

Fairphone's Guide to paying living wages in the supply chain

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1 Introduction



Living wages and incomes are crucial for fighting poverty and inequality

Living wages and incomes are at the core of decent work and good purchasing practices, and embedded in the Universal Declaration of Human Rights (articles 23 and 25)¹. People should be able to afford a basic but decent standard of living for themselves and their family. This is not a given for many people: the International Labour Organization (ILO) estimates that 630 million workers - that's nearly one in five workers globally - earn too little to

lift themselves and their families out of extreme or moderate poverty.² They are truly the working poor, who remain trapped in poverty. Living wages and incomes can help break the cycle of poverty, build healthy local economies and encourage equality in societies.

Living wage and income are good for business

More and more businesses recognize the strength of the business case for living wages is greater than the cost of inaction. Living wages help retain a stable, skilled work force and a productive, resilient supply chain. Companies committed to living wages are better positioned to ensure human rights are well protected in their own operations and their supply chain, meeting their company's values and the expectations of legislation, their customers, investors and other stakeholders. A growing community of companies is committed to enabling living wages and incomes in their own operations and their supply chain.

To ensure everyone earns a living wage or income, we need system change. In many countries, legal minimum wages and wages negotiated in collective bargaining agreements are not living wages. They are set too low to be able to afford a decent standard of living for workers and their families - a key reason why one in five workers remain stuck in poverty.

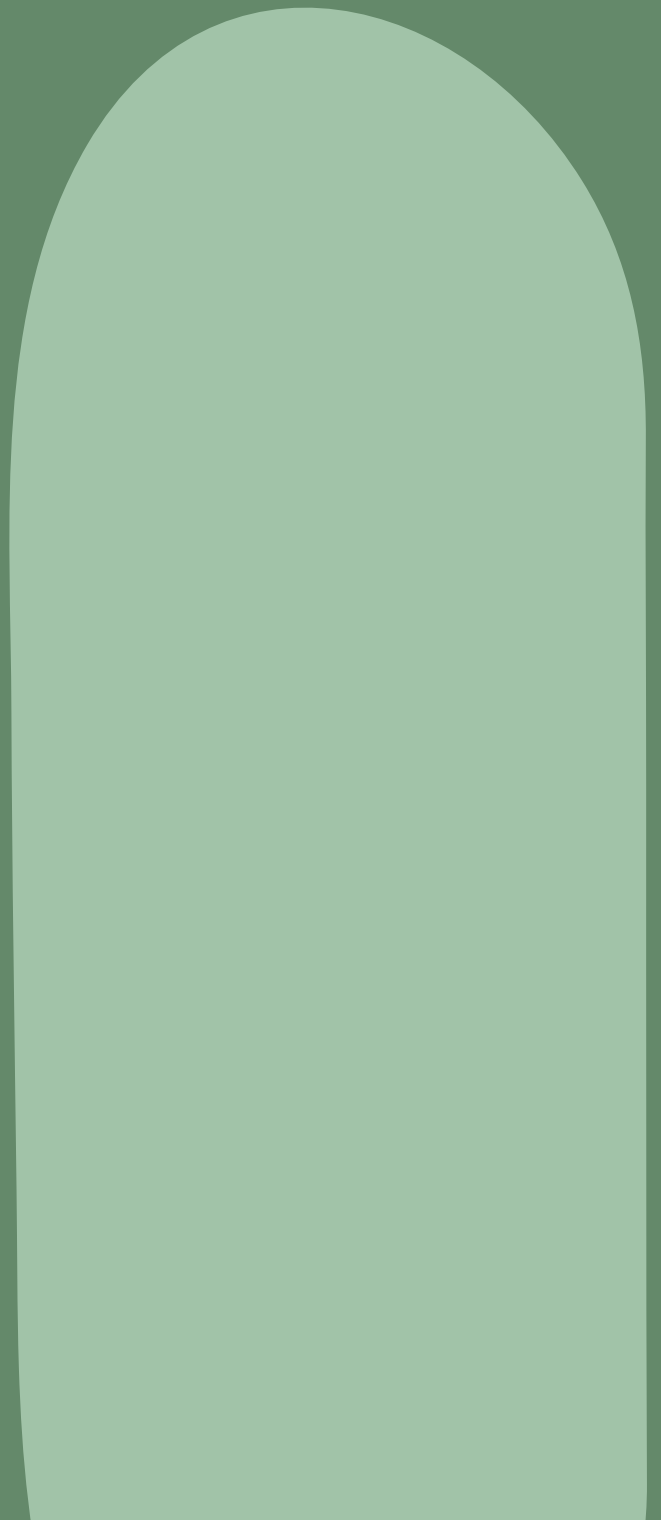
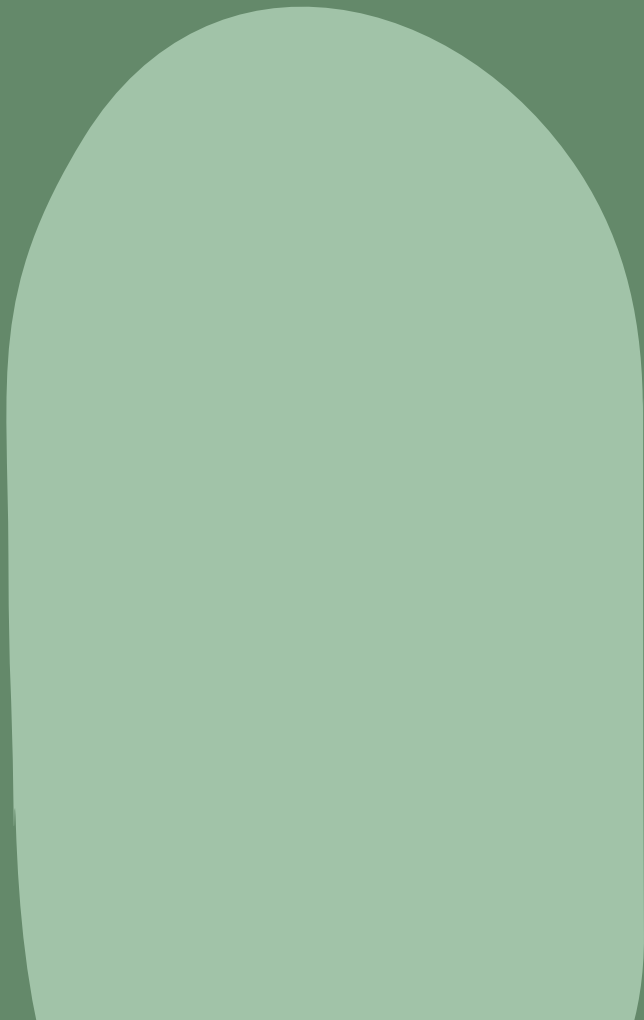
This guide will describe how companies can facilitate and accelerate the implementation of living wages in their supply chain. First, we will look at the meaning and the business case for living wages and incomes. Next, we will outline the main strategy for enabling living wages and incomes in the supply chain: paying inclusive product prices. In addition, companies can focus on further responsible purchasing practices, collective action and encouraging social dialogue and decent work in general. All are needed simultaneously to realize a world where everyone earns a living wage or income; a world with less poverty and more equality, with children who can go to school instead of work, with profitable businesses, healthy local economies and flourishing societies.

