



# Producers' Guidelines: Voluntary Contributions to Support Closing Living Wage Gaps

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For recommendations on how to further improve these guidelines, please reach out to us at [academy@impactbuying](mailto:academy@impactbuying). Your insights are greatly valued.



# 1. Introduction to Voluntary Contributions

In a world where economic disparities persist, the pursuit of social responsibility has taken centre stage, bolstered by upcoming due diligence legislations worldwide. Companies are increasingly acknowledging their role in addressing issues like income disparities, specifically regarding living wage gaps. To fulfill the corporate responsibility of upholding fundamental human rights in supply chains, it is important to recognize the risks associated with low wages and take action to mitigate or remedy them, which includes continued progress towards living wages.

Working on addressing living wage gaps ideally requires a long-term cooperation between buyers and producers, and other key players in the supply chain. The reality is that around 99% of the trade agreements are based on 1-year contracts, which is unlikely to change overnight. Therefore, it is of importance to look at what is possible instead of what is not. A start could be made with voluntary financial contributions from buyers to alleviate living wage gaps that might exist among workers of their producing partners. This will only happen at scale when buyers can trust that when given a financial contribution, it is truly received by workers. With a confirmation from an independent auditor that a voluntary financial contribution was truly distributed to workers, companies would have a reassurance they are looking for.

Based on the insights gained from previous studies on possible solutions for closing living wage gaps—part of the first phase in developing these guidelines—the concept of voluntary contributions was introduced. Voluntary contributions, paid to a supplier/trader/producer with the aim of ultimately benefiting the workers of producing sites, serve as a temporary solution to initiate the living wage journey. Meanwhile, structural changes need to be implemented, particularly at the country or governmental level, to systematically raise wages through social dialogue and collective bargaining.

As a responsible producer, in collaboration with your clients (the buying organizations), supporting organizations, unions, and workers' organizations, you have the potential to create a significant impact in addressing living wage gaps for your workforce.

Living wage gaps in international supply chains cannot be addressed and reduced by one party only; this requires active collaboration between producers, buyers, workers' representatives and supporting organizations. Only together they can bring about lasting impact on wages for workers.

In international trade, contracts are usually set up for a fixed period of time, based on criteria of quality, volume and price. While there is a transition to longer term commitments and relationships, annual contracts remain a common practice and are expected to persist in the coming years. This poses a challenge for supply chain actors aspiring to improve living wages, as closing living wage gaps is not done overnight and requires years. Voluntary contributions, directed at improving workers' remuneration, serve as a **temporary solution** to initiate the living wage journey. Meanwhile, structural changes need to be acquired to systematically raise workers' wages particularly at the country or governmental level. While this falls outside your sphere of influence as a producer, voluntary contributions do not.



## Voluntary contribution as temporary measure

The ultimate goal of ensuring living wages to workers can be reached through consultation and negotiations, particularly via **social dialogue**.

The effect of voluntary contributions as a tool is limited as a result of its temporary and voluntary character. Therefore, structural changes and root causes are not addressed.

A voluntary contribution meant to temporarily increase the wages in a company formally does not reduce the living wage gap as it is not a steady wage improvement that workers can count on. While this contribution is not considered as part of the wages under living wage calculations, it can serve as initial step towards addressing living wage gaps. Then, it is essential to simultaneously work on more sustainable solutions.

## Objective of guidelines

The objective of these guidelines is to assist you as a producer in facilitating the adoption of voluntary contributions tied to the volume sourced by your buyer(s), which directly impact your workers' incomes. At the same time, the guidelines aim to advocate for long-term solutions aimed at raising wages.

These guidelines support you throughout the whole process of providing step-by-step practical support for implementing voluntary contribution mechanisms. As a producing organization, you might receive requests from traders or buying organizations who want to work on improving living wages in their supply chains. These requests are based on their internal decisions, commitments or for example risk analyses that show that living wages might be a risk in certain supply chain or country. These guidelines are connected to the buying organization guidelines ([hyperlink](#)) and also follow the same 3 levels about engagement (see chapter below). Buying organizations have the flexibility to select the most appropriate solutions according to them, but it is a full supply chain decision and it is all about what is available and needed within a supply chain/business relationship. For you as producer this might mean that you receive different requests, depending on what level of engagement a buyer is. These guidelines offer support and templates to support you in any type of request.

