

Pursuing Living Wages in Global Supply Chains

Where We Are Today



Over the past 10 years, there has been a significant increase in initiatives focused on living wages. In early 2024, the International Labour Organization (ILO) released its first guidance on living wages, marking an important step towards fairer wages worldwide. At the 2024 Living Wage and Living Income Summit, hosted by IDH with GIZ and UNGC's Faster Forward initiative, we are bringing together over 400 partners to plan the way forward.

Using input from the Summit and partner meetings, we aim to update our Roadmap on Living Wages to help stakeholders in global supply chains improve their approaches, including sustainable procurement and due diligence practices. IDH is dedicated to improving living standards for workers everywhere by making these guidelines practical and effective. This background research by IDH will inform stakeholder dialogues on the future of our Living Wage Roadmap.

Overview

How can private sector living wage approaches adequately support functioning labour relations systems and ensure sustained wage increases long-term?

In March 2024, the International Labour Organization (ILO) adopted the conclusions of the meeting of experts on “wage policies, including living wages”, which was attended by governments, workers’ and employers’ organisations in Geneva. Nearly 75 years after living wages were established as a [human right](#), the ILO [publication](#) defined the concept of the living wage, provided principles for estimating a living wage amount and clarified that social dialogue is critical for operationalising living wages.

This guidance comes at a critical time as approximately one-third of all workers—[over a billion people](#)—cannot afford at least a basic but decent standard of living. In today’s rapidly globalising economy, goods are produced faster and cheaper while workers’ ability to afford a decent standard of living is further jeopardised. Legally set minimum wages, although adopted in about 90 per cent of countries, often fail to meet workers’ needs, often because minimum wages are not adjusted to keep up with inflation, leading to wage erosion.

A number of companies operating in global supply chains have become increasingly concerned about such inequalities in their own operations and supply chains and have begun integrating living wages into their corporate responsibility

frameworks and action plans. Several companies have even succeeded in contributing to workers receiving higher remunerations, namely for their own staff or for workers on plantations and their supplying companies.

With such advancements from the private sector, there became a growing need for uniformity on the concept. For example, IDH and 27 leading global companies and initiatives wrote a letter to the ILO, asking for “clarity and consistency on the key principles that underpin the calculation of living wage” after years of implementing the topic within their organisations and supply chains. The private sector’s embrace of living wages has reached a point of momentum where uniformity and institutionalisation are needed.

Alongside definitions and principles for living wage estimates, one of the core ILO [recommendations](#) is the role of wage-setting instruments, such as social dialogue and collective bargaining, in negotiating and institutionalising higher wages. This echoes the mission of initiatives, unions and employer organisations that leverage social dialogue and collective bargaining as tools to fortify labour relation systems, with adequate wages viewed as a subsequent benefit. While the successes of these initiatives may not be enough to claim universal living wages, they have laid the fundamental groundwork for more sustainable social dialogue.

The ILO guidance offers opportunities for synergy between wage setting based on social dialogue and initiatives in support of living wages in global value chains, fostering fairer and more equitable labour practices in global supply chains.



What is a living wage?

The concept of the living wage is: the wage level that is necessary to afford a decent standard of living for workers and their families, taking into account the country circumstances and calculated for the work performed during the normal hours of work; calculated in accordance with the ILO’s principles of estimating the living wage, as outlined below; to be achieved through the wage-setting process in line with ILO principles on wage setting.

[Read more →](#)

The rise of private sector living wage commitments

Support for living wages has grown in recent years, with an increasing number of brands making living wage commitments, for example, [Unilever](#) and [L'Oréal](#) announcing their living wage commitments in 2014 and 2020 respectively. Beginning in 2018, [European retailers](#) began to combine efforts through the [Dutch Retail Commitment on Living Wages](#). This has since expanded with similar initiatives from banana retailers in Belgium, Germany and the UK. Many mid-sized companies also joined the movement, such as [Eosta's first living wage mangoes](#) available in 2020 or [Patagonia](#), who began efforts as early as 2010. In 2023, a PwC report revealed a growing emphasis among employers to pay living wages, with 24% of the 205 surveyed companies reporting already providing living wages, and 54% intending to implement living wages within the next five years.