NOW is the time for living wages.

¹ <https://www.un.org/en/about-us/universal-declaration-of-human-rights>

² [ILO \(2020\) World Employment and Social Outlook: Trends 2020.](#)

2 Why a living wage?



What is a living income or wage?

Both living wage and living income are about the ability to afford a basic but decent standard of living for a person and their family. The Global Living Wage Coalition (GLWC) is a collaboration of international organizations and social standards such as ISEAL, SAI, Fairtrade and Rainforest Alliance. The GLWC defines a **living wage** as:

“The remuneration received for a standard workweek 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, transportation, clothing, and other essential needs including provision for unexpected events.”³

The term living wage is used in the context of hired workers; **living income** is used when referring to other income earners, such as self-employed miners or farmers. Still emphasizing the ability to afford a decent standard of living, the Living Income Community of Practice (LICOP) defines living income as:

“The net annual income required for a household in a particular place to afford a decent standard of living for all members of that household. Elements of a decent standard of living include: food, water, housing, education, healthcare, transportation, clothing, and other essential needs including provisions for unexpected events.”⁴

Minimum wage is not a living wage

In many countries in Asia, Eastern Europe, South America, North America and Africa, the legal minimum wage or the wages negotiated in collective bargaining agreements are not sufficient for people to afford a decent standard of living for themselves and their families.⁵ Low wages may mean that workers and their families lack or have limited access to food, education, health care, housing or other essential needs. This is the daily reality for an estimated 630 million workers worldwide as well as millions of self-employed income earners such as artisanal miners and smallholder farmers struggling with poverty.

In 2018, the Chinese NGO Worker Empowerment (WE) found that factory workers in Guangdong province who earn low wages cut their spending on food, housing, clothes and transport to substandard levels, in order to be able to pay for health care and to financially support their families. As a result, the NGO concluded that they had a low quality of life.⁶ Research commissioned by Fairphone in 2020 similarly found that Chinese workers prioritize expenses on medicine and the education of their children, and cut spending on food and housing.⁶ To increase their income, workers may need to work extremely long hours or work multiple jobs. This shows how low wages can directly contribute to

For guidance on how to estimate living wages and effectively measure all the related elements, the GLWC references the Anker Methodology. The Anker's full living wage manual for measurement is available online, free of charge.⁸ There are additional credible methodologies to calculate living wages. IDH, for example, recognizes Anker, WageIndicator, Fair Wage network and US Monthly as credible methodologies.⁹ For guidance on living income measurement and actual income measurement, you can refer to guidance from LICOP.¹⁰

excessive working hours, a chronic issue in global supply chains leading to issues like increased absenteeism and staff turnover.

In addition, low wages can contribute to limiting children's education opportunities, and in more extreme cases, encourage child labor. Children with limited access to education will likely perform low-skilled jobs for low wages when they become adults, continuing the cycle. Living wages and incomes may be a crucial factor in breaking this pattern, reducing the need to work extremely long hours, improving their ability to afford essential needs such as housing, and therefore allowing them to achieve a better overall quality of life for themselves and their family.

