Committee on International Corporate Social Responsibility

Living Wage brochure

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Introduction

Thanks to globalisation, our jeans and smartphones are manufactured not in Europe but elsewhere, for less money. That can be advantageous for the relevant businesses and consumers, but there are also risks involved, and the risks that international enterprises run often differ from the ones we are accustomed to in Europe. For example, they may find themselves implicated in unsafe working conditions or human rights violations, and they also cannot assume that workers are paid a living wage.

The legal minimum wage in emerging markets and developing countries is often much lower than a living wage. In other cases, the minimum wage is high enough in theory but not applied or enforced in practice. To earn enough to survive, employees then have to work very long hours, putting their physical and mental health at risk. Low wages can be a poverty trap for workers, and often lead to child labour.

The introduction of a living wage creates opportunities to protect human rights and promote sustainable growth in producing countries. It can also support the efforts of businesses (on both the supply and the demand side) to retain employees, boost quality and productivity, and improve their reputation.

This brochure is meant for businesses that want to work towards paying a living wage but are not sure how to go about it. It looks at international guidelines that hold global enterprises responsible for introducing a living wage. It also shows that when businesses work towards paying a living wage, they too may benefit.

Although we know of only a few cases where workers are actually paid a living wage, there are various ways to work towards that aim. This brochure explains some of those ways and points out opportunities and obstacles.

Why pay a living wage?

Businesses have a responsibility
In many western nations, government, employers' associations and trade unions, consumers, and civil society organisations expect businesses to comply with the principles of corporate social responsibility (CSR). At international level, these expectations have been enshrined in the OECD Guidelines for Multinational Enterprises, the United Nations' Guiding Principles on Business and Human Rights (UNGPs), and the fundamental labour standards of the International Labour Organisation (ILO), which are part of the UNGPs.

One of the key concepts in each of the above is "due diligence", also known as "CSR risk management". Due diligence is the process whereby businesses identify, prevent and limit the actual and potential negative impact of their actions and explain how they deal with identified risks. In CSR-related due diligence, the emphasis is not on the risks that the business is facing but rather on the rights of workers, local communities and other stakeholders and the potential and actual risk of negative impacts on them.

For more information:
- OECD Guidelines for Multinational Enterprises: *link*
- UN Guiding Principles on Business and Human Rights: *link*
- NEN *Handleiding voor de integratie van due diligence in bestaande risicomanagementsystemen*: *link*

Opportunities for businesses too
A living wage is not just an expense; it is also an opportunity. Specifically, the higher costs that come from paying a living wage are compensated by benefits related to quality, productivity and reputation. Some examples:
- The business will be able to attract and retain skilled employees, with an associated reduction in the cost of education and training; happy employees are more productive.
- It will avoid the expense of strikes and labour conflicts.
- It will be able to cut costs elsewhere in the supply chain.
- It will have stable and lasting relationships with suppliers; suppliers who pay (or want to pay) a living wage are often well-organised businesses.
- It may qualify for sustainability certification, and might be able to charge a higher consumer price for its product.
- It will enjoy a good reputation and run less risk of negative publicity in the media about poor working conditions.

What is a living wage?

Definition
The United Nations' Universal Declaration of Human Rights (1948) states that "everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity". The OECD Guidelines recommend paying a wage that "should be at least adequate to satisfy the basic needs of the workers and their families". The ILO describes a living wage as "the level of wages sufficient to meet the basic living needs of an average-sized family in a particular economy."

Social Accountability International (SAI) gives a more detailed definition of a living wage: "The remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events." A living wage may therefore differ from one country, region or even city to the next.

One methodology for estimating living wage levels is the Anker method. Businesses with SA8000 certification (the SAI's auditable social certification standards for decent workplaces) have committed themselves to this definition and method (see below under "Working with initiatives in the sector or supply chain").

Another method is the Asia Floor Wage (AFW), launched by the Asia Floor Wage Alliance, a global coalition of trade unions, workers' rights and human rights organisations. The method uses purchasing power parity to estimate what a living wage is for garment workers in various countries across Asia.

The difference between what workers in a specific country actually earn and the estimated living wage there may be so huge that introducing a living wage all at once would be disruptive to the national economy. It is partly for that reason that a gradual introduction might be a better option, for example using the Wage Ladder developed by the Fair Wear Foundation (FWF). The Wage Ladder shows how a worker's current wages compare to the minimum wage, the poverty line, and various definitions of a living wage. It also compares wages between different departments and between male and female employees in those departments and indicates what wages are paid by local factories known for their "best practices".

For more information:
- Fair Wear Foundation living wage portal: *link*
- Social Accountability International: *link*
- Asia Floor Wage: *link*
- FWF Wage Ladder: *link*

The living income problem
Alongside the "living wage", there is also the concept of a "living income". For example, farmers who own their own farms are not employees and therefore do not receive wages. They earn an income. Living income is essentially the same as living wage; farmers must earn enough money to be able to support themselves and their families.

This brochure focuses mainly on living wage.

