

Handbook on due diligence for enabling living incomes and living wages in agriculture, garment and footwear supply chains



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Introduction

Millions of workers globally are paid below living income and wage estimations, exposing workers to poverty and leading to other human rights risks. While the minimum wage represents the lowest legal pay set by governments to protect workers from exploitation, it often falls short of covering all essential expenses.

This Handbook demonstrates how responsible business conduct and the due diligence framework can be applied to address living income and living wage gaps by contextualising existing recommendations. The Handbook covers both living income and living wages as these concepts are intertwined. The Handbook can support companies in understanding whether they are associated with significant risks and impacts related to living income and living wages and where so, in responding to those impacts, regardless of their size, geographic location, and position in the supply chain. Income and wage risks and impacts are prevalent in the focus sectors.

The International Labour Organization (ILO) estimates that one in two workers worldwide does not earn a formal wage because they work as smallholders or homeworkers. The Food and Agriculture Organization (FAO) highlights how low wages in agricultural supply chains, compounded by factors such as seasonal labour and lack of protections, contributes to precarious working conditions. In the garment sector, wages are often below the poverty line due to a number of factors including high competition and poor purchasing practices, which increase the likelihood of excessive overtime and insecure contracts. Workers are particularly at risk in countries with inadequate public services, and where compliance systems, such as the labour inspectorate, are weak, and freedom of association and collective bargaining not protected. Women, predominant in both sectors, face additional gender pay gaps and discrimination. Despite initiatives to try to address these issues, living incomes and wages remain out of reach for many workers.

Under the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (MNE Guidelines), companies are expected to conduct due diligence on adverse human rights, labour and environmental impacts within their operations and supply chains¹. This includes, as employers, providing the best possible wages, benefits and conditions of work, within the framework of government policies and applicable international standards; these should be at least adequate to satisfy the basic needs of workers and their families (MNE Guidelines, Chapter V, Paragraph 4b). Actions towards achieving living income and living wages should be proportionate to the company's context and contribution.

This Handbook references international government-backed standards on responsible business conduct (RBC) and corporate due diligence including: the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD, 2023^[1]), the OECD Due Diligence Guidance for Responsible Business Conduct (OECD, 2018^[2]), the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (OECD, 2018^[3]) the OECD-FAO Guidance for Responsible Agricultural Supply Chains (OECD/FAO, 2016^[4]) and the G20/OECD Principles of Corporate Governance 2023 (G20/OECD, 2023^[5]) and also the UN Guiding Principles for Business and Human Rights (UNGPs), the ILO Conventions on wages, and the conclusions of the ILO Meeting of Experts on wage policies, including living wages (ILO, 2024^[6]). The Handbook also makes reference to the activities of voluntary living income and living wage initiatives, multinational enterprises and stakeholders, where relevant to provide examples.

Following introductory chapters to living incomes, wages and due diligence, the Handbook leads readers through the six-step risk-based due diligence framework, answering specific questions on how business can address living income and living wage gaps under each of the steps. Additional resources and tools are listed in Annex A.

Living income and living wages in global supply chains

This chapter introduces important concepts addressed in this Handbook, including income, wages, living income and living wages and their gaps.

Understanding living income and living wages

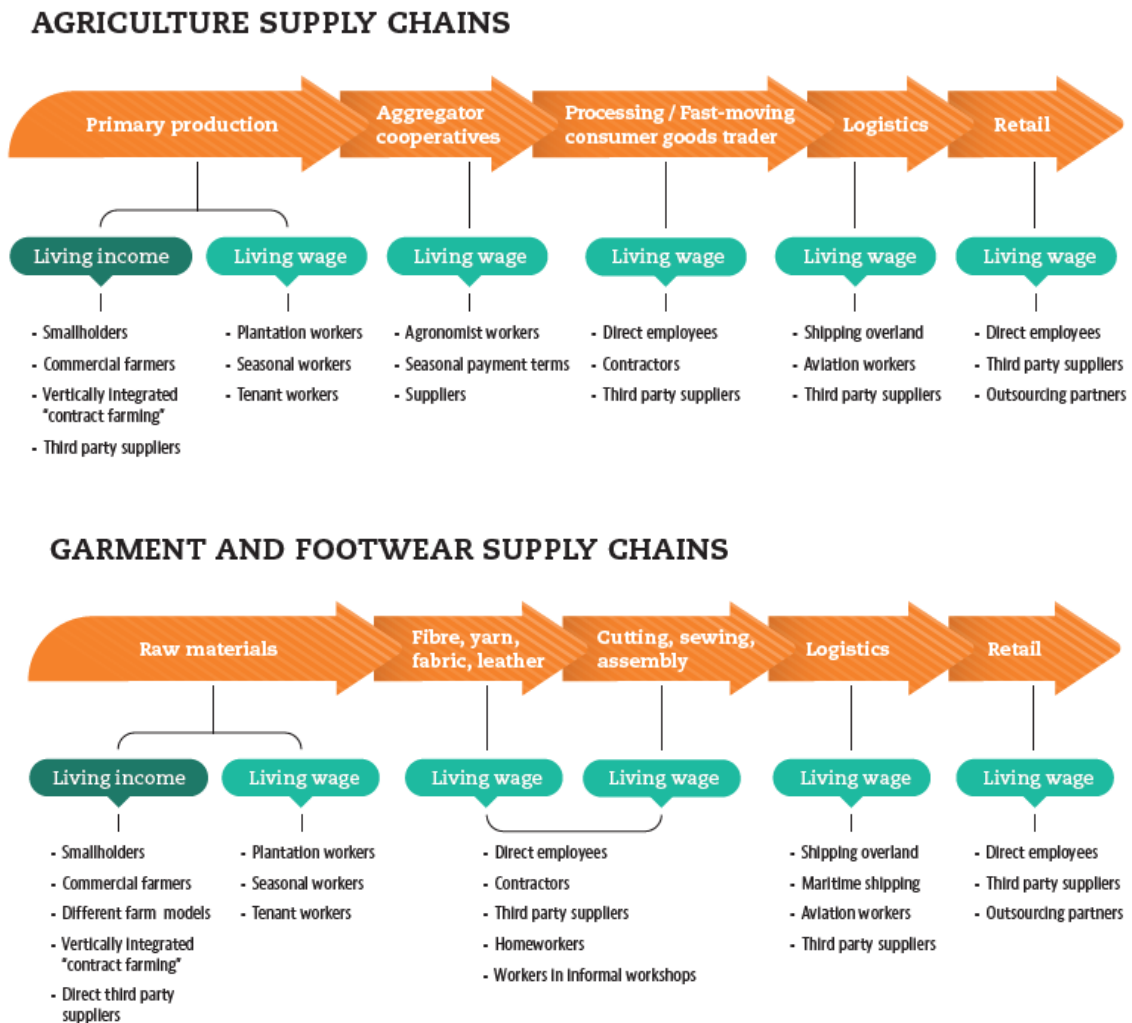
Income and wages

In this Handbook, income and wages refer to the remuneration that workers and farmers receive for their work (while income can also come from other sources) and both are relevant concepts for workers in the agriculture, garment and footwear sectors.

