

Implementing SDG #8 through the WFTO Fair Payment Process

- Good practice, challenges and learning



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Introduction

Business leaders are increasingly wondering how they can make a positive impact on the world. The concepts of Fair Payment and Living Wage are increasingly central in these attempts. This has proven to be a challenge for many companies as they work out the trade-offs and practical steps in transforming supply chains to achieve a living wage.

Many of the Sustainable Development Goals (SDGs) can only be achieved if business and trade are paying and employing people in a manner for them to (at least) meet their basic needs. To address this, tools to calculate what that would mean are needed before steps can be taken to actually work towards paying these wages.

The World Fair Trade Organization (WFTO) and the mission-led enterprises that make up its membership have embarked on a new stage in their commitment to delivering a Living Wage and a Fair Price to workers and producers around the world. WFTO Members have developed a calculation tool for determining a Local Living Wage, which can be applied in every country, for every product and in every sector. This tool is part of WFTO's *Fair Payment Process*, which was formally adopted by the membership in 2017 and members are now implementing it as the newest tools for compliance with WFTO's Fair Trade Standard. In May 2018 WFTO-Europe commissioned an external consultant to analyse the implementation of the process through interviews with key stakeholders, as well as exploring the links between the work done by WFTO on Fair Payment and **Sustainable Development Goal #8** (*Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all*). Results and findings of the analysis are summarised in this report, and unless otherwise stated, all facts, figures and statements are derived from this analysis. The report further comprises a

brief explanation of the WFTO Fair Payment Process and recommendations for how this could be used to strengthen progress towards the SDG's by business and governments, as identified by the consultant.

Key Definitions

A **Fair Price** is freely negotiated through dialogue between the buyer and the seller and is based on transparent price setting. It includes a Fair wage and a Fair Profit. Fair Prices represent an equitable share of the final price to each player in the supply chain.

A **Fair Wage** is an equitable, freely negotiated and mutually agreed wage, and presumes the payment of at least a Local Living Wage.

A **Local Living Wage*** is "Remuneration received for a standard working week [no more than 48 hours] 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."

* Based on the definition in: **Living Wages Around the World – Manual for Measurement**, Richard and Martha Anker, 2017 Edward Elgar Publishing Limited, p. 8

Fair Payment and Living Wage

Living Wage is a human right

Currently, 340 million workers and their families are living on less than US\$1.90 per person per day, the international poverty lineⁱ. The wages and incomes of millions of people remain too low for them to meet their basic needs and in response initiatives have sprung up around the world to boost wages to a Living Wage.

A Living Wage goes beyond tackling extreme poverty. It aims to ensure that people can afford a basic lifestyle and participate in social and cultural life. It is context-specific and is about going above poverty wages to ensure people can meet their basic needs.

According to the Universal Declaration of Human Rights, a Living Wage is a human right (article 25.1):

"Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control."

Drafted 100 years ago, achieving a living wage is also in the Constitution of the International Labour Organization (ILO). The idea is not new, nor is it easy to implement. Yet it is unavoidably the focus of any business that claims to follow any ethical standard.

Fair Payment and Living Wage are pivotal to the SDGs

Most directly, efforts on Fair Payment and Living Wage are central to achieving **SDG 1: *End poverty in all its forms everywhere***. They are, however, also critical to **SDG 10: *Reduce income inequality within and among countries***. This is because without lifting the incomes of the lowest earners, income and wealth inequality is likely to grow, not fall. Additionally, Fair Payment and Living Wage is also important for **SDG 8: *Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all***. Without improved wages and incomes for the lowest earners, decent work and inclusive economic growth will remain unachieved. Lastly they form an indispensable part of achieving **SDG 12: *Responsible production and consumption patterns***. This can only be achieved if supply chains are organised in a way which enables all participants to earn a Living Wage and undertake sustainable production practices which safeguard the environment and protect workers' rights. The constant attempts at squeezing prices, e.g. cost-cutting practices often seen in textile supply chains, which continues to erode the wages and working conditions of workers and producersⁱⁱ are prime examples of why Living Wage is key to responsible consumption and production patterns. If they are serious about achieving the SDGs governments globally must prioritise efforts to enable the payment of Living Wages which meet the basic needs of workers and producers. Measures to enable this include:

- Mandating public procurement which ensures a Living Wage is paid to workers fulfilling government contracts.
- Providing support to businesses to enable them to develop business models which pay a Living Wage (including legislation to this effect).
- Implement legislation to stop unfair trading practices (UTPs – [see page 10](#)) within supply chains.