³ [GLWC](#)

⁴ [LICOP](#)

⁵ [Public Gap Analysis, Guzi. \(2021\) Cost of Living, Living Wages and Minimum wages in EU-27 countries](#)

⁶ Worker Empowerment (2018) “Workers’ wage and Living Expenses in Four Tier Cities in Guangdong Province”

⁷ <https://www.fairphone.com/wp-content/uploads/2021/01/Fairphone-Research-Living-Wage.pdf>

⁸ [Anker, R. and Anker M. \(2017\) Living wages around the world Manual for Measurement](#)

⁹ <https://www.idhsustainabletrade.com/idh-living-wage-identifier/>

¹⁰ <https://www.living-income.com/>

The business case for living wages is greater than the cost of inaction

From both a legal and moral perspective, ensuring that people working throughout your own operations and supply chain can afford a decent standard of living is the right thing to do. Identifying and acting on the risk of low pay in the supply chain is part of business' responsibility to protect and respect human rights, as outlined in the UN Guiding Principles on Business and Human Rights.¹¹ Payment of living wages and incomes helps to mitigate risks of excessive working hours, abusive work environments, forced labor and child labor in the supply chain. Moreover, the payment of a living wage accelerates the achievement of Sustainable Development Goals 1 (no poverty), 5 (decent work), 8 (gender equality) and 10 (reduced inequalities). In multiple countries, mandatory due diligence legislation is expanding to explicitly include the obligation to ensure workers in the supply chain can afford a decent standard of living.

It is also becoming increasingly clear that the benefits of paying living wages are greater than the risks and costs associated with *not* paying living wages.¹²

Introducing a living wage offers concrete benefits, including increased worker satisfaction, improved worker health, retention of skilled workers, increased productivity and increased customer satisfaction, combined with reduced costs for recruitment, absenteeism and re-work. Finally, higher wages will reduce the need for excessive working hours and the accidents, quality issues, inefficiency and physical and mental strain that often accompany it.

Living wages and incomes help build stable, high performing and resilient supply chains, while helping to keep jobs in agriculture, mining and manufacturing desirable, safeguarding long-term supply.

Ensuring a living wage builds a positive company reputation, facilitates market access to the buyers with the highest procurement standards, and meets the requirements of customers, investors and the community at large. In other words, it strengthens the business' social license to operate.



¹¹ <https://www.ohchr.org/en/business-and-human-rights>

¹² [Barford, A., Gilbert, R., Beales, A., Zorila, M., & Nelson, J. \(2022\) The case for living wages: How paying living wages improves business performance and tackles poverty.](#)

Barford et al. (2022) published a comprehensive overview with evidence from case studies and research on the business case for living wage that's

well worth a read. They also published the following overview depicting the benefits of living wages versus the cost of inaction:

Own operations	Benefits of paying living wages	Risks of not paying living wages
Worker retention	Attract and keep skilled workers and invest in a skilled workforce, contributing to institutional memory, know-how, and keeping recruitment and training costs low.	Lose skilled workers who take up better-paid jobs due to a lack of recognition and lack of employer-employee trust. This leads to increased costs of recruitment and training.
Productivity	Workers are better motivated, rested, healthier, so they are likely to have better concentration, make fewer mistakes, and be more productive during working hours.	Worker stress and exhaustion leads to lower productivity / quality work, brought on sometimes due to working several jobs or too much overtime to make ends meet.
Employee satisfaction	A more positive working environment. Employees are satisfied and motivated to work, promoting innovation and business development.	Employees' satisfaction and motivation is reduced, leading to a negative working environment and hostile employer-employee relationships.]
Supply chain	Supply chain benefits of paying living wages	Supply chain risks of not paying living wages
Resilience	Supply chains are more predictable and resilient.	Supply chains become less reliable and more vulnerable to disruption because of social and industrial unrest.
Performance	Improved supplier performance.	Poor worker health, morale and productivity impacts the performance of suppliers.
Transparency, impact and cost	Strengthened supply chain transparency increased social impact and reduced costs of managing labour issues.	Limited understanding of social impact in supply chains and subsequent increase in costs of managing related labour issues.
Operating environment	Wider benefits of paying living wages	Wider risks of not paying living wages
Business reputation	Redefined corporate purpose, improved reputation as a socially responsible and sustainable employer and organisation.	Social controversies may affect consumer purchasing decisions, share prices, and investment decisions.
Business environment	A more cohesive and prosperous society is a foundation for strong economies and growing markets.	Inequality, social unrest and poverty negatively impact the business environment.
Human rights commitments	By paying living wages, companies can show they are meeting one part of their responsibility to respect human rights.	Paying below the living wage is linked to human rights issues, including excessive working hours, abusive working environments, child labour, and forced labour.
Investor expectations	Investors more likely to reward companies with a low-risk profile regarding human rights and industrial unrest.	Investor sentiment may become negative. Shareholders worry about the business and reputational impact of poor labour relations.
Social Licence to Operate / Stakeholder Engagement	Supports social licence to operate - this may be particularly important for certain sectors and provide a focus for community engagement (e.g. mining, construction), in which close relationships with local communities are essential.	Companies known for paying below the living wage may face declining trust and approval of their business conduct. Costs of engaging with stakeholders may increase if they are dissatisfied with wages.

Adapted from: Barford et al. (2022) The case for living wages: How paying living wages improves business performance and tackles poverty.

