Living wage in international supply chains

An inventory report
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<th>Full Form</th>
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<tr>
<td>AFW</td>
<td>Asia Floor Wage</td>
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<td>BSCI</td>
<td>Business for Social Compliance Initiative</td>
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<td>BSR</td>
<td>Business for Social Responsibility</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DAC</td>
<td>Development Assistance Committee (part of the OECD)</td>
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<td>ETI</td>
<td>Ethical Trading Initiative</td>
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<td>EICC</td>
<td>Electronics Industry Citizenship Coalition</td>
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<td>FLA</td>
<td>Fair Labour Association</td>
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<td>FLO</td>
<td>Fairtrade Labelling Organisation</td>
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<td>FNV</td>
<td>Federatie Nederlandse Vakbonden</td>
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<td>FWF</td>
<td>Fair Wear Foundation</td>
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<tr>
<td>ICESCR</td>
<td>International Covenant on Economic, Social and Cultural Rights</td>
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<td>IDH</td>
<td>Initiatief Duurzame Handel</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>ITGLWF</td>
<td>International Textile Garment Leather Workers Federation</td>
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<td>MWBs</td>
<td>Minimum Wage Boards</td>
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<td>NGOs</td>
<td>Non-governmental organisations</td>
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<td>OECD</td>
<td>Organisation of Economic Cooperation and Development</td>
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<td>RA</td>
<td>Rainforest Alliance</td>
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<td>RSPO</td>
<td>Roundtable for Sustainable Palm Oil</td>
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<td>SA8000</td>
<td>Social Accountability 8000</td>
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<td>SAI</td>
<td>Social Accountability International</td>
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<td>SAN</td>
<td>Sustainable Agriculture Network</td>
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<td>UN</td>
<td>United Nations</td>
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<td>USAID</td>
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Preface

This report concludes the first phase of the Stimulating Living Wage/Income in International Supply Chains project commissioned by the Dutch Ministry of Foreign Affairs to consultancy firm Berenschot International for the period of January to June 2012. The project is supervised by the Living Wage sounding board.

The overall mission of the project is to identify actors and factors that influence the implementation of living wage/income in OECD DAC countries. More specifically, the mission is to stimulate living wage/income in international supply chains through Dutch businesses.

The project consists of 3 phases. The goals of these phases are to establish:
- Phase 1: What can companies and other stakeholders do?
- Phase 2: What do companies want to do (level of commitment)?
- Phase 3: How can we stimulate companies and stakeholders to do more?

The main objectives of this report are to identify universally agreed dimensions of a living wage, identify key stakeholders’ roles and make recommendations for implementation in order to start an active engagement with Dutch companies, to assess and increase their level of commitment to living wage in international supply chains.

The report is the result of desk research and interviews with key experts and organisations (Annexes 7 and 8). The geographical scope of our research is living wage/income in OECD-DAC developing countries. The thematic focus of this report is on seven sectors, namely: coffee, palm oil, textile, natural stone, electronics, tea and cocoa.

Discussions about what a living wage is and who is responsible for its implementation have hindered the realisation of a living wage in international supply chains. We intend to establish the key dimensions (components) of a living wage and provide companies with practical guidance that will support them in taking action. Evidently, living wage cannot be realised by companies alone. We therefore indicate the support required from other actors, where possible.
1. Introduction

1.1 Why is a living wage needed?

Wages in developing countries are often too low to meet the basic living needs of workers. Workers in these situations will take on excessive overwork in an attempt to lift themselves and their families out of poverty, putting their mental and physical health at risk. Legal minimum wages do not protect these workers sufficiently. In many developing countries, if a minimum wage exists, it equals the UN-defined poverty line of 2 USD a day.

The living wage/income concept sets a decent living threshold. It addresses the cost of living to cover basic needs. If workers in developing countries receive a wage or attain an income that enables them to take care of themselves, they will hold a key to finding a way out of poverty. They will no longer be part of the vulnerable ‘working poor’; instead they will become working citizens who actively take part in local economies as employees and consumers. If governments provide an enabling environment for these local economies to flourish, in the long run, these countries will move into the next developmental stage and become less dependent on foreign aid.

The Dutch government is shifting its development policy away from social towards economic sectors, from aid to investment with an emphasis on self-reliance, not creating unwanted dependence. Economic growth in developing countries is now at the heart of the agenda for international cooperation, with greater use being made of Dutch know-how, including business sector expertise (Foreign Affairs Minister, Focus Letter on Development Cooperation Policy, 2011). Stimulating a living wage in developing countries through Dutch business follows this line of thinking and fits well in the recent policy shift.

Explanation of terminology

We want to emphasise that whenever we use the term ‘worker’, we mean both male and female workers and whenever we use ‘he or his’, we also address ‘she and her’. Especially in the textile and agriculture sectors, women make up a large part of the workforce, so we would like to stress from the start that we address both sexes, regardless of the dominant use of the masculine form throughout the report.

Another textual explanation we should mention here is the use of living wage and living income. Smallholders in agricultural supply chains do not receive wages. Since they are business owners, the concept of a living income applies to them. The idea behind the living wage concept (to create decent living standards) is the same as the idea behind a living income, although they require different interventions. For the sake of readability we will use living wage unless we are specifically describing approaches for the living income of smallholders.

Finally, wherever we use the term ‘normal working hours’, we refer to the norm set by the ILO: a maximum of 48 hours per week.
1.2 What constitutes a living wage in theory?

The living wage concept has a long and distinguished pedigree, dating back to Plato and Aristotle in ancient Greece, Adam Smith in the 18th century and the ILO Constitution in 1919 (Anker, 2011). The Universal Declaration of Human Rights (1948) recognises the worker’s right to "a just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity". In Chapter 2 we will discuss how living wage is entwined with universal human rights and international labour standards.

At the beginning of the 21st century there has been a rebirth of interest in living wages. As part of the developments in corporate social responsibility practices, a number of multinational enterprises together with stakeholders have adopted corporate codes of social responsibility that include a living wage. In Chapters 2 and 3 we will highlight the most prominent initiatives in order to identify universal dimensions of a living wage and the most frequently used calculation methods.

1.3 How to implement a living wage in practice?

In Chapter 4 we will look at how multinational enterprises work together with stakeholders to put the theory of a living wage into practice. The chapter will highlight obstacles for the private sector as well as best practices. We will also take a close look at the role of local stakeholders. On the basis of the conclusions drawn in Chapter 4, a Living Wage Process Cycle and an accompanying Obstacle-Solution-Support table for living wage implementation is presented in the final Chapter 5. The tools presented in Chapter 5 include recommendations for companies willing to start working towards realising a living wage in their supply chain.

A living wage: why bother?

Although a living wage is considered a universal human right, this does not mean that companies can be held accountable for establishing a living wage throughout their entire value chain. Corporate responsibility efforts are voluntary, often considered as soft law. Or are they increasingly turning into harder law? The answer is not a simple ‘yes’ or ‘no’, but there are a few reasons why companies do bother:

- Personal motivations of the top management: striving to make a positive impact on society, no matter where.

- Fear for bad publicity: news travels fast and far these days, especially through the use of social media. The bigger the brand, the more vulnerable it becomes to campaigns that point out underpayment and other social ‘misdemeanours’.

- Marketing opportunities: for some companies, CSR hallmarks are a great opportunity to attract a specific group of consumers, willing to pay a higher price for products that are produced in a responsible way throughout the entire value chain. This group, although still a minority, is slowly growing.
Long-term buyer-supplier relationships: buyers experience growing competition for (skilled) labour in sourcing regions and a continuous need for a steady and guaranteed supply of goods. This is why investing in sustainable, long-term relations with contract suppliers through payment of a living wage makes business sense.

We emphasise that guaranteeing a living wage is neither easy, nor absolute. It must always be seen in relation to the responsibility of companies to ensure profitability and continuity. That said, we invite you to read our report to see what can be done to start moving in a direction that combines these responsibilities.
2. Dimensions of a living wage

In this chapter we will establish that a living wage is recognised as a right by the international community and that core components can be distinguished from the key wordings on living wage used in international law, guidelines and corporate codes for social responsibility:

1. Core components are basic needs (food, housing, clothing and other costs) for the worker and his family.

2. An additional component that is sometimes included is discretionary income.

Note that a living wage supports a basic living standard on take-home pay and should be earned during normal working hours. For production, quota or piecework, the established pay rate must allow workers to earn a living wage during normal working hours.

The majority of the interviewees agreed on this definition, in principle.

In the paragraphs below we will describe how we established these dimensions of a living wage.

2.1 International community and living wage as a human right

The international community clearly considers living wage as a human right (Annex 1). The United Nations Universal Declaration of Human Rights (1948), the United Nations International Covenant on Economic and Social Cultural Rights (1966) and the Council of Europe’s European Social Charter (1961), to name but a few, recognise the need for workers to receive a living wage. Key wordings in these documents are the right to just and favourable remuneration, family wage and the right to a decent living standard.

It is worth noting that the inclusion of a living wage in international human rights declarations can probably be traced back to President Franklin D. Roosevelt’s proposal for a Second Bill of Rights of economic security in his State of the Union Address to Congress in 1944:

“We have come to a clear realisation that true individual freedom cannot exist without economic security and that ‘necessitous men are not free men’. People who are hungry and out of a job are the stuff of which dictatorships are made. In our day these economic truths have become self-evident. We have accepted, so to speak, a Second Bill of Rights of economic security. Among these are: ... the right to earn enough to provide adequate food, clothing and recreation.”

Although Roosevelt’s Second Bill of Rights for economic security was never enacted into law in the United States, it has had a profound effect on the world. It significantly influenced the United Nations Universal Declaration of Human Rights, for example (perhaps partly because his wife, Eleanor Roosevelt, was very influential in its drafting). Many of the economic rights he proposed have become accepted in practice in most of the world (Anker 2011).

