

Better business through Living Wage



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Inequality is a growing threat to business and to economic growth. According to the [OECD](#), the average income among the richest 10 percent of the population is nine times higher than that of the poorest 10 percent.

One way businesses can help mitigate inequality is by paying [living wages](#) to their own employees and by ensuring that living wages are paid throughout their supply chains. Earning a living wage means that workers receive sufficient wages to sustain a decent standard of living for themselves and their families.

Securing a living wage is not just about reducing inequality, it can also improve business and working conditions. By securing a living wage companies can lower reputational risks, increase worker productivity and reduce employee turnover¹.

Investment firms are increasingly incorporating Socially Responsible Investing (SRI), including supply chain sustainability, into their strategies². In fact, sustainable equity funds that emphasize the use of environmental, social, and governance criteria to generate financial returns and societal impact, finished 2020 with a clear performance advantage relative to traditional equity funds.³

The Platform Living Wage Financials (PLWF) is an example of this trend. This alliance of 15 financial institutions encourages and monitors investee companies to address the non-payment of living wage in global supply chains. As an investor coalition with over €2.6 trillion of assets under management, they use their influence and leverage to encourage better practices.

The public sector has also seen important developments that create an enabling environment for living wages. In early 2021, the governments of Germany and the Netherlands announced a joint effort to work together on the topic of living wages⁴. At the EU level, legislation on mandatory due diligence is being discussed.⁵

Over the years, IDH has worked with many partners to improve working conditions and to close living wage gaps in several supply chains, such as tea, bananas and flowers. Based on this collective experience, IDH has developed [the Roadmap on Living Wages](#) that outlines the key steps towards a living wage. The roadmap helps companies define a living wage and identify tools that can be used to measure the gap between current remuneration and a living wage. Once there is clarity on the living wage gap, companies can implement practical and effective solutions to close gaps in supply chains.

As we identify best practices through our own work and the work of other companies, we want to share our insights. This publication provides an overview of the five main actions that buying companies should consider, including: adopting better procurement and trading practices; embracing transparency; co-investing and implementing practical solutions; supporting social dialogue; and sector-wide collaboration. We showcase tools, tips and some examples on how to get started to implement effective solutions to close living wage gaps in supply chains.



