



Base Code Guidance: **Living wages**



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1 Introduction

Every worker has the right to a standard of living adequate for the health and well-being of himself/herself and of his/her family as described in the Universal Declaration of Human Rights. In order to achieve this, workers' typical weekly wages should meet their basic needs and provide some discretionary income to help improve their lives. Yet living wages remain beyond the reach of many workers worldwide, keeping millions locked in a cycle of poverty. Women workers are particularly vulnerable to low wages, receiving (on average) 25%-30% less pay than men for the same work.¹

Some retailers and brands audit suppliers to check they pay workers the production country's legal minimum wage. However, this often falls far short of what is actually required to meet living costs and support a family.

Achieving living wages in global supply chains continues to be a challenge for ETI and our members, particularly since the 2008 recession. The gap between national minimum wage levels and the cost of living is increasing. Both trade unions and civil society organisations are demanding improvements. The UN Guiding Principles on Business and Human Rights define companies' duty to respect human rights impacted by their business, and legislation has been passed in the UK and elsewhere to address modern slavery.

Importantly, improving wages is a systemic challenge requiring industry-wide collaboration. Businesses will need to consider a wholesale change to placing long-term supply chain stability and respect for human rights ahead of returning profits to shareholders. This could start with addressing their own wage and purchasing practices.

Collaborating with relevant stakeholders on the collective living wages journey is vital, as is supporting key mechanisms

for change, such as promoting collective bargaining, and ensuring that value is fairly distributed across the supply chain. Above all, the responsibility for absorbing any increased wage costs should be shared equally by all stakeholders, rather than passed on to suppliers or consumers.

The business case for living wages is clear. Workers with salaries that meet their needs are likely to perform better, gain new skills, take fewer days' sick leave and remain loyal and motivated, thereby reducing absenteeism and staff turnover, and improving productivity and profit.

Through this guide², we share what companies can do to create the enabling conditions for the payment of living wages, in line with their commitment to the ETI Base Code. We outline our expectations of members and provide guidance on winning senior executives' support for living wages. We share practical steps for developing living wage strategies and collaborating with stakeholders to identify sustainable, scalable solutions. We also cover the vital question of how to offset the cost of increased wages. Finally, we share ETI members' experiences of supporting living wages.

"Whereas universal and lasting peace can be established only if it is based upon social justice; And whereas conditions of labour exist involving such injustice hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled; and an improvement of those conditions is urgently required; as, for example, by ... the provision of an adequate living wage."

The preamble to the ILO Constitution 1919

"Our mission at apetito is to "make a real difference" and that means embedding principles that support our customers, our supply chain, and crucially, our work-force. Supporting the accredited Living Wage is quite simply the right way to do business; it improves our employees' quality of life, but also benefits our business and society as a whole."

Paul Freston, Chief Executive, apetito (an ETI member)

¹ Source: <http://datatopics.worldbank.org/gender/key%20gender%20employment%20indicators#sthash.4AHslpzl.dpuf>

² This guide is based on the following documents: European Living Wage Conference Action Plan 2013, ETI's Expectations of members in relation to Living Wages (ETI 2014), ETI Living Wage Guidance (ETI 2014), Living Wages in Global Supply Chains – A New Agenda for Business (ETI Denmark, Norway, UK 2015), and Steps Towards A Living Wage in Global Supply Chains (Oxfam 2014)

1.1 ETI Base Code Clause 5

5.0 Living wages are paid

5.1 Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event, wages should always be enough to meet basic needs and to provide some discretionary income.

5.2 All workers shall be provided with written and understandable information about their employment conditions in respect to wages before they enter employment and about the particulars of their wages for the pay period concerned each time that they are paid.

5.3 Deductions from wages as a disciplinary measure shall not be permitted, nor shall any deductions from wages not provided for by national law be permitted without the expressed permission of the worker concerned. All disciplinary measures should be recorded.



1.2 Clause 5 and International Standards

International standards are fundamental to the ETI Base Code, and underpin Clause 5 on living wages.

UN Guiding Principles on Business and Human Rights

The UN Guiding Principles on Business and Human Rights (UNGPs), place the responsibility for respecting human rights and providing remediation where they are denied, upon businesses.

Relevant International Labour Organisation (ILO) conventions:

C131: Minimum Wage Fixing Convention, 1970

Convention concerning Minimum Wage Fixing, with Special Reference to Developing Countries (Entry into force: 29 Apr 1972).³

Article 3 states that determining the level of minimum wages shall, so far as is possible and appropriate in relation to national practice and conditions, include -

- a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;
- b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

C095: Protection of Wages Convention, 1949

Article 3 highlights that wages payable in money shall be paid only in legal tender, and payment in the form of promissory notes, vouchers or coupons, or in any other form alleged to represent legal tender, shall be prohibited.

C100: Equal Remuneration Convention, 1951

Article 2 indicates that each [ILO] Member [state] shall, by means appropriate to the methods in operation for determining rates of remuneration, promote and, in so far as is consistent with such methods, ensure the application to all workers of the principle of equal remuneration for men and women workers for work of equal value.

Other relevant international standards and guidelines:

The **Universal Declaration of Human Rights (1948)** states that everyone has the right to a standard of living adequate for the health and well-being of himself/herself and of his/her family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his/her control.

The International Covenant on Economic, Social and Cultural Rights (1966) covers fair living wages in Article 7, which states that workers should be remunerated fairly, and women and men should be paid equally for the same work, and be able to make a decent living for themselves and their families.

³ For further information, see www.ungpreporting.org/resources/the-ungps.



1.3 ETI's expectations of members

We recognise that making progress on living wages has been challenging for many companies, including ETI members. Balancing commercial pressures with the responsibility to help ensure workers in your supply chain are paid fairly is an ongoing struggle. Taking a responsible stance on this issue will also help to address growing stakeholder concerns, improve supply chain stability, and ultimately, become a component of long-term business success. However, acting on living wages is also vital to alleviating poverty and empowering women, thereby supporting sustainable economic development in production countries.

As part of our members' commitment to respect the ETI Base Code, we expect all members to plan for and work towards living wages, both within their own operations and throughout their supply chains. Here, we clarify how we expect member companies to comply with Clause 5, which describes living wages as 'enough to meet basic needs and provide some discretionary income'.

ETI has communicated to its members that it expects them to:

Understand the dynamics affecting living wages

It is vital that members build a full understanding of the economic, legislative, commercial and social dynamics that influence wage levels. This should form an integral part of companies' human rights due diligence. You can do this by:

- Studying research on how such dynamics operate at a global, regional, national and local level
- Studying consumer attitudes and behaviour
- Understanding how your purchasing practices and suppliers' HR and pay systems affect suppliers' ability to pay workers living wages

Create enabling conditions for the payment of living wages in supply chains

In order to encourage a responsible attitude towards wages among their suppliers, members should define clear, measurable targets, supported by practical actions, such as:

- Taking steps to become a living wage employer
- Improving sourcing strategies and purchasing practices to ensure that suppliers have enough margin to increase wages
- Including progress on living wages within selection criteria for new suppliers and audits for existing suppliers
- Helping suppliers to improve HR and pay systems, as well as productivity
- Participating in industry-wide collaborations to address living wages at a systemic level



Support free and fair collective bargaining to establish living wage levels

A vital element of an enabling environment for living wages is to support freedom of association and collective bargaining. Members should help empower workers to voice their needs and negotiate better pay by:

- Encouraging suppliers to respect freedom of association and support collective bargaining
- Deterring suppliers from any behaviour that prevents workers from forming or joining trade unions
- Helping suppliers to find alternative ways to enable workers to participate in wage negotiations, where local laws prohibit unionisation (while taking steps to encourage changes in such laws)

Influence government policy that supports living wages

Taking action on living wages at a national level could include:

- Lobbying governments to create effective, inclusive mechanisms for reviewing statutory minimum wage levels in line with rising living costs
- Calling for a better implementation of minimum wage laws and policies

Report progress on living wages transparently

Members are accountable for their actions on living wages and should communicate on this issue with stakeholders by:

- Making their commitment public
- Reporting on actions taken to support living wages, including verifiable evidence of results (such as improvements in wage levels).

Share and develop good practice

Knowledge-sharing is vital to helping whole industries to raise wages. We expect members to share the lessons they have learnt on improving wages with ETI and fellow members and contribute to industry discussions on living wages.

This document provides more information and guidance on how to take action on each of these topics. It draws on a number of ETI resources (developed with tripartite input), and other key resources such as the European Living Wage Conference Action Plan and Oxfam's Steps towards a living wage in global supply chains.

1.4 Why should companies pay or support living wages?

Companies have often struggled to balance commercial goals with acting on living wages, not least because raising wages is perceived to have a direct effect on profitability and competitiveness. But with stakeholder pressure mounting, now is the time to act.

A) It improves workers' wellbeing

While there are many other factors that affect worker well-being – it fundamentally rises or falls in line with their income. Those earning a living wage are better able to plan for emergencies, save towards future projects or gain access to loans, participate in social events and create a better future for their family. Women, in particular, are empowered by earning a living wage, and are more likely to use increased wages for the benefit of their families and communities. Yet women workers typically earn 60%-75% of men's wages⁴ for the same work. They are concentrated in less secure, lower skilled jobs and often have less opportunity than male colleagues to speak out.