2.2 ILO and living wage as a human right

The ILO also considers a living wage as a human right in the sense that living wage is included in ILO major Declarations that take on the weight of rights (Annex 1). Living wage is mentioned in the 1919
ILO Constitution and the 2008 ILO Declaration on Social Justice for a Fair Globalization. Living wage is also included in the 2006 ILO Declaration on Principles concerning Multinational Enterprises and Social Policy. The Preamble to the ILO’s Constitution goes so far as to say that better working conditions that include a living wage are required to ensure “universal and lasting peace”.

“Whereas universal and lasting peace can be established only if it is based upon social justice; And whereas conditions of labour exist involving such injustice, hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled; and an improvement of those conditions is urgently required; as, for example, by ... the provision of an adequate living wage.”

It is interesting that, whereas the ILO Constitution of 1919 refers to the need for “an adequate living wage”, major ILO Declarations in 1944 and 2008 refer to the need for “a minimum living wage”. This change in wording cannot have been accidental and many believe this was done to take into account ILO Conventions on minimum wage passed in 1928 and 1970.

“These descriptions of a living wage in ILO major documents are somewhat ambiguous. One interpretation (which I think is the most logical) is that the word ‘minimum’ in ‘minimum living wage’ is an adjective that qualifies the meaning of ‘living wage’. According to this interpretation, a ‘minimum’ living wage is required; that is, a living wage which is able to support a basic living standard. This interpretation is consistent with use of the phrase ‘adequate living wage’ in ILO’s Constitution.” (Anker, 2011)

This interpretation of the ILO’s meaning of a minimum wage - equalling the meaning of a living wage - has been confirmed by the interviewees we spoke to from the ILO and government representa-

tives. They agreed that all minimum wages should be living wages. Key wordings in these ILO documents on living wage are: satisfy basic needs of workers and their families, minimum wage’s ultimate objective to provide satisfactory standard of living.

2.3 OECD Guidelines for MNEs and living wage

The OECD Guidelines for Multinational Enterprises are a relevant normative framework because the Dutch government, like all OECD countries, has committed itself in the OECD to actively promoting the Guidelines among business. In several of the Dutch government’s grant facilities for the private sector, the adherence to the Guidelines is a prerequisite. As regards the governments’ sustainable procurement practices, an obligation of effort applies to products where a supply chain initiative including living wage/living income exists.

On living wage, the Guidelines state:

“When multinational enterprises operate in developing countries, where comparable employers may not exist, provide the best possible wages, benefits and conditions of work, within the framework of government policies. These should be related to the economic position of the enterprise, but should be at least adequate to satisfy the basic needs of the workers and their families.” (OECD Guidelines for Multinational Enterprises, 2011, Chapter V, 4.B)

Key wordings: satisfy the basic needs of workers and their families.

The recently updated OECD Guidelines (2011) refer to business and its human rights obligation:

States have the duty to protect human rights. Enterprises should, within the framework of internationally recognised human rights, respect the interna-
tional human rights obligations of the countries in which they operate as well as relevant domestic laws and regulations:

1. Respect human rights, which means they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.

2. Within the context of their own activities, avoid causing or contributing to adverse human rights impacts and address such impacts when they occur.

3. Seek ways to prevent or mitigate adverse human rights impacts that are directly linked to their business operations, products or services by a business relationship, even if they do not contribute to those impacts.

4. Have a policy commitment to respect human rights.

5. Carry out human rights due diligence as appropriate to their size, the nature and context of operations and the severity of the risks of adverse human rights impacts.

6. Provide for or co-operate through legitimate processes in the remediation of adverse human rights impacts where they identify that they have caused or contributed to these impacts.

Key wordings: *respect human rights, prevent or mitigate impacts, due diligence and remediation*

The recently added human rights chapter of the OECD Guidelines draws upon the United Nations Framework ‘Protect, Respect and Remedy’ on business and human rights and is in line with the Guiding Principles for its implementation.

### 2.4 UN Guiding principles on business and human rights: Implementing the ‘Protect, Respect and Remedy Framework’

Between 2005 and 2008, UN Special Representative John Ruggie worked in a multi-stakeholder setting on the Framework that comprises three core principles: the State duty to protect against human rights abuses by third parties, including business; the corporate responsibility to respect human rights; and the need for more effective access to remedies.

The recently endorsed (2011) Guiding Principles’ normative contribution lies in elaborating the implications of existing standards and practices for States and businesses; integrating them within a single, logically coherent and comprehensive template; and identifying where the current regime falls short and how it should be improved.

In the last chapter of this report, in which we make suggestions for a roadmap on living wage, we will look in more detail into the practical guidance of these principles for the living wage process. For now, it suffices to highlight the key wordings they reiterate from other UN statements: *the right to just and favourable remuneration and the right to an adequate standard of living (including food, clothing and housing)*.

### 2.5 Supply chain initiatives and living wage

A number of supply chain initiatives define living wage in their corporate codes of social responsibility. In Annex 2 we list these initiatives and comment on the definitions they use. Although they all have their own way of describing what constitutes a living wage, the following key wordings can be distinguished: *basic needs, worker and family, standard working week, discretionary income, negotiated salaries, social dialogue, average-sized family, no more than 48-hour working week, process evaluation and progress requirements*. 

Two supply chain initiatives have in addition noted that for production, quota or piecework, the established pay rate must allow workers to earn a living wage during normal working hours.

In Annex 3 we list the supply chain initiatives that have not included living wage in their codes.

### 2.6 Multinational enterprises and living wage

Examples of multinational enterprises that have defined living wage in their corporate codes are a global pharmaceutical company, a UK fashion and homeware retailer and international diamond company Rosy Blue that has registered offices in Antwerp.

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**Global pharmaceutical company aligned with UN Global Compact**

This company derives its living wage definition from its adherence to the UN Global Compact Principle One: Businesses should support and respect the protection of internationally proclaimed human rights, and Two: Businesses should make sure they are not complicit in human rights abuses.

The origin of Principles One and Two comes from the 1948 Universal Declaration of Human Rights (UDHR). This means that a worker has the right to ‘just and favourable remuneration ensuring for the worker and the worker’s family an existence worthy of human dignity’. More specifically, the economic right to provide workers with a decent living for themselves and their families and the right to adequate food, clothing and housing (ICESCR, articles 7 and 11).

The pharmaceutical company “– as a key undertaking of its Corporate Citizenship policy – is determined to make sure that salaries paid to all employees worldwide are on the safe side of a living wage.”

**A UK fashion and homeware retailer uses the ETI definition**

As a member of the Ethical Trading Initiative (ETI), this retailer signed up to paying a living wage:

“Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income.” (ETI base code)

**Rosy Blue refers to universal human rights**

“For Rosy Blue the term human rights refers to internationally recognised human rights, as expressed in the United Nations’ (UN’s) International Bill of Human Rights and the International Labour Organisation (ILO’s) core conventions and the Declaration on Fundamental Principles and Rights at Work. We also adhere to the OECD Guidelines for Multinational Enterprises, which were revised and reissued in May 2011. The updated OECD Guidelines now also include a chapter on Human Rights. We also believe strongly in the role that voluntary initiatives can have in advancing progress on human rights.” (Rosy Blue Report to Society, 2010-2011)
The company is also working on SA8000 certification in high-risk countries, which includes living wage definition:

“The company shall respect the right of personnel to a living wage and ensure that wages paid for a normal working week shall always meet at least legal or industry minimum standards and shall be sufficient to meet the basic needs of personnel and to provide some discretionary income” (SA8000).

Key wordings from these multinational enterprises on living wage: just and favourable remuneration, decent living for workers and their families, the right to adequate food, clothing and housing, basic needs and discretionary income.

What is in a name?
During our research we came across different names for different types of wages or wage dimensions in developing countries, most notably minimum wage, prevailing wage, collective bargaining wage and fair wage. We explain each of them here and their relationship with living wage.

**Minimum wage**: legal wage set by government, sometimes classified according to industry or age. In many developing countries, if a legal minimum wage exists, it does not cover living wage requirements. In most cases, the legal minimum wage will be lower than the living wage.

**Prevailing wage**: wage paid to the majority of workers in an industry, region or country. In many developing countries the prevailing wage will be lower than a living wage, which is the root cause of prevailing poverty and underdevelopment.

**Collective bargaining wage**: negotiated wages set by Collective Bargaining Agreements (CBAs) in a region or for an industry, sometimes specified by job title or classification (unskilled, semi-skilled, skilled). In developing countries where CBAs exist, living wage requirements may have been taken into account.

**Fair wage**: a term used to address the need for a sound wage environment, consisting of, for instance: properly rewarding normal working hours and overtime, clear pay/rewarding system including compliance with regulations on social insurance payments and paid holidays, no disciplinary wage sanctions, equal wage for equal work, regular and timely payment of salaries and overwork, no double record keeping, written contracts and salary slips, need for social dialogue, evolution of wages in accordance with prices, profit-sharing among employees and a living wage. The living wage requirements are an integral part of the fair wage approach (Vaughan-Whitehead, 2011).
3. Calculating a living wage

In this chapter we will see that if a company wants to calculate a living wage, this is possible. In our research we have come across a number of calculation methods that are listed in Annex 4, adapted from Anker (2011).

The flow chart in Figure 1 indicates how a living wage is typically estimated. One can distinguish core components, an additional component, variable components and two preconditions that have been established in Chapter 2.

A common approach is the following:

1. A market basket study to establish food consumption on the basis of 3000 calories.

2. Percentage for housing, clothing and other costs (50% food expenditure of total income in developing countries) X 2.

3. X 2 for family needs (family of 4, 2 full-time workers).

4. X 105 or 110% discretionary income.

The paragraphs below describe the elements of these calculation components.