¹ <https://irle.berkeley.edu/productivity-profits-and-pay/>

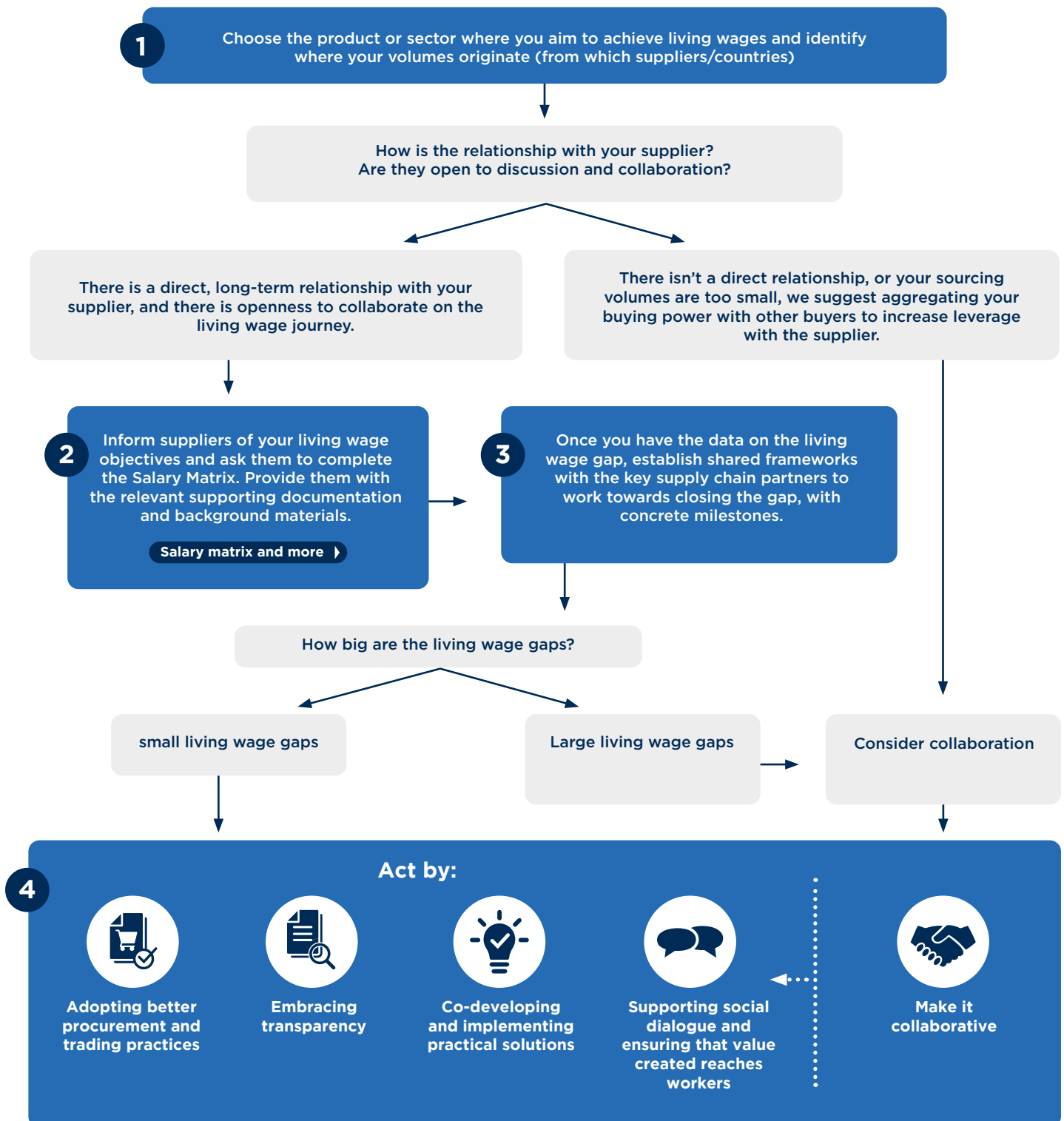
² <https://wealthmanagement.bnpparibas/en/expert-voices/how-sri-builds-sustainable-supply-chains.html>

³ <https://www.morningstar.com/articles/1017056/sustainable-equity-funds-outperform-traditional-peers-in-2020>

⁴ https://www.idhsustainabletrade.com/uploaded/2021/02/Joint_Declaration_NLD_DEU_270121.pdf

⁵ <https://www.business-humanrights.org/en/latest-news/european-parliament-committee-on-legal-affairs-publishes-report-with-recommendations-to-eu-commission-on-mandatory-due-diligence/>

Ready to start working towards a living wage in your supply chain?





Adopt better procurement and trading practices

Your company can make a significant change in workers' wellbeing through your decisions on how you source and produce your products and services. How do you express the values of your organization in your contracts and your work with suppliers? Sustainable practices, including social and environmental factors, should be considered alongside financial factors when buying/selling/trading products and services.

Why?

Confirming the company's commitment through procurement policies on living wage sends a strong signal to internal and external stakeholders. Wages are particularly sensitive to the direct or indirect effects of procurement practices because they are variable costs that can be easily affected by competitive pressures. Traditional procurement practices with the aim of maximizing short-term profits, such as electronic bidding and short-term contracting, can pose a threat to living wages.

Three Actions

- **Encourage demand for living wage** products by sending a strong signal to your suppliers (e.g. through increased orders to suppliers that pay a living wage) and by building awareness among consumers of how they contribute.
- **Support suppliers to pay a living wage to their workers** through long-term off take agreements, guidance on expected quality and support to reach it, and financial support, if necessary, through higher prices and/or access to finance for investments required to move towards living wages. As part of the negotiation process, discuss and agree on how additional value generated is distributed back to workers.
- **Prioritize shorter supply chains and engage in direct and long-term sourcing relationships.** Strong relationships build trust, which allows you to work together towards long-term sustainability goals that improve productivity and quality that can support increased wages.

Tools

- [IDH Sustainable Procurement Kit](#). Develop a cost-plus pricing model to understand how living wages can fit in your business model.
- [Labour Minute Costing Calculators](#) from FairWear. This tool helps brands and factories to ring-fence the labour cost based on a transparent methodology for costing/pricing of goods.
- [Purchasing Practices Self-Assessment](#) from ACT. This online questionnaire for brands helps assess purchasing practices, identify change options, and support the move towards living wages on an industry level.

