of new minimum wages (wage 2018)
 - Weaknesses of workers' organizations in the implementation process
 - Non-compliance of entrepreneurs in the implementation process
 - Victimizing workers in the course of implementation
- RMG sector needs to ensure compliance standard in implementing new minimum wages.

2. Framework for discussion

- The compliance related to implementing a regulatory order includes three approaches : persuasion, management and enforcement.
 - These three approaches are complementary, and are not mutually exclusive.
- An effective implementation system usually follows a “pyramid of severity of regulatory orders” (Braithwaite 1985).
 - The cooperative strategy, including persuasion and capacity building is at the base of the pyramid.
 - Preventing violations through persuasion is cheaper than setting up monitoring and sanctioning mechanisms.
 - In case of non-compliance, the escalation to punishment needs to be certain in order to be a credible deterrent.
- Worker empowerment is both a preventive strategy and a form of enforcement by a non-state actor.

Pyramid of Severity of Regulatory Orders



Source: ILO (n.d.) ‘Minimum wage policy guide: a summary’

2. Framework for discussion

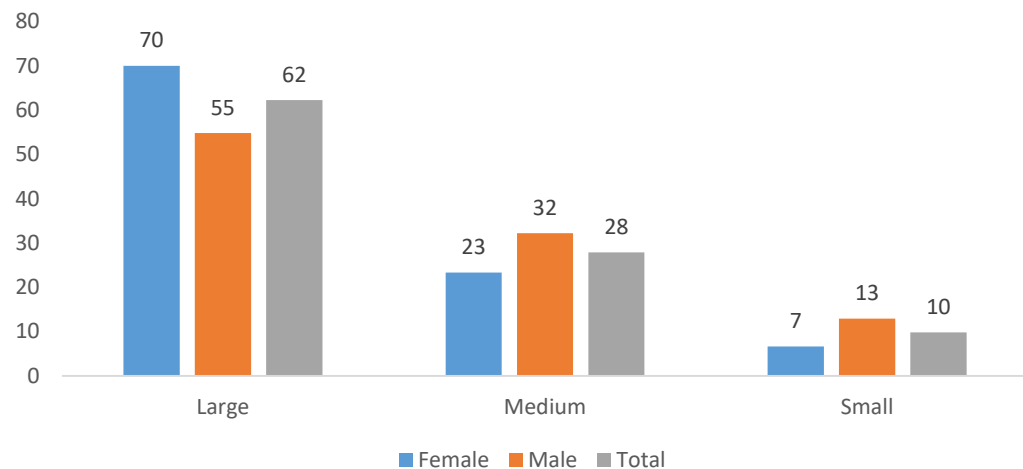
- Strong and well-organized workers are more likely to monitor non-compliance and denounce it.
- Based on the empirical evidences, ILO (n.d.) has identified a number of issues related to compliance in implementing minimum wages:
 - Compliance in the structure of minimum wages
 - Information and awareness about the new minimum wages
 - Empowerment of workers to claim their rights
 - Targeted labour inspection
 - Recovery of wages due and protection against victimization
 - Monitoring and responsible purchasing practices with global supply chains
 - Impact on entrepreneurs
 - Computation and coverage of the minimum wages
- Present study follows this framework for discussion and analysis.

3. Objectives and Methodology

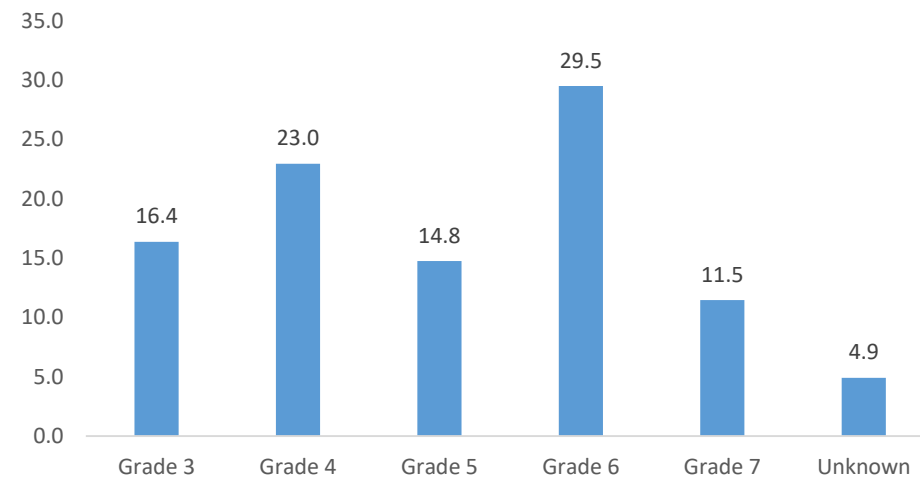
- The study analyse various aspects of non-compliances in implementing new minimum wages based on available secondary information and information collected through field investigation with a view to take lessons on nature of non-compliances
 - Put forward suggestions for possible way-out from these non-compliances
- The secondary and primary data have been collected from different sources
 - Secondary data: Official gazettes on minimum wages, CPD (2018) & newspaper reports
 - Primary data: Field investigations on workers (61 workers from three clusters - Dhaka city, Savar/Ashulia and Tongi/Gazipur; these are not representative samples)
 - Telephone interviews (entrepreneurs and representatives of brands/buyers)
- The analysis put forward in the paper based on the field investigation should not be considered robust/representative; rather those should be considered 'indicative' (see following slide)
 - There is scope for in-depth investigation and research on non-compliance in implementing minimum wages in the RMG value chain
- The study has identified ten lessons from various issues of non-compliance in implementing new minimum wages.