Income is considered at the household level and can come from or be impacted by multiple sources including income from employment, income from production (e.g. crops), produce consumed at home and from transfers, such as benefits or cash stipends. Understanding household income will be especially relevant for workers who are paid for the delivery of their goods or services, who are in seasonal work, or divide their labour between different types of work (which can include waged work). Incomes therefore go up and down according to work output and prices, as well as depending on which other forms of income the worker and their household has access to (ILO, 2023^[7]). Income is relevant in supply chains including smallholder farmers producing raw materials or ingredients in the agriculture sector (ILO, 2022^[8]) (GLWC, n.d.^[9]). It is also relevant for companies in the garment and footwear sectors as downstream users of agricultural products, and also because of the presence of informal work, such as homework, in garment and footwear production.

Wage refers to the fixed remuneration that workers receive for work done, paid at a regular frequency, for example at the end of the month. In the garment and footwear sector it is the predominant method of payment for workers in formal settings, such as in factories or small production units, as well as in all nodes of the supply chain that have employed labour such as distribution, logistics, warehousing and retail. It is also a relevant concept in the agriculture sector for workers engaged on farms or plantations, seasonal or contract workers, as well as other nodes of the supply chain that have employed labour from primary processing, packaging, manufacturing to distribution and retail. Wages can also be variable, such as is the case for employees who are paid piece rates, and paid in informal settings too. See Figure 1 as an illustration of where income and wages are typically relevant in these sectors.

Figure 1. Simplified diagrams for agriculture and garment and footwear supply chains



Note: Figure 1 shows processes and actors in the value chain for whom it may be more relevant to consider living income or living wages, but should be understood as an approximation as supply chains and employment models will differ. Income can also come from and be impacted by other sources than work.

Living wages

The preamble of the ILO Constitution calls for the provision of “an adequate living wage”, and the Declaration of Philadelphia (1944) calls on the ILO to promote “policies in regard to wages and earnings, hours and other conditions of work calculated to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection”. In line with these instruments and consistent with the Universal Declaration of Human Rights (UDHR), in 2024 the ILO denoted that 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 (see Box 3)

- to be achieved through the wage-setting process in line with ILO principles on wage setting (see Box 6). (ILO, 2024^[6]).

The ILO says that methodologies to estimate living wages should be based on an identification and assessment of a basket of goods, using local prices of the costs of at least the following components: food, housing, health and education, and other necessary goods and services, in accordance with national circumstances, which should provide for a decent living standard of the worker and his/her family. The Global Living Wage Coalition (GLWC), a partnership working to enable collaborative action to achieve a decent standard of living for working people and their families worldwide, defines the 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. It specifies that 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 (GLWC, n.d.^[10]).

Living income

There is no ILO definition of the concept of living income. The Living Income Community of Practice (LI CoP), an alliance for improving smallholder incomes, developed a working definition in consultation with civil society organisations (CSOs), government and business practitioners. The LI CoP defines a 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. The LI CoP agrees on the same elements to define a decent standard of living as GLWC, see above.

Living income and living wage concepts compared with other income and wage concepts

Poverty lines and minimum wages are other important income and wage concepts that are often incorrectly used interchangeably with living income and wage concepts. While each country or context is unique, there are some key differences between these terms and how they are applied (see Table 1).

Table 1. Key differences between income and wage concepts

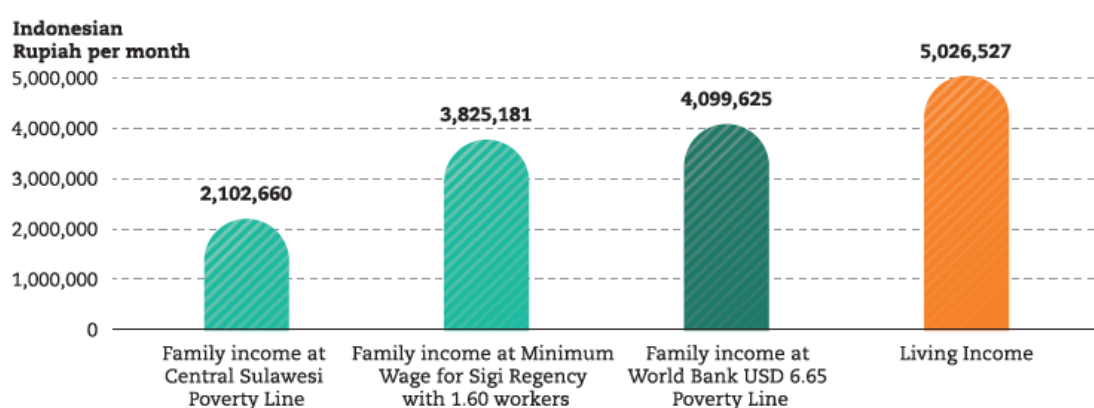
	National Poverty lines	International Poverty Lines	Minimum wage	Collectively bargained wages	Living income and living wage
Origin	Determined by governments to monitor poverty and identify affected population groups on national level.	Determined by the World Bank to monitor poverty globally.	Usually determined by individual governments, but sometimes by social partners, ideally in line with the ILO Convention 131. 193 countries worldwide have a legally determined minimum wage.	Wage rates fixed through negotiations between one or more employers (or their organisations) and one or more workers' organisations (that is, trade unions).	Calculated based on the cost of a basket of goods that should provide for a decent living standard of the worker and his/her family. The methodology used should be clear on the family size and number of wage earners. (ILO on living wages).
Calculation	Uses the Cost-of-Needs approach or Living Standards Measurement Study and based on household data	Defines living standard at subsistence level per person per day and is calculated in purchasing power parity (PPP) to convert different currencies into a common and comparable unit across countries.	Calculated at an hourly, weekly or monthly rate for one person	none	Living wage is calculated per paid employee whereas living income applies to independent workers and is calculated for the entire household

	National Poverty lines	International Poverty Lines	Minimum wage	Collectively bargained wages	Living income and living wage
Degree of binding nature	Poverty lines are voluntary reference values.	Poverty lines are voluntary reference values.	Minimum wage is binding and has the force of law.	Collective agreements bind the signatories and those on whose behalf the agreement is concluded. Measures can be taken to extend the application of collective agreements to all employers and workers in particular sectors.	Voluntary reference values. The ILO notes living wage estimates can contribute to and inform an evidence-based social dialogue for wage setting.
Frequency of adjustment	Regularity of adjustment varies depending on country	Updated regularly.	Regularity of adjustment varies depending on country	Variable	Regularity of adjustment varies according to the methodology used.
Scope	National level, often segregated into urban and rural.	Globally available; national level.	National level and more localised levels, including some sector specific minimum wages	The enterprise, the industry, the occupational, or the national level	Focus on developing and transition countries; Regional specific level; sometimes segregated in national, urban and rural.