3.1 Core components

Core components of a living wage calculation are the basic needs of a worker: (1) cost of basic necessities such as (i) a nutritious low-cost diet that is appropriate for the country in terms of the types of food items included; (ii) basic housing and (iii) adequate clothing and footwear; and (2) cost of other needs, such as transportation, children’s education and health care (Anker, 2011).

As we will see below, the costs mentioned in (1) (ii) (iii) and (2) can be calculated by applying Engel’s law. This is a percentage that is used to calculate the non-food elements in the basic needs of a worker (variable).
A nutritious diet can be calculated on the basis of the number of calories (variable).

The total estimated cost per capita of a basic living standard is then scaled up to arrive at the cost for a household using an assumption on the household size (variable).

### 3.2 Additional and variable components

Sometimes a small margin above the total cost already estimated for a basic lifestyle is added to help provide for unforeseen events, such as illnesses and accidents, so that common unforeseen events do not easily throw workers into a poverty trap that they may never be able to get out of. This margin is called discretionary income. Finally, the total cost for a household is defrayed over the number of full-time equivalent workers assumed to be working in a household (Anker, 2011).

From the above paragraphs we can conclude that living wage calculations have variable components:

- Engel’s law percentage;
- number of calories;
- family size;
- number of workers in a household;
- level of discretionary income.

It is important to point out that what is considered an acceptable basic quality of life is time and place-specific. It differs across development levels and improves over time as a country develops. It is also important to point out that assumptions for the size of the household that needs to be supported and the number of persons in the household expected to work are, by their nature, subjective. While these assumptions and estimates of basic living costs necessarily involve some subjectivity, it is possible to make defensible and reasonable living wage estimates with judicious use of information about workers, households and typical household expenditures (Anker, 2011).

### 3.3 Subjectivity of variable components of a living wage

One oft-mentioned criticism of living wage is its subjectivity. Indeed, there is no such thing as a definitive estimate for a living wage in a particular location or country, because reasonable people can honestly differ about what living standard they think a living wage should be able to support, the number of persons in a household they think a living wage should support, and the number of people in a household they think should work. We think it is important to recognise and admit that it is somewhat subjective and so there is not one specific number which represents the ‘real living wage’. Proponents of a living wage should be upfront and unapologetic about this; well-documented and researched methodologies are (Anker, 2011).

### 3.4 Calculation in practice: the Asia Floor Wage (AFW) and other methods

An initiative worth highlighting here is the Asia Floor Wage Alliance. This campaign proposes a regional and differentiated wage formulation demand for the garment manufacturing industry in Asia. The proposed demand is an AFW for Asian Tier 1 garment workers in conjunction with fair pricing that would make an AFW possible.

The prevailing wage in the garment industry in Asia is 2 USD a day which constitutes the UN-defined poverty line. For a decent living standard the wage would need to increase to 4 - 8 USD a day, depending on the country (Merk, 2009). The AFW strategy in this campaign is based on certain objective conditions. Of the many Asian countries, China, India, Bangladesh, Sri Lanka, Indonesia and Cambodia can be said to cover the bulk of the garment production. This workforce constitutes a numerically strong regional collectivity. Research on wages of garment workers in these countries shows that wage levels of workers in these countries are more or less
comparable, so the relatively uniform wages provide a regional bargaining opportunity. A unified regional strategy would also avoid the danger of jobs moving within these countries because of a wage demand in any one country. Retail companies, as they become consolidated into fewer big box multinationals, need a larger volume of products and are increasingly turning to large, stable and advanced manufacturers. As a result, multinational buyers are beginning to stabilise their relations with the Tier 1 companies, resulting in a more stable workplace (Asia Floor Wage website).

We think that the AFW could be replicated to other industries, in other regions, if these objective conditions apply. In short, this is a social dialogue strategy in the context of the global supply chain. Social partners, such as trade unions, can use the Floor Wage to start collective bargaining processes in these Asian countries.

As we will see in the next chapter under best practices, multinational enterprises that have calculated a living wage have done so in collaboration with organisations such as Social Accountability International or Business for Social Responsibility. Three examples of calculation methods are listed in Annex 4, among which the Asia Floor Wage calculation.
4. Implementing a living wage: from theory to practice

Despite widespread recognition of the need for a living wage, acceptance is more often in principle than in practice. Statements of desirability are much more common than action, which affects the wages of large numbers of workers. This is explained by the challenging context in which companies operate and a number of obstacles that companies face when they consider realising living wages in their supply chain (paragraph 4.1). Best practices of companies and multi-stakeholder initiatives described thereafter show how some companies have accepted the challenge and have taken action.

4.1 Context: competitiveness in international trade and the influence of local stakeholders

The context in which companies work towards realising living wages in developing countries is challenging. It can be characterised by an immature system of industrial relations, weak enforcement of labour laws, fierce international competition over prices, and implicitly, the price of labour.

In many developing countries, minimum wages set by the government fall far short of what many estimate to be a living wage (ETI, 2008; Good Electronics and MVO Platform, 2008). One reason for low wages in export-oriented manufacturing sectors is the very low level of unionisation and consequently the absence of effective forms of collective bargaining (ETI, 2008; Good Electronics and MVO Platform, 2008). Existing unions are often strongly influenced by the company or by the state, and interconnections between the business and political elites are not uncommon, which may weaken the political power of trade unions and labour organisations.

Other causes of the absence of collective or factory-level bargaining are that (i) the freedom of association is not respected; (ii) workers do not feel free to organise; (iii) anti-union behaviour is common practice; (iv) the right to negotiate is not respected. In addition, unionisation and collective bargaining reach few in developing countries where the informal economy, and rural and agricultural activities dominate. The same rings true for Export Processing Zones and temporary or casual workers (ILO, 2006).

In developing countries, employers and governments will therefore have the greatest influence on wage levels. Concrete examples of these situations are described in the text boxes about Malaysia and Bangladesh. A region-specific overview of the state of collective bargaining in Africa, Asia and Central America is provided in Annex 5.

Absence of collective wage agreements in major palm oil producing states in Malaysia

Although minimum wages and job benefits are set either by relevant government agencies or through collective agreements between employers and the workers’ unions, consistent application of standard wages
and benefits across the industry may not be achieved. A case in point is Malaysia where collective wage agreements have been made between the Malaysian Agricultural Producers Association and the National Union of Plantation Workers and the All Malayan Estates Staff Union for workers and staff respectively in Peninsular Malaysia since the 1960s. However, collective agreement at industry level is not practiced in Sabah or Sarawak, which account for more than 40 per cent of the national production of palm oil. In the absence of registered trade unions in these two states, wages and work benefits are largely determined by employers (Cheng Hai Teoh, 2010).

**Tripartite wage negotiations in the garment sector in Bangladesh**

“Bangladesh’s industrial sectors have been affected over the years by worker unrest and industrial instability” due to “a weak industrial relations machinery and poor enforcement of its labour laws” (USAID cited in the Embassy of the Kingdom of the Netherlands, 2011).

When collective bargaining as a mode of wage determination does not operate, the labour policy in Bangladesh stipulates that Minimum Wage Boards (MWBs) may be constituted by the government. This is what happened in 2010 following widespread labour protests. The Bangladesh Garment Workers Unity Council announced a 90-day programme on 8 February 2010 to press a series of demands, including a raise in the minimum wage to Tk. 5,000 from the existing Tk. 1,662.50 per month. This controversial proposal was being considered by the Board which would raise the monthly minimum to the equivalent of $50 a month, still far below worker demands of Tk. 5,000 or $72, for entry-level wages. But this was unacceptably high according to textile manufacturers who were asking for a wage below $30. Eventually, the Board announced that the minimum entry-level wage would be increased to Tk. 3,000, about $43 (Md. Fashiul Alam, 2011). Please note that this amounts to a wage of $1.40 per day, still falling below the UN poverty line.

However, it may well be doubted whether these ad hoc MWBs are an effective tripartite initiative. The MWB negotiations take place in a context of very powerful employer organisations in the garment sector, the Bangladesh Garment Manufacturers & Exporters Association and the Bangladesh Knitwear Manufacturers & Exporters Association. The business and political elites in Bangladesh are moreover strongly interrelated. Both employers’ associations are deeply rooted in the political parties of both government and opposition.

After the final decision made by the MWB, thousands of workers rioted in the streets of Dhaka. Various union leaders declared that “the raise (of minimum wages) is inadequate and does not match the high cost of living” (www.guardian.co.uk). Although some unions took part in the talks, the process and outcomes were not legitimate in the view of workers.
If forms of collective bargaining and tripartite dialogues do exist, pressure is great from both employers (and their organisations) and government to negotiate acceptable wage levels for the slowest ships in the convoy” (Miller and Williams, 2009). Moreover, in order to ensure their competitive position in international trade, governments will also take account of prevailing wage rates in competitor countries. “Where there is an absence of industrial upgrading and supplementary factory-level wage bargaining, minimum wages can thus have a tendency to become maximum wages” (Miller and Williams, 2009).

Another complicating factor is that legislation with regard to the freedom of association, collective bargaining and minimum wages may not look that bad on paper, but in practice, governments often lack the capacity to effectively enforce legislation. The lack of effective enforcement and control systems enables the ignorance of regulations throughout a whole sector/region.

Although the context in which local trade unions have to act is challenging, “numerous brands and retailers, and the multi-stakeholder initiatives to which they belong, have acknowledged the importance of freedom of association and collective bargaining as a way of both establishing a more robust system of local governance in the supply chain and, crucially, providing the means to facilitate improvements in pay and conditions in the industry” (Miller, 2009; Good Electronics and MVO Platform, 2009; ETI, 2008).

As a baseline, companies should acknowledge the freedom of association and the right to collective bargaining. In addition, in the short to medium term, local and international trade unions should be engaged in calculating and agreeing what a living wage would amount to, and could play a role in training on workers’ rights and worker-management dialogues. Moreover, involving local organisations in the monitoring and verifying of codes of conduct enables the cross-checking of data, improving the reliability of monitoring and verification exercises. Involving local organisations makes monitoring and verification a continuous and more sustainable exercise.

If trade unions are not independent and are strongly related to the state, for example in China, companies could involve more independent and critical labour research institutes or labour NGOs. International trade union organisations, such as FNV Mondiaal, the International Trade Union Confederation and the International Textile Garment and Leather Workers Federation have contact with local partners.

“...mature industrial relations are dependent on workers being able to join together in trade unions and elect their representatives to engage in negotiation and bargaining with their employer. This will require stronger labour legislation better enforced by governments, a commitment from employers to share the benefits of production and a newly energised trade union movement willing and capable to engage fully on behalf of their members and aggressively to build membership, hone their representation skills and actively involve all their members in the democratic life of the union.”

— Neil Kearney (former ITGLWF General Secretary)

In the long term and in the meantime, governments need to create an environment in which the core rights of freedom of association and collective bargaining can be observed.

4.2 Obstacles companies face

In addition to the challenging context, the following obstacles that companies face with regard to implementing living wages in their international supply chains were identified during our desk study and interviews:
- Paying a minimum wage is a legal requirement, paying a living wage is not. It is however an international human right that must be respected.

- There is a lack of country and region-specific living wage estimates. Moreover, these estimates are often subjective and may be somewhat overstated. For example, Chinese students working in an electronics factory do not have a family to support, in any case no children.

- Some companies have hundreds or thousands of suppliers. If a company were to indeed calculate the living wage locally for each production site, the costs for local research and audits would be enormous and would bring along a huge administrative burden.

- Auditors are not capable of calculating reliable living wage levels, they need objective benchmarks (such as legal requirements) to base their audit upon. Auditors, who are good with numbers, often lack an antenna for the qualitative aspect of social compliance issues.

- Stimulating producers in low wage countries to increase their wages is considered a ‘colonial’ trait: it stipulates a ‘moral supremacy’ of the western companies which is unfruitful for business relations and autonomous development of the producers.

- The company does not always have leverage in relation to its suppliers. It is often one out of many of the supplier’s clients. Not all other buyers are willing to cooperate on improving wages. In various sectors branded companies have no contractual relations with second-tier, third-tier and other suppliers. They have in fact no direct (commercial) influence further than the first tier and some key suppliers in the second tier.

- Companies wonder whether increasing wages is sustainable at all. If labour costs are too high, producers could become uncompetitive in the market and eventually run out of business, causing unemployment in developing countries. Increasing wages could also increase demand for family labour, child labour and other forms of informal labour.

- Living wages will lead to higher production costs. This effect may be multiplied at other stages in the supply chains since margins (taxes, etc.) on the production costs may add up at different stages, which will lead to a much higher consumer price than previously expected.

- The demand for a living wage is often not compatible with the overall strategy of the company. Buyers are often rewarded for negotiating the lowest price. In a race for orders, suppliers may undercut each other to win an order. In addition, short delivery times and last-minute orders give suppliers no other choice than to subcontract production to a supplier that is unknown to the buyer. A case in point encountered during our research is a company that, as part of a strategy of limiting the number of suppliers, ended the relations with suppliers certified under a supply chain initiative, because they were the least competitive suppliers.

- There is no clear business case for buyers or suppliers to raise wages or incomes.

- There is often no transparency on labour cost input on the side of suppliers. Correlatively, buyers cannot trust suppliers to raise wages if higher prices are paid for the goods.

- An obstacle that affects suppliers in particular is that their production costs are (too) high. This is related to low productivity, high staff turnover, excessive overtime and the absence of good planning (which is difficult in the case of
seasonal peaks), and the rising prices of inputs such as electricity and fuel. The productivity of agro-commodity producers is also affected by aspects such as climate and soil fertility.

- Specific obstacles in the agro-commodity and natural stone sectors were identified:

- Prices for homogeneous or substitutable agro-commodities are determined on the international spot and future markets. This implies that producers are often price-takers and buyers easily price themselves out of business if they pay more for a product which does not differ in quality.

- Primary production has always been characterised by low margins for producers. Moreover, since smallholders operate on a small scale, and since it is not possible to sell the full 100% of a harvest under a certification scheme, it can be questioned whether price premiums provided as part of a certification initiative will ever add up to a living income. This problem is not only relevant to smallholders, but also to plantations. If the certified producer has to pay a living wage and is in the end not able to sell 100% of the harvest as certified, the risk and ‘extra costs’ have to be absorbed by the producer. Not selling 100% as certified is not only related to demand for the certified products, but also to quality demands (if buyers are looking for specific grades or qualities).

- Labour relations in producing countries in the agricultural and natural stone sectors are often informal: no contracts and other records of wages are kept. Observable trends such as the casualisation of plantation labour and the shift of production from plantations towards smallholders complicate monitoring and verification of labour conditions, including living wages and incomes.

- Certification initiatives have so far focused on the ‘low-hanging fruit’: the farmers who are organised in cooperatives. It is for example estimated that 90% of the cocoa farmers in Ghana and Côte d’Ivoire have not yet been certified. For small farmers to be certified, they need to be organised in groups (to be able to share the audit costs). Naturally farmers that are already organised in groups have easier access to certification. Organising, educating, professionalising and certifying non-organised farmers would require enormous investments, which will not be covered by the private sector alone.

4.3 Removing obstacles and utilizing opportunities

Despite the obstacles listed above, some companies have accepted the challenge and started realising living wages in their supply chain. These cases are described in paragraph 4.4 below. The conclusions that we draw from these best practices show that it is possible to remove some of the obstacles mentioned above and to start working towards living wages in the supply chain, if a company is dedicated to doing so. The best practices show us that:

- These companies have defined their commitment to a living wage in their corporate code or policy.

- Their board of directors is ‘on board’.

- They often work together with other stakeholder organisations or social standards organisations.

- They have a due diligence process in place, which means that they will assess their risks, mitigate risks by taking appropriate measures, integrate these measures in all relevant departments, measure progress and report on findings so a continuous discussion with stakeholders can take place.
They strive for an integrated approach, meaning that their overall human resource package should be aligned to implement a living wage.

They have established a business case for the payment of living wages. This is not only in their own interest, but also necessary to get the commitment from suppliers as well. Increased wage costs may be compensated by:
- increasing productivity;
- absorbing costs elsewhere in the value chain;
- increasing the consumer price;
- attracting skilled labour and lowering employee turnover, which limits training costs.

More intangible benefits mentioned during interviews are:
- suppliers that pay living wages are often professionally managed companies;
- a happy workforce leads to increased productivity and quality, although this is difficult to prove by numbers;
- stable, longer-term relations between buying and supplying companies and the chance to become a preferred supplier;
- better reputation.

Moreover, incentives are:
- access to finance;
- access to the government as customer.

They regard local stakeholder commitment as a necessity. Companies work with partners on the ground. They can gather local data, empower workers by training and raising awareness, and be involved in monitoring and verification.

They deem it important to create a worker-management dialogue about labour conditions in general, and living wage in particular. In the long term, discussions about wages should be worker and management-driven. An intensive dialogue between buyer and supplier is important as well, in order to create local support for change.

They do acknowledge that it takes time and a process approach may be the most feasible. Realising living wages is not always about ticking a box on whether or not a calculated living wage is paid, but the process of “moving up the ladder” may be more important. Wage ladders highlight how big the difference is and side-step the discussion about calculations.

In addition to these characteristics of best practices of living wage implementation, we discovered the following opportunities during our desk study and interviews:

- In each of the 7 sectors studied, supply chain initiatives exist. These vary from multi-stakeholder initiatives (RSPO, FWF, Sustainable Natural Stone Working Group, 4C Association) and business initiatives (EICC, World Cocoa Foundation, BSCI), to certification initiatives (Utz Certified, Rainforest Alliance) and business-government initiatives (Initiative for Sustainable Trade (IDH)). Especially in the cocoa, coffee, palm oil and electronics sectors, these initiatives include the major players in the industry. In order to create a (broader) level playing field for realising a living wage, existing supply chain initiatives should start discussions about including a living wage requirement in their codes of conduct. Some supply chain initiatives have already done so. However, the challenge of meaningful implementation and credible auditing remains an issue that requires attention and discussion.

- The advantage of multi-stakeholder platforms including NGOs and trade unions is that these organisations can involve their local partners in providing information about wages and take part in participatory monitoring and
verification. Associated trade unions and NGOs may help to calculate living wages locally.

- Even large multinational companies with thousands of suppliers have often identified a smaller core group of strategic suppliers. Business relations with these suppliers are more stable and the company may already invest in the technical and management capabilities of these suppliers. These enabling conditions can be utilised to discuss and invest in labour conditions. Examples include setting up and strengthening the worker management dialogue (IDH Electronics Programme) and a productivity enhancing programme (supplier programme of a large fashion retailer). Both programmes are expected to contribute to increased wages, an indicator that will be closely monitored.

- Suppliers’ production costs are (too) high. This is related to low productivity, high staff turnover, excessive overtime, the absence of good planning and the rising prices of inputs such as electricity and fuel. The productivity of agro-commodity producers is also affected by aspects such as climate and soil fertility. High production costs have been ‘tolerated’ by buyers, since low labour costs served as compensation. However, this means that there is an opportunity to improve productivity and efficiency, in order to allow for wages to increase. Possibilities for productivity and efficiency improvement include more efficient use of energy and water, improved human resource management, lower worker turnover and absence, more efficient production process, etc.

