



Netherlands Enterprise Agency



# *Paying a living wage*

*A guide for companies*

*>> Sustainable. Agricultural. Innovative.  
International.*



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## Introduction

As a company owner, you want your employees to earn enough to make a decent living so they can provide for themselves and their families. Sounds obvious, right? Well, not always. When you do business in developing countries or emerging markets, this may not be so easy to achieve.

In many of these countries, the vast majority of workers and their families struggle to survive on wages that are not sufficient to cover their daily subsistence needs.

How can you contribute towards improving this situation and work towards living wages? This brochure will help you get started.

## WHAT is a living wage?

A living wage covers the basic subsistence needs of a worker and his or her family. This includes household items such as food, housing, health care, education and transport. A living wage also provides for some discretionary income. For a full definition, see **Box 1**.

### Box 1: Living Wage Definition

'A living wage is remuneration received for a standard work week (max 48 hours) by a worker in a particular place sufficient to afford a decent standard of living for the worker and his/her family. Elements of a decent standard of living include adequate food, water, housing, clothing, education, healthcare, and other essential needs including provision for unexpected events. It is a take home pay (net pay) excluding overtime.' (Definition based on the methodology of Richard Anker of the GLWC).

In many countries, the minimum wage (if there is a minimum wage) is not at a living wage level, meaning that it is not sufficient to cover basic needs. Therefore, it is important that you know the living wage estimate so you can work towards closing the gap. The difference between a living wage estimate and the legal minimum wage can be quite significant. See the example below.

### Living Wage Estimate versus Minimum Wage

The estimate of a living wage for Kenya flower farms in March 2014 in the Lake Naivasha area was KSh17,276 (€149) per month (net pay). This living wage was much higher than the statutory minimum wage (gross amount) for agriculture, which was KSh4,854 (€42). Note that in 2015 this was raised to KSh5,436 (€47) (see the website of [ISEAL Alliance for Kenya Benchmark Report of the Global Living Wage Coalition GLWC](#)).



## WHY pay a living wage?

A living wage is an international human right. The concept is part of the government-backed OECD Guidelines<sup>1</sup> for Multinational Enterprises. These guidelines state that companies have the corporate responsibility to respect human rights.

This means that you should avoid paying less than a living wage in your own company. It also means that you should use or increase your influence or leverage to make sure that this situation does not occur in the supply chain (in the case that you have suppliers downstream and/or clients upstream).

Paying a living wage can be quite an investment. But it also has benefits for a company. In addition to complying with international guidelines, it can help you protect and build your reputation and brand value as well as that of your clients. Taking care of your workers can also reduce costs and help improve productivity and quality.