3. Objectives and Methodology

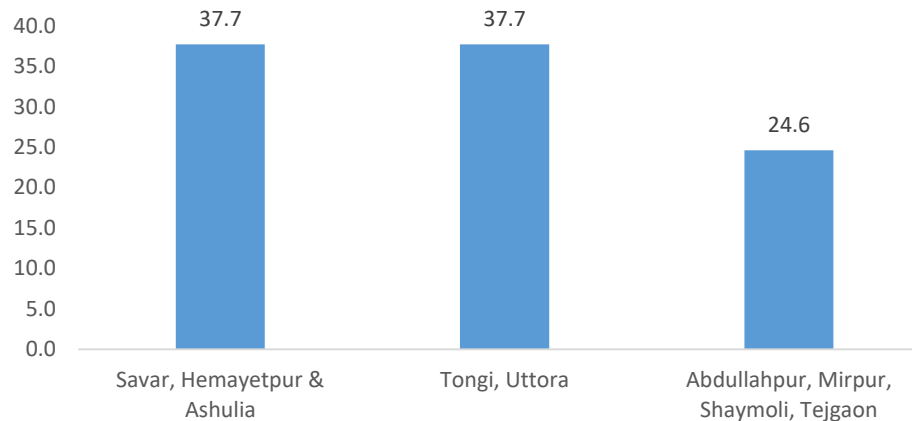
Distribution of workers (n=61)



Gradewise distribution of workers (n=61)



Locationwise distribution of workers (n=61)



Lesson 1: Institutional process ignored the minimum compliance requirement

- The institutional process to set minimum wages (i.e. MWB) did not pay proper attention while setting the wage structure (Wage 2018)
 - Needed to take into cognizance the minimum compliance requirement (prevailing increments/benefits should be continued)
 - Bypassing to address standard practices in setting wages for skilled workers
- During the period of discussion on new minimum wages in 2018 (wage 2018) CPD conducted an indepth study and proposed necessary changes in the structure and composition of new minimum wages. (<https://cpd.org.bd/cpd-working-paper-122-livelihood-challenges-of-rmg-workers/>)
- Moazzem & Arfan (2018) proposed a number of changes in the minimum wages taking into account the recent dynamics of the RMG sector (Table 1)
 - Given the rise in skill and technology, the number of grades of workers could be reduced
 - Taking this into consideration, grade VII workers could be upgraded and renamed as Grade VI workers. Likewise, the other grades could be upgraded
 - Grades I and II could be considered under the top grade as 'Grade IA' and 'Grade IB' respectively
 - Considering the skill upgrading in different grades, promotion of workers could be incentivized in progressive manner
 - The proportionate rise of wages while workers promoted from grades VI, V, IV, III and II would be 7 per cent, 10 per cent, 13 per cent and 15 per cent respectively

Lesson 1: Institutional process ignored the minimum compliance requirement

Table 1: CPD's Proposal for Revision of Minimum Wages (3 August, 2018)

Grading (Main Posts)	Basic	House Rent (40% of Basic)	Medical Allowance	Transport and Communication Allowance	Food Allowance	Childcare and Education Allowance	Service Benefit (3% of basic)	Net Salary
Grade 1 A: Pattern Master, Chief Quality Controller								Open
Grade 1 B: Mechanic, Electrician, Cutting Master								Open
Grade 2: Sample Machinist, Senior Machine Operator	6127	2451	1224	1071	3059	1224	184	15338
Grade 3: Sewing Machine Operator, Quality Inspector, Cutter, Packer, Line Leader	5327	2131	1064	931	2660	1064	160	13337
Grade 4: Junior Machine Operator, Junior Cutter, Junior Marker	4715	1886	942	824	2354	942	141	11803
Grade 5: Operator of General Sewing/ Button Machine	4286	1714	856	749	2140	856	129	10730
Grade 6: Assistant Sewing Machine Operator, assistant Dry washing man, Line Iron Man	4006	1602	800	700	2000	800	120	10028

Source: Moazzem and Arfan, 2018

Lesson 1: Institutional process ignored the minimum compliance requirement

RMG Wage 2018 (published on 29 November, 2018)

