Global Landscape Analysis

TRENDS AND OPPORTUNITIES FOR FINANCIAL SECURITY PROMOTION IN THE GARMENT SECTOR

November 2019

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Acknowledgements

GFI would like to thank the Mastercard Center for Inclusive Growth and the Mastercard Impact Fund for their commitment to improving the lives of garment workers and for commissioning this study to better understand how best to do that through financial security initiatives. GFI would like to specifically thank Shamina Singh, Payal Dalal, Nicole Lindsay, Alison Eskesen, Natasha Jamal, and Luz Gomez for their invaluable feedback and guidance during this project.

GFI would also like to thank the brands, suppliers, non-profits, multi-stakeholder initiatives, and individuals that took time to share their perspectives. This report would have not been possible without your thoughtful and candid feedback.

EXECUTIVE SUMMARY

Approximately 1.7 billion people around the world are excluded from financial services such as savings, credit, payments, and insurance. These services are essential to help people save better and faster, weather transitions and financial emergencies more effectively, and build for the future; and yet, they are out of reach. This situation can change, and 1.7 billion people do not have to be excluded from essential financial services. Making this change is complicated and can increase risks to workers when it is not done well. But when we understand the complexities, especially from the workers' perspective and from organizations championing workers and implementing these initiatives, we can get closer to closing the gap between these essential services and the workers who need them.

The garment sector employs as many as 75 million global workers, most of whom are women, and serves as a critical source of income for those living at or near the poverty line. The garment sector also often serves as an entry point for many into formal employment and, therefore, is a critical sector in which to examine how to extend financial services and protections to those who need them most. GFI's Landscape Analysis provides a holistic view of the apparel sector, the barriers preventing wide-scale adoption of financial security programs, and identifies opportunities to move financial security initiatives from pilot programs to scalable change, with worker welfare at the forefront.

The apparel sector has made significant strides in increasing workers' financial security primarily through the digitization of wage payments. Approximately two-thirds of apparel workers in Tier 1 factories receive their wages digitally and research has shown that digitization of wages and benefits is a key driver for opening bank accounts. However, access alone does not improve worker welfare.

To successfully scale financial security initiatives and increase usage within the apparel sector, GFI has identified four key areas for improvement and expansion.

First, strengthen and expand the support provided to workers beyond just access. The link between financial security programs and improved worker welfare, such as increased savings or better financial management, remains conditional on the support provided beyond financial services, such as the quality or type of training. Unfortunately, strong training programs are not consistently done or prioritized across the sector. If the best practices highlighted in this report, such as thorough due diligence, comprehensive training programs, and staggered or lengthy transition periods can become the industry's standard operating procedure when digitizing wage payments, then we are likely to see greater gains and improvements in worker welfare through financial security promotion.

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Second, the integration of financial security efforts into the compliance agenda would lead to greater expansion and adoption, especially among brands. Financial security priorities have yet to be championed by labor and worker groups that drive the compliance agenda within the garment sector largely because implementation and execution of the worker-centered components, such as training, support, and awareness are not consistently used, rarely done at scale, and vary substantially in the quality of their execution. For financial security priorities to become part of the compliance agenda, a greater case needs to be made linking financial security initiatives to improved worker welfare. Those best positioned to advocate for additions to the compliance agenda are labor groups and civil society organizations that are not only well versed in the needs and priorities of workers but are also experienced in engaging with compliance organizations and multi-stakeholder initiatives.

Third, to successfully scale financial security initiatives within the garment sector, GFI recommends adopting a country-level strategy as opposed to brand or factory led approaches. Digital payments and financial security initiatives do not operate in isolation and the surrounding ecosystems, regulatory environments, community and cultural norms are critical factors in influencing success beyond the factory setting.

Furthermore, factory-based approaches are limited in their scope and scale because they are dependent on a brands' leverage with each factory, which can vary substantially between brands and across factories, even at Tier 1. In addition, few brands expressed interest in taking on financial security initiatives as they do not view it as a compliance issue. Finally, based on GFI's research and years of engagement, we believe brands prefer strategies that include governments and are initiated at the country level. Brands generally view country-level strategies as comprehensive and effective. Since many brands share common sourcing countries, effective country-level strategies could grow to scale more quickly and impact a cross-section of brands.

GFI has also identified opportunities for expansion of financial security initiatives through country-level strategies including (1) Unbanked workers in Tier 1; (2) High Growth and High Risk Countries; (3) Migrant Workers; and (4) Multi-Tier Integration Countries.

This report provides an overview of the sector and key trends relevant to financial security priorities, a summary of financial security efforts to date, barriers to adoption, best practices for worker-centered initiatives, and opportunities for wide-scale expansion of financial security initiatives, with worker welfare at the forefront.

REPORT OBJECTIVE

The garment sector employs between 60 million and 75 million global workers and serves as a critical—and sometimes the only reliable—source of income for those, especially women, living at the poverty line. Access to financial services is critical to help these women and men improve their lives and build for the future yet access to financial services remains inaccessible to most garment workers. There is little question that access to and efforts towards financial security —making essential financial services available and useful to these workers—are critically important.

This report provides not only an overview of the sector but also identifies barriers and challenges to wide-scale adoption of financial security initiatives. The report also assesses opportunities to strengthen wide-scale financial security efforts, especially for women.

METHODOLOGY

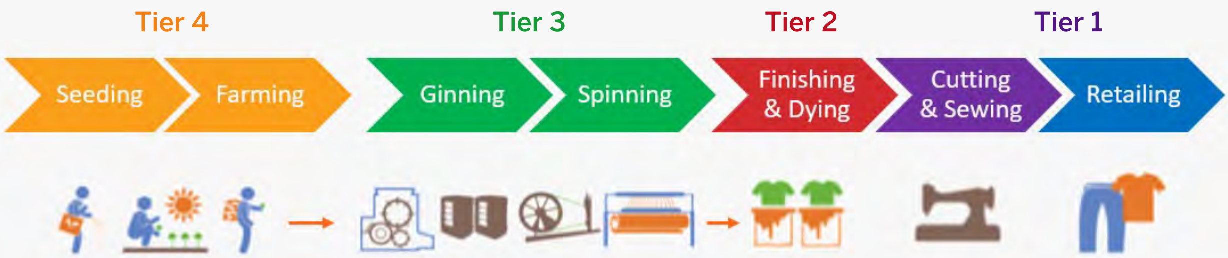
To ensure a thorough analysis, GFI sought numerous and varied stakeholder perspectives. GFI interviewed different brands representing large industry leaders and smaller companies to fully understand industry perspectives. Additionally, GFI analyzed whether differences in perspectives and priorities are the result of company size and/or available resources.

GFI interviewed brands that participate in member and multi-stakeholder organizations as well as those that do not. Doing so provided a better understanding of the perceived benefits derived from membership organizations as well as insight into the convening power, or lack thereof, of various member organizations and multi-stakeholder initiatives. GFI selected brands that have articulated commitments to financial security and those that have not. Finally, GFI selected brands that operated in different regions to ensure all major sourcing regions—Asia, Latin America, and the Middle East and North Africa—were represented.

GFI interviewed suppliers, various non-profits and worker organizations, experts in the field, and several member associations to maximize the diversity of perspectives, to identify common challenges and opportunities across stakeholder groups, and to ensure that worker welfare remained at the forefront.

GFI supplemented the key informant interviews with extensive research on financial security efforts, labor compliance efforts, and garment sector trends to provide a holistic landscape of the sector and how the key actors and initiatives interact with one another. A full list of the stakeholders interviewed can be found in Appendix A.

Figure 1: Sample Apparel Supply Chain



APPAREL SECTOR OVERVIEW

To understand how financial security initiatives are viewed within the sector and how to advance these initiatives going forward, it is useful to understand how the industry has evolved as well as the approaches and trends influencing the behavior of key stakeholders. Accordingly, the overview of the sector and the relevant trends outlined below provides important context to understand and interpret the research and recommendations.

Once a national and regional industry, the garment industry has transformed to operating on a global scale. In the early 1900s, the industry was concentrated primarily in the United States and Great Britain. By the 1960s the garment sector began to expand globally so that by the end of the 20th century, most garment manufacturing jobs were in Asia. Taking advantage of lower labor costs, tax reductions and rebates, and technologically advanced factories the garment sector decided to expand globally. While the industry continues to modernize, its business model retains a consistent focus on lower labor costs. As a result, brands have an increasing interest in Africa as a low labor cost jurisdiction.

Global expansion has also meant an expansion in the number of people employed in the industry. In 2000, 20 million people worked in the textile, clothing, and footwear sector worldwide. By 2014, the numbers grew to 60 to 75 million, most of whom are women.[1] Alongside the global expansion has been an evolution in the apparel supply chain. With the advent of giant discount retailers requiring large volumes at low prices, manufacturers felt additional pressure to lower costs and reduce delivery time. To achieve those two objectives, the "global assembly line" developed utilizing decentralized networks and tiers of contractors.[i]

The apparel supply chain is largely divided across four tiers, as outlined in Figure 1. Tier 1 factories are suppliers that produce finished goods for a company and have direct or indirect contracts with brands. Tier 2 factories are suppliers to Tier 1, e.g. the contractor's contractor. These factories are typically responsible for dyeing, embroidering, and printing. Tier 3 factories are suppliers to Tier 2 factories and are typically responsible for the processing of raw materials such as ginning and spinning. Tier 4 suppliers typically produce raw material such as cotton. Each tier presents unique challenges but also opportunities to expand financial security initiatives.

While tiered supply chains have helped to meet low-cost, high-volume requirements, they have also decentralized control and oversight of the supply chain. Decentralized control and oversight has impacted many aspects of production including brand leverage and most importantly worker welfare.