## 1.1 Three levels of engagement

The primary outcome of the consultation process with supply chain actors to understand their needs, led to the acknowledgment that **not all supply chains have the same needs**. Three levels of engagement on living wage were identified, that all have a different need of support. Their level of engagement are explained through the following three sets of characteristics.

1. **Entry level of engagement in the supply chain on living wages**
2. **Intermediate level of engagement in the supply chain on living wages**
3. **Advanced level of engagement in the supply chain on living wages**

In the chapter 4, the toolkits per level of engagement are described in more detail, processes per level are shown and templates are provided.

## 2. Preliminary Conditions

Before delving into the practical toolkits detailed in these guidelines, it is crucial to ensure that specific preliminary conditions are firmly established within your organization. If not yet in place, we advise you to first work on achieving these preliminary conditions. These prerequisites are essential before embarking on the utilization of voluntary contributions to address living wage gaps within your supply chains. Closing living wage gaps is not only a social imperative but also a compelling business incentive. It enhances brand value, builds a stronger reputation, and ensures supply security, favouring productivity, increasing turnover, minimizing absenteeism, and maintaining quality.

This chapter clarifies such specific preliminary conditions.

### **Internal commitment**

A sustainable commitment to closing living wage gaps must begin at the highest levels of your organization. Board-level commitment sets the tone for the entire journey, demonstrating that addressing living wage gaps is not just a corporate social responsibility effort but a strategic priority. Furthermore, internal commitment eases the resource allocation: both financially and in-kind.

### **Building up internal knowledge**

Before delving into the complexities of tackling living wage gaps, it is essential to first focus on internal knowledge acquisition regarding the concept of living wages lays the groundwork for informed discussions and effective strategies. Educating your workforce internally not only fosters understanding but also cultivates a shared commitment to addressing this critical issue within your organization.

Here are some valuable online resources related to the concept of living wage:

[Living Wages Around the World](#)

[Anker Research Institute](#)

[Global Living Wage Coalition](#)

### **Legal implications**

For producing organizations and their supply chain, the legal implications of the countries where voluntary contributions are made can differ significantly from one country to another. It is advisable to research the legal implications of implementing voluntary contributions, particularly concerning liability to continue payments regardless of whether voluntary contributions are still made or not, as well as tax implications. Understanding the legal implications is crucial for developing strategies to navigate the country-specific legal landscape.

By establishing these preliminary conditions, you lay a strong foundation for the successful implementation of voluntary contributions and the subsequent journey towards closing living wage gaps within your supply chains.



Currently, research is being conducted to the legal implications of voluntary contributions and wage temporary wage increases. The following aspects are already known and are advised to be considered:

- Higher wages could result in workers having to pay more taxes. In some cases it has been reported that workers received less because of their raise or receipt of the voluntary contribution.
- When wages are increased, employers are not allowed to lower wages at a later stage when no voluntary contributions are paid anymore.

### 3. Toolkits

This chapter introduces the three toolkits designed to offer practical guidance tailored to your specific levels of supply chain engagement concerning living wage initiatives within various supply chains. These toolkits act as comprehensive support, guiding you through the process of preparing for and implementing voluntary contribution mechanisms.

**To emphasize:** As a producing organization, you might receive requests from traders or buying organizations who want to work on improving living wages in their supply chains. These requests are based on their internal decisions, commitments and potentially risk analysis that show that living wages might be a risk in certain supply chains or countries. These guidelines are connected to the buying organization guidelines and also follow the same 3 levels about engagement. Buying organizations have the flexibility to select the most appropriate solutions according to them, but it is a full supply chain decision and it is all about what is available and needed within a supply chain/business relationship. For you as producer this might mean that you receive different requests, depending on the level of engagement a buyer is. In these guidelines we help you navigate and offer several templates.