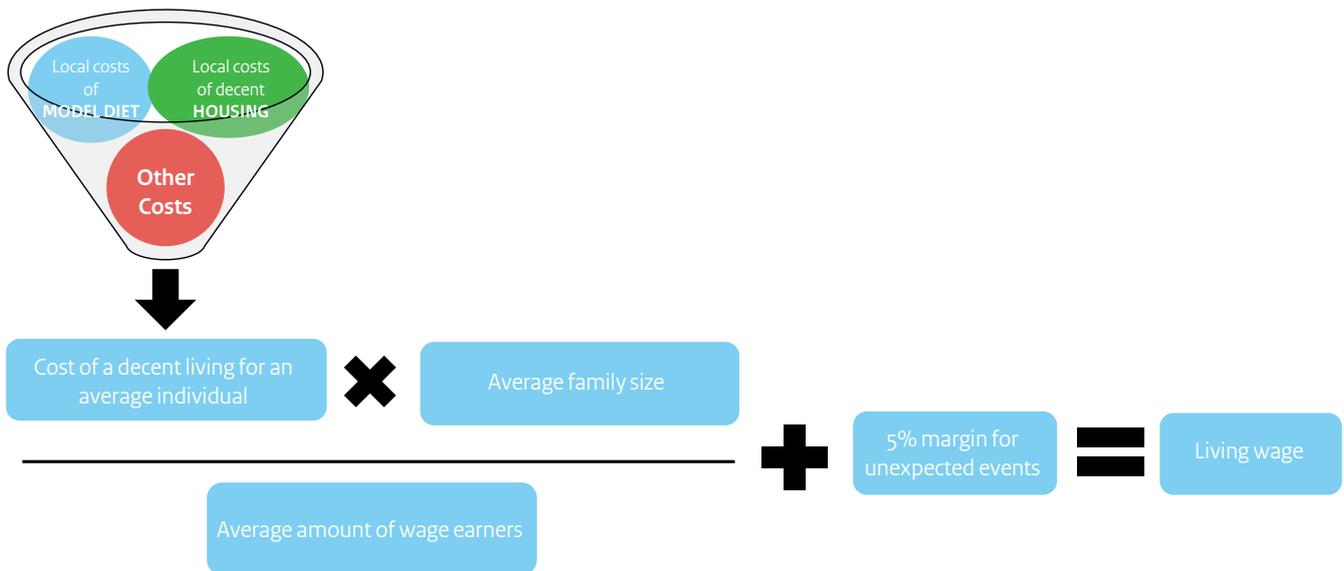


Figure 1. Calculation method for Living wage

<sup>1</sup> For more information, see the OECD website for The Netherlands: <http://www.oecdguidelines.nl/>

## A FOUR-STEP GUIDE for companies to work towards living wages

These steps are based on the human rights and business framework developed by the United Nations.

### Step 1: Policy setting

Determine if you have a Living Wage Policy or if you (or your clients) include a living wage in a Code of Conduct for suppliers. In the case that you do not, see **Box 2** for an example of a living wage policy.

#### Box 2: 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.

Based on the [Social Accountability 8000](#).

Establishing a policy is the foundation from which you can take the next steps. An explicit policy will ensure that the entire company is on board. This includes higher management and, if applicable, the procurement department.

### Step 2: Risk analysis

In a risk analysis, you assess the probability and severity of negative human rights impacts. In other words, you make an analysis of the sector and the country you work in and ask yourself questions such as: Is a living wage an issue in your country/region because wages – generally, or even the minimum – are too low to live on? Have reports come out from NGOs criticising your sector for paying poverty wages in a certain country? Have trade unions or workers been protesting for higher wages and better working conditions? In brief, make a quick scan of the local context in which you are working.

For more information on risk analysis you can consult the [SER-website](#) and the [CSR Risk Check](#).

### Step 3: Assessment

If you identified a risk in your company or supply chain with regard to wages, the next step is to research wage levels and establish a possible wage gap.

#### • Salaries in your company and your suppliers

First, gather information about the salaries you pay right now. Make sure you list the salary scales of all employees, from the lowest to the highest paid. If your supplier pays their own salaries, it may help to team up with other companies and stakeholders and jointly approach the supplier. See **Box 3** for examples of existing stakeholder and industry initiatives.

#### Box 3: Examples of stakeholder and industry initiatives

- Social Accountability International (SAI) [www.sa-intl.org](http://www.sa-intl.org)
- Ethical Trading Initiative (ETI) [www.ethicaltrade.org](http://www.ethicaltrade.org)
- Ethical Tea Partnership [www.ethicalteapartnership.org](http://www.ethicalteapartnership.org)
- Fair Wear Foundation (FWF) [www.fairwear.org](http://www.fairwear.org)
- Global Living Wage Coalition (GLWC) [www.isealalliance.org](http://www.isealalliance.org)
- Fair Wage Network (FWN) [www.fair-wage.com](http://www.fair-wage.com)
- Fair Labor Association (FLA) [www.fairlabor.org](http://www.fairlabor.org)
- Fairtrade International (FTA) [www.fairtrade.net](http://www.fairtrade.net)

#### • Living wage estimates

Living wage estimates are becoming increasingly available to the public. Do note, however, that there is not one exhaustive list with estimates for each country. Wage experts who calculate living wage estimates use different methods that vary in focus, time and the resources available. See **Box 4** for examples of such expert organisations. If these estimates do not help you, find out if local or other consultants or research institutes can assist you.

#### Box 4: Living wage data and estimates

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

Governmental institutes, trade unions and NGOs should also be able to point you in the right direction. As a last resort you can make a self-assessment of a living wage. Figure 1 on page 6 presents an example of a basic calculation method for living wage estimates.

