WORKER RIGHTS CONSORTIUM

Worker Rights Consortium Verification Report
Re Living Wage Compliance at Altagracia Project Factory
(Dominican Republic)

Findings

July 16, 2010

I. Executive Summary

The Worker Rights Consortium (WRC) is conducting ongoing monitoring of compliance by the Altagracia Project factory with the living wage standard to which the factory, and its primary buyer, Knights Apparel, have pledged to adhere. This monitoring, which is part of the WRC's labor rights verification program for Altagracia Apparel, began in mid-April of 2010. This report presents the results of monitoring performed during April, May and June of 2010.

Based on the evidence gathered through the monitoring process (summarized below) it is the WRC's conclusion that the factory is in full compliance with its living wage obligations.

II. Background and Applicable Labor Standards

The Altagracia Project factory (henceforth "AP" or "the factory") is an apparel production facility in the town of Villa Altagracia in the Dominican Republic. The facility is located in the Villa Altagracia Free Trade Zone. AP employs roughly 130 workers in the production of t-shirts and hooded sweatshirts for the university logo apparel market. The factory's sole buyer is Knights Apparel, a US-based apparel wholesaler.

AP is subject to the labor laws of the Dominican Republic and to a code of labor standards[1] specific to the factory, developed by the Worker Rights Consortium (WRC), and applicable to the factory under an agreement between the WRC, Knights Apparel and the FEDOTRAZONAS union federation. The focus of this report is the factory's compliance with the component of this code concerning wages, under which standard the factory is obligated to pay all employees no less than a living wage, as calculated by the WRC through a market-basket-based living wage analysis[2] (the "Living Wage Standard").

The code standard, in its entirety, is as follows:

<u>*Wages and Benefits*</u>*: The factory shall pay employees, as a floor, wages and benefits which comply with all applicable laws and regulations, and which provide for essential needs and establish a dignified living wage for employees and their families. A living wage is the "take-home" or "net" pay earned by an employee working a country's legal maximum workweek which, in the case of the Dominican Republic, is 44 hours. A living wage is calculated by dividing the amount of money required to meet the basic needs (housing, energy, nutrition, clothing, healthcare, education, potable water, childcare, transportation, and savings) of an average-sized family of an employee in the garment manufacturing*

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[1] These standards are available to the public in a WRC document titled "Labor Standards for the Altagracia Project Factory," and can be reviewed at the following link:
http://www.workersrights.org/linkeddocs/Alta%20Gracia%20Labor%20Standards.pdf
[2] The WRC's living wage analysis can be reviewed at this link:
http://www.workersrights.org/linkeddocs/WRC%20Living%20Wage%20Analysis%20for%20the%20Dominican%20Republic.pdf

sector of the country by the average number of adult wage earners in an average-sized family of an employee in the garment manufacturing sector of the country.

The Worker Rights Consortium has determined, through a country-specific market basket analysis, that a living wage in the Dominican Republic is 222,042 Dominican Pesos per year ("the Living Wage Standard"). To comply with the Living Wage Standard, all employees in the factory must be paid a gross wage sufficient to yield take-home pay of at least 222,042 Dominican Pesos per year. The required gross wage is equal to 18,152.99 Dominican pesos per month or 4,189.15 Dominican pesos per week.

In order to be in full compliance with the living wage standard, the factory must:

a. *Pay all employees in the factory at least the Living Wage Standard, regardless of an individual employee's level of production, for a regular workweek, exclusive of any overtime hours. The only bonus that may be considered as payment toward fulfillment of the living wage obligation is the annual mandatory Christmas bonus which all employees in the Dominican Republic receive regardless of production level. All production bonuses, all other non-mandatory bonuses and incentives, and all compensation for overtime hours must be paid in addition to the Living Wage Standard.*

b. *Make no deductions from employees' pay other than those mandated by law.*

c. *Pay employees for any overtime hours at the premium rate required by law, using the Living Wage Standard, or the actual straight time wage, whichever is higher, as the basis for calculating the premium rate.*

d. *Employ all employees on a year-round basis, and compensate them in accordance with the Living Wage Standard, without lay-offs or furloughs, so that the annual wage earned by a given employee – not including non-mandatory bonuses, incentives, and overtime – is consistent with the Living Wage Standard. The only circumstances under which an employee may receive less than the living wage over the course of a year is if the employee, of his or her own volition, takes unpaid leave for some portion of that year. Unpaid leave is time off that is taken voluntarily and that is not required, by law or by contract, to be compensated as paid vacation, paid sick leave, or other paid leave.*

e. *Minimize the use of temporary and part-time employees, so that, in the course of a year, no more than 10% of the hours worked at the factory are worked by individuals who are not full-time, year-round employees. Pay any part-time or temporary employees no less than the Living Wage Standard for all regular hours worked, plus any applicable bonuses, incentives, and overtime pay.*

f. *Ensure that the value of the living wage is not eroded through inflation, by adjusting the Living Wage Standard, in October of each year, to account for the increase in the cost of living over the prior twelve months, if any, as measured by* *the Dominican Central Bank. If a union is present in the factory, the factory may, at the union's request, modify the schedule for revising the Living Wage Standard to incorporate the revision into the collective bargaining process, provided that employees are made whole for any loss of wages due to delay in the revision of the Living Wage Standard that may result. Wages must be increased to reflect increases in the cost of living, but there will be no reduction in wages in the event of deflation.*

g. *Treat the living wage standard, in the context of collective bargaining, as a floor for negotiations, rather than the upper limit of what employees may earn. The factory's management must bargain over wages and benefits with any duly constituted union at the factory and Knights Apparel, as the primary buyer, must pay a price for the factory's products that make it feasible for factory management to bargain in good faith over wages and benefits.*