3 How to implement living wages in the supply chain



The core strategy companies can utilize to ensure living wages and incomes are paid in the supply chain is to pay inclusive product prices. Here we will describe the nine steps to calculate and pay an inclusive product price and to ensure the workers receive increased wages. After that we will describe three further strategies to support and enable living wages and incomes: good purchasing practices, collective action and supporting social dialogue.

3.1 The nine steps to pay product prices that include living wage and income

Labor costs are a normal part of a product price. These costs are based on the salary and the labor time spent by workers. The challenge here is that the salary levels are often far below what is needed for a decent standard of living. In China, for example, living wages are an estimated two to three times the local minimum wage¹³, yet many production line workers earn the legal minimum wage or only slightly more. Because the labor costs are based on a wage which leaves workers stuck in poverty, the product price is also underestimated. By calculating and paying what the true price for labor should be, the supplier is empowered to offer their workers a living wage or income.

Suppliers need support to pay their workers a living wage

The electronics industry is highly competitive and is notable for having a large number of companies with negative earnings.¹⁴ For example, in 2017, the semiconductor and other electronic components industry was ranked among the top four least profitable out of thousands of industries, with an

average profit margin of 0.3 percent.¹⁵ The profit margins of Foxconn and other companies offering electronics manufacturing services (EMS) that design, manufacture and repair electronic devices have dropped to two to three percent, and some are even generating no profits. While labor costs represent only two percent of the EMS product price, they represent more than 40 percent of the cost to run a factory.¹⁶

Because legal minimum wages are far below the actual wages required for a decent standard of living, and because of tight competition between manufacturers and low profit margins, it is challenging for manufacturers to pay living wages solely based on their own initiative. This is true for any globalized, competitive supply chain, whether it is for smartphones or bananas. There is therefore a shared financial responsibility to increase wages to *living wages* - not only for the workers in our own company, but throughout the supply chain. Companies can support their suppliers to pay living wages by ensuring the product prices they pay are

¹³ <https://www.fairphone.com/wp-content/uploads/2021/01/Fairphone-Research-Living-Wage.pdf>

¹⁴ <https://www.investopedia.com/ask/answers/051215/what-profit-margin-average-company-electronics-sector.asp>; <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/consumer-electronics-gets-back-to-basics>

¹⁵ <https://www.forbes.com/sites/sageworks/2017/09/24/these-industries-generate-the-lowest-profit-margins/#b34e1d5f49d2>

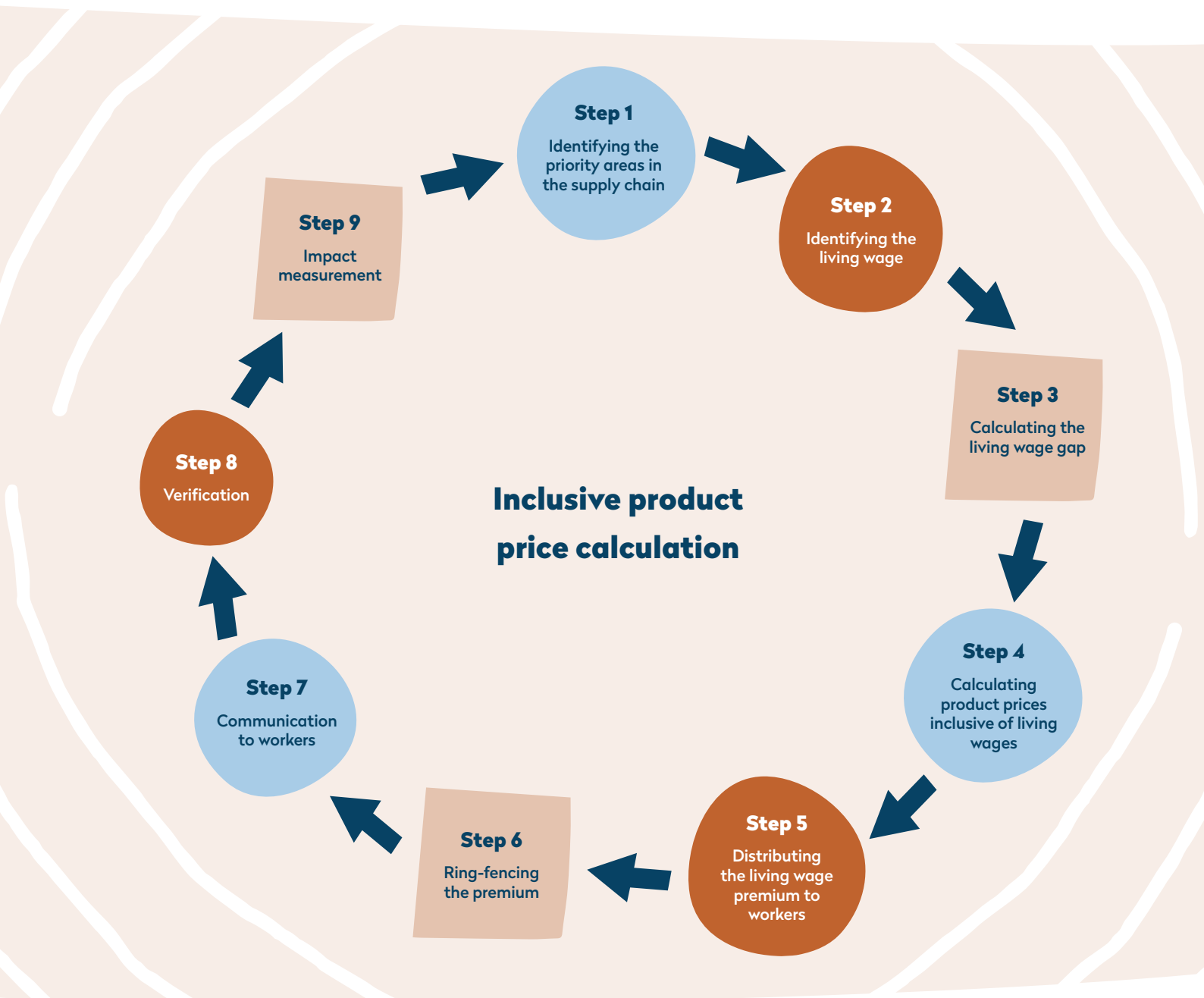
¹⁶ European Trade Union Institute (ETUI) "Flexible workforces and low profit margins: electronics assembly between Europe and China European". Page 166