1 These numbers represent primarily workers in Tier 1 factories.

Additionally, decentralized control and oversight across hundreds if not thousands of factories with diverse supply chains has resulted in brands[2] developing and participating in various initiatives to address worker welfare. While numerous and diverse initiatives exist to monitor supply chains, social compliance audits currently dominate the way the industry assesses and remediates factory-related issues. The industry prefers audits because they are *relatively* cost-effective and can be executed at a large scale with some consistency. Social compliance audits provide a snapshot of a factory's worker welfare. The audit is used to define factory and brand work-plans to establish priorities for improvement and remediation. But, audits are only as strong as the criteria, methodology, and assessors. Most importantly, accountability and remediation remain a significant challenge. Unless brands are members of multi-stakeholder organizations, work-plans are internal to the supply chain and not available to the public. Audits that are not transparent draw criticism from worker organizations including labor unions. Despite these limitations and challenges, audits remain the primary tool for assessment and accountability between factories and brands.

Engagement and priorities at the factory-level are largely determined through the social compliance lens. That lens, moreover, is largely established through civil society, worker organizations, advocacy groups, and multi-stakeholder organization interventions. From time to time, the social compliance agenda is modified, continuously adapting to protect workers and provide for their needs. Because research shows that worker welfare improves with increased savings, access to credit, and better financial management a strong case to add financial security priorities to the criteria for monitoring a factory's and a brand's social compliance can be made. Unless the case for financial security initiatives is made and until it is included in the social compliance agenda, brands, suppliers, and factories are unlikely to prioritize financial security initiatives or see it as key to workers' improved welfare.

Including financial security priorities in the social compliance agenda is challenging and needs the support of both worker and multi-stakeholder organizations. Currently, Labor unions and worker organizations are focused on priorities they believe improve worker welfare like defining and achieving fair

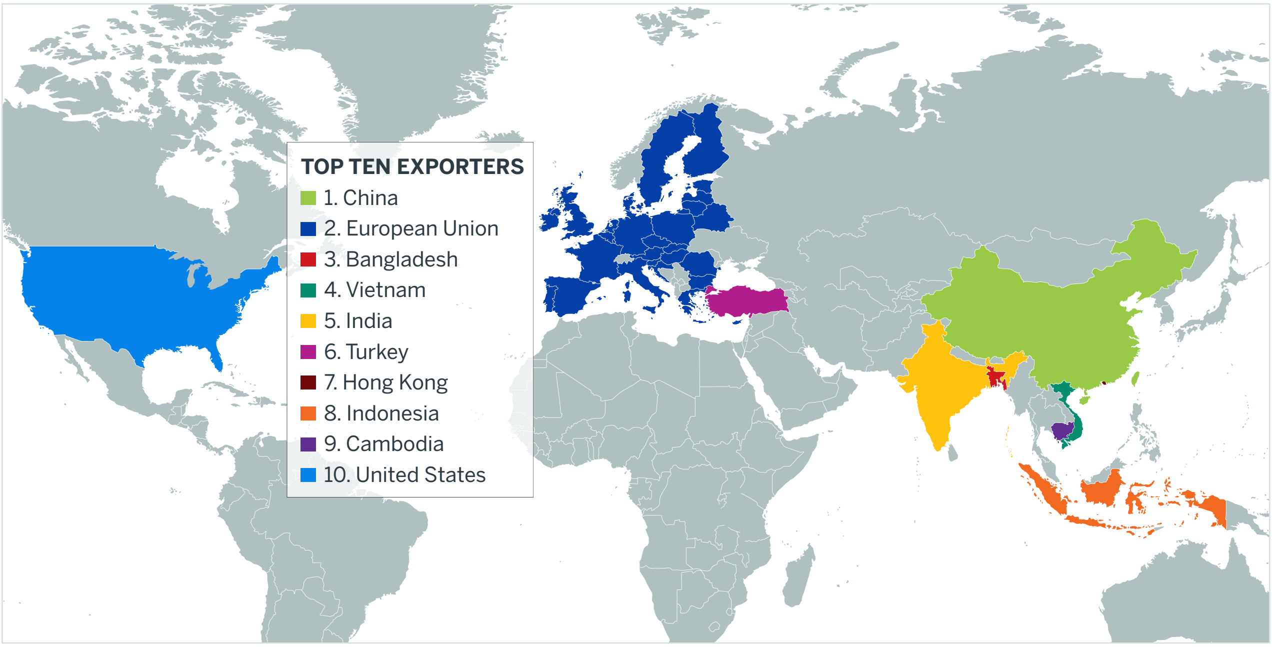
2 In the mid-1990s the garment industry was publicly criticized for the treatment of workers including child labor in their supply chains. Initially, brands resisted taking responsibility and denied any connection to factories engaged in labor violations. The first effort to bring brands to the table to acknowledge responsibility and take action was accomplished by the Clinton Administration establishing the Apparel Industry Partnership. Subsequently, a number of brands initiated multi-stakeholder and advocacy lead initiatives developed to address labor violations and worker welfare in factories through greater transparency, codes of conduct, monitoring and social compliance audits.

compensation, timely payment of wages, transparency of wage payments, addressing worker grievances, and remediating labor violations. Adding financial security to a social compliance agenda requires worker organizations, including trade unions, to see the link between financial security programs and improved worker welfare. To get there "third party" research is needed to demonstrate the link between digital wage payments, financial security priorities, and improved worker welfare. Once the case is made, however, worker advocates would help move multi-stakeholder organizations and others to include financial security in their social compliance agenda thus expanding financial services to more workers in the garment sector. Later in the report we detail a strategy to include financial security in the social compliance agenda.

Two other essential elements are necessary for financial security to be included in the social compliance agenda. First, tailored and quality worker training and support must accompany any transition to wage digitization. Such training is essential to linking greater financial security to improved worker welfare. Research demonstrates that workers benefit from financial security initiatives, such as access to financial services, increased savings, and better financial management when strong training and support services accompany the introduction of financial services or technologies. Unfortunately, high-quality and comprehensive training programs are not consistently executed. Providing consistent and comprehensive training that is tailored to the workers' needs will not only ensure that workers benefit more fully from financial services, but also will help to minimize any potential risks to the workers associated with a lack of understanding, poorly tailored products, or challenges in using the services.

Second, any digital wage payment system must be able to provide clarity on the payments a worker is receiving. Workers must be able to understand the wages paid for overtime, bonuses as well as the normal work week. Workers rely on detailed "pay slips" to verify that the wages they receive are consistent with what they know to be the hours they have worked including overtime and/or other bonus payments.

Figure 2: Top Ten Exporters of Clothing in 2018



FINANCIAL SECURITY IN THE GARMENT SECTOR

Throughout the global garment sector, digital payments have proliferated significantly among Tier 1 suppliers in recent years. GFI's interviews with 24 different prominent organizations in the sector identified that most workers in Tier 1 suppliers are paid digitally. This is consistent with external data, including the Sustainable Apparel Coalition's Higg Index data from 2018 that surveyed nearly 3,000 factories across 58 countries and found that 67% of surveyed garment factories pay workers digitally. The Higg Index data and responses from GFI's interviews with brands largely did not address Tier 2 and beyond, as most brands find it challenging to trace beyond Tier 1.

GFI's research as well as the Higg Index data point toward global statistics of an industry that has increasingly adopted digital payments. GFI's interviews as well as external research indicate that that the shift to digital payments has occurred in most countries over the past five to ten years. Therefore, wage digitization is a relatively recent trend, but one that has room for growth. When looking at the top ten sourcing countries in the apparel sector (Figure 3), the majority are located within Asia. Of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these, four countries—China, Vietnam, India, and Indonesia—show digital payments of approximately 80% or higher.

These four countries are also some of the world's most populous countries and, therefore, still have substantial numbers of unbanked adults. Additionally, national averages often obscure differences between rural and urban populations or between men and women. As a result, there is an opportunity to expand financial security programs in countries with existing high rates of digital payments as well as in countries with low rates of digital payments. For countries with low rates of digital payments, both Bangladesh and Cambodia are good opportunities for expansion. These opportunities are outlined in more detail in later sections of the report.

Figure 3: Wage Digitization in Top Ten Apparel Sourcing Countries

Country	Rank of Global Exports	% of Apparel Workers Paid Digitally[3]	% of Adults with Accounts[4]
China	#1	78%	80%
European Union	#2	NA	NA[5]
Bangladesh	#3	25%	50%
Vietnam	#4	85%	31%
India	#5	94%	80%
Turkey	#6	43%	69%
Hong Kong	#7	NA	95%
Indonesia	#8	84%	49%
Cambodia	#9	7%	22%
United States	#10	NA	93%

In identifying factors that contribute to the expansion of financial security within the apparel sector, we have analyzed four of the top ten countries with the highest rates of digital payments in the sector—China, India, Vietnam, and Indonesia. Each country's unique path has contributed to high rates of digital payments, although common themes emerge including government supported policies and investments, industry investments to improve the quality of factories and operations, and sufficient supporting infrastructure. To identify barriers to the expansion of financial security, we also analyzed countries with low rates of digital payments and that analysis can be found in the following sections of the report.

In China and India, the rate of digital payments in the apparel sector mirrors other country-level financial security statistics such as the percentage of adults with account ownership. High rates of digital payments in China and India are not overly surprising since both countries are home to world-class technology industries, have high levels of infrastructure in urban areas, and strong government policies incentivizing financial security.

3 Data is from the Sustainable Apparel Coalition's Higg Index

4 Data is from the World Bank's 2017 Global Findex Database Report—% of adults with account ownership

5 European Union data is reported by country, rather than by region in the World Bank's Findex Report.

In China, the government provides a significant number of its benefits to citizens through its banking system, thus encouraging most citizens to have a bank account. China has also fully embraced digital wallets and QR codes as alternative payment methods, which are now the primary payment system. In 2018, mobile payments in China reached over $41 trillion; more than 92% of those payments were made over the two dominant platforms, Alipay (53%) and WeChat Pay (39%).[ii] This is a 27-fold increase from five years before. This revolution has been so successful and pervasive that even street vendors and those soliciting donations are now using QR codes.

