



FAIRTRADE
INTERNATIONAL

Living Wage

Explanatory document for
FAIRTRADE TEXTILE STANDARD



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About the document

This explanatory document is intended to help textile companies and brands understand and implement a living wage under the Fairtrade Textile Standard. Fairtrade International's Standards & Pricing provides this document to all stakeholders as a guide to the full understanding of the intent and requirements of a living wage in accordance with the Standard. However, this explanatory document is not part of the Standard, and does not replace it. Producers will only ever be audited on the Standard, and not on this document.

A. Background to the living wage

There is a lack of clarity among stakeholders on the concept, methodology and implementation of a living wage. Trade unions and researchers have identified serious flaws in many of the current methods of calculation and implementation. Efforts by some brands and labels to improve wages through bonus or incentive schemes also cannot be equated to the payment of a living wage, as they are often limited to only a few units of the supply chain (for example, bonus payments for CMT (Cut-Make-Trim) workers or part of the workforce). This document aims to provide clarity in the approach of Fairtrade International to its living wage in relation to the Fairtrade Textile Standard.

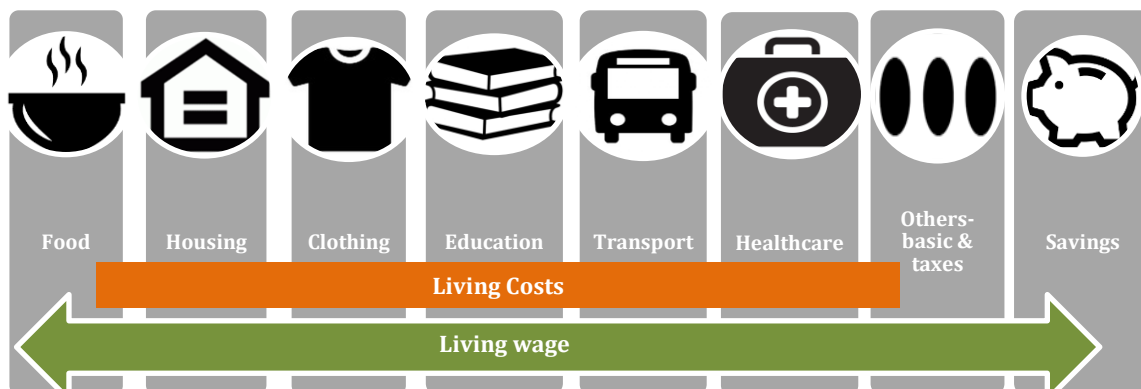
1. Purpose

Fairtrade's strategy is to promote sustainable development and to reduce poverty through fairer trade. One of the major purposes of the Fairtrade Textile Standard is to guarantee a *basic but decent living* for all workers along the *entire supply chain*. The requirements of the Standard ensure that employers pay *living wages*.

2. Definition per Fairtrade Textile Standard

Living wage is the remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events.

Example:



- Living costs:** standard costs to meet the basic needs of a worker and his/her family
- Living wage:** living costs + amount for discretionary expenses and savings

3. Requirements of the Fairtrade Textile Standard

(Section 3.5.2: Wage increases to reach living wages)

If remuneration (wages and benefits) is below the **living wage benchmarks** (LWBs) approved by Fairtrade International (see section C.3, below), a company must agree

with the relevant trade union or workers' representatives to a time-bound plan to close the gap between real wages and the living wage within a maximum of six years from certification.

Once a living wage is reached, wages are then expected to increase in line with inflation. Negotiations on annual wage increases do not have to take place every year, provided that real wages increase every year.

4. Guidance in the Fairtrade Textile Standard

The term 'real wages' refers to wages that have been adjusted for inflation. The real wage increase is intended to raise wage levels to an eventual living wage. The Fairtrade approved living wage benchmarks provide guidelines for negotiations between trade unions/workers' representatives and management. The methodology used to calculate living wage benchmarks can be found on the [Fairtrade website](#).

Negotiations can take place according to industry practice; for instance, every year, every two, or even every three years, depending on the term of the wage agreement. If wages are set at a regional or sector level in such a way that the gap with living wage is not closed by regular increments, the employer can satisfy this requirement by increasing other forms of remuneration as long as this is agreed by elected worker representatives.

B. Different calculation and implementation approaches

Calculation and implementation approaches:

Although the textile industry recognizes the need to pay living wages to its workers, there is a lack of consensus on the best calculation and implementation method, with different social standards and textile stakeholders adopting their own approaches. Two of the most common are:

The **Worker Survey** method is used and accepted by many social standards. The factory conducts surveys or interviews with its workers to collect data on their costs of living. Such data may not reflect decent costs of living as it is paid from their current earnings (wages). A living wage calculated through this approach is often less than half of the wage demanded by trade unions.