inclusive of living wages. Realistically, increased labor costs will either affect the margins of the companies further down the supply chain, or have to be passed on to the consumer. For Fairphone, the price increase for our share of a living wage for the workforce at our direct suppliers is less than \$2 USD per smartphone. This equals 0.3 percent of the retail price of our smartphones. That's less than the price of a cup of coffee in your favorite coffee house. We feel that such a margin can be easily absorbed by the brand or its customers.

But how do we know what an inclusive product price is? The steps to calculate this include:

1. Identifying the priority areas in the supply chain

As a first step, it is good to identify where to best focus your efforts to support living wage or income in the supply chain. This can be based on mapping how big the risks of underpayment is in the countries that are part of your supply chain and looking for large gaps in living wage and income and labor intensive production. The next step is to identify where there is leverage or opportunity to address wage or income disparity with direct suppliers, longstanding business relations, or production sites that have already put in place some decent work improvement programs.



Local and national living wage estimates may already be available from organizations like the Global Living Wage Coalition, WageIndicator Foundation, Fair Wage Network or Asia Floor Wage. IDH's Living Wage Benchmark Finder tool¹⁷ may be helpful to identify relevant living wage and income estimates, including those publicly available and those available for purchase. You'll need to collect legal minimum wage data. WageIndicator Foundation can help, as they have a public database of legal minimum wages.¹⁸ Comparing the legal minimum wage versus the living wage or income estimates can identify 'hotspots' for supply chain interventions. In case no living wage or income estimates or legal minimum wage are available, statistics on the number of people living in extreme or moderate poverty may serve as a helpful risk indicator.

Companies have leverage to influence the wage or income of the workers of a direct supplier through their own product pricing. Besides looking at direct or indirect business relations, further prioritization can be made based on production volumes, long standing business relationships or starting with suppliers who already demonstrate a high maturity on, or commitment to, ethical production and sustainability. For indirect suppliers, deeper in the supply chain, it could make sense to start with integrating living wage and income goals into wider programs targeting ethical or sustainable production.

Fairphone's direct suppliers are based in China, where a living wage is two to three times the legal minimum wage. So it made sense for Fairphone to focus on living wages there as a start.

Fairphone further supports living income of artisanal miners in the Democratic Republic of Congo, as part of our agenda to realize conflict-free and better-mined material supply chains. Living income programs are different from those focussing on living wages, both in calculating the multiple income sources that artisanal miners or small scale farmers may have as well as in implementation. Organizations like LICOP, IDH and ALIGN provide more guidance on how to calculate income and inclusive product prices in case of self-employed workers in the supply chain. The following steps will describe how to move forward with enabling living wages at direct suppliers.

¹⁷ <https://www.idhsustainabletrade.com/livingwage-identifier/>

¹⁸ <https://wageindicator.org/salary/minimum-wage>

¹⁹ <https://www.idhsustainabletrade.com/idh-living-wage-identifier/>

²⁰ [Amfori Template 5: Fair Remuneration Quick Scan](#)

²¹ [Anker, R. and Anker M. \(2017\) Living wages around the world Manual for Measurement](#)

2. Identifying the living wage for a supplier

The next step is to focus on the supplier specific context. As described in step one, local and national living wage estimates may already be available. There are multiple credible methodologies for calculating living wage and income. For example, IDH recognizes five methodologies as credible for estimating living wages, including the Anker, WageIndicator, Fair Wage and US Monthly methodologies.¹⁹ Accepting estimates from multiple methodologies increases the chance there is a recent national or local living wage estimate readily available.

Because the cost of living in a big city may be different from the cost of living in a small village, local estimates can be especially useful. But if local figures are not available, national estimates can serve as a useful point of reference.

Social compliance standards may also offer support. For example, SA8000 and Amfori BSCI deploy a simplified methodology ("Fair Remuneration Quick Scan") to empower auditors to make an estimate of the local living wage in their audit report.²⁰ If no national or local estimates are available, a new estimate may be made by the company or a service provider. The open access manual of the Anker methodology describes in great detail how to calculate a living wage or income.²¹

In addition, we recommend asking workers for an estimate of their cost of living, via a worker survey or worker representatives. This helps to sense-check the independent estimates (which might not consider local circumstances or may be slightly outdated) and help achieve maximum positive impact.