	Basic wages	Annual Increment (% of basic)	House rent (50% of basic)	Medical allowance	Transport allowance	Food allowance	Aggregate
Grade 1	10440	5%	5220	600	350	900	17510
Grade 2	8520	5%	4260	600	350	900	14630
Grade 3	5160	5%	2580	600	350	900	9590
Grade 4	4930	5%	2465	600	350	900	9245
Grade 5	4670	5%	2335	600	350	900	8855
Grade 6	4370	5%	2185	600	350	900	8405
Grade 7	4100	5%	2050	600	350	900	8000
Trainee							5975

Source: Based on MoLE, 2018

Lesson 1: Institutional process ignored the minimum compliance requirement

Proposed RMG Wage 2019 (announced on 13 January, 2019)

	Basic wages	Annual Increment (% of basic)	House rent (50% of basic)	Medical allowance	Transport allowance	Food allowance	Aggregate
Grade 1	10938	5%	5469	600	350	900	18257
Grade 2	9044	5%	4522	600	350	900	15416
Grade 3	5330	5%	2665	600	350	900	9845
Grade 4	4998	5%	2499	600	350	900	9347
Grade 5	4683	5%	2342	600	350	900	8875
Grade 6	4380	5%	2190	600	350	900	8420
Grade 7	4100	5%	2050	600	350	900	8000
Trainee							5975

Source: Based on MoLE, 2019 reported in the National Dailies

Lesson 1: Institutional process ignored the minimum compliance requirement

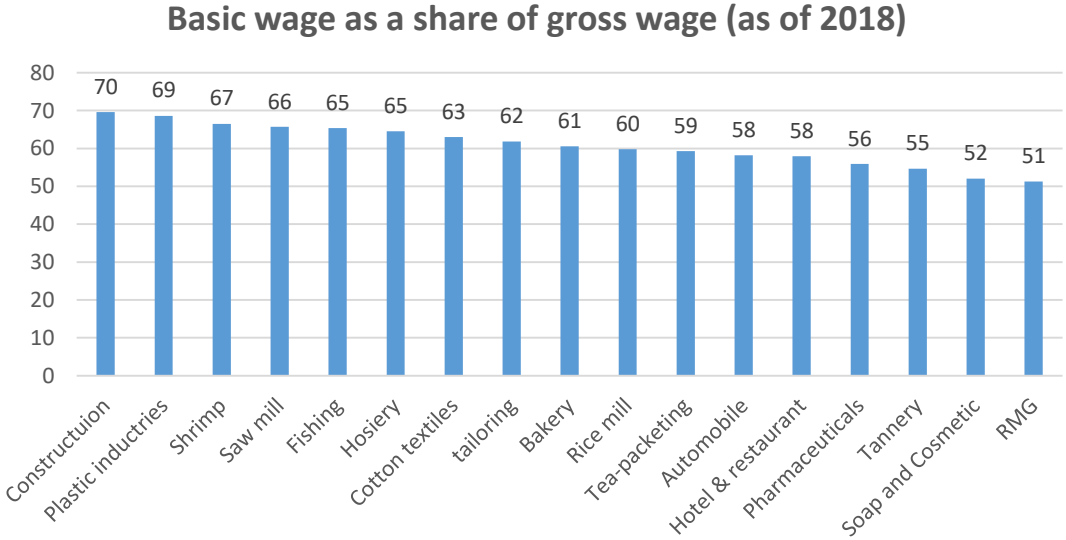
- Analysis of structure of minimum wages identified a number of weaknesses as claimed by workers
 - Basic wage as a share of gross wage has been declining over the years in all grades; however, basic wage has been progressively increased from lower to upper grades
 - Wage gap between skilled and unskilled workers has been narrowed down over the years- share of entry level wage (grade VII) and median wage (grade IV) was 77.7% in 2010, 82.6% in 2013 and 86.5% in 2018.
 - Rise of basic and gross wages between 2013 and 2018 was lower for upper grade workers compared to those of the entry level workers

Analysis of New Wage Structure (Wage 2018) vis-à-vis those of 2013 and 2010

	Basic as % of gross wage, 2018	Basic as % of gross wage, 2013	Basic as % of gross wage, 2010	Rise of basic wages between 2013 and 2018	Rise of gross wages between 2013 and 2018
Grade 1	59.6	65.4	69.9	22.8	34.7
Grade 2	58.2	64.2	69.4	21.7	34.2
Grade 3	53.8	59.9	68.0	26.6	40.9
Grade 4	53.3	59.2	67.7	29.7	44.0
Grade 5	52.7	58.4	67.4	32.3	46.6
Grade 6	52.0	57.6	67.1	33.6	48.0
Grade 7	51.3	56.6	66.7	36.7	50.9
Trainee		52.6			42.9

Lesson 1: Institutional process ignored the minimum compliance requirement

- There is a tendency to set proportionately less basic wages (as share of gross wages) with a view to reduce the operational costs of factories.
 - Reduce relative cost burden for employees' over time payment
 - Reduce relative cost burden for payment of employees' festival bonus
 - Reduce relative cost burden for employees' service benefits
- The basic wage for entry level workers in the RMG sector was one of the lowest in the manufacturing sector of Bangladesh.
- **Lesson learned:** In the future, basic wages for all grades need upward adjustment (in terms of share of gross wage)