In India, the demonetization process, though surrounded by controversy, contributed significantly to the country's shift towards a digital economy. In late 2016, the Indian government abruptly announced the discontinuation of 500 INR and 1,000 INR bills to stymie black market activity. The policy's sudden nature caused widespread panic and lengthy lines as Indians tried to convert their soon-to-be worthless cash. The policy had a particularly negative affect on the country's more marginalized populations, many of whom store savings in cash and live in areas where the banking infrastructure required to exchange their cash was insufficient. While India's working poor absorbed the brunt of these negative effects, studies of the policy's effects demonstrate its success in hastening the country's transition towards digitalization. A recent study found that post-demonetization, there has been an 84% spike in debit card usage and those with digital wallets added 82% more money to their wallets, peer-to-peer monetary transactions increased by 745%, and ecommerce transactions increased by 405%.[iii]

In other major sourcing countries like Vietnam and Indonesia, there is a notable gap between the percentage of apparel sector workers paid digitally and the percentage of adults with bank accounts. Data from both countries suggests that the apparel sector and brands have been leading the financial inclusion trajectory by embracing digital payment of wages. Notably, 40% of Indonesian adults and 47%

in Vietnam who receive wages into a bank account reported opening their first account specifically to receive wages.[iv] Moreover, factories in Indonesia and Vietnam are often in or around urban areas where banking infrastructure is more established and accessible. Digital payments have also been the result of technological upgrades in factories. In countries like Vietnam and Indonesia, many factories have shifted production from cutting and sewing to more value-added operations in the supply chain. The increased investment into factories and technologies such as computerization of production also accompanied an implementation of digital payroll.

In addition to the top ten sourcing countries, many other countries have significant garment sectors, yet the use and promotion of digital payments vary widely. Pakistan, for example, is the 9th largest global exporter of textiles and garments providing employment to approximately 40% of the country's eligible workforce. Yet, within Pakistan's garment industry, utilization of digital payments and account ownership varies greatly. According to the Sustainable Apparel Coalition's Higg Index data, Pakistan's rate of digital payments within the apparel sector is 54% compared to 21% of national account ownership. While the apparel sector generally leads in the utilization of digital payments compared to national averages in account ownership, there remain wide disparities in the use of digital payments across the sector. GFI interviews also demonstrate that the larger sophisticated factories trend toward utilizing digital payments whereas smaller factories or Tier 2 or Tier 3 factories were more likely to use cash payments.

A similar disparity between rates of digital payments in the garment sector and overall account ownership exists throughout Latin America and the Caribbean. GFI's interviews highlight that most brands sourcing from Latin America are sourcing from factories that are using digital wage payments. Anecdotally, several interviewees expressed that digital payments has not been a focus because of the high levels of adoption and usage. But research also shows that in the top garment exporting counties of El Salvador, Guatemala, Honduras, Nicaragua, and Haiti, the national bank account ownership rate is low compared to account ownership by garment workers. Key reasons cited for the low county-wide rate of bank account ownership were insufficient funds to open an account and the expenses related to opening an account. The situation is different for garment workers because they, unlike other unbanked adults, tend to have some funds to use to open an account and when factory management plays a role in streamlining the process or absorbing fees these workers face comparatively fewer barriers to opening accounts.

One regional exception is Haiti which has a low rate of digital wage payments and faces significant challenges to financial security initiatives. Despite positive financial security indicators for garment workers throughout the region, those indicators lag in Haiti as the result of infrastructure challenges, inadequate regulatory framework, political instability, and reoccurring natural disasters such as the devastating 2010 earthquake that decimated much of the apparel sector. In the aftermath of the 2010 earthquake, investment increased helping to rebuild the sector and today the garment sector in Haiti is critical to the country's economy representing as much 80% to 90% of the country's exports. Some brands have prioritized investment in Haiti despite the challenges, but Haiti continues falls far behind both regionally and globally in social and economic indicators. When analyzing enabling environments for effective financial inclusion, The Economist Intelligence Unit (EIU)'s Global Microscope ranked Haiti 52nd out of 55. In explaining the reasons for Haiti's weak enabling environment EIU cited similar themes including poor infrastructure, political instability, and lack of regulation.

In Focus: Access to Credit

Credit is an important element of financial security as it helps people build for their future and manage through times of hardship or transitions. However, despite having full-time, formal employment, garment workers face challenges in accessing credit. In several of GFI's interviews, management and brands identified workers' inability to access adequate credit and an over reliance on predatory lending as a significant challenge.

There is a general trend toward the increasing use of digital wage payments within the sector. GFI's interviews as well as the Sustainable Apparel Coalition's data show that the majority of workers, at least within Tier 1 factories, have access to digital payments. This is true in major sourcing countries such as China, India, Vietnam, and Indonesia as well as other regions including Latin America and the Caribbean. That being said, there remain opportunities for expansion across countries and within countries. Cambodia and Bangladesh remain largely cash based and the majority of Tier 2 and Tier 3 factories globally continue to rely primarily on cash. GFI has highlighted several opportunities for expansion in a following section of the report. While gaps exist among and within countries, when governments and the private sector work together digital payments are more likely to be adopted and adopted at larger scale than when these parties are not engaged. This is one of the many reasons, as highlighted in later sections of the report, that GFI recommends utilizing multi-stakeholder, country level strategies to expand financial security initiatives within the apparel sector.

REASONS FOR CASH PAYMENTS

As outlined in the previous section, approximately two thirds of the apparel sector[6] uses digital wage payments in its factories. From a business perspective, the motivations for using digital payments are quite clear; factory management can save time and money by switching to digital payments. Fewer staff and resources are required to process payroll when it is digitized, fewer accounting errors occur, and transparency is often increased. BSR's HER FINANCE Project in Bangladesh has documented a 53% reduction in time required to manage payroll after digital payments were introduced.

Despite the clear business case for doing so, approximately *one third* of the apparel sector in Tier 1 is using cash payments. To expand digital payments to the remaining one third it is important to understand why cash continues to be used. It is equally important to learn from the mistakes that have been made when transitioning to digital payments and ways to avoid those mistakes.

Based on our research, there are four types of reasons factories continue to pay workers with cash: 1) country specific challenges, 2) worker related concerns, 3) factory management concerns, and 4) competing brand priorities. After detailing the reasons in this section, the following section entitled "Digitization Best Practices", summarizes how to eliminate mistakes and concerns from workers and factory management through thoughtful and effective digitization transitions.

Country Specific Challenges

As highlighted briefly in the previous section, country-specific challenges, such as a lack of infrastructure, outdated or inadequate regulations, and weak financial systems, can be a major impediment to expanding digital payment systems and financial security initiatives. Similar to the overview provided in this report, expert research that specifically analyzes the challenges to financial security have also found that the biggest challenges to financial security are weak infrastructure, ineffective regulatory regimes, and insufficient enabling policies.

For example, the Economist Intelligence Unit's Global Microscope Report—an annual report that analyzes 55 countries' enabling environments for financial inclusion—looks to five categories when evaluating an enabling environment - 1) Government and Policy Support, 2) Stability and Integrity, 3)

6 These numbers represent primarily workers in Tier 1 factories.

Products and Outlets, 4) Consumer Protection, and 5) Infrastructure. Accordingly, these categories reflect the reasons for limited expansion of digital payments and were echoed by several stakeholders GFI interviewed. Several interviewees referenced larger ecosystem challenges, including government engagement, policy support, infrastructure challenges, and regulatory environments—all elements that are largely outside of brands' control. Moreover, adequate infrastructure, not just in factories but also in the nearby communities is a significant challenge that extends beyond a brand or factory's capacity. Without adequate electricity and sufficient telecommunication or networks, the expansion of digital payments can be quite challenging. While many factories have made investments to overcome these barriers so that their facilities and production can operate uninterrupted, factories alone cannot address insufficient ATMs and/or the lack of reliable electricity. These infrastructure deficits limit financial security efforts and force an over-reliance on cash. Finally, having adequate payment infrastructure, interoperability across banks and products and payment systems, and sufficient digital infrastructure is also critical to creating an enabling environment for the expansion of digital payments and financial security initiatives more broadly. The EIU's Global Microscope report highlighted that the lack of infrastructure connectivity and digital identification infrastructure were limiting the expansion of digital financial inclusion efforts in both Sub-Saharan Africa and the Middle East and North Africa (MENA) regions.

Adequate telecommunication, product usage and connectivity infrastructure are essential to reducing the reliance on cash. While text-based phones can be used for mobile money payments, as seen through the proliferation of the M-PESA platform in East Africa, many digital financial services, including payment platforms, require smart-phones. While smart-phone penetration is on the rise globally, most adults in the developing countries—where garment production is concentrated—have limited access to phones and internet. A recent study by the Pew Research Center showed that smart-phone ownership was relatively low in many emerging economies with Sub-Saharan Africa averaging 33%, Asia-Pacific averaging 53%, and Latin America averaging 54%.[v] Moreover, in developing countries, only half of the mobile owners making up 40 percent of adults have access to both a phone and the internet. These factors contribute to restricting usage and growth of digital payments. There is also an important gender dynamic: men are twice as likely as women to have access to both mobile phones and the internet in India, Bangladesh, and Ethiopia; all important sourcing countries for the sector.[vi] In a sector where women workers far outnumber their male counterparts this gender gap directly impacts digital payment expansion. For example, one key findings from the EIU's Global Microscope report was that "practical impediments—such as limited access to identification, the Internet, and/or mobile phones—restrict women's ability to use digital financial services."[vii]

Another critical component of an enabling environment is an adequate regulatory foundation. This is true both from a payment safety and reliability perspective as well as enabling environment for innovation and digital solutions. For example, inadequate, confusing, or contradictory Know Your Customer (KYC) and Anti-Money Laundering (AML) policies and processes can make even payments through traditional banking challenging to use. Weak contract enforcement can create risks and liability challenges. On the other hand, overly burdensome or poorly adapted consumer protection regulations can exaggerate inefficiencies, limit innovation, and restrict non-bank payment providers. The EIU's Global Microscope report describes a common strength among top-ranked countries is the ease with which customers can access a variety of financial products and a framework that ensures customers do not face disproportionate requirements to open banks or e-money accounts.

Worker Concerns

Because digital payments are relatively new, only having become common within the last ten years, many workers have little to no experience with digital payments and are initially hesitant to embrace the system. Outlined below are several reasons workers asserted for their hesitancy. Moreover, understanding the context in which the worker operates is essential in thinking through what incentives and motivations can be offered to encourage a successful transition to digital payments.