The **Bonus System** has been adopted by a few brands and programmes and involves the payment of a lump sum amount to a factory with the expectation that this is shared out among the workers. The bonus could be an arbitrary amount, or one based on the living wage calculated by the factory. Such an approach, however, cannot be considered as payment of a living wage for the following reasons:

Not based on independent benchmarks - living wages calculations are mostly based on the survey method and not on an independently calculated benchmark. Amounts are often arbitrary and do not sufficiently close the gap to the living wage.

Temporary - such 'bonus' payments are linked to orders and are not ring fenced in the actual payroll, such that when there is no order, there are no payments. In addition, social security is not paid on the bonus amounts.

Not for all – the bonus is paid only to the workers of the CMT unit. Other factories in the supply chain are not included.

Through its own **Fairtrade Textile Standard** approach (*see below*), Fairtrade works together with other global certification schemes in and outside of the textile sector to promote a harmonized concept of a living wage, thereby promoting greater understanding and reducing confusion around the concept.

C. Fairtrade Textile Standard approach

The **Fairtrade Textile Standard** approach is based on the principle of collective responsibility of producers, brands and other stakeholders in achieving and sustaining living wages for workers in the textile industry. At the same time, Fairtrade seeks to avoid undermining the domain of trade unions or sector level agreements (CBAs) through the application of the Standard.

The approach is unique in the following ways:

1. Universal

The approach is applicable to all units in the supply chain and all categories of workers.

2. Negotiated

Workers must be involved in negotiating the increments to reach credible and independent living wage estimates called 'benchmarks' (*see below*).

3. Living wage benchmarks (LWBs)

Because 'living wage' is a family concept, the benchmarks are derived from the costs of decent but basic living for a typical family. These are specific to a particular place and period, as costs of living can vary geographically and change over time. As such the living wage benchmarks are not static, but require annual adjustment for inflation.

4. Recognized methodology

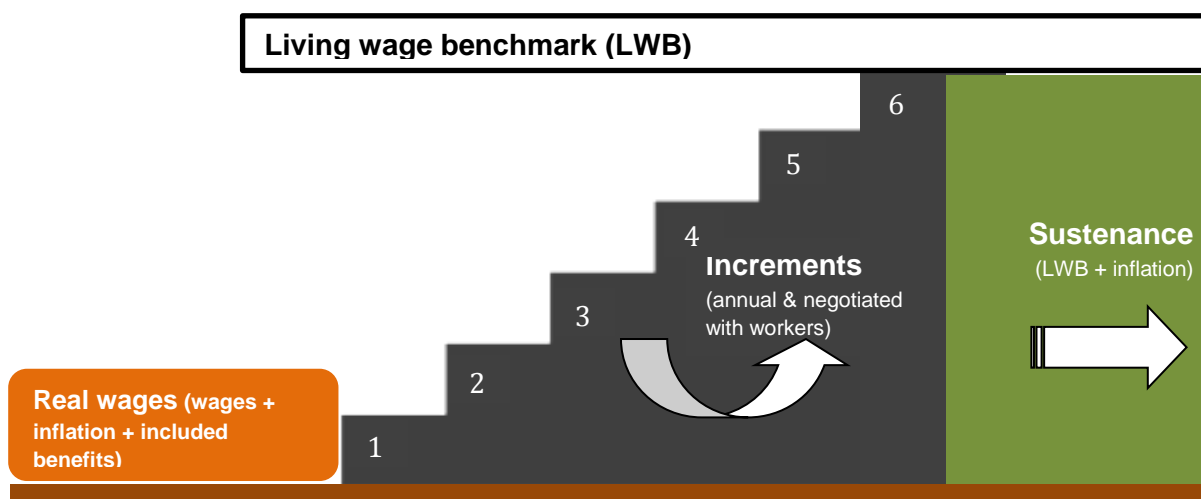
As a founding member of the Global Living Wage Coalition (GLWC), Fairtrade is committed to using the Anker methodology for setting its permanent living wage benchmarks. The GLWC has partnered with senior researchers, Martha and Richard Anker, to set benchmarks for various regions around the world, publishing benchmarks for Addis Ababa in Ethiopia, Dhaka in Bangladesh and Tirupur and Bhadohi in India. For benchmarks recognized by the Fairtrade Textile Standard please refer to Fairtrade International website.

Qualities of the Anker methodology:

- a. Rights-based - essential needs of workers and their families are related to international labour, food and housing standards for decency;
- b. Realistic - the approach assumes that the family of each worker has more than one wage earner;
- c. Rigorous - benchmarks are not only derived from nutritious model diets, but also from costs of decent local housing;
- d. Practical - the benchmark is extrapolated from costs for food and housing based on expenditure data for non-food and non-housing, with a rapid assessment to ensure that education, health and transportation are affordable.