WFTOs approach to Fair Payment

The WFTO has embarked on a new stage in its commitment to delivering a Living Wage and a Fair Price to workers and producers around the world. The focus is on supporting WFTO members to work together with their workers and producers to calculate a Local Living Wage, which fits their business model and the context in which they operate rather than imposing a standard wage.

The Local Living Wage – and the way it is constructed and supported by the Local Context Notes, can be made to fit any organisation in any region. The approach is 'bottom-up', instead of 'top-down' - in other words, each organisation calculates for itself what its Local Living Wage will be. The aim is fairness and building trust between trading partners: all the links in the trading chain should be working for the health of the whole chain.

A Living Wage approach inspired by mission-led businesses

As a community of mission-led Fair Trade Enterprises, WFTO members demonstrate unparalleled commitment to their producers, suppliers and communities. They exist to benefit economically marginalised people and communities and make trade-offs in their favour.

Fair Trade Enterprises are about building an entire business with a social mission at its core. They are about trade and markets but the priority must be to benefit workers, farmers and artisans. This design feature means they are about taking off the straight-jacket that mainstream business wears, where they can do right by people and planet only if it can be shown to lead to increased profits. They challenge the assumption that we must work with and around pursuit of ever-more profits as the core driver of business. Fair Trade Enterprises are a model of business that is in stark contrast to the design of mainstream business.

The managers of Fair Trade Enterprises are not constantly pressured to drive down costs and squeeze their suppliers in order to increase profits. Typically, the mission of Fair Trade Enterprises is embodied structurally in a variety of ways that are in stark contrast to mainstream businesses. These include:

- A mission which is prioritised in their legal documents, such as constitution, articles of association or by-laws (where legally possible);
- A board which has representatives of producers or organisations that are mission-led themselves;
- Profits which are mostly reinvested into the Fair Trade business or used to directly benefit workers, farmers or artisans; or
- Ownership which is substantially controlled by producers or mission-led organisations.

While they adopt such distinct structural characteristics, Fair Trade Enterprises take many legal forms. They are private businesses, cooperatives, non-profits and associations. These enterprises are diverse – in capacity, capability and context – from a member who works with rural artisans in the high Andes – or a group of functionally illiterate basket weavers, three days travel from Dar es Salaam – to large importers in developed countries. WFTO members function in dynamic economic worlds; some inside Fair Trading chains, some in conventional trade with conventional market forces, some in both worlds.

A Living Wage intervention for enterprises that are mission-led, and fully committed to their workers, producers and communities is and should be different to an intervention for mainstream businesses. These are businesses set up to channel value, profits and opportunities to economically marginalised producers, and a more context-driven and collaborative approach is possible. That is the essence of the WFTOs approach to Fair Payment and Living Wage. This is also a great opportunity for mainstream businesses to use as inspiration and see what could work in their environments.

WFTO's Fair Payment Policy is expressed in the WFTO Fair Trade Standard in Principle 4: Fair Payment

Fair Payment is made up of Fair Prices, Fair Wages and Local Living Wages. A Fair Payment is one that has been mutually negotiated and agreed by all through on-going dialogue and participation, which provides fair pay to the producers and can also be sustained by the market, taking into account the principle of equal pay for equal work by women and men. The aim is always the payment of a Local Living Wage.



Context matters

In its simplest form, local context is what makes the WFTO situation (everything from the geography to the climate, the political and social situations, the type of business we're in and the people we employ), different from the situation of another organisation. It is possible for 2 organisations in the same town to have completely different local realities – and it is these realities we have to consider alongside the calculated or benchmarked Living Wage to get to a number that will truly represent a Local Living Wage. For this reason, when calculating the Local Living Wage, the enterprise also lists Local Context Notes, that is, conditions reflecting the local context, which will inform and perhaps modify slightly the end figure of the Local Living Wage.

Barriers to action

When an enterprise employs and trades with economically marginalised people, there are additional barriers to improving wages. Costs and efficiency may be a factor, margins and retail prices may prevent action, and very specific local factors may create additional challenges. In engaging the WFTO community of enterprises around the topic of Living Wage, specific lessons were uncovered. In particular, certain fears expressed WFTO members regarding what the new steps and criteria of the Fair Payment Process would entail are worth noting:

1. An inflexible and immediate 'compliance-based' approach to living wage that would force immediate and impossible increases in prices.
2. Time needed to implement the system would be longer than allowed under the WFTO Guarantee System for verifying compliance with the Fair Trade Principles.
3. The new tools would require significant training for producers in particular, and buyers as well, to use.