Dialing up a Living Wage

Fairphone designs and produces smartphones with the goal of improving the electronics supply chain. One of their key focus areas is on improved working conditions. As a whole, the electronics industry is known for unfavorable working conditions: the well-being of workers is often not safeguarded, wages are low, and employees are often unable to influence their work environment.

Fairphone supports its direct suppliers to enable them to pay living wages. They estimate the living wage gap with their suppliers and factor that into what they pay their suppliers. The fixed living wage bonus of 1.50 EUR per phone produced is then incorporated into the product price. In a product with a shelf price of 450 EUR, the cost of paying a living wage accounts for just 0.33%. Each year the size of the bonus is re-evaluated to integrate new insight gained.

The Fairphone bonus is paid on a monthly basis on top of the regular salary to better accommodate any changes in the workforce, production line or otherwise. Workers on the Fairphone production line opted to share the Fairphone bonus among all workers in the factory. This meant that none of them could achieve a living wage unless the other buyers from the factory also factor in a living wage.⁶

- [Seven key purchasing practices that impact working conditions](#) by Better Buying. This buyer rating system examines seven key categories of retailer purchasing practices that affect working conditions for workers.

Practical Tips

- Build strong relationships with suppliers to implement cost-plus pricing that ensures living wages are factored in while enabling the business to remain viable and competitive. Agree on ways to proceed with suppliers, including an improvement plan with specific milestones to assess progress and prove the increase of workers' wages.
- In lieu of direct supplier relationships, provide traders with detailed specifications, including transparency and traceability, and requiring the use of the salary matrix. Use your leverage as a buyer to ensure that the trader implements the right sourcing strategy.
- Engage all relevant departments in your business from the start: sustainability, procurement, marketing, and sales.

6. https://www.fairphone.com/wp-content/uploads/2020/02/016-009_Whitepaper_Working_Conditions.pdf



Embrace transparency

How well do you know your supply chain? Transparency requires an in-depth understanding of what is happening in your supply chain, both up and downstream and sharing that knowledge internally and externally.

Why?

Transparency improves the efficacy of the due diligence process and is valued by financial institutions, rating agencies and consumers alike. It enhances business reputation by demonstrating a business' commitment to making steady progress on living wages.

Three Actions

- **Make purchases contingent on traceability and transparency.** A sourcing commitment can help build trust with suppliers who share similar values on closing living wage gaps. Remember that transparency is a two-way street and providing information to your suppliers is best practice.
- **Make public commitments to close living wage gaps.** Establish concrete milestones, and a commitment to measure progress over time. Ensure that your supply chain partners, both up and downstream, have a similar commitment to sharing information. This includes identifying and monitoring the living wage gap through [the Salary Matrix](#).
- **Report publicly on your progress.** Transparency about the living wage gaps and their root causes demonstrates accountability and is key to enabling clear dialogue for progress.

Tools

- **Find a relevant living wage benchmark -** [IDH's benchmark finder tool](#) can help you find living wage benchmarks based on recognized methodologies.
- **Monitor wages in the supply chain -** [The IDH Salary Matrix](#) provides important information that can be used to monitor progress on wages. The Salary Matrix includes detailed information on defining a living wage, and how they are measured and verified.
- **IDH audit guidelines and training for auditors.** You can verify progress through auditing schemes that have embraced living wages and are using the Salary Matrix.

Dutch Retailers' Commitment on Living Wage Bananas

Dutch retailers have **committed** to work with IDH, the Sustainable Trade Initiative, on a five-year living wage initiative in the banana sector.

Dutch supermarkets Albert Heijn, Boni, Boon, Coop, Deen, Hoogvliet, Jan Linders, Jumbo, Plus, Poiesz, Sligro, Spar, Superunie, Vomar, and the Dutch Food Retail Association (CBL) agreed to work towards living wages for banana workers in their international supply chains. Participating retailers are committed to increasing the availability of bananas produced by workers earning a living wage.

During the first phase, the private sector parties involved (producers, suppliers and retailers) develop insights into the gap between current wages and living wage benchmarks (i.e., the living wage gap). IDH's Salary Matrix tool is used to achieve this objective.

