

Exploring Financial Products to Reduce Modern Slavery in the Informal Apparel Sector in Bangladesh

Research Summary | May 2022



Overview

Bangladesh's apparel sector employs over 4.22m workers and is at the forefront of the country's rapid economic growth, with annual exports of USD 35.81bn (80% of total exports) even in the post-pandemic year of 2021. The sector, however, is much larger because it also includes a **large informal sector** where thousands of manufacturer cater to the **local market** or work as **subcontractors** for large exporters. These manufacturers are excluded from buyers' compliance standards and audits because they do not directly participate in exporting. The manufacturers seldom follow regulatory guidelines because of the lack of government oversight. As a consequence, the people who work in these informal factories get exposed to extreme exploitation, and abuse, resulting in them ending up being victims of modern slavery. Innovision did a landscape study on the informal apparel sector the scope of which can be broadly categorized in **two parts**:

- In the first part, the study attempted to understand the financial lives and the modern slavery situation in the informal apparel factories and provide recommendations to reduce modern slavery situation in Bangladesh. 1

- The second part of the study shortlisted the recommendations and analyzed these further to find prospective financial products that could alleviate the modern slavery situation. 2



Desk Review

In-depth literature review on modern slavery and financial situation of informal apparel workers



KIIs with FIs/NBFIs

To understand the supply side perspective and status



Field Visit

For initial scoping and field analysis for smoother data collection process



FGD & IDIs

With workers and association bodies to optimize questionnaire and get a field level understanding



Quantitative Survey

Survey of workers, owners, and families of child workers*



KIIs (Rest of Informants)

KIIs with NGOs/MFIs, Government, FIs/NBFIs, Insurance Companies, MFS, Buyer/Brands, FinTech, etc.



Indepth analysis of first part of the study

Findings of first part of the study was deeply analyzed and scrutinized to find possible products.



Shortlist Recommendations

Four recommendations were shortlisted to further do feasibility assessment



KIIs

KIIs with FIs, FinTechs, MFS, HealthTech, Association Bodies



Worker Interviews

Interviews with workers to capture their perspective on the products



FGDs

FGDs with male and female workers, and owners.

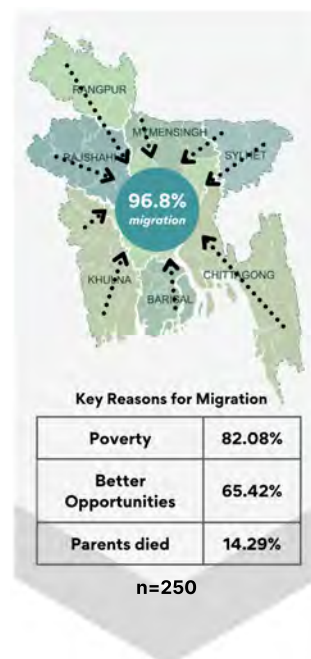
* Anyone at or below 14 years old is termed as child
15-17 years old are termed as teens/adolescents
Respondents above 18 are considered as adults

This study was made possible with support from Global Fund to End Modern Slavery (GFEMS) and Liechtenstein.

Key Findings

Underlying Reasons

- It is a **market driven problem** as demand for cheap clothes results in production of clothes at cheap labor. To sustain thin margins, workers are coerced to work long shifts in substandard working conditions.
- **Time poverty** does not allow them to develop any other skill, these workers end up continuing this cycle of modern slavery by opening their factory at one point in their lives.
- Children come here at a young age, **discontinuing their education**. Around half of the children mentioned poverty as the primary reason for dropping out of school.
- **96.8%** (n=250) of surveyed workers are **migrants**, a highly vulnerable group to exploitations of modern slavery. Existing workers usually bring in young new recruits to make them work as trainee/apprentice.
- **Reasons for working** in these informal factories:
 - For 67% (n=250), this is the **only job** they could find
 - 37% (n=250) consider it a **well paying job** & 28% **like to work**
 - 20% (n=250) children work here because of **parental pressure**



Workers' way of lives



Employment Contracts

- Absence of concrete employment agreements as a key reason for abuse and exploitation
- **60%** (n=250) of workers have verbal employment agreements with owners; which is void as 99% of it is not supported by any appointment letters
- About **35% of child workers**, 26% of male workers and 17% female workers are **not aware of their terms of employment at all** (n=250)



