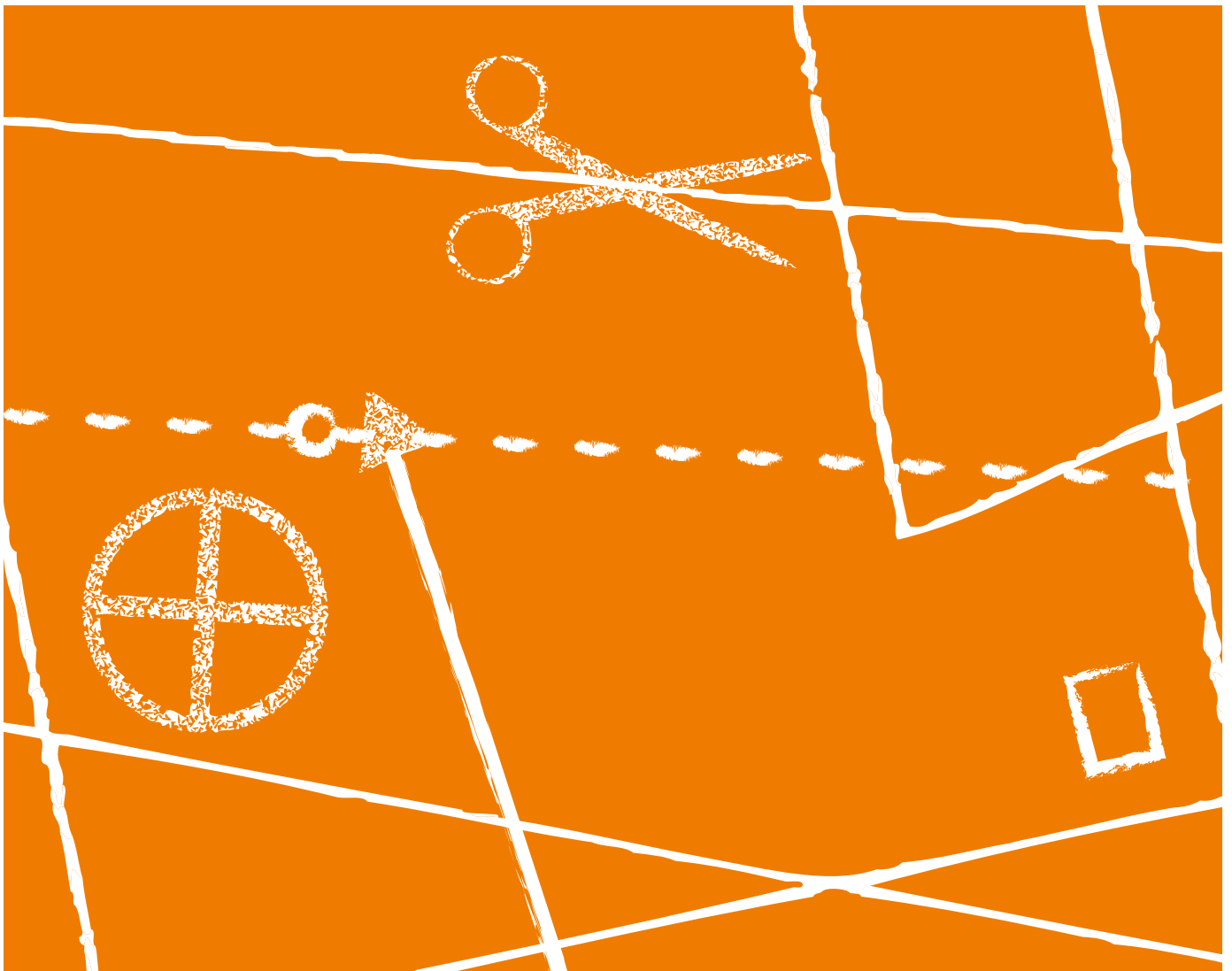


# Implementing Living Wages

Practical Approaches for Business



# Contents

## **Introduction**

Why talk about living wages? .....	03
What is a living wage? .....	04
Why do wages in the garment sector remain low? .....	07

## **Practical steps to implementing living wages**.....08

Analyse wage situation and risks in the supply chain.....	09
Analyse purchasing practices and sourcing strategy .....	11
Define strategy and policies for living wages.....	12
Implement strategy .....	13
Adjust purchasing practices .....	13
Contribute to improved pay systems in factories.....	15
Promote freedom of association, social dialogue and collective bargaining .....	16
Monitor progress and share learnings.....	17
Install effective grievance mechanisms .....	19

## **Outlook**..... 20

## **Appendix: Definitions of a Living Wage**.....21

# Introduction

A living wage enables a decent living for a worker and her or his family. However, today in most textile and garment producing countries, workers earn wages that are not sufficient for a decent standard of life. Raising workers' wages therefore is one of the most urgent areas for improvement in the fashion and textile industry. Although most fashion brands do not set wages of production workers, they have a key role to play in promoting systemic change on the wage front.

To address the systemic challenge of improving wages, **industry-wide collaboration** is needed. Here, working together with suppliers is vital, as is supporting key mechanisms for change, such as promoting freedom of association and collective bargaining. The responsibility for absorbing any increased wage costs should be shouldered jointly by all stakeholders, rather than passed on to suppliers only.

This guidance document intends to create a better understanding of the complex topic of living wages and to support members of the Partnership for Sustainable Textiles in implementing living wages along their supply chains. It introduces the concept of living wages, presents realities that currently undermine sustainable wage increases and presents **practical steps that fashion brands and retailers can take to move towards continuous wage increases in their supply chains**.

## Why talk about living wages?

In the textile industry, the idea of a living wage gained momentum as early as in the 1990s, in connection with the debate around sweatshops in garment producing countries. Since then, various non-governmental organisations (NGOs), among them most prominently the Clean Clothes Campaign (CCC), have been campaigning for living wages in the textile industry. Over the past years, these campaigns have received increasing support from consumers, who want workers to earn decent wages.

After all, **living wages constitute a fundamental human right**. Living wages feature in key international agreements such as the Constitution of the International Labour Organisation (ILO) or the **Universal Declaration of Human Rights** (1948). The latter states that: "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services." More recently, the **UN Guiding Principles on Business and Human Rights** and the **OECD Guidelines for Multinational Enterprises** have highlighted the need for companies to work towards implementing living wages.