- Smallholders in the agricultural sectors do not receive wages, but are responsible for their own income. Paying a premium per unit of commodity produced will not immediately lead to a living income, since the total scale of production remains small. Increasing productivity, scale and quality can however indirectly raise a farmer’s income. This can be achieved through investing in organisation, education on good agricultural practices, access to finance, access to market information and access to infrastructure. Against this background, certification of agricultural (or any other) products should not be an independent goal, but a means towards increased productivity and income. The impact of certification initiatives on these objectives should be measured as well.

“We will not certify poverty. Sustainable production of cocoa must benefit farmers in West-Africa.”
— Howard Shapiro, Global Director of Plant Science and External Research, Mars

- Living wages will not be realised overnight. Instead of simply monitoring or verifying whether the supplier pays the calculated living wage, a good start can be made with the indicator listed in the FLO Generic Fairtrade Standard for Hired Labour (see Annex 2): “The role of the inspector is not necessarily to assess the level of ‘living wage’, but to evaluate the process by which wage increases are decided upon”. However, to ensure meaningful implementation and credible auditing, continuous progress must be proved. Concrete actions should be specified, e.g.: “the company has calculations showing that salaries are sufficient to meet basic needs of employees and their families” (A Code of Conduct for the natural stone sector, 2007, included in Annex 2).

Other sector-specific opportunities can be found in Annex 6.

4.4 Best practices and examples

The cases of the global pharmaceutical company, the UK fashion and homeware retailer, Rosy Blue and the Dutch workwear producer and importer that are described below are examples of best practices. Best practices in these cases mean that companies make
a serious effort to define, calculate and implement a living wage. As noted earlier, a company is an important, but not the only stakeholder involved in raising wages in sourcing regions. Business’ efforts are helped or frustrated by other players in the field such as local management of the factory, local or national government or unions. The actual payment of the living wage is dependent on many other actors and factors. The companies mentioned here take responsibility for their part which, as we will see, is moving things in the right direction.

Another interesting initiative, the Fair Wear Wage Ladder, has been added to the list because it effectively highlights what needs to be done, moving from one wage level to another. The text box on financial institutions illustrates a specific incentive for companies to comply with labour human rights.

4.4.1 The global pharmaceutical company and living wage implementation

The global pharmaceutical company employs approximately 124,000 full-time equivalent associates and has operations in around 140 countries worldwide. It achieved net sales of 58.6 billion USD in 2011, while net income amounted to 9.2 billion USD. The company became one of the first international companies to develop and implement a voluntary commitment to pay a living wage to all its employees around the world. Initially, it believed it could borrow existing models to implement the living wage commitment but it quickly became clear that no such universally accepted model was available.

Joined forces with Business for Social Responsibility

The global pharmaceutical company joined forces with Business for Social Responsibility (BSR) to review current best practices or leading-edge lessons from other industries, and to develop a methodology for determining living wage levels. When both partners canvassed representatives in business, academia and government, they found general agreement that “market basket studies” for each country offered the most accurate method to calculate a living wage. The market basket model entails a detailed survey of the cost of items that a typical family would need, including housing, food, education, health care, etc. However, given the need for data in so many countries, the pharmaceutical company decided that conducting separate market basket analyses in 60 countries would involve unnecessary cost and logistical complexity. A market basket study in a developing country can cost more than 5,000 USD. Compounding the problem, institutions with the necessary skills to conduct such studies simply were not available everywhere.

OECD and non-OECD

BSR divided the organisation of the pharmaceutical company into two categories: OECD countries and developing countries. Availability of data was a differentiating factor; reliable economic data needed to calculate living wages generally exists in OECD countries but is lacking in most other countries. For developing countries, a different methodology was developed. To
supplement data on the individual cost of food and total family expenditure that was either non-existent, or less reliable than statistics available in OECD countries, BSR used a market basket study done in Mexico by a US researcher. The resulting peso amount was then converted into the local currencies of relevant developing countries using the same purchasing-power-parity conversion method as in the OECD countries. The living wage calculations obtained for developing countries fell between the minimum and average wage.

**Human Resources strategy**

The Human Resources department at the pharmaceutical company decided on a hybrid approach to managing implementation of a living wage. Human Resources would propose a minimum living wage for each country, based on the agreed methodology of calculation. Management in each country would be consulted about the calculation and given an opportunity to propose an alternative living wage level based on local conditions. Ultimately, the vast majority of countries accepted the initial calculation as its living wage standard. In a few countries, the company’s affiliates proposed a living wage level higher than the initial calculation based on their own market basket research.

**Local data**

Some countries, such as India, commissioned local studies to review the methodology and calculations of a living wage proposed by the company and BSR. A study on behalf of a branch of the company in India documented significant variations in living wage between cities. For example, the living wage in Mumbai is 70% above that in Bangalore and 61% higher than in Kolkata. The gap primarily reflects higher housing costs in Mumbai than the other Indian cities included in the study. Other countries cited obligations to abide by prevailing collective bargaining agreements as a reason against adopting the calculated living wage level and there was some concern among affiliates that the company would limit the amount of multiple wage tiers within a single country, and calculate living wages independent of job category, title or operational unit. Yet the consultation process was designed to foster dialogue and improve understanding of issues faced by the company’s affiliates at national and local level.

In all, fifteen countries proposed a higher wage than the living wage calculation during the round of consultations held during 2005. Bangladesh, by contrast, proposed a lower wage, arguing that the local affiliate had more accurate local data than BSR. Six countries proposed adjustments based on geographical differences, such as urban vs. rural or cities vs. provinces. Some of those adjustments were above the proposed figure and others below. In every case, local managements were able to furnish a critical reality check for the decision-making process, helping to buttress support for the implementation plan.
Obstacles
Global trade unions have criticised the pharmaceutical company for taking a top-down approach on setting a living wage, without leaving room for local collective bargaining or other forms of social dialogue that need to take place.

Success factor
The company believes that paying a living wage locally is an important benchmark of its commitment to the UN Global Compact – as well as evidence of the company’s determination to be a good corporate neighbour in communities where it operates. A key lesson learned in taking the living wage from idea to implementation is that active participation of local managements in the decision-making process is critical to success. Local management bears the ultimate responsibility for acceptance of a living wage as a core principle of a company’s operations and culture. By early 2006, the company had aligned the pay of all 93,000 employees (in 2006) with living wage levels. Together with BSR, it is continuing to work on further improvements to the methodology as well as on periodic adjustments of the initial living wage calculations for key factors, such as inflation.

Conclusion
The pharmaceutical company wants “to be recognised as an innovative, ethical and trustworthy company, fostering a culture where employees are expected to behave ethically, not just lawfully.” To that end, in addition to compliance with laws that govern operations in more than 140 countries, it encourages employees to uphold the ideals and values defined in its Code of Conduct and Corporate Citizenship Policy, as well as the related policies and guidelines that sometimes extend beyond legal duties.

This company:
- includes living wage in its Policy on Corporate Citizenship;
- integrates living wage in its Management structure: the Board of Directors is involved and Corporate Citizenship department issues are integrated in Human Resources - the company chose to base its living wage initiative within a broader framework of wage standards such as collective bargaining and freedom of association;
- measures progress and impact;
- reports on the progress so that discussions with stakeholders can be held.

Last but not least: living wage implementation is a sound business case for the pharmaceutical company: it needs the skilled workers to stay with the company.
4.4.2 UK-based fashion and homeware retailer and living wage implementation

The company has an annual turnover of 3.5 billion euros, more than 500 stores in the UK and Ireland, and over 2,000 supplying factories from over 40 countries. It adopted a code of practice 12 years ago and has been a member of the ETI since 2002. The code of practice is aligned with the 9 principles of the ETI base code, including paying a living wage.

Some improvements, but not on wages
The company admits it is still far from having a ‘compliant’ supply base, even after more than 10 years working with a code of practice. Whilst visual improvements have been made in areas such as health and safety, codes and auditing have had little impact on ensuring workers’ rights to freedom of association, improving wages or on identifying and resolving discrimination in the workplace.

Audit fatigue
Audits, the much-used tool to ensure fair labour conditions, are susceptible to ‘audit fatigue’ in factories where many customers perform inspections, and audit fraud, which is widespread. This is a waste of CSR resources, which are scarce and valuable. The problem results from the shifted responsibility of upholding labour standards from factory management to external auditors. The company recognised the need for alternatives to audits and created its own sustainable supply chain programme.

The company’s sustainable supply chain programme
The programme was created in cooperation with the international NGO Women Working Worldwide (WWW) and the International Textile, Garment and Leather Workers’ Federation (ITGLWF) global trade union. The aim is to create sustainable change in the supply chains and put the responsibility for working conditions back in the hands of management and, more importantly, workers. The project integrates a number of topics on which the retail company has been working on separately over the past few years: purchasing practices, resulting in long-term, committed relationships with suppliers; freedom of association, to build trust by working with both workers and management and allow a genuine choice of representation for the workers; and living wages, from living wages studies in various countries to building a mechanism by which workers can determine and realise their own needs through mature systems of industrial relations.

Phase 1 – Laying foundations
To ensure that workers participate as full partners, the project commenced with briefings at all levels of the factory, moving into focused work with management and workers - separately and together – to identify shortfalls in the workplace benchmarked to relevant labour laws, codes of labour practice and ILO conventions. In this phase it is essential to build a business case to make
sure that processes are management-driven instead of customer-led. Moreover, a sound business case will also attract the attention of other local factories.