In the Keraniganj cluster, **86%** of male workers **live inside the factories** (n=85)



Working Hours, Leaves, and Holidays

- Workers work **10-15 hours** per day (n=250). Even children work on average **10.6 hours** (n=56)
- Workers, on average, get 23 days of holiday, usually grouped after Eid season
- **17%** of teenagers reported they **do not get leave during emergencies** (n=28)
- **40%** of all workers reported that their **salaries are cut if they go on leave due to an emergency** (n=250)



Workplace Relationships

- The **workplace relationship** of workers with owners, supervisors, and coworkers is overall **positive***; there are **low signs of physical abuse** (n=250).
- However, **20%** of the respondents mentioned that they faced **verbal abuse** in the workplace (n=250). **Teens** in particular faced the most verbal abuse (n=28).

*The positive results could be attributed to the fact that the surveys were conducted inside the factories for which the workers, to some extent, were reluctant to open up to the enumerators.

Key Findings

Financial Lives of Workers



Earning and Saving Pattern

- 43.2% of the workers get paid based on **pieces of clothes produced** (mostly in Keraniganj and Naryanganj). 41.6% of the workers get paid a **monthly salary**, and 9.2% of the workers get paid based on **working days**. (n=250)
- Workers are given a **partial weekly wage**. The rest is paid cumulatively at '**Chad Raat**' during Eid Holidays as a bonus
- Only **15%** of total respondents reported regularly saving (n=250)

Demographic	Average Earnings	Average Savings
Male (n=172)	BDT 7,432 ↑	BDT 1,528 ↓
Female (n=78)	BDT 6,987 ↓	BDT 1,735 ↑
Adult (n=166)	BDT 8,813 ↑	BDT 1,659
Teen (n=28)	BDT 6,011	BDT 1,275 ↓
Child Worker (n=56)	BDT 3,479 ↓	BDT 1,400 ↑



Bonus

- Around 63.6% of the workers were promised bonuses but only **41.2%** (of 63.6%) **got what was promised** (n=250).
- On Average, workers get a bonus of **BDT 6,070** (those who are promised). However, those who are promised a bonus get **up to BDT 26,000** bonus per year (n=250).
- Workers were asked what they do with the bonus they receive; workers replied to spend it on various tasks such as **buying livestock, land, house**, etc.



Medical Expenses

- 27.7% get sick every year, 26.9% get sick every six months, and another 26.9% said they get sick every two months (n=250).
- Workers prefer to go to **pharmacies** (local drug store) more than any other alternatives, and **only 59.2% tend to go to hospitals** for treatment; 72.8% said that **hospitals were far from factories** for which they did not go to hospital; **Average medical expenses in a year were BDT 5,497** (n=250).
- 20.4% children tend to **not do anything when they get sick** (n=56).



Credit

- 100% of all credit taken by workers are from **MFI or Mohajons*** (n=5).
- Often, the loan is not paid by only the workers themselves. Typically, **family members contribute** to paying back the loan.
- The workers are **not able to give a precise amount** on their level of contribution as they earn on a production basis and they spend money as they earn.
- Workers find **financial products too complicated and unnecessary**. More than half of the respondents said they would not be comfortable taking loan from a formal financial institution.

* Informal moneylenders; in some cases, the factory owners

Key Findings

Workers' way of lives



Workplace Environment

- **Child labor** was observed in all surveyed regions: **Dhaka, Keraniganj, Naryanganj, and Chattogram** (n=56)
- There were **conflicts regarding perception of workplace environment** between the enumerators and the workers. For instance, what enumerators saw as unsafe drinking water, workers thought of it as safe. The reason for this might be that **workers have normalized insufficient workplace facilities.**



Mental Health and Well-being

WHO-5 Wellbeing Index (n=194) <i>(For 14 yrs old & above)</i>			Short Mood and Feelings Questionnaire (SMFQ) (n=56) <i>(For below 14 years old)</i>		
	Respondents	Normal Range		Respondents	Normal Range
Avg	41.4%*	More than 52%	Avg	5.5	Below 8
Max	80		Max	21	
Min	0		Min	0	

* For teens, it is even lower: 37.4%

- **Adult workers** were observed to have **poor mental health** and **they might not be wholly aware of mental health issues** that might happen as a consequence of a poor workplace environment.