In the first phase, 117 farms from five countries submitted their information on the Salary Matrix. These farms produce a total of 830.943 metric tons of bananas for their entire customer base. In total, Dutch retailers in the program purchase 7,6% of all bananas produced by the reporting farms. These farms represent 42% of the bananas purchased by participating retailers in 2019.

With the living wage gap for this portion of the banana supply chain determined, the group will take several steps, including rollout of the Salary Matrix to cover 100% of the banana assortment sold in the Dutch market, and further cooperation among retailers and supply chain partners to identify root causes and solutions to close the living wage gaps.

Practical Tips

- Data verification through auditing ensures credibility.
- Share learnings on your journey to closing living wage gaps; this will demonstrate your progress and bring credibility to your endeavor.

Co-invest and implement practical solutions

Removing barriers and closing the living wage gap requires coordination and action among the relevant supply chain players.

Why?

Low wages reflect the variety of challenges at the supplier level, often related to low productivity, quality and prices, or limited workers' skills and social dialogue. Efforts to achieve living wages need to address these issues while supporting the long-term sustainability of the sector.

Three Actions

- **Engage in dialogue** with suppliers, producers, and other relevant local players (unions, workers' representatives, government agencies, etc.), as well as other international buyers when needed, to find solutions for closing the wage gap over time.
- **Support suppliers** to pay a living wage to their workers **by co-investing on supplier activities that can create higher value that leads to higher wages.** This includes supporting suppliers to increase farm efficiency by enhancing quality and/or productivity, reducing post-harvest losses, facilitating access to finance, and providing training that supports factory goals around productivity and profitability.
- **Ensure that any value created** is distributed to workers in the form of higher wages.

Practical Tips

- Ensuring that any value created reaches workers can be a challenge. Monitoring in a timely manner is essential to inform strategy decisions. The challenges can also come from outside the supply chain. For example, a rise in cash wage could lead to higher income taxation or to a rise in rents of workers' houses, which doesn't translate to an increase in workers' take home pay.
- Start by engaging in "quick wins" that can be quickly implemented to demonstrate progress while building cooperation and confidence. For instance, workers' remuneration can be increased by providing more and better in-kind benefits, such as meals at work, housing, transportation, childcare, children's education, and medical care.
- Engage a knowledgeable and neutral actor to facilitate dialogue and the creation of common action plans when needed.
- Develop reasonable solutions to increase wages that do not involve more hours of work. Wages earned through overtime work are not considered in the calculation of a living wage.

Eosta's sells the first Living Wage mangoes

Eosta, an international distributor of organic fruits and vegetables, has implemented several projects to improve social conditions in their supply chain. Eosta is the first supplier to bring Living Wage products to store shelves in Europe with their Living Wage Mangoes.

Research by their mango supplier, Fruiteq, in Burkina Faso found that closing the Living Wage gap for all warehouse workers and harvesters would require an additional charge of approximately €0.10 per kilo of mangoes.

Eosta has sold more than 100 tonnes of organic Living Wage mangoes, equivalent to five full containers.

To ensure that the value generated is distributed to workers, a fund was created in consultation with workers to offer interest-free microcredits. Money collected through the living wage surcharge is added to this fund and used as a rotating fund to create a sustainable catalyst for helping more people.



Support social dialogue

Dialogue is critical to labour rights, facilitating wage determination, improving working conditions and promoting sustainable businesses. The process of employers, workers and their representatives discussing the conditions of work is referred to as social dialogue.

Why?

For a living wage approach to be effective and sustainable over time, wage-setting must be locally-owned. This means promoting and requiring respect for the freedom of association, collective bargaining, and social dialogue at the workplace. This ensures that any value created through the adoption of sustainable practices or co-investments with supply chain partners passes on to workers in the form of higher wages. Local ownership is also important for ensuring good health and safety conditions at the workplace.

Three Actions

- **Respect the fundamental rights of freedom of association and collective bargaining.** Locally-owned wage-setting mechanisms such as collective bargaining, provide the optimal model for both employers and workers to find a wage that accommodates the interests and needs of business and labour. Commit to working with suppliers who respect these basic rights.
- **Support training for management and workers** to have the capacity and knowledge to engage in effective social dialogue.
- **Advocate for fundamental principles and rights at work, especially in countries you source from that have not ratified ILO fundamental conventions.** Most importantly: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

Tools

- <https://www.fairwear.org/programmes/workplace-education> from FairWear. These targeted on-site training educates both workers and management on the eight Fair Wear labour standards and teach effective methods for communicating problems and resolving disputes by getting to the root of the problem.
- <https://www.theglobaldeal.com/resources/Thematic-Brief-Achieving-Decent-Work-and-Inclusive-Growth-The-Business-Case-for-Social-Dialogue.pdf>. This brief from ILO and OECD demonstrates the business case and provides a checklist for effective social dialogue.

