



Living Wage: make it a reality

ETI Conference 2008, Workshop 5

A wage that allows a worker to provide for him or herself and family; to buy essential medicines, send children to school and to save for the future - what's not to like? In the past decade, buying companies have helped increase wages for workers in their supply chains by encouraging suppliers to pay their workers their statutory entitlements. But there is still no systematic payment of a living wage to the vast majority of workers in global supply chains and in many countries, the situation is worsening as the cost of staple foods escalates. A different approach to raising wages is urgently needed. This paper summarises the advice and experience shared by companies, trade unions and NGOs at our conference on what can be done.

"We can't spend another ten years working out how to do this."

Sam Maher, Labour Behind the Label

What's the problem?

The ETI Impact Assessment found that ETI member companies have started tackling the 'living wage' clause of the ETI Base Code by encouraging their suppliers to pay workers their statutory entitlements – in other words, the national minimum wage, plus any additional benefits such as sick pay, overtime pay and pension contributions.

But in many countries, government-set minimum wages fall far short of what many estimate to be a living wage, as defined by Clause 5.1 of the ETI Base Code. Even within the first tier of the supply chain, there is no systematic payment of a living wage. Global trends, including the increasing tendency to keep workers on rolling temporary

This paper is one of five short briefing papers deriving from presentations and discussions at ETI's 10th anniversary conference in 2008, *Ethical Trade: the next decade*. It represents the views and opinions shared by corporate, trade union and NGO participants at the conference.

contracts; rising food and fuel prices; and pressure on retailers to keep a lid on their costs during recession, aren't helping.

For workers this means longer hours, poorer diets, declining health, and growing indebtedness, not to mention emotional and psychological problems.

Signs of poverty wages

- Workers skipping meals so they can feed their children
- Indebtedness – borrowing from neighbours and/or loan sharks
- Cutting out 'non essential' expenditure eg medicine, clothing
- Taking on extra work, eg homework or another factory job

There is broad agreement among companies, trade unions and NGOs alike that dramatic and urgent action is needed to achieve material progress on this core principle of the Base Code.

What companies can do

Retailers face major challenges in helping increase wages for workers in their supply chains. These include that of identifying what constitutes a living wage across different countries, regions and industries; the danger of creating market distortion in sourcing countries; how implementation can be monitored and who should pay. Advice and experience shared by retailers, trade unions and NGOs on how to address these challenges included:

Don't get bogged down in living wage calculations.

- Don't let the challenge of how to calculate a living wage in your sourcing countries distract you from the task of making progress in increasing wages. Remember that in many countries, the minimum wage falls way below any living wage estimations, so there's usually little danger that workers will be paid too much!
- Find out what living wage benchmarks exist in your sourcing countries. These may include estimates made by local trade unions, research institutes or other bodies. Start monitoring actual wages for different categories of jobs against those benchmarks.

- When finding out what workers in your supply chains are being paid, don't forget to take into account any non-monetary benefits, that are either negotiated as part of workers' official benefits, or else may legitimately be considered so. In some countries or industries, non-monetary benefits (eg food, transport, housing and medical care) are more important to workers than others. In cases where food is provided, be careful to make sure that suppliers don't use company meals as a way to prevent workers from leaving a worksite and taking a proper break.
- Make sure you take workers' social security and tax payments into account.

Prioritise.

- It makes sense to start with suppliers at the top of your chain, over whom you have maximum leverage. But don't forget that the workers who are poorest are often those at the bottom of the chain – for example, homeworkers and other informal sector workers. These workers also often present the greatest risk to brand reputation.
- Take a step-by-step approach to raising wages, like the JO-IN 'wage ladder' approach (see 'Find out more').

A global wage crisis

Bangladesh

100%: increase in the price of rice in 2008

70%: the proportion of an average garment worker's income spent on rice per month

1664 taka: the current monthly minimum wage for the lowest grade of garment worker (equivalent to around \$US 24, March 2009)

Cambodia

22%: increase in the price of rice in 2008

70%: the proportion of a garment worker's wages spent on food, 2008

30,000: the number of garment workers who deserted the garment industry to work abroad or return to rural areas in 2008

Work out how pay increases will be funded.

- Be clear about how the wage increases will be paid for. Options for retailers include increasing prices for consumers and/or absorbing any extra costs by increasing internal efficiency – for example, critical path management. Suppliers have two options: either to absorb wage rises by increasing overheads, or improving productivity.
- Some companies are finding that working with their suppliers to help them increase productivity has a positive knock-on effect on wage levels. If you do so, NGOs urged companies to:
 - make sure the benefits of any productivity improvements are passed on to workers – as one NGO said, 'for many workers, increasing productivity just means they have to work harder!'
 - have realistic expectations of what can be achieved through productivity improvements alone. For example, if workers are already doing lean manufacturing, is it realistic to think they can increase their productivity two or threefold? This is often what the required increase in their wages would be to bring them into line with a living wage.
 - Make sure that new wage structures and productivity targets are based on a standard working week (48 hours).

Integrate the living wage principle into your buying practices.

- Make wages a central measure of how you rate the labour practices of your suppliers.
- Reward suppliers that pay a living wage (or at least, increased wages) by giving them preferential status over other suppliers.
- Make sure other commercial factors – particularly price negotiations - don't undermine what you're trying to achieve. As a minimum, you need to pay suppliers enough for them to pay their workers a living wage.

Involve workers.