**Phase 2 – Linking the shortfalls from Phase 1 into factory management systems**
This phase focuses on building management systems. The retail company works with the suppliers to embed effective management systems through clear communication of policies, procedures and responsibilities, building understanding and ownership of both workers and management.

**Phase 3 – Implementation of management systems**
In this stage the objective is to support the content of management systems by providing further training to management and workers, for instance in how to actually use the procedures and tools in their handbook, and ultimately to embed social compliance standards into a functioning system.

**Phase 4 – Systems Assurance**
The retail company acknowledged that there is still a requirement for ongoing monitoring of working conditions in its suppliers’ factories. The move away from compliance auditing poses substantial challenges for assurance and will require significant work. Ultimately, its aim is to develop an assurance system that is worker and management-driven, where issues such as working conditions and wages are resolved as close to the source as possible.

**Obstacles**
Do wages go to workers if retailers increase their prices? This is a question that will always be in the back of the mind of global brands. Global competitiveness is fierce, so it remains hard to talk about higher wages. The retail company is serious about living wage implementation and successful in building local relationships, but the company also hits barriers. For instance, it was undermined by local governments that do not want to see wages rise. The company also sees competitors in the field doing nothing, which means there is no level playing field. It is hard to make changes in isolation.

**Success factors**
The key to making progress is that the company has regional teams in sourcing regions. They can build long-lasting relationships with suppliers, civil suppliers and trade unions. If a company only uses third-party auditors, they farm out expertise and responsibility which will not result in genuine relationships with people and organisations in sourcing regions. Another key driver for the project was the social leadership of people within the global trade union.
4.4.3. Rosy Blue and living wage implementation

Rosy Blue is an international diamond company with a regional office in Antwerp. The Rosy Blue Business Alliance is composed of Rosy Blue (India) Pvt Ltd and its subsidiaries in India, the USA and Hong Kong, covering 22 entities, and Rosy Blue Investments Sarl and its subsidiaries in 13 countries, covering 28 entities. Results of the Rosy Blue Business Alliance in 2010 were US $741,134,000 and US $1,628,537,000 and the number of employees was 2,909 and 2,467.

Human rights due diligence process
In 2010 Rosy Blue committed itself to enhancing efforts to undertake human rights due diligence as proposed by the UN Guiding Principles:

‘We analysed the risks at country and operational level. Working through our local CSR experts, we encouraged due diligence processes through checklists and reporting indicators within our new internal risk assessment tool. We have focused on our direct entities within Rosy Blue as well as our majority contractors.’

Thailand and China, among others, were identified as high-risk countries for labour issues and specifically for the right to adequate living standards. Risk-mitigating actions that Rosy Blue is taking comprise: 1. a Code of Conduct; 2. a Human Rights Policy; 3. procedure for raising of grievances; and 4. registration training of staff and management.

Human Rights in the company
All members of the Management Board adopted a charter of commitment on human rights. Extra indicators on human rights were integrated in the internal risk assessment tools. Rosy Blue worked on the further realisation of embedding human rights training to strengthen vigilance and raise awareness among our employees of human rights issues. Training seminars were given on compliance topics and on the impact of ethical, environmental and social responsibilities at senior and operational level. A special awareness campaign was developed in China on labour rights in cooperation with Social Accountability International.

Beyond a Living Wage
In 2011 Rosy Blue started a formal partnership with Social Accountability International in order to work on SA8000 certification in China, to consolidate SA8000 certification in Thailand and to move beyond the living index wage in Thailand and China.

Living wage is a criterion in SA8000:
‘The company shall respect the right of personnel to a living wage and ensure that wages paid for a normal working week shall always meet at least legal or industry minimum standards and shall be sufficient to meet the basic needs of personnel and to provide some discretionary income.’ SA8000.
The factory needed to ensure that wages paid for a standard working week met at least legal or industry minimum standards and would always be sufficient to meet the basic needs of personnel and to provide discretionary income. According to the General Manager of the facility, Sookruthai Karintanaka, “SA8000® is a tool we use to manage human rights; this tool is for the workers. We have to comply with national law, but we go beyond it. For example, the minimum wage here in Thailand is 153 baht a day, and at the minimum, we pay 215 baht. ‘10% for discretionary income.’ As the legislation evolves, we will continue to revise our salary policy.”

Calculating a living wage required the factory to combine qualitative and quantitative analyses, and resulted in paying a wage that was higher — from 40% to 83% — than the national minimum wage of 153 baht a day. As demonstrated below, the factory developed a living wage formula specific to the factory. The final 110% expresses the addition of 10% for discretionary income.

Basic food basket = 33.28 baht/day = 998.40 baht/month  
Average household income spent on food = 34.74%  
Average household size = 3.21  
= [998.40 (1/34.74%) x (.5 x 3.21) x 110%]  
= [998.40 x 2.88 x 1.60 x 110%]  
= 5,060.69 baht/month  
= 168.69 baht/day

**Business case for a living wage**
Worker turnover is reportedly at its peak during the first four months of training. Many workers find the inherent complexity of learning the art of diamond cutting and polishing challenging. Once you have become a skilled polisher, the wage difference will be substantial. There are other industries where slightly lower salary packages are offered, but for much easier work. As of the fifth month of employment, the worker turnover rate goes down. Ensuring sustainable livelihoods has a direct positive effect on worker retention: paying a higher wage helps Rosy Blue retain skilled workers, which ultimately makes it a more profitable company. This is why, as of his or her first day at work, a worker receives a daily wage of 215 baht, with performance incentives. All workers receive subsidised transportation to work (around 15 baht), lunch (around 25 baht), on-site childcare, annual leave and holidays. During the first nine months, the average wage ranges from 230 baht to 245 baht. After 10 months, their salaries increase to 280 baht. The average monthly wage is approximately 10,500 baht, which includes welfare and benefits.  
(ROSY BLUE 2010-2011 Report to Society)
4.4.4 Dutch workwear producer: no wage increase without productivity increase

This medium-sized Dutch textile producer and importer pays its producers by the minute. It uses Kurt Salmon’s Comparison Handbook for the Retail & Apparel Industry to define a reasonable price per minute for a specific country. This price is based on a living wage. According to the workwear company, paying by the minute makes it easier to guarantee a living wage than paying by piece (which is more common in the fashion industry). Still, audits are needed to ensure that the price per minute is divided between the workers and the owner in the correct manner.

Once a price per minute has been agreed upon, the negotiations are about the number of minutes the production of a piece may take. The Handbook also contains guidelines for this. When these standards cannot be met by the producer, he has a productivity problem and will probably demand his workers to work overtime. Instead of allowing this or moving to another producer, the company tries to help its key producers to increase productivity. It does so by encouraging the owner or management to invest in new, more efficient machinery and to advise the management on efficiency increase. The company can do so, because it operates some production facilities abroad itself, and thus has the technical knowledge of the production process.

According to the workwear company, wage improvement can only be achieved if the discussion with producers is about productivity and efficiency, not about wages. If a producer increases wages without increasing productivity, it becomes too expensive and he will lose his customers. Governments can help increase productivity in low wage countries with loans or grants for investments in machinery.

4.4.5 Fair Wear Wage Ladder

Discussions about improving wages have stalled in discussions about what, exactly, constitutes a living wage. Sidestepping these discussions, the Fair Wear Foundation (FWF), together with other multi-stakeholder organisations, has developed a web-based tool mapping wages per country or for specific regions: the wage ladder. This tool should help garment brands and factories to gradually improve workers’ wages.

The ladder graphically shows how wages paid relate to several benchmarks in a specific country. These benchmarks contain both “real” figures, such as the international poverty line, minimum wage and best practices among garment factories, as well as calculated figures as to what a
living wage would be for the country (or region) in question. These calculations are made by government bodies, trade unions and/or NGOs.

The Wage Ladder shows regular wages (for a normal, full-time working week) as well as regular wages plus overtime payments and benefits. In the graph, information is given for several categories of workers (sewing, cutting, ironing, packaging, storage, quality control). The basic wage ladder for each country will be completed with information on wages in factories. The information is collected by local FWF audit teams during factory audits.

FWF affiliates are required to use the information from the wage ladder in the negotiation with the supplier on prices. In those cases where wages are below living wages, they should make sure that the prices offered make it possible to increase wages. This means suppliers should disclose unit wage costs. The first required step is to move to the first line up in the wage ladder. Improvement needs to continue until a level is reached that has been set in a Collective Bargaining Agreement – if there is one.\(^1\)

(Fair Wear Foundation – living wage: FWF policy and practice – November 2010 www.fairwear.org)

4.4.6 Financial institutions, responsible investments and human rights criteria

Financial institutions, such as banks and pension funds, assess the human rights records of companies as part of their due diligence prior to making investment decisions.

**ASN Bank**

In its activities and area of influence ASN Bank will ensure that human rights as set out in national and international law are respected, protected and promoted. To this end we apply exclusion and acceptance criteria in relation to countries and companies.

In the case of companies, the underlying principle is that they will be excluded if they do not respect human rights in all of the countries in which they operate, based on the Universal Declaration of Human Rights and any human rights standards derived from it which relate

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\(^1\) Suppliers to FWF affiliates are required in the short term to pay at least the best practice wage or the legal minimum wage – whichever is higher – as the regular wage. When wages are below the legal minimum wage, urgent action by the factory and the FWF affiliate is required. A time-bound corrective action plan which specifies responsibilities of the involved parties has to be implemented without delay.

\(^2\) In the absence of a reliable Collective Bargaining Agreement in Asian countries, the Asia Floor Wage will be the standard that needs to be worked towards.
to the relevant company’s operations and sphere of influence. Among others, ‘companies which do not pay fair and proper wages’.