It is important to note that living wage estimates are just that: estimates. The cost of living changes on a daily basis. When there are multiple living wage estimates available, we recommend prioritizing robust estimates that align with the workers and local sources. Alternative strategies include always using a specific methodology (if available), going for the most recent estimate, averaging the different estimates, or going for the lowest estimate. In countries where living wages are two or three times the legal minimum wage, it is more important to start to bridge the gap between the current pay and any living wage estimate than to get stuck and not implement living wage improvements.

3. Calculating the living wage gap

After identifying the best living wage estimate to use, the next step is to understand if there is a gap between the wages of workers and the living wage, and if so, how big that gap is. For this step, it is important to look at wages received for a *standard* workweek, as per the definition of living wages. No one should have to work excessive overtime to afford a decent standard of living. How many hours are in a standard work week may differ per country and is often defined by law or a collective bargaining agreement. If there are no maximum working hours, its recommended a standard workweek has a maximum of 48 hours per week (in line with ILO's definition of a standard workweek).²²

Take-home wages of workers may include (excessive) overtime and bonuses dependent on performance or quality. It is important to only use the fixed remuneration a worker can expect for a standard workweek, without any fluctuating bonuses for performance or overtime, when calculating the living gap.

For an extensive review of the overall progress towards living wages of the whole workforce of a supplier, IDH's Salary Matrix can be of help.²³

In a simpler review, compare the wage received by the lowest paid workers to the living wage. If the lowest paid worker in the company earns at or above the living wage for a standard workweek, the product

price includes a living wage for workers. Then there is no need for any further analysis of that supplier. If the lowest paid worker earns less than a living wage, we continue to calculate what an inclusive product price should be.




4. Calculating product prices inclusive of living wages

If there is a gap between the wages of workers and the living wage, the product price needs to be recalculated to cover the gap. In many cases, a producer has many customers. A brand such as Fairphone often has only 1 - 10 percent of the total production capacity of a supplier. To define how big Fairphone's share should be in bridging the gap to living wages for all factory workers, we looked at how much labor time is spent per phone. This approach is fairer in that the contribution per brand customer of the factory is proportional to their size of production. It considers the wage and time spent per function on production for a specific product. It offers a detailed and precise calculation of what the product price *should* be, which would enable a living wage to be paid to workers.

Method 1: Detailed product calculation

For the detailed calculation method, we look at all the different roles - including different seniority levels - needed for the manufacturing of the product, and identify per role and wage level how much the worker earns (for a standard workweek, without overtime or fluctuating bonuses), how big the gap is with a living wage and the amount of time spent on production.

Fictional example of detailed calculation method

	 Role 1 Junior prod. line worker	 Role 2 Experienced line worker	 Role 3 Quality control
Wage p/ month	100	120	140
Living wage p/ month	150	150	150
Living wage gap	50	30	10
Multiplied by # of workers in this role	* 10	* 17	* 2
Needed to close gap	500	510	20

Total needed to close the gap **1210 USD / 10000 (# products produced per month) = 12 cent per product**

²² <https://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/working-time/lang--en/index.htm>

²³ <https://www.idhsustainabletrade.com/living-wage-platform/salary-matrix/>

Pros

- A precise method to calculate the product price that includes living wages.

Cons

- A significant effort is needed to identify the wage and time spent for each role; it might be a challenge to convince the supplier to cooperate.
- It might be a challenge to convince the supplier to provide this level of transparency.
- Not as easy to scale within the production site when this calculation needs to be done for each specific product and customer.

Method 2: Simplified calculation

For the simplified calculation, we use average wages and a simplified full time equivalent (FTE) basis for approximating time spent on the production line. Ensure that the averages have the same length of time - i.e., per month, week, day or hour. Suppliers often deploy a similar method to calculate the labor cost for product pricing or human resource planning, making this easier to calculate and scale to other products made by the same producer. Fairphone has taken this approach with its suppliers so far, as it was easier to implement and scale.

Pros

- Easy to calculate: using averages and calculation methods of the manufacturer, more realistic ask for small customers.
- Easy to scale: the suppliers can calculate the living wage premium for any product for any customer.
- Easier to scale when producing many different, dedicated products for multiple products or production lines with a variety of roles and salaries.

Cons

- Less precise than when the wage gap is split for each role and wage.

Tools such as Fair Wear’s Fair Price app can also be useful to calculate a product price that includes a living wage.²⁴ Fair Wear’s method uses “working minute cost” to calculate the inclusive product price. This would require “open costing”, where the supplier is fully transparent on product price build-up. This would be highly recommended, but not all suppliers may be willing to offer this level of transparency yet.

Note that these kinds of calculations allow a company to determine their share of the financial responsibility for paying living wages at the supplier,

Example of the simplified calculation method:

Living wage per worker per month	4265 rmb
Minus	-
Average monthly wage for production line worker for standard workweek	2100 rmb
Multiplied by	×
# FTE on production line	88 FTE
Divided by	÷
# of products produced per month	15000

1.99 USD per smartphone

based on their share of the production. If all brand customers pay inclusive prices, all the supplier’s workers will receive a full living wage (or more). If not every customer participates, or only one customer pays inclusive prices, workers will not yet receive a full living wage. But this should not be a reason not to pay inclusive product prices: any progress towards living wages is already impactful for workers struggling to pay their bills.

