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Garment companies and living wage

A practical implementation tool
for companies

Colofon

About this publication

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About ASN Bank

Founded by trade unions in 1960, ASN Bank has been an advocate of international labour rights from its inception. Its extensive human rights policy has been in place since the 1990s, endorsing, among others, the International Bill of Human Rights and, since 2011, the United Nations Guiding Principles on Business and Human Rights (UNGPs).

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Abbreviations

ACT: Action, Collaboration, Transformation

ETI: Ethical Trading Initiative

FWF: Fair Wear Foundation

FLA: Fair Labour Association

GLWC: Global Living Wage Coalition

ILO: International Labour Organization

SAC: Sustainable Apparel Coalition

SAI: Social Accountability International

UNGP: United Nations Guiding Principles on Business and Human Rights

OECD: Organisation for Economic Cooperation and Development

Introduction

Goal of the Manual

This Manual aims to support garment and textile¹ companies with the interpretation of living wage and the translation of that concept into action, provoking real change in the company's own structure and its suppliers (starting with the first tier)². The emphasis is placed on a four-stage due diligence process as a means to reach the end goal of living wages paid.

This process is a corporate process ensuring that a structure is in place to regularly review wages. Each chapter highlights a different stage in the process. Chapters start with criteria for companies to meet and then provide additional information plus best practices to facilitate and inspire them to move through the due diligence process. Chapters end with a checklist/summary of what to do.

Set up of the Manual

The Manual is written from the viewpoint of external stakeholders (the senders) to garment companies (the receivers). External stakeholders are, for example, financial institutions, governments, non-governmental organisations and trade unions. Investors took the initiative to compile this document. We increasingly monitor garment companies on progress in the area of living wage.

Many roads to Rome

As we will see further up in the Manual, you can positively influence wages in various ways. There is no one method or one way. Going through the different stages described in this Manual will help you figure out how you and your company can best approach this. Overall it is necessary to have a good look at your purchasing practices in order to create an enabling environment for better wages. Working together with stakeholders in and outside of your company is another key aspect.

Living wage?

Living wage is a wage that is enough to live on. It is not a new topic. In 1919 the International Labour Organization (ILO) stated that better working conditions are a prerequisite to 'universal and lasting peace'. In the years and decades that followed, working conditions indeed improved but not in all regions of the world.

In many garment producing countries, economic growth did not go hand in hand with a growth in governance structures to protect workers. Workers – many unskilled - in these parts of the world often do not earn enough to make a decent living. And their governments have not (yet) set a minimum wage at living wage levels. There is a gap in governance.

Companies operating internationally will find themselves trying to uphold human rights such as a workers' right to fair remuneration in countries with a governance gap. Corporate responsibility is about working in a greyish field where a gap in governance is filled with an international normative framework for companies to interpret and translate into action.

Human rights due diligence

The international normative framework guides companies in their efforts to operate with respect for universal human rights. The adoption in 2011 of the Guiding Principles for Business and Human Rights of the United Nations (UNGPs)³ was significant in this regard, as was the inclusion of human rights and supply chain responsibility in the OECD Guidelines for Multinational Enterprises⁴.

A key component of these UNGPs is human rights due diligence, a continuing process for companies to undertake to identify, mitigate and remedy adverse human rights impact. See figure 1.

¹ Henceforth 'garment' alone is used to address the garment and textile sector for reasons of readability. Manufactured textiles such as household linen (bedding, tablecloths) are included whenever 'garment' is used.

² First tier production facility.

³ For more information: http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

⁴ <http://www.oecd.org/corporate/mne/>

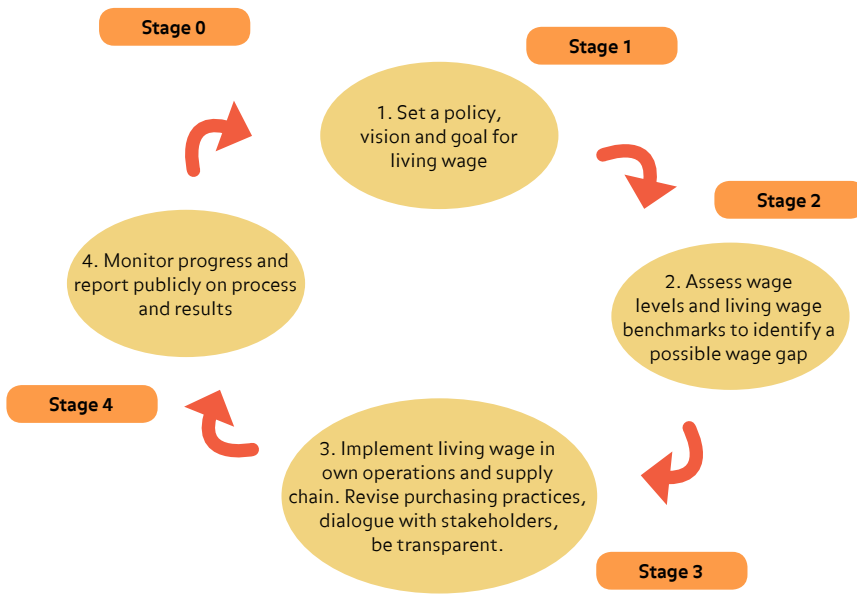


FIGURE 1: DUE DILIGENCE PROCESS AND FOUR STAGES

Note that stage four is not the end stage. When you reached stage four, you go back to earlier stages to repeat, revise and/or adjust the steps. Human rights due diligence is an ongoing process of moving through the stages periodically to reach living wage after x number of years. It can be a stand-alone process within your company. But ideally the due diligence process is incorporated in corporate processes such as supply chain management and human resources, and reflected in reporting cycles.

Chapter 0

Stage 0 Getting started

What is a living wage?

Following recent developments in international norm setting within the UN and the OECD, we now expect companies to act with due diligence and respect universal human rights in their operations⁵.

Living wage is a universal human right⁶. A living wage covers the basic subsistence needs of a worker and his or her family. This includes household items like food, housing, health care, education and transport (for a full definition, see Chapter 1). The height of this living wage differs from country to country. The implementation of a living wage often serves as a catalyst for the improvement of other working conditions, such as normal working hours.

Why a living wage?

Wages in garment producing countries are often too low to meet the basic living needs of workers. The legal minimum wage laws do not protect workers sufficiently, as in most of these countries they are lower than living wages⁷. In Box 1 you can see that in Bangladesh, for instance, the living wage estimates are twice the minimum wage. Workers in these situations may take on excessive overwork in an attempt to lift themselves and their families out of poverty. If wages are low, the risk of child labour and vulnerability to forced labour increases⁸.

Box1: Example of wage gap

“Our estimate of a living wage for Dhaka, Bangladesh is Tk13,630 (\$177) per month for its satellite districts like Narayanganj, Ashuliya and Ghazipur and Tk16,460 (\$214) for Dhaka City (Mirpur). These estimates are more than twice the minimum wages in the garment industry in Bangladesh. This large gap between minimum wages and our living wages is due to the low wages in the garment industry, especially excluding overtime, as indicated by the fact that current wages excluding overtime are lower than the urban poverty line wage for many garment workers and near to or only slightly above the urban poverty line wage for many other garment workers.”

Source: “Living wage report, Dhaka, Bangladesh and Satellite cities, (context: the garment industry)”, Global Living Wage Coalition (GLWC), 2016,

Living wage is not easy

As we expect you to respect human rights, paying a living wage is a logical step. But it is easier said than done. Wages are thorny issues as they are part of the production costs and thus affect the competitiveness of buyers and suppliers. Also, wages are set by governments and / or social partners in collective agreements. A buyer cannot force wage levels top down through the supply chain.