Note: Further resources on different wage concepts refer to pp. 41 in (Balestra, Hirsch and Vaughan-Whitehead, 2023^[11]).

Some organisations have used income or wage ladder diagrams to demonstrate different reference values for each concept and the extent to which organisations meet each concept. Figure 2 illustrates the example of an income ladder comparing living income and poverty line values to actual incomes in rural Central Sulawesi, Indonesia (focusing on cocoa producing areas).

Figure 2. Example of an income ladder for rural Central Sulawesi



Source: Based on Global Living Wage Coalition (2022^[12]), Living Income Report, Rural Central Sulawesi, Indonesia, <https://www.globallivingwage.org/wp-content/uploads/2024/02/LI-Central-Sulawesi-final-report-Feb.14.2023.pdf>

Living income and living wage gaps

A living income or living wage gap is the difference between a worker or farmer household's actual income or wage and the living income or living wage rate. For calculating living income or living wage gaps, actual incomes and wages as well as an appropriate living income or living wage benchmark are needed. Living income and living wage gaps are used widely as an indicator of the extent of the risk for workers that their remuneration falls below the amount that is needed by them and their families for a decent standard of living, per the ILO living wage concept. The concept is used throughout this Handbook to denote the level of risk for workers - the existence of a gap indicates a higher risk for wage and income-related harms, poverty and depriving workers of their economic and social rights, as well as other interlinked risks. It also presents for companies a crucial metric to measure and monitor progress as part of their living income and living wage strategies. See Step 2 for further information on measuring living income and living wage gaps.

Due diligence on living income and living wages

This chapter situates expectations on company due diligence to enable living income and living wages within a broader context of growing government policy, collaborative initiatives and investor and consumer interests. It introduces due diligence and serves as an introduction to the step-by-step sections which follow.

Living income and living wages in context of responsible business conduct (RBC)

The MNE Guidelines lay out the expectation that companies should conduct due diligence on actual and potential adverse impacts in their own operations, their supply chain and other business relationships. This means companies should take action to identify, prevent, mitigate and account for how they address those impacts which concern labour, human rights, environmental and integrity and other matters covered by the MNE Guidelines. OECD recommendations on due diligence are aligned with expectations on responsible business conduct from the United Nations and its agencies such as the ILO and FAO.

Living income and living wages are related to key foundational principles of human rights as laid out in international human rights instruments². Addressing living income and living wage gaps is an important way that companies can contribute to the Sustainable Development Goals (SDGs), see Figure 3. Poverty and wages are highlighted as prevalent risks for the agriculture sector in the OECD-FAO Guidance for Responsible Agricultural Supply Chains (the Agriculture Guidance) (OECD/FAO, 2016^[4]). The OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (the Garment Guidance) (OECD, 2018^[3]) includes a module on wages which is recognised as a prevalent risk for the sector.

Figure 3. Rights related to living wages and how they link to SDGs



Source: Based on Shift, (2018^[13]), The Human Rights Opportunity: 15 real-life cases of how business is contributing to the Sustainable Development Goals by putting people first, <https://shiftproject.org/resource/the-human-rights-opportunity-in-collaboration-with-wbcscd/introduction/>

Addressing income and wage gaps is not a simple exercise. The ILO says that collective bargaining and/or statutory minimum wage fixing through tripartite social dialogue should be the proper modality for setting and adjusting wages and acknowledges that national practices vary widely. Farmers and agricultural workers' wages, incomes, and continuity of work depends in large part on fluctuating commodity prices linked to supply and demand patterns, and can be easily affected by weather and climate events and other externalities. While many aspects of wages and incomes in supply chains may be out of a company's direct control (see Industry collaboration), companies may contribute to income and wage harms through their purchasing practices and other business practices. Understanding a company's relationship to living income and living wage gaps is an important aspect of due diligence on this issue, as it will determine the actions the company should take. The MNE Guidelines say that where a company contributes or may contribute to a harm, it should take the necessary steps to cease or prevent its contribution and use its leverage³ to mitigate any remaining impacts to the greatest extent possible. Where a company has not contributed to an impact, but the impact is nevertheless directly linked to their operations, products or services by a business relationship, a company should seek to prevent or mitigate an adverse impact. This is not intended to shift responsibility from the entity causing an adverse impact to the enterprise with which it has a business relationship.

Taking action on living income and living wage gaps in own operations and supply chains can have additional benefits for a company beyond exercising its responsibility to respect human rights. Better corporate risk management oversight, the securing of long-term consistent supply of raw materials - increasing supply chain resilience; productivity gains from attracting and retaining talent, and preserving the company's reputation are just some of the commercial benefits that have been reported through various studies. (Barford et al., 2022^[14]) (BCTI, 2023^[15])

At the same time, governments, investors and consumers increasingly expect companies to respect human rights and to ensure that workers and producers integrated in global supply chains enjoy an adequate standard of living. The initiatives described in Box 1 are examples of the role that governments, investors and other stakeholders can play in promoting corporate action towards living income and living wages.

Box 1. Drivers of company action towards achieving living income and living wages

Increasing regulatory requirements

Governments are increasingly legislating on RBC due diligence to ensure that companies identify and address human rights and environmental risks in their operations and supply chains, sometimes with a specific focus on incomes and wages. The EU Corporate Sustainability Due Diligence Directive (CSDDD) calls on companies to use their influence to contribute to an adequate standard of living in chains of activities, referencing living wage for employees and living income for self-employed workers and smallholders (European Union, 2024^[16]).

Growing investor interest

Investors are increasingly exploring their role in promoting living wages. For instance, The Platform for Living Wage Financials (PLWF) encourages and monitors investee companies to enable a living income and living wages in their global supply chains (PLWF, n.d.^[17]); the Dow Jones Sustainability Indices requirements reflect the increasing prominence of the topic of living wages and companies get additional credit for showing publicly disclosed information on this issue (S&P Global, n.d.^[18]). A large group of investors representing 6.3 trillion euro together with Sustainalytics endorsed IDH's living income and wage roadmaps (IDH, 2022^[19]).

Intensifying worker and civil society demands

Trade unions, worker representatives and CSOs supporting the rights of workers are increasingly holding companies accountable on living income and living wage gaps.

CSO calls and campaigns have been employing various tactics to raise awareness and advocate for corporate responsibility on living wages throughout the supply chain. For example, Good Clothes Fair Pay calls for legislation that requires companies to conduct living wage due diligence in their supply chains (Good Clothes Fair Pay, n.d.^[20]); Living Wage Now Campaign by Clean Clothes Campaign (CCC) uses public demonstrations, petitions, and targeted advocacy to hold companies accountable (Clean Clothes Campaign, n.d.^[21]); Labour Behind the Label's Living Wage campaign includes educational initiatives, policy advocacy, and solidarity actions to demand living wages for workers. (Labour behind the Label, n.d.^[22])

Workers, trade unions and workers representatives have been in protests, strikes and negotiations for wage raises. For instance, in Bangladesh (Worker Rights Consortium, n.d.^[23]), Cambodia (The Phnom Penh Post, n.d.^[24]) and Myanmar (Business and Human Rights Resource Centre, n.d.^[25]). Workers are increasingly contesting irresponsible disengagement without adequate wage payment or severance pay such as during the COVID-19 pandemic with the use of Force Majeure clauses (Worker Rights Consortium, n.d.^[26]) and in times of economic slowdown and demand drops (Business and Human Rights Resource Centre, n.d.^[27]).

