Living Wage: FWF policy and practice

One of Fair Wear Foundation’s core labour standards is the payment of a living wage:

Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income. (ILO Conventions 26 and 131). Deductions from wages for disciplinary measures shall not be permitted nor shall any deductions from wages not provided for by national law be permitted. Deductions shall never constitute an amount that will lead the employee to receive less than the minimum wage. Employees shall be adequately and clearly informed about the specifications of their wages including wage rates and pay period.

From the FWF Code of Labour Practices

Companies affiliated to FWF want to make sure that they source from companies that produce under decent working conditions in accordance with their corporate responsibility to “respect”. This responsibility has global implications and also applies to countries where local governments are unwilling or unable to adhere to international labour standards.

Wages are an essential element for workers’ well being. Living wage as a code requirement is introduced in line with the ILO Constitution. In many countries the legal minimum wage is not enough for a decent living.

In the FWF Code of Labour Practices, a living wage is defined as a wage paid for a standard working week meeting basic needs of workers and their families and to provide some discretionary income. ‘Basic needs’ further includes costs like housing (with basic facilities including electricity), nutrition, clothing, healthcare, education, drinking water, childcare, transport, and savings. The best way to determine an actual amount is through a continuing process of sound social dialogue between local social partners.

---

1 John Ruggie, Special Representative of the UN Secretary General for Business and Human Rights in his report: Protect, Respect and Remedy: a Framework for Business and Human Rights, 2008

2 ILO Constitution Preamble: (…) “an improvement of those conditions is urgently required; as, for example (…) the provision of an adequate living wage”. Annex, Declaration concerning the aims and purposes of the International Labour Organization, III: “The Conference recognizes the solemn obligation of the International Labour Organization to further among the nations of the world programmes which will achieve (…) (d) policies in regard to wages and earnings, hours and other conditions of work calculated to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection.”
Together with other multi-stakeholder organisations, FWF developed a wage ladder tool, mapping wages per country. The ladder graphically shows how paid wages relate to several benchmarks in a specific country. These benchmarks contain both “real” figures, like the international poverty line, minimum wage and best practices among garment factories, as well as calculated figures as to what a living wage would be for the country (or region) in question. These calculations are made by government bodies, trade unions and/or NGOs.

The Wage Ladder shows regular wages (for a normal, fulltime working week) as well as regular wages plus overtime payments and benefits. In the graph, information is given for several categories of workers (sewing, cutting, ironing, packaging, storage, quality control). For each category the lowest wage, the highest wage and the mode are shown. Together with information on the composition of the workforce (male/female) per category, this tool can also provide insight in potential discrimination or wage gaps between men and women.

For each country where FWF is active, a basic wage ladder has been developed, containing the benchmark wages. In some cases wage ladders for specific regions are provided. The new FWF country studies published from 2011 on will contain this basic wage ladder and are made available on the FWF website.

The basic wage ladder for each country will be completed with information on wages in factories. The information is collected by local FWF audit teams during factory audits. Each audit report will contain a wage ladder that maps the wages paid by the factory for the different categories of workers against the country’s general wage ladder (see image above). This information can be used by companies to compare wage levels in the factories of their suppliers.
Suppliers to FWF affiliates are required to have a transparent wage system in order to be able to control what wages are paid to whom.

Suppliers to FWF affiliates are required in the short term to pay at least the best practice wage or the legal minimum wage – whichever is higher - as the regular wage.

FWF affiliates are required to use the information from the wage ladder in the negotiation with the supplier on prices. In those cases where wages are below living wages, they should make sure that the prices offered make it possible to increase wages. This means suppliers should disclose unit wage costs. FWF recommends that factories and buyers work together on improving wages, based on open book (labour) costing.

When wages are below the legal minimum wage, urgent action by the factory and the FWF affiliate is required. A time-bound corrective action plan which specifies responsibilities of the involved parties has to be implemented without delay.

To increase the actual wage level towards living wages, a comprehensive approach is called for. FWF affiliates are required to discuss the necessary wage increases with its suppliers.

The first required step is to move to the first line up in the wage ladder. Improvement needs to continue until a level is reached that has been set in a Collective Bargaining Agreement – if there is one. In the absence of a reliable Collective Bargaining Agreement in Asian countries, the Asia Floor Wage will be the standard that needs to be worked towards.

Below are some elements and recommendations for a comprehensive approach:

- Where possible, FWF affiliates are advised to work with other buyers with whom they share a supplier.
- The wage ladder graph helps to point out priorities. The ladder will show whether a whole category is below a line, or only the lowest paid. It will also show if all categories are below a certain line, or only some. It helps to set goals.
- Preferably the steps to be taken towards a new wage structure are negotiated between the management and worker representatives. If this is not possible or if support is needed, the FWF affiliate could consider offering support.
- A new wage structure requires the support of other buyers from the same factory. FWF affiliates are encouraged to work together with other buyers with whom they share the supplier. An alternative approach would be for suppliers to calculate one single wage structure for the entire workforce based on their assumptions about the percentage of volume supplied to customers who support the increase.
- For sustained wage increases, FWF affiliates should support their suppliers with clear commitments about volumes and duration of
orders and through consolidating the relationship, for example by offering preferred supplier status.

- The buying company has the responsibility to pay a price that gives the supplier a possibility to provide a living wage. The rising wage costs should be a shared responsibility between buyer and supplier. Additional activities to enhance productivity and to control overtime might be necessary to provide for a sustainable situation. This should be accomplished without putting extra pressure on workers.

- Furthermore it is of utmost importance to communicate with workers and their representatives and consult them on processes to improve their wages. Workers need to understand new wage entitlements so as to be able to monitor them. Stimulating and facilitating social dialogue and effective worker representation is necessary to communicate about the progress up the wage ladder.

FWF affiliates are required to monitor the implementation of a living wage and publish the results. During a management system audit of the affiliate, FWF will assess the steps the affiliate has taken towards payment of living wages at its suppliers. The general results of the management system audit will be published in a report which can be found on the FWF website.