Level of Digitalization and Account Ownership

Particulars	Male (n=172)	Female (n=78)
Cellphone Usage	81.40% >	66.67%
Smartphone Usage	64.29% >	51.92%
MFS* Account Ownership**	45.22% >	31.37%
Bank Account Ownership	6.96%	< 25.49%

* Mobile Financial Service

** Use it mostly for sending local remittance



Banking Perspective

- All major banks **have branches in these clusters** and provide financial products to the factory owners. However, when it comes to workers, **very few FIs and NBFIs have worked with the workers** in the informal apparel sector.
- FIs/NBFIs are hesitant in working with workers because of workers' risk exposure and **transitory nature**. Moreover, it does not make business sense to work with workers as the amount of effort that has to be given in comparison to corporate clients, is not feasible for them.

Key Findings

Workers' Future Aspirations



- **50%** of workers wish to start **new job**; whereas the rest **50% wish to start new business** (n=250).
- The **majority of female workers (78.2%)** reported that they would **want a new job** whereas the majority of **male workers (52.9%)** reported that they would be **willing to start a business** (n=250).
- New business ideas include starting a **grocery store or a garments business**, with an initial average amount of BDT 320,000.
- **Teens (57.1%)** were keener on starting a business whereas children (83.93%) were keen to find a new job (n=28).
- Most of those who would want better job prospects would prefer doing the **same job with better pay**.
- On average, a monthly income of **BDT 16,870 would incentivize the worker to leave their current job**. For children, the average desired income is **BDT 9,705** and for teens, the average desired income is **BDT 14,107**.
- The majority of **male workers (16%) want to learn driving**, while the female workers (**60%**) **would want to learn tailoring** (n=250).

Recommendations

Shortlisted for Further Assessment

- **Covenant-Based Financial Products for Factory Owners:** Provide attractive financial products for factory owners subject to adherence to certain covenants. For e.g., reduced interest rates, higher loan amounts, smoother eligibility process, etc.
- **Digital Wage for Factories:** Introduce wage digitization products to factory owners as well as business associations for financial inclusion.
- **Bundled Financial Products for Workers:** Develop a product-bundle that works in synergy and has a higher overall value proposition compared to an individual product. For e.g., credit builder product, emergency loan product, savings product, and money management module.
- **HealthTech and Health Insurance:** Introduce a HealthTech based service package for workers to avail round-the-clock telemedicine services, avail app-based (Chat, Video Call, Voice Call) health services, under the coverage of health insurance.
- **Awareness Program for Factory Owners and Workers:** Highlight the impact of poor work environments and long working hours on mental health and that a better workplace environment translates to increased productivity.
- **Equated Monthly Installment (EMI)-Based Smartphone Purchase Schemes:** An EMI-based smartphone facility for workers to buy discounted smartphones. The monthly repayment amount would be a small percentage of monthly income, deducted from the worker's salaries.

Recommendations

- **EdTech and Skills Development Programs:** Introduce an EdTech product for workers to enhance their skills and explore potential skills of other interests. Furthermore, enable connections to real-life training organizations to achieve complete technical skills.
- **Infrastructure Development and Relocation:** Support the informal apparel factories with relocating to a compliant building to enable them to develop their infrastructure and be eligible for the donor-sponsored soft loans.
- **Increased Vigilance from Brands and Buyers:** Raising awareness among buyers to be stringent in the audit of their complete supply chain, including any subcontracting factories.
- **Informing FIs/NBFIs of the Market Scope of the Informal Apparel Sector:** Arrange seminars/webinars where FIs/NBFIs are informed of the market scope of the informal apparel sector.
- **Advocacy for Addressing National Level Challenges:** There are challenges at the national level that are directly contributing to the worsening of Bangladesh's modern slavery situation. Such as school dropouts, the prevalence of child labor, widespread poverty and a scarcity of job opportunities, high rate of unemployment, lack of compliance, and regulatory roadblocks to Cottage Micro Small Medium Enterprises (CMSMEs) obtaining the legal identity, etc. These are multifaceted challenges that cannot be solved easily. For this, consistent advocacy campaigns must be carried out to raise awareness and engage in discussion.