For more information on the methodology used to calculate the living wage benchmarks is described, refer to https://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/GLWC_Anker_Methodology.pdf

D. Implementation steps

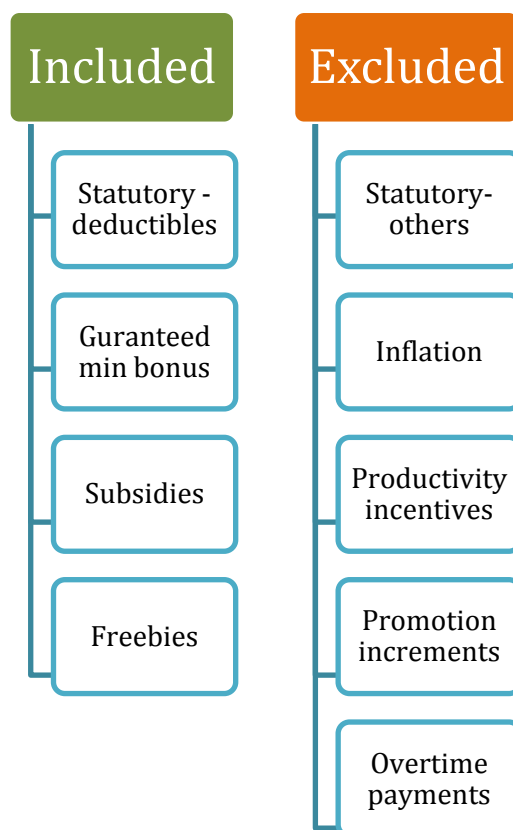


There are numerous steps to implementing a living wage under the Fairtrade Textile Standard approach:

1. The textile company can obtain the recognized benchmarks by writing to the Global Product Management Unit of Fairtrade International (textiles@fairtrade.net) until the same is published on its website.
2. The textile unit first needs to calculate the current wages for normal working hours over a week or month as defined in the Fairtrade Textile Standard, or by national regulations. This includes all categories of workers (for example: full-time, temporary, contract) except apprentices. In case of piece-rates data on number of working hours and pieces produced are required.

3. The statutory social security benefits (for example: provident fund, insurance, gratuity) which are normally deducted from the wages are **included** in the real wage.
4. Non-statutory in kind benefits or services provided by the company (if any) **can be added** to the real wage. However, the value of these needs to be fixed transparently in agreement with the trade union and/or or worker representatives.
5. Other benefits (for example: statutory bonus, wages paid for unclaimed annual leave) are **not included** in the wages.
6. Wages for overtime work are **not included**.
7. Productivity bonuses and allowances (except the guaranteed minimums) are **not included**.
8. Wage increments related to promotions or skill levels are **not included**.
9. Wage increments should be not less than the annual rate of inflation, if inflation is not covered by the regular wage increases (for example: government minimum or CBA).

Table: Inclusions and exclusions in calculation of wages



10. If the wages for a standard day/week are less than the living wage benchmark, a meeting of the factory trade union and/or worker representatives should be convened to negotiate

on the annual increments in order to achieve the living wage benchmark in not more than six years.

11. In the absence of a trade union, there must be a democratic process for electing worker representatives who are then invited to the negotiations (where legally authorized). The Fairtrade Textile Programme can assist in the process of conducting elections.
12. The worker committees comprising elected worker representatives and appointed management representatives should not be involved in the negotiation process.
13. If the worker committees or representatives are not legally permitted to participate in the negotiation process, the company needs to look for alternative solutions.
14. Negotiations can take place in line with industry practice, such as annually, biannually or every three years depending on the term of the wage agreement.
15. If the company must adhere to wages set at a regional or sector level and cannot close the gap to the living wage by regular increments, it can increase other forms of remuneration provided this is agreed with elected worker representatives.

E. Special situations

The living wage benchmarks are calculated for general situations taking into account standard costs. These standard costs can differ significantly in some locations: for example, workers receiving free or subsidized food and/or housing provided by the government or other sponsors; or younger workers living in hostels. Such situations will be considered on a case-by-case basis during audits.

In some cases, a living wage is already being paid but is not recorded on the payrolls, often to avoid legal obligations like additional payments on social security. Non-recorded payments will not be considered as payments contributing to a living wage under the Fairtrade Textile Standard. The Textile Programme will plan interventions in such situations to help the textile units.

F. Beyond living wage

This document has sought to explain how the Fairtrade Textile Standard approach to a living wage aims to guarantee a basic but decent living for all workers along the entire supply chain. The requirements of the Standard ensure that employers pay living wages as determined by the living wage benchmark.

Once the Living Wage benchmark is achieved, only the annual inflation needs to be accounted for in subsequent years.