- **Other wage levels**

It is recommended that you include additional wage data in your comparison (known as a ‘benchmark’) and not just the living wage estimate. You should gather information about legal minimum wages, prevailing wages, collective bargaining levels and national poverty levels. You can find most data through organisations such as the International Labour Organisation (ILO), the WageIndicator Foundation and the World Bank.

In addition, you can obtain data through in-country contacts, such as the Netherlands Embassy, the ILO office, trade unions or NGOs. To obtain a good overview of a potential or existing wage gap, it is advisable to list these and other data in a ‘wage ladder’. See the figure 2 for an example of a wage ladder.

**Step 4: Implementation**

Did you find a wage gap? Do your current salaries fall short compared to other important wage indicators? Then start working towards closing the gap to achieve the living wage estimate.

Since implementation is the most important step, the final part of this brochure will explain different forms of implementation in more detail. We will start by showing you how to implement a living wage in your own company. We will follow this with an explanation of how to implement a living wage in the supply chain, both upstream with clients or investors and downstream with suppliers.

Note that you can choose one or more of these options for implementation. Choosing the right mix of approaches for implementation depends on your specific company and sector profile.

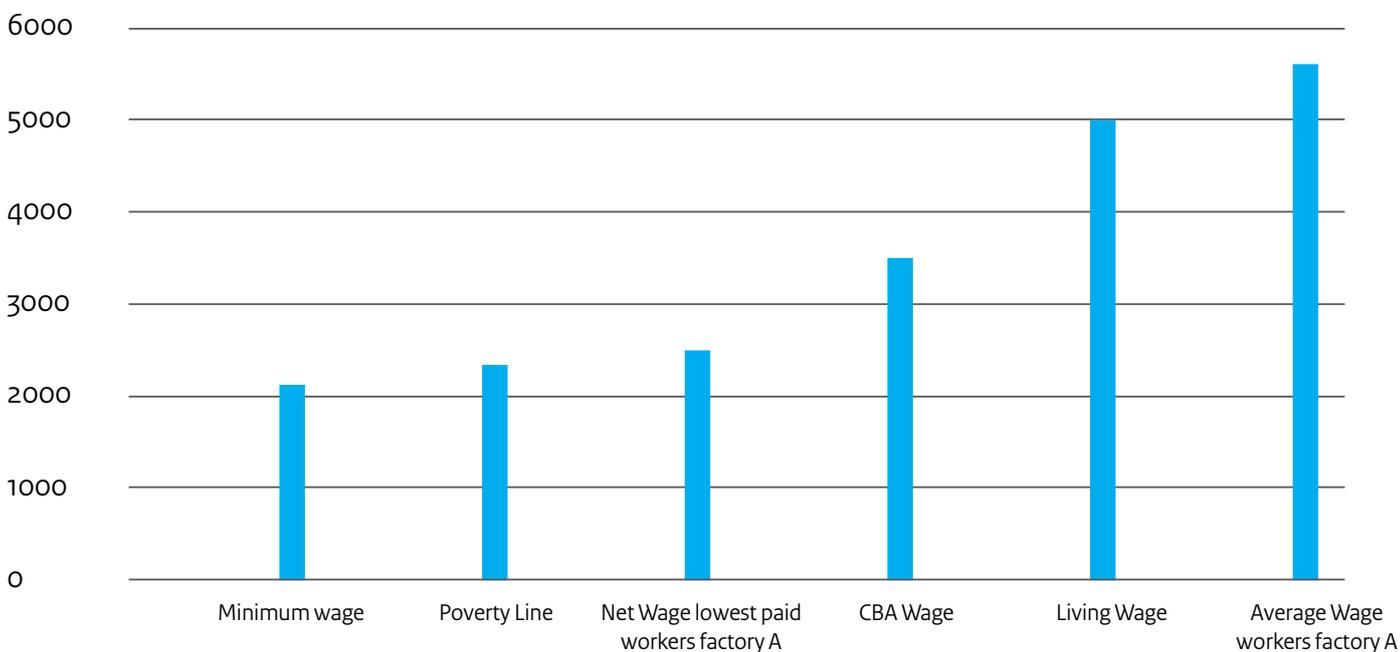


Figure 2. Wage Ladder

## IMPLEMENTATION of a living wage

The implementation of a living wage can be accomplished in different ways. We will address implementation from two angles. The first section will address the implementation of a living wage in your own company, while the second will address implementation from a supply chain perspective, looking to find synergies between you and your possible clients or investors and suppliers.