Despite these obstacles (see also box 2), garment companies can be actors of positive change and help improve wages for workers by working together with stakeholders. Trade unions and non-governmental organisations (NGOs) have become reliable partners for collaborative action. They provide information and expertise. Governments and investors are also supporting living wage activities by funding initiatives, promoting the topic and raising awareness in society.

As will be discussed in the following chapters, living wage initiatives within stakeholder organisations such as the Fair Wear Foundation have inspired and supported many garment companies already (see box 3).

⁵ For more information, see The Business and Human Rights Resource Centre: www.business-humanrights.org. The Dutch Social and Economic Council (SER) also provides valuable information on due diligence: www.ser.nl. And the OECD: <http://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-Garment-Footwear.pdf>

⁶ The Universal Declaration of Human Rights (1948) states (article 23.3): “Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.”

⁷ See Appendix 1 for an overview of this wage gap in 25 garment producing countries, based on the Wage indicator Foundation (www.wageindicator.org)

⁸ “Agreement on Sustainable Garment and Textile”, Social and Economic Council The Netherlands (SER), 2016

Box 2: Obstacles to living wage (and examples of possible solutions)

- There is too much discussion and disagreement about living wage definitions and benchmarks. (Solution: Starting a pilot project, using the data available and learning by doing – see Chapter 2)
- Companies (buyers) have no influence over the factory management. (Solution: Working together with peers in stakeholder or business initiatives increases leverage – see Chapter 3)
- Companies (buyers) are not part of wage setting mechanisms. (Solution: Communicate living wage ambition to government, suppliers and trade unions – see Chapter 3)
- Governments in producing countries are reluctant to raise legal minimum wages to a living wage level (Solution: Start lobbying with peers for better wages on a national level – see Chapter 3).
- Living wages increase production costs; who pays for increased costs? (Solution: Look for a business case together with your suppliers– see next paragraph)

Box 3: Best practice ALBIRO

“In 2014, ALBIRO, a B2B workwear company began implementing a project with one of its suppliers, as part of the living wage activities of the Fair Wear Foundation in Macedonia. With time, the manager of the factory saw this pilot as an opportunity to retain experienced workers in Macedonia’s competitive labour market, where foreign-owned companies are able to offer higher wages due to government subsidies. According to the manager, higher paid workers are better motivated, can create high quality garments, and work more efficiently. ALBIRO and the factory are raising wages for all workers at the facility.”

Source and more information: “Living wages: an explorer’s notebook – piloting living wages in garment factories”, Fair Wear Foundation, 2016

Business case for living wage

There is no getting around the main obstacle to paying living wages: how do you absorb increased production costs in the supply chain? This is an individual matter to address within your company and with your supplier(s) – a long-term engagement with (preferred) supplier(s) is usually a good foundation to start a dialogue about purchasing practices on the side of the buyer (FOB price negotiations, scheduling, lead times) and efficiency and productivity on the side of the supplier.

Qualitative research has shown that companies that established a business case for the payment of living wages⁹ compensated the increased costs by:

- Increasing the consumer price;

This may not seem like a favourable option, but some companies found that marketing could help to target conscious consumers. If consumers are informed about the reason behind the price (increased wages for workers) they may be more inclined to pay a little more.

- Increasing productivity;

Figure 2 below shows how taking care of workers can improve your bottom line. Workers with higher wages will be better motivated and stay longer in the company. As a result, turnover of staff will go down and costs for hiring and training new workers will go down as well. Happier and experienced workers will on average be more productive than new and unsatisfied workers. You might therefore experience productivity increases, a drop in defect rates and improved quality of your products and services.

⁹ “Living wage in international supply chains, an inventory report”, Berenschot 2012

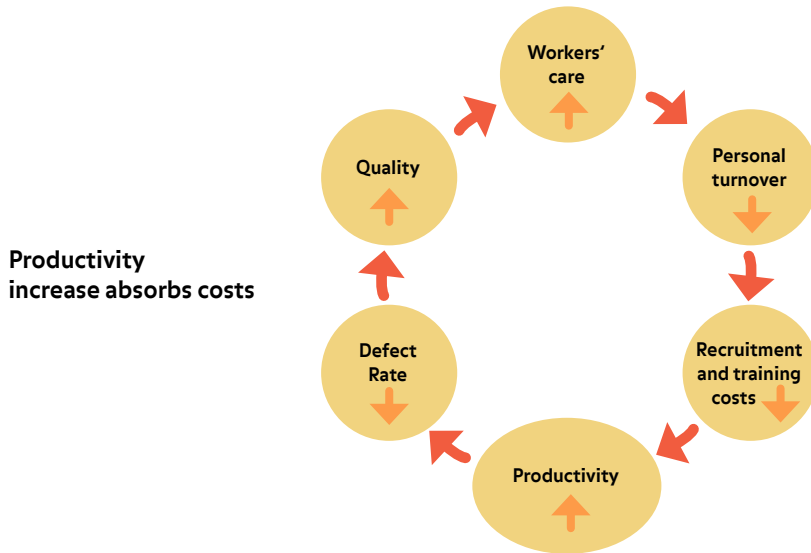


FIGURE 2: BUSINESS CASE VIA PRODUCTIVITY INCREASE

Further anecdotal evidence for a business case that was collected in the qualitative research:

- A company's (buyer's) reputation and goodwill increases when it does business in a socially responsible and transparent way;
- A company's (supplier's) overall factory management improves and this can result in preferred supplier status to larger brands;
- companies (buyers) will get better access to finance from sustainable banks and pension funds;
- companies (buyers) will have better access to governments as clients (as governments increasingly emphasize sustainable procurement).

You will have to find out to which degree these reasons apply to your company's activities. As the living wage business case is a fairly new topic, starting pilots and learning by doing will be the way to move forward. Strong motivation will certainly help to come up with creative, innovative solutions. In the end it is your company's vision on living wage that counts. We hope that the above inspires you to start looking into the topic as there is much to read about and talk about with peers and stakeholders.

Mapping your company structure

It might be useful in this 'getting started' stage to analyse your company's structure, supply chain and activities. This analysis will help you sort out where and how living wage affects your operations. Examples of questions you can ask yourself in this analysis are:

- How do you organise your production (own factories and/or outsourced)?
- In which country/ countries does production take place?
- What is the number of production staff in the supply chain and/ or own factories?
- What types of contracts?
- What are the working hours?¹⁰
- What is the production volumes per country/ and or production sites?

¹⁰ Note that the International Labour Organization (ILO) considers 48 hours a week normal working hours

Checklist Stage 0:

After Stage 0 you have:

- Taken an interest in the topic of living wage.
- Understood its importance and background.
- Gained insight into how it relates to your business.
- Felt the need to do due diligence on this topic.
- Felt the need to map the company structure.

Chapter 1

Stage 1 Policy

The first stage in the due diligence process is to move from having no vision on the topic of living wage to setting a policy as a starting point for further action.

Criteria to meet for stage 1:

- 1.1 Adopt a vision and goal for living wage.
- 1.2 Set a policy for living wage.
- 1.3 Formulate a definition for living wage.

Ad. 1.1

Vision and goal

In stage 0 we discussed how you can look at living wage, from the perspective of an international human right to finding a business case to cover the extra costs. We also emphasized that, although it is not easy to work on living wages, there are companies, organisations and stakeholders that have come up with creative solutions to the obstacles and shown results on the ground.