When determining the level of engagement on living wage for a particular supply chain, it is important to note that the solutions offered from the other two levels of engagement are not necessarily to be excluded and can as well be taken into consideration.

In the next sub-chapters, each level of engagement is described with the most important characteristics of that type of engagement. Furthermore, links to the relevant templates are provided.



## 3.1 Toolkit 1– Entry level of engagement in the supply chain on living wage

A supply chain has made a start on working on living wages. This means for producing sites that buying organizations/traders are at the beginning of their living wage journey, which you might be too. In this level it is about getting insight. How do you recognize these buying organizations and their requests towards you?

### Characteristics

- Buying organizations in the entry level first want to gain an understanding of the financial, legal and contractual implications when working together to find solutions to understand the living wage gap and potentially close living wage gaps, working together with suppliers.
- Buying organizations would like to understand their supply chain, but do not require detailed supply chain mapping.
- Some buying organizations in the entry level requests suppliers to use a simple self-assessments to identify if there are living wage gaps. The methodology to identify the living wage gap is to ask the suppliers for the current remuneration for workers compared with a living wage benchmarks. They trust their suppliers on their word and do not ask for evidence yet.
- Buying organizations in the entry level do not require their suppliers to demonstrate whether a living wage gap exists using the IDH Salary Matrix tool or a similar tool to determine the living wage gap.
- Buying organizations in the entry level have not yet commenced transferring voluntary contributions to their suppliers.

### Level 1 process

Important to note that in some cases, the buying organization is not aware of the complete supply chain, just of their direct supplier/trader. This would mean that the direct supplier will first start with mapping the supply chain and would contact producing sites for information, without locations being shared with the buying organisations.

In the figure below, you can find the process of level 1, with a link to the relevant templates. In level 1, like the characteristics show, the focus is on starting to understand the wage situation at the producer level. The goal is to understand what you can do together, instead of what you cannot. The self-assessment may show some gaps in the current remuneration and the available living wage benchmark. Next steps are then depending on amongst others the gap size, availability of data in the supply chain, legal complications, whether social dialogue is presence, but also future commitments and the planning.

Additional activities that producers might be requested to start:

- Mapping the supply chain, if there any producing sites connected to you.

# PROCESS LEVEL 1

# TEMPLATE



1

## Define

The wage situation and potential (legal and/or contractual) implications when working together.

### Output

- ▲ Understanding of the supply chain
- ▲ A filled in self-assessment
- ▲ A filled in social dialogue questionnaire

2

## Acknowledge

Gaps in current remuneration, not having detailed supply chain mapping nor having the need for certification/evidence.



3

## Agree

On the relevant solution to address the gaps found in the self-assessment (voluntary contribution, supply chain project, etc.)

On further investigation on implications of closing living wage gaps and other next steps.

### Output

- ▲ Signed letter of intent
- ▲ Agreement on next steps: further growth towards level 2

4

## Execute

There is limited execution with regarding to voluntary contributions in level 1.

In the Execution phase buyer and supply chain work on next steps.



5

## Assure

There is no assurance required in level 1 by certification.



[Template 3: Social dialogue questionnaire](#)

[Template 4: Self-assessment on living wage gap estimate calculations](#)



## 3.2 Toolkit 2 – Intermediate level of engagement in the supply chain on living wage

Supply chains in the intermediate level have started to accumulated experience with some of their suppliers. Buying organizations request their suppliers and producing sites to complete the Salary Matrix or a similar tool to determine the living wage gap and require an overview. In this level it is about having more detailed data in order to be able to found suiting solutions. In the case where contributions are already being made by the supply chain partners, more insight is requested on where the payments are going. How do you recognize these buying organizations and their requests towards you?