Initiatives, like the UN Global Compact (UNGC), have also emerged to encourage businesses worldwide to adopt sustainable and socially responsible policies. Founded in 2000, the UNGC is the largest corporate sustainability initiative in the world, with over 20,000 participating companies from over 160 countries. In September 2023, the UNGC launched the "Forward Faster" initiative, a global call to action, to invite its participating companies to set ambitious and measurable targets in five key action areas, including living wages.

As a part of its living wage action area, the UNGC established two targets:



Target 1

100 per cent of employees across the organisation earn a living wage by 2030.



Target 2

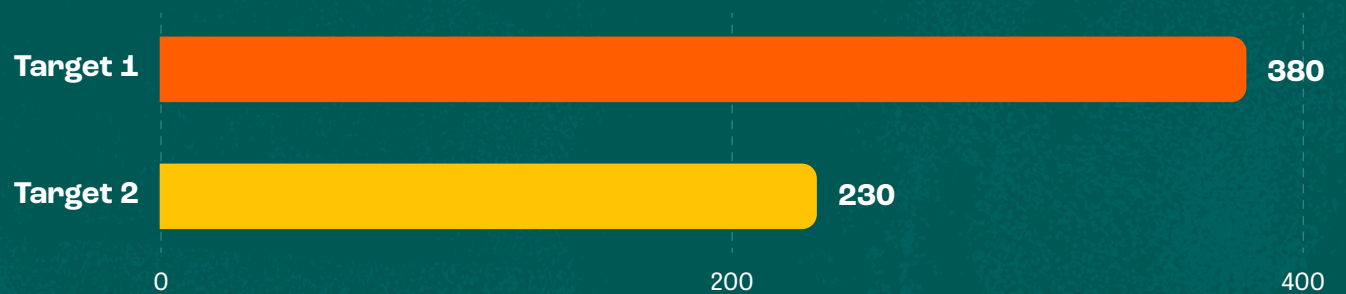
Establish a joint action plan(s) with contractors, supply chain partners and other key stakeholders to work towards achieving living wages and/or living incomes with measurable and time-bound milestones.

As of May, 2024, over 380 UNGC member companies have committed to Target 1 and 230 to Target 2.

The efforts of many of these companies are already beginning to lead to wage increases. [Data from the World Benchmarking Alliance Human Rights](#) showed that in 2021, "30 out of the 350 companies assessed demonstrate that they have taken concrete action to support living wages in their operations or supply chains."

Companies will continue to embed living wages in their businesses. This is also partly due to the number of legislative requirements to investigate and report on living wages, such as the German Supply Chain Act, the EU Corporate Sustainability Due Diligence Directive (CSDDD) and the EU Corporate Sustainability Reporting Directive (CSRD).

Companies that have committed to the "Forward Faster" living wage commitments



Living wage concept become payments for workers

An early 90s shift towards quantifying human factors, such as the [True Price initiative](#) and the “People, Planet and Profit” business approach [coined by John Elkington in 1994](#), opened the door for companies to integrate living wages into their business models. This was a major change from simply setting wages based on [supply and demand](#) alone. Well-defined metrics have made clear goals and commitments, measurable compliance and gap calculations possible.

There are [tangible business benefits](#) for raising wages, such as higher retention and reduced turnover. Companies have found addressing living wages can complement their other human rights initiatives, such as promoting gender equality and combating child labour. The measurability of living wages also simplifies reporting efforts and facilitates providing guidance to suppliers. However, it is crucial to note that these business benefits should not supersede the importance of upholding human rights.

Driven by either a recognition of the business advantages, a commitment to human rights, or a combination of both, a growing number of brands are pursuing different approaches to provide living wages in their own operations and in their supply chains.

For example, in 2022, **Lidl Germany** conducted a supply chain risk analysis finding a high risk of underpayment in tropical fruits, particularly bananas. Collaborating with affected business partners, Fairtrade, and FLOCERT, Lidl leveraged [leading tools to calculate living wage gaps](#) and further developed with IDH an estimate of the “Gap per Trade Unit”, or the cost per kilogram of bananas to be paid to move towards a living wage. As a result, 10,000 employees at over 200 plantations directly benefited from Lidl’s living wage premium.

Fairphone has used a similar approach since 2019. Based on the calculation of current wages and distance to the living wage estimate, Fairphone calculated that a [fixed bonus](#) of 1.50 EUR per phone was needed, going above the wages that were [collectively bargained](#). Fairphone worked to incorporate this bonus into the product price. With the final shelf price at 450 EUR, the living wage cost accounts for just 0.33 per cent of the consumer price.