Race to the Top in the apparel sector

What if the apparel sector's race to the bottom of pricing and manufacturing standards could turn into a race to the top? With this in mind, the Race to the Top initiative was launched to promote and integrate sustainable manufacturing practices and better working conditions in the Vietnamese apparel and footwear sector.

The program's partners included brands and technical experts, such as GAP, Levi's, USAID – United States Agency for International Development, Better Work, and the Sustainable Apparel Coalition. Through the facilitation of IDH, they developed a program to support factories by providing training and setting up systems for structural worker-management engagement.

Based on the training, a collaboration process called Improvement Circles (ICs) was developed and embedded within the factories' structures. ICs provide a space for workers and managers to discuss and solve workplace-related problems and find opportunities for better collaboration and productivity. The training for management, supervisors, and workers helps develop soft skills, builds trust, and teaches dialogue skills to engage on improvements. This results in more productive factories that provide better working conditions with higher job satisfaction and fewer unresolved grievances, and creates a win-win for all.

The factories that concluded the Race to the Top's Worker Engagement program all showed improved productivity, worker well-being and satisfaction. Reduced absence and turnover confirm this trend. Years after the conclusion of the final trainings from the first factories that joined, over 85% of workers still use the Improvement Circle installed in the factory to resolve issues and discuss improvement opportunities.

At this moment, IDH is working with CNV international and the The Vietnam General Confederation of Labour (VGCL) to roll-out additional support to the textile sector and other manufacturing & food-processing sectors in Vietnam, regarding multi-company collective bargaining.

Practical Tips

- To achieve effective workers representation, capacity-building may be needed. Local unions can receive assistance from international unions such as IUF, FNV, CNV, among others.
- Social dialogue processes can be informal or institutional. Opening clear dialogue among management and workers can begin informally and progress to a formal regional, national or enterprise level.
- Social dialogue can contribute to improved business performance, productivity gains and enable innovation.



Make it collaborative

More often than not, no single actor can guarantee a living wage alone. Removing barriers and closing wage gaps on a wider level requires collaboration and commitment among traders, retailers, brands, suppliers, social partners, civil society and national governments.

Why?

Wages that are far below a living wage are often a symptom of deeper challenges that threaten the viability of the industry, and possibly even the national economy. In these cases, the long-term future of the sector requires a holistic, sector-wide response.

Three Actions

- **Establish shared commitments** with supply chain actors, with concrete milestones.
- **Start or take part in multi-stakeholder initiatives** (MSI), with the support of a neutral convenor that can facilitate the dialogue between the different supply chain actors which often will have contrasting viewpoints and varied interests. Under the MSI, define an action plan that is formulated together with local stakeholders with clear leads for the implementation for the different activities defined.
- **Document and share learnings, progress, challenges and solutions** to inform the joint effort in a collaborative manner.

Tools

- [Download Collaborative Transformation](#), a book that documents the collective knowledge of IDH and our partners, accumulated over the last 10 years, as we worked to accelerate the adoption of sustainable practices in international trade.

Practical Tips

- Work broadly across your supply chain. When you focus on a single origin, it can affect the competitiveness of producers and limit progress.
- A thorough analysis of the sector is often required and most likely a range of interventions will need to be deployed to close the living wage gap.
- An accountability mechanism should be agreed upon to hold partners to account on their commitments to the action plan. The living wage progress should be measured and made public on an annual basis including a reflection on the macro economic developments for the region, including inflation, exchange rate developments and price developments in the sector targeted.
- When national minimum wages are set too low, the most effective way of advancing the interests of workers is to join other companies, trade unions and partners to encourage national governments to lobby for higher wages or better minimum wage-setting machinery.

An unprecedented collaboration: Malawi Tea 2020

Malawi Tea 2020 was developed as a joint effort to revitalize the Malawian tea industry and improve the lives of its workers and farmers. It was one of the first country-level initiatives aimed at securing a living wage.