### 1. Implementation of a living wage in your company<sup>2</sup>

Remember: you have determined your policy, analysed your risks and assessed possible wage gaps (see the four-step guide on the previous pages). You are now ready to move to implementation.

#### • Implementation using a wage ladder

During the assessment step we advised you to create a wage ladder. A wage ladder allows you to compare current wages with a living wage and other wage levels that may apply. Wage ladders are important for two reasons. Firstly, they put things into perspective, as they not only offer a comparison between current and living wages but also show how your wages relate to other wage levels. Secondly, 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).

The perspective provided by the wage ladder reveals that although the net wage of the lowest paid workers are far below the living wage, they are above the minimum wage level and the poverty line. You will also find that the average wage paid in the company is actually above the living wage. For the lowest paid workers, bridging the gap to the living wage in one step might be too much to ask. An alternative would be to look at the closest rung up the ladder, in this case the collectively bargained wage. This might be a feasible and desirable next step, rather than moving to a living wage level in one big step, which might be unrealistic from an economic and social point of view. For example, it might create tensions on the local level due to the significant wage differences between your company and other companies in the same town or region.

Wage ladders are increasingly being produced and used. Living wage studies released by the Global Living Wage Coalition, the Fair Wear Foundation and the Wage Indicator use similar approaches.

#### • The business case for a living wage

Raising your wages to the level of a living wage can initially involve an increase in costs. It can, however, also bring benefits in the short to medium term.

The next illustration shows how taking care of workers can improve your bottom line, see figure 3 below. Higher wages will be welcomed by your workers. They will be more motivated and work longer for your company. As a result, the turnover of staff will decrease and your costs for hiring and training new workers will be lowered. Happier and experienced workers will, on average, be more productive than those who are new or dissatisfied. Due to your motivated and satisfied workforce, you might therefore experience productivity increases, a drop in defect rates and an improvement in the quality of your products and/or services. This situation applies to many companies and might also apply to yours. Rather than being a cost, moving towards a living wage is now an investment in a better and more productive company.

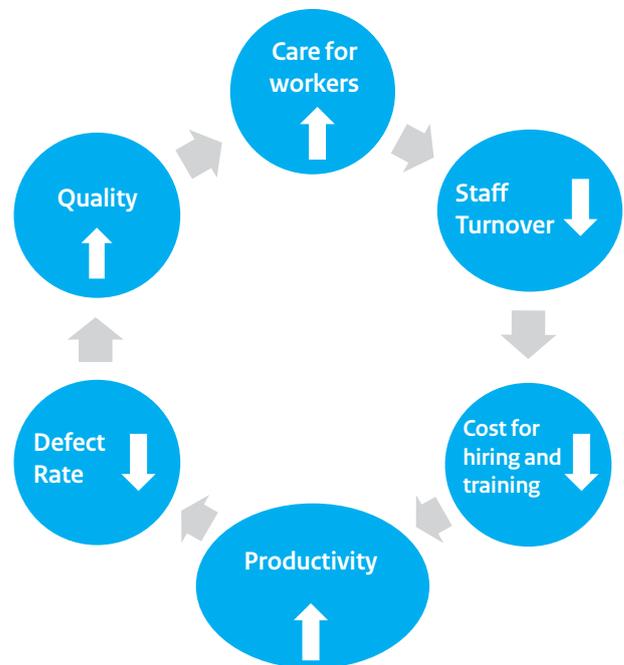


Figure 3. Implementation via productivity

<sup>2</sup> Your company may be a farm, a factory/manufacturer or an international brand/buyer.

Certification to a standard which addresses a living wage can also help you build a business case. Standards and initiatives such as SA8000, Fairtrade, UTZ Certified, the Fair Wear Foundation and the Ethical Trading Initiative all address a living wage in their codes. Such schemes can help you protect your reputation and those of your clients and/or investors. It can also help you to gain access to certain markets and clients who see social compliance as a precondition for doing business.

