

Guide to Implementing Living Wages





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What is a living wage and who is responsible for implementing it?

We are used to clothes that are far too cheap.

The race to the bottom has led to insufficient wages becoming a fundamental human rights issue in the clothing industry.

According to the UN Guiding Principles on Business and Human Rights governments have the duty to protect human rights and businesses have the responsibility to respect human rights. In other words, in countries where the legal minimum wage is insufficient, the responsibility for ensuring human rights concerning the employees' income is on the companies that produce clothing in that country.

Risks in the clothing industry are widely recognised and an increasing number of companies have started to minimise their negative impacts. However, workers' voices are not heard enough in the industry.

This guide is meant as a tool for companies which do not only want to minimize their negative impacts but also want to actively secure their workers' rights and income.

Tackling structural issues starts with due diligence, which is further explained on page X under "Responsible production in high-risk countries". Corporate sustainability is about gathering information and knowing the production chains. A company producing in high-risk countries can encounter situations where requirements for working hours or wages can feel unfit for the local context. These situations unfortu-

nately do not have a simple solution, but change begins when even one company decides to do things better.

Poverty caused by insufficient wages creates problems. For example, it is one of the root causes for child labour. The price of sustainable production is defined by how much the worker needs to earn in order to afford a decent standard of living. There are calculation models for a living wage which offer solutions to this, and there is more information about these on page X under "Wage models and tools".

Clothing brands and retailers hold most of the power and market value of clothing value chains, whereas factories are left with the responsibility to abide by demands and ensure good working conditions. The workers have the least power to affect their working conditions and they may not even receive information about audits done in the factories.

But solutions also exist. Overseeing the working conditions of hundreds of subcontractors is a challenge for any company. Centralising orders provides better opportunities to promote human rights and environmental responsibility.

Mandatory Corporate Sustainability Due Diligence Directive would increase pressure on clothing brands to ensure responsible production. A company that is ambitious in its responsibility will not wait for legislation, but will get to work immediately.

The COVID pandemic

The global pandemic showed how vulnerable garment industry workers are and shed light on the risks that come with the chronically low wages in the industry. Especially the temporary decrease in demand at the beginning of the pandemic caused widespread cancellation of orders and laying off workers without any compensation, but news of workers' rights violations continue to come out.¹

A living wage also means that workers have the opportunity to save money for more difficult times, such as those caused by the COVID pandemic.

Going forward, clothing brands need to not only ensure their own operations' sustainability but also their workers' income in crisis situations. Committing to and concretely promoting living wages is a mandatory precondition for this.

Responsible production in high-risk countries

A high-risk country is one where there is an elevated risk for human rights violations. Countries which do not have the right of freedom of association either legally or in practice are always high-risk countries. The Clean Clothes Campaign and Fair Wear Foundation have country profiles to help recognise high-risk countries.

To collect information about the adverse effects and risks related to human rights, it is important for companies to turn to the rights-holders who must endure the real or potential impacts. In this case, the rights-holders are garment factory workers and raw material producers.

Companies must consider the possible barriers that may prevent the rights-holders efficiently participating in sharing information. If consulting the workers or farmers is not possible, the company must consider other options such as trustworthy and independent experts, such as human rights defenders, trade unions or third sector operatives.²

The first step: Committing to living wages

- Committing to living wages.
- A Code of Conduct, meaning an ethical guideline which contains the company's own responsibilities, such as committing to sustainable purchase practices.
- A supplier Code of Conduct defines what a company demands of its partners.
- Steps and stages towards obtaining the goal.
- Monitoring progress and transparent reporting.

The second step: Complying with human rights due diligence

Evaluating human rights impacts according to due diligence means evaluating one's own actions' negative impacts and preventing these, as well as repairing previous or ongoing harms or flaws.

- Mapping where the operations are and what risks are related to one's own value chains as a whole.

- High-risk country lists as well as the Clean Clothes Campaign and Fair Wear Foundation's country profiles and tools offer information about the garment industry.

- Surveying calculations for living wages in the area.

- Surveying whether freedom of association and collective bargaining are ensured.

- Writing the demands connected to supplies as a purchase handbook or guide.

