

A vibrant green tea plantation on a steep hillside. Several workers are visible, some carrying large white sacks, likely filled with harvested tea leaves. The tea bushes are neatly arranged in rows, and a dirt path with stone steps leads through the plantation. In the background, there are tall trees and a small building with a yellow door.

Addressing inequality and reducing poverty

Closing the Living Wage
Gap in Supply Chains



the sustainable
trade initiative

As sustainability efforts grow and evolve worldwide, so does the understanding that wages and working conditions are at the core of sustainable supply chains. Improving these conditions can mitigate the violation of human rights and reduce poverty, but taking the first steps can be challenging.

In the last five years, IDH has worked with many partners on several approaches to close the living wage gap.

For example, we have played a key role in two historical supply chain efforts on living wage. IDH facilitated Malawi Tea 2020, the first nation-wide program on living wage in a producing country and we coordinated the Retail Commitment

on Living Wage Bananas, the first nation-wide project on living wage in a buying country.

IDH provides guidance on measuring the living wage/living income gap, tests and designs specific strategies to close it, facilitates sector commitments, partners with individual companies, and connects, shares and spreads the knowledge gained.

How can you contribute towards improving inequality and reducing poverty?

This paper will help you get started.

Why work on living wage?

A fundamental and globally recognized human right, aligned with corporate human rights due diligence, that enables structural change to reduce poverty

The [Universal Declaration of Human Rights](#) states that “Everyone who works has the right to just and favourable remuneration ensuring for (one) self and (one’s) family an existence worthy of human dignity.” The provision of an adequate living wage is also identified as one of the conditions for universal and lasting peace by the [International Labour Organization](#) (ILO).

Globally there are 1.8 billion wage-earning and salaried workers, according to [ILO data from 2018](#). The majority in developing economies earn wages that are insufficient to work themselves out of poverty. There are also large disparities across regions. In Africa, the situation is particularly alarming, with almost one-third of all workers living in extreme poverty in 2018, despite having a job. When those who work standard hours are still living in poverty, it is a clear sign that structural change is needed.

As they exist today, global supply chains can contribute to the challenges of inequality and poverty. Low wages and poor working conditions have been [reported](#) for products ranging from tea and cocoa to fruits and vegetables.

While poverty is a complex, systemic issue requiring coordination among many players, global supply chains can do their part to ensure workers are able to afford basic needs, contributing to structural improvements in the global economic system.

By taking steps towards improving wages and working conditions in global supply chains, companies can honor the growing number of guiding principles and legislative requirements to identify and mitigate salient human rights risks. These include the [OECD Due Diligence Guidance for Responsible Business Conduct](#), the UN Guiding Principles for Business and Human Rights, and the UK's Modern Slavery Act 2015.

Increasing wages and improving working conditions can also bring benefits for companies through higher productivity and quality, reduced staff turnover and labor unrest, and improved reputation and credibility.

What is due diligence?

The [OECD Guidelines for Multinational Enterprises](#) urge companies to act with due diligence to identify and mitigate salient human rights risks.

Due diligence is 'the process through which enterprises can identify, prevent, mitigate and account for how they address their actual and potential adverse impacts' in their sourcing practices.

Due diligence is especially important in labor-intensive sectors, like fresh food and juice, or apparel, where workers' wages are often insufficient to afford basic needs (such as food, medical care, and decent housing) or to send their children to school. In commodities, such as coffee, tea, and cocoa, smallholder incomes are often so low that the longevity of the sector is at risk. Rather than becoming cocoa farmers, the next generation may choose a more attractive career path. By acting with due diligence, we can protect the longevity of global commodity chains and the human rights of those who work in them.

What is a living wage?

A living wage is the remuneration received by a worker that is sufficient to afford a decent standard of living for the worker and their family.



Elements of a decent standard of living include **adequate food, water, housing, education, healthcare, transportation** and **other essential needs**, including provisions for unexpected events.

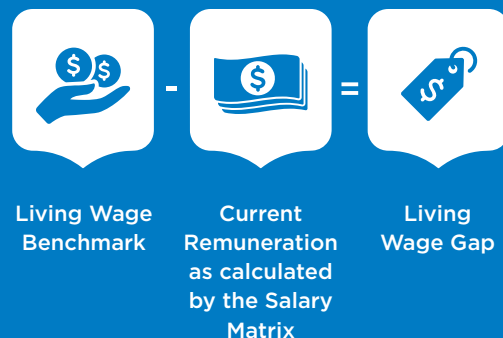
Estimated values of a living wage, what we call living wage benchmarks, are published by some organizations, such as the Global Living Wage Coalition and Wage Indicator Foundation. To establish a living wage benchmark, these organizations gather data on local costs of, among others, food, housing, education, healthcare, transportation, and more (as aligned with global standards, such as the World Health Organization and The Food and Agriculture Organization). To understand the wage that is needed for one worker to afford such costs of living, these costs are divided by the typical number of wage earners in a family and the mandatory deductions (such as social security or taxes) are accounted for.