Your vision on the topic is personal; it should nevertheless be grounded in developments that are ongoing in this field. For example, initiatives taken by the governments of The Netherlands and Germany to gather key stakeholders in the garment sector and collectively agree on ways to move forward on living wage. Or Better Work initiatives taken by the International Labour Organization.

Your vision should breathe the broader human rights field laid down in the UNGPs and/ or the OECD Guidelines. Embracing the business and human rights agenda outlined by these international organisations; and recognizing that you cannot possibly address every human right in detail, but that a focus on wages makes sense in your sector.

Derived from your vision on living wage come the goal and possibly sub goals to formulate. A realistic goal is specific (what percentage of production staff is covered?), measurable and time-related. The goal does not go into how living wages are implemented – this will be covered in stage 3 (strategy). Note that stakeholders have already set goals for the implementation of a living wage; The Netherlands Textile Agreement for 2020 and the ASN Bank for 2030, to name a few.

¹¹ Note that you may also refer to a Code of a reputable initiative (see Appendix 2)

¹² Note that you can use other terms than living wage, e.g. fair wage or fair living wage

Box 4: Example of a living wage goal and sub goals

In order to adhere to universal human rights guidelines, in 2025 we will pay living wages to all workers in our company in The Netherlands and in our 15 first-tier supplier factories in Bangladesh and 5 in India.

Between 2017 and 2018 we will:

- set in place annual due diligence on living wage;
- engage with peers, suppliers and stakeholders in Europe and production regions;
- analyse which living wage initiatives or pilot project to collaborate with ;
- analyse which target wage levels we aim for.

Between 2018 and 2025 we will:

- annually monitor the wage levels in our own operation in The Netherlands and our 15 suppliers in Bangladesh and 5 in India;
- have reached our target wage levels.

Ad. 1.2

Living wage policy

As stated in the beginning, stage 1 in due diligence is all about setting a vision, goal, policy and definition for living wage. We covered the vision and goal in 1.1. The living wage policy is more concrete than your vision; it is the foundation on which you take the next steps. An explicit policy will ensure that your entire company is on board. This includes higher management and, if applicable, the procurement department. See for an example Box 5.

Box 5: Example of a Living Wage Policy

“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. Wages shall be sufficient to meet the basic needs of personnel and provide some discretionary income.”

Source: based on the Social Accountability 8000 standard.

Important elements that should be taken into account when drafting the policy are:

- The policy¹¹ should be communicated to all employees in the company and supply chain, also in the local languages.
- Together with the policy, you should briefly outline your own role and what suppliers can expect of you in this area (e.g. changing purchasing practices and providing management-worker dialogue training) and vice versa.
- Building long-term and stable partnerships with suppliers will increase your influence (often called leverage) when implementing living wage.

Ad. 1.3

Living wage definition

A policy will not go into detail about what a living wage is, so a definition is needed to further explain the concept. Living wage addresses the cost of living to cover basic needs such as food, housing and transportation. See box 6 for an example of a full definition. Note that there are many definitions of living wage, but most of them include basic needs for a worker and his/ her family and some discretionary income. Including these elements is better than one precise definition of living wage¹².

Box 6: Living Wage Definition

“Living wage is a wage that is enough to live on for a person and his or her average-sized family. The wage enables production staff to meet the basic needs of food, clothing, housing, education and healthcare, plus an amount of around ten percent of the wage for unexpected costs and savings.”

Source: Social and Economic Council of the Netherlands (2015)

Checklist Stage 1

At the end of stage 1 you have:

- Endorsed living wage (vision)
- Formulated a clear goal (specific, measurable and time-related)
- Formulated a policy (stand-alone or Code)
- Formulated a definition (include key elements of living wage)
- Communicated this goal to supplier(s) in local languages, also outlining your own role in achieving this goal

Chapter 2

Stage 2 Assessment

The second stage in the due diligence process is to move from policy setting to analysing your current wage levels and living wage estimates. This is to assess whether you pay living wages and if not, how wide the gap is in your company and/ or in you supplier(s)' production facilities.

Criteria to meet for stage 2:

- 2.1 Gather wage data from internal sources (wages paid).
- 2.2 Collect living wage data from external sources.
- 2.3 Assess if a wage gap exists between wages paid and living wage & other.

Ad. 2.1

Data gathering: current wages

Now that you have a vision, goal, policy and definition of living wage, the assessment of wage levels starts. You will need to know what salaries you currently pay to workers, including to workers in the supply chain (first tier). It might seem quite simple to find this information in your own production facilities, but management from supplying factories may not be keen to disclose wage scales.

If this is the case, active engagement with suppliers on wages will help them understand the importance and possible positive side-effects with regards to productivity gain and reputation (see Chapter 1). It is usually a good idea to team up with other buyers that purchase from the same factories so that you have more leverage on the factory management. Living wage initiatives will help you in the dialogue with suppliers on wages (for an overview of these initiatives, see appendix 3).

Joining one of these initiatives is highly recommended. But keep in mind that it is ultimately your own responsibility to steer the process of data collection and assessment. Membership of one of these initiatives is not enough. The process of due diligence is for you to undertake, but these initiatives can be of valuable assistance.

In Table 1 an example is given of an overview that you can make of the current wages paid by your supplier. Note that these salary scales can be the minimum wages or more than the minimum wages.

Table 1: Current wages paid in Factory X in Punjab (India)

Category	Total Daily Net Wages (in rupees)	Total Monthly Net Wages (in rupees)
Unskilled	219	5699
Semi-skilled A	249	6479
Semi-skilled B	283	7376
Skilled A	323	..
Skilled B	418	..

Source: WageIndicator 2013

Ad. 2.2

Data gathering: living wage benchmarks

Now that you know what wages you pay, you can start collecting living wage data for comparison purposes. More and more living wage estimates are becoming publicly available for consultation. But there is not one exhaustive list with estimates per sector or country. Instead, wage experts who calculate living wage estimates use different methods that vary in focus, time and resources available. See box 7 for examples of such expert organisations.

Box 7: Living wage data and estimates

- Global Living Wage Coalition (GLWC) www.isealalliance.org
- Wage Indicator Foundation www.wageindicator.org
- Asian Floor Wage Alliance (AFWA) <http://asia.floorwage.org>
- Fair Wage Network (FWN) www.fair-wage.com

It is up to you to determine which living wage benchmark or estimate you will use for comparison with your wages paid. Some living wage initiatives will help you to determine a benchmark as they make their own calculations. An example is the Global Living Wage Coalition (GLWC) that publishes benchmark reports and the Wage Indicator that provides data on its website. See box 8 and table 2.

Box 8: Global Living Wage Coalition of ISEAL Alliance

The ISEAL Alliance is the global membership association for sustainability standards. ISEAL-members are working together in the Global Living Wage Coalition on the methodology, promotion and implementation of a living wage for the workers that are protected by their respective labour standards. The organisations have agreed to a common definition of living wage and will use the same methodology for estimating living wage (the Anker methodology by experts Richard and Martha Anker). The Alliance is working towards 18 benchmarks in Brazil, Ethiopia, China (5 locations), Bangladesh, Tanzania, India (2 locations), Nicaragua, Ecuador, Vietnam (2 locations), Pakistan, Sri Lanka, Mexico, India, Costa Rica and Rwanda. And 3 more benchmarks are set to begin soon: For more information: <http://www.isealalliance.org/tag/living-wage>.