Margins and pricing: Insights for companies on taking steps towards Fair Payment and Living Wage

The issue of adjusting pricing and margins is a major issue that often comes up in discussions about living wage. During interviews with the consultant, interviewees noted that importers and retailers will need to avoid or constrain increases in retail price arising from rises in the Free On Board (FOB) price¹ being amplified by their own margins, and this may require them to look at their own trading model and practices. One proposal was that margins should be frozen – maintaining the absolute value although reducing the percentage margin – over the transition period (while wages and incomes are increased to get to a living wage). The analysis of the consultant covered a specific example of a collaborative process to agree a Fair Wage facilitated by Oxfam Intermon in Spain, which demonstrated how to navigate complicated price dilemmas when dealing with marginalised producers. The situation required trust and commitment that allowed Oxfam Intermon, which is both an importer and retailer, to improve wages without damaging the sales channels on which the producers rely. In the instance, Oxfam Intermon accepted the need to reduce their margins to prevent a damaging rise in retail price. Under the proposed solution, the group employing artisans, the Fair Trade exporter, and Oxfam (all of which are WFTO members) would reduce their margins slightly for increasing the labour component of the retail price by more than 2.5 times with only a 5% increase in final retail price – the increase which they believed to be acceptable to consumers. To sustain the reduced margins, however, Oxfam Intermon and the other WFTO members will need to increase efficiency through higher volumes and economies of scale.

The challenges facing WFTO and its members in implementing Fair Wages are much the same as those facing profit-maximising companies. There is learning within WFTO about company behaviour, policies and practices which could help mainstream companies, and vice versa.

The ***common vision and shared commitments*** to the Fair Trade Principles are a good platform for implementing Fair Wages. It is hard to imagine the discussions aimed at attenuating cost impacts of raising artisan's wages, which Oxfam Intermon related and reported to the consultant, succeeding in a typical commercial value chain, which is led by a shorter term vision of commercial self-interest. The sense of partnership in a joint endeavour to improve supply chain conditions is starting to be adopted by companies within the Ethical Trading Initiative (ETI) as well.

The Fair Payment Process also includes a ***pricing tool***, which is a tried and tested method to create transparency around wages and prevent them being eroded during price negotiations. The tool is widely used by some (not all) WFTO members. It was also adopted by the ETI in its Homeworker Guidelines as good practice in commercial chains, and has been adopted by at least two ETI member companies, so they can ensure that homeworkers doing hand-work in sub-contract chains are paid piece rates equivalent to the minimum wage.

¹ Purchase price which includes the cost of the product being delivered to the nearest port.

Overcoming challenges to implementation of Fair Wages & Payments

As illustrated above, Living Wage and Fair Payment is closely connected to pricing. In many instances, there is the challenge of accommodating increasing pricing that allows for Fair Payment and Living Wage. Often, increases in product price would be required, which if implemented insensitively or too rapidly, could damage sales and therefore producers' livelihoods.ⁱⁱⁱ For this reason the WFTO Fair Payment Process encompasses the principle of negotiation over prices between adjacent actors in the value chain, in order to agree a fair compromise for achieving the Local Living Wage for producers and workers in a manner that avoids destabilising trade. The experience of Oxfam Intermon, already noted above, showed how it was vital to secure commitments to reduce margins of the retail, export, and intermediary organisations to absorb the cost impact of raising the wages of artisans. The process also envisages a Living Wage route map, which allows for raising wages over time, and time for increases in productivity (at producer level) and trading efficiency (at importers and retailers) to prevent negative outcomes. Such measures, relating to economies of scale and efficiency, will also play a vital role for avoiding price escalation during the process towards achieving Local Living Wages for producers, workers and artisans.

The principle (embodied in Fair Trade Principle #4: Fair Prices) of equitable price negotiations between actors along the value chain is good practice, sadly often lacking in mainstream business practice. Its absence drives labour abuses^{iv}, and it is essential to attenuate the escalation of retail price of any increase in production costs which are needed to raise wages. Uniquely, WFTO brings together producers, exporters, importers and retailers who have a common sense of purpose and have signed up to commitments to trade fairly and are better placed for such negotiations.

Collaboration at local/national levels

The analysis further yielded that collaboration between WFTO members could reduce the workload of implementing the Fair Payment Process and avoid duplication of efforts. Benchmarks and data for the Wage Ladder could be gathered in collaboration and shared. This would not only reduce the work-load, it could also help attenuate competitive pressures which potentially undermine implementation. Such collaboration could be facilitated or led by national Fair Trade networks and/or WFTO's regional branches.

The [Global Living Wage Coalition](#), for example, was created to reduce duplication of efforts in setting Living Wage benchmarks, and avoid damaging and fruitless debates over competing benchmarks, which have proved capable of delaying progress on Living Wage for decades (for example within ETI-member supply chains). The WFTO Wage Ladder which is part of the Fair Payment Process has a similar aim of sharing data, but is focusing attention on a longer-term, continuous process of raising wages rather than on benchmarks.