Securing Raw Material Supply

For many farmers, the inability to earn a living income from agriculture has led them to under-invest in their farms and/or decrease production to focus on other activities, making it harder to escape the poverty trap. Also, as farming becomes less attractive, young people might migrate to urban areas. This has led to a rising age of farmers. These dynamics present a significant risk to the continuity and availability of essential raw materials that are produced largely by smallholder farmers (Farmer Income Lab, 2019^[28]).

Rising consumer expectations

Research shows that demand for sustainable products is growing across all countries and consumer segments, particularly among younger generations. A recent study found that 94% of consumers support the transition to a green economy and 80% of consumers hold governments, businesses, and international institutions responsible for implementing the necessary changes (Consumers International, 2023^[29]). With this public scrutiny amidst rising consumer expectations comes reputational risk.

Expanding requirements in voluntary commitments and initiatives

Some sustainability initiatives that assess or monitor company performance, among them also certification schemes, have started to integrate requirements on living incomes and wages, for example:

- The German textile label Green Button introduced requirements for companies to commit to promote living wages, conduct a wage gap analysis, develop and pilot a strategy on living wages and reporting (criteria 1.1.2, 2.3.2, 3.3.3, 4.2.4). (Green Button, 2023^[30]) Fairtrade International requires that workers in banana plantations are paid a wage at least 70% of the applicable Living Wage benchmark, and that up to 50% of Fairtrade Premium received by plantations is distributed among workers earning below the Living Wage (criteria 3.1.2 and 3.1.3 Fresh Fruit Standard, and 2.1.20 Standard for Hired labour) (Fairtrade International, n.d.^[31])

- The Fair Labor Association (FLA) Fair Labor Code (Compensation) requires employers to work with FLA “where compensation does not meet workers’ basic needs and provide some discretionary income” to “progressively realize a level of compensation that does”. (Fair Labor Association, n.d.^[32])
- The Global Organic Textile Standard 7.0 requires certified entities to calculate “Living Wages’ for their respective operations”, the “Wage Gap’ for its workers” and “develop a plan to cover the Wage Gap and pay the Living Wage to its Workers” if any (criteria 4.4.8.9, 4.4.8.10). (Global Organic Textile Standard, 2023^[33])
- Fair Wear assesses its member brands annually on several criteria related to the payment of a living wage in sites with cut-make-trim and ancillary processes (2.16, 3.10, 3.11, 3.12, 3.13). (Fair Wear Foundation, 2023^[34])
- Rainforest Alliance among others, require specific evidence on corporate strategies on living income and living wages. (Rainforest Alliance, n.d.^[35])
- SA8000 by SAI mentions the right of personnel to a living wage and ensure that “Wages shall be sufficient to meet the basic needs of personnel and to provide some discretionary income.” (criterion 8.1) (Social Accountability International, n.d.^[36])

Sources: European Union, (2024^[16]), Corporate Sustainability Due Diligence Directive, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202401760#d1e3434-1-1; PLWF, (n.d.^[17]), The Platform Living Wage Financials, <https://www.livingwage.nl>; S&P Global, (n.d.^[18]), Indices: DJSI Index Family, <https://www.spglobal.com/esg/performance/indices/djsi-index-family>; IDH, (2022^[19]), Global group of investors endorses IDH’s living income and living wage roadmaps, <https://www.idhsustainabletrade.com/publication/global-group-of-investors-endorses-idhs-living-income-and-living-wage-roadmaps>; Good Clothes Fair Pay, (n.d.^[20]), <https://www.goodclothesfairpay.eu>; Clean Clothes Campaign, (n.d.^[21]), Pay your workers - respect labour rights, <https://cleanclothes.org/campaigns/pay-your-workers>; Labour behind the Label, (n.d.^[22]), Our demands: brands must pay a living wage, <https://labourbehindthelabel.org/living-wage>; Worker Rights Consortium, (n.d.^[23]), Bangladesh Minimum Wage Negotiations Put Brands’ Living Wage “Commitments” to the Test, <https://www.workersrights.org/commentary/Bangladesh-minimum-wage-negotiations-put-brands-living-wage-commitments-to-the-test>; The Phnom Penh Post, (n.d.^[24]), <https://www.phnompenhpost.com/national/trade-unions-gear-minimum-wage-talks>; Business and Human Rights Resource Centre, (n.d.^[25]), Myanmar: Workers at footwear factory go on hunger strike demanding wage increase, <https://www.business-humanrights.org/en/latest-news/myanmar-workers-at-footwear-factory-go-on-hunger-strike-demanding-wage-increase>; Worker Rights Consortium, (n.d.^[26]), Force majeure: How global apparel brands are using COVID-19 pandemic to stiff suppliers and abandon workers; https://media.business-humanrights.org/media/documents/ECCHR_PP_FORCE_MAJEURE3.pdf; Business and Human Rights Resource Centre, (n.d.^[27]); Indonesia: Over 64,000 workers laid off since 2020, largely impacting textile & footwear sector, <https://www.business-humanrights.org/en/latest-news/indonesia-over-64000-workers-laid-off-since-2020-largely-impacting-textile-footwear-sector>; Farmer Income Lab, (2019^[28]), <https://www.mars.com/sites/g/files/dfsbufz106/files/2023-08/Race%20to%20One%20Mobilizing%20Business.pdf>; Consumers International, (2023^[29]), Global consumer archetypes to foster sustainable living, https://www.consumersinternational.org/media/513796/segmentation-of-sustainable-lifestyles-report_05_12_2023.pdf; Green Button, (2023^[30]), Green Button Standard 2.0, <https://gruener-knopf.de/media/687/download>; Fairtrade International, (n.d.^[31]), Fresh fruit - Product Standard for hired labour organizations, <https://www.fairtrade.net/standard/hl-fresh-fruit>; Fair Labor Association, (n.d.^[32]), FLA Fair Labor Code., <https://www.fairlabor.org/accountability/standards/manufacturing/mfg-code>; Standard, (2023^[33]), Global Organic Textile Standard 7.0, https://global-standard.org/images/resource-library/documents/standard-and-manual/GOTS_7.0_SIGNED.pdf; Fair Wear Foundation, (2023^[34]), Fair Wear Brand Performance Check Guide, <https://api.fairwear.org/wp-content/uploads/2024/02/Fair-Wear-Brand-Performance-Check-Guide-2023-.pdf>; Rainforest Alliance, (n.d.^[35]), What’s in our 2020 Certification Program? Living Wage, <https://www.rainforest-alliance.org/wp-content/uploads/2020/07/whats-in-our-2020-certification-program-living-wage.pdf>; Social Accountability International, (n.d.^[36]), Social Accountability 8000 International Standard, <https://sa-intl.org/wp-content/uploads/2020/02/SA8000Standard2014.pdf>

Relevant characteristics of due diligence on living income and living wages

This section considers some relevant characteristics of due diligence that companies should bear in mind when conducting due diligence on living income and living wage gaps. Specific recommendations are given in the following section by step of the due diligence process. For a more detailed discussion of the characteristics of risk-based due diligence, companies should refer to the OECD Due Diligence Guidance for Responsible Business Conduct (OECD, 2018^[2]) and the sector guidances (see above).