In 2024, **Sainsbury’s** also helped contribute to wages for banana workers by adding a [living wage premium](#) into the final product cost for volumes they purchase. Sainsbury’s committed to pay the [Fairtrade Living Wage Reference Price](#) and to provide long-term contracts to give suppliers more stability. The cost of the fruit plus the premium, which goes towards workers’ wages, is ultimately covered by Sainsbury’s.

Tea buyers **Lipton Teas and Infusions, Twinings, and Taylors of Harrogate** recently adopted a groundbreaking plan to implement a [pro-rata based living wage differential](#) for tea workers in estates across Kenya, Sri Lanka, and Malawi. This mechanism, supported by the IDH Salary Matrix, aims to guarantee transparent and data-driven wage differential calculations, proportional contributions from brand owners based on the tea volumes sourced from each producer, and assurance to ensure contributions reach workers.

These innovative approaches prove that it is possible to adjust, generate and move value through supply chains – a valuable contribution to the ILO’s guidance on the “operationalisation of living wages.”

To learn more about similar private sector initiatives such as Nudie Jeans, Coop, and Schijvens

[Read more →](#)

Private sector initiatives fall short of institutionalisation

One major concern surrounding company-led living wage initiatives is the potential vulnerability of these commitments. Critics argue that despite initial pledges, companies may walk back their commitments when faced with challenges like financial pressures or shifts in leadership. Drawing parallels with the private sector's handling of sustainability and environmental initiatives, it becomes apparent that relying solely on voluntary corporate participation might stall significant living wage advancements, especially when these initiatives clash with a company's financial priorities.

Even for the most well-intentioned brands, it remains unclear how these efforts can be scaled or sustained in the long term. A vast majority of companies with living wage commitments, such as [Nestlé](#), [Unilever](#) and [L'Oréal](#), recognise the right and importance of social dialogue and collective bargaining in their global supply chains. However, despite this acknowledgement, there is still a notable lack of traction in integrating living wages and collective bargaining. The issue then becomes how to not only **maintain companies' voluntary payments but also establish locally owned mechanisms to ensure living wages are institutionalised.**

Evidence of this challenge is well articulated by the living wage banana retail commitments in [Germany](#), [Belgium](#), and [the UK](#) which explicitly acknowledge the role of collective bargaining in the living wage work. These commitments also acknowledge the [role of unions](#) in this important work.

Labour relations historically drive wage increases

Historically, institutionalised labour relations are the foundation of effective wage setting; one of unions' main roles is to advocate for and negotiate higher wages and benefits for workers. They are also instrumental in minimum wage setting and securing supply chains that are more resilient to shocks, such as the critical role the Horticultural, Industrial, Service Providers and Allied Workers' Union (UHISPAWU) played in [supporting Ugandan flower workers](#) during the COVID-19 pandemic.

Beyond establishing several important working conditions like the 8-hour workday and 40-hour workweek, unions have played an important role in negotiating for higher wages and safer workplaces. [Recent analysis by the ILO](#) indicates that collective bargaining agreements not only reduce wage inequality but also enhance productivity and competitiveness by fostering greater wage equality, increasing the allocation of social benefits and promoting successful outcomes in a changing and competitive environment.

Trade unions have questioned the private sector's commitment to move towards living wages. They have expressed several concerns, which include **the insufficient involvement of social partners in living wage initiatives, and limited roles for workers organisations in negotiating living wages.** Some of these concerns are also shared by employer organisations. Unions also seek to fully preserve their ability to collectively negotiate wages beyond living wage estimates.

Social dialogue supports the concept of a living wage

For living wage initiatives, the landmark guidance provided by the ILO should be seen as a major transition, offering key stakeholders an opportunity to reassess the roles they have typically played. The [conclusions](#) also call for living wages to be achieved through wage-setting processes, by considering the needs of workers and their families as well as economic factors, and by strengthening social dialogue and empowering wage-setting institutions, particularly collective bargaining. The ILO conclusions call for living wage estimates to follow a number of principles, including methodological transparency, timely public availability, and consultation with representative employers' and workers' organisations. This is in an effort to ensure national and/or local ownership.