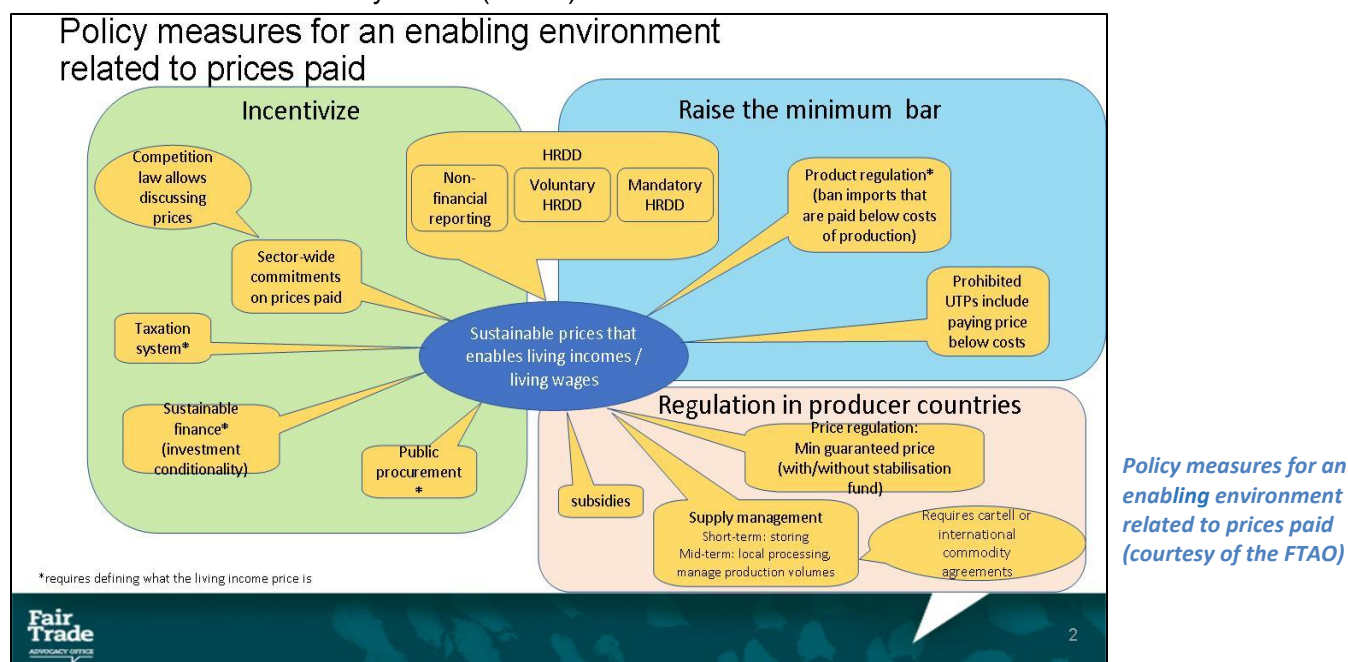
Similar collaboration also yielded positive outcomes in the experience of Oxfam Intermon noted above, with artisans at two producer-partners in Bangladesh, to agree a local fair wage. As a result of this experience, Oxfam Intermon recommended that the Fair Wage itself should be negotiated at a local level, considering the fact that the Local Living Wages would be different

e.g. for urban and rural areas, reflecting the costs of living in each. Working collectively would also help to create a momentum for raising wages. A Fair Wage agreed within a local sector would reduce potential competitive pressures, as a single new Fair Wage or Fair Price could apply to all WFTO members in a locality who agree to participate in a joint process.

Public policy

Public policies which support Fair Payment and Living Wages

There are many ways in which National and local Governments in both the global North and South, through policy and practice, can support the payment of Living Wages in supply chains. The Fair Trade Advocacy Office (FTAO) has summarised these below:



Many of these measures contribute towards achieving the SDGs more widely.

Unusually, Local Governments have a potentially significant role to play and Fair Trade can be one of the more effective elements within Local Government Strategies. Introducing sustainable development clauses into **public procurement** is a very direct way to increase demand for sustainable products and services, and Fair Trade certification, backed up by credible monitoring, is proven shorthand for delivery of Living Wages and sustainable development. **Local economic development** policies can support the uptake of Fair Trade sourcing and principles by local businesses and organisations. But perhaps the most impactful approach which Local Authorities have taken is through using Fair Trade to **raise public awareness** of sustainable development issues.