Workers who do earn a living wage could be classed as 'thriving'. Conversely, those with a lower level of income (such as a minimum wage that does not adequately cover living costs) may not be able to meet their families' needs. With limited or no savings, they are less resilient in emergencies, and may struggle to participate in social activities without incurring debts. Workers with low or irregular wages may become reliant on unhealthy or risky survival strategies that keep them and their families locked in a cycle of poverty.

Responsible companies stand to promote improved well-being and prospects for workers by helping to create the enabling conditions for the payment of living wages. Further, by supporting decent, regular, fairly paid employment, businesses are contributing to sustainable economic development in production countries, thereby helping to foster the stable conditions needed to continue effective trading relationships.

"Burberry is strongly committed to promoting fair and sustainable employment practices throughout its business. Consistent with this commitment, in April 2015, Burberry was proud to become the first luxury retailer and manufacturer to achieve accreditation as a UK Living Wage employer. The Living Wage affords people the opportunity to provide for themselves and their families. We believe that all our employees should be treated fairly and in accordance with our ethical trading guidelines, and pay is a significant part of that. Living Wage accreditation is powerful external recognition of our commitment to ensure that everyone who works for Burberry receives a fair wage, as we continue to strengthen and embed our values into our ways of working."

Burberry (an ETI member)

B) It complies with international standards

Taking international standards into consideration is vital. In particular, companies should refer to the relevant ILO conventions, and living wage articles as outlined in the Universal Declaration of Human Rights (1948), the International Covenant on Economic, Social and Cultural Rights (1966) and the SA8000® Standard (see Clause 5 and International Standards on page 5).

Remember that ETI's Base Code, including Clause 5 on living wages, is a set of international standards based on ILO conventions. By becoming members of ETI, companies make a commitment to strive towards them.

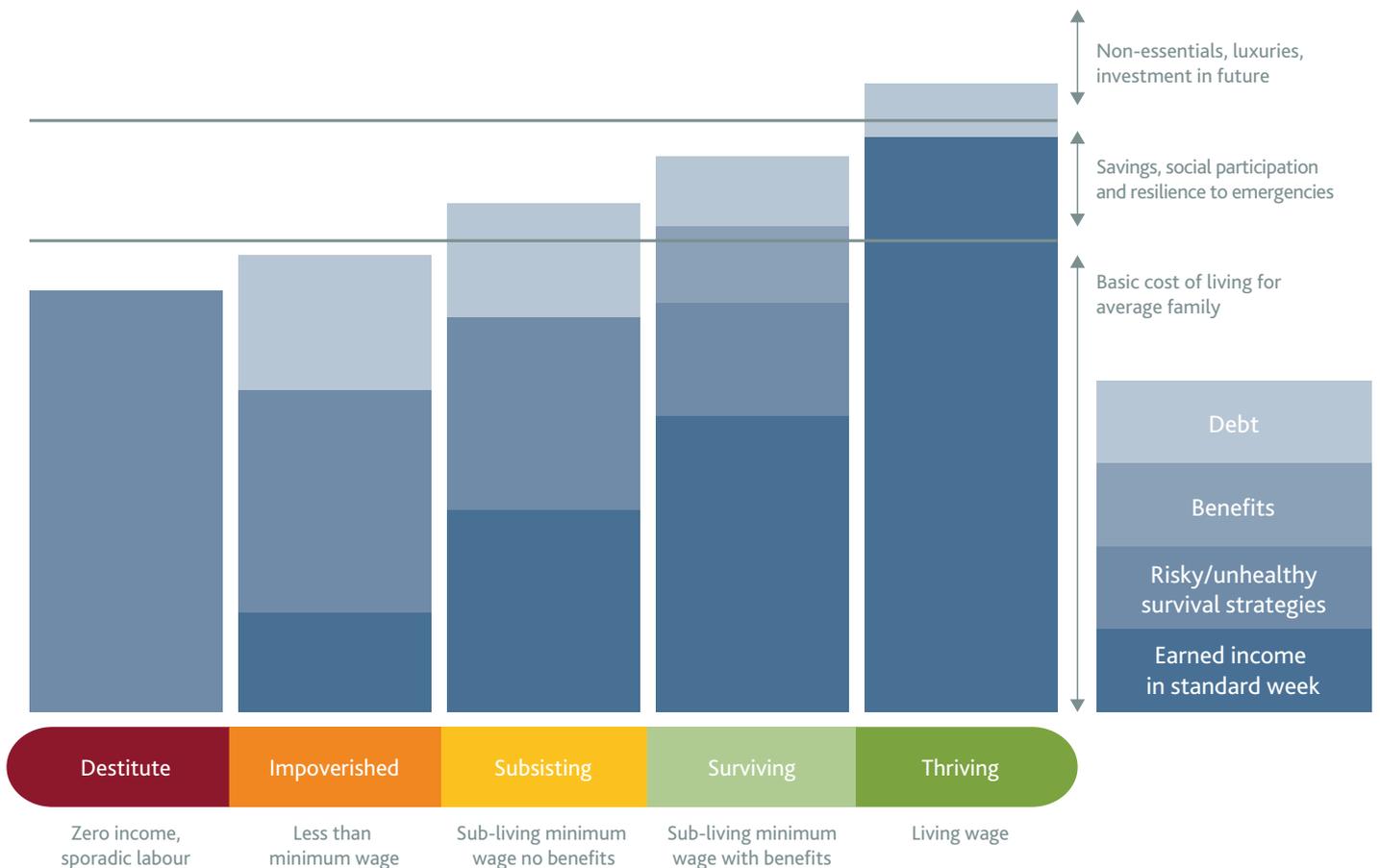
Companies should also refer to guidelines such as the UN Guiding Principles on Business and Human Rights (UNGPs), which place the responsibility for respecting human rights – including adequate wages - and providing remediation where they are denied, clearly upon businesses.

In addition, companies should remain vigilant to any national legislative changes on wages in the countries where they operate.

⁴ Source: <http://datatopics.worldbank.org/gender/key%20gender%20employment%20indicators#sthash.v3QMGKob.dpuf>

Figure 1: Wellbeing-income matrix

Level of wellbeing	Level of income	Earned income	Resilience to emergencies	Savings/ Debts	Social participation	Survival strategies	Prospect of improvement
Thriving	Living wage	Sufficient earned income in standard week to meet needs of whole family	Discretionary amount for emergencies	Discretionary amount for savings – access to loans for non-essentials	Able to participate in social events	None required	Good prospects for improvement
Surviving	Minimum wage less than living wage – supplemented by government or employer benefits	Earned income alone insufficient to meet needs of whole family	Little or no emergency contingency – emergency adds to debt	Limited savings – possible access to loans	Limited capacity – social participation adds to debt	Claiming benefits, incurring debt, possibly engaging in some unhealthy survival strategies*	Limited prospects for improvement
Subsisting	Minimum wage less than living wage – no supplementary benefits	Earned income alone insufficient to meet needs of whole family	Little or no emergency contingency – emergency adds substantially to debt	Little or no savings – limited access to loans	Very limited capacity – social participation adds substantially to debt	Likely to be reliant on unhealthy survival strategies*	Poor prospects for improvement
Impoverished	Less than minimum wage/ irregular work eg seasonal or contract labour	Earned income alone insufficient to meet needs of family	No emergency contingency – emergency adds substantially to debt	No savings – unlikely to have access to loans	Severely limited social participation adds substantially to debt	May be reliant on risky survival strategies**	No prospects for improvement
Destitute	Zero income or sporadic labour	Insufficient income to meet needs of family	No emergency contingency – no access to loans	No savings – no access to loans	None – no access to loans	Likely to be reliant on risky survival strategies**	No prospects for improvement - survival prospects low



* Unhealthy survival strategies may include multiple jobs, excessive overtime, children working instead of going to school.

**Risky survival strategies may include dangerous or unhygienic work, criminal activities, prostitution etc. potentially undertaken by all members of family, including children.

C) It makes good business sense

Paying or supporting living wages is not simply about acting ethically, minimising risk, responding to stakeholder concerns or complying with relevant legislation. It also delivers distinct business benefits. Companies that help to encourage a responsible attitude towards living wages are more likely to achieve stability among their employees and across their supply chain, attract talent and protect their reputations. And ultimately, better paid, skilled workers are more likely to remain loyal and motivated, thereby reducing absenteeism and staff turnover, and improving productivity and profit. (See Figure 4 on page 18).

Researchers are increasingly challenging the perception that keeping wages low is necessary to ensure profitability. For example, a study of living wage employers in the UK⁵ shows that by implementing a living wage, companies benefit in both financial and non-financial terms. While a cost mitigation strategy was needed to increase wages in the initial stages, the benefits of introducing a living wage included reduced staff turnover; increased worker morale and loyalty; a lower absenteeism rate; productivity improvements; stronger recruitment opportunities and improved reputation. In every case, the companies' core values were a key factor in catalysing progress towards living wages.

Similarly, research conducted by the MIT Sloan School of Management in the US retail sector reveals that paying employees decent wages is compatible with keeping prices low for customers, boosting productivity and generating business growth. The four participating retailers achieved the optimum combination of attractive jobs, low prices and high performance by following a two-pronged approach. Firstly, they viewed their workforce as a strategic asset, investing in employees at all levels, from senior executives to retail assistants. Secondly, they enabled their employees to contribute to driving sales and reducing costs, increasing their motivation and productivity.

"Marshalls became accredited by the Living Wage Foundation in 2015, this decision was very much in line with Marshalls core values; Leadership, Excellence, Trust and Sustainability and was made in the recognition that in today's competitive environment the recruitment and retention of talented people is the key to long term competitive advantage and sustainability.

This commitment to Living Wages has already had a positive impact on our Employer Brand and on our internal employee engagement survey, Best Companies which has seen a positive impact."

Chris Harrop, Group Marketing Director & Director of Sustainability, Marshalls (an ETI member)

Case study: Working towards living wages in the tea industry

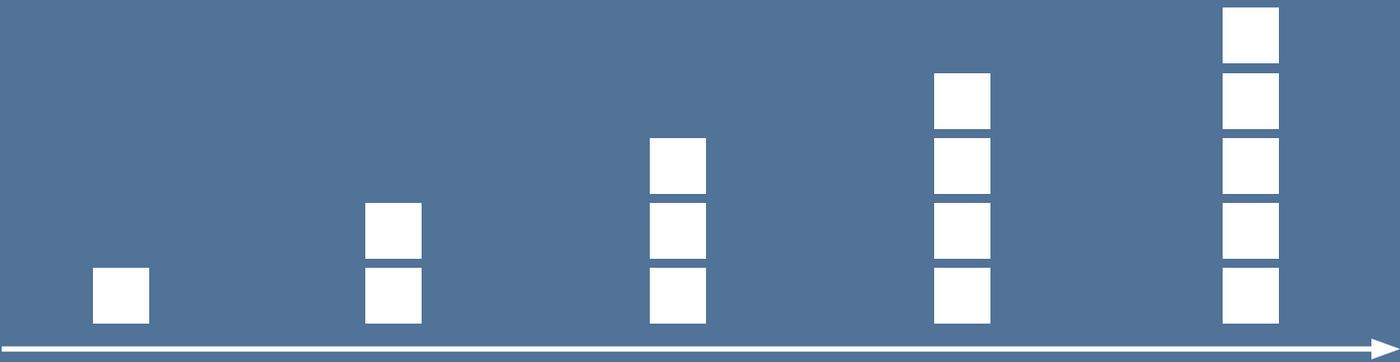
Malawi is one of the world's poorest countries, with 62% of the population living below the World Bank's extreme poverty line. The tea industry is the country's largest employer, with 50,000 people working in the sector. However, Malawian tea producers have typically opted to produce high volumes of tea at low cost, keeping workers' wages low. The Ethical Tea Partnership, together with Oxfam, the Sustainable Trade Initiative and the Tea Association of Malawi (TAML) set out to help the industry become more competitive in a sustainable way, while improving pay and living conditions for tea estate workers, particularly women. They commissioned a 'Wage ladder' assessment of tea workers' wages in Malawi, India and Indonesia, highlighting the need to close the wage gap. Having further investigated what would constitute a living wage in Malawi's southern tea-growing region, the group engaged all stakeholders – producers, tea buyers, civil society, government officials and development partners – in an ongoing discussion on how to make living wages a reality. This dialogue has led to an agreed roadmap, underpinned by a Memorandum of Understanding signed by 20 key stakeholders. It covers measures to revitalise the country's tea industry; help smallholder farmers improve tea quality; raise productivity; improve labour conditions and worker well-being and create more opportunities for women; develop effective wage-setting processes and build real-time living wage data assessment. Workers' daily wages have already risen as a result (from MK560 to MK850), with smallholder green leaf prices also rising by two cents per kg. Plans are also in motion to develop a collective bargaining agreement, supported by the Malawian government. See also Malawi tea industry 2020 roadmap, p16.

⁵ Living Wage Employers: Evidence of UK Business Cases by the University of Strathclyde and the Living Wage Foundation



2.0 The journey towards living wages: Summary

UNDERTAKING THE JOURNEY TOWARDS LIVING WAGES REQUIRES **DETERMINATION, COLLABORATION** AND **INNOVATION** UNDERPINNED BY A **CONSIDERED STRATEGY**



Take a long-term sustainability view, rather than prioritising short-term shareholder returns

PUT YOUR OWN HOUSE IN ORDER
Review wage-setting, purchasing practices and sourcing strategies

RESPECT WORKERS AS PEOPLE WITH HUMAN RIGHTS, AND STAKEHOLDERS IN THE BUSINESS, NOT AS COSTS TO BE MINIMISED

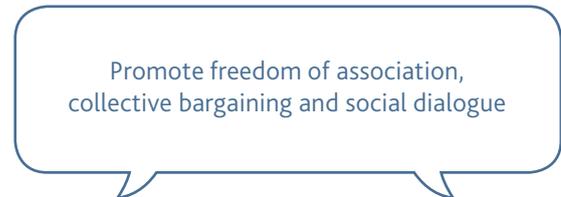
Encourage knowledge-sharing between purchasing and ethical trading teams

Work collaboratively with other companies, governments, trade unions, NGOs, multi-stakeholder initiatives

CLARIFY YOUR REQUIREMENTS ON LIVING WAGES, FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING THROUGH YOUR **CODE OF CONDUCT**



Offset wage increases by paying adequate prices for products, improving workplace efficiency and supporting suppliers to have effective human resources and pay systems



SIMPLIFY YOUR SUPPLY CHAIN



Provide training and clear communication to help suppliers see the business benefits of improving wages.

Monitor your progress against clearly defined indicators and goals



SHARE THE LESSONS YOU LEARN

2.1 Steps towards living wages – preparing for action

Before taking action on living wages, it is important to first fully understand the wages landscape and identify opportunities to effect change. We recommend taking the following steps to inform and shape effective living wage strategies.

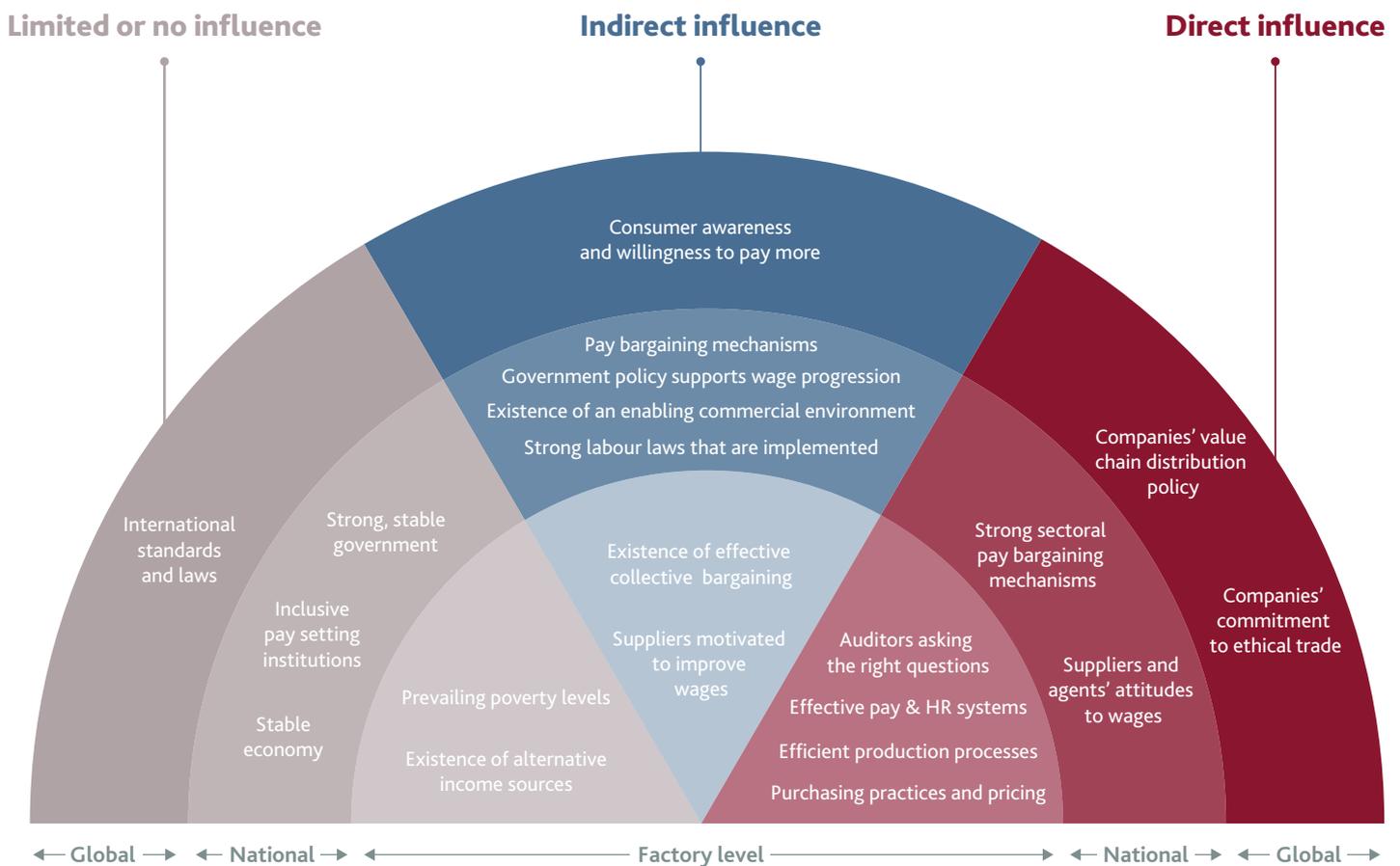
A) Understand the wages landscape

Before exploring the wider wages landscape, identify which areas within your supply chain (including any outsourced components) pose a risk to wage improvements⁶, categorising each risk by its relative potential impact, and exploring root causes. This overview of risks and opportunities represents an important basis for discussions with relevant stakeholders.

Build on this analysis by:

- Developing an understanding of the external dynamics affecting wages within a particular context
- Exploring how the legal minimum level was established, including by identifying which policies and practices supported its creation
- Seeking information from and consulting with a wide range of stakeholders including unions, NGOs, peers and academics
- Reviewing how suppliers set and pay wages across a range of interrelated aspects, eg how pay relates to working hours and how it is used to reward or incentivise performance. This multi-dimensional approach to wage analysis is the basis of the Fair Wage approach, developed by Daniel Vaughan-Whitehead.⁷

Figure 2: What factors drive wages and where can companies have influence?



⁶ See ETI's Human Rights Due Diligence framework, www.ethicaltrade.org/resources/due-diligence-framework

⁷For further information, see www.fair-wage.com.

B) Monitor the gap between prevailing and living wages

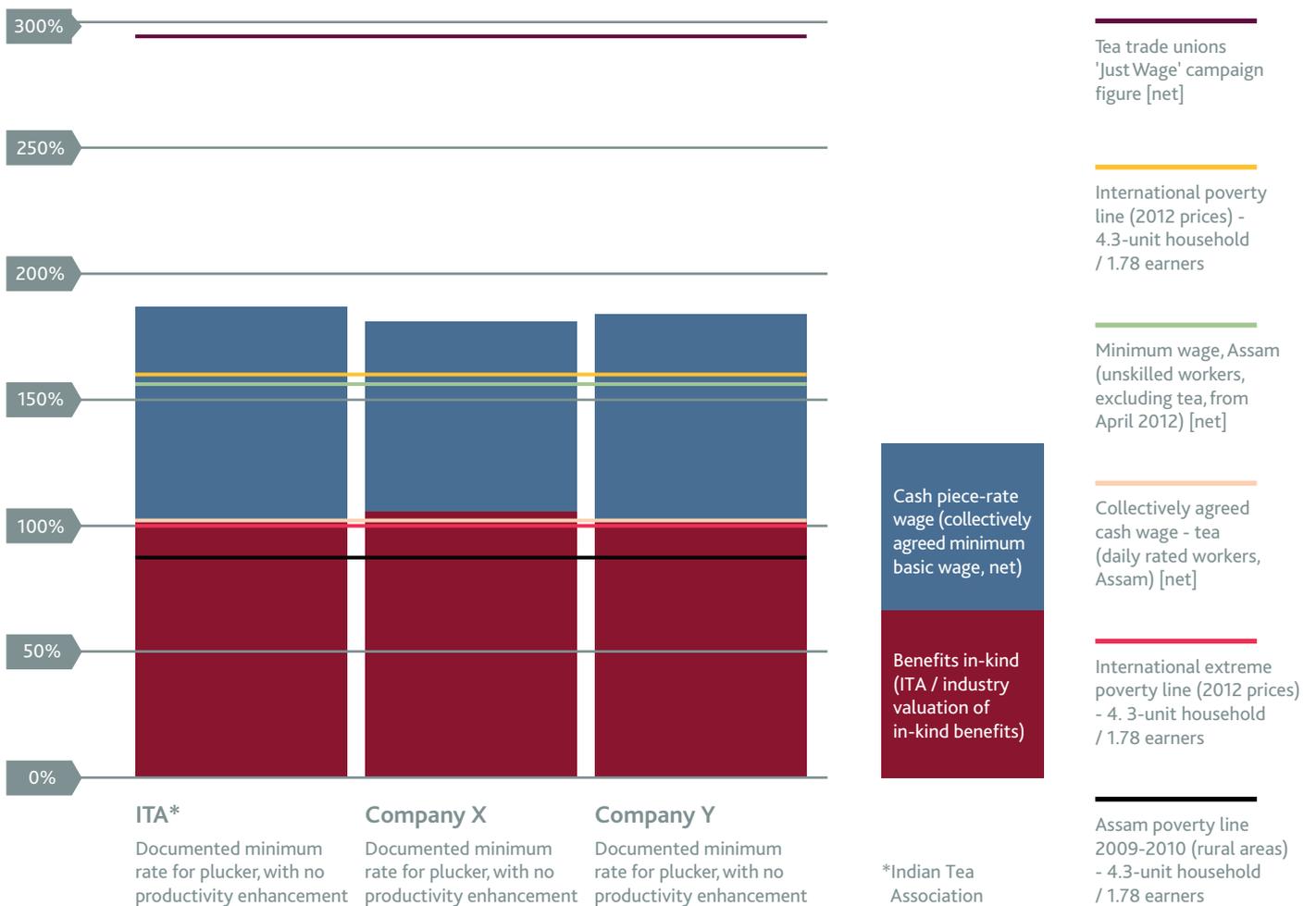
Building an accurate picture of the gap between prevailing and living wages is vital to establishing by how much wages should be improved. Collaborating with relevant stakeholders, in particular trade unions, is the best way to achieve this.

In many current business models, the price paid by a company for a product does not reflect the true cost of making the item, which in turn has an impact on overtime, wages and other working practices.

Working collectively with relevant stakeholders:

- Research actual wage levels in your supply chain (including owned and operated facilities) for both men and women workers.
- To understand the true cost of products, obtain wage data including social security, overtime premiums and paid leave, and remove these from price negotiations. See ETI Norway's 'Decent Work Accounting' model for support with factoring workers' wages into budgeting and pricing activities.⁸
- Refer to established benchmarks (or support their development using a recognised methodology).
- Use prevailing figures for national and local minimum wages, combined with evidence of workers' needs (ideally collected from both men and women workers, and their representatives) to establish a wage ladder. Tools such as the Anker living wage calculation (published by the ILO and adopted by certification bodies under the ISEAL umbrella) can help to establish such benchmarks. However, as far as is possible, it is vital to ensure that workers' voices are included.
- Identify gaps between prevailing and living wages, and discuss potential implications with internal and external stakeholders.

Figure 3: Example wage ladder (taken from Oxfam's report 'Understanding Wage Issues in the Tea Industry')

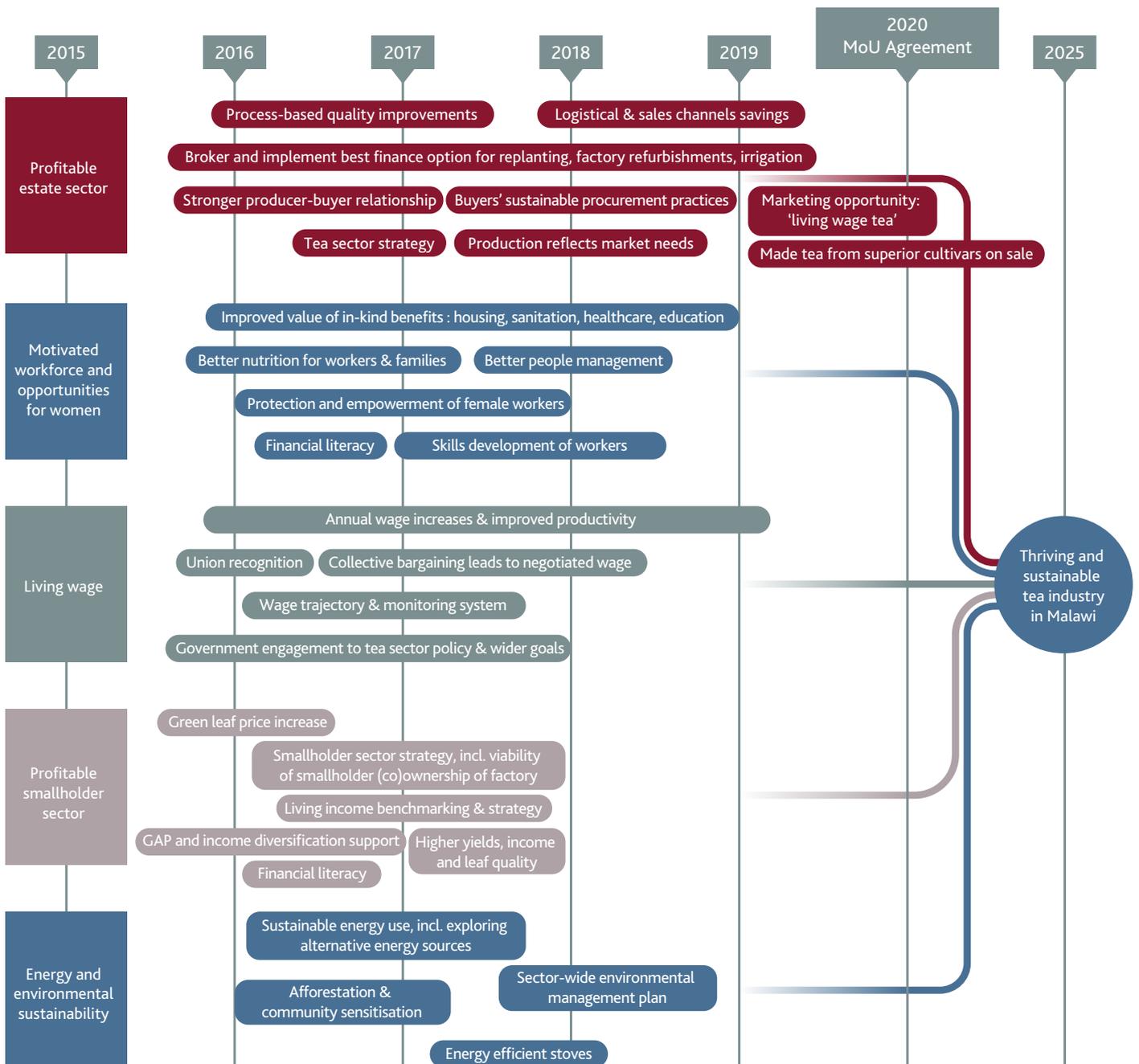


⁸ See other resources below for link to IEH's 'Decent Work Accounting' model

C) Identify opportunities for change

Based on these findings, identify opportunities for leveraging change. Are there others working on this issue or involved in this supply chain with whom you could collaborate? Through your membership of industry associations, could you develop a co-ordinated approach to influencing government policies? Within your supply chain, are there opportunities to promote social dialogue, optimise purchasing practices, adopt more direct trading relationships, and build more vertically integrated models? Could you extend your impact by influencing specific groups of suppliers or sectors, rather than individuals? How could you help empower workers to negotiate wage improvements? See ACT case study on page 17 and also Annex II for advice on how to find local collaborative partners.

Figure 4: Malawi tea industry 2020 roadmap



See also Case Study: Working towards living wages in the tea industry, p10

2.2 Steps towards living wages – taking action

Once you have understood the wages landscape, pinpointed gaps between legal minimum and living wages, and identified opportunities for improvement, you can begin to take action. We recommend developing, agreeing and implementing a multi-stakeholder Living Wage Action Plan. This will ideally cover multiple aspects including training managers and buyers, adapting business practices, promoting collective bargaining mechanisms, and lobbying governments to raise legal minimum wages.

Importantly, your Action Plan should focus first on addressing wage levels within your own operations and improving purchasing practices and sourcing strategies. From this foundation, you can move forward to help create enabling conditions for sector-wide change.

Case study: 'Action, Collaboration and Transformation' in the garment sector on living wages

Brands and retailers in the textile and garment industry are beginning to collaborate on sector-wide challenges, including living wages, as more businesses realise the importance of addressing pressing social issues at a systemic level. For example, through the Action, Collaboration, Transformation (ACT) initiative, key garment brands and retailers (the majority of which are ETI members) are uniting to understand how relevant stakeholders can contribute to scaling up a sustainable industry approach to living wages. The group is engaged in an unprecedented dialogue with international trade union IndustriALL, with all member companies signing a memorandum of understanding to achieve living wages through improved industrial relations, freedom of association and collective bargaining. In particular, ACT aims to make progress by seeking industry-wide agreements (involving employers, workers and their representatives) and supporting mechanisms to help fix national minimum wages.

"We are working in a way we have never been able to do before, with brands that want to make a difference."

Jenny Holdcroft, Policy Director, IndustriALL

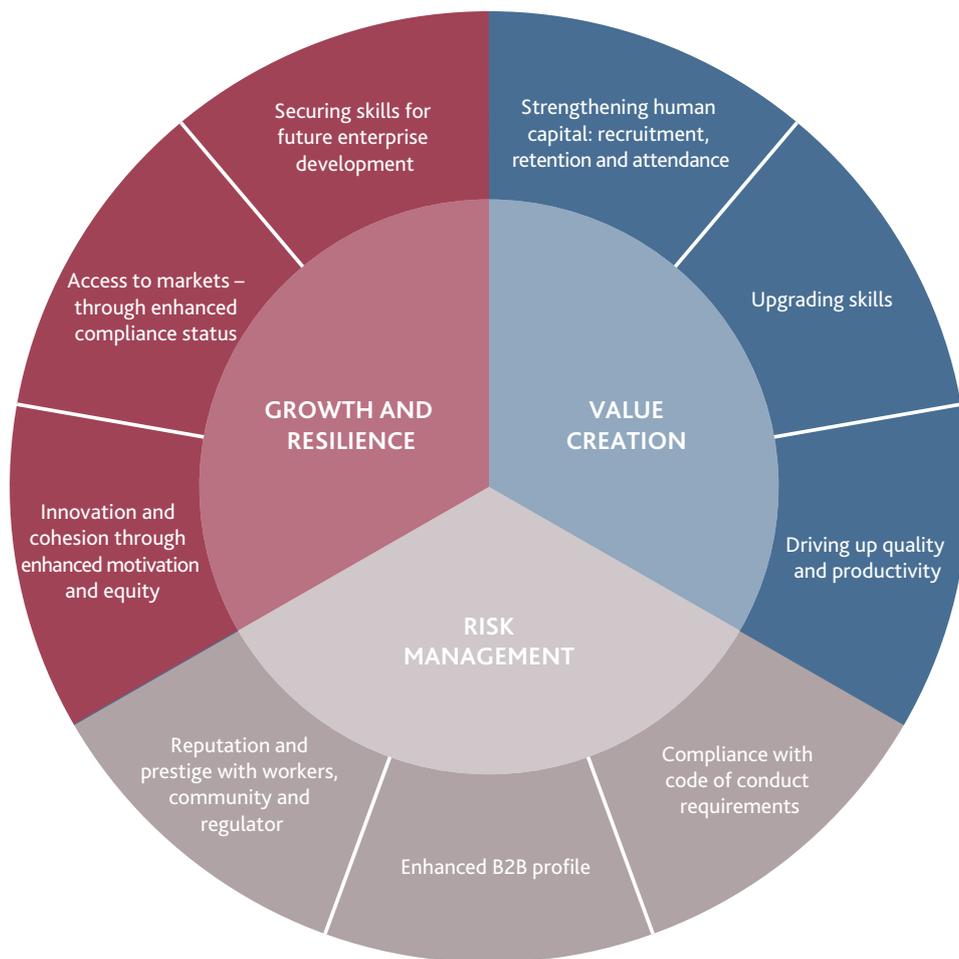
2.2.1 TAKE ACTION: BUILD THE CASE FOR ACTION INTERNALLY

Companies will need to obtain senior executives’ support from the outset, making a compelling business case for promoting living wages throughout the supply chain, and advocating a clear course of action. Their reactions may depend on your company culture and existing attitudes towards wages. For example, companies that are either wholly or partially owned by families may have greater flexibility to push for living wages than companies driven by external shareholders’ expectations of profit maximisation.

According to research⁹ commissioned by the Ethical Trading Initiatives of Denmark, Norway and the UK, there is a growing business case for paying living wages. Indeed, living wage employers have noted a range of business benefits. These include reduced staff turnover (and thereby recruitment costs), lower training costs for new employees, increased productivity and enhanced reputation.

Figure 4: Business benefits of investing in living wages

Chart provided by Ergon Associates



When addressing living wages internally:

- Consider whether you are paying a living wage to your own employees and contracted workers, as well as how many workers have secure contracts. (NB UK employers should note that the UK’s so-called ‘national living wage’ is not in fact a living wage. Please refer to the figures set by the Living Wage Foundation¹⁰).
- Explore the case for action at Board-level. Your discussion will need to include how your company addresses human rights ‘due diligence’, as well as feedback from employees and their respective unions.
- Calculate the gap between the CEO and average pay among employees, and between the CEO and the minimum wage of workers in your supply chain, and consider how this sits with your company’s core values.
- Develop a Living Wages Action Plan with short and long-term goals and actions. Ensure that all relevant stakeholders are included to maximise effectiveness.
- Clearly communicate your pay and reward system to all employees, including the relationship between regular wages and standard working hours, as well as overtime payments and benefits.

⁹ Living wages in global supply chains: A new agenda for business

¹⁰ For more on ETI’s position on the UK ‘national living wage’ see: http://www.ethicaltrade.org/issues/living-wage-workers#uk_national_living_wage

2.2.2 TAKE ACTION: SHARE YOUR COMMITMENT PUBLICLY

Being open about your intended actions on living wages is vital, particularly as stakeholders continue to push for transparency. ETI expects its members to make a public commitment to respecting the standards set out in the ETI Base Code, including on living wages. This includes keeping stakeholders informed of the actions you take to improve wages, and reporting verifiable evidence of results.

In particular, we recommend:

- Making a public declaration of your support for living wages.
- Seeking senior-level support to disclose your supply chain publicly (at least tier 1 suppliers).
- Openly supporting freedom of association and collective bargaining in your company and your supply chain.
- Reporting the proportion of workers in your supply chain who have secure contracts, earn a living wage, and have the opportunity to join independent unions.
- Raising awareness of the importance of achieving living wages in your supply chain among consumers.

2.2.3 TAKE ACTION: OPTIMISE PURCHASING PRACTICES AND SOURCING STRATEGIES

Companies will need to adjust their sourcing strategies; preference should be given to countries and companies where the wage is a product of collective bargaining through mechanisms that meet ILO standards. Similarly, purchasing practices will need to include mechanisms to help ensure that wages meet basic needs and allow for an additional discretionary income. This includes absorbing the costs of any knock-on effects in the supply chain, so that the 'true cost' of wages is not passed on to workers.

We recommend that each company begins by assessing its own practices, before collaborating with peers and other stakeholders for systemic change. This starts with ethical trade and buying teams coming together to share their knowledge and review current purchasing practices. It is important to help buyers understand the unintended consequences of their decisions for factory managers and workers.

For example, research suggests that buyers' actions tend to deflect risk to suppliers, squeezing their margins and putting them under pressure to deliver within short timescales. This often results in increased work intensity and excessive overtime for workers. In particular, late changes to product specification or order size may have major production and cost impacts at a factory level.

If your current practices are inhibiting your suppliers' ability to pay a living wage, consider redesigning the way you work, potentially partnering with other companies for greater leverage.

Review purchasing practices

Buyers and ethical trading teams could consider the following factors when considering whether their practices influence suppliers' ability to pay a living wage, and how to create an enabling environment for change.

- Determine the cost of labour within total unit costs; this should include:
 - direct labour costs (wages, bonuses and premium for overtime, social security contributions and paid leave)
 - indirect labour costs (training, personal protective equipment, provision of canteen, changing room or other staff facilities).
- Establish what proportion of direct labour costs is accounted for by wages (relating to a standard working week).
- Are wage levels (taking into account standard working hours or weekly piece rate averages) in line with credible benchmarks for living wages?
- How could you adjust your buying practices to reduce the need for short lead times and last minute order changes?
- How do your sampling, training and auditing processes affect suppliers?

The ETIs of Denmark, Norway and the UK are developing new guidance and training on purchasing practices and sourcing strategies, using evidence from a broad spectrum of suppliers. See www.ethicaltrade.org/issues/company-purchasing-practices





Improve workers' wages by enhancing commercial terms

We recommend that companies begin by addressing the commercial factor over which they have most influence: the 'Free on board' (FOB) price. Paying your supplier more per unit could give them the flexibility they need to increase workers' wages. This is most likely to be effective in the case of direct trading relationships, and particularly where you are the only or main buyer (see World Banana Forum case study, p23).

In order for this approach to be successful, the buyer will need to:

- Source all (or nearly all) of the production from the factory or farm, so that wage increases can be applied across the whole workforce.
- Cultivate robust, long-term supplier relationships, including through long-term contracts; clarify that raising wages will not affect suppliers' competitiveness. Keep arrangements simple, in order to prevent knock-on price increases upstream in the supply chain.
- Ensure there is a transparent way of distributing the increased value with workers and employees of subcontractors, in addition to paying adequate wages for a standard working week and raising wages in line with the cost of living.
- Support suppliers in promoting freedom of association and collective bargaining. (See section 2.2.7, p24)

- Fully understand your suppliers' quality and productivity processes, in order to ensure their focus on quality remains high and wage increases are not counterbalanced by increases in working hours or work intensity, or in reductions to non-wage benefits.
- Seek the support of industry peers and policy-makers.

Where direct trading relationships are not possible, companies can improve purchasing practices and enable wage improvements by:

- Identifying and reducing purchasing practices that transfer risk to suppliers, and ensuring that workers reap the benefits of any positive developments at suppliers' factories.
- Communicating clearly to suppliers – together with industry peers – that living wages are (and will be) positively received by the sector as a whole, and will not result in buyers sourcing from cheaper locations.

Importantly, when encouraging suppliers to raise workers' wages, it is not realistic to expect factories to offset these increases solely through factory workplace efficiencies. Companies will also need to consider increasing efficiency throughout the supply chain and potentially reducing profit margins. However, as suppliers' margins are likely to be very narrow already, buying companies should consider absorbing proportionate reductions in margins. The short term loss will lead to longer term gains.

2.2.4 TAKE ACTION: SIMPLIFY YOUR SUPPLY CHAIN

Simplifying your supply chain can contribute significantly to creating the enabling conditions for living wages. When conducting supply chain mapping exercises, we recommend reviewing your key strategic suppliers and identifying which companies pose the most risk from a wage perspective.

Consolidate different stages of the chain and adopt more direct trading relationships. For example, by forming exclusive, direct relationships with banana suppliers, Tesco has been able to make a commitment to supporting living wages for its banana suppliers' workers by 2017 (see World Banana Forum case study, p23). Where you operate multi-tiered supply chains with many intermediaries, there is a greater risk of the cost of raising wages being reflected in price increases further up the supply chain.

Case study: ETI Homeworkers programme - freeing up value in the supply chain

In 2011, ETI partnered with retailers, brands, NGOs and trade unions to improve labour conditions and pay for skilled textiles and embroidery artisans in Northern India. As home-workers within complex supply chains, they are typically scattered geographically, and have informal links with a multi-tiered network of sub-contractors and contractors. It can be challenging for brands to know exactly where they are located, or when they are working (since the work is seasonal in nature). ETI and our partners built trust with actors at each level of the supply chain, gradually gaining access to the sub-contractors, who proved to be critical in helping us to reach home-workers. With the right support, these sub-contractors clearly had the potential to become community leaders, and help improve home-workers' pay and labour conditions on an ongoing basis. Importantly, we recommended simplifying the supply chain by removing some of the additional tiers, so that home-workers could access more orders and benefit financially. A year on, artisans told us that they felt empowered to negotiate favourably on piece rates with sub-contractors, thereby improving their incomes.



2.2.5 TAKE ACTION: BUILD STRONG RELATIONSHIPS WITH SUPPLIERS

Creating collaborative, long-term relationships with suppliers is integral to enabling lasting, sustainable wage improvements. Moves to negotiate commercial changes or shifts in supply chain arrangements will only be effective in the context of transparency, stability and trust. For example, when a group of apparel brands approached the Cambodian government to increase minimum wage levels in 2014, they emphasised their long-term commitment to suppliers.

In the same way, promoting social dialogue to support wage negotiations often requires brands to reaffirm their commitment to suppliers. They should also fully understand the costs of relocating production as an alternative to retaining contracts with current suppliers. In the garment industry, for example, it may be that moving to a new supplier could be more costly per unit, when aspects including managing production on the ground, engaging quality teams and sampling are taken into consideration.

2.2.6 TAKE ACTION: REVIEW POLICIES AND CODES OF CONDUCT

Include requirements on achieving living wages in supplier codes of conduct, risk assessments and audit procedures. It is important for suppliers to understand that making a commitment to living wages is a prerequisite of doing business with you. We recommend reviewing, updating and communicating your living wage policy to suppliers, and providing training support.

To integrate living wage policies in existing codes of conduct and policies:

- Review your existing code of conduct and policies on wages, and identify opportunities to clarify your position
 - Specify that suppliers should comply with their country's legal minimum wage
 - Include a clause on living wages, making it a selection criterion for new suppliers; request that all suppliers have plans in place to close the gap between legal minimums and a living wage
 - Make it clear that your code of conduct applies to all workers in your supply chain, including outsourced, contracted and seasonal workers; remain alert to unauthorised subcontracting of production and take steps to prevent it
- Publish a statement acknowledging concerns about low wages, share your updated requirements, starting with your most strategic suppliers, and highlight your commitment to partnering with suppliers on this issue
- Collaborate with strategic suppliers to understand any barriers to achieving living wages, listen to their concerns and help them build the business case for action
- Together, estimate the proportion of workers in the lowest paid jobs and prioritise where to begin making wage increases
- Provide training support to help suppliers develop and implement strategies to improve wages in a sustainable way

Case study: World Banana Forum: Making wages an integral part of sustainable production discussions

The World Banana Forum (WBF) is focusing on improving wages through a dedicated working group on sustainable production. In this way, the issue is not considered exclusively under the banner of 'social compliance', but rather as a means to improve production and create value, including for workers. With labour accounting for a significant proportion of total production costs, the WBF is first identifying how best to measure labour input costs. It is also collaborating with major customers to negotiate fairer prices. For example, in 2014, Tesco made a commitment to supporting the payment of living wages to banana workers on farms where it is the sole buyer (by 2017). Ordering directly from these banana suppliers means that the retailer is able to pay, on average, 6% above the Fairtrade Minimum Price. Ensuring that workers see the benefit of this increase remains the subject of ongoing discussions with WBF.

2.2.7 TAKE ACTION: PROMOTE FREEDOM OF ASSOCIATION AND SOCIAL DIALOGUE

Empowering workers to voice their needs and negotiate wage improvements, and enabling positive social dialogue, are fundamental to achieving living wages. Companies will need to support their suppliers in establishing in-factory and sector-wide collective bargaining mechanisms, allowing workers to negotiate freely, fairly and without fear of punishment. ETI expects members to embrace this step as a necessary foundation for determining living wage levels.

Making freedom of association a reality

Encourage suppliers to allow trade unions to access workplaces and enable workers to join and form unions. Strengthen these efforts by collaborating with peers and other relevant stakeholders. Together, seek to establish collective bargaining as the principal means of ensuring that wages reflect the interests and needs of workers and factory managers.

In order to make this a reality:

- Request that suppliers support freedom of association by making it a prerequisite of doing business; ensure that they are supportive of workers' rights to collective bargaining, and that workers' representatives are protected.
- Deter suppliers from any behaviour or policies that prevent workers from forming or joining trade unions.
- Provide training to suppliers on freedom of association, social dialogue and transparent payment systems; help suppliers to find alternative ways to participate in wage negotiations, where local laws prohibit unionisation.
- Help suppliers to create workers' committees as a precursor to establishing formal unions (although this should not be viewed as a substitute). See ETI's social dialogue programme in Bangladesh: www.ethicaltrade.org/in-action/programmes/garments-bangladesh.
- Encourage suppliers to establish grievance mechanisms for workers and their representatives to help facilitate open discussions over any lack of progress on wage improvements and living wages.
- Help local and national employers' associations to gain the knowledge and skills to engage in social dialogue and collective bargaining.
- Monitor whether workers' rights to freedom of association are being respected; extend social compliance audits to include specific questions on whether trade unions and collective bargaining agreements are in place. However, bear in mind that audits are limited in their ability to reflect the true situation. Explore more participatory and meaningful ways of hearing workers' views. ETI's Knowledge and Learning Unit can help with this.

Catalyse sector-wide change

In some sourcing countries, it may be necessary to overcome policy barriers to social dialogue (eg where no collective bargaining framework exists to support it). You can contribute to multi-stakeholder initiatives (where they exist) convening national platforms for change, in order to reinforce your efforts to promote social dialogue and freedom of association among individual suppliers. Where possible, collaborate with relevant stakeholders to explore the potential for policy-makers to help expand social dialogue across your sector and beyond.

For example, Better Work, a joint programme of the ILO and International Finance Corporation (IFC) to improve workers' lives, has convened and encouraged multiple actors – local employers, policy-makers and trade unions – to support strong social dialogue. In Jordan, Better Work helped expand minimum wage discussions to include sector-wide efforts to promote collective bargaining, by gaining political support and following an established a process for all parties to negotiate effectively.



Case study: H&M scaling up Fair Living Wage and Social Dialogue

"More than two and a half years have passed since H&M launched its Fair Living Wage strategy and much has happened since. What started as a theoretical plan has now been turned into practical programs and activities with the aim to create a sustainable solution towards fair living wages in the supply chain. Looking back, we can see that many of our efforts have developed from pilots and projects into large-scale programs and broad collaborations.

We are scaling up the Fair Wage Method – 68 factories during 2015 and additional 78 factories during 2016, including Indonesia, India and Turkey – an exciting but also challenging endeavour. The Social Dialogue program continues as planned in both Bangladesh – reaching more than 40 percent of our suppliers' factories – and in China. In addition, we have also started off an equivalent program in India and we are looking forward to see the results from there. Our partnership with the ILO within our Industrial Relations project has resulted in an extended coverage of factories in Cambodia, and has also been launched in Ethiopia, with Myanmar standing next in line.

We are reassured by the positive results we have seen so far and are confident that our holistic and collaborative approach is the right way forward to create real and lasting change."

Anna Gedda Head of Sustainability, H&M

2.2.8 TAKE ACTION: IMPROVE SKILLS OF BUYERS AND SUPPLIERS

Building knowledge and skills both among suppliers and buyers is central to supporting improved factory management practices and pay systems, and encouraging buyers to adopt purchasing practices that create the enabling conditions for change.

Buyers may lack insight into the current costs of production, basing their negotiations on historic data. Similarly, suppliers may lack a comprehensive understanding of all relevant labour costs (such as wages) when calculating price per unit prices.¹¹ Some suppliers may not distinguish between total labour costs and wage costs.

In order to improve skills levels across the board: Valuing workers:

- Identify any gaps in skills and knowledge among suppliers and buyers, paying particular attention to gaps that could result in hindering progress on wage improvements.
 - Provide dedicated training to help improve suppliers' and buyers' understanding of how suppliers cost products.
 - Support buyers in developing responsible purchasing practices that respect suppliers' production capacities and do not create unintended wage difficulties. See ETI's 'Buying Ethically' course.
- It is vital that factory managers recognise and value workers as fellow human beings and shift their focus from purely managing production lines to managing people.
- Help factory managers to change their attitudes towards workers:
- Promote strategic people management and more transparent wage systems that reward and incentivise workers to gain new skills and improve their performance.
 - Explore different management strategies, shifting from harsh labour practices, whereby workers are viewed as a 'cost to be minimised' to more humane practices.
 - Encourage suppliers to recognise that investing in workers motivates and empowers them to perform better and be more productive.
 - Support training that improves communication and mutual respect between workers and supervisors, such as ETI's 'Equal Treatment of Workers' training.

¹¹ See other resources below for link to IEH's 'Decent Work Accounting' model

2.2.9 TAKE ACTION: SUPPORT GOOD HR, PAY AND PRODUCTIVITY SYSTEMS

At a practical level, help suppliers to offset wage increases by improving productivity and adopting more effective human resources and pay systems. It is important to encourage suppliers to focus on improving efficiency in the workplace, rather than simply making their employees work harder. Ultimately, boosting supplier productivity benefits both the supplier and your business.

Collaborate with suppliers to support smarter, more productive working practices:

- Encourage suppliers to develop good HR management practices and remove barriers to freedom of association and collective bargaining.
- Provide guidance for suppliers on the importance of transparent payroll systems and support them in implementing suitable systems.
 - Seek to ensure that pay rewards skills, qualifications and performance.
 - Help to create management systems that prevent suppliers from increasing work intensity in the wake of any wage increases.
- Partner with suppliers to initiate programmes aimed at improving productivity, ensuring that efficiency gains help to reduce the intensity of work and replace any systematic recourse to overtime. Where these gains deliver profit increases, encourage suppliers to share the value with workers via wage increases.
- Ensure that worker-management dialogue is maintained throughout any programmes of change.
- Offer incentives to suppliers with a credible improvement plan and clarify your intention of rewarding improvements with stable, longer-term contracts.

“Efficiency can mean technical efficiency, but also includes building efficiency through encouraging an improved worker-management dialogue, ensuring that any resultant gains are shared in an equitable way with those workers in the supply chain.”

Philip Chamberlain, Chairman, UK ETI (formerly C&A’s Europe and Head of Sustainable Business Development).





2.2.10 TAKE ACTION: ADVOCATE FOR CHANGE AT A NATIONAL LEVEL

Where possible, companies should collaborate with their peers and with employers and workers' representatives to influence government policies that support living wages, and advocate for inclusive processes for setting wages.

Partnerships of this kind have already proved effective in raising legal minimum wages. For example, the Wage Board in Bangladesh raised the legal minimum wage in 2013 (to \$68 a month)¹² after multiple requests from international brands. Similarly, eight brands requested that the Cambodian government raise the national minimum wage in 2014¹³.

In 2015, the minimum wage level in Cambodia rose to \$140 a month. The Fair Labor Association and ETI also convened companies sourcing from Myanmar to lobby the government not to exclude the garment sector from its minimum wage legislation. Importantly, the companies involved in both examples committed to continue sourcing from those countries despite the increased costs associated with improving workers' wages.

Taking action on living wages at a national level should include:

- Lobbying governments to create effective, inclusive mechanisms for reviewing and raising statutory minimum wage levels in line with rising living costs. Where appropriate, seek the support of your own government and/or international organisations such as the ILO, in lobbying for higher wages or frameworks to support minimum wage-setting.
- Calling for a better implementation of minimum wage laws and policies.
- Advocating for governments to respect and help facilitate freedom of association and collective bargaining, and promote social dialogue. As noted in 2.2.8 (Take action: Promote freedom of association and social dialogue p26), it is advisable for companies to strengthen individual initiatives to promote social dialogue by supporting industry and multi-stakeholder efforts to lobby policy-makers.

Companies will need to demonstrate their commitment to sourcing countries and suppliers by staying firm in supporting local economies, and continuing to source from those countries if legal minimums rise. We recommend avoiding any loopholes that might allow you to be exempt from paying local or national taxes. Similarly, it is essential to comply with national labour rights legislation and buyers' codes of conduct, and respect international human rights standards on wages.

¹² Source: <http://www.bbc.co.uk/news/business-24800279>

¹³ Source: <http://www.bbc.co.uk/news/world-asia-34474397>

2.3 Steps towards living wage – learning from experience

2.3.1 LEARN FROM EXPERIENCE: MONITOR PROGRESS

As you put your Living Wage Action Plan into practice, it is important to establish a robust means of monitoring progress. We recommend setting goals for progression on wages, tracking performance against clearly defined indicators, and reviewing results year on year.

Many companies rely on audits to do this. However, experience has shown that auditing is not the most effective way of tracking and improving human rights abuses such as the failure to pay living wages. Instead, seek participatory approaches to monitoring. These take more time and resources, but are more cost effective in the long run. They are also easier to apply if you have built strong, mutually respectful and trusting relationships with your suppliers.

Once you have gathered sufficient data, evaluate your progress, identifying what has worked well and what could be improved upon, and feed these lessons back into improving your strategy.

Figure 6: Suggested KPIs for living wages

Pay	Reputation
1. Average monthly take home pay – disaggregated by gender*	8. No. of applicants for new jobs
a. Wage as % of baseline	9. Customers reporting improved service
b. Wage as % of minimum wage	
c. Wage as % of prevailing rate	
Productivity & efficiency	Worker wellbeing
2. Worker productivity (“real output (gross value added) divided by total employed persons” - OECD)	10. Worker psychological wellbeing
3. Efficiency (how much product the factory actually produces against its theoretical capacity)	11. Average overtime hours worked per worker
4. % Worker turnover rate	12. Workers reporting ability to meet basic living costs
5. Worker length of service	13. Workers reporting ability to reduce debt/save
6. Worker absenteeism	14. % of workers reporting increased job satisfaction
7. Number of labour disputes disrupting production	Qualitative indicators
	15. Workers/trade unions reporting other changes as a result of improved wages
	16. Managers reporting other changes as a result of improved wages
	17. Customers reporting other changes as a result of improved wages

Figure 7: Self-assessment indicators, as recommended by Oxfam's 'Steps towards a living wage in global supply chains' report

Commitment & transparency	Sourcing & supply chain	Worker representation & bargaining	Government advocacy & collaboration
The Board has discussed the issue of a living wage and the drivers for action in the last year. The company has an explicit commitment to a Living Wage in its Sourcing Policy.	The company identifies sourcing areas which are 'high risk and high leverage' for low wages, based on credible benchmarks of a living wage.	The company shows understanding that Freedom of Association and Collective Bargaining underpin respect for all labour rights, and identifies high risk countries for denial of these rights.	The company works with others to understand wage gaps, their root causes and implications.
The company pays a Living Wage to its own employees and contracted workers.	In the company's supplier grading system, non-payment of a living wage is considered a non-compliance.	The company shows understanding that women face greater barriers than men to earning a living wage, and what these are.	The company is a member of a credible multi-stakeholder initiative with a focus on labour rights, where available.
The company has a plan to address low wages with short- and longer term objectives, and publishes this.	The company works with suppliers to maintain wage data on (female/ male) workers, including social security, overtime premiums and annual leave.	The company engages in dialogue with trade unions and civil society organizations, including in key sourcing countries.	The company is aware which key sourcing countries lack an inclusive minimum- wage setting process and effective regulation.
The company assesses the proportion of 'low road' jobs in its supply chain and sets targets to increase the amount in 'medium' and 'high road' categories.	The company requests a cost price breakdown with labour costs separated out and excludes these from price negotiation.	The company does not source from Export Processing Zones or similar where trade union activity is restricted in law.	The company commits not to move sourcing to countries with a lower minimum wage and/or weaker regulation.
Senior executives have relevant targets as part of their objectives. The company discloses the ratio between CEO and average pay.	The company includes purchasing practices in its supply chain and sustainability plans.	The company takes steps to ensure workers are aware of their rights. It ensures grievance mechanisms are trusted and used by workers.	The company advocates to governments the need for inclusive minimum wage setting processes and effective regulation.
The company publishes its supply chain. It reports the proportion of workers who a) have a written contract b) earn a living wage and b) have the opportunity to join an independent union.	The company rewards suppliers which have a credible plan to raise low wages, via commercial incentives and long-term contracts.	The company has a programme to improve worker/ management dialogue (on working conditions) and social dialogue (on employment conditions) and reports progress.	The company's efforts to address labour rights issues have received positive feedback from a trade union or NGO representative.

2.3.2 LEARN FROM EXPERIENCE: SHARE LESSONS

Share your experiences and the lessons you have learnt with ETI and ETI members and industry peers, in order to help catalyse change at a systemic level and prompt industry-wide progress towards living wages.

In particular, where you have helped to develop effective practices, we invite you to share them at a sector or country level, or within other countries. Similarly, it is important to contribute to industry discussions on living wages on an ongoing basis.

Annex I Underlying causes of low wages

Analysing the root causes of low wages means understanding issues across multiple dimensions: in the value chain, within the country's national labour market, and at factory level.

IN THE VALUE CHAIN

Firstly, the balance of power in the value chain continues to shift further towards brands and retailers, leaving many suppliers with fewer options, and less decision-making flexibility, than their buyers. Without the requisite enabling commercial conditions to support wage improvements, suppliers may favour keeping wages low.

Many business models function on the premise of low wages, whereby the true cost of paying workers is overlooked, and is ultimately borne by the most vulnerable actors in the value chain. These are typically women, who tend to be the lowest paid workers. Remaining trapped in a cycle of poverty, they are often unable to provide for themselves and their dependents, and are likely to take on financial debt.

Additionally, wages are more likely than other 'fixed costs' (such as materials, transport or energy) to bear the brunt of suppliers' efforts to remain competitive. For example, if suppliers reduce 'Free on Board' (FOB) prices, workers' wages may absorb the impact. This makes wages particularly vulnerable to the unintended consequences of buyers' purchasing practices. As noted in 2.2.9 (Take action: Improve buyers' and suppliers' skills), some buyers may base their negotiations on historic prices, without realising the current cost of production.

Overall, there is little awareness of the potential business benefits of raising wages (such as improved productivity and contractual stability). This requires greater clarification among all parties.

THE NATIONAL LABOUR MARKET

At a country level, legal minimum wages often remain low, with infrequent reviews and little opportunity for workers' and employers' representatives to contribute to wage discussions. With no framework for collective bargaining, workers' voices may go unheard. In particular, women workers with low-skilled, poorly paid roles may also lack sufficient representation. If low-skilled labour represents a significant proportion of the labour market, employers may opt to keep wages low, leaving few better paid alternatives.

Further, minimum wages often target 'formal' workers rather than casual or outsourced workers, meaning those with the most insecure roles may not benefit from minimum wage increases. Some policy-makers may hesitate to increase legal minimum wage levels in case it leads to increased unemployment (with employers unable to operate profitably after increasing wages for low-skilled workers).

Where wages are increased, such as in Bangladesh in 2013, there is a risk that workers may still struggle to cover their living costs, as landlords and shopkeepers often raise rents and prices accordingly. However, it is important to note that wage increases can lead to economic growth when workers with improved incomes begin to spend more locally.

FACTORY LEVEL

Many elements influence wage-setting at the factory level, including working hours, transparency of pay systems and processes to review wages. For example, without clear and fair mechanisms to record working hours, under-payment of overtime can give rise to significant wage deficits.

Wage structures that remain unlinked to workers' skills or factory performance may not compensate (or encourage workers to gain) new skills. In particular, where 'piece rates' rather than 'day rates' are used to incentivise performance, workers may be vulnerable to excessive overtime. Indeed, many workers, particularly in the Asian garment industry, may depend on working overtime to make up for insufficient wages. Additionally, the tendency to focus on work intensity over efficiency often leads to lower productivity. Where factories do benefit from productivity gains, they may not necessarily share the value with workers through their wages.

Finally, where workers are offered in-kind benefits (such as housing and food), there is a risk that workers become dependent on their employer, limiting their options, or that the benefits are not of sufficient quality. For example, in the Indian tea sector, workers rely on their employers for housing, education, healthcare and food rations, leaving them powerless to change their circumstances or seek alternative employment.

Annex II Further information and useful resources

ETI resources

- ETI website: www.ethicaltrade.org
- The ETI Base Code: <http://www.ethicaltrade.org/eti-base-code>
- Living wage issues: <http://www.ethicaltrade.org/in-action/issues/living-wage-workers>
- Living wages in global supply chains: A new agenda for business: <http://www.ethicaltrade.org/news-and-events/news/etis-launch-new-briefing-living-wages>
- Base Code Guidance: Freedom of Association in company supply chains. <http://www.ethicaltrade.org/resources/freedom-association-in-company-supply-chains>
- Base Code Guidance: Working Hours. <http://www.ethicaltrade.org/resources/base-code-guidance-working-hours>
- ETI's due diligence framework see www.ethicaltrade.org/resources/due-diligence-framework
- New guidance and training on purchasing practices and sourcing strategies, see www.ethicaltrade.org/issues/company-purchasing-practices

Other resources

- International Labour Organization standards on wages: <http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/wages/lang--en/index.htm>
- 12 Fair wage dimensions: www.fair-wage.com
- Living Wage Employers: Evidence of UK Business Cases by the University of Strathclyde and the Living Wage Foundation: <http://www.livingwage.org.uk/news/new-evidence-business-case-adopting-living-wage>
- ETI Norway's Decent Work Accounting model: <http://www.wellmade.org/wp-content/uploads/2016/02/Final-Integrating-ethical-trade-principles-in-core-business-practice-Wellmade1.pdf>
- Oxfam's Steps towards a living wage in global supply chains: <http://policy-practice.oxfam.org.uk/publications/steps-towards-a-living-wage-in-global-supply-chains-336623>
- European Conference on Living Wages (action plan): <http://www.coc-runder-tisch.de/index.php/en/european-conference-on-living-wages/about>





Training resources

ETI offers practical, interactive workshops on a range of issues. These are run as open courses and are usually held at ETI's office in London. Alternatively, we also offer tailored, in-house courses, which can be more cost-effective. Courses of particular relevance to living wages include:

- 'Worker voice and representation': You learn the importance of promoting freedom of association and collective bargaining in ensuring that workers in global supply chains exercise their rights. We share how to make this a reality, including how to collaborate with suppliers, trade unions and other stakeholders to strengthen worker representation.
- 'Buying ethically': We help you understand how your purchasing practices can support ethical trade. In particular, you develop a practical, risk-based approach to managing ethical issues and identifying opportunities to integrating ethical trade into buying.
- 'Working hours': You gain a clear understanding of the revised working of the ETI Base Code working hours clause, as well as the background to the provisions and timescales for putting them into practice. We also hold an open discussion about challenges and potential impacts in the supply chain.
- 'Equal treatment of workers': This practical training helps you build respect and promote equal treatment for workers in your organisation. Through interactive discussions and drawing on your own experiences, we help you understand how to create a workplace where people feel motivated and perform better.

Finding local collaborative partners

Joint ETIs' 'Local Resources Network'

The ETIs of Denmark, Norway and the UK operate the Local Resources Network, an online platform joining local stakeholders and companies, global brands and trade unions in country-based networks. It is designed to connect companies that source and produce goods for international markets with people and organisations that have the local knowledge, experience and skills necessary to improve workers' lives.

For more information see: www.localresourcesnetwork.net

Trade unions

The following links to key global union federations will help you connect with in-country trade unions and national federations:

- IndustriALL - www.industriall-union.org/affiliates
- International Trade Union Confederation (ITUC) - www.ituc-csi.org/IMG/pdf/list_of_affiliates_15th_gc.pdf
- International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF) - www.iuf.org/w/?q=node/3439
- International Transport Workers Federation (ITF) - www.itfglobal.org/en/about-itf/itf-affiliates/
- Council of Global Unions - www.global-unions.org/-about-us-.html

The Ethical Trading Initiative (ETI) is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. Our vision is a world where all workers are free from exploitation and discrimination, and enjoy conditions of freedom, security and equity.

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