Table 2: Living wage benchmark Cambodia

Monthly amounts in Riel				
1400000				
1300000				
900000				
700000				
500000				
400000				
0				
	<i>individual lower bound</i>	<i>individual upper bound</i>	<i>family lower bound</i>	<i>family upper bound</i>

Source: "Wages in Context in the Garment Sector", WageIndicator, 2016

In some cases, you will find that the data providers listed above cannot help you because they have not (yet) published a living wage estimate for your country/ region. In that event, you can look for living wage initiatives, consultants or research institutes operating in your production country and ask them to make assessments of cost of living (e.g. by worker surveys as done by Nudie Jeans (Box 9). Or you can find out if local benchmarks exist already. Contacts in-country such as the International Labour Organization (ILO) or embassies, trade unions and NGOs can assist you in obtaining these data.

Self-assessment of a living wage

As a last resort, you can make a self-assessment of a living wage for your production country or region. In appendix 4 an example is given of a basic calculation method for living wage estimates. Going through this calculation may take further explanation and some practice, so please contact living wage initiatives, consultants or research institutes if you need more information about self-assessment of a living wage.

Ad.2.3

Wage gap assessment

Using data on wages paid and living wage benchmarks, you can now determine a possible wage gap. It is recommended to include more wage data in the comparison than just the living wage estimate. For instance: legal minimum wages, prevailing wages, collective bargaining levels and national poverty levels. Most data are available via organisations such as the ILO, the Wage Indicator and the World Bank. And via the in-country countries contacts (ILO offices, embassies, trade unions or NGOs).

To get a good overview of a (potential) wage gap, you can list these and other data in a wage ladder. See figure 3 for an example of a wage ladder, as well as appendix 1. A wage ladder allows you to compare current wages with a living wage and other wage levels. Wage ladders show not only the comparison between current and living wages but also how current wages relate to other wage levels. They allow you to improve wages step by step. A step-by-step approach should be considered especially in cases where it will be hard to close the gap immediately (e.g. in cases where the gap between the current wage and the living wage is substantial).

Wage Ladder

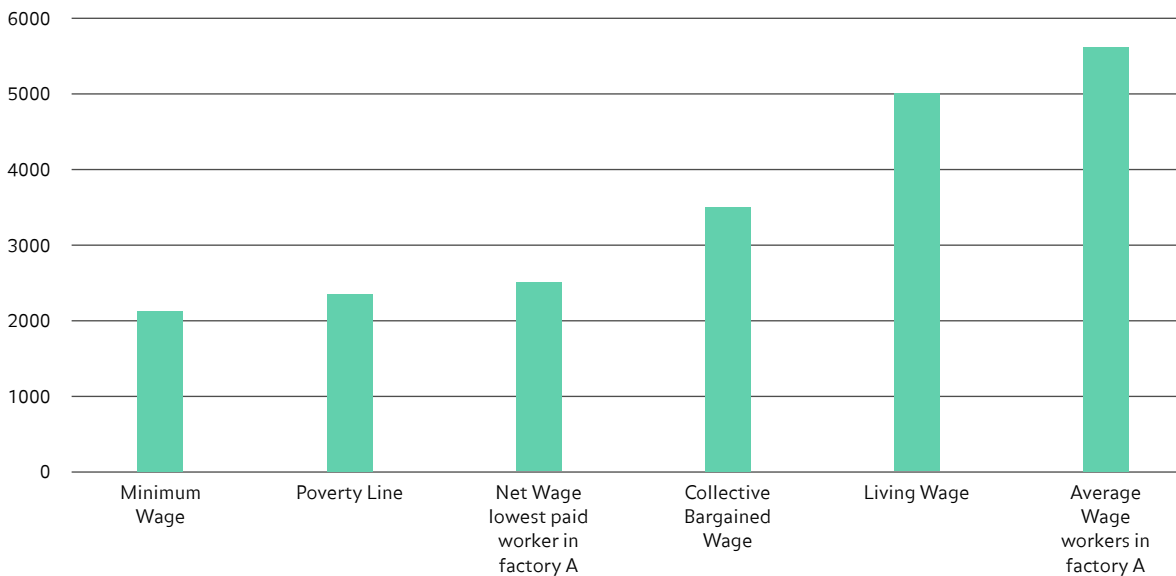


FIGURE 3: WAGE LADDER

¹³ For more information: "Labour Minute Costing, a tool for establishing living wage costs in garment factories", Klaus Hohenegger and Doug Miller for Fair Wear Foundation, 2016

The perspective that the wage ladder in figure 3 gives is that, although net wages of the lowest paid workers are far below the living wage, they are above the minimum wage level and the poverty line. The average paid wage in the company is actually above the living wage. For the lowest paid workers bridging the gap with the living wage in one step might be too much to ask. An alternative would be to look for the closest step up the ladder, in this case the collective bargained wage. This might be a feasible and desirable next step.

If you determined a wage gap, then the next stage (three) in due diligence will show ways you can follow to work towards closing that gap. If you did not determine a gap between your wages paid and internationally recognized living wage benchmarks, then go directly to Chapter 4 (reporting).

We end this chapter with a best practice example about Nudie Jeans. The brand determined a wage gap and worked together with its factory in India to calculate how much it would cost to raise the wages to a living wage level.

Box 9: Best practice: Nudie Jeans

Determination wage gap

In 2011 Swedish brand Nudie Jeans started working together with the Fair Wear Foundation to calculate how much it would cost to raise wages to a living wage level in their factory in India. Nudie Jeans purchases for about 3.5 % of the factory's total annual production. The brand sat together with the factory management to estimate a living wage level for workers. They conducted workers surveys and consulted with local NGOs and trade unions. They have revisited the number year after year to ensure it reflects rising living costs. In 2016 their monthly target wage estimate was approx. 150 EUR gross pay, compared to a minimum wage of approx. 62 EUR.

Source and more information: "Living wages: an explorer's notebook – piloting living wages in garment factories", Fair Wear Foundation, 2016

Checklist Stage 2

At the end of stage 2 you have:

- Collected and shared current wages paid (engaged with factory management).
- Collected living wage data and named source.
- Collected other wage data and named source.
- Assessed data to establish a gap.

Chapter 3

Stage 3 Implementation

The third stage in the due diligence process is to move from establishing a wage gap to finding suitable ways to close it.

Criteria to meet for stage 3:

- 3.1 Analyse different routes to implementation including living wage initiatives.
- 3.2 Examine where the company can have the most impact (short, medium and/ or long term).
- 3.3 Develop and implement a strategy for living wage.

Ad 3.1

Analyse different routes to implementation

There is no single way to implement living wage. Which route(s) you follow is an individual choice, that depends, for example, on your company's structure and activities (number of production staff in the supply chain, types of contracts and production volumes per country/ and or production sites etc.) The analysis of your company's structure performed in stage one (1.1) is a good reference point here.

Closing a wage gap can be a challenging task, as stakeholders within your company and along the supply chain may have conflicting interests. Higher management and the procurement department will have to be on board to look at how purchasing practices can facilitate living wages. Factory management will need to be engaged, as well as workers and trade unions. Local governments should be sensitised.

Luckily, as said before, you can team up with one or more initiatives that have explored ways to implement living wage in the garment sector. As there is no one size fits all approach to implementing living wage, you will have to analyse which of the initiatives suits your company best. Please consult appendix 3 for an overview of living wage initiatives and their main characteristics (goal, activities, etc).