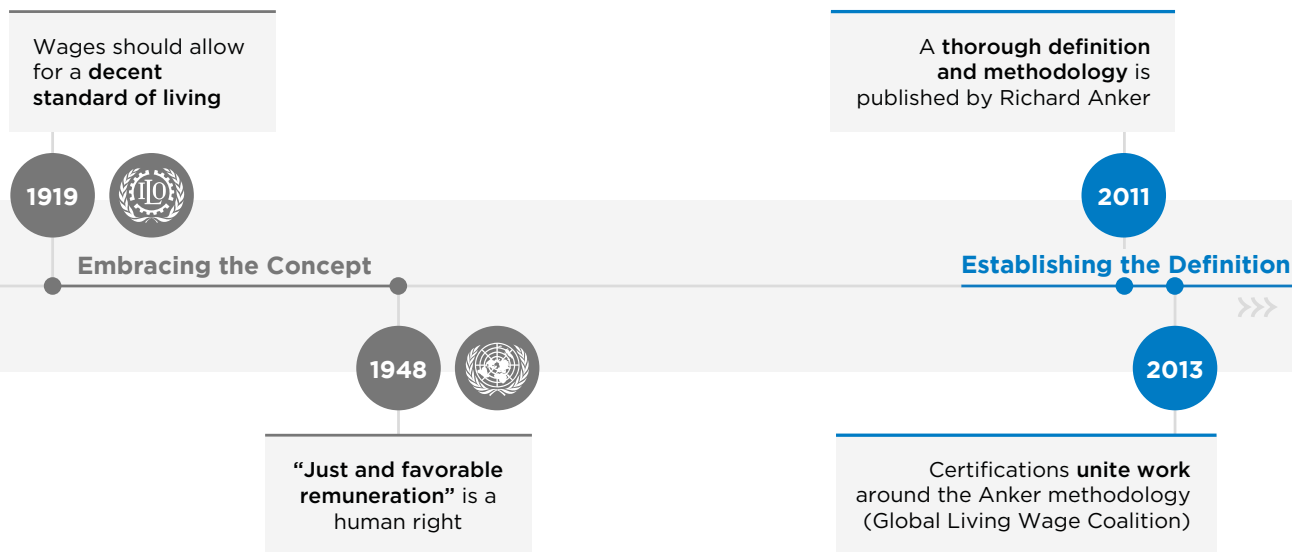
A living wage is not the same as a minimum wage.

Minimum wages are set by national or local governments and are usually legally enforceable. Many government-set minimum wages are still below living wage estimates. While product standards and certifications can ensure the payment of a minimum wage, poverty amongst those working in supply chains remains.

To better understand the living wage gap — how far away workers are from earning a living wage — in a given production location, we can compare the living wage benchmark with current remuneration. To calculate current remuneration (including wages, bonuses, and in-kind benefits), IDH developed the [Salary Matrix](#). Once remuneration is calculated, this tool can compare it with the living wage benchmark to provide insight into the living wage gap.

How is the living wage gap calculated?





Key living wage developments

Since the International Labour Organization (ILO) was founded 100 years ago, there have been several important developments to help address living wages.

A key development was harmonization and alignment on the definition and methodology for measuring a living wage, which has enabled companies to take the first steps towards paying a living wage in their supply chains.

The ILO was created in 1919, at the end of World War I, to further “universal and lasting peace” based on social justice. It was founded on the fundamental principle that wages should allow for a decent standard of living, and later became the first specialized agency of the United Nations. The UN’s [Universal Declaration of Human Rights](#)

affirmed the ILO’s founding message by establishing living wage as a human right in 1948: “Everyone who works has the right to just and favourable remuneration ensuring for (one) self and (one’s) family an existence worthy of human dignity.”

Following the UN declaration in 1948, it still proved challenging to take action without a universally accepted definition of “just and favorable remuneration.” It was in 2011 that Richard Anker published a methodology for measuring the living wage of a specific region, which includes what is needed for a basic but decent life, such as housing, food, and health requirements aligned with the standards of other international bodies, like the World Health Organization. Then, in 2013, leading sustainability certifications (including Rainforest Alliance and Fairtrade International) aligned to form the Global Living Wage Coalition, helping further enhance the credibility of the methodology.