Source: BILS, 2018

Lesson 1: Institutional process ignored the minimum compliance requirement

- According to the Gazette (Nov., 2018), workers will not lose any benefit/facilities currently enjoying
 - This was not properly addressed in the Wage 2018 (table below). Basic wages was reduced in grades 1, 2 and 3, while it has marginally increased in Grade 4.
 - Lack of attention in addressing the new element introduced in the wage structure - ‘yearly increment’ in 2013
- **Lessons learned:** Number of increments should not be allocated by considering year of jobs only, it should be allocated based on skill and specialization of workers also.

Difference in Basic Wages: Current and Wage 2018

	Current Basic Wage 2018	Announced Basic wage (Wage 2018)	Difference (Tk.)
Grade 1	10848	10440	-408
Grade 2	8934	8520	-414
Grade 3	5201	5160	-41
Grade 4	4850	4930	80
Grade 5	4505	4670	165
Grade 6	4173	4370	197
Grade 7	3000	4100	1100

Differences in Gross Wages: Current, Wage 2018 & Wage 2019 (Tk.)

	Basic Wage 2018	House Rent 40%	Medical Allowance	Transport Allowance	Food Allowance	Gross Wage received in 2018	Gross Wage 2018	Revised Gross Wage	Difference (B-A)	Difference (C-A)
						A	B	C	(B-A)	(C-A)
Grade 1	10848	4339	250	200	650	16288	17510	18257	1222	1969
Grade 2	8934	3574	250	200	650	13608	14630	15416	1022	1808
Grade 3	5201	2080	250	200	650	8381	9590	9845	1209	1464
Grade 4	4850	1940	250	200	650	7890	9245	9347	1355	1457
Grade 5	4505	1802	250	200	650	7407	8855	8875	1448	1468
Grade 6	4173	1669	250	200	650	6943	8405	8420	1462	1477
Grade 7	3000	1200	250	200	650	5300	8000	8000	2700	2700

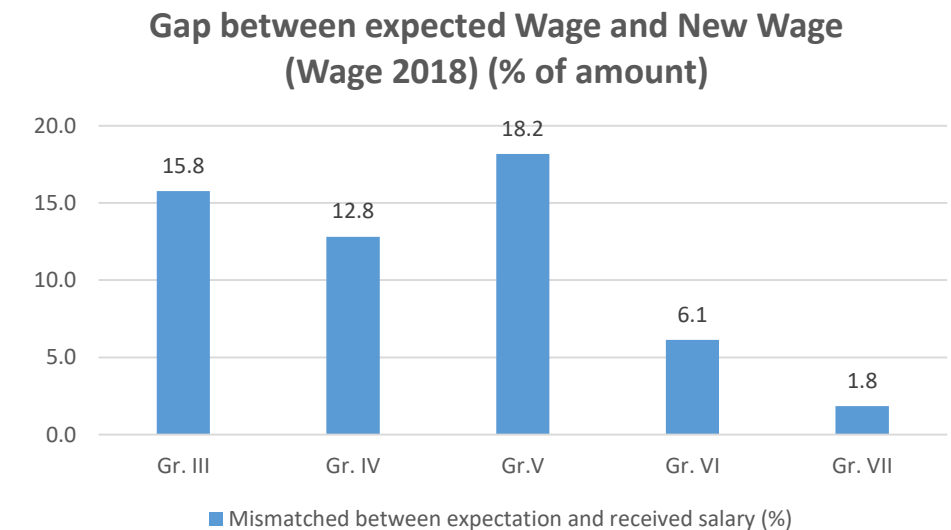
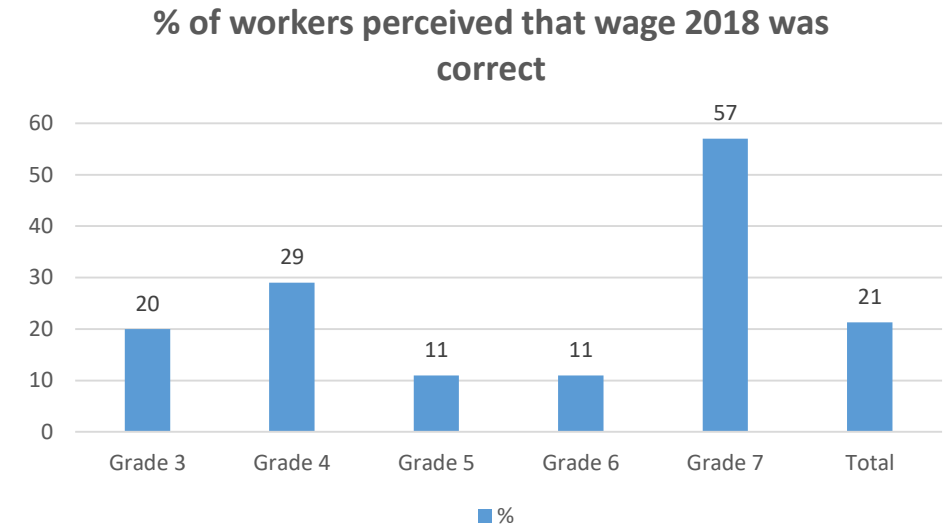
Source: CPD field investigation, 2019