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As appendix 3 shows, these initiatives approach living wage in different ways. Some focus on calculating benchmarks, others on factory pilots and/or freedom of association as a way to reach living wage. The Fair Wear Foundation (FWF) for instance, with mostly members from small and medium size companies, uses tools like wage ladders and labour unit costing to guide member companies and their factories. FWF stresses the need to purchase responsibly by actively engaging with suppliers and helping them implement living wage in their factory. FWF developed a method to calculate the unit price the supplier would need to charge to be able to pay a living wage.¹³

Initiatives such as Fair Labor Association (FLA) and Fair Wage Network (FWN) focus on assessing the factories of their member companies or clients, making corrective action plans and providing training for improvement. Ethical Trading Initiative (ETI) and Solidaridad offer specialists in setting living wage policy and provide training such as worker-management dialogue. They also work closely with garment companies in pilot projects.

Others, like Fair Trade and SAI, have created certification schemes to implement living wage. SAC has an industry-wide approach with a focus on standardizing performance assessment on social and labour issues. IDH Sustainable Trade focusses on the business case for living wage. Research organisations such as WageIndicator support implementation by providing data.

Whichever initiative you choose, implementation can only succeed if you work together with peers, experts and stakeholders. After careful consideration of the information provided in appendix 2 and further information you gathered yourself through websites and inquiries, you can make your choice of route(s) to implementation. Note that working with more than one of these initiatives is common.

Ad 3.2

Examine your impact

What is also helpful in choosing your specific way(s) to implement living wage is an examination of where you can have the most impact. In other words, your starting point should be a combination of the countries/ factories where the wage gap between wages paid and living wage is widest and where you have most leverage. Most of the living wage initiatives (appendix 3) assist companies in bridging the wage gap in countries/ factories where immediate improvements can be achieved on the ground.

They aim at short and medium term results because industrywide and legislative changes will take longer. By this we mean that changing the entire garment sector and/ or influencing governments to raise the minimum wage to a living wage level are equally important as factory pilots but will take much longer to materialise. In the meantime, you can do a lot by working in pilot projects in your supply chain. If successful, these pilots can be scaled up and inspire others to come into action.

An example of a pilot project with short-term effect is Nudie Jeans, the brand we introduced in Chapter 2. It uses a 'bonus' as a way to pay living wages. See Box 10.

Box 10: Best practice: Nudie Jeans

In 2011 Swedish brand Nudie Jeans started working together with the Fair Wear Foundation to calculate how much it would cost to raise wages to a living wage level in their factory in India.

Implementation method

In total, labour costs would increase by 30% if all workers received at least the target wage. Nudie Jeans pays what it calls a 'living wage bonus' to each worker. This takes into account the time needed to produce Nudie styles as well as the 30% increase in labour costs. In this way, the entire workforce profits. The bonus is specified on the factory's invoices as 'living wage factor'. Payments are made to all workers (equal share) about every 3 months.

Source and more information: "Living wages: an explorer's notebook – piloting living wages in garment factories", Fair Wear Foundation, 2016

Another example of a pilot project with short term effect is a Fair Wage project by Solidaridad in China. See box 11.

Box 11: Best Practice: Solidaridad & Fair Wage

In 2016 Solidaridad set up a pilot project together with two European brands/retailers sourcing garments from China, two of their RMG factories in China and the Fair Wage Network.

In the factories, Solidaridad and the Fair Wage Network implemented and tested the Fair Wage Methodology and provided factories with guidance and training on how to integrate key dimensions into their HR systems. The Fair Wage Methodology sets a framework of 12 wage dimensions and attaches great importance to dialogue between management and workers to establish solid wage policies and practices. The method aims at assessing a factory, based on Fair wage and after assessment the factories work together with the brands, Solidaridad and the Fair Wage Network on remediation towards improvement on the 12 dimensions. At the buyers' end, Solidaridad analysed the current purchasing practices and their link to wages in the supply chain, and provided guidance on improved purchasing policies and training for key staff.

The pilot project ends in the beginning of 2017, but the remediation at factory level will still continue with a further set-up of social dialogue and worker surveys, implementation of a wage grid and a job classification system, improved communication and monitoring towards a fair wage.

Source: Solidaridad

To give you an idea of the time path in which the main living wage initiatives have effect, we classified them in Box 18 into short, medium and long term. This is not set in stone and the classification may be up for discussion because some short-term pilots can have longer-term effects if scaled up. And long-term processes can have an immediate case-by-case success. However, we mean to give you an idea of the duration of their activities so you can better plan your impact. Again, you can work with more than one of these initiatives simultaneously to get both short and longer term results.

Box 12:		
Long term (focus on governance and legal changes)	Medium term (focus on industry change and information sharing)	Short term (focus on factory assessments, pilots, training)
Textile Agreement Netherlands Textile Partnership Germany ILO Better Work	Action Collaboration Transformation (ACT) Sustainable Apparel Coalition (SAC) Ethical Trading Initiative (ETI) Business Social Compliance Initiative (BSCI)	Fair Wear Foundation (FWF) Fair Label Association (FLA) Fair Wage Network (FWN) Social Accountability International (SAI) Fair Trade International Solidaridad IDH Sustainable Trade
WageIndicator, Global Living Wage Coalition (GLWC), Asian Floor Wage Alliance (AFWA)		
Research and data		

Larger companies in particular can have an impact in the longer term, reaching more workers by teaming up with peers to change industrywide practices and influence legislation to improve (lobby governments for better wages). This can be done for instance by industrywide collective bargaining agreements. Best practice in this regard is the initiative called Action Collaboration Transformation (ACT). See Box 13.

Box 13: Best practice: ACT

ACT (Action, Collaboration, Transformation) is an initiative between international brands & retailers, manufacturers, and trade unions to address the issue of living wages in the textile and garment sector. ACT aims to improve wages in the industry by establishing industry collective bargaining in key garment and textile sourcing countries, supported by world class manufacturing standards and responsible purchasing practices. Industry collective bargaining is a mechanism that brings together representatives of manufacturers and workers - namely employer associations and trade unions - to negotiate and agree wages and conditions that will apply to a whole industry sector. The collective agreements that result are legally binding and enforceable. Industry-wide agreements set a benchmark that applies to all manufacturers, while still allowing for individual manufacturers to offer higher pay and conditions.

Source: ACT Factsheet, 2015

The ACT secretariat will be up and running in the spring of 2017

Ad.3 3

Develop and implement your strategy

Analysing implementation routes and living wage initiatives prepare you to develop your living wage strategy. Actually, all the work in due diligence stages one, two and three to this point culminates in formulating your strategy. In a strategy, the 'how' question is central. How will you implement living wage? How, by which route(s), did you choose to reach your goal? How will you monitor progress and assess the results? These questions are yours to answer.

In Box 14 we give you a general idea of the elements that should be included in a living wage strategy. As you can see, it lists many of the steps taken so far in the due diligence process.