- The most sustainable and legitimate way of calculating and maintaining a living wage is for workers and employers to bargain freely in order to determine them.
- Make sure workers participate actively in any pilot project, including in working out what a 'living wage' would be for them. ETI members have found that workers' own estimates are often a useful rule of thumb.

Monitor payments.

One suggestion made was to ring fence the living wage payment at factory level in an "auditable fund" which would comprise the premium paid by buyers on the Freight on Board (FOB) price and would be accessible to workers on the condition that they are organised. This would give the employer and the workers the incentive to promote freedom of association and collective bargaining.

Collaborate with others

- Join the ETI Living Wage Project (see *Find out more*, below) - six major fashion retailers have already signed up.
- If you don't join ETI's pilot you could start your own one. If you do, you should work with trade unions and NGOs through the process and have a clear plan to roll it out.

Think about involving consumers

- Get the message out to consumers that they can't have cheap clothes and a guarantee that the workers who are making them are paid a living wage.
- Think about the conflicting messages you may be sending consumers if you engage in price wars with your competitors on one hand, and make public commitments about payment of the living wage on the other.
- One participant suggested a retailer-backed 'living wage' label.

Case study

New Look and Echo Design collaborate to tackle long hours and low pay

The Bangladesh garment industry has a culture of long hours and low pay. In September 2007, Fashion retailer New Look embarked on a long-term collaborative project with London-based design-to-delivery company Echo Sourcing Ltd and its Bangladesh-based garment factory to find a sustainable way of increasing the wages of the factory's workers while reducing excessive overtime. The aim was to create a virtuous circle of better purchasing practices, increased efficiency, a better business and better wages.

- So far, with New Look's support, Echo's factory, which employs around 1,000 workers, has:
- developed a robust human resources framework, including building 'people skills' and employing a dedicated and experienced team
- consulted workers extensively on their needs and priorities
- re-organised work processes and invested in Industrial Engineering personnel to help improve productivity
- introduced a package of benefits for workers, including:
 - improving the nutritional value of the free daily hot meal
 - a production incentive scheme
 - bonuses for improved attendance
 - a provident fund on workers' request, where workers contribute 7.5% of their wages, matched by a 7.5% employer's contribution to a recognised social security scheme
- additional medical care and crèche facilities

New Look has supported these initiatives in various ways. As well as providing project consultancy support, it has developed more supportive purchasing practices. For example, it has improved its forecasting, so Echo can plan better. It has also trained its buyers so they understand the impact of their buying decisions and methods; and introduced a voluntary scheme of 'ethical champions' in the buying team, to help build

understanding of workers' issues throughout the buying function. It has also directly funded some of the additional non-wage benefits for workers, such as improved attendance allowances, and the provision of more nutritional hot lunches.

In the first year of the project, average wages for grade 7 workers - the lowest grade, typically 'helpers' assigned to machine operators - increased by 24%. According to Echo Design, this is primarily attributable to productivity improvements and the additional New Look assisted allowances. During the same period, overtime reduced by 46 percent.

The direct benefits for the factory include greater efficiency and productivity, reduced absenteeism and staff turnover. In turn, New Look is getting a better quality product and security of supply. Both companies say they now have a much better understanding of each others' business, and greater trust. "It just works better for everybody", said Alan Osborne of New Look.

Critical success factors according to both companies included transparency and constant communication, New Look's focus on purchasing practices, and simply the "will to make it happen".

Buying companies' relationships and supply chains vary enormously and this scenario may not be exactly replicable in every case. However, according to New Look, the following in-factory building blocks will be significant success factors in addressing long hours and low pay:

- a robust HR framework
- worker consultation
- a fair and workable production incentive scheme
- improved IE and production planning
- improved welfare provision
- ...and retailer purchasing practices of
- timely forecasting
- improved communications
- growing ethical awareness.

Find out more

ETI living wage project in Bangladesh

This ETI project aims to test approaches to implementing the ETI Base Code clauses on wages with a group of participating suppliers in Bangladesh, and then record the results as a model for others to follow on how to improve wages for garment workers. Key objectives include developing replicable models of calculating wage rates, promoting a climate in which industrial relations can develop, and ensuring all workers in participating factories are paid a living wage. The project will also explore how productivity can be sustainably improved, and in a manner that actually benefits workers.

“It doesn't work to have factory gate prices decreasing and then ask suppliers to increase wages at the same time!”

Sam Maher, Labour Behind the Label

“Join the ETI living wage pilot! We are making history and pioneering companies that take part will earn well-deserved public recognition.”

Peter Williams, ETI NGO Board member

The JO-IN 'wage ladder' approach (www.jo-in.org)

The 'wage ladder' tool offers a pragmatic benchmarking system for charting factory progress in improving wages, and was used as part of the Joint Initiative on Corporate Accountability and Workers' Rights (JO-IN) pilot project in Turkey to develop common approaches to implementing codes of labour practice. The objective was to provide a tool that could be used to benchmark different factories' payment methods, to assist in efforts to measure and increase wages over time.

The Asian Floor coalition ([Asiafloorwage.org](http://asiafloorwage.org))

The proposal for an Asian floor wage was developed by union leaders, international NGOs and activists in India, later in other Asian countries and internationally. The rationale is to prevent the scenario of companies sourcing in Asia relocating away from countries where workers have succeeded in improving their wages and conditions, to other Asian countries, where wages and conditions are lower.

<http://www.asiafloorwage.org/>