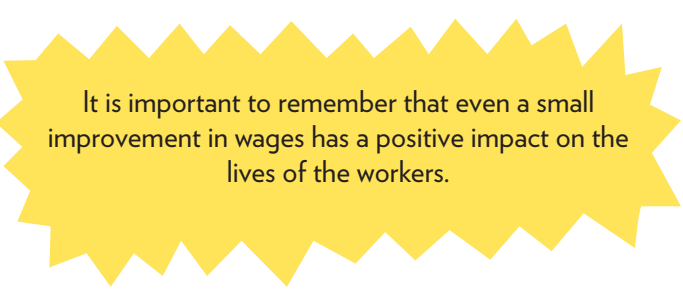
- A discussion with the subcontractor based on the purchase handbook about the expectations and demands as well as realistic possibilities for implementing these: the wage levels in use with the subcontractor and how they are related to the calculations for a living wage in the area, production locations, possible subcontractors, problems that have arisen in previous audits, as well as the origin of raw materials. The person responsible for company's sustainability work should be a part of this discussion. The subcontractor's willingness to have this discussion and provide information is a requirement for future cooperation.

- Understanding the partner's expenses and capacity helps to calculate the costs of reaching living wages.

Calculating a living wage

There are several models for calculating a living wage. Calculations developed by researchers, NGOs and trade unions are excellent tools for starting this work.

Companies should find out if its suppliers or the factories they use have a calculation for living wages in use. If they do, what is the calculation in use, what are the wage levels and is the lowest one also a living wage.



It is important to remember that even a small improvement in wages has a positive impact on the lives of the workers.

What is a good calculation model?

1. Transparent in its methods and conclusions.
2. Regularly checked so that inflation of basic commodities and raising costs are considered.
3. It must be based on negotiations with national or regional trade unions so that wage competition within areas or countries does not increase.
4. It must be sufficient to cover a decent standard of living for a family and ensure small savings (recommended amount 10 %).
5. The living wage must be the minimum, not the maximum salary. The calculation is meant to ensure all employees a sufficient minimum wage.

A living wage must be earned within regular working hours without overtime. Working hours should not be over 48 hours a week.

Wage models and tools

- [Calculations](#) for a living wage by the Global Living Wage Coalition for different countries including urban and rural areas. The Anker Methodology used by the GLWC emphasises the participation of locals and local organisations to increase its credibility and acceptance by stakeholders.
- [The Asia Floor Wage Alliance](#) (AFWA) is a coalition of trade unions and workers' rights activists which promotes a common living wage model for Asian countries.
- [The Europe Floor Wage](#) published by the Clean Clothes Campaign in the spring of 2020 has defined for the first time a living wage for countries in Europe producing garments with poverty wages. The calculation is based on the Asia Floor Wage calculations.
- The Fair Wear Foundation's [Wage Ladder](#) compares living wage calculations as well as trade union wage demands where available.
- See also the Clean Clothes Campaign's [Fashion Checker](#), which contains information about company transparency and living wages.



Example: The Anker Methodology

One of the most used living wage calculation models is the Global Living Wage Coalition's Anker Methodology, which contains two main components. The first evaluates the costs of a decent life for the employee and their family in a specific city or region. The second part defines whether or not the employees are paid in accordance with this evaluation.³

The method requires that new information is collected locally and it is combined with available subsidiary information. The calculation collects local information about the prices of food, housing, education, healthcare and transportation.

A living wage is made up of three parts: food, housing and other necessary costs.

Costs of food are evaluated so that they a) enable a cost-effective and nutritional diet which has calories and nutrients according to recommendations by the World Health Organization and which is in line with local culinary habits and the country's level of development and also b) consider the local price of food and what the workers usually buy.

Costs of housing are evaluated by using international and national standards for decent living. These standards include for instance permanent walls and roofs that do not leak, sufficient ventilation, electricity, water, sanitation and adequate space so that parents can sleep separately from children. The cost of decent housing is evaluated by visiting local homes with employees.

Other necessary costs include healthcare, education and transportation.

The methodology requires transparency, detailed documentation and analysis to ensure that the evaluation for a living wage is solid and believable.