Lesson 1: Institutional process ignored the minimum compliance requirement

- Over focus on minimum wages of grade 7 workers ignored the demand for rise in wages for other grades
 - Mainly for skilled workers (grades III, IV and V)
 - Rise in nominal wage value: Gr. VII (Tk.2700); Gr. VI (Tk.1477), Gr. V (Tk.1468) and Gr. IV (Tk. 1457)
 - Nominal wage value of skilled workers has increased only about half of that of entry level workers.
- Lessons learned: Adjustment of wages for skilled workers need to be accommodated within the salary structure
 - There need to have sufficient gap in basic and gross wages between different grades
 - Factories should be encouraged to pay additional increments beyond stipulated wages for skilled workers
- The MWB could not ensure minimum compliance requirements in setting new minimum wages (wage 2018)
 - This may happen owing to lack of proper definition and method for calculating minimum wages, lack of technical knowledge, lack of competency of the members, unwillingness of parties to negotiate concerned issues and weak negotiating capacity of workers' representatives.
- Lesson learned: The institutional process for formation of minimum wage board including selection of representatives (particularly those of workers), definition of minimum wages, methods for calculation need to be reviewed.

Lesson 2: Level of appreciation varies between workers of different locations and different grades

- According to the field investigation, only one-fifth of the interviewed workers viewed that the wage 2018 was correct.
 - Except grade VII, majority of workers of other grade workers did not think that wage structure was proper.
 - Workers working in small and medium factories were less positive about the wage structure.
 - Workers working in Dhaka city and Tongi/Gazipur region were less positive.
 - Dissatisfaction was higher among workers working in Tongi/Gazipur region.
- Wage 2018 could not meet the expectation of the workers
 - Gap between expected wage and wage 2018 has widened
 - Gaps were higher in case of grades V, IV and III by about 18%, 13% and 16% respectively.
 - Better focus should be on workers in higher grades who contributed more in the process of production.

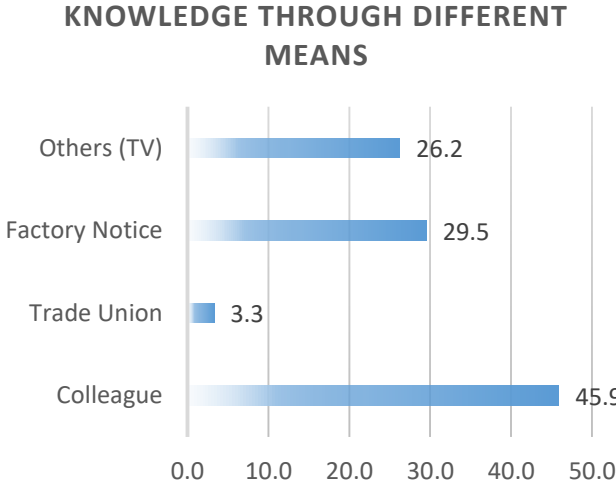
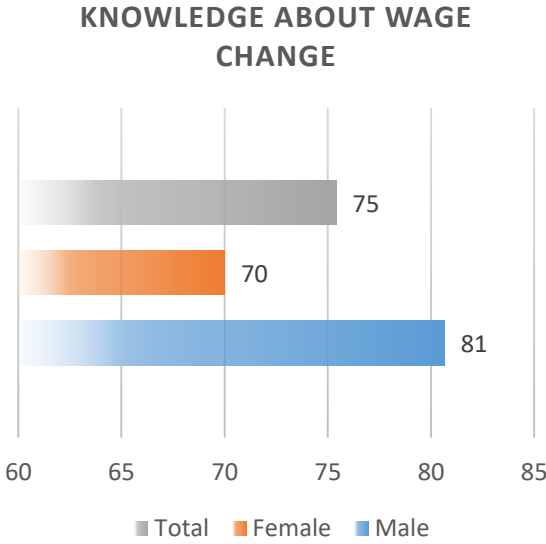


Lesson 2: Level of appreciation Varies between Workers of Different Locations and Different Grades