Working through trade unions and social dialogue

Fairfood and FNV: Training trade unionists in Morocco

Morocco is the top non-European supplier of tomatoes to the European Union. More than 90% of Moroccan's exported tomatoes are sent to the Union.

The labourers who pick and pack the tomatoes often work for low wages and in poor conditions. Women workers vastly outnumber men in the agricultural sector in developing countries. Besides working, women also play an important role in child-rearing and in supporting their parents, financially and otherwise. Men are more likely to work in management jobs or the skilled trades. Exploitation and sexual abuse are common.

Fairfood International has brought the plight of tomato workers to the attention of major European retailers. By engaging them in dialogue, Fairfood hopes that tomato workers in the supply chain will at least receive a fair wage.

Fairfood has also worked with Dutch trade union FNV Bondgenoten to train tomato workers and members of the FNSA, the trade union in the Moroccan agriculture sector. The training focuses on:

- knowing the rights of workers under Moroccan labour law;
- understanding how to improve the position of women at work and in unions and how men and women can support one another in this regard;
- learning strategies for uniting and organising workers;
- practising how to speak out, work in groups, make proposals, take decisions, and debate.

Some businesses in the Moroccan agricultural sector have already raised wages or introduced bonus systems. They are now running buses to transport the workers. A number of growers have also tackled the risks associated with pesticides, for example by informing workers about them or by switching to organic pesticides.

There may also be benefits for the European retailers concerned. Specifically, the rising costs that come from paying higher wages and improving working conditions can be compensated by benefits related to quality, productivity and reputation.

In keeping with the freedom of association and the right to bargain collectively – employees and employers in production and supply chains enter into dialogue with one another to negotiate a wage. These rights are not respected in many developing countries, however. The government or employers decide what wage will be paid. It is by no means certain that wages will be negotiated, in other words.

To support the process of wage negotiation, trade unions in Europe can seek out independent unions in the countries where production takes place. They can also offer help in organising workers into a trade union movement if one does not exist.

The Joint Turkey Programme (JTP) is a partnership between Next, Inditex, Topshop/Topman and the global IndustriALL union whose purpose is to introduce the freedom of negotiation and association, thereby fostering sustainable working practices in the suppliers' factories. JTP organises workshops to remind both employers and workers of their rights and responsibilities and to explain the opportunities created by corporate social responsibility.

Raising wages at suppliers

Nudie Jeans: supplement per garment

In 2013, the Swedish clothing company Nudie Jeans decided to pay a living wage in its factory in India, and to pay it directly to the factory workers. Nudie Jeans is a relatively small brand. The company does not own its own factories, nor is it a major contractor in any one factory. That means it was unable to ensure that the factory workers received a living wage. Instead, it has estimated what the living wage should be per garment and sees that the factory workers receive this by paying them a bonus on top of their wages. However, unless a worker only produces garments for Nudie Jeans, he or she will still not earn a living wage.

Nudie Jeans works with the Fair Wear Foundation (FWF) to ensure that the money is actually paid out to the factory workers. The FWF checks whether Nudie Jeans' share of living wage is reported on the workers' payslips.

A business can work towards a living wage by increasing the workers' wages directly. The first step is to estimate what a living wage is in the region in which its factory is located. Without an intermediary, it is difficult to guarantee that the money actually ends up in the factory workers' pockets. Major brands can conduct their own audits, but even smaller businesses can work with a trade union or NGO that will perform the audit for them.

The business may only be one of many enterprises that contract out work to a manufacturer, or it may only contract out work for part of the year. If that is the case, it may be difficult to persuade the other contractors to pay a higher price as well.

But it can at least pay a living wage for its share of the work. It should start by estimating what the piece rate would be for a living wage. That means dividing the actual living wage by the maximum number of items that a worker can produce in the time available. It can then pay out the additional sum to the workers as a bonus.

Switcher, a Swiss fashion and promotional wear company that accounts for only a small portion of its factory's production, deposits the entire bonus amount into a worker-managed fund so that the workers can decide for themselves how to spend it.

For more information:

- Fair Wear Foundation living wage portal: *link*

Involving government

Public-private initiative in Malawi tea sector

In 2008, the Centre for Research on Multinational Corporations (SOMO) reported that tea plantation workers in Malawi, the largest tea-producing country in Africa after Kenya, were living below the poverty line. All the plantations, whether owned by foreign or local enterprises, paid the same low wages. The wages were set by the Tea Association of Malawi, in which tea plantation workers were not represented. Although the freedom of association is enshrined in Malawi's constitution and trade unions existed on paper, there were no unions that actually negotiated wages in the tea industry.

In 2010, Oxfam, IDH Sustainable Trade Initiative and the Ethical Tea Partnership (ETP) launched the Tea Improvement Programme (TIP) to improve wages in the tea sector and work towards introducing a living wage.

The TIP is a coalition of tea companies, purchasers and dealers, wage experts, trade unions, NGOs and the Malawi government. After a series of meetings, the TIP set up a Task Force for Collective Bargaining with various unions among its members. The Task Force is chaired by Malawi's Minister for Agriculture.

Workers in many producing countries are not paid enough to support themselves and their families. Some of these countries do have a legal minimum wage, i.e. the lowest amount in wages that an employer is obliged to pay an employee. However, even if a minimum wage has been enacted into law, it is often much lower than a living wage.

An increase in the legal minimum wage helps many workers and their families get ahead and levels the playing field for businesses. But governments in low-wage countries often resist increasing the minimum wage because they believe it will scare businesses into moving their production facilities elsewhere.

Some companies have taken steps to encourage governments to increase the minimum wage. One example is garment retailer H&M, which has asked the governments of Bangladesh and Cambodia to review their minimum wage annually and indicated that it would adjust wages accordingly. A statement of this kind shows a government that the company will not abandon the country if it raises the minimum wage.

For more information:

- IDH Sustainable Trade Initiative: *link*

Setting up a model factory

Prize for 'Future Factories'

In November 2014, Made in Africa won the Living Wage Innovation Challenge, an annual €100,000 prize awarded by the C&A Foundation and The Hague Institute for the Internationalisation of Law (HiiL). Made in Africa is pioneering the 'Future Factory' model: in its textile plant in Liberia, 300 employees are paid above-market wages (20% more than the average civil service wage) and also have access to free health care and education. Ninety percent of the employees are women, and 95% of their children are in school.

Made in Africa lends factories money at much lower rates of interest than the market rate. In exchange, the factories must improve their social and environmental standards, with Made in Africa's assistance.

Brands or businesses that are big enough to be a sole contractor or factory owner have a good chance of introducing a living wage there. Some businesses have carried out pilots with model factories that pay a living wage and maintain good working conditions.

H&M is one of the companies in the garment industry that works with ethical model factories. H&M does not own any factories, but works to build lasting relationships of trust with factory owners. Nevertheless, it proved difficult for H&M to introduce a living wage in those factories. For example, raising a factory seamstress's pay put her wages on par with that of a teacher outside the factory, which in turn put the country's wage structure at risk. The factory also had to increase the wages of other employees, since the difference between a seamstress and a manager would be too small otherwise.

Another company that works with ethical model factories is Rosy Blue, a diamond manufacturer. Diamond cutting and polishing is a highly specialised skill. Rosy Blue has to train the people who work in its factories itself. It can pay its skilled workers a relatively high salary without undermining the country's wage structure.

By using a Wage Ladder to gradually introduce a living wage, a business can give the region more time to catch up with the new wage trend.

Working with initiatives in the sector or the supply chain

The “true price” of flowers from Kenya

True Price is a not-for-profit social enterprise that provides businesses, NGOs and governments with the information they need for risk, innovation and stakeholder management. True Price tries to make the “true price” of a product clear by analysing its social, economic and environmental impact.

The international development organisation HIVOS asked True Price to perform an impact analysis of the Kenyan flower-growing sector in order to identify a business case for sustainable rose farming. True Price looked at international CSR (ICSR) risks that are not factored into the price of roses, such as living wages, climate change and land use. The “true price” is thus the retail price plus all external social and environmental costs. The retail price of a rose is € 0.70. The “true price” adds another € 0.15 in environmental costs and a further € 0.07 in social costs. On the social end, low wages constitute the biggest impact; on the environmental end, it is the use of non-renewable sources of energy. If those impacts were factored into the price of roses, they would cost approximately 30% more in the Netherlands than they do now.

True Price recommended various ways to reduce these costs, based on existing innovations in the sector. It considered how such innovations could cut the external costs and what that would mean for profitability per hectare. The study showed that worker health & safety training and more environmentally responsible transport by sea would reduce the social and ecological footprint and thus lower costs.

International trade often involves problems that businesses cannot solve on their own. For example, many sectors do not work with margins expressed in absolute numbers, but in percentages. If a business raises a worker’s wages, then it will also increase its prices, for example for leasing or transport, by the same percentage. Paying a few cents more for a T-shirt at the start of the chain often means that the same T-shirt sells for several euros more at the end of the chain.

Businesses that want to take steps towards a living wage can often achieve more by joining an alliance in their sector or supply chain. Such initiatives often have the support of NGOs or multistakeholder initiatives such as the Fair Wear Foundation.

Another option is to apply for certification under a quality label, but it is important to find out whether living wage is a specific part of the certification process. One example is certification under the SA8000 standard issued by Social Accountability International (SAI). The demand for certified products has grown considerably in recent years.

A number of labels or certification institutes have now joined forces in the ISEAL and cooperate with one another on promoting a living wage. They are Fairtrade International, Forest Stewardship Council, GoodWeave, Sustainable Agriculture Network/ Rainforest Alliance (SAN/RA), Social Accountability International and UTZ Certified. These organisations all apply the same definition of living wage and use the same methodology to identify what a living wage is in different countries and regions.

For more information:

- True price: *link*
- Social Accountability International: *link*