Workers often believe that adopting digital payments means they must open a bank account. This belief causes concern because the process to open a bank account for many workers is cumbersome or expensive. Workers might not have the required identification and documentation to open a bank account and may have to travel to their villages to obtain their birth certificates or other legal documents. Opening a bank account may require additional fees and travel costs—discretionary funds workers do not have. Moreover, workers see these challenges, while not insurmountable, as unnecessary when the economy in which they live and work operates entirely in cash.

Additionally, many workers are not familiar with banking technology including the more basic platforms such as ATMs and more sophisticated technologies such as mobile banking or digital wallets. Learning how to operate an ATM to withdraw their earnings or even just check their balance can be intimidating and challenging, especially, if the worker has only a moderate education or their native language is not the same as the technology's prompts. Several interviews highlighted instances in which the workers did not know how to check their balance and, therefore, had "lost" money sitting in their accounts because they did not know it existed or how to access it.

Global statistics show that women are less financially literate than men, have lower technology adoption rates, and greater risk aversion.[viii] These concerns and statistics highlight that there are serious risks to the worker and their welfare if incorrect assumptions are made about a worker's familiarity with technology and, as a result, insufficient training and support is provided during rollout.

Distrust in the banking system is another challenge, especially for women workers. The World Bank's 2017 Findex report found that nearly a fifth of adults without an account cite the reason for not having an account as a lack of trust of the banking system. Furthermore, women tend to be more risk adverse and research also shows that women need to "make twice the number of interactions than men before they feel comfortable independently using financial services."[ix]

Workers may also see digital payments as losing control of their wages. This primarily takes two forms. First, workers perceive it to be easier to save and manage their money if it is in cash because it is

tangible. This is a relatively common misperception when introducing financial services to underserved populations and one that is relatively easy to overcome with adequate training and support. The second concern, most commonly referenced in the Asian context, is the lack of control women have over household finances. Put simply, many women are not allowed to participate as decision makers, especially regarding household finances. Instead, their parents and/or their husbands make financial decisions for the household. Women fear that with digital payments they would be obligated to provide access to their husbands and/or parents by providing PIN numbers. Digital payments would allow their husbands and/or parents to know and have access to all their wages. With cash, women can control small portions of their earnings by withholding them from their families. For example, a worker might hand over all of her hourly wages, but keep her overtime or incentive pay to herself. With digital payments deposited into one account, her control disappears. With no alternatives to manage finances discretely, this concern serves as a major deterrent for workers, especially women to shift from cash payments.

Workers may also face additional logistical challenges. Depending on the distance to the nearest ATM or financial service provider, workers may incur travel costs to access their finances—costs they did not have with cash. With few available ATMs or bank branches, workers may have to queue in long lines to withdraw funds or face increased security concerns with thieves waiting at withdrawal locations on paydays. Hours of work compared to banking hours present another logistical challenge. The overlap between working hours and banking hours is limited, and many workers face difficulties finding open banks that do not conflict with their hours of work, forcing them to take off work and lose income to bank. As noted earlier, bank fees are also often cited as another deterrent from switching away from cash payments.

In addition to these challenges, many workers perceive little benefit in switching from cash to digital payments, given that the economy they operate in and the communities they live rely almost entirely on cash. When the majority of a worker's monthly expenses and transactions are conducted in cash—rent, utilities, school fees, groceries, etc.—there is little incentive to switch to digital payments. Put simply, workers continue to withdraw most, if not all, of their earnings on pay day.

Finally, digital payments provide transparency to the government—transparency some workers do not want. Given the generally low wages that garment workers earn, many of them qualify for government programs. Several interviews highlighted that workers only declare some of their income to the government, for example, their hourly income but not their incentive pay. As a result, they worry increased transparency would result in lost benefits or increased taxes, both resulting in a loss of income for a worker, who is already earning close to poverty level wages. While this was a less commonly referenced concern, interviews suggested that it did serve as a significant barrier to embracing digital payments.

Factory Management Concerns

Factory Management is a critical stakeholder in expanding wage digitization and is often the intermediary between brands and workers. In some interviews, factory management raised worker concerns as barriers as they discussed their own concerns about adopting digital payments.

The most commonly cited reason for continuing to use cash payments was that their workforce preferred cash and it was easier to maintain the status quo rather than introduce a change that could potentially cause conflict and disrupt production. Furthermore, management sometimes viewed switching to digital payments as burdensome and did not want to take precious time to update their systems, change their processes, and/or schedule training that would slow production and impact production targets.

A second concern was limited capacity, especially for the smaller and medium sized factories or factories that have more domestic buyers, as opposed to international buyers. In these smaller operations, the benefits of digital payments were not obvious and the effort, time, and resources required to switch to a digital system outweighed the potential benefits. In addition, management might not be willing to learn a new system and might be technology illiterate as well.

Management also identified increased transparency as barrier to adopting digital payments. This concern is likely the result of management not operating in full compliance with either labor or financial requirements—paper-based systems provide an easier work around to digital systems that are not as easily manipulated. Obviously, this would be an area in which increased transparency offered by digital payments would be a motivating factor for brands, but for factory management this may serve as a deterrent and one that would slow adoption.

Despite these reservations, GFI's interviews and research indicated that factory management are the most likely to be convinced by the business case for switching to digital payments, compared to brands and workers. As the ones responsible for managing the payroll process, the benefits are more direct and immediate, and outlining the time and money that could be saved is helpful to encouraging the switch.

Brand Priorities

Some brands have made a public commitment to financial security and are investing significant resources to ensure that workers are being paid digitally.[7] Even among those that have not made a public commitment, many stated that the majority of their workforce is being paid digitally. When asked whether brands would prioritize closing the gap between factories that use digital payments and those that use cash, *few brands expressed an interest in doing so*.

Interviews reveal that brands and factories highly prioritize compliance issues and have largely ceded initiatives to switch to digital payment systems to their suppliers. For some brands unless issues are either legally required or are included in social compliance agenda, they do not require their suppliers to adopt a new policy. Therefore, on matters that are not included in the social compliance agenda, factories may choose to implement them.

Based on research and interviews, brands have expressed that digital payments cannot take precedence over the significant amount of work that they and their suppliers have to do to improve the working conditions and lives of garment workers. Eliminating child labor, forced labor, minimum wage violations, overtime violations, and health and safety violations have and should take priority. If a brand has a factory in their supply chain with significant compliance violations, brands will prioritize remediating those issues over all other matters. While some brands referenced that cash payments would be a "red flag" in their audits and would prompt further investigation, cash payments alone are not a non-compliance matter. Cash payments do not trigger the priority attention and remediation as a compliance violation would. As highlighted earlier in the report, the garment

7 Gap Inc. has publically committed to pay all of its Tier 1 suppliers digitally by 2020 and Marks & Spencer has announced all workers in their Tier 1 suppliers will have the opportunity to be paid digitally by 2020.

sector has evolved over time to rely on audits and audit findings as the primary means to identify and address labor and workforce issues.

Moreover, brands have numerous stakeholders—factories, suppliers, civil society organizations, trade associations, certifiers, and multi-stakeholder initiatives—working to improve working conditions that require their attention. As a result, there is significant pressure and expectation to address compliance issues and financial security is not one of those priorities.

Brands also explained that global consistency within their supply chain is often another reason digital payments systems are not prioritized. Some brands have significant footprints with thousands of factories across a large swath of countries and look at policies and initiatives at a global scale. If, for example, a brand has factories in countries that have significant infrastructure or regulatory challenges that would make digital payments difficult to execute and enforce, it makes little business sense to mandate or prioritize digital payments until they can be evenly executed and enforced.

In Focus: How can digital payments support compliance efforts?

While digital payments *can* help increase transparency and, thus, make monitoring and auditing easier, digital payments alone do not address larger compliance issues. To address larger compliance issues, the entire system including digital payments must support a compliance friendly agenda. For example, unpacking a workers' wage to determine whether they are receiving "fair" compensation does not necessarily become easier with a digital payment. It is common for workers to receive hourly wages, overtime pay, and incentive pay. If you look at a worker's aggregate monthly income, it may seem that their earnings exceeded minimum wage and, are in compliance with existing labor laws. Overtime and incentive pay, however, cannot be calculated in minimum wage determinations and, therefore, it is not the aggregate amount but rather the breakdown of the specific pieces that matter.

Significant efforts have been made in the sector to establish strong reporting mechanisms, sophisticated auditing protocols, and data analysis to determine how and what workers are being paid. These systems, if transferred to a digital platform, can continue to work properly. However, if a lump sum payment is deposited into a workers account without the appropriate documentation highlighting hours worked, overtime pay, incentive pay, and other payments, the switch to digital payments may be considered a regression and a failure to support transparency gains especially in fair compensation efforts. If the appropriate systems, pay slips, documentation, and training programs are not in place to support the transition, digital payments can also make it more difficult for a worker to understand what they were paid for that month and whether it matched what they were told they would receive. This concern was highlighted in several of GFI's interviews.

Furthermore, some civil society and labor-focused stakeholders are concerned that focusing on method of payment and other financial security initiatives will distract from other important issues, such as increasing wages, addressing grievances, and remediating labor violations.

For financial security to be viewed as a compliance priority, third party research that demonstrates a strong, quantifiable link between digital payments and improved worker welfare is essential to convince key stakeholders that financial security should be added to the compliance agenda. The primary audience to engage includes worker-focused organizations, such as trade unions and advocacy groups that currently view many financial inclusion initiatives as serving the interest of banking institutions. Once a strong case can be made to these groups, then multi-stakeholder initiatives that bridge the gap between the worker-focused organizations and brands can begin to incorporate financial security initiatives including digital payments into compliance protocols.

DIGITIZATION BEST PRACTICES

Greater financial security has the potential to help millions of workers out of poverty, especially women. Financial services can help people save, better manage transitions and financial emergencies, and provide greater access to lending either formally or informally through friends and family. Payment of wages into a bank account is an important first step and entry point, but the process of transition has a significant impact on the worker. When done well, the transition can introduce all the positives of financial inclusion and security programs and start workers on a new and better path. When the transition is not done well, digital payments can exaggerate risks and vulnerabilities, reduce net income, and negatively impact workers and their perspective of financial services. Ultimately, the "how" is just as important as the decision to switch to digital payments. Given the potential negative impact on workers, it is essential to understand "best practices" discovered through our research for transitioning garment workers from a cash-based system to digital payments.