Observation and Perception on the Shortlisted Products

Covenant-Based Financial Products for Factory Owners



Big Factories

- Large factories are (with 10+ workers) typically up-to date with basic legal documentation and have experience in taking loans from Banks/NBFIs. Since they are already able to take regular loans, this segment of **'big factory owners' will have a low interest in the 'covenant-based financial products'**.
- Some owners think that the **'covenants' for the loans are not achievable**, at least not in the short term.



Small Factories

- However, the small factory owners have a **more difficult time trying to secure loans**. Besides their lower revenue, many of these factories **do not have the documents** to be eligible. But these owners have expressed their needs for loans.
- The few small factory owners that have taken loans in the past (usually from **MFIs**) have said that **current interest rates are too high**.

Observation and Perception on the Shortlisted Products

Covenant-Based Financial Products for Factory Owners



Small Factories

- They are willing to provide their workers with better living conditions to some extent, such as clean drinking water, safer equipment, etc. to avail themselves of the 'covenant-based financial products' at **lower interest rates**.

Digital Wage for Factories



Big Factories

- The big factory owners initially did not like the idea of the use of MFS for wage disbursement because of its **technicality and complexity**. For bigger factories, it is a **hassle** as they need to update salary inputs and other data entries for many workers.



Small Factories

- Smaller factories have a significantly smaller number of workers making fewer cash transactions. So, these owners are **willing to digitalize** the wage disbursement procedure for the workers.
- However, some small factories mentioned that adopting digital wage for their 2-3 workers would not make sense as it can be **easily substituted** by giving wages via cash.



Workers

- **100%** of the workers consider that **getting paid in cash is the better alternative**, as they could readily use the money.
- They think that the usability of mobile financial services would be limited compared to having cash that they could spend at any time and anywhere.
- After the benefits of digital wages, such as easier transaction mechanisms, more transparency, developing a habit of saving, records of transactions, etc., were shared with them, only **36%** of the workers agreed digital wage would be the better alternative (n=52).

Bundled Financial Products



Factory Owners

- When the concept of an integrated and bundled service was mentioned to owners where workers will not only receive wages digitally but will also be able to avail of loans instantly, owners were interested as this would imply that the owners will not have to give loans to workers and the workers will avail of credit from banks during times of emergency.

Observation and Perception on the Shortlisted Products

HealthTech and Health Insurance



Workers

- Very few of the workers knew about the concept of insurance, and most of those who knew had **negative perceptions** about it. Only **40%** of the workers liked the idea of **health insurance** and said that they would have no issues paying a monthly premium to avail of the service.
- Most of them, however, said that they are not as keen on availing of health insurance as they **do not get sick as often**. However, they would reconsider it if the coverage of the **insurance scheme were to be extended** to include family members of the policyholder.
- However, there were a few workers who spent between BDT 500-1,000 per month behind insurance policies under the **assumption of it being a savings product**.



Owners

- The initiative for health insurance was accepted positively by the big factory owners. They understood the importance of having coverage for medical expenses and were highly optimistic that the workers would similarly accept this product.
- Owners mentioned that if the premium could be kept less than **BDT 50 per month**, workers would be keen as it will absorb their medical expenses.

How can the proposed products reduce modern slavery?

Ensuring access to finance and credit is known to be an effective and proven tool through which low-income population segments can slowly build wealth to come out of poverty. Research suggests that lack of access to finance can leave individuals and households vulnerable to cash flow shocks such as medical emergencies, natural disasters, and unforeseen life events such as marriages, dowry payments, or funerals. As a coping tactic, households are lured into unsafe labor and debt arrangements.

Each of the proposed solutions will effectively impact in reducing modern slavery. Through **'Digital Wage'** workers will be able to maintain a digital financial footprint. Gradually workers will be able to build strong credit scores via which they will be able to avail many prospective financial products such as loans, mortgages, etc. **'HealthTech and health insurance'** will protect workers and give them coverage in case of cash shocks arising from medical crises. Furthermore, workers will have access to healthcare services through which they will be physically healthy and sound. **'Covenant-based financial products'** will directly improve workers' lives as the proposed covenants will directly reduce the extent of modern slavery. And, lastly, the **'bundled financial products'** will open options for workers to be eligible for credit products along with financial literacy, fund management, etc. Workers will also be able to save and practice good financial practices to raise one's overall financial knowledge. This way workers will be able to slowly accumulate wealth and pursue their ambitions to eventually come out of the modern slavery situation.

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