**Best practice: Rosy Blue**

In 2010, the diamond company Rosy Blue committed to undertake human rights due diligence as proposed by the UN Guiding Principles. In 2011, Rosy Blue started a formal partnership with Social Accountability International in order to consolidate their SA8000 certification in Thailand and move towards the living wage index. Calculating a living wage resulted in paying a wage that was higher – from 40% to 83% – than the national minimum wage of 153 Thai Baht per day. Worker turnover in this industry is at its peak during the first four months of training, as many workers find the inherent complexity of learning the art of diamond cutting and polishing challenging. From the fifth month of employment, the worker turnover rate drops. Ensuring sustainable livelihoods had a direct positive effect on worker retention: paying a higher wage helped Rosy Blue retain skilled workers, which ultimately makes it a more profitable company. (see the research report: [“Living wage in international supply chains”](#), Berenschot, 2012)

**2. Implementation of a living wage in the supply chain<sup>3</sup>**

Remember: international guidelines also expect companies to look into the wage levels of supply chain partners. While going through the four-step guide you might have identified risks and wage gaps in the supply chain. Addressing the risks and gaps is easier if your leverage or influence over supply chain partners is high. If you have little leverage, you are expected to increase it within your limited possibilities.

Changing the behaviour of supply chain partners is not easy to accomplish. It will be easier to do this if your leverage is high, as mentioned above. You can increase your leverage in the following ways:

- **Include the living wage in strategic and long-term partnerships with supply chain partners**  
Raising wages is not the easiest of tasks. It is even harder if you work with suppliers with whom you only have short-term relationships. Your ambition to work towards a living wage will be taken more seriously by a supplier with whom you have a long-term and strategic relationship. Stability in the supply chain can therefore be seen as a precondition for living wages. Think about this before you start your living wage efforts and consider working towards a consolidated and stable supply chain. Stable and long-term relationships will increase your leverage.



<sup>3</sup> If your company is a farm or factory/manufacturer, you will be part of a supply chain with clients or investors upstream and possibly suppliers downstream. If your company is an international brand/buyer, then you have to take into account suppliers in producing countries and/or investors in the supply chain.

- **Join a multi-stakeholder or industry initiative**

Working in collaboration with others makes you stronger and gives you more leverage. Joining an initiative which is making an effort to improve wages should therefore be considered. Examples of multi-stakeholder initiatives that include a living wage in their work are the Fair Wear Foundation, the Ethical Trading Initiative, the Ethical Tea Partnership, Social Accountability International and Fairtrade International (see **Box 3**). Both large and small companies have joined such initiatives. By doing so, they learn from others and use the same formats or tools to educate and support the supply chain. These formats and tools include specific projects on wages, training, and monitoring or certification protocols which include a living wage. Such joint approaches are often more efficient, effective and credible than individual efforts.

- **Collaborate with local NGOs, unions and governmental bodies**

Another form of collaboration which will help you increase your leverage is working with local actors such as NGOs, unions and government. Buyers who are aware of wage issues in the countries they source from are increasingly reaching out to local institutions, as they are often involved in the setting, influencing the negotiations of wage levels in such countries. Buyers may engage in an open dialogue with governments, NGOs and unions when they realise that this is one of the ways to make progress. Wage discussions which are embedded in mature and open local dialogue can contribute to increased wages which fit local conditions and lead to sound sustainable growth. The support of buyers and suppliers in these forms of dialogue and cooperation can make a positive difference.

**Best practice: ISEAL Alliance/Global Living Wage Coalition**

The ISEAL Alliance is the global association for sustainability standards. ISEAL members work together in the Global Living Wage Coalition on the methodology, promotion and implementation of a living wage for workers who are protected by their respective labour standards. The organisations have agreed to a common definition of a living wage and use the same method to estimate a living wage (the Anker method). 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, Costa Rica and Rwanda. For more information see the website of [ISEAL Alliance](#).

**Best practice: Tea sector Malawi**

Malawi is the second largest tea producing country in Africa. In 2008, it became publicly known that Malawian tea workers lived below the poverty line. Wages were set by the Tea Association of Malawi without consulting tea workers. Although the Malawian constitution includes freedom of association, there were no trade unions in the tea sector that negotiated 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 also founded, chaired by the government, aiming to work towards living wages for tea workers (see the website of the [Ethical Tea Partnership](#)).