- Discrimination in the new wage structure (wage 2018) was more reported by workers working in Dhaka city and Tongi/Gazipur region and those who worked in upper grades (grade III)
 - Overwhelming majority of workers reported about discrimination in basic wage and overtime payment (which is determined by basic wage)
 - Workers did not mention about discrimination in different allowances (house rent, transport and food allowances) as those have been increased considerably in nominal term— house rent by 70%, medical allowance by 140%, transport by 75% and food by 38% (all values for grade VII workers)
 - Dissatisfaction was less reported by workers working in Savar and Ashulia region- perhaps factories took proper measures which are usually large/medium scale state of art factories
- Revised wage (wage 2019) seems not to meet the expectation of the workers
 - Small share of workers in Dhaka city and Tongi/Gazipur region were positive
 - A major share of workers working in Savar region are found to be positive
- **Lessons learned: Wage demand for workers of upper grades need to be taken into account. Skill-wage linkage needs to be taken into consideration.**
 - **Locational variation is related with variation in enterprises' capacity to meet workers' demand and lack of communication between management and workers.**
 - **Cash flow management, industrial relations and better communication between workers and management are important.**

Lesson 3: Information and awareness about wages is at the least level

- Level of awareness about wage changes (Wage 2018) is widely varied between workers working in different grades and locations and differences in gender.
 - Female workers were less aware compared to that of male workers
 - Workers working in small factories are less aware about changes in wages.
 - Workers in Savar/Ashulia region seems to be better aware compared to other regions.
- Only one third of sample workers knew about the changes in wages (Wage 2018) through formal channel
- The rest two third workers knew about it through various other ways.
 - Majority of workers learned from colleagues and a section of workers learned through media (e.g. television)
 - Very few workers learned through workers’ organizations (WPCs/TUs)
- Majority of workers knew about changes in wages before the national elections (30 December, 2018)
- **Lessons learned: Awareness raising activities as regards changes in wages particularly among female workers and factories in Dhaka city and Tongi/Gazipur area need to be expedited; factories should mandatorily arrange sessions for workers about changes in wages**
- **Workers’ organizations can be used in this regard.**



Source: CPD field investigation, 2019

Lesson 3: Information and awareness about wages is at the least level

- There were discussions among workers about wage changes and discrimination in wages.
 - Upper grade workers discussed more about this.
- Workers were less encouraged to inform about their legal demands to the official channel (21%)
 - Only 13% workers informed it to the management and 9.8% to the workers’ organizations.
 - Such initiatives were less among workers working in small enterprises.
- Workers’ interest about revision of wages (wages 2019) did not increase much even after so many incidences on their demands
 - About half of the workers were not fully aware about structure of Wage 2019.
 - Level of awareness is lower for female workers compared to male workers.
- Only 25% workers could properly mentioned about at least one component of wages in the revised wage structure
- **Lessons Learned: Factories should set up effective mechanism of communication with workers.**
- **Workers’ knowledge on their grades, wages and financial matters need to be improved.**

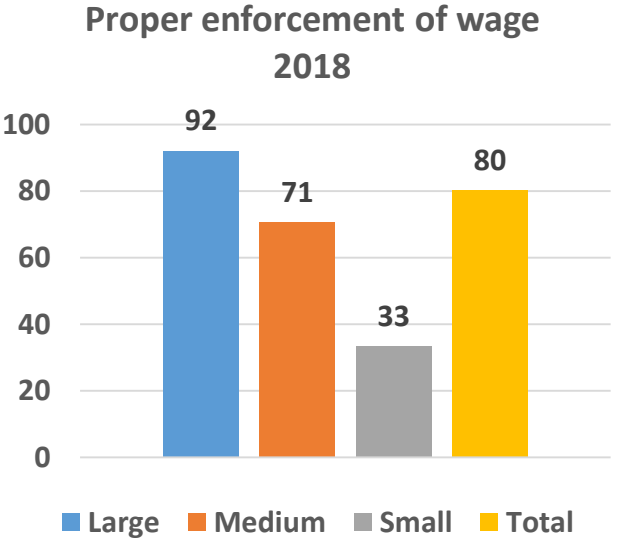
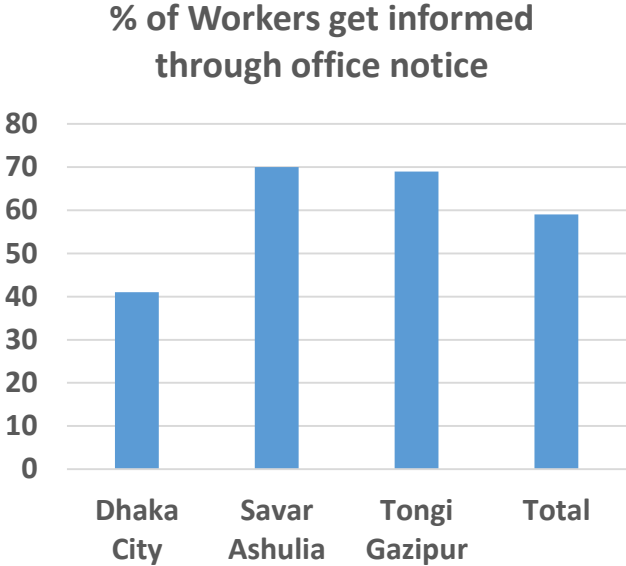
Workers’ level of knowledge about their new wages (wage 2019) (% of workers)