### Characteristics

- Buying organizations in the intermediate level have begun to comprehend the financial and contractual consequences of their living wage commitment. They are struggling to find a straightforward and scalable approach for the calculation of the height of their financial contribution linked to their buying volume and the best way to formalize their living wage requirements to their supplier.
- Some of the buying organizations on intermediate level might have started transferring voluntary contributions, either directly paying a living wage premium to their first-tier supplier(s) or through standard owners and sustainability schemes like Fairtrade and/or Rainforest Alliance.
- Buying organizations on the intermediate level do not require evidence yet that their voluntary contributions truly reach the workers at the producer's location. They prioritize simplicity and trust over concrete evidence regarding the distribution of voluntary contributions to workers.
- Not all buying organizations on the intermediate level want to know individual farming locations under a producer group from their first tier supplier.
- None of the (interviewed) buying organizations on intermediate level require a formal verification audit to verify the producer's calculation of the living wage gap using the Salary Matrix or a similar tool (primarily due to cost considerations and the complicated process).

### Level 2 process

In the figure below, the process of level 2, with a link to the relevant templates is shared. In level 2, like the characteristics show, the buyer and supply chain is going to start with financial voluntary contributions. The producer calculates the current wage situation with a tool such as the Salary Matrix to have a more accurate picture of the living wage gaps at a location. The buyer does not require yet detailed information of the complete supply chain, nor exact living wages per individual location. But there is commitment to work on living wages and next steps are being taken with voluntary contributions.

Additional activities that producers might be requested to start:

- Mapping the supply chain, if there any producing sites connected to you



## PROCESS LEVEL 2

## TEMPLATE



1

### Define

The living wage gap by using the Salary Matrix or a similar tool, and presence of social dialogue.

#### Output

- ▲ Understanding of the supply chain
- ▲ A filled in Salary Matrix or similar tool
- ▲ A filled in social dialogue questionnaire

[Template 3: Social dialogue questionnaire](#)

[IDH Salary Matrix](#)

2

### Acknowledge

The need to work towards living wage with supply chain partners, while acknowledging that it is unrealistic for a producer to structurally raise wages.



3

### Agree

On the type of financial contribution (direct or via Fairtrade or Rainforest Alliance)

On the share of the voluntary contribution and the height of the contribution (e.g. per trade unit).

On the distribution of the contribution to workers at one or multiple locations, which is decided by the producer and worker (representatives).

#### Output

- ▲ Signed letter of intent or contractual agreement
- ▲ Filled out implementation and monitoring plan (partially, without evidence request)

[Template 5: Social dialogue workers' preferences questionnaire](#)



4

### Execute

Payment of the voluntary contribution by buyer and producer as agreed in the contract, following the implementation plan.



5

### Assure

There is no assurance required in level 2 by certification.

But there is a self-assessment to collect data on the contribution.

age Gaps

[Template 7: Self-assessment on voluntary contribution](#)





### 3.3 Toolkit 3 – Advanced level of engagement in the supply chain on living wage

Supply chains in the advanced level have secured a budget for implementation of voluntary contributions to support the closing of living wage gaps in distinct supply chains. For producers this means that they have received the request from a buying organization or trader that actual data is gathered via a tool, which has been verified during an audit, that social dialogue has been implemented and that this has been confirmed during an audit, and finally that an auditor also confirms that the voluntary contribution has been distributed according to the agreed terms.

#### Characteristics

- Buying organizations on advanced level request suppliers to fill out the Salary Matrices or similar tools and request to see the results and check them with an internal team and have made it a contractual agreement with the supplier.
- Buying organizations on advanced level request their suppliers to give full transparency regarding individual farming locations under a producer group.
- Buying organizations on advanced level pay voluntary contributions: either via standard owners or with a direct financial contribution and demand full transparency regarding the allocation of contributions to workers in the individual farming facilities.
- Buying organizations on advanced level send trained auditors to verify the calculation of the living gap and distribution of contributions in accordance with agreed terms for the benefit of workers.

#### Level 3 process

In the figure below, the process of level 3, with a link to the relevant templates is shared. In level 3, like the characteristics show, the buyer and supply chain collect and act on accurate and verified data. The producer calculates the living wage gaps with the Salary Matrix or a similar tool, has the outcome audited by trained auditors, to have an accurate picture of the living wage gaps at a location. The buyer requires detailed information of the complete supply chain, meaning exact living wages per individual location. After the voluntary contribution payments are made, a trained auditor checks whether the voluntary contributions have ended up at the right workers, based on the agreed on distribution and implementation plan.