In a true collaborative effort with stakeholders from across the entire tea supply chain, the 36 partners signed an MOU commitment, developed a roadmap for Malawi Tea 2020, and agreed on a five-year timeline to close the living wage gap.

The Roadmap was developed and agreed among local stakeholders, and actions were spread across five pillars. The partnership established a Steering Committee, chaired by IDH as a neutral party, and designated pillar leads who would report, reflect and agree on actions within and across the different pillars. On an annual basis, an independent Wage Committee, led by Richard and Martha Anker, provided a report on living wage progress made and a reflection on the macro economic developments in the country and in the sector, including inflation rates, income taxation, exchange rate and tea price developments.

The Roadmap included actions for revitalizing the Malawi tea sector to ensure a higher quality product that would attract a higher price in the market. It also included support for the social dialogue process, which was not formalized at the start of the program. Furthermore, actions were taken to improve the in-kind benefits for tea workers, including improvement of midday meals, better HR and gender policies, and improvements in quality of housing. In addition, a sustainable procurement model was

developed and several global tea buyers adopted the model to inform their procurement decision making.

Program achievements included:

- The first Collective bargaining agreement between the Plantation Agricultural Workers Union (PAWU) and the Tea Association of Malawi (TAML).
- A significant narrowing of the living wage gap, from approx. 70% at the outset, to 33% in 5 years.
- Coalition buyers sourcing 66% more tea volume from Malawi since the start of the program.
- Influencing Malawi government to raise the income taxation threshold to increase take home pay of tea workers.
- For more achievements: <https://www.malawitea2020.com/achievements/>

Many lessons have emerged from the program, including the challenge of global market economics where too much focus on a single origin can distort its competitive advantage. Strong supply chain commitment to suppliers is essential when or if market demand shifts due to higher wage commitments.

Another important insight is to carefully evaluate how value generated in a living wage program actually improves the lives of workers. In the Malawi example, higher cash wages led to workers having to pay more income taxes. When this came to light, the stakeholders influenced Malawi government to take action. The government raised the threshold, which increased workers' take home pay.

Other reflections from the Malawi Tea 2020 program can be found here: <https://www.malawitea2020.com/reflections/>

Shared responsibility

Companies have the power to be a driving force in assuring living wages throughout supply chains. Throughout this paper, we have provided an overview of the actions that companies should consider for closing wage gaps in the supply chain, including tools, tips and examples of how to get started.

It is important to note that no single actor can achieve a living wage for all workers in international supply chains. The living wage journey is a responsibility that must be shared among companies, governments, civil society, trade unions, investors and consumers.

Collaboration and shared responsibility is key to creating an enabling environment for living wages. Other actions that should be considered by all stakeholders include:

- Creating public and credible tools to establish living wages benchmarks across the world and to compare current wages with living wage levels.
- Opening up sector wide living wage discussions in a pre-competitive space with understanding of competition laws to ensure compliance.
- Setting legal minimum wages that are more closely aligned to living wages.
- Passing legislation that assures freedom of association and collective bargaining.
- Categorizing living wage efforts as a value-driver and a way to reduce financial risks (e.g. a living wage can result in a stronger economy, decreased employee turnover, and positive impact on productivity).
- Adding living wage requirements to trade legislation in importing countries (similar to existing environmental requirements or other social requirements, such as prohibitions on child or forced labour).
- Adding living wage compliance criteria to sustainability standards and certification schemes.
- Addressing the unintended consequences of actions on a case-by-case basis (e.g. considering the potential impacts of automation on job security).

Conclusion

Our vision is a world where workers are valued and living wages are an integral part of a sustainable, resilient business. We believe that the living wage journey is a critical investment in the future of business.

We have recently seen positive developments related to living wage ranging from increased company's commitments, to more involvement from investors and the public sector, and greater alignment on living wage data and tools.

IDH aims to build on the call-to-action launched during the Living Wage Summit in March 2021. This means greater action from businesses across all sectors, including agriculture, manufacturing and service. Living wages concerns all industries and provide an opportunity for collaboration and shared learnings. We believe we can work together to create living wage strategies that go beyond closing the gap to address broader development questions around sector governance, industrial relations, competitiveness, and labour market policies, including minimum wages.