Grade	Matched one or both	Matched within the range +/- Tk. 100	Matched within the range +/- Tk. 500	Unmatched
3	0	0	20	10
4	7	14	36	7
5	0	0	11	0
6	6	0	6	11
7	43	0	0	0
Total (%)	25	10	45	20

Source: CPD field investigation, 2019

Lesson 4: Level of enforcement varied between size and location of enterprises

- A large share of workers did not receive prior notice from the factories (wage 2018)
 - Relatively less received by workers working in Dhaka city
- Large factories better implement the wages while small factories are behind in terms of implementation of wages.
- Majority of factories implement wages properly except those in Tongi/Gazipur region (wage 2018)
- Majority of workers mentioned that factories have raised the production targets
 - Relatively more in Tongi/Gazipur region
- **Lessons Learned:** Even a section of factories were not prepared to pay the workers as per Wage 2018.
 - Cash flow management of factories usually small factories and those located in city areas need to be monitored prior to enforce it.
 - Need to put the factories in pressure regarding legal obligation.
 - DIFE/DoL should separately monitor the implementation of new minimum wages using additional component in the check list on cash flow management.



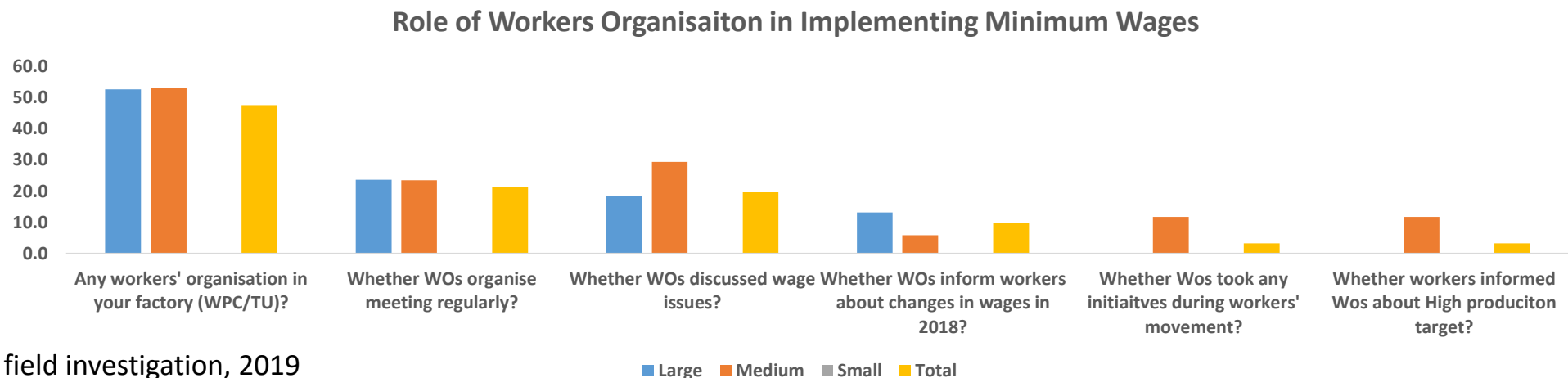
Source: CPD field investigation, 2019

Lesson 5: Workers were pushed to adverse situation in raising their demand

- Management of factories tried to assure workers about adjustment of the wages.
 - Factory management of Dhaka city and Tongi/Gazipur regions tried to handle the situation
 - This was less evident in Savar/Ashulia region as a section of factories have already addressed that
- A section of factories threat workers to close factories while another section of factories threatened to dismiss workers
 - A section of workers have heard about dismissal of workers particularly those working in factories located in Tongi/Gazipur region.
- There is a threat to permanently lose jobs in the garment sector if workers are ‘black listed’ and are reported in the newly created biometric database.
- There were limited initiative among workers to inform the management about wage related discrepancies
 - Both male and female workers are behind in taking such initiatives
- **Lessons Learned: As per rule, the punitive measures should be enforced against factories which were non-complaint.**
 - **Workers are being penalized but owners are not – a reverse rule?**
 - **Biometric database should not be in the hand of associations alone – there should be a tri-partite committee to monitor it.**

Lesson 6: Weak organizations lessened the possibility to empower workers to claim their rights

- Despite considerable presence of the WPCs in the sample factories, no visible initiatives had been undertaken in addressing the concerns of workers wages.
 - Some of the WPCs in large enterprises took initiatives for discussion.
- WPCs did not play any significant role in informing /raising awareness among workers about ensuring compliance in implementing new wages.
- Almost no initiatives have been undertaken by the WPCs during the time of labour unrest/ workers' movement.
- **Lessons Learned:** The elected WPCs could not show up its role in handling wage related concerns. The scope of work of WPCs need to be widened and necessary support to be provided to function better.
 - Role of effective trade unions has been strongly felt.
 - Innovative approach is needed to strengthen social dialogue mechanism at the enterprise level.