Worker-Centered Due Diligence

The transition process from cash to digital wage payments is complicated, especially for workers, and requires a thoughtful rollout with thorough due diligence, checking back in frequently with workers on their adjustment.

Availability of financial service providers—banks, ATMs, or agents—should be mapped in advance to determine their proximity to factory locations and whether workers will have adequate access. This should be overlaid with an understanding of provider operating hours to ensure that banks are open, or ATMs are accessible after workers finish their shifts, including when they work overtime. To avoid long lines and a drain on available cash, knowing "pay dates" for ALL factories in the surrounding area is essential. If all factories have the same "pay day" a need to stagger those paydays may be necessary. If the expansion of ATMs or extension of banking hours is not possible, use of digital agent networks to support in cash withdrawal may also be a useful alternative. Although, ensuring the reliability and quality of agent services is equally as important to encourage a smooth transition and worker-friendly experience.

Factories and/or brands should engage financial service providers to understand fully various bank fees and requirements and try, to the extent possible, to have fees waived, reduced, or absorbed by the factory rather than passing those costs directly on to the workers. It is critical if factories are unable to absorb all fees that they work to ensure that fees are transparent and understandable and reduce or eliminate any additional costs. Through discussions with financial service providers, it may be possible to locate ATMs directly at the factory to help address access and security concerns. While factory located ATMs address several challenges, those ATMs must have sufficient cash on payday, be serviced frequently, and have minimal-to-no additional processing fees. These assurances are critical to a positive worker experience.

In addition, as highlighted in the previous section, increasing incentives for workers to use digital payments is also an important component to increasing adoption and usage of the services as well as encouraging a positive worker perspective on the transition. One possible incentive is expanding the acceptance of digital payments by vendors close to factory locations and in nearby communities. Additionally, if some of a workers' daily or monthly expenses could be paid digitally, such as rent or utilities, than the immediate benefits and convenience of switching to digital payments increases.

Finally, factories and/or brands *must* work closely with labor groups and worker unions to determine the documentation necessary to assist compliance assessments including labor and compensation compliance requirements. Workers must receive, and management must keep adequate documentation that clearly breaks down the various wage components including hours worked, hourly wages, overtime pay, incentive pay, and benefit deductions. The digital process must continue to compliment the compliance and transparency requirements from both the management and worker's perspectives.

Staggered Rollout

Allowing enough time for a transition period from cash payments to digital payments is essential to minimize negative worker impacts. Longer transition processes reduce the stress, anxiety, and potential conflict between workers and management and create the opportunity to allow the first few rounds of payments to be voluntary. When structured appropriately, beginning with a voluntary rollout creates a more worker-led transition process that encourages dialogue and conversation. Moreover, this process allows early adopters, often workers that already have bank accounts or ones that see the benefits of switching, to lead the way and bring their colleagues along. Having a peer-led transition process also allows more hesitant workers time to raise concerns and ask questions directly of their peers. As is true in many other settings, workers will be more candid and direct with their peers than management or external trainers. A second benefit of a staggered or voluntary rollout is that the early adopters are more likely to be lower risk individuals. Therefore, if there are problems or delays in rollout, the early adopters are better able to manage the initial "bumps in the road" reducing potential risks for the most vulnerable workers.

Strong Training Partners

A critical component to transition effectively from cash to digital payments is a training program that has a strong curriculum and effective delivery. Two effective training delivery models are (1) Peer-to-Peer or (2) Community Based Organization (CBO) or union partnerships. Either one of these models allows a *trusted* training partner to lead worker engagement. This approach allows workers to be more open and candid in their feedback and questions and helps to reduce conflict between workers and management.

The Peer-to-Peer model, used across various settings and sectors, is an effective method to introduce change or training on a new topic. Peers are more relatable and often perceived as a more credible source of information, both of which are helpful when advocating for change. Second, a peer-to-peer model is a useful method to begin an open conversation about issues, including concerns or questions that workers might be too afraid to raise in other contexts. Finally, a peer-to-peer model has proven to be an effective way to build confidence and empower workers, particularly women workers.

Another effective model is working with workers' unions or CBOs to manage the transition and lead the training program. We found this model was particularly helpful if workers are somewhat reluctant to switch because it allows workers to better organize and raise their concerns and questions with management.

One challenge that brands identified is the lack of partners that could work effectively across contexts and at a global scale. Successfully scaling quality training programs can be a challenge since CBOs and many unions operate locally not globally. As a result, unions and CBO's provide effective local training because they understand local workers and their context but because they are local organizations they have challenges expanding that training globally.

One useful workaround to these challenges is for financial institutions or brands to partner with a larger organization with a global footprint that can serve as the primary interlocutor with brands or multi-stakeholder initiatives. Having an NGO or other partner with a global footprint would allow the partner to interface with a multitude of local organizations to implement local trainings through a global network preserving both local knowledge and context. A second alternative is to invest in a strong local organization and support them in scaling their work to other regions or countries. When looking to scale the curriculum, there is an important balance between keeping elements that ensuring high-quality training are implemented consistently while also ensuring that training is appropriately tailored to the workforce and context. Additional analysis on successful training programs and curriculums is included in the following section.

Comprehensive Training Curriculum

A critical component to any transition, especially one impacting wages, is a strong training program that builds in awareness, technical skills, and life skills components. For a training program to be effective, especially for low-income women, it must meet the workers where they are. In the most basic terms, that means having a solid understanding of the context and realities in which workers live and work prior to designing and delivering the training. For example, understanding the workers' literacy levels will dictate the training materials and methodology used to maximize effectiveness and impact. Furthermore, understanding a worker's prior exposure to technology or financial concepts will determine where the curriculum should begin, and the time needed for each concept. Many workers may have never seen an ATM, may not know how to save, or may feel, as women, they have no say in financial decisions. These are common realities for women and men in the garment sector. To best understand a worker's context and reality it is essential either to engage workers directly in the training design or work with partners (see above) who have a proven track record of understanding and working effectively with workers.

Another critical component is "hands on" training. Workers need to directly experience the technology in addition to its benefits. While this may seem obvious, many programs over-estimate workers' knowledge of a technology or move too quickly through this component or do not include interactive elements and, as a result, do not provide enough training to the workers on how to interact with and understand the technology. If a worker is intimidated or unable to interact proficiently with an ATM, mobile money application, or digital wallet, then the technology's benefits are greatly reduced and, in some cases, can add risk to the worker.

Effective training programs must include well-designed, tailored financial literacy and financial management components. The benefits of financial literacy are well established: a financially literate individual will be more successful at managing their money, make informed financial decisions, and likely be able to save money and manage transitions better. Unfortunately, the world is largely financially illiterate. Standard & Poor's Global Financial Literacy Survey estimates that only 33% of adults are financially literate and women are less likely to be financially literate than men.[x] This lack of knowledge not only hinders workers' ability to save, but also limits their ability to understand and select financial products and services to help meet their needs. Women represent as much as 70% of global garment workers and their wages represent a substantial income for their households.[xi] Many of these women live at or near the poverty line and have distinct challenges that improved financial literacy, financial management, and access to financial services can help address. Women also have unique financial challenges compared to men, including longer life expectancies, lower lifetime incomes, career interruptions due to child rearing, and social and cultural barriers to limit their access, knowledge, and growth.[xii]

Moreover, women require appropriate and tailored financial knowledge and support to overcome these unique and often additional challenges. Financial literacy programs that are not appropriately tailored to the workforce they are targeting will be unsuccessful. The garment sector operates across a multitude of countries with workers having varying ranges of literacy, education, financial education, exposure to technology, and access to financial services. Therefore, it is important to avoid an overly prescriptive curriculum allowing flexibility and experience to demonstrate an effective curriculum. It is equally important to understand the workforce, their needs, and the training, tools and methodologies that will be the most successful.

With the need to incorporate the local context and workers' needs in mind, there are some common elements that if incorporated would increase a training program's effectiveness. First, the content must be relevant and actionable. Including examples that are locally tailored and relevant to a workers' context. Structuring the training to support worker's goals will be helpful in making the content relatable and, ultimately, better retained. Second, the training should be appropriately tailored to meet the workers where they are and build off workers' knowledge in an affirming and empowering way. Third, participatory and interactive trainings are generally more effective at engaging workers and supporting content retention. Finally, the training should encourage discussions to help workers tackle difficult concepts using their own terms, examples, and realities.

A third important element, often overlooked, is in the inclusion of life skills and women's empowerment training. In many top sourcing countries, cultural norms and perceptions reinforce the idea that women should not be part of, nor consulted in, household financial decisions. Therefore, even if a woman is a significant contributor to the household income, she is likely to have little or no say in how those funds are spent. Research has shown, however, that when women control financial decisions and money management, they are more likely than men to invest in areas that benefit the household, such as children's education and health.

One way to encourage greater women's engagement in financial household decisions is through women's empowerment programs and life skills trainings. As women gain confidence and are able to communicate and advocate for themselves more effectively, they also are willing to take greater ownership and demand more. However, the sole responsibility for increasing a woman's power and agency cannot be hers alone.

Financial security initiatives that change household dynamics must closely examine both the potential positive outcomes, such as increased women's economic empowerment, as well as the potential negative outcomes, such as increased conflict or gender-based violence (GBV). There is not sufficient research to point to definitive global trends demonstrating a connection between increased financial security for women and increases in women's risk of GBV as there are a number of other important variables that influence behavior. Generally, it is understood that financial stress, dramatic or sudden changes in household dynamics, and situations where women are benefiting more or have more financial access than their husbands can lead to increases in GBV. Given that the risk exists, it is important that financial security initiatives carefully consider not only the impact on the individual worker, but also the impact on the household. These considerations can be factored into design, rollout, and content of the training. Conducting appropriate due diligence is essential in understanding some of the unintended consequences prior to launch of a new financial service or product. This understanding will help inform the design of the financial service or product and the training and support required for both women and their families to support a successful financial security initiative. Furthermore, engaging families and communities before and during the rollout of financial security initiatives is critical in increasing understanding and beginning to change some of the social and gender norms that underlie these behaviors.