Prioritisation⁴

The extent of severity and likelihood of the gap will determine the nature and urgency of action the company may need to take. This will be identified through the company's risk scoping and prioritisation process, which should include engagement with workers and trade unions, as well as cooperatives and organisations that represent and advocate for smallholders as relevant.

A risk-based due diligence approach does not expect a risk-free supply chain and does not penalise companies for the presence of risks or adverse impacts in their supply chains. Instead, the due diligence framework sets the expectation that enterprises prioritise appropriately, target their highest risk operations and business relationships and demonstrate meaningful and measurable progress against specific, time-bound targets. Companies are also expected to explain their prioritisation in their public reporting.

Responsible purchasing practices and shared responsibility

The purchasing practices of retailers, brands and their buying intermediaries can make it difficult for suppliers to pay higher wages or commodity prices to producers, and sometimes even to comply with minimum wage legislation. Examples of poor practices include inadequate planning and forecasting and downward price negotiations, late approvals and payments, and prices for agricultural produce or commodities that do not cover costs of production or a decent standard of living. Suppliers, and workers, continue to receive a small share of the retail price (ILO, 2016^[37]). The link between buying companies' purchasing practices and labour impacts at their suppliers' production sites has been demonstrated in numerous studies and reports (ILO, 2017^[38]). When brands monitor and take action against harmful purchasing practices, the positive impact on wages and other related due diligence risks has been shown through a number of projects (OECD, 2022^[39]). Developing and integrating responsible purchasing practices across the due diligence steps (adopting appropriate policies, control measures, tracking and reporting) is crucial for reducing income and wage harm. See Step 3.

Adopting a focus on sharing responsibility, risks and rewards more fairly across the supply chain, including appropriate engagement with suppliers and other stakeholders, is an approach that is likely to have a positive impact on the implementation of a company living income and living wage strategy.

Taking gender into account in due diligence on income and wages

There is a broad need for gender-sensitive approaches to due diligence on wage and income related risks as across global supply chains, women and girls are disproportionately represented in precarious and perceived low-skilled work, especially in countries where labour laws and international labour standards are poorly implemented (ILO, 2021^[40]). Women often suffer from discriminatory laws and practices rooted in social and cultural norms determining what is acceptable in terms of women's behaviours and roles. This limits their potential as economic actors and their ability to realise a living wage or income. This Handbook explores common risk factors for income and wages that are particularly relevant for women workers, as well as the importance of estimating gender pay and income gaps (Step 2), as well as the steps companies can take to put in place gender-sensitive due diligence practices to prevent and address these risks and impacts (Step 3).

Meaningful stakeholder engagement

Companies should engage meaningfully with stakeholders in their due diligence. Engagement should be two-way, responsive, conducted in good faith and should go beyond informing affected workers and communities. Stakeholders include persons or groups who have interests that could be affected by an enterprise's activities within the supply chain, including workers, workers' representatives, trade unions (including global unions), smallholder farmers, cooperatives, community members, civil society organisations, investors and industry and trade associations. For living income and living wages, companies should prioritise the workers, smallholders and their representatives. Stakeholders should have equal access to relevant information, such as living income and living wage benchmarks used. The engagement processes should be well documented from the selection of stakeholders to the implementation of action points, and companies should report on this engagement, see Step 5.

Smallholders and cooperatives

Stakeholders directly affected by living income gaps are self-employed producers such as farmers and the organisations they form, such as cooperatives. Particularly vulnerable are producers defined as smallholders who farm fewer than 10 hectares and are characterised by the use of mainly family labour in production. Estimates suggest that around 122 million people living in poverty could have ties to agrifood supply chains using a poverty line of \$3.10, or up to 47 million people using a poverty line of \$1.90. (Farmer Income Lab, Oxfam, Mars, n.d.^[41])

Meaningful engagement with smallholder producers and cooperatives is essential to help a company select appropriate living income benchmarks, identify living income gaps and build on gaps in information, as well as in monitoring a company's activities and validating that actions taken have had a positive impact towards enabling living incomes. As they are directly or indirectly affected by the purchasing practices of international buyers and/or their suppliers, smallholders and cooperatives should be meaningfully engaged in the process of developing buyers' responsible purchasing practices.

Worker representatives and trade unions

For living wage gaps, companies should engage with workers and trade unions and representative organisations of the workers' own choosing. This engagement is crucial for understanding the needs of workers to ensure they can afford a decent standard of living (ITUC, 2020^[42]), verifying and building on the information obtained through the use of appropriate benchmarks for estimating living wage gaps. Where living wage benchmarks are used, workers, unions and workers' representatives should have equal access to the data and calculation methodology on which the benchmark is based so that they can be used in wage setting processes based on collective bargaining.

Workers, trade unions and worker representatives should also be actively involved in the design and implementation of living wage action plans, including through the monitoring of wage gaps and companies' purchasing practices. Such engagement is also important in providing access to remedy, and, where appropriate, determining remedy.

For trade unions and workers representatives to play a meaningful role in due diligence on living wages, it is crucial that worker rights to freedom of association and collective bargaining are respected (see Box 2).

Box 2. Due diligence on the rights to freedom of association and collective bargaining

Preventing anti-union practices is a key part of taking action to enable living income and wages. Companies should address any actions or omissions through which they may contribute to or increase the risk of undermining these rights.

Relevant steps include setting a clear policy (part of step 1 of the due diligence process) with no tolerance for anti-union activities in own operations and supply chains, addressing risks of anti-union activities that result from own activities like purchasing practices, and using leverage with suppliers to prevent anti-union practices in the supply chain.

Note: See more information about how to prevent and mitigate risk to right to trade unions and collective bargaining on p. 150 of the OECD Garment and Footwear Guidance, OECD, (2018^[3]), OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, <https://doi.org/10.1787/9789264290587-en> and p. 57 of the OECD-FAO Guidance on Responsible Agricultural Supply Chains (2016^[4]), <https://doi.org/10.1787/9789264251052-en>. For organisation of informal workers, see Box 15 of the OECD Garment and Footwear Guidance, p.185 in Module 12, Responsible Sourcing from Homeworkers, OECD, (2018^[3]), OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, <https://doi.org/10.1787/9789264290587-en>.

To systematise engagement with trade unions on due diligence including wages, some companies have chosen to enter into direct agreements with global unions (global or international framework agreements) or multi-company-global union agreements. These agreements are strengthened by being binding in nature. See Box 10, under Step 3 for a more detailed discussion of relevant company-union agreements.

Companies may also seek to engage with workers, trade unions and workers representatives via voluntary collaborative initiatives on living incomes and wages but should be aware of the limitations of stakeholder engagement conducted by initiatives, auditing schemes and living income and living wage benchmarks for the purpose of a company's due diligence.

Collaboration on due diligence for living income and living wages

Income and wage-related risks are often systemic to a sector or country, and are a function of a number of factors, some that a buying firm can address directly, and some over which a company will have limited leverage. In these cases, companies may need to establish a broader collaboration with other buyers, with manufacturers and manufacturers associations, civil society organisations, trade unions and workers' representatives, as well as governments, to achieve lasting change towards living incomes and living wages at the producer-, sector- and country level.

Industry collaboration

Bilateral engagement between buyers and suppliers may not be sufficient to increase access to a living income and living wages. For example, it may be difficult for an individual company to ensure that a supplier pays a living wage if the company only uses a fraction of the supplier's production capacity or, in the agricultural sector, to ensure a living income or living wage if the company only buys a small share of a cooperative's production. Furthermore, if buyers are not aligned in their strategies, tools or requirements concerning living wages and incomes, they can create a burden and barrier to market access for producers which may already be coping with multiple sustainability requirements.

Working with other buyers, individually or through industry initiatives and agreements, is therefore often a necessary component of a company's living income and living wage work, leading to synergies and

harmonisation of buyers' requirements and increasing buyers' leverage. Industry collaboration can harmonise efforts, reduce costs, support joint government engagement and increase leverage.

For further discussion about collaboration, see Step 3. Tools and instruments developed by MSIs for industry-level collaboration can be found in Annex A. Competition law should not inherently pose a barrier to collaborative work on incomes and wages but applicable laws do need to be carefully considered.⁵

Government engagement

Enterprises with long-term presence in economies where living income and wage gaps are common may find engaging with the government on addressing systemic issues as an effective approach alongside other risk prevention and mitigation measures. Governments have a significant role in wage policy, setting reference points such as minimum wages and national poverty lines, as well as establishing legislative and regulatory frameworks relating to income and wages, including labour enforcement and access to remedy, as well as freedom of association and collective bargaining. Most governments also have national statistics offices that collect prices and calculate inflation rates, important for informing living income and wage calculations.

Governments also shape the enabling environment, including provision of social protection, services and infrastructure, that is fundamental to achieving better living standards for workers and producers. Familiarity with the context for social protection and other services is a crucial aspect in estimating living incomes (at the household level) and living wages.

Governments can also support the conditions for businesses to work towards living incomes and wages in a number of other ways, including, for example, through providing businesses with reliable information, tools and incentives or through public procurement. An OECD Recommendation, adopted by 51 governments as well as the European Union, lays out 21 principles by which governments can promote responsible business conduct. (OECD, 2022^[43])

Understanding a government's policies, programmes, broader role and capacity will help define the scope of collaboration. Working with other relevant stakeholders including, amongst others, business associations, farming organisations or worker representatives to advocate for changes in the regulatory and enforcement framework related to wages and incomes can be a powerful lever to collaboratively close living income and wage gaps.⁶

Step 1: Embedding living income and living wages due diligence into policies and management systems

Step 1 of the OECD due diligence framework is about having robust policies and corporate management systems in place. This chapter outlines how a commitment to living income and living wages can be incorporated into an enterprise's RBC policy, and how management systems should be adapted where living income and wage gaps are identified as prioritised risks.

Key considerations under Step 1

- How can a company integrate living income and living wage commitments and actions into their policy?
- What are the key elements of a living income and living wage-focused policy?
- Which internal teams or business units should be involved when developing and aligning objectives with the enterprise policy?
- How can proper implementation and oversight of living income/living wage policies and commitments be ensured?
- How can companies incorporate expectations regarding living income and living wages into supplier contracts, contracts with intermediaries or written agreements?

Integrating living income and living wage commitments and action into company policy

As part of due diligence, a company should adopt a policy on responsible business conduct that articulates the company's commitments to RBC in its own operations and supply chain. Where income and wage risks and impacts in own operations and supply chain are significant, the policy should include clear commitments and measures to address them. Adopting a living income and living wage policy can help a company lay out how it identifies risks and harm, particularly where there are acute living income and wage gaps, and the steps it will take to address those gaps. A robust living income and living wage policy could include some or all of the following:

- A statement that lays out the company's commitments on living income and living wages, linking the issue to its due diligence risk assessments, with reference to relevant global human rights standards, the ILO living wage concept and ILO Conventions, including the ILO key principles of wage-setting processes, the ILO Protection of Wages and Minimum Wage Fixing Conventions (ILO Conventions 95 and 131) as well as the OECD recommendations on risk-based due diligence.
- A roadmap that establishes an action plan with specific targets, milestones and timescales with a commitment to allocate adequate resources and secure staff time accordingly. Targets can be defined and timescales established responding to a risk-based prioritisation exercise. They should take into account actions already taken and progress made on the issue.
- A commitment to transparency about the selection process for methodologies and benchmarks used by the company to estimate living incomes and wages, including engagement with workers, workers representatives and trade unions and other relevant stakeholders in selecting methodologies and validating estimates. It is also recommended to include reference to the ILO principles for estimating living wages and comment on action taken towards aligning methodologies for estimates with those principles. See Step 2 for further information on living income and living wage methodologies.
- A commitment to include the implementation of responsible purchasing and pricing practices as one component of the company's strategy to address living income and living wages. See Step 3 for further information on purchasing practices.
- The company's expectations of its business partners – including suppliers, licensees and intermediaries, to include expectations as to the outsourcing of production to subcontractors,

use of third-party recruitment or employment agencies, and targeted policies for homeworkers, or working with smallholders - as well as the commitment to support its business partners as part of the roadmap, see Step 3.

- A commitment to engage relevant stakeholders, particularly worker representatives and trade unions (in manufacturing and agricultural settings) and smallholders and cooperatives (in agricultural and informal settings) throughout the process, see Due diligence on living income and living wages for further details.
- A commitment to address root causes of income and wage risks, including addressing interlinked risks, particularly the rights to freedom of association and collective bargaining, as well as to consider gender issues related to these risks.⁷
- A commitment to address high-risk payment methods, such as piece-rate payments in formal settings, as well as a clear approach to how bonuses and in-kind benefits should be managed as part of living income and living wage policy, see Step 2 and Step 3.
- A focus on prioritising actions (according to the risk-based approach) in parts of the supply chain with the largest living income or wage gap, or with most fragmented economic activities or high levels of informal workers, putting in place targeted and timebound measures towards closing the gap. Companies should avoid in the first instance ending relationships with suppliers considered to be higher risk as this carries negative consequences for already vulnerable, low wage, informal workers or smallholder farmers. See Step 3.
- A commitment to accountability, including publicly reporting on progress and challenges and communicating with affected stakeholders (Step 5), as well as committing to hear and address complaints that are raised against the company through legitimate processes, including on income and wages (Step 6).
- How often the policy will be reviewed and updated in light of changing circumstances and new information.