What should be known about wages?

Different wage levels in factories

What are the wages for different tasks and what is the lowest wage? What bonuses are included in the wages? The lowest basic wage at the factory must be a living wage.

The ratio between purchase prices and wages

How much does it cost to produce the product and what is paid to the worker? Understanding the portion of labour in the purchase price is the first step towards implementing living wages.

A living wage does not include a worker's mandatory expenses, such as work clothes, protective gear, mandatory trainings (for instance for work health and safety) or equipment required for work.

Payment delays and long payment terms to suppliers may negatively impact the production facilities and their ability to pay employees on time. Most garment workers have minimal savings and even a short delay in wage payment may cause serious issues.

- **Regular work hours:** Is the living wage obtained within working hours in accordance with legislation?

- **Wage discrimination:** Are employees paid the same wage for the same or similar work?

- **For a rainy day?** Can employees save money? The recommended amount is 10 %.

- Are there **part-time workers** at the factory and how are their wages calculated?

- Are **wages paid per item** according to how much work is done and is it possible for a worker to complete the number of items in an 8-hour day to ensure a living wage?

The risk of forced labour

There are a lot of migrant workers in the garment industry and they are usually especially vulnerable. For example, it is common for these employees to have to pay illegal recruitment costs.

Does the factory employ migrant workers or other workers hired through recruitment companies? Find information about wages paid by these recruitment companies and any possible recruitment costs!

Example: Cost per minute

In a garment factory, pricing can be defined by cost per minute calculations. Using one minute as a unit is a sign of the time pressure under which garment factories operate. The work minute is calculated by dividing the factory's annual costs (salaries + general expenses) with the sewers' annual work time (in minutes).

The Fair Wear Foundation's calculation uses cost per minute and cost per item numbers to show how much more it would cost to enable a living wage per shirt which takes 30 minutes to sew. The model allows us to calculate the expenses of different living wage calculations. In the Fair Wear Foundation's example, the labour costs of one shirt increase by €1-3.48, depending on which living wage calculation is used.⁴

It is recognised that the challenge in this model is that the prices of the whole chain are usually defined by the price of the completed product and a more expensive FOB price (Free in Board) would increase prices in the entire chain. However, living wages should not only be considered expenses to be cut back on, but they should be seen as a human right which companies have the responsibility to respect.

Audits and responsibility systems

When producing in high-risk countries, third party audits are an important tool for companies.

Their criteria and quality should however be examined critically.

- **Non-sufficient wages usually show up as overtime in audits.**

- **Purchase practices which support reasonable working hours:** What production lines are used in production and how long does it take to complete an order?

- **Year-round orders:** Is it possible to balance the orders between seasons to ease the supplier's workload or to reserve a specific capacity in advance?

- **Work hour monitoring:** How much overtime is done?

- **Who is responsible for delays?**

- What calculation model for living wages is used in the audit?

- The results of the audit and plans for improvements are shared with the factory and worker representatives. The schedule for the improvements is defined and reasonable.

In addition to audits, it is beneficial to also use other tools, such as direct discussions with subcontractors and cooperation with NGOs and trade unions.

Companies should also recognise [issues](#) in the auditing business.



Towards living wages

A company which produces clothes in high-risk countries must actively make sure that human rights are complied with in its value chains.

For this guide, we have interviewed representatives from two Finnish companies which produce clothes in high-risk countries: Globe Hope produces clothes through a Finnish procurement company in Bangladesh and Pure Waste produces clothes in a factory in India owned by one of its Indian shareholders.

With these examples which bring transparency and concrete facts into the discussion, we wish to encourage companies which produce in high-risk countries to increase transparency and also provide tools for going towards living wages. Responsible production in high-risk companies cannot be achieved by just doing one task in Finland – instead it requires persistent work.

Globe Hope: mapping the situation

Number of tier 1 suppliers: 25

Countries: Finland, Estonia, Lithuania, Bangladesh

Crosswear Industries Ltd

Owner: Mr. Shaikh Badul Akter Zahid

Start of cooperation with Tuli Trading: 2018

Number of employees: 1,800

Average age: 23

All employees have a direct work contract with the factory.

Gender distribution: approx. 50 % male, 50 % female

Globe Hope is known for its recycled fashion and in the autumn of 2020 they started a clothing line which had been produced in Bangladesh in cooperation with the Finnish procurement company Tuli Trading. In this example, we will only look at wages for the production occurring in Bangladesh.

Bangladesh is the world's second largest garment producer with its over 7,000 factories.⁵ Low wages and vast amounts of overtime are a structural issue in the industry. The minimum wages for the textile industry have been defined in Bangladesh in 2018 with an eight-part wage system. The lowest wage level for an assistant is 8,000 takas and the highest wage level for a pattern master, quality controller or mechanic is 18,000 takas. Regular work hours are from 8AM to 5PM (with one hour for lunch), but it is common to work overtime.

Out of Globe Hope's entire production in 2020 (including bags and accessories), 6.3 % comes from the Crosswear Industries Ltd factory in Bangladesh. Tuli Trading buys around 13 – 15 % of the factory's capacity, of which Globe Hope's share is around five percent. Globe Hope's clothing line was produced by two producers in 2020: Crosswear's percentage was 88 % and Hera Sweaters' 12 %.

Most of the legally mandated wages paid at the factory are under the level of the most known living wage calculations. Only the highest wage level (under 13 % of the factory's workers) is a living wage according to the Global Living Wage Coalition. During the writing of this guide, Globe Hope and its partner Tuli Trading has inspected the factory's wage levels. A central challenge in reaching the level of living wages is that Globe Hope only purchases 5 % of the factory's capacity, which means generating work for only some of the factory's 1,800 workers only some of the time.

Dialogue with the company and cost per minute calculations also enables calculating a living wage for a single buyer. This model has been taken into use by the Swedish Nudie Jeans in some of its production chains.⁶ The bonus they pay is distributed to all employees despite whether or not they produce Nudie Jeans products. The bonus does not yet ensure a living wage, but it has improved the workers' income.

Due to the writing of this guide, Globe Hope and Tuli Trading have started a dialogue with the factory to go through available options.

Recommendations

- Globe Hope must commit to living wages and make a plan for how to achieve this goal.
- Globe Hope must report transparently about progress in this work.
- As a procurement company, Tuli Trading has the opportunity to bring together buyers that want to promote living wages at the Crosswear Industries factory.
- Globe Hope and Tuli Trading should continue their dialogue with the head of the factory and pilot practices connected to wages, such as a premium paid in addition to the FOB price.

Pure Waste: making an impact through centralising purchases

Number of first tier suppliers: 4
Countries: Bangladesh, India, Finland and Estonia

Vardhan Apparels LLP

Owner: Vardhan Apparels LLP

Start of cooperation: 2013

Number of employees: 105

Average age: 31

All employees have a direct work contract with the factory.

Gender distribution: 80 % men, 20 % women

Pure Waste is known for making garments of recycled fibres and they have produced clothes in a factory in Tirupur, India since 2013. The owner of the factory is also a part-owner of Pure Waste. In 2021, 44% of Pure Waste's clothing line came from this factory. Usually almost all of Pure Waste's production occurs in the Tirupur factory, but in 2021 the COVID pandemic caused an increase in production in Finland and Estonia.⁷

The textile industry is the third largest employer in India⁸, where around 45 million people work in the clothing and textile industries. The legal minimum wage of INR 9,448 is under the level of most known living wage calculations and unofficial working relationships are a problem especially with seasonal or migrant workers. Working hours at Vardhan Apparels LLP are from 8:30 AM to 5:30 PM with two tea breaks at 10:30-10:45 AM and 3:30-3:45 PM, as well as a one-hour lunch break at 12:30-1:30 PM. According to Pure Waste no overtime is done at the factory.

Because the factory owner is also a shareholder in Pure Waste, there's a good possibility for Pure Waste to receive information about the day-to-day work at the factory, have an impact on the wages and maintain an open dialogue. The highest wage level at the factory is INR 36,750 and this is paid to one employee. The lowest wage level is almost double that of the legal minimum wage, but it is still under the level of three well-known living wage calculations. The lowest wage level is paid to eleven employees.