¹⁴ For more information: <https://www.bsr.org/en/our-insights/report-view/bsrs-five-step-approach-to-stakeholder-engagement>

¹⁵ See for example the living wage criteria for the apparel industry within the Corporate Human Rights Benchmark Pilot Methodology 2016 (<https://www.ihrb.org/>)

Box 14:

Living wage strategy

Preparation

- Analyse your company's structure (production sites/ staff/ type of contracts/ working hours etc.) see criterion 1.1
- Formulate the goal and sub goals (see criterion 1.1)
- Assess the gap and make clear which target wage you use (see chapter 2)
- Analyse the different implementation routes (see criteria 3.1)
- Analyse stakeholders and consult with them on developing a strategy
- Examine where you company can have the most impact (see criteria 3.2)

How to implement living wage

- Define the route or routes to implementation that you have chosen and explain why
- Include in the strategy a timeline, milestones and periodic monitoring on progress
- Include control systems with performance indicators for monitoring
- List your company's membership(s) of living wage initiatives
- Include an analysis of how purchasing practices / pricing model / lead time etc can help make a living wage possible
- Include training, improvements plans and sanctions for suppliers in case of non-compliance
- Include periodic (re)assessment of the strategy with internal and external stakeholders

When you have come this far and have developed a strategy, effects should be felt on the ground as soon as possible. Due diligence is more than a process on paper, it should be a means to an end: reaching your goal of living wage. So far no brand has published results of the implementation of a living wage. H&M has done pioneering work in developing a Road Map for Living Wage and setting target dates for implementation. The brand will also report annually about progress. See Box 15.

Box 15: H&M Road Map for Fair Living Wage

In 2013, during the European Living Wage Conference, H&M announced its strategy for fair living wage. The first goal is to implement the Fair Wage Method (www.fair-wage.com) by 2018 with 100% of its strategic partners. The method includes methodology training for management and workers, identifying gaps, developing Corrective Action Plans (CAPs) and training. H&M trains partners how to build a fair wage payment grid (adjusted for skill level).

Source: Conference report Asian Living Wage Conference (ALWC), Pakistan, May 2016

H&M will report on efforts towards achieving a fair living wage in annual Conscious Actions Sustainability Report (<http://sustainability.hm.com/en/sustainability/commitments/choose-and-reward-responsible-partners/fair-living-wage.html>)

Checklist Stage 3

At the end of stage 3 you have:

- Researched different living wage initiatives.
- Determined where you should start with living wage and why (impact).
- Chosen to collaborate with a certain initiative and why.
- Formulated a living wage strategy (see box...for key elements).
- Started seeing effects on the ground that the strategy is working.

Chapter 4

Stage 4 Transparency

The fourth stage in the due diligence process is to start reporting on the results of your living wage implementation.

Criteria to meet for stage 4:

- 4.1 Involve stakeholders in developing, testing and adjusting the living wage strategy.
- 4.2 Report periodically and publicly on living wage strategy and results.

Ad 4.1

Stakeholder involvement

Throughout the process of developing and testing the strategy in your company and with supplier(s) on the ground your stakeholders should be involved. Stakeholders are parties that have an interest in and a relationship with the company. They affect or are affected by the company's products and activities¹⁴. Transparency is the basis for stakeholder involvement. Your living wage strategy and activities should be made public on your website and/ or through other communication means.

Examples of local stakeholders for garment companies are: trade unions, labour rights groups, manufacturers associations, municipalities, ministries of labour and social affairs and minimum wage boards. These stakeholders are often involved in setting, influencing or negotiating wage levels in producing countries. Cooperating with them can contribute to increased wages which fit local conditions and lead to sound sustainable growth. An example is given in Box 16.

Box 16: Best practice: Tea sector Malawi.

Malawi is the second-largest tea producing country of Africa. In 2008 it became publicly known that the Malawian tea pluckers lived under the poverty line. Wages were set by the Tea Association of Malawi without consulting tea pluckers. Although the Malawian constitution includes freedom of association there were no trade unions in the tea sector that negotiated about wages. In 2010 a Tea Improvement Program (TIP) was initiated by Oxfam, the Ethical Tea Partnership and IDH Sustainable Trade bringing together tea producers, buyers, traders, wage experts, unions, NGOs and the government of Malawi. A Task Force for Collective Bargaining was founded, chaired by the government, to work towards living wages for tea pluckers.

Source: www.ethicalteapartnership.org

Aside from local stakeholder groups you may at a certain point connect with international stakeholders as well. They are actively involved in the living wage debate which takes place at discussion tables, international conferences and UN forums all over the world. The governments of The Netherlands and Germany have set up national action plans for the garment sector including mandatory monitoring schemes (see appendix 3). International actors will increasingly monitor on progress¹⁵.

Examples of international stakeholder groups in the living wage debate are listed in Box 17.

Box 17:**International stakeholders (examples)**

Name	Type of organisation	Website
Clean Clothes Campaign	non-gouvernemental organisation	https://cleanclothes.org/
IndustriALL	global union	https://www.industrial-union.org/
International Trade Union Confederation (ITUC)	global union	https://ituc-csi.org/
International Labour Organization (ILO)	United Nations	https://www.ilo.org
International Textile Manufacturers Federation (ITMF)	employers associations	https://itmf.org/
IG Metall	German labour union	https://www.igmetall.de
FNV Bondgenoten	Dutch labour union	https://www.fnv.nl

Ad. 4.2**Publicly report on living wage**

Last but not least: report publicly and regularly on your strategy, activities and results in the area of living wage. The way you want to engage with stakeholders is in an open and transparent manner. You will find that most stakeholders want you to succeed in implementing living wage and want to offer help in any way they can. For instance, by providing expert feedback, funding of pilots or sharing knowledge and network.

You may want to incorporate the communication of your living wage activities in corporate reporting cycles and/ or include periodic updates on your website. Do make sure that the communication is both in English and in local languages for all stakeholders to be able to follow your activities. Communicate as specific and lengthy as possible, naming countries, factories, volumes and wage levels. This makes it easier for external stakeholders too as they will assess not only specific results or lack of them, but also the efforts made.

Box 18:**Elements to report on**

Stage 1
Your vision, goal, policy and definition
Stage 2
Current wages paid, living wage benchmarks and other data
A wage gap (country, factory, workers involved etc.)
Stage 3
Your analysis or routes to close the gap and stakeholders involved
Examination of your priorities (most impact)
Your strategy to implement living wage in priority country/ supplier
The way you periodically review the strategy and results
If the strategy is working and if not what to do to adjust
Progress on wages

We fully realize that you cannot make living wage happen on your own. There may well be circumstances outside of your reach that negatively impact your activities. The more you share about the route you are on, with all the obstacles and detours that come along the way, the better we can assess your efforts and good intentions. Full disclosure will also make you adjust and revise your strategy swiftly if needed.

Moving through stage 1 – 4 of the due diligence process is a means to an end. It sets the foundation within your company for living wage to be implemented locally within a certain time period. It should be an ongoing corporate process with intended effects on the ground. Make sure to regularly monitor progress in order to reach your target wage.

¹⁶ "Garment companies and living wage: sustainable investment and social impact measurement: the case study of ASN Bank (November 2016)". See also: www.asnbank.nl/leefbaarloon

¹⁷ Financial institutions include banks, investment and pension funds.

Checklist Stage 4

At the end of stage 4 you have:

- Identified and engaged with your stakeholders in sourcing and production countries.
- Publicly shared your living wage strategy in English and local languages.
- Become transparent about the results of your living wage activities .
- Monitored the actual results in terms of closing the wage gap.
- Adjusted your strategy if needed in order to reach your goal in time.

Addendum

Founded by trade unions in 1960, ASN Bank has been an advocate of international labour rights from its inception. Its extensive human rights policy has been in place since the 1990s, endorsing, among others, the International Bill of Human Rights and, since 2011, the United Nations Guiding Principles on Business and Human Rights (UNGPs).

To help improve the wage situation in the garment sector, ASN Bank announced in 2016 to focus on the topic of living wage in its human rights strategy.

It formulated the following long-term goal and two sub goals:

All textile and garment companies in the ASN Investment Universe have implemented a living wage in their own operations and supply chain (first tier) by 2030.