Unfortunately, robust training programs are not consistently rolled out alongside digital payment transitions and typically have not been considered as a necessary component. Without these critical components, workers are at risk. Throughout GFI's research, we heard repeatedly of workers struggling to access their earnings because they were unfamiliar or unable to use the technology, they faced additional fees and costs, thus, further reducing an already low net income, and some encountered increased conflict in their households. All these challenges can be and are often addressed through a combination of strong training programs and thoughtful rollouts. Financial security and wage digitization can increase worker welfare, but the "how" in how digital payments are transitioned is essential to maximize worker welfare and reduce negative impacts.

Spotlight: HerFinance

One program that incorporates many of these best practices is BSR's HERfinance project. BSR has partnered with the Bill and Melinda Gates Foundation to digitize wage payments for garment workers in Bangladesh. This program has reached over 160,000 workers across 60 factories. The rollout at each factory includes a substantial due diligence period, a staggered rollout, and significant support to management. It also utilizes a peer-to-peer model and prioritizes local partners. Finally, the training curriculum includes technology training, financial management, women empowerment, and family engagement components.

OPPORTUNITIES FOR EXPANSION

The apparel sector has made significant strides in increasing workers' financial security, primarily by implementing digital wage payments. Approximately two-thirds of apparel workers in Tier 1 factories receive their wages digitally and research has shown that digitization of wages and benefits is a key driver for opening bank accounts. However, there are millions of workers who are not receiving wages digitally and are unbanked. This section outlines opportunities to successfully expand and improve worker-centered financial security efforts in and beyond Tier 1. We outline eight countries that offer opportunities for expansion as well as additional mechanisms to better integrate financial security initiatives in the sector, including through the social compliance agenda.

Start with Country Strategies

To make significant and systematic change in worker welfare through digital payment systems and broader financial security efforts, a country-level strategy is more likely to succeed than a brand-by brand approach. While a country-level strategy may take more time on the front-end to build coalitions and gain buy-in, it will ultimately achieve significantly more impact and scale than a brand-by-brand approach.

Digital payments and financial security initiatives do not operate in isolation and the surrounding ecosystems, regulatory environments, community and cultural norms are critical factors in influencing success beyond the factory setting. Affecting change at this level requires a multi-stakeholder approach, including government engagement. Research and interviews demonstrate brands can be effective participants, but they do not seek a role in leading efforts to deploy digital payments systems. As discussed above, unless financial security is part of the social compliance agenda, few brands have expressed an interest in taking on these initiatives. This remains the case even where brands utilize digital wage payment systems in their factories and widely recognize a strong business case for digital payments.

Factory based approaches are also limited in their scope and scale because they are dependent on a brands' leverage within each factory. Many factories are multi-buyer facilities, meaning that a brand may only be one of many buyers within that facility. Thus, implementing any new factory initiative or program would require support from all buyers, which is hard to achieve.[8] Furthermore, even if there are only a few buyers within a facility, brands that do not represent a significant portion of a factory's production have little leverage to influence change within that factory, regardless of the size of their global operations. In

8 As a first step, all buyers/brands in a factory would have to adopt financial security as a priority. Given the diversity of buyers/brands and given that most brands do not see financial security as a compliance priority, a factory-by-factory strategy would be more limited in scale.

addition, factory transparency remains a challenge, even at Tier 1, with few brands disclosing their factory lists publicly. Therefore, it is difficult to determine which brands operate in a single factory, unless factory management discloses this information, which they are often reluctant to do.

Based on GFI's research and years of engagement on these issues, we believe that strategies that engage governments and are initiated at the country level are not only more effective, but are viewed positively by brands as comprehensive and strategic. Since many brands share common sourcing countries, country-level strategies that engage governments and brands as well as other stakeholders would result in scaling financial security initiatives more quickly and impacting a cross-section of brands more easily.

In approaching a country level strategy the first step is to identify the country and/or countries where there is an opportunity to expand financial security through digital payments. In the sections that follow we have made several recommendations regarding the countries where opportunities are presented. Second, the financial institution working to expand financial security initiatives must partner with non-industry, non-governmental organizations (NGOs) that have credibility and capacity to lead the engagement and have the capacity to engage not only brands and governments but also multi-stakeholder organizations that play a role in defining the compliance agenda. Unfortunately, even with a validated financial security program any strategy led by a financial institution and/or its foundation would be suspect among the worker-focused groups and trade unions. Leveraging the credibility and capacity of an NGO is essential. Third, commission a report or reports that demonstrate that workers benefit from financial security initiatives. The report should be validated by third parties or prepared by an institution whose credibility would not be questioned because the report was commissioned by a financial institution. A research NGO and/or an academic institution preferably with a track record for independent reports would be the best partners. Fourth, in engaging a country level strategy it is essential to have a validated policy proposal that connects worker welfare with financial security and digital payments and articulates the public policy role for the government. Fifth, the partner NGO would engage various civil society organizations and multi-stakeholder organizations to advocate for digital payments utilizing the commissioned report as well as third party validators. Through dialogue with worker advocates including trade unions, the partner NGO would move financial security priorities and policies into the compliance agenda. Finally, identify the brands that are dominant buyers in the country. Once the key brands are identified and paired with opportunity countries, outreach to those companies for future engagement with key countries is the next step. When brands and NGOs approach governments together with policy proposals that provide financial security for workers it is likely that governments would adopt a countrywide policy change. Partnering with NGOs that have implemented effective government engagement strategies alongside dominant brands would lead to government(s) adopting policies in a timely manner.

Tier 1 Opportunities

Identifying the Remaining One Third

Within Tier 1, an obvious choice for expansion of financial security programs is Bangladesh. Bangladesh is one of top sourcing countries for the sector and employs approximately 4,000,000 workers. Bangladesh also has low financial inclusion indicators with only 50% of adults having an account and only 25% of the apparel sector being paid digitally. Bangladesh is also a good example of how a country-level strategy has proven to be quite successful at bringing partners to the table as well as accelerating changing. Within a few short years, Bangladesh has one of the highest concentrations of partners across sectors prioritizing financial security including the Bill and Melinda Gates Foundation, BSR, and several global brands such as H&M, Li & Fung, Marks & Spencer, and Target, among others. These efforts have not only supported significant successes in reaching over 160,000 workers but also have allowed coalitions to form advocating for better policies and practices with government and non-governmental stakeholders, including the Bangladesh Garment and Manufacturers Exporters Association (BGMEA). Through these efforts the BGMEA and the government have agreed to implement a digital wallet for garment workers in Bangladesh.[xiii]

Cambodia also offers an opportunity to reach large numbers of workers in Tier 1 and, similar to Bangladesh, can serve as the entry point to increasing financial inclusion rates for the rest of the country. Cambodia's financial inclusion as a whole is quite low with less than 30% of adults having an account and within the garment sector only 7% of Cambodia's 750,000 workers are paid digitally. Cambodia faces some significant barriers and would have to build its ecosystem to support wide spread financial security. Moreover, investment in financial services infrastructure and an enabling regulatory environment is seriously lacking. There has been headway in recent years, led primarily by MFIs that have made a strong entry into the market and helped build consumer financial services and create a more financially literate consumer. The apparel sector has an opportunity to be a leader in financial security initiatives in Cambodia and to effectively apply the best practices for digital wage payments learned over the past decade, but brands are unlikely to lead alone. Partnerships with multilateral organizations can bring significant investment to strengthen the enabling environment and advocate for improved policies to encourage digital payments. For example, nearly twenty years ago in collaboration with the ILO, GFI launched a monitoring program in Cambodia knows then as Better Factories Better Work. The World Bank supported GFI's efforts by partnering with the government to reduce corruption—a factor identified by brands as a challenge to future investment in Cambodia. Today that program expands well beyond Cambodia and is operated globally by a joint venture between the ILO and the IFC. The program—known as Better Work—partners with brands to launch country-level investment strategies. Better Work could be one of several partners helping to move financial security initiatives into the social compliance agenda as well as into the Better Work agenda. A Better Work partnership alone would not be enough to move the agenda, but there is an increasing interest in financial security other partners including the ILO or Better Than Cash Alliance, United Nations initiatives, are important stakeholders to engage. To maintain legitimacy and a central focus on workers, it is also essential to partner with trade associations, unions, and civil society organizations to advocate for worker-friendly financial security initiatives and can build a momentum for change. As outlined above, financial institutions interested in expanding financial security initiatives should first partner with a global NGO that would identify a multi-stakeholder engagement plan so that no potential partners or influencers are left out.

Growth and Risk Countries

Like most manufacturing in the globalized economy, the garment sector chases low wages. Over the past 30 years retailers have regularly shifted their primary sourcing from what was a low wage country to a new low wage country. Since the sector's business model relies primarily on lower-skilled labor it continuously implements wage-driven shifts and is the first to establish manufacturing infrastructure in low-wage, usually poorer economies. This presents unique regulatory, infrastructure, and labor compliance challenges, but it also opens the opportunity for the sector to lead in strengthening worker-centered systems that expand financial security programs and improve worker welfare where it is otherwise lacking. In high-growth, high-risk sourcing countries, best practices for financial security initiatives may also offer a strong mechanism to drive compliance.

One of the emerging sourcing countries for the apparel sector that is particularly relevant is Ethiopia. The Government of Ethiopia is actively recruiting apparel companies in its plan to transform from a primarily agricultural economy to a manufacturing economy. As part of these efforts, the government is investing significant resources to develop infrastructure, including industrial zones that offer cheap electricity and low taxes. Furthermore, Ethiopia enjoys duty-free access to the United States and European Union making it an attractive sourcing country for brands. [9] Finally, because of rising wages in South Asia, apparel brands are looking for cheaper labor and recent reports have highlighted that Ethiopia is currently providing the lowest global wages in the garment sector at $26 per month.[xiv] Ethiopia and brands sourcing from Ethiopia have been criticized for sourcing garments from factories and suppliers that are paying extremely low wages—wages that do not provide any reasonable standard of living. There is also mounting pressure from NGOs, multi-stakeholder organizations, and trade unions for the Government of Ethiopia and brands sourcing from the country to improve labor practices quickly. Rather than continue to chase the lowest wage possible, sourcing from Ethiopia could present an opportunity for brands to build not only a productive, but also worker-friendly industry from the ground up. Significant investment is being made to support Ethiopia's agenda and groups such as the World Bank and Better Work have recently launched programs that would provide an economic growth plan for the sector that includes fairness to workers. The World Bank and Better Work are helpful partners because they are driving significant resources to improve Ethiopia's infrastructure, its regulatory framework, and helping it to tackle its policy challenges. Engaging these as well as other partners in Ethiopia through a global NGO partner could ensure that their investments are also supporting a financial security and worker friendly agenda.

Like Ethiopia, Egypt is an emerging sourcing country for the apparel sector as brands are migrating out of Asia and into Africa. Relatively low costs, significant government investment, and proximity to United States and European markets make it an attractive location. Egypt has announced plans to quadruple garment and textile exports by 2025 led by a $1.2 billion investment towards the development of its textile sector including the establishment of the "world's largest textile facility."[xv] In addition to shorter shipping times than Asian factories, Egypt enjoys tax-free benefits to the United States for products made in one of its Qualifying Industrial Zones.[xvi] Although, Egypt's garment and textile sector is not new, employing as many as 1.5 million workers in production and ginning, the government's investments and efforts to attract global brands are noteworthy. The sector is growing, and investors are taking notice. Furthermore, the Government of Egypt considers financial security a national priority is actively championing and supporting policies and investments to encourage the expansion of digital financial services throughout the country.[xvii] Egypt is one of the World Bank's Financial Inclusion Global Initiative (FIGI) countries, funded by the Bill & Melinda Gates Foundation. Through that platform significant investments are being made to strengthen the garment sector's ecosystem. With this increased interest and investments, Egypt provides an opportunity to rebuild and strengthen worker-centered systems that expand financial security and improve worker welfare where it is otherwise lacking. Developing an engagement strategy for Egypt, identifying the brands that are considering a move or are expanding their current footprint, reaching out to other stakeholders including the government through an NGO partner would be among the first steps toward developing a country-level strategy for increasing financial security initiatives in Egypt.

9 US's African Growth and Opportunity Act (AGOA) and Brussel's Generalised System of Preferences.

Addressing Migrant Workers

Migrant workers present an opportunity for the expansion of financial security initiatives as they have (i) a great need for improved working conditions, (ii) have organized and strong stakeholders advocating on their behalf, (iii) often face additional barriers for financial security given difficulty in their ability to open bank accounts as non-citizens, and (iv) have distinct and additional financial service requirements including the need for convenient and low fee money transfers to support sending remittances to their families back home.

Migrant workers represent a significant number of workers in several major sourcing countries. For example, in Turkey, of the more than 2 million apparel sector workers, approximately 650,000 are Syrian refuges.[xviii] Unfortunately, because of their refugee status they face additional challenges and exploitation including lower wages, short-term or informal contracts, and lack of access to bank accounts due to documentation limitations. The good news is that there is a growing awareness and concern about the treatment of Syrian refugees in Turkey's garment sector and multiple groups and coalitions are forming to improve working conditions and advance a worker friendly agenda.

In 2018, the International Labour Organization (ILO) signed an agreement with the Istanbul Apparel Exporter's Association to create formal and decent working conditions for Syrian Refugees.[xix] These groups and initiatives offer an opportunity for engagement with key stakeholders in the sector that can advocate for change and influence factory behavior. These groups are also strong conveners and serve as a useful platform to raise awareness of issues and promote solutions for brands that are eager to address these issues and improve their reputations, especially as the public pressure in Europe mounts.

Another country with high rates of migrant workers is Jordan. According to the ILO, migrant workers from Bangladesh, Sri Lanka, and Nepal represent more than 75% of Jordan's garment workers.[xx] The high rates of migrant workers are primarily due to cultural barriers in Jordan preventing women from working as well as low wages for migrant workers. Jordanian workers' monthly minimum wages are approximately $290, relatively high for industry. However, migrant or foreign workers are paid almost half that amount, at approximately $169 per month.[xxi] While these wages are below minimum wage and a cause for concern given the high living costs in urban areas workers from South Asia are migrating to Jordan because the wages are higher than wages they would earn in their home countries. Like Turkey, there are several large organizations, operating across stakeholder groups that are invested in improving working conditions for the sector including Better Work which has been operating in Jordan since 2009 and is mandatory for all factories exporting to US and Israel.

Beyond Tier 1 Opportunities

Leveraging Multi-Tier Integration

Another opportunity to expand financial security initiatives in the apparel value chain is in countries that operate multiple tiers of the supply chain. India and Pakistan are good examples of where multiple tiers of the apparel supply chain operate within one country and offer unique potential for economies of scale in reaching significant numbers of workers across tiers.

India is one of the top producing countries of ready-made garments (Tier 1) and is the second largest cotton-producing county in the world (Tier 4). India operates over a thousand ginning facilities each providing work for hundreds of workers (Tier 3) and has countless sub-contracting and finishing facilities (Tier 2). Given that India hosts all four tiers of the supply chain, India is home to approximately 35 million workers in the textile value chain. With greater vertical integration, national policies, investments, there could be an opportunity to expand financial services across all tiers. Although India has a relatively high digitization rate (80%), as discussed in an earlier section, 20% of India's adult population remains unbanked. Furthermore, owning a bank account differs widely from usage and there remain large disparities of banked adults between rural and urban areas as well as between men and women.

Pakistan is another country that hosts multiple tiers of the supply chain. Pakistan's textile and garment value chains provide employment to nearly 40% of its eligible workforce, or approximately 27 million workers. Pakistan is the fourth largest producer of cotton with the third largest spinning capacity in Asia, after China and India.[xxii] With only 21% of Pakistan's population banked and 54% of garment workers paid digitally, there is a significant need and opportunity to expand financial services to these workers.

Both countries offer significant opportunities to expand financial services, not only due to the sheer volume of workers that could benefit, but also because both countries have prioritized financial inclusion policies and have significant initiatives aimed at transitioning from cash. Both India and Pakistan are partners in the Financial Services for the Poor Program run by the Bill and Melinda Gates Foundation that is investing substantial resources in much needed infrastructure and policies to encourage the expansion of low-cost digital services for the poor. Pakistan also recently adopted a five-year national strategy for financial inclusion which encourages coordination between government actors, regulators, and the private sector. The EIU's Global Microscope report ranked India 4th out of 55 and Pakistan 21st out of 55 for providing an enabling environment for financial inclusion. These efforts are creating an ecosystem to support financial security and partners in both countries can leverage these efforts to expand financial security initiatives throughout the apparel supply chain.

Engaging Below Tier 1

Additional opportunities to reach large number of unbanked workers exist beyond Tier 1. Tier 2 and Tier 3 represent significant numbers of workers that are largely unbanked. As Tier 2 and Tier 3 tend to have a centralized workforce and a factory-gate setting, rollout of a digitization or financial security program would be similar to those utilized in Tier 1 although the entry point would likely be trade associations, civil society organizations, and worker unions as opposed to brands, given that brands have limited insight and leverage at these tiers. Because there is less insight and transparency into these factories, the working conditions are typically worse and there is a greater need for support and an opportunity to create worker-centered systems from the ground-up.

In Tier 4, the agricultural tier of the supply chain, there is tremendous opportunity, although engagement and partners would also be distinct. Most of the workers in Tier 4 are paid in cash and the majority of farmers and producers operate in cash, so the opportunities for financial security are expansive. Agricultural workers are often seasonal and migratory, operating across large geographic distances, thus making the interoperability across banks, regions, and platforms critical. There are several civil society and worker focused organizations operating in these tiers including the Better Cotton Initiative, organic cotton, Fairtrade Cotton, and the Global Organic Textile Standard (GOTS). Together these organizations have built robust programs to engage farmers, ginners, and others in the value chain. For a sense of the scale of the opportunity, the Better Cotton Initiative estimates that "more than 250 million people across the world depend on cotton cultivation and processing for their livelihoods."[xxiii]

More and more industry initiatives are pushing from the bottom up and top down to better connect and improve the lives of workers throughout the value chain. Tier 1 and Tier 2 suppliers who, motivated to improve efficiency and quality control, are becoming more closely tied to the ginners and spinners (Tier 3) from which they source. Similarly, brands are increasingly focused on how to reduce their impact and increase sustainability of their cotton producers and, therefore, are beginning to connect down to the farm level. That being said, brands are best positioned to participate in existing initiatives and encourage their expansion but are unlikely to lead industry changes quickly or at scale.

OPPORTUNITIES FOR INTEGRATION

Using Social Compliance

Compliance priorities, largely defined by social compliance audits, are a key driver to determining brand priorities and the scale at which initiatives will be implemented. The inclusion of financial security initiatives must therefore become part of the compliance agenda to ensure it is prioritized by brands and that initiatives aimed at strengthening and expanding financial security are implemented at the scale needed to improve worker welfare.

In the apparel sector, there is increasing recognition that best practices and common priorities should be included in the social compliance agenda. Most multi-stakeholder initiatives are cognizant of and have aligned their social compliance priorities to industry best practices. In addition, groups like the Social and Labor Convergence Program (SLCP) are advocating for the adoption of an industry wide framework that utilizes common criteria and verification methodologies to streamline audits across the sector. Introducing financial security into the central dialogue on social compliance is an essential step in aligning it with other compliance priorities and industry best practices for implementation and verification of worker welfare initiatives.

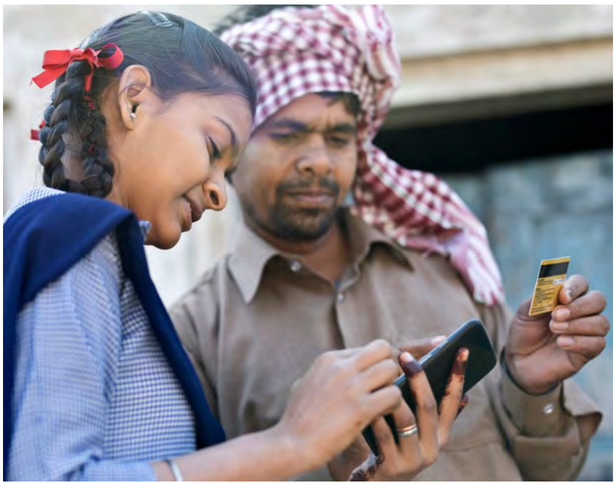
Within this dialogue there is general agreement on the minimum criteria for social compliance audits, but there is constant debate about how to expand priorities and what practices should be adopted to ensure improved worker welfare. The groups typically pushing new items onto the agenda are the labor and worker-focused groups. These groups are best positioned to advocate for additions to the compliance agenda because they are not only well versed in the needs and priorities of workers but are also experienced in engaging with compliance organizations and multi-stakeholder initiatives.

Inadequate evidence linking financial security initiatives to improved worker welfare in the garment sector has meant that financial security has not been prioritized by the worker-focused groups. Additional research is needed that more clearly demonstrates the links between adopting digital payments as part of a financial security initiative and improved worker welfare. New research, as noted above, must be conducted by independent entities so that it can be used credibly to advocate with unions and worker organizations for the inclusion financial security into the compliance agenda. It is both essential and achievable to implement strategies that engage labor unions, worker focused and civil society organizations to lead a push for the inclusion of digital wage payments in the social compliance agenda as a means to expand financial security and worker welfare. Another key component is to build a consensus among multi-stakeholder organizations to include financial security priorities in their social compliance codes and audits.

As previously emphasized, financial security initiatives should include high-quality and appropriately tailored training and support as essential elements of wage digitization rollout. The inclusion of worker-centered trainings are key to strengthening financial security for workers and also help eliminate concerns raised by trade unions and worker organizations—that workers may be put at risk without proper due diligence, rollout, training, and support. Advocating alongside these organizations to brands, suppliers, and multi-stakeholder organizations would help to demonstrate the commitment of financial institutions to ensuring that the transition is effective and workers' needs are at the forefront. To that end, where financial security efforts are already underway and when these transitions are done well those efforts should be replicated and serve as models to demonstrate to worker-focused organizations and labor unions that when done well financial security programs are linked to improving worker welfare.

Equally, brands must ensure that strong and comprehensive financial security training programs, as defined by the best practices laid out in this report, are consistently rolled out as part of their compliance plans. Training programs must be viewed as more than "add ons" or part of a Corporate Social Responsibility (CSR) portfolio. Instead, they must be fully integrated into operations. If accomplished, workers will be trained on critical financial security topics and services and see greater results, thus establishing a more direct link between worker welfare and financial security initiatives.

If the best practices highlighted in this report are standardized and fully integrated into operations we are likely to see demonstrable gains and improvements in worker welfare through financial security promotion. Among those best practices are due diligence, comprehensive training programs, and staggered or lengthy transition periods that minimize the risks to workers and maximize the benefits of financial security initiatives.



Spotlight: Promoting a Compliance Agenda at a Country Level

Steps in Bringing Financial Security Priorities into a Country Specific Compliance Agenda:

1. Financial institutions and/or their foundations should partner with non-industry, non-governmental organizations (NGOs) that have the capacity to engage not only brands and governments but also multi-stakeholder organizations that play a role in defining the compliance agenda. Leveraging the credibility and capacity of an NGO is essential in establishing legitimacy of a worker-friendly agenda, especially among worker-focused groups and trade unions.
2. Financial institutions and/or their foundations should commission an independent report that directly connects financial security programs and improving workers' welfare.
3. The partner organization would engage various civil society organizations and multi-stakeholder organizations to advocate for digital payments utilizing the commissioned report as well as "third party" validators;
4. Through dialogue with worker advocates including trade unions, the partner organization would move a financial security priorities and policies into the compliance agenda;
5. The dialogue with worker advocates including trade unions and other stakeholders would include a policy that would that mandate comprehensive financial security training be included in the social compliance agenda;
6. A parallel dialogue with brands through organizations capable of moving a brand's agenda, like the Industry Summit which convenes C-Suite leadership, is an essential step in the process of adoption;
7. Once included in the compliance agenda brands, factories, and potentially governments would mandate financial security programs and audit for digital payments and utilization of best practices.

KEY TAKEAWAYS

01
“HOW” MATTERS
Factoring “how” financial services and wage digitization will be deployed for workers matters as much as what products are provided

02
DO MORE TO DO BETTER
Wage digitization without due diligence, training, and support to workers can increase garment sector workers’ risk and vulnerability

03
DEFINE THE BENEFITS
More research is needed to demonstrate the link between financial security initiatives and improvements in worker welfare in the garment sector

04
COUNTRY APPROACHES
To expand financial security initiatives, country level strategies will be more effective than global strategies with brands

05
PARTNER UP
Brands are more likely and better able to be partners than leaders in promoting financial inclusion

06
GET COMPLIANT
To achieve fully scaled adoption across Tier 1, financial security initiatives should become part of the compliance agenda

07
START WITH STAKEHOLDERS
Worker groups and governments must be stakeholders from the start and see the benefits of financial services and wage digitization before they are rolled out

08
MORE VOICES VALIDATE
Multiple voices should be gathered to echo and validate the benefits of financial security initiatives (i.e. financial industry or garment brands can’t lead alone)

CONCLUSION

While financial security initiatives, primarily through wage digitization, have seen considerable uptake in the garment sector, the sector represents an important opportunity to expand access to the millions of garment workers that are within Tier 1, in countries with multi-tier supply chains, beyond Tier 1, and workers in vulnerable situations including migrant workers. Adopting strategies that address each opportunity will be key to expanding financial security programs. Additionally, using tools including social compliance and creating direct linkages between financial security initiatives and improved worker welfare will be critical to successful expansion.

Standardizing best practices including worker centered due diligence, strong and comprehensive training programs, staggered or lengthy transition periods, and trusted training partners will establish that expanding access to financial services will result in improved worker welfare. With best practices adopted, risks to workers will be reduced and the benefits of financial security initiatives will be more secure. It is essential when rolling out wage digitization processes that these best practices are standardized and incorporated into the requirements and standard operating procedures of a transition, and not viewed as an "add on" or a philanthropic project.

The integration of financial security programs and mandatory training into the compliance agenda would lead to greater expansion and adoption by factories, suppliers, and brands. Labor unions, worker organizations, and civil society do not perceive digital payments as part of the social compliance agenda and a priority. The linkage between increased financial security through digital payments and improved worker welfare has to be made, and it can be made. The research shows that financial services, when accompanied by comprehensive and tailored training, increases workers' financial benefits such as improved savings and better financial management.

Poorly executed wage digitization processes can increase risk and negatively impact workers whereas financial security efforts that are well done are likely to improve worker welfare. This dichotomy presents the clearest case for including financial security priorities in the social compliance agenda. Those best positioned to advocate for additions to the compliance agenda are labor groups and civil society organizations that are not only well versed in the needs and priorities of workers, but are also experienced in engaging with compliance organizations and multi-stakeholder initiatives.

To successfully scale financial security initiatives within the garment sector, GFI recommends adopting a country level strategy as opposed to a brand-led approach. Many of the workers and opportunities for expansion of financial services exist within environments and markets that require investments, policies, and approaches outside what a single brand or factory can accomplish. Furthermore, brand leverage can be limited at multi-buyer facilities and few interviewed brands expressed an interest in taking on financial security initiatives. Based on GFI's research and years of engagement on these issues, we believe that strategies that include government engagement and are initiated at the country level are not only more effective but are viewed positively by brands as comprehensive and strategic. Country level strategies also offer an opportunity to scale more quickly and across multiple tiers.

Utilizing a country-level strategy, GFI has highlighted additional opportunities to expand financial security initiatives: (1) Unbanked in Tier 1; (2) High Growth and High Risk Countries; (3) Migrant Workers; and (4) Multi-Tier Integration Countries. Each opportunity requires a unique approach and specific strategy as well as partners and help championing these efforts.

Financial security priorities are the future, but how these initiatives are implemented and whether they embrace a worker-centered approach will impact the degree to which financial security initiatives are truly benefiting garment workers, and others living at the poverty line.

APPENDIX A: LIST OF STAKEHOLDERS INTERVIEWED

Name of the organization	Type of Organization	Website
adidas AG	Brand	https://www.adidas-group.com
Better Than Cash Alliance	Multi Stakeholder Initiative	https://www.betterthancash.org/
The Better Work Programme	Multi-Stakeholder Initiative	https://betterwork.org/
Business for Social Responsibility (BSR)	Multi Stakeholder Initiative	https://www.bsr.org/
The Cahn Group	Apparel and Labor Consultant	http://www.thecahngroup.com/
Cividep India	Non-Governmental Organization	http://www.cividep.org/
Dallas Cowboys Merchandising	Brand	https://www.dallascowboys.com/
Delta Galil Industries	Supplier	https://deltagalil.com/
The Fair Labor Association	Multi-Stakeholder Initiative / Compliance Organization	https://www.fairlabor.org/
Fair Trade USA	Non-Governmental Organization	http://www.fairtradecertified.org/
Gap Inc.	Brand	https://www.gapinc.com/
Hanesbrands Inc.	Brand	https://www.hanes.com/
Kathmandu Holdings Limited	Brand	https://www.kathmanduholdings.com/
Levi Strauss & Co	Brand	https://www.levistrauss.com/who-we-are/company/
Mainland Headwear Holdings Limited	Supplier	http://www.mainland.com.hk/
MasterCard Center for Inclusive Growth	Collaborator	https://www.mastercardcenter.org/
New Balance Athletics	Brand	https://www.newbalance.com/
Patagonia, Inc.	Brand	https://www.patagonia.com/home/
Primark	Brand	https://www.primark.com/
Sustainable Apparel Coalition (SAC)	Multi Stakeholder Initiative	https://www.apparelcoalition.org/
Syngenta AG	Agricultural Corporation	https://www.syngenta.com/
Under Armour, Inc.	Brand	https://www.underarmour.com/
VF Corporation	Brand	https://www.vfc.com/
The Walt Disney Company	Brand	https://www.thewaltdisneycompany.com/

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