In addition, living wages are relevant to a number of the seventeen UN Sustainable Development Goals (SDGs). For instance, they contribute to fighting poverty and hunger, ensuring healthy lives and decent work conditions and reducing inequalities (see Figure 1).

However, in most of the textile and garment production countries, wages today are far from a living wage level. For this reason, in early 2019 the CEO Global Fashion Agenda, a forum for industry collaboration on sustainability in fashion, stated that wages are one of the most crucial sustainability priorities for the fashion industry for the years to come.<sup>1</sup> As the Ethical Trading Initiative (ETI) notes,

<sup>1</sup> Global Fashion Agenda (2019): CEO Agenda 2019.

there is also a **clear business case for investing in living wages**: Workers with salaries that meet their needs are likely to perform better, gain new skills, take fewer days' sick leave and remain loyal and motivated, thereby reducing absenteeism and staff turnover, and improving productivity and profit.<sup>2</sup>

**Living wages also represent a key priority for the Partnership for Sustainable Textiles (PST).**

Since 2019, it is mandatory for Partnership members to actively work on the implementation of living wages in their supply chain and to report on their progress.<sup>3</sup>

## What is a living wage?

The concept of a living wage entails some complexities that are worth untangling. At the same time, it must be acknowledged that there is no ultimate agreement on a definition or calculation model. However, working towards the establishment of living wages can begin with a loose definition, and an understanding of the different approaches and factors playing into wages.

To begin with, it is necessary to delimit the idea of living wages from the concept of a minimum wage. In general terms, wages refer to gross remuneration, i.e. the total remuneration in cash and in-kind-payment to employees before any deductions like taxes, pensions or social security (ILO C95, Art. 1).<sup>4</sup>

### Minimum wages

The ILO defines minimum wages as the minimum amount of remuneration that an employer is legally required to pay for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract.<sup>5</sup> Around 90% of the ILO member states have set legally binding minimum wages.<sup>6</sup> Yet, while the ILO promotes the setting of minimum wages, it does not prescribe which wage components to include into a minimum wage, or which methodology to use to determine a minimum wage. As a result, in some countries minimum wages refer only to the basic wage, whereas in others more components are included. Minimum wages also vary in the number of working hours they relate to and whether they include overtime or not. Due to these and other factors, monthly minimum wages differ substantially across garment producing countries.

In theory, minimum wages are a policy instrument for achieving decent standards of living and for reducing poverty and inequality. In practice, however, minimum wages are often set at a level that is far below to achieve this goal. In many countries, minimum wages are set in tripartite negotiations, i.e. politically negotiated between national governments, worker representatives and industry representatives. In these negotiations, power relations are often not in favour of workers. In addition, the intense competition between sourcing countries to attract international investments influences these negotiations to an extent that workers suffer from a global competition on wages. As a result, the ILO itself notes that there is no guarantee that minimum wages protect workers against unduly low pay.<sup>7</sup>

### Living wages

Contrary to minimum wages that are politically set, the concept of a living wage starts from the perspective of the individual, envisaging a certain standard of well-being for a worker and her or his

2 [https://www.ethicaltrade.org/sites/default/files/shared\\_resources/eti\\_living\\_wage\\_guidance\\_2.pdf](https://www.ethicaltrade.org/sites/default/files/shared_resources/eti_living_wage_guidance_2.pdf)

3 [www.textilbuendnis.com/wp-content/uploads/2018/02/targets-overview-2017.pdf](http://www.textilbuendnis.com/wp-content/uploads/2018/02/targets-overview-2017.pdf)

4 An overview of the various definitions referred to in this guide, and more, can be found in Appendix

5 <https://www.ilo.org/global/topics/wages/minimum-wages/definition/lang-en/index.htm>

6 ILO (no date). Minimum Wage Policy Guide. [www.ilo.org/wcmsp5/groups/public/---ed\\_protect/---protrav/---travail/documents/publication/wcms\\_508566.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_508566.pdf)

7 [www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_235287.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_235287.pdf) (p27, para 51)

Figure 1: Living Wages and the SDGs



family. Although a uniformly accepted definition of a ‘living wage’ does not exist, **a living wage represents broadly speaking the remuneration needed for achieving a decent standard of living for a household.**

Since the understanding of a decent standard of living differs, different stakeholder groups have – over the past years – put forward various living wage benchmarks with different underlying definitions and calculation methods.

One prominent and widely accepted definition of a living wage has been developed by Richard and Martha Anker on behalf of the **Global Living Wage Coalition (GLWC)**.<sup>8</sup> They define a living wage as

<sup>8</sup> The Global Living Wage Coalition brings together Fairtrade International, GoodWeave International, the Rainforest Alliance, and Social Accountability International (SAI), in partnership with the ISEAL Alliance and international living wage experts Dr. Richard Anker and Ms. Martha Anker.

“the remuneration received for a standard workweek 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, transportation, clothing, and other essential needs including provision for unexpected events.”<sup>9</sup>

Within the textile industry, another benchmark and calculation method has been put forward by the **Asia Floor Wage Alliance** (AFWA), a global coalition of trade unions, workers’ rights and human rights organisations. According to the AFWA, the wage they propose would be enough for workers to live on, in dignity and safety.<sup>10</sup> This includes housing, food, education and healthcare of a worker and their dependents. Figures that AFWA has released for the textile industry in Asia indicate the gap that exists between minimum wages and a living wage (see Figure 2). According to their calculation method, minimum wage levels fall far below a wage that a person could live on.

**Figure 2: Wage gaps – minimum vs. living wages**

	<b>India (Rps)</b>	<b>Indonesia (Rupiah)</b>	<b>Bangladesh (Taka)</b>	<b>Cambodia (USD)</b>	<b>China (RMB)</b>	<b>Turkey (TLR)</b>
Minimum wage	8,609	2,583,556	8,000	182	2,200	2,030
Union demand for minimum wage increase or circulation	18,000	4,200,000	16,000	189	–	5,331
Asia Floor Wage 2017	23,588	5,886,112	37,661	504	4547	–
Living wage estimate	–	–	–	–	–	6,130
Minimum wage as percentage of living wage (AFW or LW estimate)	36%	43%	21%	36%	46%	37%

Source: <http://labourbehindthelabel.net/wp-content/uploads/2019/06/TailoredWagesUK-FP-updated.pdf>