Trade unions, employers, and employers' organisations are key to ensuring that living wage initiatives are connected to **local and national social dialogue** on wages, and that any additional value supply chain workers receive through voluntary payments is converted into institutionalised wage gains, ensuring workers receive the long-term financial stability and security they deserve.

The ILO conclusions call for incremental progression from **minimum wages** to living wages, embedding the living wage not only in collective bargaining but also in minimum wage setting. Two ILO projects on [Setting Adequate Wages](#) funded by the Ministry of Foreign Affairs of the Netherlands, and by the German Federal Ministry for Economic Cooperation and Development (BMZ), are supporting Costa Rica, Colombia,

Côte d'Ivoire, Ethiopia, India and Vietnam in ensuring that minimum wages and **collective bargaining** progressively enable workers to afford a living wage, addressing also root causes of low pay.

Several local **unions** have capitalised on the market momentum and further established their role in wage setting by leveraging the living wage concept. Such examples include [bananas in Côte d'Ivoire](#), [tea in Malawi](#), [sugar cane in Nicaragua](#) and [coal mining and bananas in Colombia](#).

Also, initiatives such as **ACT** (Action, Collaboration, Transformation) brings together over 20 garment and footwear brands, retailers and IndustriALL Global Union to achieve living wages through collective bargaining. ACT members, including Inditex, H&M, and PVH support that a "[living wage should be reached through collective bargaining between employers and workers and their representatives, at national industry level.](#)" Recently ACT member brands and IndustriALL successfully reached individual binding agreements which will support collective bargaining agreements for garment factories in Cambodia.

Although these examples vary in how they integrate changes in procurement of global brands, they show that labour relations can benefit workers by adopting the living wage concept and solidify their role in wage setting dialogues.

Collective bargaining wins for living wages

In Colombia coal mine company, Drummond Ltd, [signed collective bargaining agreements](#) to incrementally increase worker wages over three years, including a 9.5% increase in the first year.

In Nicaragua [local sugar cane unions negotiated salary increases](#). With support from CNV Internationaal and using living wage benchmarks to inform their bargaining, unions negotiated wage increases by 8% to 12% over three years.

In Malawi the "[Malawi Tea 2020](#)" project has improved the country's tea industry and transform the lives of workers. The establishment of a collective bargaining agreement was a project cornerstone, catalysing negotiations to increase wages towards a living wage. Major buying companies played a key role in supporting this initiative.

In Côte d'Ivoire four major banana exporters and a dozen trade unions [developed a plan to support labour relations and collective bargaining towards living wages](#). This result came from a three-year program coordinated by Banana Link, with support from retailers and IDH.

Resources companies can leverage to operationalise living wages in their supply chains

The ILO's [guidance](#) on living wages centralises social dialogue and collective bargaining in the implementation of living wages.

While companies have access to many resources to improve labour relations internally, supporting labour across their extended global network of suppliers can be a challenge. Supporting living wages in supply chains often requires a deep understanding of sector and country nuance. Companies may start by enacting basic supplier policies respecting the freedom of association and collective bargaining, but much more comprehensive actions are needed, often demanding significant internal resources and yielding less immediate results. Nonetheless, sustained support for labour relations in the supply chain is vital for achieving long-term corporate living wage goals.

A common challenge companies face is how to uphold the right to freedom of association, especially when operating in countries where this right may be restricted by law or practice. Although 158 out of 187 countries have ratified the ILO's Convention No. 87, which protects workers' and employers' rights to freely associate and engage in collective action, major countries have yet to ratify it.

As a result, approximately 1.9 billion workers worldwide, comprising 53% of the global labour force, are unprotected when joining a union. To navigate these challenges, companies can look to resources like the [ITUC's Annual Global Rights Index](#) for insights into country-specific labour relations. Practical guidance is also available from organisations such as the ILO, UNGC, and the Ethical Trading Initiative (ETI).