- These companies have incorporated living wage in a human rights due diligence process.
- These companies work together with stakeholders and peers to research and implement a living wage.

Together with Erasmus University Rotterdam, ASN Bank published a first baseline study on living wage in 2016¹⁶. It concluded that, although for most companies in the Investment Universe living wage was not a new topic, there is a lack of transparency on wages paid and on other relevant data such as number of production staff in the supply chain, types of contracts and production volumes per country/ and or production sites.

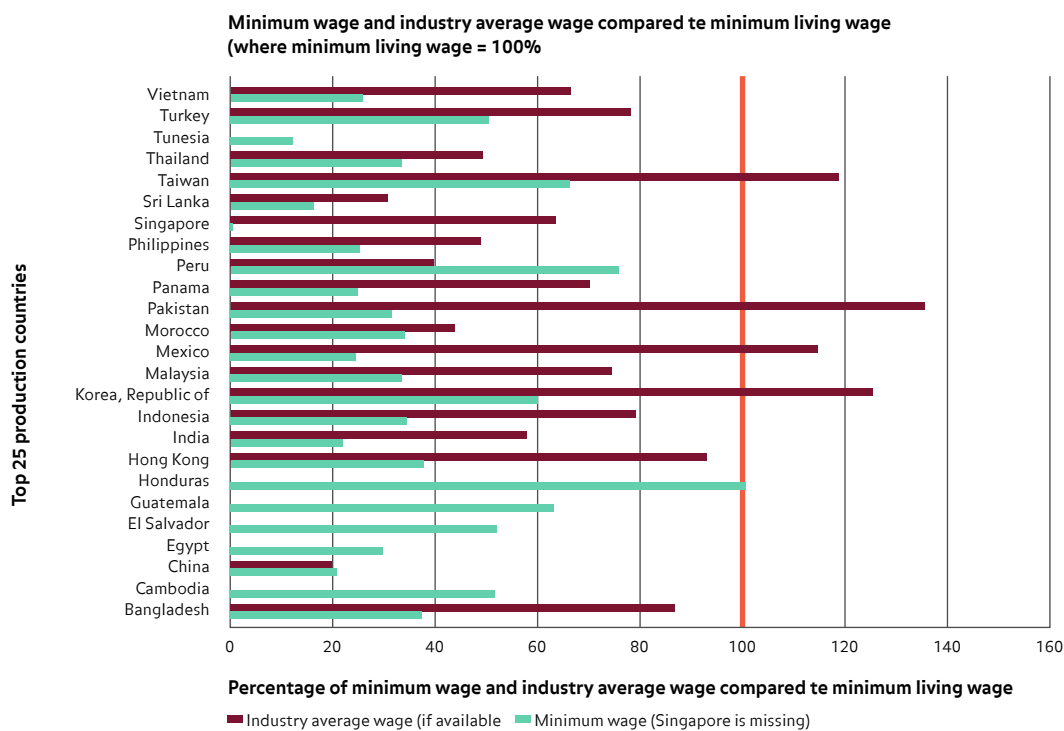
Without these data it is hardly possible for financial institutions¹⁷ to monitor the implementation of living wage. ASN Bank took the initiative to compile this Manual with the aim to:

1. Support garment companies to act with due diligence, leading to implementation of living wages.
2. Provide external stakeholders with guidance for monitoring garment companies on the subject of living wage by checking due diligence and wage levels.

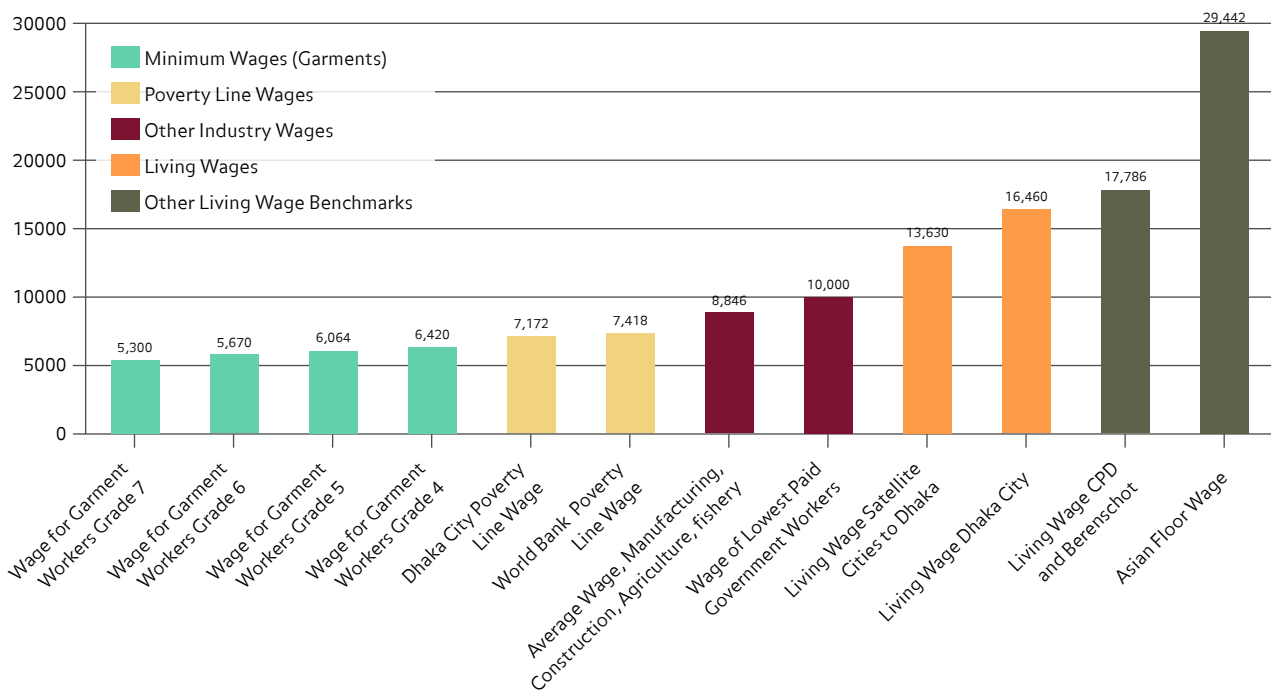
For more clarity on what ASN Bank expects from its garment companies in order to reach the goal of living wages paid in 2030, see the baseline study mentioned above (and footnote 13).

Appendices

1. Wage gap between minimum wages and living wage estimates (based on wageindicator)



2. Wage ladder Bangladesh



Source:

“Living wage report, Dhaka, Bangladesh and Satellite cities, (context: the garment industry)”,