For more information on embedding RBC into enterprises policies pp.56-60 of the OECD Due Diligence Guidance for Responsible Business Conduct, as well as Box 2 “Policy on subcontracting and other due diligence processes” on pp.39-40 of the Garment Guidance.

Strengthening management systems on living income and living wages

Internal coordination

Encourage alignment across teams and business units on relevant aspects of the company’s RBC policies. Identify relevant departments, inform and train them on the role they will have in implementing living income and living wage commitments.

Particularly ensure coordination between teams working on responsible sourcing matters and relevant business units to integrate living income and living wage considerations in decision making processes related to purchasing practices and supplier performance. For instance, this could include:

- Aligning their decision making in evaluating supplier options and making purchasing decisions
- Developing shared processes for assessing and evaluating potential suppliers based on RBC criteria, including wage and income information
- Sharing relevant information and data between units

For more information on alignment across teams and business units on relevant aspects of the enterprise's RBC policies see section 1.2e on p. 23 of the OECD Due Diligence Guidance for Responsible Business Conduct and p. 43 of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector and p.32 of the OECD-FAO Guidance for Responsible Agricultural Supply Chains.

Implementation and oversight of living income and living wage policies

To ensure proper implementation of the RBC policy and associated living income and wage commitments, the company should ensure that adequate arrangements are in place for the proper coordination, resourcing, and monitoring of implementation activities. For example:

- **Monitoring of implementation:** Companies should assign senior management oversight with appropriate competence and knowledge to oversee and support the living income and/or living wage policy, and implementation and approve such policies at the most senior level of the company; Allocate adequate staff time and budget to train staff on issues of wage payment to make sure that they understand the complexities of how to best address these adverse impacts.
- **Resourcing of due diligence activities:** A budget required for implementing the company's commitment needs to be generated. This will include resources to cover adequate staff time and staff training where needed, to support stakeholder engagement, pay for benchmarks, and support with living income and living wage gap identification and mitigation. At the same time, the long-term cost implications of ensuring living incomes and wages have to be factored into the budgets of purchasing teams and should be based as much as possible on actual cost information obtained from suppliers. Further, sourcing and RBC teams should identify and discuss mitigation measures, including pricing increases, for suppliers where additional RBC expectations result in higher costs of production, with implications for farmer income.
- **Follow up and prevention:** Management systems designed to prevent that a company's purchasing practices contribute to harm need to be strengthened and procedures for purchasing teams developed to follow-up on instances where practices could contribute to harm.

Living income and living wage due diligence expectations in supplier contracts or written agreements

Supplier contracts and written agreements are important tools for companies to embed their living income and wage policies in their practice. Such contracts and agreements should be adapted to integrate living income and living wage expectations of suppliers, intermediaries and other business relationships and make necessary commitments to suppliers and other business relationships. Examples of relevant documents include contracts, formal agreements or documentation (for instance supplier codes of conduct, joint venture contracts and side letters to investee entities).

For more information see p 76 Box 5 of the Garment Guidance “Implementing control measures when sourcing indirectly”.

For integrating these elements into supplier contracts, companies may consider adopting contract clauses that incorporate due diligence responsibilities into every stage of the supply chain contract, further reflecting shared responsibility and a more balanced distribution of cost and implementation, for example see Supplier Model Contract Clauses 1.0 developed by the Responsible Contracting Project (Responsible Contracting Project, 2023^[44]).

Step 2: Identifying and assessing living income and living wage gaps and impacts in own operations and supply chains

In line with Step 2 of the OECD due diligence framework, this chapter explains how companies can scope, prioritise and assess potential and actual adverse impacts linked to living income and living wage gaps in their own operations and supply chains. It covers approaches to measuring gaps, including how to calculate living income and living wage estimations.

Key considerations under Step 2

When it comes to living income and living wage related risks:

- What factors can companies consider when scoping risks?
- What approaches can companies take to assess risks in own operations and supply chains and prioritise?
- How can a company measure gaps?
- What is the role of estimations and how can a company select a suitable benchmark?
- What practical approaches can be applied for getting income and wage data from upstream parts of the supply chain?

Scoping risks and mapping the supply chain

The scoping exercise is a high level, initial assessment of RBC risks across the company's own operations, supply chain and other business relationships, considering country, product, business model and sourcing model risk factors (factors that may indicate higher risk), supported by available risk information and meaningful stakeholder engagement. It is a standard part of the due diligence process and will help the company to note whether living incomes or wages may be an issue to prioritise in the context of their due diligence, according to the likelihood and severity of the risk.

As part of this process, mapping the supply chain (identifying relevant actors, production sites or hubs, trade routes) and ensuring the company has access to high-level information about wage rates, poverty levels and other relevant data points (see Table 2) is key to help identify higher-risk activities, locations, products or business relationships. Where living income and wage gaps are identified as high risk, the mapping can help identify the need for enhanced measures, for example, in depth site-level assessments or additional stakeholder engagement.

It is recommended to review the findings of the scoping assessment at regular intervals, especially to account for inflation or other economic shifts; prior to major decisions or changes in activity (for instance market entry, newly introduced product or commodity, policy change, or wider changes to the business); in response to or in anticipation of changes in the operating environment (for instance rising social tensions); and periodically as an activity or business relationship continues.

See pp. 47-50 of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector and p. 25 of the OECD Due Diligence Guidance for Responsible Business Conduct and p. 33 of the OECD-FAO Guidance on Responsible Agricultural Supply Chains for more information on how to conduct scoping and mapping of the supply chain.

Risk factors

A scoping exercise should build on known sector risks and take into consideration relevant risk factors. Income and wages are known sector risks in both the garment and footwear and agriculture sectors. Risk factors to consider for income and wages include:

- **Factors related to the location or country that the enterprise operates in or sources from,** which generally include governance, socio-economic and industry factors such as whether it

has a regulatory framework in line with international standards, strong regulatory enforcement of wages or effective collective bargaining mechanisms as well as what social protections are guaranteed to formal, informal and agricultural workers; environmental factors such as a location or region's climate vulnerability may also be an important risk factor.