## PROCESS LEVEL 3



1

#### Define

The living wage gap by using the Salary Matrix or a similar tool, and presence of social dialogue.

#### Output

- ▲ Detailed mapping of the supply chain and list of individual locations.
- ▲ A verified Salary Matrix or similar tool

## TEMPLATE

[IDH Salary Matrix](#)

Template: audit report (to be added)

Template link: audit report social dialogue (to be added)

## 4. Toolkit Templates

### Template 3 - Social dialogue questionnaire

Social Dialogue Questionnaire	
1. Total number of workers:	
2. Number of female workers:	
3. Number of male workers:	
4. Does your organization have effective social dialogue practices in place, allowing workers to express their preferences and voice their needs and concerns openly? Specify details.	
5. Please specify the social standards your organization follows (e.g., Fairtrade, Rainforest Alliance, ETI-SMETA, or any other social standard that includes social dialogue criteria).	
6. Describe how these standards promote social dialogue and open communication within your organization.	
7. Is there a worker representative or union representative present at the workplace? If yes, please specify.	



<p>8. Are the worker representative(s) part of the management or paid by the management in your organization? If yes, please specify.</p>	
<p>9. Describe your organization's current practices regarding workers' representation and engagement in decision-making processes.</p>	
<p>10. How frequently does your organization engage in collective bargaining with workers' representatives?</p>	
<p>11. Are there existing mechanisms for workers to voice their concerns and grievances within your organization? If yes, please provide details.</p>	
<p>12. What measures does your organization take to ensure transparency and openness in communication with workers regarding wage-related matters?</p>	
<p>13. Could you provide examples of initiatives or programs your organization has implemented to enhance workers' well-being and living standards?</p>	

### Signatures

First-tier manager, producer, worker representative



## Template 4 - Self-assessment on living wage gap estimate calculations of level 1

<b>Self-assessment on living wage gap estimate calculations of level 1</b>	
Workforce in scope:	lowest paid OR full workforce
Number of workers:	
Sum of monthly gross wages*:	
Sum of monthly bonuses**:	
Sum of in-kind benefits***:	
Sum of all three above components:	X
Divided by 12:	X/12
Living wage benchmark reference value****	
Difference between point 5. And 6.*****	<b>Living Wage Gap Estimate</b>

\*Before summing up all monthly gross wages for the entire workforce, some adjustments are necessary:

- For full-time workers who have worked the entire year: consider only the wage received within the legal maximum hours – deduct all remuneration generated because of overtime.
- For part-time workers or those who only work during specific periods: adjust these wages as if they had worked full time and consider only the wage received within the legal maximum hours – deduct all remuneration generated because of overtime.
- Take the above results, sum them up, and divide by the total number of the workforce.



- Divide the result by 12 to obtain the monthly gross wage and insert it into the table under "Sum of monthly gross wages."

\*\* Before summing up all monthly gross bonuses for the entire workforce, some adjustments are necessary:

- For bonuses the same as above is applicable in adjusting all the bonuses for part-time workers or those who only work during specific periods.
- Have a look at [this](#) e-learning to understand which bonuses are eligible and can be included.
- Overtime is not considered a bonus; do not include it.
- Add the total amount of bonuses and divide by 12 to determine the monthly bonus.

\*\*\* Before summing up all monthly in-kind benefits for the entire workforce, some adjustments are necessary:

- For in-kind benefits the same as above is applicable in adjusting all the in-kind benefits for part-time workers or those who only work during specific periods.
- Have a look at [this](#) e-learning to understand which in-kind benefits are eligible and can be included.
- Include all in-kind benefits if applicable and divide by 12 to have the monthly in-kind benefit.

\*\*\*\* Living wage benchmark reference value:

Use the living wage benchmark reference value applicable to the region where your facility is based.

\*\*\*\*\*Difference between point 5. And 6.

Calculate the difference between the average monthly gross wage and the living wage benchmark reference value. The result is the living wage gap estimate. This calculation can be applied to the entire workforce to obtain the average living wage gap. As well, this approach is applicable to workers classified with the lowest-paid contracts by considering only those as part of the workforce.



## Template 5 - Social dialogue workers' preferences questionnaire

This Social dialogue workers' preferences questionnaire template offers a framework for drafting your questionnaire as a producer. It is recommended to tailor it to your specific situation.

1. What is your preference for receiving the voluntary contribution?
  - Cash
  - In-kind benefits
  - Combination of both (specify ratio)
  
2. If you prefer in-kind benefits, please select the type(s) you would find most beneficial and provide details about what exactly the specific in-kind benefit should support.
  - Transport
  - Housing
  - Food
  - Health care
  - School
  
3. Further thoughts:



## Template 7 - Self-assessment on voluntary contribution

<b>General Information</b>	
<b>FACILITY DETAILS</b>	<b>COMPANY ANSWER</b>
Name of facility(ies):	
Address(es) of facility(ies):	

<b>Voluntary contribution</b>	
<b>Requirement</b>	<b>Company answer</b>
Agreed voluntary contribution to workers per trade unit - or other type of variable used for the calculation described in the contract - in agreed period:	
Total voluntary contribution in agreed period:	
Agreed voluntary contribution for lowest-paid workers (if applicable):	
Agreement on distribution of voluntary contribution (specify dates of money transfer, if direct money transfer, or intermediaries in- between):	
Agreed nature of voluntary contribution – specify if cash, in-kind benefit, or a combination of both and the proportion.	
<b>WORKER DETAILS</b>	
Total number of average earning workers in scope of agreement of voluntary contribution:	



<i>Total number of lowest-paid workers in scope of agreement of voluntary contribution (if applicable):</i>	
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## Social Dialogue

<b>Requirement:</b>	<b>COMPANY ANSWER</b>
Social dialogue practices: Describe the current and active social dialogue practices being implemented and practiced.	
Social dialogue practices: How have workers within the scope expressed their preferences regarding the receipt of the voluntary contribution, and were these preferences taken into account? Please provide specific details.	
Were the preferences regarding the nature of voluntary contributions gathered through the voluntary contribution questionnaire?	
Is there a registered trade union, and/or are workers represented by a different type of workers' organization (such as a workers' council)?	

### Signatures

Signature from first-tier manager, producer, worker representative



## 4. Parallel Steps

The purpose of the voluntary contributions implemented by you as a producer together with your buying organization(s) is to provide temporary assistance in partially addressing living wage gaps of your workers. Nevertheless, the ultimate goal is for your workers to earn living wages negotiated through social dialogue and collective bargaining agreements. Addressing the root cause of the human rights issue related to living wage gaps, specifically the widespread use of one-year trade agreements, is crucial for achieving this long-term structural resolution.

To further bolster ethical purchasing practices, it is recommended that, while implementing voluntary contributions, one lays the groundwork for more comprehensive and sustainable solutions. This ensures a systematic, long-term structural transformation towards achieving living wages. The establishment of sustainable, long-term purchasing relationships based on fair prices is indispensable, and any deviation from this framework is likely to prove unsustainable in the pursuit of lasting change.

Several proactive key considerations for achieving long-term structural living wages for your workers include:

- Develop policies explaining the position of workers, the living wage gaps per job category and the breakdown of costs (wages, bonuses and in-kind benefits). Furthermore, develop a policy describing the social dialogue practices that are implemented and how these are maintained.
- Set up a living wage strategy explained in internal policies. Where do you stand in the market, what are your plans in the future and what activities need to be set in motion in order to embed living wages in your supply chains?
- Start pilots with traders and buyers and combine leverage in supply chains to make a strong business case to buyers who are interested in joining living wage projects.
- Require responsible purchasing practices from your client(s) and embed them in your corporate policy ([IDH Sustainable Procurement Kit](#)).
- Embrace long-term commitments, such as 5-year contracts.
- Request long and stable forecasting.
- Incorporate labor costs, considering a decent standard of living, into product pricing calculations; product prices should enable good working conditions and include living wages.
- Initiate and foster collaboration among producers on an industry-wide scale to achieve meaningful and lasting change in living wages.
- Strengthen social dialogue and collective bargaining as primary drivers for sustainable change. Initiate living wage programs in collaboration with relevant actors in your industry, as well as with supporting organizations and unions, to enhance worker representation, ensuring that both management and worker representatives have the capacity and knowledge to engage in social dialogue.
- Measure your own impact and share lessons learned on what you have achieved, what is still missing, and what you aim to reach to accelerate implementation. This can be done, for example, in precompetitive networks, initiatives, or partnerships. These may be on a national level, industry level, or cross-sectoral, including support from organizations and union involvement.



- Engage in joint advocacy to make living wages a part of legislation in producer and consumer countries, helping to level the playing field.

Some publicly shared strategies on living wages for learning and inspiration:

[Fairphone's Guide to paying living wages in the supply chain](#)

[IDH Roadmap on Living Wages – Step 4: Living Wage Action Guide](#)

[Fairtrade Foundation's approach to Living wages](#)

[Aim Progress: Living Wage for FMCG supply chains](#)

[CNV Internationaal and the Platform Living Wage Financials: A living wage throughout the cane sugar supply chain](#)

[TruStone's Guidance Regarding a Living Wage](#)

[PVH Living Wage Strategy](#)

In conclusion, considering the critical role these recommendations play in achieving sustainable, long-term structural living wages, it is imperative to take them into account.



## 5. Glossary

### **First-tier supplier**

A first-tier supplier is a company that directly supplies goods or services to the buying organization at the top of a supply chain. Buying organizations can have a direct contractual relationship with vendors or the actual producers. This depends on the complexity of the supply chain and the number of upstream suppliers involved.

### **Social dialogue**

Social dialogue refers to the process of negotiation, consultation and exchange of information and views between employers, workers and their representatives (unions or other workers' organizations) and the government. It provides a platform for these key stakeholders to discuss and address issues of employment, workers' rights, working conditions and social and economic policy. Social dialogue plays a crucial role in shaping labor and employment policies and in improving working conditions and promoting social justice.

### **What is a living wage?**

Earning a living wage means the basic cost of living for a family is attainable by the adult wage earners each month. A living wage is paid when a worker receives remuneration that is sufficient to afford a decent standard of living for the worker and her or his family in their location and time. 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.

### **What is a living wage gap?**

The living wage gap is how far away workers are from earning a living wage. This means comparing a living wage benchmark (estimate) to the current remuneration in a production location. Identifying the living wage gap is a starting point for working on closing the living wage gap.

### **Rationale behind living wages**

Poverty has a large impact on people's lives. Globally, 1.2 billion people are multidimensionally poor, of which 579 million people live in Sub-Saharan Africa. This is directly linked to people not earning living wages (UNDP; OPHI, 2022).

Not earning a living wage is linked to other social issues we find in supply chains. Some workers may be compelled to (ILRF, n.d.):

- Work excessive overtime hours or multiple jobs to make ends meet.
- Work even when they are sick, because they cannot afford to take time off.
- Put their children into work instead of school to contribute to the household.
- Become bonded laborers.
- Work in unsafe conditions, because they cannot afford to stay away .
- Be denied their basic human rights to food, shelter, nutrition, health, housing and education and suffer social deprivations such as being unable to take part in cultural events.
- Not fight for better wages, because they might lose their jobs if they demand their rights or join a union.

### **Calculation of the Living wage gap**

The Dutch Sustainability Trade Initiative IDH has developed a living wage roadmap that is supported by many retailers, brands and producing organizations around the world. This roadmap includes the IDH Salary Matrix that allows farmers and producers to calculate the difference between what they pay their workers (including in-kind benefits and bonuses) and what they should be paid to earn a living wage, following the Anker & Anker methodology. This difference is called the Living wage gap.

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