Workers covered by ILO Convention 87



● 1.7 billion workers protected

● 1.9 billion workers unprotected

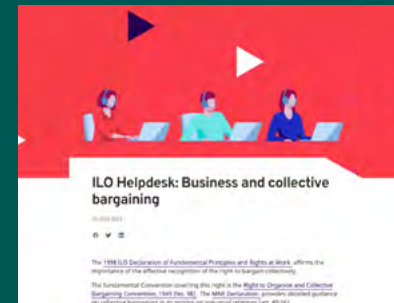
Both the ILO Helpdesk and the UNGC's Module on Freedom of Association suggest companies take the following actions:

- ➔ In association with other employers, encourage governments to amend the law to bring it in line with the relevant international labour standards.
- ➔ Encourage and support suppliers to respect workers' rights to the fullest extent permitted under national law.
- ➔ Join their local employers' organisation as a strategy for encouraging policy change
- ➔ As a strategy for supporting suppliers, consider providing an awareness training for suppliers' managers and workers and joining efforts with other companies.

Ethical Trade Initiative (ETI) also provides a detailed suggested action plan on establishing and monitoring freedom of association in supply chains.

While these resources provide a starting point, more understanding of what social dialogue initiatives can teach the living wage movement is needed.

Suggested resources



ILO Helpdesk



UNGC Academy's Module on Freedom of Association



ETI's suggested action plan



What is the way forward?

Driving systemic change and moving towards contractual agreements for living wages requires collaboration and engagement from all stakeholders, including multinational and local companies, labour unions, national governments and civil society organisations working in this space.

The ILO guidance on living wages offers a clear path forward:



Estimating living wages

Organisations that create living wage estimates should adopt the ILO principles to estimate living wages. Employers' and workers' organisations should use their understanding of the needs of workers and their families to share their knowledge and expertise with living wage estimates.



Support for adequate minimum wages

Governments, workers and employers should support adequate minimum wage rates that enable workers to maintain a suitable standard of living and support incremental progression from minimum wages to living wages.



Operationalizing living wages

Governments should ensure the right to freedom of association and collective bargaining. Living wage initiatives should consult with employers and workers' organisations and seek to ensure that workers have a seat at the negotiation table through their union representatives. Employers should make information on economic and social situations available to support meaningful negotiations.



Addressing root causes of low pay

All stakeholders should continue to support private sector initiatives aimed at increasing value in the supply chain and addressing the root causes of low pay, such as the unfair distribution of value, low total factor productivity, informality, weak institutions and compliance systems.

The journey towards achieving living wages can be approached incrementally, as illustrated in the table below, which outlines current steps actors can take to continue and advance their ongoing efforts. It also delineates future steps for these stakeholders.

	Current Actions to Continue and Scale	Future Endeavours
MNEs	Celebrate living wage commitments and action plans, engage with worker representative organisations and signal a strong commitment to including worker and employer voices in living wage discussions.	Actively promote social dialogue and engage in policy advocacy to institutionalise living wages as the standard, engage in capacity building in your supply chains and require grievance procedures to ensure non-compliances are addressed. Ensure procurement and pricing policies are compatible with supplier living wage efforts.
Labour Unions	Leverage living wage benchmarks in wage negotiations, and in promoting incremental progression from minimum wages to living wages to ensuring that workers are remunerated at a level that enables them to meet their basic needs.	Engage in social dialogue and collective bargaining on living wages, including through the use of living wage estimates aligned with ILO principles.
Employer Organisations	Collectively bargain in good faith. Develop independent grievance mechanisms and make available information on economic and social situation to support meaningful negotiations.	Encourage policy setting that supports living wages and local development of living wage estimates. Effectively engage in minimum wage setting. Encourage supply chain contracts that enable payment of living wages.
Certifications and Third-Party Entities	Build the capacity of worker-representative organisations and help identify alternative organisations where labour unions might not exist, such as labour councils.	Continue to act as facilitators, convening worker representative organisations and employers for negotiations, particularly in regions where collective bargaining remains underdeveloped.
Governments	Work to bolster and protect workers' right to freedom of association, such as by ratifying the ILO's Convention 87, and set up adequate minimum wage systems, with regularly updated minimum wage rates.	Develop action plans for incremental progression from minimum wages to living wage, address root causes of low pay, develop robust and reliable data and statistics for evidence-based wage setting.
ILO	Provide capacity-building support to strengthen wage setting institutions, including adequate minimum wages and collective bargaining.	Engage with living wage initiatives to promote alignment with ILO living wage principles and provide technical assistance to ILO members on the methodology to estimate the needs of workers and their families for the purpose of a living wage.



This content is made possible through the funding of our core donors:



Ministry of Foreign Affairs



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO