

# PUT YOUR MONEY WHERE YOUR MOUTH IS

SWEDISH BANKS AND LIVING WAGES IN THE GARMENT SECTOR



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responsible  
business



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**Fair Action** is a non-profit organisation pushing Swedish companies to take responsibility for their impact on people and the environment. We examine how consumer goods and services are produced and pressure companies to improve working conditions and pay living wages. The goal of the organization is a sustainable world where human rights are respected.

**Fair Finance Guide** is an international civil society network that evaluates banks' considerations of social, environmental, and human rights standards. Behind the initiative stand more than 50 civil society organisations in 14 countries. In Sweden, it is led by the Swedish Consumers' Association in partnership with the Swedish Society for Nature Conservation, Fair Action, Amnesty International, Diakonia and World Animal Protection.

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# ABBREVIATIONS

ACFTU	All-China Federation of Trade Unions
AGM	Annual General Meeting
AFWA	Asia Floor Wage Alliance
BDT	Bangladeshi Taka
BGIWF	Bangladesh Garment and Industrial Workers Federation
ESG	Environmental, Social and Governance Criteria
ETI	Ethical Trading Initiative
GDP	Gross Domestic Product
GFA	Global Framework Agreement
GLWC	Global Living Wage Coalition
ILO	International Labour Organisation
ITUC	International Trade Union Confederation
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
SDGs	Sustainable Development Goals
UN	The United Nations
USD	United States Dollar
UNGPs	United Nations Guiding Principles on Business and Human Rights

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# SUMMARY

The H&M Group is the second largest fashion retailer in the world. Globally, 1,6 million people are employed in its supply chain and are affected by its living wage strategy and implementation. Despite the fact that it has been eight years since the fashion company launched its Roadmap to ensure living wages in its supply chain, workers at the H&M Group's supplier factories in India and Bangladesh, two of the company's key countries of production, still only earn around 60 percent of the wages needed to cover basic costs of food, housing, health care and schooling for their children. During the Covid-19 pandemic, average wages at the H&M Group's supplier factories have decreased even further.

As large shareholders, banks and other financial investors have an obligation - and an opportunity - to influence the H&M Group to take responsibility for human rights such as a living wage, throughout the value chain. This is in accordance with the UN Guiding principles on Business and Human Rights.

This report assesses whether seven of Sweden's largest banks (Danske Bank, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia, Swedbank) live up to this obligation. In total, the banks hold shares valued at SEK 21,7 billion<sup>1</sup> (USD 2,4 billion<sup>2</sup>) in the H&M Group.

This report concludes that all banks engage in dialogue with the H&M Group regarding living wages. This is a great leap forward in comparison to a similar study conducted by Fair Action and Fair Finance Guide in 2019, when only three of the banks engaged in dialogue with the fashion company. Furthermore, two of the companies include the right to a living wage in their investment policies. In 2019 this figure was zero.

The report also shows that five out of seven Swedish banks demand better measurability and/or transparency of the H&M Group's achievements in reaching living wages. SEB and Nordea stand out as the banks most critical of the H&M Group for not delivering sufficient results based on their own expectations of the company.

However, there are still serious gaps in the dialogue strategies of the banks. For the interventions with the H&M Group to lead to increased wages, the banks have yet to set transparent and time-bound goals and be prepared to increase their leverage when goals are not met. In addition, the dialogue – and its results - must be publicly available. Today, only Nordea and Skandia are transparent regarding the progress of their engagement with the H&M Group.

# TOP FINDINGS

- All of the seven banks report that they engage in dialogue with the H&M Group with regards to a living wage. This is an improvement from 2019 where only three of the banks held dialogues with the company about the issue.
- Nordea and SEB state that the H&M Group does not deliver sufficient results given their own expectations on the company.
- Swedbank and Nordea include the right to a living wage in their investment policies. This is an improvement compared to 2019 when this figure was zero.
- Five out of seven Swedish banks demand better measurability and/or transparency of the H&M Group's achievements in reaching living wages.
- None of the seven banks have set time-bound demands on the H&M Group regarding the implementation of living wages in their supply chain.
- None of the seven banks voted in favour of the shareholder resolution proposing that the H&M Group establish a living wage fund to be used to close the wage gap.
- Only two of the banks publicly report on the progress of the dialogue with the H&M Group on living wages.

# RECOMMENDATIONS

The recommendations are based on the United Nations Guiding Principles on Business and Human Rights (UNGP), which also apply to financial institutions. According to the UNGPs, financial institutions have a responsibility to act with due diligence and to address negative impacts from a company that they have an investment relationship with. This responsibility also applies to institutional investors, even when the investment accounts for a small share of a company.

## **Banks should:**

### **1) Adopt an investment and lending policy that requires the H&M Group and other investee companies in the garment sector to ensure that workers in their supply chains are paid, at minimum, a living wage.**

The definition of a 'living wage' should be based on international norms and standards, and explicitly state that it:

- Covers the basic needs of the worker and their family.
- Must be earned in a standard work week of no more than 48 hours.
- Should provide some discretionary income.

### **2) Allocate adequate resources and improve sustainable investment processes and methods for human rights due diligence.**

This includes the proactive identification and thorough analysis of investee companies' risks, impacts, and responsibilities regarding the right to a living wage. An important part of this process is dialogue with trade unions and non-governmental organisations.

### **3) Demand transparency from the H&M Group and other investee companies in the garment sector.**

- Companies should publish a searchable list of all manufacturing sites of the investees' products. The list should include the full names of all authorized production units and processing facilities, the site addresses, the parent company of the business at the site, the type of products made and the number of workers at each site. The list should not be limited to tier 1.
- Companies should publicly disclose the share of the total purchasing value that is represented by each country of production.
- Companies should publicly disclose mapping of wage gaps between prevailing wages and living wage benchmarks in their supply chains, at a factory level.
- Companies should publicly disclose information about which living wage benchmarks they are using as well as the methodology for the calculations.
- Furthermore, companies should disclose, not only the gross average wage but also the lowest wages, at a factory level.

**4) Set time-bound targets for engagement with investee companies in the garment sector.**

- Investees should adopt a living wage strategy with a time-bound and measurable goal for achieving living wages in the supply chain.
- Investees should, within a given timeframe, provide financial incentives (such as extended or larger contracts and price premiums) to suppliers with higher wages and/or collective bargaining agreements.
- Investees should, within a given timeframe, identify anti-union policies and practices in supplier factories, and communicate to suppliers that they have zero tolerance for any attempts to prevent trade union activities, such as organising of workers.

**5) Increase leverage over investee companies if engagement dialogue does not lead to higher wages within the expected timeframe.**

For example,

- Investors can file, co-file or support shareholder proposals concerning living wages, or make statements at investee companies' Annual General Meetings (AGMs). They can also collaborate with other investors and initiatives, such as the Platform Living Wage Financials.<sup>3</sup>
- Investors can use public exclusion to leverage the pressure if an investee company is not responding to engagement and wage increases in the supply chains are not being observed within the expected timeframe. Public exclusion sends a clear signal and increases the pressure on both the company and its remaining shareholders to address the issue.

**6) Publicly communicate strategies, goals, and engagement outcomes.**

Affected parties and other stakeholders should be able to hold the bank accountable and demand improvements. Transparency is also a way of sharing good practice with peers in the financial sector. Hence, banks should publicly and regularly disclose information about the engagement process, including undertaken activities, status and performance in relation to the time-bound objectives.



# INTRODUCTION

Since the early nineties, the low wages in the fashion industry have gained increased international criticism for holding millions of factory workers in the Global South in perpetuated poverty. This report investigates the way in which seven of Sweden's largest banks take on their role as responsible investors in the H&M Group, the second largest fashion retailer in the world, and the owner of the brands H&M, COS, Weekday, Arket, & Other Stories, Cheap Monday and Monki. Around the globe, nearly 1,6 million people are employed at factories supplying to the H&M Group.<sup>4</sup>

The banks included in the investigation are Danske Bank, Handelsbanken, Länsförsäkringar, Nordea, SEB, Skandia and Swedbank. As owners in the H&M Group, collectively holding shares valued at 21,7 billion Swedish crowns<sup>5</sup> (USD 2,4 billion<sup>6</sup>), the seven banks have a unique opportunity – and responsibility – to influence the company's goals and strategies concerning living wages.

Furthermore, this report brings the implementation of the H&M Group's strategy for living wages into the spotlight. This is done through the lenses of unions and civil society organisations in two of the H&M Group's largest countries of production, Bangladesh and India. The two countries have among the lowest garment factory wages in the world. Actual average wages in the H&M Group supply chain are around 60 percent of the estimated living wage in those countries. In the wake of the Covid-19 pandemic, wages have dropped even further.

By providing insight into the challenges met by factory workers in their struggle to improve wages in the fashion industry, this report aims at contributing to the quality of dialogue between the banks and the H&M Group by outlining recommendations for how banks can – and should – shoulder their responsibility as owners.

The H&M Group contributes to the GDP of the production countries and creates employment opportunities. By ensuring that the jobs that are created provide workers with wages on which they can live decent lives, the banks can contribute to the fulfilment of the Sustainable Development Goals (SDG). If they follow this route, the banks can support these fashion brands in the urgent need of lifting hundreds of thousands of workers and their families out of poverty.

The research for this report has been conducted in cooperation with Fair Finance Guide Sweden, a global network of civil society organisations assessing banks' considerations of social, environmental, and human rights standards.

# METHODOLOGY

The chapter "Under the spotlight: the H&M strategy for living wage" voice concerns of local unions and human rights organisations with regards to the H&M Group wage strategy. It builds on interviews with representatives of garment workers in Bangladesh and India, conducted in September 2021 by Fair Action: Babul Akhter, Federation General Secretary, Bangladesh Garment and Industrial Workers Federation (BGIWF), and Parvathi Madappa, at the civil society organisation Cividep India.

Niklas Egels Zandén, Professor of Management and Organisation at the University of Gothenburg and Mark Anner, Professor of Labor and Employment Relations and Political Science at Pennsylvania State University have contributed with research and insights on the prices paid by Swedish garment brands to Bangladeshi and Indian suppliers.

Johnson Yeung at the Clean Clothes Campaign has contributed with insights into the lack of freedom of association in China. Throughout the research process, the H&M Group has been asked to clarify aspects of their work on living wages and were also given the opportunity to fact-check these clarifications.

The chapter "How much responsibility are Swedish banks taking?" examines the level of active ownership taken by Swedish banks in relation to the H&M Group. It is based on a questionnaire sent out in May 2021 to the seven largest banks based in Sweden with investments in the H&M Group (See Appendix 1). The investment specifications and the responses to the survey have been made by the banks' asset management entities. For simplicity reasons, Fair Action uses the bank group name throughout the report, even when it more specifically refers to a response or undertaking of a subsidiary.

Drafts of the texts concerning each bank were sent out for fact-checking in October 2021. Two working days before the launch, the full report was sent out to all banks.

# BACKGROUND

## What is a living wage?

The concept of a wage that is enough for a worker and his/her family to live on is not new. According to the Universal Declaration of Human Rights, that was proclaimed by the United Nations in 1948,

**“Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.”<sup>7</sup>**

According to international norms and standards,<sup>8</sup> a living wage:

- Covers the basic needs of the worker and her/his family
- Must be earned in a standard work week of no more than 48 hours
- Should provide some discretionary income

Most living wage approaches argue that “basic needs” include nutritious food, clean water, housing, clothes, healthcare, childcare, education, transport, and discretionary income. Some discretionary income is important since social protection systems are often lacking or are weak in low-income countries. Non-existent savings make workers vulnerable to unforeseen events such as illness, hence making them prone to indebtedness.

A living wage should also be based on normal working hours, a 48 hours working week, and the calculations should exclude overtime, according to standards set by the International Labour Organisation (ILO).<sup>9</sup>

In recent years, several living wage benchmarks have been developed. One of them is the benchmark of the Global Living Wage Coalition (GLWC). GLWC is backed by, among others, Fairtrade International and Social Accountability International and has been used to estimate living wages for different sectors at over 30 locations globally, including the garment and textile sectors in Bangladesh and India.<sup>10</sup>

GLWC's estimation is based on the costs of food, housing, other essential needs including education of children, decent health care, transportation, recreation, clothing, household goods, communication, personal care, and a small margin for unforeseen events. These costs make up a basic, but decent, life for a reference size family of two adults and two children.<sup>11</sup>

### **Financial institutions leading the way to a Living Wage**

In the Netherlands a number of investors have taken steps to address the issue of living wage. In 2016, ASN Bank established a long-term goal that all garment companies in its investment universe should have introduced a living wage by 2030. ASN Bank is also, along with MN, Triodos IM, a.s.r, Achmea IM, NN IP, Robeco and Kempen one of the founders of the Platform [Living Wage Financials](#) which aims to support investee companies in the implementation of living wages in their supply chains.

# Banks and living wages

## – responsibilities according to international standards

Investor responsibilities are formalised in several international agreements and standards. One of the most prominent is the United Nations Guiding Principles for Business and Human Rights (UNGPs), which states that the responsibilities of investors extend to their business relationships. Furthermore, specific guidance on how the UNGPs are to be interpreted in the financial sector has been provided by the Office of the United Nations High Commissioner for Human Rights.<sup>12</sup> Other international guidelines include the OECD's Responsible Business Conduct for Institutional Investors<sup>13</sup> and the United Nations Principles for Responsible Investments initiative.<sup>14</sup> Thus, all financial institutions are expected by the international community to integrate human rights issues in their investment practices.

Banks, in their role as large asset owners, who are shareholders in these companies, can therefore have a significant effect on the policies and activities of these companies and on their impacts on human rights. There are several ways in which a bank can affect the policies and activities of these companies. As a shareholder and as a creditor, banks can use public or private dialogue, voting, shareholder proposals, blacklisting and divestment to influence and incite companies. When investors join forces in their dialogue with companies, they can increase their leverage and have significant impact.

Turning our focus to the textile sector, poverty wages are indeed found in the supply chains of large textile and garment industry companies. With growing globalisation, these supply chains have become more complex. Companies buy products from countries where there is limited protection of labour rights, let alone a set living wage. Banks should require serious commitments from textile and garment companies to implement international labour rights in the supply chain to continue the financing of their operations.

### **International standards on supply chain transparency**

The United Nations, and national laws in some countries, urge companies to perform better on supply chain transparency. According to The UN Guiding Principles on Business and Human Rights, companies should “account for how they address their human rights impacts, business enterprises should be prepared to communicate this externally,” and their communications should “be of a form and frequency that reflect an enterprise’s human rights impacts and that are accessible to its intended audiences.” The OECD Due Diligence guidelines for Garment and Footwear Supply Chain also emphasize the importance of communication and disclosure of information by garment brands.

# Living wages, not minimum wages

## The case of Bangladesh and India

In showing that poverty wages are unacceptable, financial institutions can contribute to making it possible for hundreds of thousands of workers to afford decent housing, nutritional food and school fees for the children. Ultimately, living wages is about creating societies where people are not only seen as cheap labour, but as citizens that can contribute to creating sustainable societies.

Bangladesh and India are two of the world's largest garment producing countries, as well as two key production markets for the H&M Group.<sup>15</sup> Although the countries have adopted a legal minimum wage, the actual paid wages are often too low to enable workers to live a life in dignity. To cover the most basic needs such as proper housing, schooling for children and nourishing food, current wages would need to increase by around 70 percent (see table Living wage vs. actual wages at the H&M Group supplier factories).

The consequences of the low wages on the workers and their families' physical wellbeing are fatal. Even though workers try to increase their incomes by working 10-12 hour per day to get overtime pay, workers struggle to make ends meet and feed themselves and their families. Excessive overtime due to low wages also limits workers' ability to take part in trade union activities.<sup>16</sup>



Living wage as a concept is not mentioned specifically in the Sustainable Development Goals, but it is closely linked to many of them, especially goal number 1 (no poverty), 2 (zero hunger), 5 (gender equality), 8 (decent work and economic growth) and 12 (responsible consumption and production).

In addition, goal 17, “Partnership for the Goals” underline the importance of a stronger commitment to partnership and cooperation from all actors, including multi-stakeholder partnerships. Thus, the business sector has an important role to play in achieving the sustainable development goals.

Source: [The United Nations](#).



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**The pandemic has just been an eye opener to the world about the really poor situation that workers have been facing in the last twenty years. We have seen that the pandemic has pushed these workers into deeper poverty and debt to local money lenders.**

Parvathi Madappa, Cividip India

Photo: Charlie Aronsson

In the wake of the Covid-19 pandemic, wages have dropped even further. The H&M Group reports that average wages have decreased by two percent and seven percent at factories in Bangladesh and India respectively.<sup>17</sup>

According to Clean Clothes Campaign, the decrease is even steeper. They report that average income among interviewed textile workers at factories producing for the H&M Group, among others, decreased over 30 percent between pre-pandemic times and the second half of 2021.<sup>18</sup> This should also be considered in relation to a 31,5 percent increase in living costs in urban Bangladesh between March 2016 and March 2021.<sup>19</sup>

**21%**

**Decrease in average monthly income among 396 garment workers across nine countries\* still employed during the Covid-19 pandemic.**

\*Bangladesh, Cambodia, El Salvador, Ethiopia, Haiti, India, Indonesia, Lesotho, Myanmar as of September 2020.  
Source: [Workers rights consortium](#).

Under the spotlight:

# THE H&M STRATEGY ON LIVING WAGE

This chapter looks at the H&M Group's strategy to achieve living wages in its supply chain and places some of its most central components under the spotlight.

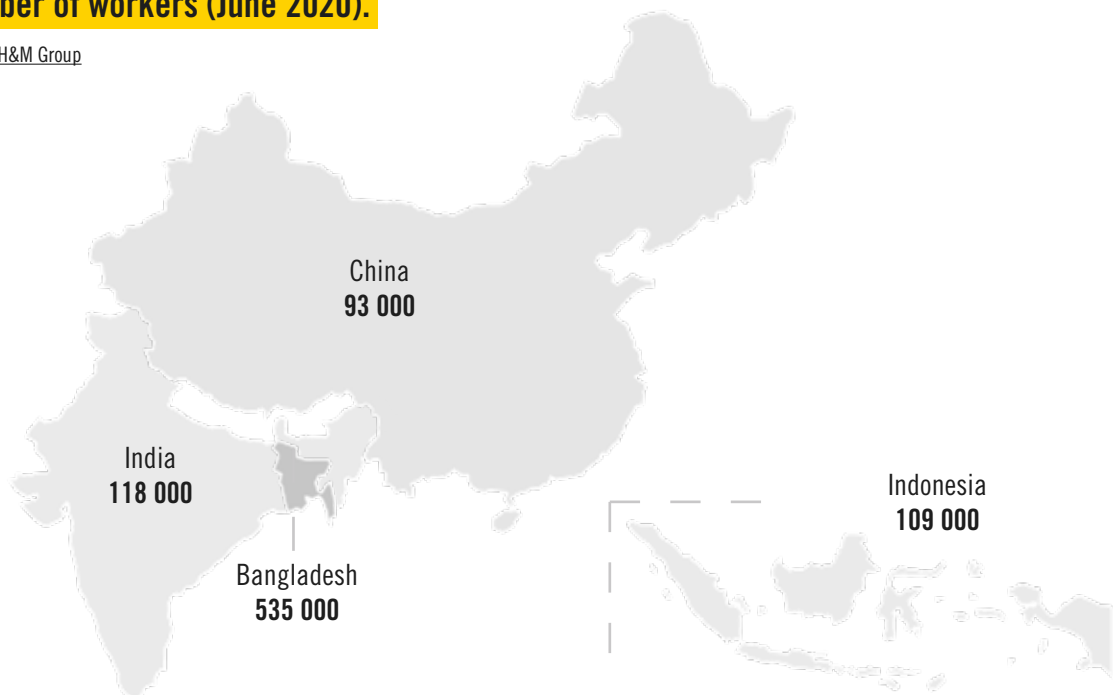
In its Sustainability Commitment from 2016, the H&M Group acknowledges the need for living wages in the supply chain. The commitment applies to all suppliers to brands within the H&M Group and states that...

**"(...) our ambition is that together we go beyond what the law says (...) and (...) paying a fair living wage that meets workers' basic needs and promoting social dialogue are essentials for sustainable economic growth that creates jobs and enterprise development."<sup>20</sup>**

## H&M Group key countries of production

### Number of workers (June 2020).

Source: [H&M Group](#)



**1,6** Million workers in H&M Group global value chain.

In an effort to step up its work on raising wages at the supplier factories, the H&M Group launched The Fair Living Wage Roadmap in 2013. The Roadmap is described in the 2018 evaluation, made by the UK-based Ethical Trading Initiative (ETI).<sup>21</sup>

**The four interlocking components of the Roadmap are:**

- H&M Group actions to improve its purchasing practices and planning to enable suppliers to pay a Fair Living Wage.
- Supporting suppliers in developing fair and legal contracts and establishing pay structures that enable a Fair Living Wage.
- Developing better industrial relations, focusing on worker representation through social dialogue at factory level to empower workers to negotiate improved pay and labour conditions.
- Encouraging governments to set up tri-partite process that sets minimum wages through a fair negotiation with labour market stakeholders and reviewing annually.<sup>22</sup>

An update of the strategy was to be carried out in 2021.<sup>23</sup> As of the release of this report, the new strategy has not yet been made public. The components of the Roadmap are, however, still guiding the H&M Group's approach to improving wages in their supply chain.<sup>24</sup>

Below, we will look at the first three of these components and the shortcomings in the H&M Group's implementation and reporting according to garment union representatives, academic researchers, and human rights organisations.





# WORKPLACE DIALOGUE

**“We’re taking responsibility and driving change by ...providing education, services and frameworks that empower workers to negotiate their own wages and conditions.”<sup>25</sup>**

-The H&M Group

Workplace dialogue between factory management and workers is highlighted by the H&M Group as one of the key components to achieving better working conditions in the garment sector. By educating employees and factory management on workers’ rights and demanding democratic election of worker representatives, the H&M Group seeks to empower local unions in order to play an active part in wage negotiations.<sup>26</sup>

To accelerate the approach to increased social dialogue, the H&M Group entered into a Global Framework Agreement (GFA) in 2015 with IndustriALL and the Swedish trade union IF Metall, covering freedom of association and collective bargaining in the supply chain.<sup>27</sup> Under the agreement, the parties have established National Monitoring Committees in Bangladesh, Cambodia, India, Indonesia, Myanmar, and Turkey that oversee the implementation issues at national level.<sup>28</sup>

Some basic statistics of the outcome of the approach are available in the sustainability report 2020. For instance, the H&M Group states that one out of three (32 percent) tier-one factories has union representation. In terms of the effect on wages, the presence of trade unions is reported by H&M to have had a positive impact of 5,5 percent at a global average.<sup>29</sup>



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**Wages and attitudes towards unions and freedom of association are the same at all factories. Producing for H&M or not.**

Babul Akhter, BGIWF

## Lack of independent trade unions

While the crucial role of independent unions in improving working conditions is often stressed by human rights organisations and other actors,<sup>30</sup> Babul Akhter, the Federation General Secretary of the Bangladesh Garment & Industrial Workers Federation (BGIWF) who was interviewed by Fair Action for this report, emphasises that for social dialogue to be successful as a strategy towards living wages, it is imperative that the unions have a strong bargaining power. Workers must be able to meet on equal terms with the factory management, which is far from today's reality. According to Babul Akhter, factory workers face serious risk of being harassed, laid off and punished when trying to form, or join unions:

**“The workers are very weak. How can they negotiate with the management when they are unequal? Only if the power is equal, it’s possible.”<sup>31</sup>**

The lack of freedom of association in Bangladesh is also highlighted by the International Trade Union Confederation (ITUC), which ranked the country among the ten worst countries for workers in its 2021 Global Rights Index. Regressive laws, brutal repression of strikes and union busting are stressed as major problems in the country.<sup>32</sup>

### Media reports of mass lay-offs of protesting workers at H&M factories

2 181 workers at H&M Group supplier factories in Bangladesh were reportedly fired or forced to resign after taking part in a largely peaceful protest against the low minimum wages in 2019. It was also reported that a majority of the workers were struggling to find new jobs as they had been “systematically blacklisted.” During the pandemic, more than 18 300 workers at H&M Group supplier factories in Bangladesh, Pakistan, and India were laid off, allegedly because of their links to a union. Several workers' rights organisations accused H&M of hiding behind Covid-19 pandemic rhetoric.

Adding to the difficulty of relying on trade union negotiations for higher wages, is the existence of the so-called yellow unions. Yellow unions are unions that are formed, or dominated, by the factory management to undermine democratic unions or to please the factories' clients, unlike independent unions where workers choose their own representatives. Hence, Babul Akhter raised a question mark over the figure that workers in 197 of the 226<sup>33</sup> H&M Group supplier factories in Bangladesh, freely choose their representatives and know who their representatives are:

**“If a brand requires a workplace dialogue of a supplier, the supplier will arrange one. The management will choose workers, they will take pictures and make a video, and share it everywhere. But it’s for show.”<sup>34</sup>**

Given these circumstances, Babul Akhter questions the H&M Group's living wage strategy for leaving so much of the responsibility to negotiate living wages with local unions:

**“Perhaps the local unions can push the wages a few percent. But what is an increase of a few percent, when the raise needed is from 8 000 to 25 000 taka?” (USD 93 to USD 291<sup>35</sup>)**

## Supplier-initiated unions are a global problem

The criticism Babul Akhter raises towards the H&M Group's statistics on workers' representation is not unique for Bangladesh. On the contrary. Out of the 447 factories reported by the H&M Group to have union representation on site, more than half of them<sup>36</sup> are located in China, a country where it is a criminal offense to organise unions that are independent from All-China Federation of Trade Unions (ACFTU), which is a part of the government.<sup>37</sup>

Johnson Yeung, Regional Urgent Appeal Coordinator Campaigner in East Asia, at Clean Clothes Campaign, explains why the figures the H&M Group presents on trade union representation in China are highly problematic:

**“It is impossible for workers to organise their union independently; the space is monopolised by ACFTU. The ACFTU has been prioritising the party’s interests above workers’ rights. When disputes over wages and working conditions arise, workers are excluded from negotiations with the employers. Independent workers collectives, and grassroots labour organisations are excluded, harassed, detained and forced to disband.”**

### **Responsibility to support freedom of association and collective bargaining**

In its guidance for due diligence in the garment and footwear sector, OECD presents a number of “red flags” when analysing risks in a country of production. Such an indicator is, for example, laws that require workers to become members of government-run union federations or a large number of worker activists that suffer retaliation such as jail.<sup>38</sup>

To mitigate harm connected to anti-trade union practices in the supply chain, OECD proposes the buying company to address its own activities which may contribute to the risk of anti-union activities. For example, OECD suggests that suspension of orders could also be a reasonable action if the supplier is not responsive to a corrective action plan. If the anti-trade union activities include violence against workers the company should, as a last resort, disengage.<sup>39</sup> If a company needs to disengage it is important to do so responsibly by complying with laws in the country of production and international standards, provide detailed information to the workers and give the supplier sufficient notice.<sup>40</sup>

**“H&M should use their influence on the supplier. If workers want to form or join a union, management must not harass them, must not file criminal cases against them, or sack them. If there were workers’ unions with strong leadership, it would be possible to have workers dialogue, but this is not the case today.”**

-Babul Akhter

## **WAGE MANAGEMENT SYSTEMS**

**“We’re taking responsibility and driving change by...helping suppliers improve working conditions and implement effective wage management systems that move away from paying the same wage to all workers and, instead, classify jobs according to skill level, so workers are paid according to their competence.”<sup>41</sup>**