The Living Wage Standard at the AP factory is gross pay of 4189.15 Dominican Pesos ("RD Pesos") per week (US$115[3]). The is 340% of the legal minimum wage for free trade zone workers in the Dominican Republic of 1,246.15 RD Pesos (US$34). The minimum wage is the base wage at most of the country's apparel factories. Expressed in hourly terms, in US Dollars, the Living Wage Standard is $2.83/hour. The minimum wage is $0.83 per hour.

Because payment of this large premium over standard industry wages is of profound importance to employees of AP, and their families, the WRC's labor rights verification program for Alta Gracia apparel places special emphasis on monitoring compliance with this standard.

III. Monitoring and Verification Methodology

The WRC monitors compliance with the Living Wage Standard by:

- Reviewing factory payroll records, and work logs, to ensure that all recorded payments are consistent with the standard, that all overtime is properly compensated, and that only legally mandated deductions are taken from workers' pay.

- Interviewing workers at locations away from the factory, and reviewing pay receipts supplied by workers, to ensure workers were actually paid the amounts reflected in the factory's records, to ensure that the hours of work reported by workers match those reflected in the records, and to ensure that any leave time that reduced a worker's pay was taken voluntarily and at that worker's own initiative.

[3] US Dollar/RD Peso conversions are based on Interbank exchange rate as of June 24, 2010

- Meeting with leaders of the factory's union to solicit their views concerning living wage compliance.

During the two and a half month time period covered by this report, the WRC reviewed factory payroll records for five separate weekly pay periods and conducted worker interviews and reviewed worker pay stubs in conjunction with each of those pay periods. Reviews were conducted for the pay periods corresponding to the following pay dates: April 16, 2010, April 23, 2010, May 21, 2010, June 4, 2010, and June 11, 2010. In addition, the WRC's Dominican Republic Field Representative was present in the factory to observe payments to workers on April 16 and April 23, the first two living wage paydays, and subsequently observed at least one payday per month. The WRC also met with leaders of the union, and discussed living wage compliance, on six separate occasions.

IV. Findings

Based on the substantial evidence gathered through the research methods outlined above the WRC finds that, for all pay periods reviewed:

- The factory complied with the living wage standard by paying all workers who worked the standard work-week of 44 hours no less than a gross wage of 4,189 RD Pesos

- The factory paid all overtime hours at the required 35% premium (above the Living Wage Standard) for evening hours and the required 100% premium for weekend or holiday hours. It should be noted that with respect to overtime voluntarily worked by some workers on Saturdays, the factory paid an overtime premium above that required by law and by the Living Wage Standard.[4]

- The factory paid no worker less than 4,189 RD Pesos, except in cases where the worker, at his or her own initiative, took voluntary, unpaid leave that reduced his or her hours below the standard workweek of 44 hours

- The factory did not take any deductions from workers' pay except for the 5.91% combined deduction, mandated by Dominican law, for employee contributions to the national pension and health care systems, with the exception of two minor errors occurring during one payroll period examined. These errors were as follows: For several workers who worked less than 44 hours due to employee-initiated

[4] Under Dominican law, the 100% premium only applies to weekend hours in cases where the total number of hours worked during the week in question is over 68, or where, as a result of overtime work, a worker does not enjoy a weekly respite between shifts of at least 36 hours. In the case of voluntary Saturday overtime hours worked by workers at AP, neither of these criteria applied and therefore, under the law and the Living Wage Standard, the factory was only required to compensate workers at a premium rate of 35% for those overtime hours. The factory nonetheless compensated workers for Saturday overtime hours at the 100% premium rate, according to factory records and worker testimony.

leave, the factory calculated payroll deductions based on full-time gross pay, rather than the pay corresponding to the reduced hours worked. This resulted in an excess deduction of 25.5 RD Pesos (71 cents, US) per worker for that week. The other minor error affected one worker for one pay period whose payroll deductions were made in the amount appropriate for an independent service provider, rather than a regular employee. The WRC determined that these errors were unintentional and, upon being notified by the WRC, management corrected the errors without delay, reimbursing the workers involved and adjusting each worker's account balance with the national social security administration.)

- Consistent with the requirement of the Living Wage Standard that workers be paid the living wage on a full-time, year-round basis, the factory provided paid leave to workers for work holidays that, under Dominican law, are normally treated as unpaid leave by employers.

In addition, the payroll reviews showed that the company correctly paid all employer contributions to mandatory government programs.[5]

The findings constitute a firm basis for concluding that the factory was in compliance with all obligations related to living wage throughout the time period reviewed.

[5] This includes the pension contribution of 7.1% of a worker's gross pay; the 7.09% contribution for health insurance; the 1% contribution to INFOTEP, the national worker education program; and the 1.1% contribution for Workers Compensation Insurance.