ASN Bank would prefer to monitor the actual performance of a company or country in its selection, i.e. at execution level. Often, however, this is not feasible in practice. What ASN Bank can do, is to monitor at policy and process level and to urge companies to arrange for monitoring at execution level by an independent party, whom they pay. ASN Bank will then do its utmost to determine whether the practical execution corresponds with policy. For that purpose ASN Bank will be happy to use other sources, such as NGOs and trade unions, who have determined on-site whether a company or country actually applies the criteria. Where possible, ASN Bank will visit the sites itself. ASN Bank considers something proven when two or more reliable sources report in a similar way. As a rule, ASN Bank also inquires with a company (or investment) itself. Non-denial or non-response to a question by ASN Bank about non-compliance with its criteria is regarded as confirmation.

ASN Bank will do its utmost to investigate whether an investment meet its criteria and whether it will take appropriate measures if such is not the case. Portfolio investments that, based on new information, may no longer comply with the Special Investment Criteria are first examined in detail and then, if deemed necessary, approached for further explanation. A reassessment may then take place.

**APG/ABP**

One of the largest pension funds in the world, the Dutch Algemeen Burgelijk Pensioenfonds (ABP), recently excluded 2 major international corporations from its investment portfolio: Wal-Mart and Chinese Petro China (CNPC). This is because of non-compliance with international corporate responsibility standards (UN Global Compact principles). Wal-Mart did not comply with labour rights or with the right to freedom of association. CNPC was excluded because of its activities in the Sudan and Birma. Despite ABP’s numerous warnings of the companies’ involvement in violations of human rights, their policies did not change.

The APG responsible investment procedure is similar to that of the ASN Bank.

4.5 Conclusion

Companies that want to realise living wages in their international supply chain act in a challenging context and will face a number of obstacles. We must admit that some of the obstacles will not be removed easily, and require action at levels that are beyond the reach of individual companies. However, best practices and other opportunities identified show that it is possible to start realising living wages if a company is dedicated to doing so.
5. Living wage process cycle

In the previous chapters we have made clear what the dimensions of the living wage concept are, how living wages can be calculated and what efforts some companies and stakeholders have already undertaken to implement a living wage in international supply chains, thereby overcoming some of the obstacles that they inevitably face. We have seen that “where there is a will there is a way”, but that progress takes a lot of time too. It takes real commitment from top to bottom, power of persuasion and dedication, and persistence to go forward despite the barriers. Moreover, experience and research show that unique circumstances and combinations of actors and factors are often necessary to achieve results.

In this last chapter we want to look ahead to what can be done in the future by the companies and stakeholders involved, keeping in mind the lessons learned from best practices as well as the contextual and other challenges that prevail. We are well aware that there is no such thing as a simple solution or one right answer to a question on living wage implementation. We have learned, from talking to a substantial number of experts and interested parties, that trying to find an answer to one question often raises more questions to be answered.

It is therefore with modesty that we present a process cycle and an obstacle-solution-support table that could help companies in realising a living wage. It is a model that we consider a starting point for future discussion and future work in the context of the living wage project.

5.1 Assumptions and general recommendations

It should be noted that complex problems that stem from the current structure of the world economy and the international regulatory framework have not been taken into account in the tool presented in this chapter. Production is outsourced to low-income countries because of low wages. In a globalising economy, raising wages in low-income countries hits companies at the heart of their business model and low-income countries in turn risk losing their competitive position. Solving these obstacles would require an international level playing field, although an international (legally binding) regulatory framework is lacking. In addition, economic effects, such as automation as a reaction to higher labour prices, are inevitable in some sectors. Another factor that is often overlooked is the emerging group of consumers in low and middle-income countries themselves: will these ‘new’ consumers require sustainably produced products?

However, in focus group discussions with Dutch companies in April 2012, it became clear that for many companies these unsolved problems prevent them from even starting to implement living wages.

The living wage process cycle and the accompanying obstacle-solution-support table are thus meant for companies who, despite all the complexities they cannot individually influence, are willing to take on the responsibility to start realising living wages in their supply chains.

Furthermore, a number of general recommendations apply to the recommendations made in the table below:
Realising living wages takes time and a process-based approach.

We emphasise that companies should, where possible, work together with industry partners, standards organisations, certification bodies and supply chain initiatives that include living wage in their codes and practices or have set living wage as one of their goals or results. Living wage is not a topic that a company can achieve in isolation.

A multi-stakeholder approach and the involvement of local stakeholders is necessary to ensure sustainability and ownership.

Use existing supply chain initiatives, industry roundtables or initiatives of international organisations to launch the debate, instead of creating new structures.

5.2 Link with Ruggie’s Guiding Principles and due diligence

We have used the guiding principles on business and human rights (commonly known as the ‘Ruggie Framework’, named after Harvard professor John Ruggie who led the long multi-stakeholder process in the UN) as a framework for the living wage process cycle. We have done this to align the living wage implementation process with the overall corporate responsibility to respect human rights, which means to act with due diligence to avoid infringing on the rights of others. Companies that show an interest in implementing a living wage, in our view, will want to integrate this social criterion in their broader policies and codes for corporate responsibility and its implementation processes.

Living wage is a universal human right, embedded in the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights, which, together with the Interna-

tional Covenant on Civil and Political Rights make up the International Bill of Human Rights. By adopting the ‘Protect, Respect and Remedy’ framework, the UN Human Rights Council has affirmed that a company’s minimum responsibility is to respect all human rights. This entails that companies should take into account the potential negative effects on people and prevent and mitigate them through human rights due diligence, including where it concerns impacts through company’s relationships (e.g. suppliers, contractors, governments). In short, ‘respect’ is the intended result, and human rights due diligence is the process by which to achieve and demonstrate the result (Global Compact Network Netherlands, 2010).

Human rights due diligence is an on-going process, whereby “companies become aware of, prevent, and mitigate adverse human rights impacts”. While drafting a roadmap for living wage implementation, we can look at the four core elements of human rights due diligence, as outlined in the 2008 UN Report (Ruggie, 2008). Note that we also refer to the guidance tool of the Global Compact Netherlands (2010).

5.3 Presentation of the living wage process cycle

The living wage process cycle shows the five-step process towards realising a living wage in the supply chain. The process is circular, instead of linear, because in our view, continuous improvements can be made by starting (some elements of) the cycle again.
On the basis of desk research, interviews and focus group discussions with companies and NGO’s, we have identified the main obstacles that companies experience in working towards the realisation of living wages in their supply chain. In the obstacle-solution-support table, we have systematically listed the obstacles faced in each of the five steps of the process cycle. We have identified what companies can do themselves to remove the obstacle, where they need support from other stakeholders and which concrete actions are required to solve the issue. 

The colours of the cells in the table are used to prioritise actions and to identify obstacles on which (partial) progress can be made. It must however be noted that green, orange and red issues are strongly interrelated and, in the long term, one cannot be realised without another.
### 5.4 Obstacle – Solution – Support table

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Solution</th>
<th>Support from other stakeholders</th>
<th>Actions required from other stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the components of a living wage according to our company?</td>
<td>Core components are the minimum (basic needs: food, housing, clothing and other costs). An additional component is discretionary income. Preconditions: take-home pay, normal working week is 48 hours. Organise brainstorm sessions in company, and/or with stakeholders to determine the living wage components appropriate to the company.</td>
<td>Various supply chain initiatives have defined the components of a living wage. Consult the ILO Helpdesk.</td>
<td></td>
</tr>
<tr>
<td>How to calculate a living wage?</td>
<td>On the basis of the living wage components you could use the following approach: 1. A market basket study to establish food consumption on the basis of 3000 calories 2. Percentage for housing, clothing and other costs (50% food expenditure of total income in developing countries), X 2 3. X 2 for family needs (family of 4, 2 full-time workers) 4. X 105 or 110% discretionary income 5. Variable components are the family size, no. of workers per household, number of calories. Make reasonable adjustments for in-kind facilities provided by the company, such as health care, transport, housing. Share a common industry database for living wage calculations.</td>
<td>Consult (local) stakeholders: e.g. the Asia Floor Wage Alliance, international and local trade unions, labour research institutes, labour NGOs and (local) governments. Join a supply chain initiative that includes living wage in its code of conduct or standard, or as an equivalent has indicated the objective of working towards realising living wage.</td>
<td>Copy the Asia Floor Wage to other regions and sectors.</td>
</tr>
</tbody>
</table>

DEFINING AND CALCULATING A LIVING WAGE

**Step I: Define and adopt a living wage policy**

**Step II: Assess impacts of company activities on wages**

- **DEFINING A LIVING WAGE**
  - Core components are the minimum (basic needs: food, housing, clothing and other costs).
  - An additional component is discretionary income.
  - Preconditions: take-home pay, normal working week is 48 hours.
  - Organise brainstorm sessions in company, and/or with stakeholders to determine the living wage components appropriate to the company.

- **CALCULATING A LIVING WAGE**
  - On the basis of the living wage components you could use the following approach:
    1. A market basket study to establish food consumption on the basis of 3000 calories
    2. Percentage for housing, clothing and other costs (50% food expenditure of total income in developing countries), X 2
    3. X 2 for family needs (family of 4, 2 full-time workers)
    4. X 105 or 110% discretionary income
    5. Variable components are the family size, no. of workers per household, number of calories.
  - Make reasonable adjustments for in-kind facilities provided by the company, such as health care, transport, housing.
  - Share a common industry database for living wage calculations.

Supply chain initiatives should include living wage/income in their codes and standards. In order to emphasise the process approach, this should be a combination of the ultimate goal (a living wage) and concretely defined progress indicators, according to internationally acknowledged parameters and lessons learned from advanced supply chain initiatives (e.g. SA8000).

NGOs, trade unions, local governments and OECD countries’ embassies should make more local data available in a systematic way.
### DEFINING AND CALCULATING A LIVING WAGE

**Step I: Define and adopt a living wage policy**

**Step II: Assess impacts of company activities on wages**

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<tbody>
<tr>
<td>Lack of country and region-specific living wage estimates.</td>
<td>Wage ladder approach: compare living wage with various local benchmarks from local trade unions, NGOs, official poverty line, etc.</td>
<td></td>
<td>NGOs, trade unions and local governments should make more local data available in a systematic way.</td>
</tr>
<tr>
<td>Living wage estimates may be subjective and overstated.</td>
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<td></td>
<td>Copy the Fair Wear Wage ladder to supply chain initiatives in other sectors.</td>
</tr>
<tr>
<td>Calculating a living wage for hundreds or thousands of suppliers implies enormous costs for local research and audits and brings along a huge administrative burden.</td>
<td>Prioritise your approach. If wages are collectively bargained, focus resources on other regions. Use PPP calculations to extrapolate to other developing countries. When calculating a living wage that needs to be applied to different countries and regions, identify a bandwidth of the market basket of food for one country.</td>
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</table>

### BUSINESS CASE

**Step III: Integrate values and findings in corporate culture and (supply chain) management**

<table>
<thead>
<tr>
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<th>Solution</th>
<th>Support from other stakeholders</th>
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</thead>
<tbody>
<tr>
<td>There is no clear business case for buyers or suppliers to raise wages or incomes.</td>
<td>Identify, together with your supplier, how increasing wage costs may be compensated by:</td>
<td>Identify business cases in a government or NGO-supported pilot project (e.g. IDH).</td>
<td>Develop a tool with which companies can calculate their company-specific business case, based on experiences/best practices in a specific sector.</td>
</tr>
<tr>
<td></td>
<td>• productivity and efficiency improvement (refer to row below);</td>
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<td></td>
<td>• absorbing wage costs elsewhere in the supply chain;</td>
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<td></td>
<td>• increasing the consumer price;</td>
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<td></td>
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<tr>
<td></td>
<td>• attracting skilled labour and lowering employee turnover, which limits training costs.</td>
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<td></td>
<td>Benefits may be intangible as well:</td>
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<tr>
<td></td>
<td>• suppliers that pay living wages are often professionally managed companies;</td>
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<td></td>
<td>• a happy workforce leads to increased productivity and quality, although this is difficult to prove by numbers;</td>
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<td></td>
<td>• stable, longer-term relations between buying and supplying companies and the chance to become a preferred supplier;</td>
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<tr>
<td></td>
<td>• better reputation.</td>
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## BUSINESS CASE

***Step III: Integrate values and findings in corporate culture and (supply chain) management***

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<tr>
<td>Production costs of suppliers are (too) high. This is related to low productivity, high staff turnover, excessive overtime, the absence of good planning and the rising prices of inputs such as electricity and fuel. The productivity of agro-commodity producers is affected as well by aspects such as climate and soil fertility.</td>
<td>Identify possibilities for productivity and efficiency improvement: e.g. more efficient use of energy and water, improved HR management, lower worker turnover, lower worker absence, more efficient production process, state of the art machines, etc.</td>
<td>Include this in a government or NGO-supported pilot project (e.g. IDH, Solidaridad).</td>
<td></td>
</tr>
<tr>
<td>There is no business case for financing a complex process for the supplier that needs to implement living wage.</td>
<td>Make investments in these processes tax-deductible.</td>
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<td></td>
</tr>
<tr>
<td>Margins (taxes, etc.) on the raised production costs may add up in each stage of the supply chain, leading to higher consumer prices.</td>
<td>More research needs to be done on whether a ‘clearing fund’ to avoid extra margins would be a possibility.</td>
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</table>
### MULTI-STAKEHOLDER APPROACH AND INVOLVING LOCAL STAKEHOLDERS

**Step III: Integrate values and findings in corporate culture and (supply chain) management**

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<tr>
<td>Collective and/or supplementary factory level bargaining is non-existent and does not function.</td>
<td>Make clear to the supplier that you respect the freedom of association and collective bargaining (ILO) and that you see this as the best way of improving wages. Engage in a dialogue with the supplier’s management. If (capable) local trade unions or labour NGOs are present, engage them as much as possible in calculating and implementing a living wage.</td>
<td>Some supply chain initiatives and OECD government-supported initiatives provide this training. International and local trade unions and labour NGOs can provide training and support the establishment of a worker-management dialogue.</td>
<td>OECD governments: support (supply chain initiatives including) trade union activities in developing countries, such as training on social dialogue programmes, taking into account national/local legislation on this matter. International trade unions and OECD governments: invest in capacity building of local trade unions and farmer organisations. OECD governments: address the importance of social dialogue in government-to-government and multilateral diplomatic dialogue.</td>
</tr>
<tr>
<td>Trade unions reach few in the informal economy and agricultural activities.</td>
<td>Together with local stakeholders and/or supply chain initiatives: • inform workers; • train workers; • invest in the worker-management dialogue.</td>
<td>Supply chain initiatives should engage international/local trade unions or (labour) NGOs in participatory monitoring and verification. Trade unions: organise information sessions and collective bargaining training in developing countries, possibly at factory level in cooperation with buyers and suppliers.</td>
<td></td>
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### BUYER – SUPPLIER RELATION

**Step III: Integrate values and findings in corporate culture and (supply chain) management**

**Step IV: Track performance and report**

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<tr>
<td>Implementing a living wage at hundreds or thousands of suppliers implies enormous costs for local research, project management and audits, and brings along a huge administrative burden.</td>
<td>Start in the smaller core group of first tier strategic suppliers. Business relations with these suppliers are more stable and the company may already invest in the technical and management capabilities of these suppliers. These enabling conditions can be utilised to discuss and invest in labour conditions.</td>
<td>Identify where you have leverage, i.e. where you buy the majority of the output, have a long-standing relationship with the supplier, collaborate with other buyers, etc., and start there.</td>
<td>Cooperate with other buyers to create leverage. Work towards a level playing field by joining existing supply chain initiatives.</td>
</tr>
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### BUYER – SUPPLIER RELATION

**Step III: Integrate values and findings in corporate culture and (supply chain) management**

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<tr>
<td><strong>In a race for orders, suppliers may undercut each other to win an order.</strong></td>
<td>Integrate living wage policy in all business operations, including purchasing practices and business planning, long-term and predictable relations with supplier.</td>
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</tr>
<tr>
<td><strong>Short delivery times and last-minute orders give suppliers no other choice than to subcontract production to a supplier that is unknown to the buyer.</strong></td>
<td>Sustainable labour costing: ring-fence labour costs allowing for a living wage in price negotiations. Buyers would need to have the unit labour costs of a product at their disposal in order to calculate a living wage addition to the normal price.</td>
<td></td>
<td>ILO: Benchmark country and industry-specific production costs and standard minute values of companies in order to see whether these are realistic.</td>
</tr>
<tr>
<td><strong>There is often no transparency on labour cost input on the side of suppliers. Correlatively, buyers cannot trust suppliers to raise wages if higher prices are paid for the goods.</strong></td>
<td>Communicate the initiative of working towards higher wages to workers.</td>
<td>Cooperate with a supply chain initiative that treats producer’s information confidentially.</td>
<td>Supply chain initiatives should ensure that they treat producer’s information confidentially. In this way the supply chain initiative becomes a third neutral party.</td>
</tr>
<tr>
<td><strong>Primary production has always been characterised by low margins for producers. Smallholders operate on a small scale and productivity is often low. Against this background, how could certification (including possible price premiums) lead to a living income?</strong></td>
<td>Contribute to supply chain initiatives and programmes that increase productivity, scale and quality, and may in this way indirectly raise a farmer’s income. This can be achieved through investing in organisation, education on good agricultural practices, access to finance, access to market information and access to infrastructure. Certification of agricultural (or any other) products should not be an independent goal, but a means towards increased productivity and income.</td>
<td>Support from NGOs, initiatives, (government-supported) supply chain initiatives.</td>
<td>Measure the impact of supply chain initiatives (including those providing certification) on productivity, income and wage increases. Adjust strategies where necessary on the basis of these outcomes.</td>
</tr>
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### AGRO-COMMODITIES

**Step III: Integrate values and findings in corporate culture and (supply chain) management**

**Step IV: Track performance and report**

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</table>
Informal labour relations, the casualisation of labour and the shift of production from plantations towards smallholders complicate monitoring and verification of living wages and incomes. If a certified producer is not able to sell 100% of the harvest as certified, the risk and ‘extra costs’ of paying a living wage over the total production have to be absorbed by the producer.

Support the supplier in setting up an administration including individual work contracts, detailed pay slips, individual working hours, wages or piece rates paid.

More research needs to be done on how companies and certification bodies should deal with this: shall the risk be shared, covered by the supplier or covered by the buyer?

**MONITORING AND VERIFICATION**

**Step IV: Track performance and report**
**Step V: Integrate grievance mechanisms in stakeholder management**

<table>
<thead>
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<th>Actions required from other stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>How to ensure meaningful implementation and credible auditing of living wage requirements in a code of conduct?</td>
<td>Have local representatives in sourcing regions. They can build long-lasting relationships with suppliers, civil society and trade unions.</td>
<td>Supply chain initiatives: Define concrete key indicators monitoring process (activities undertaken in order to increase wages) and performance (increase of wages).</td>
<td>Supply chain initiatives: Involve local trade unions and labour NGOs in monitoring and verification exercises. This will improve reliability. International and local trade unions and labour NGOs: Build the capacity of workers and their representative organisations to participate in the monitoring and verification system.</td>
</tr>
</tbody>
</table>
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The appendices of this report are available on www.berenschot.nl/livingwage
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