According to Pure Waste, the factory has received the highest overall rating of A from an Amfori BSCI audit in 2021. Also the performance area regarding wages and working hours received the rating A.

Recommendations

- Pure Waste must commit to living wages in all wage levels and conduct a plan for obtaining this goal.
- Pure Waste must report transparently about progress in this work.

Wage comparisons

	India (Tirupur)	Bangladesh (Satellite Cities and Districts Surrounding Dhaka, Bangladesh, Urban Bangladesh)
Living wage according to Asia Floor Wage	INR 29,323 (2020) Asia Floor Wage	BDT 48,280 (2020) Asia Floor Wage
Pure Waste / Vardhan Apparels LLP	Highest wage levels INR 30,250 – 36,750 3 employees	
Pure Waste / Vardhan Apparels LLP	INR 20,500 – 27,300 34 employees	
Pure Waste / Vardhan Apparels LLP	INR 17,850 – 19,000 9 employees	
Pure Waste / Vardhan Apparels LLP	Lowest wage levels INR 15,500 – 17,500 59 employees*	
Living wage according to Global Living Wage Coalition	INR 17,775 Updated in August 2021 Tirupur, Tamil Nadu rural	BDT 17,926 Updated in August 2021 Living Wage for Satellite Cities and Districts Surrounding Dhaka, Bangladesh, Urban Bangladesh
Legal minimum wage (cutting + sewing)	INR 9,448	BDT 8,000
Globe Hope / Tuli Trading / Crosswear (Grade 1-2)		Highest wage level BDT 18,000 250 employees (12.81%)
Globe Hope / Tuli Trading / Crosswear (Grade 3)		BDT 14,500 99 employees (5.07%)
Globe Hope / Tuli Trading / Crosswear (Grade 4)		BDT 12,000 727 employees (37.24%)
Globe Hope / Tuli Trading / Crosswear (Grade 5)		BDT 10,500 727 employees (16.09%)
Globe Hope / Tuli Trading / Crosswear (Grade 6)		BDT 9,000 314 employees (9.99%)
Globe Hope / Tuli Trading / Crosswear (Grade 7)		Lowest wage level BDT 8,000 367 employees (18.8%)

Wages without bonuses or overtime. Globe Hope / Tuli Trading wage information from 2021. Pure Waste wage information from 2022.

*The lowest wage level (INR 15,000) has 11 employees.

Frequently asked questions

What is a high-risk country?

A risk country is one where there is an elevated risk for human rights violations. Countries with no legal or practical right of freedom of association are always risk countries. Find out more through the Clean Clothes Campaign and Fair Wear Foundation country profiles. Amfori BSCI also has a list of risk countries (the list does not include European low-wage countries).

How does raising wages impact the product's FOB price?

Paying a living wage only raises the FOB price by a little (See: Example: cost per minute). The more stages there are in a value chain, the more the increase to the FOB price to a living wage level can grow.

What if you only buy a small portion of the subcontractor's capacity? Does a higher price have any effect in such a case?

A central challenge for a company which only buys a small portion of a factory's capacity is that only a part of its employees participates in making the clothes and paying higher production costs does not necessarily ensure living wages. Paying a premium and distributing it to employees requires solid cooperation with the factory.

It is still good to remember that even a small addition to employee wages is a concrete improvement in their income. In a broader sense, from the subcontractor's (for example the factory owner's) point of view, the employees' improved wages can generate better work efficiency and quality.

What if the factory or supplier does not want to discuss this?

If despite multiple efforts the partner does not provide information or is not open to dialogue on realisation of human rights, it is impossible to ensure these for your company.

Is it not enough to follow legislation with wages?

No. The legal minimum wage can be a third or even a fifth of a living wage.

Does cooperation with other brands violate European competition laws?

Legislation provides leeway in order to promote living wages.⁹

What if the production country does not have freedom of association?

Countries with no freedom of association are automatically high-risk countries. Companies that produce in high-risk countries must be especially diligent and transparent and understand the workers' conditions. In many high-risk countries, workers have less opportunities for collective bargaining in wages and working terms. The company must therefore make sure that workers' rights are protected even though there is no independent trade union as a negotiating partner.

References

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