Source: CPD field investigation, 2019

Lesson 7: Absence of proper mechanism for demonstration to claim their rights

- Majority of workers were aware about the movement.
 - Three-fourth of workers expressed their solidarity through work-break, only a small section of workers participated in the procession/rally
 - A major part of workers were silent or did not participate in procession
 - Only a small section of workers joined in road block or similar activities
- Majority of workers supported the issues raised by workers
 - Demand for raising basic wages
 - Demand for maintaining differences in wages between skilled and unskilled workers
 - Demand for reducing work load
 - Stop harassing workers
- A section of workers got threat to be arrested in case they join the procession
 - Few male workers confronted threats of arrests.
- **Lessons learned: Absence of proper mechanism for demonstration to claim rights, may create a vacuum which may cause diverse nature of incidences**
- **Role of industrial police should not be extended to management-worker level discussion; it should be confined within maintaining law and order.**

Sample workers' support for various demands (% of workers)



Source: CPD field investigation, 2019 ²⁶

Lesson 8: Additional costs could be adjusted through fiscal support and cooperation with buyers

- New wage (Wages 2018/2019) caused rise in operational costs for the RMG enterprises.
 - According to anecdotal information, enterprises need to accommodate additional 20 per cent plus wage costs due to rise in wages.
 - In case of FOB value, about 3-5% of additional costs need to be adjusted.
- This additional costs need to be adjusted by the factories.
 - Government has provided three special fiscal incentives/facilities since July, 2018 which would help adjusting a part of their costs
 - These include: a) reduction of corporate tax rate (from 15% to 12%); b) significant reduction of source tax (from 1% to 0.25% of the FOB value) and c) waiver of VAT on use of selected domestic services (transport; logistics etc.)
- Some of the factories have set higher production targets for workers - it is difficult to define them as productivity enhancing initiatives.
 - Factories have initiated cost-cutting measures by replacing low productive machineries with upgraded/advanced machineries.
- Role of the brands and buyers are critically important in order to adjust these additional costs.
- **Lessons Learned: Factories should not rise production targets alone without assessing other areas for cost reduction including improvement of efficiency of management at different levels**
- **Brands/buyers should come forward to share a part of the additional cost so that factories need to require to replace workers by machines.**

Lesson 9: Shared responsibility of brands/buyers and consumers is needed to accommodate additional costs

- The brands/buyers should take part in adjustment of new minimum wages through different means:
 - Option 1: Full adjustment through rise in CM charges
 - Option 2: Partial adjustment through partial rise in CM charges
 - Option 3: Continuing the same CM charges without reducing it (when brands/buyers annually have been reducing CM charges)
 - Option 4: No adjustment and continuous reduction of CM charges
- According to anecdotal information, majority of brands/buyers will not go for option 1 or option 2.
 - Brands/buyers perhaps follow either option 3 or option 4.
 - Only a limited number of brand/buyers have committed for partial adjustment (option 2)
- **Lessons Learned: Brands and buyers should jointly announce a mechanism how additional wage costs could be pass on to the consumers at the retail level**
 - **Without affecting the competitive environment in the retail market.**

Lesson 10: Non-wage related measures are also needed to address workers' livelihood challenges

- A section of workers made additional spending taking into account the rise in wages (wage 2018).
 - Less than 10% workers have made that additional spending.
 - Most of this additional spending are related to purchasing household durables (furniture and new products) for the family
- A large section of workers (about 55 per cent) mentioned that house rent will rise mainly those stay in Dhaka and Savar/Ashulia regions.
- Lessons Learned: CPD (2018) suggests non-wage initiatives to address a part of workers concerns
 - Taking 'community development' approach to develop workers livelihood in major industrial clusters – developing building through advancing loan to land owners by Fis/NBFIs, arrangement of specialized clinics through PPP model, establish government schools, colleges and recreation facilities.

5. Conclusion

- A comprehensive approach is needed in order to address the diverse nature of challenges in implementing new minimum wages.
 - Addressing the concerns in structure and composition of minimum wages
 - Taking measures to address skill-wage mismatch in the wage structure
 - Raising awareness among workers and management about changes in wage structure
 - Special awareness raising initiatives for female workers about their grades, wages and financial issues
 - Devising better communication tool between management and workers
 - Special attention to cash flow management of factories during the period of wage implementation
 - DIFE/DoL should use additional monitoring tool to check firm's cash flow status
 - Workers should not be harassed; Biometric database should not be in the hand of associations alone – there should be a tri-partite committee to monitor it.
 - Scope of work of WPCs need to be widened and necessary support to be provided to function better.
 - Role of effective trade unions has been strongly felt
 - Innovative approach is needed to strengthen social dialogue mechanism at the enterprise level.
 - Factory management should not rise production targets alone without assessing other areas for cost reduction
 - Brands/buyers should jointly announce a mechanism how additional wage costs could be adjusted
 - Reviewing the institutional process of the MWB with a view to ensure its role and function in the future.

Thank you.