The initiative **Action Collaboration Transformation** (ACT) defines a living wage as “the minimum income necessary for a worker to meet the basic needs of himself/herself and his/her family, including some discretionary income. This should be earned during legal working hour limits (i.e. without overtime).” ACT is an agreement between global brands and retailers and trade unions dedicated to addressing the issue of living wages in the textile and garment supply chain. ACT refrains from setting particular benchmarks for wages. Instead, ACT abides by the principle that employers and workers as well as their representatives should reach agreement on a living wage through collective bargaining at industry level. This means that the negotiated wage will differ according to national contexts.<sup>11</sup>

As mentioned initially, even though various definitions and benchmarks exist and the related proposed figures of living wages vary considerably, brands should not take this as an excuse for not taking action.<sup>12</sup> There is certainly an overwhelming consensus that current wages in most garment

<sup>9</sup> <https://www.globallivingwage.org/about/what-is-a-living-wage/>

<sup>10</sup> <https://asia.floorwage.org/>

<sup>11</sup> <https://actonlivingwages.com/living-wages/>

<sup>12</sup> For more definitions of living wages refer to overview in Appendix.

producing countries are below any meaningful understanding of living wage. Like organisations as ETI and FWF before, the Textiles Partnership encourages its members to start the journey on living wages. For some, this may mean to choose one estimation or calculation method, to start taking steps towards implementation in a specific context or at specific suppliers, to analyse what worked and what did not work along the process and to make appropriate adjustments. Others may want to analyse the impact of their purchasing practices on living wages first and then identify appropriate next steps from there. Chapter 2 provides more details on practical steps and different implementation options.

## Why do wages in the garment sector remain low?

Within the textile and garment industry, many different factors combine to keep wages low. FWF identified five realities of today's garment industry that currently undermine sustainable wage increases for workers.<sup>13</sup> These realities need to be accounted for and tackled by brands in their individual and collective journey towards living wages:

- There is **no global legal framework** that enforces human rights protection. Furthermore, responsibility is also diffuse as in most cases today, brands source from numerous factories and factories supply to numerous brands. This implies that responsibility for living wages is diffused to an extent that a single brand does not feel responsible for the overall wage dilemma. This situation poses particular challenges for those brands that want to take action on improving wages, since they have to convince others to get on board or find creative ways for paying for their share.
- There is a **lack of collective bargaining**: Despite being core ILO standards, freedom of association and collective bargaining are seriously underdeveloped in most garment producing countries. Hence, while in theory social partners, i.e. employer organisations and worker representatives, should regularly meet to discuss wages, in practice workers currently are often not aware of their rights and lack formal representation.
- The garment industry is **highly price sensitive and competitive**: While style and fit are relevant factors, consumer decisions in the fashion industry are to a large extent based on price. This puts pressure on all actors in the supply chain. Brands' negotiations with their supplying factories are equally highly cost/price-driven. In search of the highest profit margin, business relationships tend to be rather short while contracts are mostly awarded for orders per season only. And governments of garment producing countries fear that by raising wage levels they will price their national garment producers out of global competition and hence often refrain from substantial increases in minimum wages.
- While **brands do not employ workers, they hold the financial power**: In most cases today, brands do not employ workers directly but rather source from multiple factories. So brands do not have direct control over wage payments in factories. However, at the same time, it is brands and retailers that generally drive price negotiations.
- **Prices are driven by margin**, not production cost: Brands usually calculate their target margin based on the target retail price. Those target margins then drive the negotiation with the suppliers/supplying factories. Problematically, fair wages (i.e. the cost of labour) are normally not included in these negotiations.

These realities indicate that implementing living wages in the garment industry is not a simple task. They also imply that living wages can only be successfully implemented in a collaborative way, meaning that all players involved (brands, retailers, suppliers, workers, governments) have to take joint action.

<sup>13</sup> See FWF: The realities that undermine wage improvements (2019): <https://fairwear.org/programmes/wage-realities>

Even though these realities may seem impossible to overcome at first sight, there are a number of practical steps, which brands can take to contribute to improving wages for workers, and to influence other actors towards creating an enabling environment for continuous wage growth.

# Practical steps to implementing living wages

This chapter introduces a number of practical steps brands can take to successively implement living wages in their supply chains. Even though brands do not employ workers directly, they have many options to act in a way that fosters the gradual establishment of living wages in the textile sector. The following steps should be embedded in ongoing human rights due diligence processes of the company with the aim to identify discrepancies between actual and living wage benchmarks and to improve access to wages that satisfy the basic needs of workers and their families. In particular, brands should:

- Analyse wage situation and risks in the supply chain
- Analyse purchasing practices and sourcing strategies
- Define a strategy and policy for living wages
- Implement the strategy:
  - Adjust purchasing practices
  - Contribute to improved pay systems in factories
  - Promote freedom of association and collective bargaining
  - Monitor progress on wages, communicate and share lessons learnt
  - Install effective grievance mechanisms

The importance of peer collaboration in due diligence cannot be emphasised enough and especially so for an area where such systematic change is needed. The benefits of aligning with other brands and taking joint action can be found on various levels. There are simple efficiency gains when investing into concrete measures together, such as increasing the effectiveness of grievance channels, driving freedom of association practices, or funding research into adequate wage benchmarks for a given country. At the factory level, collaboration helps in conversation with suppliers about wage benchmarks and about establishing related systems of pay. Companies with an aligned approach will have much higher leverage. Also importantly, suppliers are given more clarity and consistency. Another benefit of working on living wages jointly is the learning potential. As not many brands have taken action yet, experience and best practice is rare and the exchange of experiences gives useful orientation. When it comes to purchasing strategies and pricing, collaboration needs to respect the boundaries of competition or antitrust law.<sup>14</sup>

<sup>14</sup> For further information on the boundaries of multi-stakeholder cooperation in the context of German competition and antitrust law, please refer to this guidance written for the Textile Partnership: <https://portal.textilbuendnis.com/files/58eba7937a53d4ec78000091>



## Analyse wage situation and risks in the supply chain

As a first step, brands aiming to implement living wages should analyse the background conditions of wages in their supply chain and monitor gaps between paid wages and different living wage benchmarks. Conditions that determine workers' wages relate to national legal systems and governance structures, enforcement, common pay practices in factories, the maturity of civil participation and social dialogue, established initiatives and institutions around living wages, etc. Where these frameworks are weak or underdeveloped, there is inherently a heightened risk for workers being underpaid systematically. An analysis helps brands understand where this risk is highest and where targeted action is most needed.