5. Distributing the living wage to workers

The next step is to decide how the living wage premium is distributed to the workers. In line with the concept of a living wage, the additional product price premium is best distributed to workers as a higher wage, for example as a bonus. In the previous step we defined the premium per product. The bonus to workers will fluctuate with production volumes. The distribution is best customized to the production site specifics, as distribution will depend on the size of production per customer and the size of the workforce. Consider the following:

- Who will get the bonus?
 - Anyone below the living wage estimate? The 20% lowest paid workers? Any worker below a certain wage?
 - And what is the scope: a production line, a business unit, the whole facility?

²⁴ <https://www.fairwear.org/programmes/lw-tools-and-benchmarks/>

- How often will the bonus be paid?
 - Monthly, quarterly, annually? How to make it most impactful while also ensuring it will reach all the workers (also temporary workers)?
- Will workers perceive this as impactful to their salary?
- Will workers perceive this distribution as fair?

To answer these questions, Fairphone and the management of our supplier have consulted workers (or their representatives) in the discussion about distribution set-up. This is to ensure that the workers perceive the distribution as fair and impactful, maximizing the positive impact. In general, we have learned that:

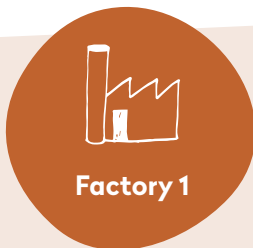
- Workers prefer a small bonus shared with all, rather than a large bonus for a small group of workers: don't distribute a bonus only to workers on one production line (risks of unfair treatment and favoritism).

- Remain flexible: worker preferences may change over time; for example, changing their preference from quarterly pay-out to monthly pay-out.

There is no right or wrong way to distribute a living wage bonus, as long as it fits with the wishes and expectations of workers and management.

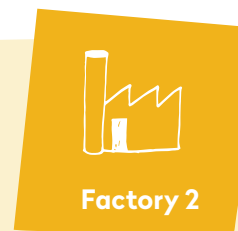
Our recommendation is to direct the premium to worker salary. Alternatives should only be considered if the salary increases are too small to be impactful, such as directing the funds to offer fringe benefits, contributing to a fund where worker representatives can decide how the fund is spent, or a fund where workers can ask for financial support as microloans or as a gift in case of family circumstances.

Examples of distribution from Fairphone at two direct suppliers



Distribution:

- Everyone whose wage is below the living wage estimate, regardless of their role and not limited to Fairphone production line, and who work at least one month at the factory.
- Bonus is skewed so lowest paid workers receive higher bonus than those who are close to living wage already.
- Workers felt it is fairer that those who work the whole month receive a larger bonus than those who are partially out of the office. Bonus is skewed based on attendance:
 - 90 - 100% attendance = 100% bonus
 - 80 - 90% attendance = 67% bonus
 - 70 - 80% = 33% bonus
 - < 70% = no bonus that month
- Originally paid out on a quarterly basis. Now paid out on a monthly basis, at the same time as a regular salary. Listed on salary slip as "Fairphone Bonus".
- On average, 8% of the living wage gap was closed. This means workers receive approximately one month of extra salary per year. Some of the lowest earning workers received up to 3 months of extra salary, closing the living wage gap by 24%.



Distribution:

- Everyone who earns less than the factories' base wage + 100 RMB, regardless of their role and not limited to Fairphone production line.
- All workers receive the same bonus, as their salary (and thus the gap towards a living wage) is the same.
- Bonus is paid out on a quarterly basis, at the same time as the regular salary. Workers need to still be in the salary system, those who have left the factory do not receive the bonus anymore.
- Approximately 50% of the workforce is eligible.
- On average, 8% of the living wage gap was closed. This means workers receive approximately one month of extra salary per year

6. Ring-fencing the premium

The living wage premium is intended to go in full to the workers to add to their income. This can be best achieved by ring-fencing the premium explicitly as an add-on on the invoice, on top of the regular (FOB) product price. This means the supplier needs to ensure that the funds for the living wage remain reserved until the salary pay-out (potentially on a separate bank account). Examples of companies taking this approach are listed in Fair Wear's publication "Living Wages: an explorer's notebook".²⁴

Alternatively, separate invoices could be sent for the living wage premiums. This would mean the buyer needs to reserve the funds until the salary pay-out to the supplier's workers. This is how Fairphone has worked with its suppliers so far.

7. Communication

Communication to workers is critical. Ensure that the workers understand how the bonus is distributed, that it is linked to customer production volumes (and not a fixed amount offered by the producer), and how workers can air grievances in case they have not received the bonus they would expect. Communicating the actual height of the bonus to the workers when it is paid out helps reduce the risk that workers may face reductions (e.g., workers paid via labor agencies).