- **Stimulate (industry) collective bargaining and freedom of association**

Collective bargaining and freedom of association are key rights of workers. This is acknowledged by the United Nations and is further emphasised by the International Labour Organisation's (ILO) key conventions. If 'mature industrial relations' exist in a country, region or sector, the representatives of workers (often unions) and employers will negotiate wages for individual factories/farms or an entire sector. Negotiated wages will reflect the interests of all workers, including often marginalised workers, and will often lead to increased wage levels. However, in many places, collective bargaining and freedom of association are limited. Promotion of these key rights of workers will therefore help. Companies can do so by adding favourable language related to collective bargaining and freedom of association in their standards and codes, and by rewarding or preferring supply chain partners with worker or union representatives. Credible collective bargaining agreements will help bridge the gap between current wages and the living wage. Another benefit is that sectoral agreements (preferably embedded in local law) will take the wage component out of competition for both suppliers and buyers, as the agreed level will apply to all.

**Best practice: ACT**

ACT (Action, Collaboration, Transformation) is an initiative of international brands and 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 on wages and conditions that will apply to a whole industry sector. The collective agreements that result from this 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 (ACT Factsheet, 2015).

- **Supply chain synergies**

Depending on the specific conditions in your sector and supply chain, the additional costs or investments might be easy or quite difficult to absorb. Simply forcing or imposing oneself on supply chain partners in an attempt to make them pay a living wage will very likely not have any credible or long-lasting impact. It would be more realistic to meet your most strategic and stable suppliers and start discussing wages. Together you can discuss the gaps and the steps to take (see wage ladder) and also how to deal with the costs: How are you going to pay for a living wage? You will have to start looking for potential synergies in the supply chain, both with suppliers and clients or investors.

Can you absorb a living wage through increased efficiency or productivity, through a top-up bonus, through the creation of added value on the consumer level or through collaboration? Creativity, transparency and dialogue between everyone in the supply chain are needed to find a solution.

**Best practice: Top-up bonus of Nudie Jeans**

Companies willing to commit to a living wage often face a situation in which they only buy a limited share of the production of the suppliers they work with. For example, 10% of the volume of a supplier is delivered to you and the other 90% is delivered to nine or ten other buyers. The question that arises from this situation is: How can I take responsibility for a living wage if I only buy 10% of the total volume? This can indeed be difficult. A potential solution was found by the Swedish clothing company Nudie Jeans. In 2013, the company decided to commit to a living wage for workers, focusing its efforts on a factory in India. The company did not own this factory, nor was it a major contractor for the factory, so it was difficult to guarantee or ensure that the factory workers received a living wage. Therefore, the company decided to pay an additional bonus per garment. To ensure that the factory workers receive this bonus on top of their wages, Nudie Jeans works with the Fair Wear Foundation, which checks whether the contribution of Nudie Jeans to a living wage is reported on the workers' payslips (see the website of the [Fair Wear Foundation](#)).

### **Best Practice: Cost sharing for Kenyan roses (True Price and Hivos)**

True Price is a social enterprise that aims to contribute to the development of an economy that creates value for all. They do so by helping organisations quantify, value and improve their impact on society. Hivos is an international development organisation which worked with True Price to conduct a 'true price' analysis to identify a business case for sustainable rose farming (including a living wage). The study compared roses produced at a conventional farm to those produced at a sustainable farm. Mapping the supply chain showed that the retail price of roses produced on both types of farms were on average the same (€0.70).

The true price, in contrast, was much lower for the sustainable rose (€0.74) than the conventional rose (€0.92). This difference in true price mainly stemmed from the environmental impact associated with transporting the roses by airfreight and the social impact regarding income. The results allowed Hivos to identify various projects to reduce environmental or social costs, without reducing the margins. Some improvements in social standards, such as paying a living wage to workers, were less feasible if farm owners had to incur all the costs. Based on an economic value chain analysis, Hivos was able to show that a living wage could be provided if wholesalers, retailers and consumers also took on a small percentage of the costs (see the website of [True Price](#)).

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