Here, a fundamental part is to understand the prevailing wage system in production countries. In particular, brands should ask the following questions:

- How does the prevailing wage system in the country work?
- How is the legal minimum wage level established?
- Which wage components are part of the minimum wage?
- Which dynamics do the minimum wages have (e.g. are they updated regularly)?
- How do pay systems in the production factories work?
- What living wage benchmarks are available for the country/region?

A good start for obtaining an overview of different wage levels and benchmarks is **a wage ladder**. A wage ladder combines different wage figures and benchmarks (minimum wages, average industry wages, collective bargaining wages, etc.) in a graphic display. **Wage ladders help to record wages paid and to monitor the gap that exists between actual wages and different wage benchmarks.** Integrating the available wage data into such a wage 'database' can help brands to systematically assess the risks emanating from their supply chains regarding unduly low pay and indicate which groups of workers are most vulnerable of being underpaid.

For example, the Fair Wear Foundation (FWF) offers an online wage ladder tool<sup>15</sup> that allows comparing the wages paid at any factory (in the 11 countries it is active) against a range of local wage benchmarks. In addition, the tool allows users to enter actual wage levels of different pay grades from their suppliers, which helps to understand how the different pay grades relate to the benchmarks.

The Fair Labor Association (FLA) also issued a wage ladder report for factories in 21 countries in 2016 and since then, has updated wage data regularly.<sup>16</sup> Figure 3 shows an example of a wage ladder from the FLA for an average Bangladeshi worker with six wage benchmarks (horizontal lines). The graph shows that the benchmarks vary between Taka 5.000 and Taka 36.000.

Companies can use such tools with the aim to "climb the ladder" themselves and to raise wages towards a living wage level on a continuous basis.

<sup>15</sup> <https://fairwear.org/resources-and-tools/wage-ladder>

<sup>16</sup> <https://www.fairlabor.org/report/toward-fair-compensation-global-supply-chains-factory-pay-assessments-21-countries>

Figure 3: Example of a wage ladder for an average Bangladeshi worker's wage ladder



Source: FLA, <https://www.fairlabor.org/report/toward-fair-compensation-global-supply-chains-factory-pay-assessments-21-countries>

**Benchmarks**

- Asia Floor Wage  
Tk36,384.9 (\$454)
- Worker Minimum Wage Demand  
Tk15,990 (\$200)
- Living Wage Estimate (GLWC)  
Tk13,620 (\$170)
- International Poverty Line (WB)  
Tk6,784.17 (\$85)
- Local Legal Minimum Wage  
Tk5,290 (\$66)
- National Upper Poverty Line  
Tk4,986.74 (\$62)

**Compensation Type**

- Regular Pay
- Cash Benefits
- In-Kind Benefits
- Deductions/Taxes

## Analyse purchasing practices and sourcing strategy

Apart from the supplier context, a brand should also review their own sourcing strategies and purchasing practices with a view to enabling suppliers to increase wages. While corporate sustainability strategies often recognise the importance of paying living wages, this recognition has not yet translated into improved purchasing practices. Current incentive systems in purchasing departments often focus on achieving competitive, i.e. lowest possible prices in negotiations with suppliers. This results in pricing schemes that prevent suppliers from implementing higher wages.

Poor communication, a buyer's lack of technical knowledge of production processes or delays in order placement resulting in shortened lead times are just a few examples of practices limiting suppliers' capacity to pay decent wages to workers. Brands thus need to critically reflect on their purchasing practices in order to understand which incentive structures currently exist and how current practices impede the implementation of living wages. Here, the 'Purchasing Practices Self-Assessment' tool developed by ACT, which was made available to PST member brands in an online tool, is a good starting point.

### Assess your purchasing practices: 'Purchasing Practices Self-Assessment' tool by ACT

The Partnership for Sustainable Textiles provides its members with a tool by ACT that helps to self-assess the purchasing practices. The tool contains an online survey with questions in five categories "Strategic Planning & Forecasting", "Price Quotation & Negotiation", "Design & Development", "Ordering

and Production" and "Values, Principles and Behaviour". The self-evaluation helps the brands and retailers to gain an understanding of their practices and to identify areas of improvement. Based on the assessment, brands can develop improvement measures and implement them jointly with their suppliers.



If you want to make use of the tool, please contact the Partnership Secretariat to receive a registration link.

## Define strategy and policies for living wages

The identification of risks and an understanding of structural barriers to fair wages are fundamental for moving forward. Based on this analysis, brands should define a living wage strategy and adapt existing policies accordingly. **The strategy will need to be tailored carefully to each brand's business, taking into account its unique (company and sourcing) context, capabilities and limitations.** Numerous factors will play a part here, such as the business and sourcing model, size, resources, (local) set up, networks, but also internal maturity of due diligence systems. There is not one recommended template of a strategy, hierarchy of measures, or a prescription of time and prioritisation. It remains for each company to find a realistic and effective path. As highlighted initially, the potentials and power of peer collaboration needs to be borne in mind – and already at the stage of strategy development: Which areas need to be worked on individually, where are opportunities or needs to collaborate?

The following steps can serve as an inspiration for the development of a targeted living wage strategy:

- Formulate a strategy that includes a clear commitment to the payment of living wages in your supply chain as well as a definition of a living wage that the company strives for. The strategy should further outline the internal and externally facing measures the brand will take to work towards living wages in its supply chain. Examples of measures: adaption of purchasing practices in alignment with the ACT commitments; cooperation with others to address some of the systemic reasons for low wages in the textile supply chain, such as lack of freedom of association and collective bargaining rights.
- Adapt relevant policies and the Code of Conduct (CoC) in light of the formulated strategy. The CoC is usually part of the contract between a buyer and supplier. Suppliers need to understand that making systematic efforts towards paying living wages is a prerequisite for doing business with the brand. However, it is not enough for the CoC to simply state that living wages (instead of minimum wages) have to be implemented. Brands must clearly communicate their position regarding living wages and provide the definition/benchmark to which they refer. Consider including the requirement of paying a living wage in the actual supplier contract (this should happen in conjunction with the adaption of own purchasing practices and to enable the supplier to fulfil these requirements in practice).
- Develop an action plan including (performance) indicators to pin down the strategy and set short and long-term targets. Clear targets are important to track the effectiveness of the measures taken and monitor and potentially demonstrate implementation progress or identify implementation barriers.
- Rally support of C-level and functional staff from various departments. Implementing living wages requires changes throughout the entire organisation, including adjustment of purchasing practices and prices. If there is no broad support within the company, one department (e.g. CSR aiming to implement living wages) is likely to work against/sabotage another department (e.g. purchasing aiming at low buying prices).
- Communicate the living wage strategy publicly. Having decided to implement living wages, a brand should communicate this publicly, including information on its plans for implementation (see above). This signals commitment, openness to dialogue and partnership towards suppliers, governments and other stakeholders. A public declaration sends an even stronger signal if the brand's supply chain is transparent so that independent groups can verify if commitments are being fulfilled in factories.