8. Verification

Ensure a verification process is in place. Third party verification would be most reliable, ideally combined with an already-scheduled compliance audit. If this is not possible, alternative set-ups with third party or second party verification can be determined. This would require random sampling of workers from the list of recipients of the living wage bonus, and evidence such as salary slips and/or bank transfers to determine if the bonus has been paid out as expected. Ideally, workers are also interviewed in person or called remotely. Pay attention to more vulnerable workers - such as those who receive their wages via a labor agency - to ensure they receive their bonus in full.

9. Impact measurement

To build the business case, it is important to measure and report on common impact indicators.

Impact indicators include:

- Employee satisfaction
- Employee satisfaction with wages/perception of wages as fair
- Employee retention rates
- Number of workers who received a bonus
- Additional income received per worker per year
- Percentage of living wage gap closed
- Amount of rework needed

3.2 Key strategies to enable living wages beyond the product price

The core strategy to enable living wages and incomes in the supply chain is through inclusive product prices, as described in section 3.1.

Here we will describe three additional strategies to further support and enable living wages and incomes.

3.2.1 Good purchasing practices

A company's purchasing practices have a direct impact on the working conditions for the workers of a supplier. Poor purchasing practices may lead to delayed or partial payment of wages, excessive (forced) overtime, unauthorized subcontracting, increased use of temporary workers, or even forced or child labor. But good practices can reinforce good working conditions.

There are several tools available to review your purchasing practices, for example IDH's Sustainable

Procurement Kit²⁵, ACT's Purchasing Practices Self-assessment²⁶, or Better Buying's guide to seven key purchasing practices²⁷. Key recommendations include:

- Setting product prices that allow for good working conditions and are inclusive of living wages
- Offering long and stable forecasting
- Reasonable payment terms, paying on time and in full
- Building long term partnerships
- Offering financial incentives for high performance on human rights and sustainability in general

3.2.2 Collective action

Work collaboratively with others to achieve living wage and income in your own supply chain and on an industry-wide scale. Share lessons learned to accelerate implementation, for example in pre-competitive networks, initiatives or partnerships. These may be on national level, industry level or cross-sectoral such as IDH, UN Global Compact and others. Engage in joint advocacy so living wages and incomes become part of legislation in producer and consumer countries, helping to level the playing field. The textile industry, for example, has ACT²⁸, an inspirational collaboration of major fashion brands that lobbies for

living wages and better collective bargaining in their supply chains.

However, without companies that demonstrate they are committed to pay product prices that include living wages, it is unlikely that governments or collective bargaining agreements will increase minimum wages towards living wage, especially if the gap towards living wage is substantial. The fear that the local industry will lose production to other countries will be too great, especially if wages need to be doubled, tripled or more to reach living wages.

3.2.3 Support social dialogue and wider improvements to the workplace

In the long term, wage-setting should be locally owned. This means respecting and promoting freedom of association and social dialogue in the workplace. Living wage programs can be bolstered by buyer companies through programs that strengthen worker representation, ensuring both management and worker representatives have the capacity and the knowledge to engage in productive dialogue.

It is important to ensure living wage premiums lead to increased salary for workers. Beyond this, approaching

wages and benefits holistically and increasing workers' understanding of how wages are built up can further create a strong base for social dialogue, as well as other efforts to ensure human rights and a safe and healthy workplace.

Social dialogue on regional, industry or national level can also be supported. For example by supporting unions and trade unions to access and understand living wage and income estimates when negotiating collective bargaining agreements.

²⁵ <https://www.idhsustainabletrade.com/sustainable-procurement-kit/>

²⁶ <https://actonlivingwages.com/2018/12/19/act-news-on-ppsas/>

²⁷ <https://betterbuying.org/about-purchasing-practices/>

²⁸ ACT

4 Start paying living wages in your supply chain!



To move towards a system where living wages are the norm and not the exception, we call on all companies to undertake all four strategies simultaneously: paying product prices that include living wages, ensuring responsible purchasing practices, taking collaborative action and encouraging social dialogue.

Fairphone's efforts to increase wages and employee satisfaction are built on research, external consultation and employee input, but we're still learning. To further improve initiatives like these, learn from each other, and start making living wages the norm in our industry, we'd like to call on all stakeholders to take real action towards helping workers in their supply chain achieve decent work and living incomes. Here's how you can take the first steps:

- **Start paying product prices that include living wage and income.** Just start. No matter what size your production volumes are, any progress towards living wages or incomes in your supply chain is impactful for people who struggle to pay for their basic needs.
- Ensure your **purchasing practices** enable the supplier to invest in good working conditions and keep a stable workforce, through solid forecasting, reasonable payment terms, financial incentives and longer term commitments where possible.

- **Work together** to drive change at the industry level. Work collaboratively with others to achieve living wage and income improvements in your own supply chain and on an industry-wide scale. Share lessons learned and collectively lobby for living wages and incomes in legislation in producer and consumer countries, as well as better bargaining agreements.
- **Support social dialogue** and wider improvements to working conditions. Address wages holistically, ideally as part of a wider working conditions program, and support social dialogue so that in the long term wage setting is locally owned.
- **Share lessons learned.** Accelerate industry change by sharing what you have learned.

When it comes to living wages and incomes, the question for the future isn't whether we can afford to pay prices that support a living wage, but whether we can afford *not* to.²⁹

²⁹ [Fairtrade \(31 Jan 2020\) A Business case for living incomes](#)