Malawi Tea 2020

First supply chain commitment to close the living wage gap while revitalizing the tea industry

A few global brands start to work on living wage, some in **coalitions**

2014

Sustainability Initiative Fruit And Vegetables

Engaging local and global banana stakeholders for living wages in Costa Rica, Belize, Ecuador and Ghana



2016

2015

Dutch, German and French governments start initiatives on **living wage and living income**

Taking the First Steps >>>

Around the same time, some companies started to take their first steps. For example, in 2013 [H&M](#) laid out a roadmap to paying a living wage in their supply chain. Their approach focused on improving their own purchasing practices, improving wage management systems at factory level, and empowering workers to negotiate improved pay and better labor conditions through social dialogue. Their approach started with three model factories and aimed to cover 100% of suppliers' factories by 2018. However, to scale up their work, involvement was needed at industry level. To address this, in 2016, ACT (Action, Collaboration, Transformation) was founded by global brands and retailers in the garment, textile, and footwear sectors, as well as IndustriALL, the global trade union federation representing garment and textile workers. ACT supports the achievement of a living wage through collectively bargained wages, strengthening trade unions, and establishing more sustainable procurement practices.

Another key development on the global journey toward a living wage was [Malawi Tea 2020](#).

This partnership launched by a variety of organizations, including producers, the largest international tea buyers, unions, NGOs, and government agencies. Together with IDH, they committed to creating

a competitive and profitable Malawian tea industry, which can sustainably improve incomes for workers and farmers so they can maintain a decent standard of living for themselves and their families. The Malawi Tea 2020 coalition is making progress, successfully narrowing the gap between current wages and a living wage. The net living wage gap has closed by 25%. This means that tea workers on tea plantations in Malawi now get 40% more than the country's minimum wage (calculated by the [Malawi Tea 2020 Wages Committee, Richard Anker & Martha Anker](#)).

Governments have also started taking the first steps towards addressing the topic of living wage. The Netherlands, for instance, is at the forefront when it comes to encouraging and supporting companies working on the subject of a living wage. In 2014, the Dutch government enabled multi-stakeholder agreements to promote international responsible business conduct (IRBC) in various commodity sectors, such as garments and textile, food products, and floriculture. Living wage has become a key topic for many of these agreements, with IDH facilitating the first country-wide commitment from retailers to close the living wage gap in the banana supply chain.

In 2016, the British government introduced a higher minimum wage that was referred to as a "national living wage". Although it is not fully calculated according to the definition

Banana project: Country-wide commitment from Dutch retailers to close the living wage gap in the banana supply chain



European Commission passes directive against **Unfair Trading Practices**

2019

2018

Salary Matrix

Tool to measure current wages at farm level created by IDH, Rainforest Alliance, with support from Fyffes and IPL



Taking the First Steps >>>

above, it does show the willingness of the British government to legislate higher wages with the aim of enabling a better standard of living.

At the European level, steps have also been taken towards ensuring better wages and working conditions.

In 2019, the European Commission passed the directive against unfair trading practices (UTPs) which supports agricultural produce suppliers in getting a fairer deal. Banned UTPs include late payment, cancellation at short notice, changing supply agreements, and requiring the supplier to pay for deterioration or loss of a product in buyer's ownership. Protecting suppliers' rights can contribute to better distribution of value throughout the supply chain.

Similar to the British government, the government of Ecuador publishes a local estimate of a decent wage. Called "salario digno," it is based on the cost of a number of locally determined goods. The government mandates that if workers' wages are lower than the salario digno, the employer is obligated to fill these gaps for all their workers.

In 2018, IDH and Rainforest Alliance developed a self-assessment tool to allow suppliers to assess how the wages (and in-kind benefits) they provide to their workers compare to the living wage benchmark. The [Salary Matrix](#) underlines the clear need for practical tools that companies and sustainability standards can use to bring transparency to their supply chains regarding wages. IDH is now improving and refining the tool and its methodology with many sustainability standards, including Fairtrade, Rainforest Alliance, Sedex, and Amfori. The aim is to formalize a baseline for living wage calculations, so it can be utilized in all sectors and regions.

In 2018, several financial institutions formed an alliance under the [Platform Living Wage Financials](#) (PLWF), to encourage and monitor investee companies with regard to their commitment to pay a living wage to the workers in their supply chain. Investors expect companies to identify and tackle the most critical parts of their supply chains from a living wage and living income perspective (i.e. where labor-rights risks are the highest and incomes/wages are known to be particularly low). To assess progress, the PLWF publishes a yearly assessment following the UN Guiding Principles Reporting Framework, which classifies companies' living wage policies and performance into four categories: embryonic, developing, maturing and leading.

Why should you act now?

Now is the time for
companies to take action.

There is alignment on a definition and a methodology. There is valuable experience and learnings from first-time projects on what works and what doesn't. Governments are promoting the living wage agenda through sector covenants and trade legislation.

Increasing wages and improving working conditions can bring benefits for companies

through higher quality and productivity, secure supply with reduced staff turnover and labor unrest, and enhanced reputation and credibility.

Consumer-facing brands that choose not to take action on living wage also increase the risk to their reputation. Right now, there is an enormous opportunity for brands with purpose to start closing the living wage gap in their supply chain.

Interested? Read more

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