The European Union also has a pivotal role. Research by the Fair Trade Advocacy Office (FTAO) has identified a range of potential public policy measures to promote sustainable production and consumption, summarised below.

Public procurement

Conditionality in public procurement contracts of national and local governments and public sector organisations, such as universities, is an important strategy for expanding the market for sustainable products and services and at the same time raising awareness and gaining visibility of sustainable development with consumers and citizens. The EU 2014 Public Procurement Directive includes opportunities for procurers to include sustainability clauses. These can specify compliance with labour or certification standards, including that a Living Wage is paid. This is a tool which already exists and is readily available for national and local governments. Integrating clauses on payment of Living Wage to suppliers, producers and workers into their public procurement practices represents an active way to contribute to **SDG 1** (*no poverty*), **SDG 8** (*decent working conditions and economic growth*) and **SDG 12** (*responsible consumption and production*). The new calculation tools for Local Living Wage of the Fair Payment Process are the most recent means for enterprises responding to public calls for tenders to verify to procuring authorities that they have determined the Local Living Wage for their workers, suppliers and producers and that they are complying with it.

Unfair Trading Practices (UTPs)

In April, the European Union passed a Directive to prohibit unfair trading practices such as unilateral changes to supply agreements and making suppliers pay the costs of promotions.

The UTP Directive does not address any process through which supply chain actors might agree what constitutes Fair Payment (nor is there mention of living incomes or Fair or Living Wages). The Directive will need to be enacted into law in each of the 27 member states over the next two years. Each country has the option of whether to adopt the terms of the directive wholesale, or whether to go further. National governments of EU member states here have the opportunity to implement laws that go beyond the minimum, and this way contribute to the SDGs (see “Public Procurement” above) by requiring retailers and other companies to ensure payment of a Local Living Wage to suppliers, producers and workers. This might include:

- Making it an unfair trading practice to pay below cost-price for a product.
- Mandating buyers to arrive at the price for a product only after proper consultation with a supplier or producer.
- Requiring buyers to assess whether the price that they pay for a product is sufficient for supply chain workers to receive a living wage (the Fair Payment Process provides the tools for calculating the Local Living Wage of workers across the supply chains).

Conclusion

Achieving living wages and living incomes for all will require significant changes in commercial dealings. The inherent power imbalances of global value chains, and the poor commercial practices of many of the most powerful companies at the top of those chains, continue to drive negative impacts on pay and conditions in global value chains on which so many workers and farmers depend for their livelihoods. These negative outcomes affect and currently undermine the attainment of many of the Sustainable Development Goals, e.g. 1 (*no poverty*); 5 (*Gender Equality*) and 12 (*Responsible consumption & production*), among others. This highlights the

need for transforming the business models that dominate global supply chains in order to allow for trading practices that foster better outcomes for workers, farmers and artisans.



A critical starting point is to work out a local living wage (outlined above) and begin to identify the workers, farmers and artisans who are most vulnerable in order to prioritise their interests first. Next is to adopt and adapt appropriate trading practices, as modelled by Fair Trade. These include: direct and stable trading relationships; price-setting which is transparent, predictable and compatible with payment of fair wages (including through the use of pricing tools which ring-fence labour costs from price negotiations); Fair Trading Practices and Terms of Payment (see *flow diagram above*).

The insights from the global community of Fair Trade Enterprises (WFTO members) show this can be driven by the local context, and can be agreed with local producers in a way that is inclusive and gives them real voice. This bottom-up approach can be adopted and adapted by other enterprises who are ready to prioritise the interests of producers and take the important steps towards a living wage.

Notes and acknowledgements

- ⁱ **The Human Rights Opportunity – 15 real-life cases of how business is contributing to the Sustainable Development Goals by putting people first**, Shift Project Ltd., July 2018
http://docs.wbcsd.org/2018/07/The_Human_Rights_Opportunities.pdf
- ⁱⁱ **Paying for a Bus Ticket and Expecting to Fly. How Apparel Brand Purchasing Practices Drive Labor Abuses**, Human Rights Watch, April 2019 <https://www.business-humanrights.org/sites/default/files/documents/wrd0419.pdf>
- ⁱⁱⁱ **Fair Wages & Fair Prices**, Peter Williams, European Fair Trade Association [EFTA] January 2009, https://www.researchgate.net/publication/281825449_Fair_Wages_Fair_Prices
- ^{iv} See for example **Paying for a Bus Ticket and Expecting to Fly. How Apparel Brand Purchasing Practices Drive Labor Abuses**, Human Rights Watch, April 2019
<https://www.business-humanrights.org/sites/default/files/documents/wrd0419.pdf>

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