-The H&M Group

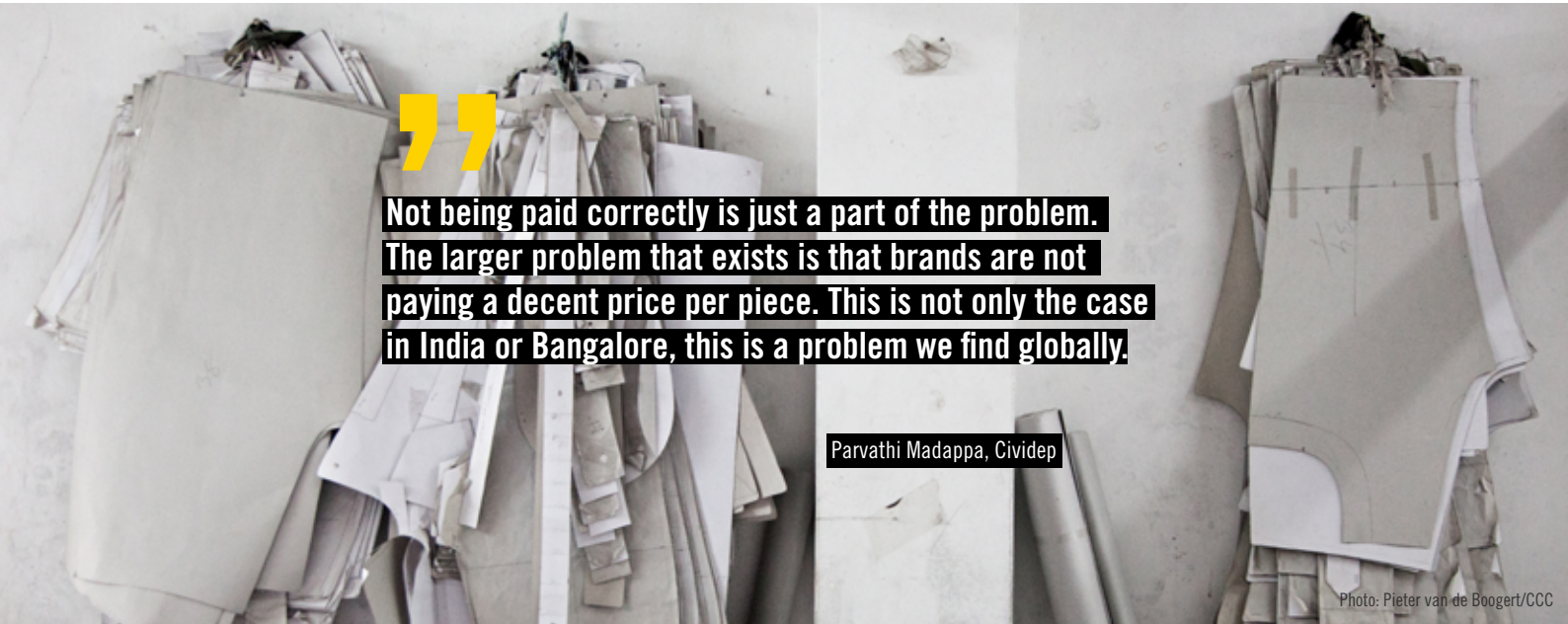
According to the H&M Group, a functional Wage Management System should include:

- Proper and correct payment of wages according to individual contracts, legal regulations and existing collective bargaining.
- Internal development of human resources.
- A progressive and coherent pay system that rewards workers according to their skills, education, performance and experience.
- Proper mechanisms of workers’ involvement in negotiations on the content of wages and payment structures.<sup>42</sup>

The ETI evaluation points out that the H&M Group has failed to provide evidence that improving suppliers’ wage management systems has actually translated into anything more than marginally higher wages. According to the H&M Group Sustainability Performance Report, the implementation of wage management systems at factories is said to have led to a 2,8-percentage average wage increase.<sup>43</sup> To put this in perspective, the inflation rate in the previous five-year period in Bangladesh has been between 5 and 6 percent annually.<sup>44</sup>

Hence, ETI recommends that the H&M Group clearly articulates how the roadmap components help to raise wage levels, and to set clear, consistent and achievable goals, accompanied by indicators that can be easily measured and reported on a regular basis.<sup>45</sup>

Furthermore, ETI recommends that the “...goals should focus on the overall outcomes that H&M Group aims to achieve rather than relating to individual activities. [The goals] should be accompanied by a clear theory of change explaining why the company believes that the actions it is proposing to take will lead to certain results, and why [the H&M Group] believes these results will eventually lead to the attainment of living wages in the garment sector.”<sup>46</sup>



**Not being paid correctly is just a part of the problem. The larger problem that exists is that brands are not paying a decent price per piece. This is not only the case in India or Bangalore, this is a problem we find globally.**

Parvathi Madappa, Cividep

Photo: Pieter van de Boogert/CC

## SUSTAINABLE PURCHASING PRACTICES

**“We’re taking responsibility and driving change by...ensuring that our purchasing practices – the way we place our orders and the prices we pay – enable the payment of correct wages.”<sup>47</sup>**  
-The H&M Group

According to the International Labour Organisation (ILO), purchasing practices that include short-term planning, last minute changes in order specification or orders size, rejection, and late payments, all have high negative impacts on workers in terms of overtime and wages if not addressed.<sup>48</sup> Research by ETI has shown that aggressive price negotiations impact suppliers’ ability to pay decent wages to their workers.<sup>49</sup>

To address the low level of payments of living wages in the garment sector, in 2014, the H&M Group initiated ACT. ACT is a partnership between 20 global fashion brands and IndustriALL, a global trade union. ACT aims to achieve living wages for workers through collective bargaining at industry level, freedom of association and responsible purchasing practices.<sup>50</sup>

As an ACT member, the H&M Group has a commitment to a set of responsible purchasing practices, which includes ring-fencing labour costs, fair terms of payment, and better forecasting.<sup>51</sup> The objective of ring-fencing is to separate labour costs so that price negotiations do not negatively impact the workers’ wages.

## Ring-fencing does not lead to higher wages

When the H&M Group ring-fence the labour cost of an order, it calculates the cost on the basis of the actual wages paid by the supplier factories concerned, regardless of whether they are living wages or not.<sup>52</sup> The H&M Group standpoint is that:

**“Our responsibility as a buyer is to influence the process of fair living wages, not to impose specific wage levels. Wages should be set through fair negotiations between the parties in the labour market: governments, employers and worker representatives.”<sup>53</sup>**

Hence, any gap between existing wages and a living wage, would need to be addressed by trade unions or other worker representatives, according to the H&M Group.<sup>54</sup> According to Babul Akhter, the low purchasing prices this results in is the core reason for the low wages in the garment industry.

## Purchasing prices are falling

While prices paid to suppliers would need to increase to meet workers' needs, statistics show that average purchasing prices are actually falling. According to trade data from Eurostats, compiled by Mark Anner at the University of Pennsylvania State, the kilo price paid for garments imported from Bangladesh to Sweden fell by 12 percent between December 2019 and December 2020 (see table Paid price for garment imports 2019-2020).<sup>55</sup>

The data also shows a nine percent decrease in the kilo price paid for garments imported from India. The specific prices paid by the H&M Group to suppliers are not public. However, in the 2018 ETI evaluation of the H&M Group's strategy for living wages, suppliers to the H&M Group in Bangladesh and Cambodia stated that the H&M Group negotiates “aggressively” on prices.<sup>56</sup>

The declining purchasing prices in the sector as a whole were a trend already prior to the Covid-19 pandemic. Prices paid to supplier factories by Swedish brands in general declined by 13 percent from 2011 to 2016. According to research made by the University of Pennsylvania State, the cause of the decline cannot be linked to the price of cotton or exchange rate fluctuation, but is rather explained by a “pricing squeeze” by buying brands.<sup>57</sup>

### Paid price for garment imports 2019-2020

Exporter	Importer	Euros/Kg (Dec 2019)	Euros/Kg (Dec 2020)	Change % (2019-2020)
Bangladesh	Sweden	€ 15,28	€ 13,32	-12,86%
China	Sweden	€ 22,26	€ 20,58	-7,51%
India	Sweden	€ 19,24	€ 17,54	-8,81%

Source: Mark Anner, Calculations based on Eurostats data.

## Critique against ACT

ACT has been heavily criticised by civil society organisations like Asia Floor Wage Alliance (AFWA) for its non-delivery of results. For example, Floor Wage Cambodia claims that no concrete outcomes have come out of the process to date.<sup>58</sup> AFWA even go as far as claiming that **“ACT is being used as an alibi for brands to exempt themselves from a genuine living wage delivery process.”<sup>59</sup>**

This view is shared by Babul Akhter:

**“ACT has had very little effect on workers' rights in Bangladesh and it has become something brands hide behind. One problem is that it's voluntary and not legally binding. Another is that factory suppliers are bound to implement the minimum wage, not living wage.”**

## Stepping up: Sustainability Index criteria now include wage level

In order to implement responsible purchasing practices, ETI recommends that brands “offer price premiums or direct more orders towards suppliers who can demonstrate that the price increases they are paid goes towards improving labour conditions and paying living wages.”<sup>60</sup>

The H&M Group has a rewarding system in place to incentivise factories to perform better on a set of sustainability criteria.<sup>61</sup> Through the rewarding system, referred to as the Supplier Sustainability Index, suppliers scoring high on a set of sustainability criteria, are rewarded with commitments to long-term planning and volume of orders.

When Fair Action reviewed the H&M Group’s work on living wages in 2019 the index criteria did not include specific wage levels at supplier factories.<sup>62</sup> Since then, wage levels have been included in the index. The average wage level now stands at 20 percent of the total social sustainability score and is hence the highest weighted question in the whole social part of the index.<sup>63</sup>

### H&M Group unpaid wages during the pandemic

During the Covid-19 pandemic, the H&M Group’s purchasing policy was put to the test. Many fashion brands cancelled orders, delayed payments, or demanded discounts from suppliers. This trickled down to factory workers who suffered from mass layoffs, lowered wages, and even wage theft. Although the H&M Group officially agreed to pay in full for orders that had already been in production, numerous reports and accounts from workers at H&M Group supplier factories tell a different story.

- H&M is among the most frequent brands linked to non-payment of wages in reports on the Clean Clothes Campaign Pandemic Live Blog.
- According to an interview study in April 2021 by Clean Clothes Campaign, 18 of 26 workers making clothes for the H&M Group in Bangladesh, Cambodia and Indonesia, claimed that they were still owed on average USD 132 in unpaid wages.
- In March 2021, the Business and Human Rights Resources Centre reported that more than 6 000 workers at H&M Group supplier factories in Bangladesh, Cambodia, and Ethiopia still faced wage theft.



#### **Good practice: The case of Mini Rodini**

The Swedish brand Mini Rodini calculate the gap between actual wages and a living wage at their supplier factories in India and Turkey. The sum is added to the cost paid to the factory as an extra price premium per piece of garment produced, and divided between the workers to fill the living wage gap. In 2020, The Mini Rodini living wage program had led to 28 percent of workers receiving a living wage. By 2021, the goal is that all workers producing for Mini Rodini shall receive a living wage.

”

**To many of the workers the price premium came as a surprise, and they were very happy. It might not be a huge amount but at that particular moment they could eat a grand feast for the festive days or they could buy clothes for their children, some small things.**

Parvathi Madappa, Cividep India

## **4 questions to Parvathi Madappa, Cividep India**

### **Are garment workers producing for the H&M Group better off than others?**

When we look at the workers that are producing for the international market, the situation is more or less the same for all.

### **How strong is the bargaining power of the local unions?**

Workers in India have always been afraid of joining a union. Workers are often being told that if you join the trade union, the factory will not be able to function, and it will be closed down.

### **How should the H&M Group act to improve wages for garment workers?**

It is very important that H&M identifies that there is a gap between the actual wage and a living wage. They need to know the price they are paying per piece of garment and the share delivered to the workers. The underlying problem to low wages is that brands are not paying a decent price per piece of garment.

Their living wage strategies should also include suggestions from local organisations and feedback from people on the ground. If we can work together towards filling these gaps, we can find solutions as a collective. That is key in being successful.

### **What is your message to the investors in the H&M Group?**

It is important that they are aware of the violations that are happening in the garment industry, and how these human rights violations are being addressed by the buying brands.

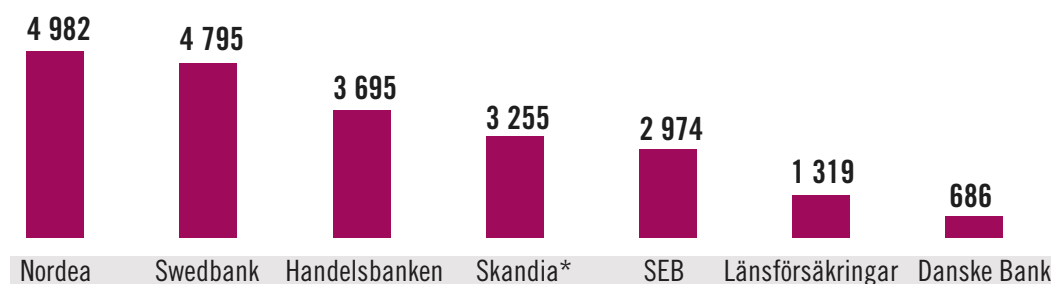
# HOW MUCH RESPONSIBILITY ARE SWEDISH BANKS TAKING?

This case study investigates if and how seven Swedish banks include the right to a living wage in their investment policies, and to what extent they engage with the H&M Group regarding the issue.

As described in the methodology, the respondents' investment specifications and the responses to the survey have been made by the banks' asset management entities. For simplicity reasons, Fair Action uses the bank group name throughout the report, even when it more specifically refers to a response or undertaking of the subsidiary. The findings are based on questionnaires sent to the banks and refer to the time period January 2019 until June 2021. The findings have, where possible, been compared with findings in a similar study conducted by Fair Action and Fair Finance Guide in 2019.<sup>64</sup> The questionnaire can be found in Appendix 1.

In total, the seven banks examined have SEK 21,7 billion<sup>65</sup> (USD 2,4 billion<sup>66</sup>) invested in the H&M Group, which account for 7,5 percent of the company. In 2019, the banks' ownership accounted for 6,5 percent. Skandia and Handelsbanken have increased their investments the most since 2019, while Swedbank and SEB have reduced their holdings slightly.<sup>67</sup>

## Banks' investments in the H&M Group (MSEK)



Source: Refinitiv, \*Skandia.



# Social responsibility scoring of the banks

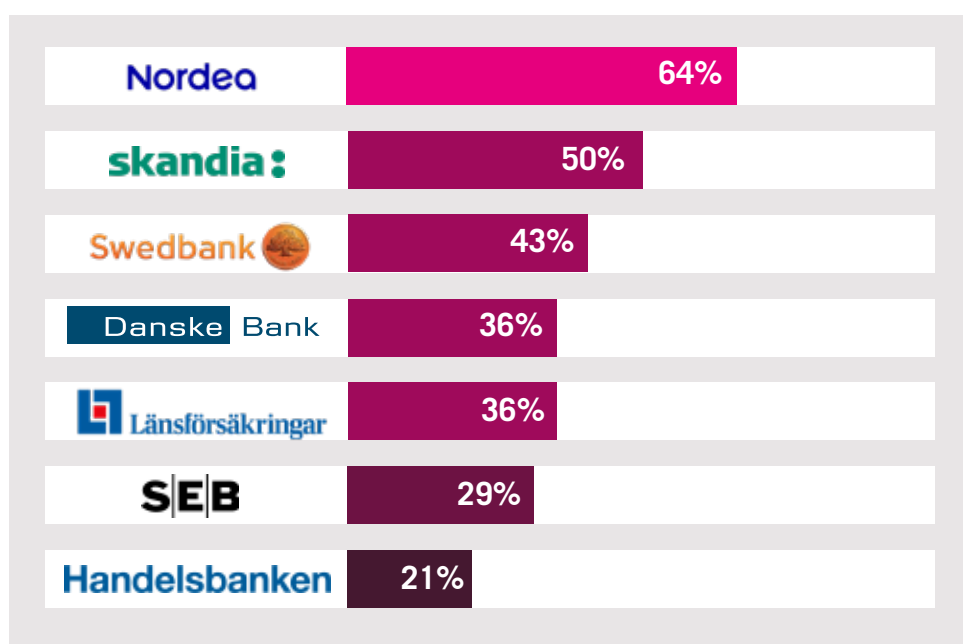
In previous Fair Finance Guide assessments, labour rights is one of the policy areas where Swedish banks have ranked relatively high compared to other policy areas. In the latest assessment in 2020, the seven banks supported on average 73 percent of the key labour rights principles listed in the Fair Finance Guide assessment criteria.<sup>68</sup>

Living wage is covered as a sub-area in the Fair Finance Guide policy section on labour rights. When looking at the banks' responsibility work on living wage, specifically in the case of the H&M Group, the banks' score on average 40 percent (see table Scoring of the banks' responsibility work regarding the H&M Group and living wage).

The score is based on seven criteria relating to the banks' efforts on investor dialogue, their assessment of the H&M Group's work on living wage, their demands on time-bound goals, their engagement through shareholder voting, and their transparency on shareholder engagement (See Appendix 3). To receive full points, a bank needs to include and define living wage in its policies according to international norms and standards.<sup>69</sup>

## Scoring of the banks' responsibility work regarding the H&M Group and living wage

Scoring criteria in Appendix 3. Maximum of 100 percent.



### Investment policies on living wage

Only two of seven banks explicitly refer to a living wage in their policy documents (Nordea and Swedbank). Nordea included living wage in its responsible investment policy in October 2021 after the bank received the questionnaire from Fair Action in May. None of the banks includes the internationally established components of a living wage in their policies.

### Dialogue

All of the seven banks report that they engage in investor dialogue with the H&M Group about living wage. This is an improvement since 2019 when only three of the banks held dialogues with the company about the issue.<sup>70</sup> All banks except Handelsbanken and SEB engage directly, as opposed to via consultants, which also is an improvement since 2019 when only two of the banks engaged directly with the H&M Group on the issue of living wage.

### **The banks' assessment of the H&M Group's work on living wage**

Two of seven banks assess the H&M Group's work to close the gap between living wage and current wage levels as insufficient (Nordea, SEB). Five out of seven Swedish banks demand better measurability and/or transparency of the H&M Group's achievements in reaching living wages.

### **Lack of time-bound demands on the H&M Group regarding living wage**

None of the seven banks has set time-bound demands on the H&M Group regarding the implementation of living wages in the supply chain. Although some banks express expectations on the H&M Group, none of the banks wants to set a specific time frame.

### **Engagement through shareholder voting**

None of the seven banks voted for the shareholder resolution proposing the H&M Group to establish a living wage fund to be used to close the gap between the wage paid currently and a living wage, issued by the Clean Clothes Campaign at the Annual General Meeting in 2021 (See Appendix 2).

### **Transparency on shareholder engagement**

Five of the seven banks publicly reported on their engagement process dialogue with the H&M Group on the issue of living wage. In addition to being transparent on which dialogues the banks are conducting, two banks (Nordea and Skandia) also publicly disclose information on their demands on the H&M Group as well as on progress made as a result of the engagement.

## **Danske Bank**

Danske Bank does not refer specifically to, or define, the components of a living wage in their policy documents. In the 2019 study, Danske Bank did not respond to any H&M Group-specific questions regarding living wage policies.<sup>71</sup> In 2021, Danske Bank responds that the bank is having an ongoing direct dialogue with the H&M Group on the specific issue of living wage.

Danske Bank also states that the bank is having an ongoing dialogue with the H&M Group regarding the company's engagement with trade unions and other local actors in the countries of production, as well as the wage management systems at the supplier factories. Further, the bank reports that it has encouraged the H&M Group to collaborate with other actors, such as the ACT initiative, and wants the H&M Group to develop performance indicators that make it easier to evaluate the efforts in closing the wage gap. Danske Bank has not set any time-bound goals for the H&M Group regarding when to implement living wages in the supply chain. Danske Bank assesses the H&M Group's living wage work as sufficient:

**“H&M are open with the dilemmas and complexities associated with living wages and report transparently on their progress and which efforts they've undertaken in addressing the issue.”**

Danske Bank does not exclude the possibility of taking action if the H&M Group does not comply with international standards but does not specify which actions the bank would take. Danske Bank lists all companies with which it is engaging, including the H&M Group, in their Active Ownership Report<sup>72</sup> without specifying the content or progress of the dialogue. The bank did not support the Clean Clothes Campaign's resolution at the H&M Group Annual General Meeting in 2021:

**“In this case, we regarded the topic as more suitable to be addressed through other measures and by the company in their operational work.”**

## Handelsbanken

Handelsbanken does not refer specifically to, or define, the components of a living wage in its policy documents. In the 2019 survey, Handelsbanken reported that the bank had not had any engagement with the H&M Group since 2015 on the issue of living wage.<sup>73</sup> In 2021, Handelsbanken responds that the bank recently started a thematic engagement with the H&M Group together with other banks through a consultancy firm. The engagement covers human rights, decent working conditions, and living wage, and will be running for three years.

However, as one of two banks, Handelsbanken states that it has not directly communicated any specific demands regarding living wage to the H&M Group. Consequently, the bank has not set any time-bound goals.

When explaining why the bank did not support the Clean Clothes Campaign resolution on establishing a fund to implement a living wage, Handelsbanken motivated its decision by saying:

**“We did not support the resolution as we think it was too far reaching for the company to cancel the dividend pay-out. We are not believers of micromanagement of the company through annual general meetings. We think that engagement with H&M through an investor dialogue is a better way to influence the company and make them understand our priorities.”**

Handelsbanken discloses the names of all companies the bank is engaging with. But as the dialogue with the H&M Group was initiated in 2021, the dialogue will not be listed in the corporate governance report until 2022.

## Länsförsäkringar

Länsförsäkringar does not refer specifically to, or define, the components of a living wage in its policy documents. In the 2019 survey, Länsförsäkringar stated that it has been in contact with the H&M Group and analysed the sustainability work in general, but had decided not to engage on the specific issue of living wage.<sup>74</sup>

In 2021, Länsförsäkringar reports on direct dialogue specifically on living wage with the H&M Group. The bank's main focus in the dialogue concerns measurability and transparency. More specifically, Länsförsäkringar wants to see better Key Performance Indicators to be able to track the H&M Group's progress in the area. Länsförsäkringar has not set any time-bound goals regarding the H&M Group's implementation of living wage.

Länsförsäkringar also reports on its voting at the H&M Group annual general meetings. The purpose of the voting is not to implement a living wage. When explaining why the bank did not support the resolution 2021, Länsförsäkringar motivated its decision by saying:

**“As shareholders, we ensure that the dividend policy is followed at the AGM. Beyond that, we consider the disposal of the dividend to be part of the company's own operations and as shareholders we do not wish to control this process in detail. In this case we also believe that it would be challenging for H&M to control that the financial means of the dividend would be disposed in the way attended in the proposal, since the workers are not employed at factories controlled by H&M.”**

Länsförsäkringar is one of two banks that does not report publicly about its dialogue with the H&M Group.

# Nordea

Nordea included living wage in its responsible investment policy in October 2021, after Fair Action sent the questionnaire.<sup>75</sup> In the 2019 survey, Nordea did not respond to the questions regarding its dialogue with the H&M Group.<sup>76</sup> In 2021, Nordea responds that the dialogue with the H&M Group includes expectations that the H&M Group accelerates the achievement of living wages, improves transparency on wage data, and provide more detailed information on parameters such as overtime, contracts and employee turnover. In addition, Nordea is demanding more transparency and evidence of how the ACT sustainable purchasing commitments allows for living wages to be paid to the workers. Moreover, Nordea expects the H&M Group to have long-term relationships with suppliers, low fluctuations of orders and sustainable lead times.

Although Nordea has set specific goals in the bank's engagement dialogue, Nordea has not specified a time-frame for the goals:

**“Setting a specific date for the finalisation of all those activities would not be meaningful in this context and could unnecessarily limit the focus and extent of the work. We have defined an escalation procedure which we apply if we don't see enough progress. We also use the possibility to work with other investors for greater impact.”**

As an example of collaboration, Nordea mentions dialogue with The Platform Living Wage Financials.<sup>77</sup> Nordea is also the only bank that reports that it is holding on-site visits at the H&M Group suppliers. The bank did not support the 2021 resolution of Clean Clothes Campaign:

**“Our view is that the board has the responsibility to propose the dividend. Therefore, we did not support the resolution referred to.”**

Nordea is one of two banks that not only is presenting that it has had dialogue with H&M on living wage, but also is presenting details and progress of the dialogue. In the Environmental, Social and Governance (ESG) report for the second quarter of 2021, Nordea forwards this expectation to the H&M Group:

**“We urged the company to communicate its new commitment and provide more quantitative evidence and data on suitability and effectiveness of steps to live up to that commitment. This along with maintaining responsible purchasing practices and incentivising the company's suppliers to pay living wage and establish living wage system with relevant stakeholders.”<sup>78</sup>**

# SEB

SEB does not refer specifically, to or define, the components of a living wage in their policy documents. In the 2019 survey, SEB stated that the bank was in direct dialogue with the H&M Group on living wage.<sup>79</sup> In 2021 SEB has an ongoing dialogue with the H&M Group through a consultant. When asked whether the dialogue has time-bound goals, the bank refers to international norms and standards by saying:

**“Verified breach of these norms, by an independent third party, without remediation will lead to full exclusion from the investment universe.”**

Apart from the dialogue, SEB is also part of a collaboration with the consultancy firm Federated Hermes EOS. Through the collaboration, the bank has discussed the wage management systems at supplier factories as well as the ACT collaboration with the H&M Group. SEB considers the H&M Group's living wage work insufficient but did not use its vote in the Annual General Meeting 2021

to support the resolution of Clean Clothes Campaign:

**“We exercise our voting rights whenever our funds holdings of a company either make up a considerable share of the votes of the company in question or account for a significant share of the overall value of the funds. In Sweden we select a number of companies where we vote and for the voting season 2021 we had more significant holdings in other companies, and did therefore not vote at the AGM.”**

SEB is one of two banks that does not report publicly about its dialogue with the H&M Group.

## Skandia

Skandia does not refer specifically to, or define, the components of a living wage in its policy documents. In the 2019 survey, Skandia did not report on direct dialogue with the H&M Group on the specific topic of living wage. In 2021, Skandia responds that the dialogue has deepened over the last three years. The direct dialogue has focused on having correct information and data regarding free and fair worker’s representation, and to have increased transparency on this in the supply chain. For instance, Skandia has highlighted the conflicting information between the H&M Group and other sources on how open the workers’ representation forums are. Although Skandia has identified specific concerns of the H&M Group living wage work, it has not set detailed time-bound goals of its direct dialogue, nor does the bank demand this of the H&M Group:

**“It is not our role to place too descriptive and detailed demands on how H&M should act to solve concerns. Our experience is that the companies are better suited for that themselves.”**

Apart from the direct dialogue with the H&M Group, Skandia is reporting on the bank's engagement on living wage through two separate service providers together with other investors. Skandia did not support the Clean Clothes Campaign resolution at the AGM 2021:

**“No, Skandia did not support the CCC resolution. Skandia voted for the proposal presented by the board that also proposed not to pay out any dividend since H&M had received state support due to the Covid 19 pandemic.”**

Skandia does not specify if it find the H&M Group’s response to the dialogue on living wage as sufficient or insufficient. The bank describes the dialogue as transparent, honest and trustful. Skandia discloses information on its company engagements annually in its Company Engagement Report. Skandia is one of two banks that not only is publicly disclosing the dialogue with H&M on living wage, but also disclose details of the dialogue. For instance, the bank discloses information on the general goal to strengthen the work of the H&M Group to secure decent working conditions in the supply chain and the goal to improve the reporting on progress.<sup>80</sup>

## Swedbank

Swedbank is one of two banks in this survey that specifies living wage in its policy documents, although the definition of a living wage is not included. In the 2019 survey, Swedbank stated that it was in direct dialogue with the H&M Group on living wage. In 2021, this dialogue is still ongoing. One of Swedbank’s demands is that the H&M Group includes wage-related issues in the action plans for social sustainability and that these action plans need to be transparent. Swedbank also demands that the H&M Group publicly report on results of the work on wage-related issues. This for Swedbank to be able to follow up on the progress.

In addition, Swedbank promotes education and training programs for local management and worker's representatives in its engagement with the H&M Group.

Swedbank states that it has collaborated with other investors since 2012 on the issue of living wage and that the collaboration continues. When asked if the bank has set any time-bound goals on the H&M Group's living wage work, Swedbank replied:

**“Initially, in 2012-2013, Swedbank Robur set several time-bound targets and H&M established work in line with these expectations. Our standpoint in this issue is otherwise that corporations shall comply with international labour standards such as the ILO convention; and that wage should be governed by national/local regulation and set in dialogue between the employer and the employee.”<sup>81</sup>**

Swedbank states that the H&M Group's response to the bank's demands is sufficient. The bank did not support the Clean Clothes Campaign resolution on the AGM 2021:

**“In our view the proposal as such is a matter for the board to handle and not an item for the AGM. Nevertheless, we consider the baseline in the proposal to be relevant. The details in the requested commitments, however, would in practice not be possible for H&M to comply with, yet alone control.”**

Swedbank publicly discloses its voting activities and reports the names of all companies that the bank has engaged with every quarter. It specifies the topic of the dialogue, but not its content.<sup>82</sup>

# FAR FROM A LIVING WAGE - CONCLUSIONS

The finance industry plays a pivotal role in companies achieving the UN sustainable development goals. Through investing in companies and providing them with loans, banks and other financial actors influence the trajectory of the sustainability work of companies.

This report provides banks and their asset management entities with tools to critically review the H&M Group's work on living wages, and push it to improve. It also assesses whether seven of Sweden's largest banks live up to their responsibilities as shareholders, as formulated by the UN Guiding Principles on Business and Human Rights, regarding living wages in the H&M Group's supply chain.

Although the H&M Group has had a public strategy for improving wages in its supply chain since 2013, there has been little improvement in wages for the majority of the garment workers. Employees in the textile industry in Bangladesh and India earn roughly 60 percent of a living wage. In fact, since the Covid-19 pandemic broke out in December 2019, the average wages at the H&M Group supplier factories have actually fallen.

## **A clear momentum**

This Fair Action report shows that the right to a living wage is slowly gaining its rightful recognition as a fundamental human right among Swedish banks. Although only two banks have defined the right to a living wage in their policies on sustainability, Fair Action sees a positive development among the banks when it comes to them taking on their role as active and responsible owners by engaging in dialogue with the H&M Group. This study shows that all the banks are engaging in dialogue with the H&M Group, directly or through consultancy firms. This is a clear improvement compared to 2019, when only three banks conducted investor dialogue. More banks are also engaging directly, as opposed to through consultancy firms, on the specific issue of a living wage compared to 2019.

Further, the survey shows that the banks have identified and made relevant demands on the H&M Group linked to living wages. For instance, several banks demand increased transparency, measurable goals and clear performance indicators to assess progress. Danske Bank and Länsförsäkringar are calling for the H&M Group to develop performance indicators to assess the results of its work on living wages. Nordea is calling for the H&M Group to provide more detailed information on parameters such as overtime and employee turnover. SEB and Nordea stand out as the banks most critical of the H&M Group for not delivering sufficient results based on their own expectations of the company.

Hence, Fair Action sees a clear momentum to push for more concrete results in the H&M Group's living wage work. There is a concrete opportunity for a joint effort on the part of the banks to push the H&M Group to publicly endorse and make public their own living wage benchmarks for each country of production so that the wage gap becomes visible, measurable and open to change.

## **A call for a living wage benchmark**

Taking a clear stand on a living wage benchmark and setting goals which are linked to actual wage increases for workers, are key to achieving living wages in the supply chain. The lack of such goals is a major drawback of the H&M Group's wage strategy.

Hence, it is imperative that banks initiate demands, or strengthen their current demands, on the H&M Group to formulate goals and indicators directly linked to increased wages. The current H&M Group strategy of formulating indicators based on the number of workers unions to which supplier factory workers belong; the number of suppliers' factories with wage management systems; and merely referring to sustainable purchasing practices is insufficient, as long as the H&M Group cannot show that these actions lead to higher wages.

## **Lack of indicators to show effectiveness of purchasing practices**

The lack of evidence that the H&M Group's purchasing strategy leads to increased wages, is highlighted by Nordea and Swedbank. The two banks call on the H&M Group to develop relevant indicators to show whether ACT's sustainable purchasing practices contributes to actual increased wages. Similarly, several civil society organisations point out that ACT, although it has been around for more than five years, has been unable to provide even a single enforceable agreement with any brand on living wages.

Further, ring-fencing labour costs, which is a part of the ACT agreement, is only meaningful for the workers if there is an outspoken goal to close an identified gap between the actual wage and a living wage. The way in which ring-fencing is currently being used by the H&M Group is not a means for systematically increasing wages per se. Rather, it is a way of ensuring that no additional downward pressure on the already low wages is created.

## **Wage management systems - a method for ensuring higher wages?**

As pointed out by Skandia and the ETI evaluation from 2018, the H&M Group fails to provide clear evidence that its program on wage management systems ensures living wage payments to employees at supplier factories. The reported effect of the implementation of the wage management system - a wage increase of 2,8 percent - is impossible to scrutinise due to the lack of transparency of the actual factories which have been included in the wage management system program. Further, the wage increase is marginal given the fact that the wages need to be raised 70 percent to equal a living wage and that the annual inflation in Bangladesh of five percent.

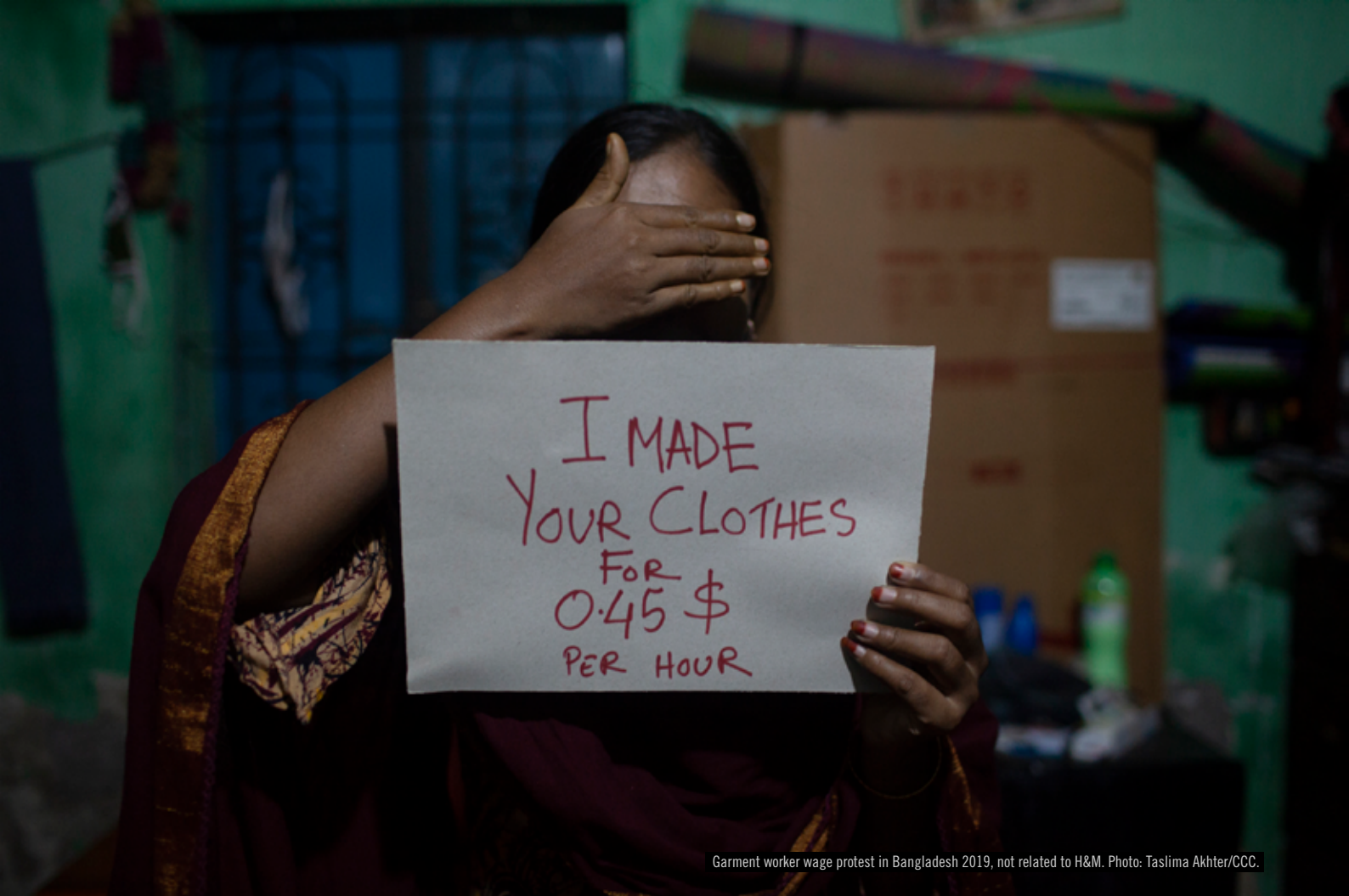
Also, to correctly assess the wages at the supplier factories, banks should encourage the H&M Group to differentiate wage data between workers across the wage ladder. The average wages presented in the most recent the H&M Group Sustainability Performance Report, say very little about the actual floor wages for the lowest paid workers.