## Patagonia's living wage programme

Strategic components of the brand's programme towards better wages

- Increase direct **premium payments** to workers funds, through a collaboration with FairTrade USA
- Acquire **understanding of wage gaps**, with the help

of Fair Labor Association's wage data collection and generation of a living wage ladder per factory

- Continuous enquiry into **consumer willingness to pay**
- Continuous **expansion of higher prices**, starting with finished goods supply chain

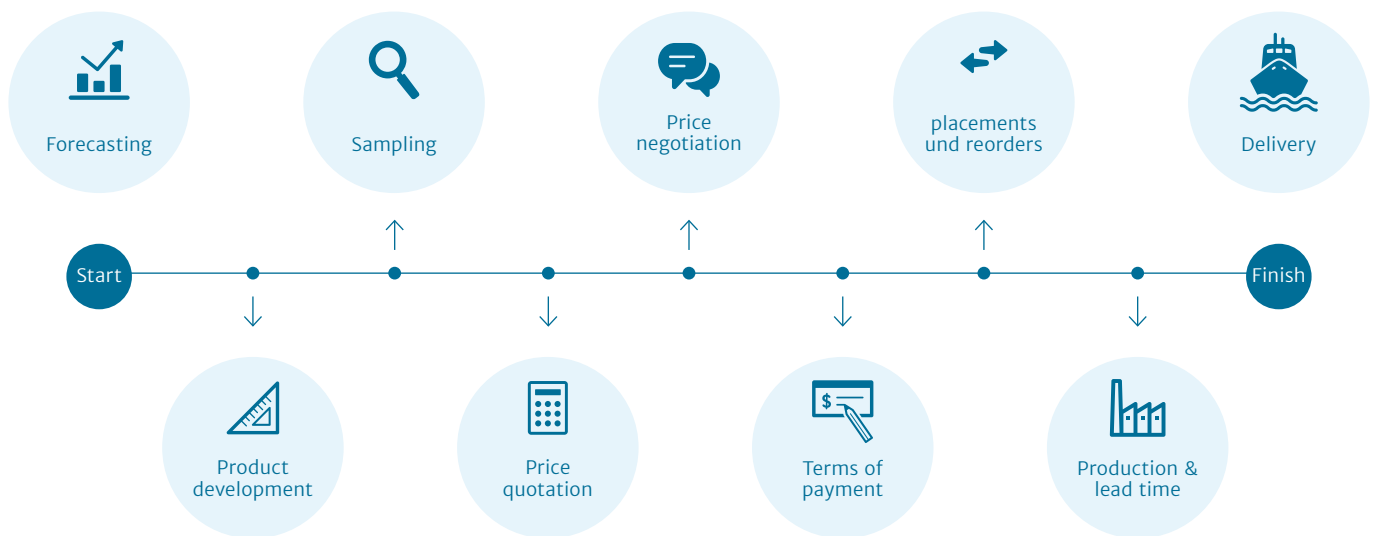
Source: <https://www.patagonia.com/corporate-responsibility-history.html>

## Implement strategy

### Adjust purchasing practices

Having gained an understanding of how purchasing currently takes place within their supply chain, brands should define measures to adapt and improve their practices and train employees in making responsible purchasing decisions. Purchasing decisions arise all along the whole of a critical path for a garment. A critical path includes all the tasks needed to complete a project, in the case of the textile industry a piece of garment. Figure 4 displays an example of a critical path for a textile.

Figure 4: Example of a critical path



Source: Suppliers Speak Up How Responsible Purchasing Practices Can Improve Working Conditions in Global Supply Chains. <http://etiskhandel.no/noop/file.php?id=13481>.

Along the critical path, brands can take actions to improve their practices. For example, brands can:

- Establish improved forecasting systems and help suppliers to plan ahead through giving long-term sourcing commitments at specific volumes.
- Pay for samples. Unpaid samples imply that suppliers lose money, which in the worst case goes to the detriment of workers.
- Write down the terms of payment in a contract fixing the exact wages the supplier must pay.
- Plan orders and reorders together with the supplier to avoid late-time changes, which disrupt the production planning in the factory.
- Support the supplier in production planning and discuss how the supplier can achieve the desired lead times without extreme overtime.
- Check whether the incentives systems for the purchasing teams support or run counter the implementation of living wages.<sup>17</sup>

Particular attention needs to be directed towards the stage of price negotiations. In price negotiations, brands should not press prices in such a way that the supplier is forced to forward the pressure onto the workers. Instead, brands should **review and increase Freight on board (FOB) prices**. The labour cost component of a FOB price should allow the supplier to pay living wages. Buyers thus need to know the different cost components of the FOB prices in order to be able to ring fence the labour cost component so that it remains untouched from price negotiations. This requires a lot of trust between the buyer and the supplier. To calculate the different cost components, brands can apply the labour minute costing method (see FWF example below). Labour minute costing relates to a set of calculations to determine standard current labour costs per minute for a factory's production. This is then used to determine the cost per minute increase required to reach a certain wage target.<sup>18</sup>

### FWF - Labour minute costing

FWF offers training on labour minute costing and has developed a set of publicly available tools that helps buyers and factories in determining a factory's costs of one minute of labour. It helps to identify the actual increase which would need to be applied to the manu-

facturing price to cover the increase in labour cost brought about for example by rises in the minimum wage or to realise a living wage for that matter. Specific costing tools are available from FWF, e.g. for Bangladesh and Myanmar.<sup>19</sup>

With a view to the overall sourcing strategy, brands should **simplify their supply chain** and build **strong and long-term relationships with suppliers**. Implementing living wages is a matter of trust, and both practices help building trust. Good relationships in the supply chain additionally help improving issues in the factory like freedom of association, collective bargaining or productivity.

Finally, to move towards higher wages, brands should **get creative to generate the living wage surplus** needed for the workers. Case studies show that it needs little money to pay workers a living wage. Yet this surplus money for higher wages needs to be realised somewhere. Both suppliers and

<sup>17</sup> Suppliers Speak Up How Responsible Purchasing Practices Can Improve Working Conditions in Global Supply Chains. <https://etiskhandel.no/>

<sup>18</sup> <https://www.fairwear.org/programmes/lw-tools-and-benchmarks>

<sup>19</sup> <https://www.fairwear.org/stories/labour-minute-costing-tool-for-bangladesh-now-online>

buyers can cut their own margins or try to cut costs by working more efficiently. In addition, both can try to forward the costs to consumers and try to market the value generated for workers. Admittedly, all options face challenges and are difficult to set into practice in a highly competitive market. Therefore a combination of approaches is recommendable.

## MELAWEAR – Premium to the purchasing price

Since the end of 2016, the company has been paying a 10% premium to the purchasing price in order to improve working conditions of all employees in its textile manufacturing facility. The first premium amounted to

EUR 20.000 of which a respective proportion of 40 EUR is directly paid to workers whose salary does not add up to the demanded living wage.

Sources: <https://www.textilbuendnis.com/wp-content/uploads/2018/10/Interview-Praxisbeispiel-Brands-Fashion-Melawear-3Freunde.pdf>, <https://www.fairtrade-deutschland.de/service/newsroom/news/details/nachhaltiger-pionier-in-der-textilbranche-melawear-1746.html>

### Contribute to improved pay systems in factories

Although brands usually do not employ workers, they can work with their suppliers to **support the factory in developing transparent pay systems**: A living wage is usually defined for the lowest income group of the payroll because they are the ones who need the raise most urgently. However, raising wages of the lowest paid workers needs to take into account how this changes the relationship to the next pay grade. For instance, raising the wages of the lowest wage category by amount X, may lead to problems, if the wages of better paid workers are raised by the same amount (and not by the same percentage). This delicate matter can cause protests and needs to be negotiated with the workers and their representatives. The Fair Wage System deals with pay systems.

## The Fair Wage System

The aim of the Fair Wage Network is to move companies towards engaging with better wage practices and facilitate improved dialogue at the factory-level. Rather than just focusing on increasing workers' wages, the Fair Wage Method and Standard is based on twelve dimensions that should be considered when optimising wage policies and improving systemic issues such as communication and social dialogue, living wages, minimum wages, pay systems, work intensity, experience and skills and some more. In 2013, as part of its Fair Living Wage Strategy, H&M together with the Network started

to carry out Fair Wage assessments on its first-tier suppliers. Today, H&M has implemented the Fair Wage Method in eight producing countries, starting with extensive assessments and proactively engaging with suppliers and workers on remediation. In addition, H&M has internally developed an own Wage Management System which aims at achieving fair compensation for the work of all employees in its supply chain and which comprises four mechanisms such as for example internal development of human resources and proper involvement of workers.<sup>20</sup>

<sup>20</sup> <http://fair-wage.com/>  
<https://sustainability.hm.com/content/dam/hm/about/documents/masterlanguage/CSR/2017%20Sustainability%20report/WMS%20Guideline.pdf>

### Promote freedom of association, social dialogue and collective bargaining

Given the fact that in most garment producing countries, freedom of association and collective bargaining are weak, a central condition for improving wages of factory workers is to empower them to access these rights. Transparent pay systems, trainings on social dialogue and freedom of association help to empower workers and enable them to enter into dialogue with the factory management and to take part in wage negotiations. However, trainings alone are not sufficient, because workers must also have the freedom to raise their voice and participate in wage negotiations without reprisal. Factory management needs to be convinced of the necessity of workers to execute their fundamental rights. By clearly voicing support for collectively bargained wages, brands can promote freedom of association and collective bargaining systems. Collective bargaining can take place at different levels (national, sector-wide, factory-wide or company-wide). While the establishment of factory-wide collective bargaining mechanisms is a possible step, industry wide negotiations are preferable since they benefit all workers.

To promote freedom of association and collective bargaining brands can:

- Favour suppliers in the buying process that support the establishment and functioning of genuine trade unions.
- Require suppliers to sign union access agreements.
- Increase leverage by joining initiatives such as ACT that focus on supporting collective bargaining in the textile industry.
- Sign global framework agreements (GFA) with union organisations such as IndustriALL to foster the creation of well-functioning industrial relations.
- Advocate for change at the national level in producing countries. Lobby work in main production countries should target fostering freedom of association and collective bargaining, raising national minimum wages and improving labour laws.

### ACT – Achieving collective bargaining at industry level

ACT (Action, Collaboration, Transformation) is an agreement between global brands, retailers and trade unions to transform the garment, textile and footwear industry and achieve living wages for workers through collective bargaining at industry level linked to purchasing practices. 21 brands participate (e.g. C&A, H&M, Esprit, Tchibo, zLabels).<sup>21</sup>

Collective bargaining at industry level means that workers within a country can negotiate their wages under the same conditions, regardless of the factory

they work in, and the retailers and brands they produce for. For purchasing practices this means that the payment of the negotiated wage is supported and enabled by the terms of contracts with global brands and retailers.

ACT is the first global commitment on living wages in the sector that provides a framework through which all relevant actors, including brands and retailers, trade unions, manufacturers, and governments, can exercise their responsibility and role in achieving living wages.

In order to identify opportunities for change, brands ideally conduct an open dialogue with suppliers and other brands and stakeholders to discuss how they can collaborate to improve freedom of association and wages. An example of how brands can collaborate at factory level to improve social dialogue is provided below.

<sup>21</sup> <https://actonlivingwages.com/fact-sheet/>



## hessnatur – Teaming up with other buyers to support social dialogue

hessnatur conducted a Workplace Education Programme (WEP) training after Fair Wear Foundation had received a complaint around the issue of social dialogue. When working on the complaint case, hessnatur developed close collaboration with another brand. That brand agreed to develop a common training concept, to reduce efforts for the factory and to improve communication and collaboration of different hierarchical levels.

One result of the training was that new worker representatives were elected in democratic elections. Now, the worker representatives meet with management every month and are assigned one hour per week to talk

with workers, consult among each other and to prepare their monthly meetings with management. During the meetings of worker representatives and management, participants feel comfortable and openly share their opinions. Management developed a more collaborative and positive attitude towards workers and worker representatives. Suggestions are now being taken seriously and there are many examples where concrete actions were taken as a response (e.g. a changed shift system, better food in the canteen). The meetings are well structured and documented and the results are communicated to the workers.<sup>22</sup>

### Monitor progress and share learnings

The implementation of a living wage strategy involves setting **clear targets and indicators** to measure implementation progress over time and identify where adjustments are needed. They should cover two broad areas, **the implementation progress of goals related to responsible purchasing or sourcing practices and the effect of your efforts on the factory level** (e.g. in form of higher pay to workers). The latter can likely be linked to members' existing efforts to monitor the implementation of basic labour and environmental standards in the first tiers of their supply chain.

A comprehensive guidance of the Partnership on effective supply chain monitoring<sup>23</sup> provides general introductory information about the set-up of monitoring systems and qualitative and quantitative key performance indicators (KPIs). Ideally, measurable indicators would exist across all areas of your living wages strategy. However, in some areas progress is harder to quantify or data harder to collect. In these cases, qualitative evaluation questions can be a decent alternative/complement but need to be designed carefully as to ensure they are well understood, accepted and meaningful. The table below provides some exemplary KPIs and guiding assessment questions to track the implementation of responsible purchasing and sourcing approaches and in-factory implementation efforts. In addition to audit data, data collection may include supplier self-assessments, feedback from capacity building activities, other dialogue or engagement with suppliers, as well as information received through grievance mechanisms. Also, examples of KPIs on responsible purchasing and sourcing can be found in ACT's Accountability and Monitoring framework<sup>24</sup> with which it aims to monitor progress on its members' commitments.

<sup>22</sup> See Hessnatur Social Report 2017/2018: [https://api.fairwear.org/wp-content/uploads/2018/12/NEU-Social-Report\\_2017-18\\_20190604.pdf](https://api.fairwear.org/wp-content/uploads/2018/12/NEU-Social-Report_2017-18_20190604.pdf)

<sup>23</sup> See Partnership guidance „Implementing an effective monitoring system“ (2018): <https://portal.textilbuendnis.com/groups/werkzeuge-und-hilfestellungen/files/folders/5c1bbc07a53d4ad95733bdd>

<sup>24</sup> <https://actonlivingwages.com/purchasing-practices-commitments-measurement-of-progress/>

**Figure 5: Suggested evaluation questions / KPIs**

Area and topic	Example KPI or assessment question
<b>Responsible purchasing and sourcing</b>	
Broader revision of responsible sourcing strategy	<ul style="list-style-type: none"> <li>• Time target</li> </ul>
Purchasing prices [Price related targets/KPI heavily depend on the brand’s chosen method to approach calculation and systems of facilitating living wage payments in factories.]	<ul style="list-style-type: none"> <li>• % of volumes for which [the chosen method] has been applied</li> <li>• % of suppliers who have received guidance on [the chosen method]</li> </ul>
Fair terms of payment	<ul style="list-style-type: none"> <li>• % of orders where amount paid is in line with agreed payment terms</li> <li>• % of orders where penalties and/or deductions have been applied which fall outside the terms in purchase agreements</li> </ul>
Forecasting and planning	<ul style="list-style-type: none"> <li>• Timeline for establishing a planning and forecasting system including capacity booking</li> <li>• % of suppliers for whom this system is applied</li> </ul>
Awareness and capacity building, supplier engagement	<ul style="list-style-type: none"> <li>• % Coverage of sourcing team that underwent responsible sourcing training</li> <li>• % of suppliers that have been communicated the companies’ living wage policy/commitment etc.</li> <li>• % of suppliers from which feedback on purchasing practices has been asked and received</li> </ul>
Sharing learnings and cooperation	<ul style="list-style-type: none"> <li>• Have you engaged with other brands and stakeholders to share learnings and identify cooperation potentials around the implementation of living wages?</li> <li>• Does your company publish information on wages currently paid to workers at your suppliers?</li> </ul>
<b>In-factory implementation</b>	
Monitoring	<ul style="list-style-type: none"> <li>• How is the payment of living wages to supply chain workers monitored?</li> <li>• Are external/local experts involved in the monitoring process?</li> <li>• Have grievance mechanisms been used (by workers or representatives) to raise wage related issues?</li> <li>• How does the information gathered on implementation at factory level inform decision-making on next/further steps to work towards living wages?</li> </ul>
Supplier progress	<ul style="list-style-type: none"> <li>• How many of your suppliers can demonstrate progress concerning the payment of living wages to their employees? How many actually pay wages corresponding to your select living wage benchmark(s) to their workers?</li> <li>• How do you track whether and how changes in purchasing practices contribute to higher wages being paid to workers (close link to supplier feedback on purchasing practices)?</li> </ul>
Freedom of association	<ul style="list-style-type: none"> <li>• Target: Inclusion of collective bargaining agreements into purchasing agreements</li> </ul>

**We recommend the Partnership members to share learnings from their experience**, for instance in their annual reporting process. Communicating transparently about your approach and efforts, rather than only about results, emphasises that living wages cannot be implemented overnight and that you are taking steps forward. Public communication also creates the opportunity to connect with external stakeholders, build networks, invite support, and to encourage collaboration. Encouraging other actors to follow you on the path towards realising living wages is especially important, as only industry-wide collaboration will lead to a sustainable system of decent pay.

### Install effective grievance mechanisms

In the same ways that freedom of association holds an important component in including worker voice into the process of establishing living wages, grievance mechanisms play an essential part in giving a voice to workers and in monitoring effective implementation. Recalling the very concept of a living wage, it is from a worker perspective that the benchmark is set and it will be the worker who is best positioned to provide feedback on whether her/his pay allows for a decent standard of living.

There is extensive guidance<sup>25</sup> on the establishment of grievance mechanisms already available. The below highlights some principles and prompts a few more for the specific context of living wages.

- **Primacy of local mechanisms.** As a fundamental principle for grievance mechanisms in general, brands should prioritise supporting effective complaints procedures on the factory level. Local ownership, factory empowerment and strengthening worker–employer dialogue are crucial steps in making them effective in the long–run.
- **Importance of back-up mechanisms.** In addition, brands are encouraged to establish back-up mechanisms, providing alternative avenues for workers to voice issues and therefore increasing feedback information on how effective living wage targets are met.
- **Issues to look out for.** It is important to bear in mind that workers' complaints can in more or less direct ways indicate insufficient wage payments, i.e. such around working hours, overtime, employment contracts, benefits, etc. even if they may not be understood / explicitly framed by rights-holders as a wage issue, and even less so as the non-payment of a living wage. Freedom of association and collective bargaining are fundamental enabling rights that allow workers to stand up and negotiate pay, and reported infringements should therefore be considered under the living wage lens.
- **Monitoring effectiveness.** Especially in this area, it is important to ensure mechanisms are effective (i.e. they are legitimate, accessible, predictable, equitable, transparent, rights-compatible, a source of continuous learning, and based on engagement and dialogue). Only then can grievance mechanisms offer rich insights into worker satisfaction with wage payments. When engaging with/auditing factories the focus of enquiry should be to establish workers' awareness of the channel, and their trust in it. The mere existence of and review of received complaints in itself will not be as useful.

Apart from their primary purpose of receiving worker complaints, grievance mechanisms are increasingly acknowledged as a tool for supplier feedback too. In an area where change is so intrinsically linked with good practice on the part of buyers, grievance channels are a way of acknowledging this responsibility and signal willingness to collaborate. They provide a formal, trusted means for suppliers to raise their concerns or issues that is ideally set apart from commercial negotiations. Grievance channels can and should of course not replace direct engagement and communication with your suppliers around living wages. But if designed well they can be an additional source of information and feedback to adjust buying practices that work for factories and allow them to establish wage practices in line with your requirements.

<sup>25</sup> See Partnership Guidance “Ensure and support access to remedies and grievance mechanism” (2018): <https://portal.textilbuendnis.com/files/5a9d453c7a53d4e7382fd6da>, See also Partnership Factsheets “Grievance Mechanisms in the Textile Sector” (2018): <https://portal.textilbuendnis.com/files/5bbda2f87a53d4f05e81ed3f>

# Outlook

Living wages are a strategic objective of the Textiles Partnership. While there is no one way forward, this guide aims to encourage brands to start analysing their own purchasing and monitoring practices and experimenting with various approaches. Next to this guidance, the Partnership offers other practical tools, like a self-assessment on purchasing practices, to support brands on their journey. Moreover, the Partnership brings together all stakeholder groups in a joint initiative to promote freedom of association and collective bargaining.

# Appendix:

## Definitions of a Living Wage

How social standards and other initiatives define wages or 'living wages'.

### **ACT – Action Collaboration Transformation**

#### **Living wage**

A living wage is the minimum income necessary for a worker to meet the basic needs of himself/herself and his/her family, including some discretionary income. This should be earned during legal working hour limits (i.e. without overtime).

### **Asian Floor Wage Campaign**

The Asia Floor Wage (AFW) Campaign is a network of more than 70 NGOs and trade unions. According to AFW, a living wage means that one worker earns enough to support a family of two adults and two children. Underlying assumptions are that an adult requires 3,000 calories a day to be able to carry out their work and that in Asia food costs account for half a workers monthly outgoings

### **ETI – Ethical Trading Initiative**

#### **Base code 5: Living wages are paid.**

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.

All workers shall be provided with written and understandable information about their employment conditions in respect to wages before they enter employment and about the particulars of their wages for the pay period concerned each time that they are paid.

Deductions from wages as a disciplinary measure shall not be permitted, nor shall any deductions from wages not provided for by national law be permitted without the expressed permission of the worker concerned. All disciplinary measures should be recorded.

### **Fairtrade<sup>26</sup>**

Methodology of living wages refers to the methodology of the Global Living Wage Coalition, see below.<sup>27</sup>

### **FLA – Fair Labor Organization**

#### **Compensation**

Every worker has a right to compensation for a regular work week that is sufficient to meet the worker's basic needs and provide some discretionary income. Employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law or contract.

Where compensation does not meet workers' basic needs and provide some discretionary income, each employer shall work with the FLA to take appropriate actions that seek to progressively realise a level of compensation that does.

### **FWF – Fair Wear Foundation**

#### **Payment of a living wage**

Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income. (ILO Conventions 26 and 131).

Deductions from wages for disciplinary measures shall not be permitted nor shall any deductions from wages not provided for by national law be permitted. Deductions shall never constitute an amount that will lead the employee to receive less than the minimum wage. Employees shall be adequately and clearly informed about the specifications of their wages including wage rates and pay period.

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<sup>26</sup> [https://www.fairtrade-deutschland.de/fileadmin/DE/01\\_was\\_ist\\_fairtrade/03\\_standards/fairtrade\\_textilstandard\\_englisch.pdf](https://www.fairtrade-deutschland.de/fileadmin/DE/01_was_ist_fairtrade/03_standards/fairtrade_textilstandard_englisch.pdf)

<sup>27</sup> [https://files.fairtrade.net/standards/GLWC\\_Anker\\_Methodology.pdf](https://files.fairtrade.net/standards/GLWC_Anker_Methodology.pdf)

## **Social Accountability 8000**<sup>28</sup>

### **Definitions/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.

The organisation shall respect the right of personnel to a living wage and ensure that wages for a normal work week, not including overtime, shall always meet at least legal or industry minimum standards, or collective bargaining agreements (where applicable). Wages shall be sufficient to meet the basic needs of personnel and to provide some discretionary income.

## **GLWC – Global Living Wage Coalition**<sup>29</sup>

### **Living Wage**

The remuneration received for a standard workweek 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, transportation, clothing, and other essential needs including provision for unexpected events.<sup>30</sup>

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<sup>28</sup> Social Accountability 8000. International Standard by Social Accountability International. June 2014: [http://sa-intl.org/\\_data/n\\_0001/resources/live/SA8000%20Standard%202014.pdf](http://sa-intl.org/_data/n_0001/resources/live/SA8000%20Standard%202014.pdf)

<sup>29</sup> The Global Living Wage Coalition (GLWC) brings together Fairtrade International, the Forest Stewardship Council (FSC), GoodWeave International, the Rainforest Alliance, the Sustainable Agriculture Network (SAN), and Social Accountability International (SAI), in partnership with the ISEAL Alliance and international living wage experts Dr. Richard Anker and Ms. Martha Anker. The GLWC refers to the “Anker methodology”: [https://www.globallivingwage.org/wp-content/uploads/2018/06/anker\\_methodology.pdf](https://www.globallivingwage.org/wp-content/uploads/2018/06/anker_methodology.pdf)

<sup>30</sup> <https://www.globallivingwage.org/about/what-is-a-living-wage/>

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