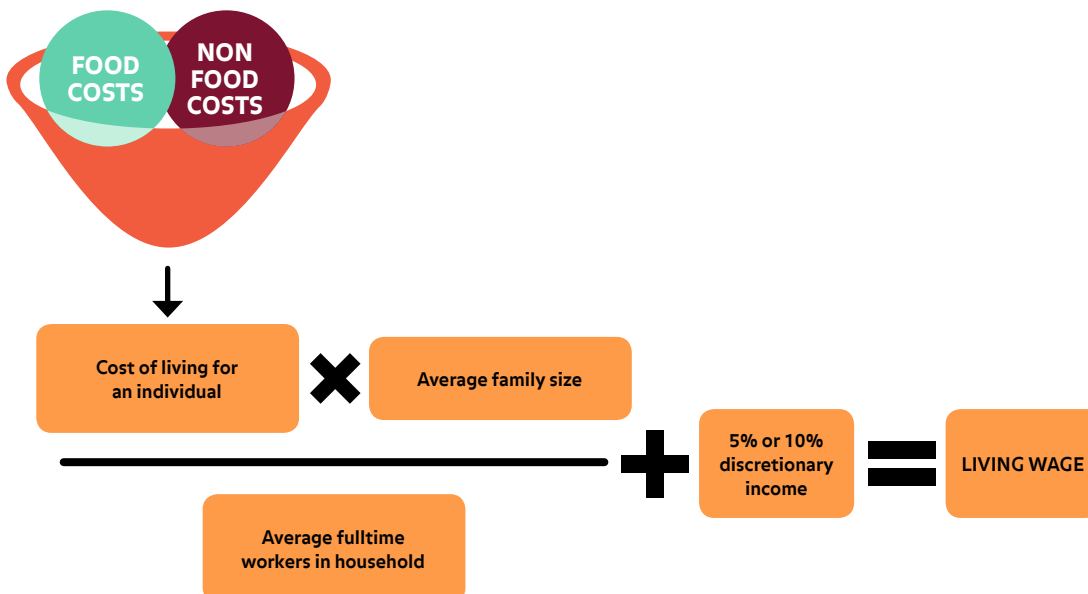
Dr. M.E. Khan, Dr. Richard Anker, Ms. Martha Anker and Dr. Sandhya Barge for the Global Living Wage Coalition (GLWC), 2016

3. Overview Initiatives

	Short term						
	Medium term			Characteristics			
	Long term	goal	membership	type of organisation	intended impact	results to date	website
Garment Sector	Action, Collaboration, Transformation (ACT)-Berlin	support living wages in a scaled up, sustainable, industry-wide approach	yes	multi-stakeholder (international brands, manufacturers and trade unions)	long term (country level) and medium term (factory)	pilot project in Cambodia; secretariat starts 1 March 2017	new website per 1 March 2017 (now: http://www.hiil.org)
	Fair Wear Foundation (FWF) - Amsterdam	verify and improve workplace conditions where clothing is made	yes	multi-stakeholder (brands, factories, trade unions, NGOs and sometimes governments)	medium and short term (factory)-focus on responsible sourcing by helping factories calculate labour costs per item/ order	projects with several brands (Nudie Jeans, Albiro, Mayerline etc) in Asian and European factories	https://www.fairwear.org
	Sustainable Apparel Coalition (SAC) - San Fransisco	develop a universal approach to measuring sustainability performance	yes	multi-stakeholder (brands, retailers, manufacturers, NGOs, academics)	Long term en medium - building the Higg Index a standardized supply chain measurement tool for all industry participants	Social and Labor Convergence Project - industry wide standardized methodology for social and labor performance assessment	http://www.apparelcoalition.org
Garment and other sectors	Social Accountability International (SAI) - New York	improving workplaces and communities by developing en implementing socially responsible standards	no	non - governmental organisation (partners with trade unions and NGOs)	medium and short term (factory)- Social Accountability 8000 standard includes living wage	member of the Global Living Wage Coalition (GLWC)	http://sa-intl.org/
	Ethical Trading Initiative (ETI)- London	Improve working conditions in global supply chains	yes	multi-stakeholder (companies, trade unions, NGOs)	medium and short term (factory)- ETI based code of labour practice includes wage living	sharing information, lessons learned and best practices among members, supporting ACT	http://www.ethicaltrade.org/
	Fair Trade International - Berlin	securing a better deal for farmers and workers	no	global organisation and certification body	medium and short term (Fair Trade Labelling includes living wage)	starting a textile program	http://www.fairtrade.net/
	Fair Labor Association (FLA) - Washington DC	protecting workers rights around the world	yes	multi-stakeholders (universities, NGOs and companies)	medium and short term (factory) - FLA Workplace Code of Conduct includes living wage definition	Fair Compensation Project (factory pay assessments in 21 countries)	http://www.fairlabor.org/
	IDH Sustainable Trade - Utrecht	realize green and inclusive growth at scale in sourcing areas through economically viable approaches	no	non-governmental organisation (companies join projects)	medium term - aligning standards in apparel (together with Sustainable Apparel Coalition) and proving business case	apparel program: worker engagement and productivity training	https://www.idsustainabletrade.com
	Solidaridad - Utrecht	working towards sustainable supply chains	no	non - governmental organisation (partners with consumers, producers, brands and workers)	medium and short term (factory) - training programmes and strategic advice	Project with H&M (improve living wage policy) and other brands on Fair Wage Methodoly in China	https://www.solidaridad.nl
	Fair Wage Network - US/ Europe	move up individual factories' wage practices via 'fair wage' approach taking into account wage dimensions	no	network organisation	medium and short term - assessing 12 Fair Wage Dimensions including living wage in factories	working with companies (e.g. PUMA, Adidas, H&M) and NGOs (e.g. FLA, ETI, Solidaridad) to scale up fair wage assessment and remediation exercises	http://www.fair-wage.com/
	Business Social Compliance Initiative (BSCI) - Brussels	drive social compliance and improvements in factories	yes	business initiative (Froreign Trade Association) FTA)	medium and short term (factory) -BSCI Code of Conduct includes fair remuneration	BSCI members have an obligation to pay legal minimum wages and work towards living wages	http://www.bs-ci-intl.org/

		Characteristics					
		goal	membership	type of organisation	intensity impact	results to date	website
(Inter) National	Short term						
	Medium term						
	Long term						
	Sustainable Garment and Textile Agreement - The Netherlands	improve sustainability of international production and supply chain	yes	national initiative of 55 business, associations, trade unions and NGOs signed in 2016	medium and long term - at least a living wage in the production or supply chain by 2020	secretariat within the Social and Economic Council of the Netherlands will monitor improvements annually	https://www.ser.nl/
	Textile Partnership - Germany	bring about social, ecological and economic improvements all along the textile supply chain	yes	national multi-stakeholder initiative with 180 partners (German government, business, trade unions, NGOs) signed in 2014	medium and long term - living wage is one of the goals of the the Partnership standards	the partnership is developing mechanisms for effective monitoring	https://www.textilebeundnis.com/en/
	ILO Better Work - Geneva/ Washington	improve working conditions and respect for labour rights for garment workers, and boost the competitiveness of apparel business	no	collaboration between international Labour Organization (ILO) and International Finance Cooperation (IFC)	long and medium term (governments) - improving national legislation and short term (factories) - compliance with ILO core labour standards	programme is active in 1300 factories employing more than 1.6 million people in seven countries	http://www.betterwork.org/
Research	Global Living Wage Coalition (GLWC) - London/ New York	improve wage levels in certified supply chains and strengthening living wage requirements in codes and criteria	no	cooperation of 6 sustainability standard organisations	medium and short term - testing country specific living wage estimates in various sectors and countries	developed a living wage calculation methodology with experts Richard and Martha Anker	http://www.isealliance.org/
	Wage Indicator Foundation	more labour market transparency for all employers, employees and workers worldwide by sharing information on wages, Labour law and career	no	foundation	medium and short term - publishing living wage data for all stakeholders to use	Living wage map of the world, Wages in context (poverty line, minimum wages and living wages) and Cost of living surveys for 92 countries	http://www.wageindicator.org/
	Asia Floor Wage - Asia/ Europe/ US	Propose a wage for garment workers that would be enough to live on	no	global coalition of trade unions, workers rights and human rights organisations	medium and long term - wage estimates tend to be higher than other estimates	developed a regional calculation of a living wage - Asian based	http://www.asia.floorwage.org/

4. Calculation (basic)



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