## **Wage negotiations are not enough**

Sources in this report acknowledge workplace dialogue and freedom of association as key to strengthening the position of workers worldwide. In this regard, it is true that the H&M Group has taken steps in the right direction, such as initiating trainings on workplace dialogue.

However, accounts from India, Bangladesh, and China show that workplace dialogue alone is an unrealistic way of achieving living wages in the near future. Rather, they highlight the widespread lack of freedom of association in the main countries of production, factory-initiated unions such as yellow unions in Bangladesh, or state-governed unions in China.





Garment worker wage protest in Bangladesh 2019, not related to H&M. Photo: Taslima Akhter/CCC.

The collective message is that placing the whole responsibility of increased wage levels onto the shoulders of unions and their negotiations with factory owners and industry associations is to simply evade responsibility for fair wages.

As Babul Akther at BGIWF phrases it:

**“Perhaps the local unions can push the wages a few percent. But what is an increase of a few percent, when the raise needed is from 8 000 to 25 000 taka?”**

Given the low level of freedom of association in key countries of production, banks should also call on the H&M Group to provide relevant and accurate statistics on the number of factories with workers’ union representation. Fair Action argues that banks should ensure that worker’s unions in China are excluded from the H&M Group statistics regarding free worker representation, and that the statistics for unions at factories in Bangladesh must be critically reviewed.

### **Lack of time-bound goals**

Although Fair Action acknowledges a momentum and an increased interest among banks to engage in dialogue with the H&M Group on the issue of living wages, we find it essential that the content of this dialogue is concrete, transparent and measurable. Fair Action hopes that the banks’ ambitions will result in clear commitments to push the H&M Group to ensure living wages in its supply chain. Among things Fair Actions wants to see is that all banks include a requirement for living wages in their investment policies. The policies should include a definition of a living wage that is in line with international standards. In this regard, all banks are failing.

As early as in 2016, Dutch ASN Bank established a goal that all garment companies in its investment universe, including the H&M Group, should have introduced a living wage by 2030. Fair Action does not see a reason why Swedish banks do not take that same initiative in 2021.

## Other tools than dialogue

None of the banks voted for the resolution from CCC at the 2021 AGM on using the H&M Group's dividend to start a fund to close the wage gap. Fair Action encourages banks, if not supporting resolutions to fill the wage gap, to write or co-write resolutions along the same line. Another option is to raise questions at the AGMs, to make the company accountable for the lack of delivery on living wages.

## Banks need to disclose information on investor dialogues

Banks too, need to be transparent about their time-bound goals, indicators, and the progress made in their investor dialogues. Only two out of seven banks publish the progress of their dialogue with the H&M Group on living wages. Banks must also show they are earnest by increasing leverage when the H&M Group or other investee companies do not live up to set demands.

## The way forward

To summarise, the trend of increasing shareholder responsibility in terms of dialogue between the banks and the H&M Group is highly welcomed by Fair Action. So are the initiatives taken by the H&M Group to increase workplace dialogue, sustainable purchasing practices, and policy-level advocacy to address work- and wage-related issues at factories. Not least does Fair Action welcome that the H&M Group, in line with its recommendations from 2018, has included wage levels as part of its sustainability criteria when selecting suppliers, giving an incentive to supplier factories to increase wages.

However, voices put forward in this report -from unions, human rights organizations as well as Swedish banks - highlight serious gaps in the work of the H&M Group on living wages. At the core of these, is the lack of setting clear, time-bound goals for living wages. Most importantly, the H&M Group's reluctance to define a living wage benchmark, and hence a clear objective for its work on fair wages. If the Swedish banks under the spotlight in this report are serious about following international standards on labour rights, including those for a living wage, the banks need to strengthen their ambitions as responsible owners.

# Recommendations - in brief

## **Banks should:**

- 1) Adopt a policy that requires the H&M Group and other investee companies to ensure that workers in their supply chains are paid a living wage.
- 2) Allocate adequate resources and improve sustainable investment processes and methods for human rights due diligence.
- 3) Demand transparency from the H&M Group and other investee companies regarding for instance the wage gap between prevailing wages and living wage benchmarks in their supply chain.
- 4) Set time-bound targets for engagement with investee companies.
- 5) Increase leverage over investee companies and set ultimatums if engagement dialogue does not lead to higher wages within the expected timeframe.
- 6) Communicate strategies, goals, and engagement results publicly.

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## APPENDIX 1:

# Questionnaire – living wage and H&M

Please write your answers in **red** below the questions.

1. Do you have public policies that covers living wage and applies to your investments? **Please verify** either with quotes and a link, or enclose documents with indicated page numbers.
2. Which demands have you communicated to H&M regarding living wage? **Please elaborate.**
3. Have you set timebound goals regarding H&M's implementation of a living wage in its supply chain? **Please specify** the goals and the time frame.
4. How have you communicated your demands and timebound goals regarding living wage to H&M? **Please verify** your communication if possible.
5. Have you planned for any actions if H&M does not deliver on your goals within the time frame?
6. Have you used any of the below engagement methods during 2019-2021 to make H&M implement living wages in its supply chain? **If yes** on an alternative, **please elaborate.**
  - a. Dialogue (direct/ physical or e-mail, which themes did the dialogue cover?)
  - b. Resolutions and voting in annual meetings (Written own resolutions or voting? How many during 2019-2021?)
  - c. Collaborations (with other financial actors or garment sector actors?)
  - d. Other
7. Did you support the resolution (see appendix 2) at H&M's 2021 AGM? **If not, please explain** why.?
8. How do you assess H&M's response to your engagement and in general their results in raising the wages in their supply chain (during **2019-2021**)? **Please motivate** your answer.
  - a. Insufficient
  - b. Sufficient
  - c. Other
9. Do you report regularly about your engagement process with H&M to the public? **Please verify** with links or enclosed documents and indicate page numbers.



## APPENDIX 2:

### Errands to H & M Hennes & Mauritz Annual general meeting 2021

#### Other proposals

##### Item 8b

##### *Shareholder proposal from Clean Clothes Campaign*

#### **Resolution under Agenda Item “Disposal of the company’s earnings”**

The Annual General Meeting calls on the Board of Directors to pay no dividend for this financial year. The company’s earnings shall instead be used to ensure all workers in H&M’s supply chain are paid income equal to or greater than what they received at the onset of the COVID-19 pandemic. In addition, workers who lost their jobs must be fully paid the severance they are entitled to. To that end, we ask H&M to sign the Severance Guarantee Fund.

#### **Justification**

As an immediate reaction to the closing of shops and malls due to the COVID-19 pandemic in spring 2020, H&M did not hesitate to cancel their orders with suppliers, and refused to pay for clothes that had already been produced. Only after pressure from the #PayUp campaign did H&M agree to pay for the orders retro-actively. However, most of this money did not reach the workers.

H&M continued to accumulate profits in 2020, while workers were not always able to feed themselves and their families. Most of H&M’s production takes place in countries where there are no or very weakly enforced social security systems, which means they often do not have any income if they lose their jobs.

The UN Guiding Principles on Business and Human Rights affirm that corporations have a responsibility to respect human rights within company-owned operations and throughout their supply chain. To meet this responsibility, we are asking H&M to:

- Pay the workers who make their clothes their full wages for the duration of the pandemic;
- Make sure workers are never again left penniless if their factory goes bankrupt, by signing onto a negotiated severance guarantee fund; and
- Protect workers’ right to organise and bargain collectively.

## APPENDIX 3:

# Scoring criteria

Scoring criteria	Nordea	Skandia	Swedbank	Danske Bank	Länsförsäkringar	SEB	Handelsbanken
Has a sufficient policy on living wage?	0,5	0	0,5	0	0	0	0
Has a dialogue with H&M about living wage?	1	1	1	1	1	1	1
Has a direct dialogue with H&M about living wage?	1	1	1	1	1	0	0
Has time-bound targets for the engagement process on living wage?	0	0	0	0	0	0	0
Reports publicly on the engagement process regarding living wage	1	1	0,5	0,5	0	0	0,5
Assessment of H&Ms work on achieving living wages	1	0,5	0	0	0,5	1	0
Supported the CCC 2021 resolution on living wages?	0	0	0	0	0	0	0
<b>Total score</b>	<b>64%</b>	<b>50%</b>	<b>43%</b>	<b>36%</b>	<b>36%</b>	<b>29%</b>	<b>21%</b>
Scoring legend: Yes = 1p, Partly = 0,5p, No or no response = 0							





Promoting  
responsible  
business