- **Factors relating to the products that the enterprise produces or sells**, for example if aspects of the product are likely to be produced by hand in outsourced workshops (garment sector) or if production/harvest is seasonal and likely to make use of temporary seasonal workers (agriculture);
- **Presence of vulnerable and low-skilled workers in precarious employment**, (including migrant workers, gig workers, homeworkers, seasonal workers, workers paid piece or day rates, as well as high proportion of female workers), paying particular attention to where workers belong to marginalised groups, such as indigenous communities, and where these vulnerabilities overlap, for example, female, migrant, indigenous workers;
- **Presence of inter-linked risks**, such as child or forced labour, lack of access to health care, education and other basic needs, as well as labour risks including excessive overtime, poor health and safety. Economic deprivation can also make workers more susceptible to intimidation when threatened with losing their jobs for joining a union. Gender discrimination and gender-based violence are also linked risks.
- **Factors relating to business and sourcing practices** - including indirect sourcing models, high numbers of intermediaries, subcontracting, large number of suppliers and countries in the supply chain, volatile relationships with suppliers - lead to a heightened lack of visibility and control over the conditions of upstream production. Numerous product cycles may also contribute to lower the visibility.
- **Company purchasing practices and price setting** can contribute to income and wage risks, as well as other related RBC risk areas, such as excessive overtime. Purchasing practices that can contribute to harm include orders changed, cancelled, placed late, rushed (particularly during peak times or holidays) or when lead times are set shorter than feasible, aggressive pricing and unfair payment terms in contracts. Negotiating lower prices where there is not a clear justification for it (for example a lower value material used, or reduced wastage) may contribute to cost-cutting by the supplier and is a risk factor for RBC impacts, including incomes and wages and related risks. See more in Step 3.

The OECD sector-specific due diligence guidances are a good place to start with identifying risk factors. See more information on risk factors in garment and footwear supply chains pp. 47-50 and Module 7 on wages risk (pp.152-158) of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, and for risk factors in agricultural supply chains Annex A (specifically pp. 55-56) of the OECD-FAO Guidance for Responsible Agricultural Supply Chains for risk factors in agricultural supply chains.

Examples of risk factors for wage and income-related impacts are shown in Table 2. Companies should consider these in light of their individual supply chain characteristics and the particular circumstances of workers in the supply chain, including in informal settings. Engagement with internal and external stakeholders who understand the supply chain is recommended in identifying these risk factors and in assessing how the company's business and sourcing models may affect them.⁸ Companies should pay particular attention to countries that are higher risk for living incomes and living wages, as well as business models and purchasing practices. If a risk is considered prevalent in the sector, across a number of sectors, in a region, companies should consider the risk as significant.

Table 2. Example risk factors for wage and income-related adverse impacts

Risk factors	Example of elements to consider
<p>Location Conditions in a particular country or production cluster, or within the industry within a particular country, which may make the risks more likely.</p>	<ul style="list-style-type: none"> • Regulatory framework: alignment with international conventions; labour laws do not conform with ILO standards; multiple rates for minimum wages; groups of workers are excluded from minimum or negotiated wages • Governance context: e.g. strength of inspectorates, rule of law, level of corruption, • Socio-economic context: e.g. high poverty rates (e.g. below national or international poverty lines), high inflation rates; high cost of living vs. minimum wage rates; workers have high illiteracy rates and/or low-levels of education; vulnerability and discrimination of specific populations and based on gender (consider levels of informal employment, migrant workers, home workers, child labour etc.), income dependency on one product crop. • Environmental context: e.g. climate vulnerability, heatwaves, flooding, etc. • Political context: e.g. presence of conflict • Infrastructure: available infrastructure and its condition from production site to trader, factory, port etc.
<p>Business and sourcing model The enterprise business and sourcing model may affect the risk of harm in the enterprise's supply chain. This is particularly relevant for retailers and brands but may also be true for manufacturers who produce a wide variety of finished goods.</p>	<ul style="list-style-type: none"> • Business model: number and diversity of product lines; number of product cycles or seasons per year; high-risk purchasing practices including: short lead times, excessive payment terms, requesting high number of samples and one-sided penalties. • Sourcing model: number of suppliers; number of countries involved in the supply chain; type of relationship with suppliers; amount of intermediaries/ use of subcontracting/ indirect sourcing. • Governance: number, size and degree of organisation of cooperatives
<p>Sector risks Sector risks are risks that are prevalent within a sector globally as a result of the characteristics of the sector, its activities, its products and production processes</p>	<ul style="list-style-type: none"> • Type of workforce: e.g. small farms, plantations, the sector employs high rates of migrant workers; seasonal workers, women workers, informal workers; young workers and/or apprentices; workers live on-site; • Type of contracts: e.g. written or not, temporary, permanent, seasonal, language in which contract is written, whether worker actually has signed the contract, etc. • Pay format: workers are paid piece-rate; workers are paid in cash rather than electronically (or by other traceable means); existence of credit arrangements and debt. • Use of intermediaries: e.g. use of private recruitment or employment agencies, number of traders/intermediaries • Trade unions and Collective bargaining: e.g. intimidation of workers and anti-union behaviour; lack of effective collective bargaining mechanisms
<p>Product risks Product risks are risks related to inputs or production processes used in the development or use of products.</p>	<ul style="list-style-type: none"> • Specific production process: e.g. garment products with beading or embroidery hold a higher risk of informal employment and precarious work, crops grown with low yields. Low productivity.

Prioritising based on the scoping exercise

Drawing from the information obtained in the scoping the company should identify sections of its own operations and supply chain (including at the country level, sub-sector level and supplier level) where workers and their families may be at greatest risk from living income and living wage gaps and conduct appropriate assessments to understand the extent of the issue. For **own operations**, the company should take immediate steps to investigate further. For its **supply chain**, while it may not be feasible to investigate further all identified impacts at once, a company should prioritise the order in which it takes action based on the severity (greatest discrepancy between the actual wages and the living wage; number of individuals affected; limits to the ability to restore) and likelihood of the living income or wage gap, and the impact on workers and their families. Companies with many high-risk suppliers may consider prioritising suppliers that are most significant in terms of percentage of product sourced or size of the enterprise, i.e. larger suppliers may indicate a larger scope of impact. Companies may for example need to prioritise vulnerable workers, such as homeworkers, or workers in a particular higher risk country for living wage or income gaps. In some instances the grounds for prioritisation may not be clear and companies may wish to consult with trade unions and other stakeholders on how to prioritise. Companies should be prepared to communicate their rationale and justify their prioritisation through relevant RBC policies and reporting.

Assessing the living income and living wage gap and related risks in own operations and prioritised suppliers

To estimate living income or living wage gaps, it is necessary to collect data on actual incomes and wages and compare it to the living income or living wage rate as calculated using a credible methodology. This process should be verified through stakeholder engagement as well as overlaid with other accessible risk information related to wages, such as known instances of delayed or defaulted wage payments, relevant grievance cases, and worker interviews, to paint a full picture of the issue at a particular site or sourcing hub, in a particular sub-sector, or across a particular sourcing country.

This section includes recommendations on measuring actual income or wage rates, estimating living income and living wage rates using a credible methodology, an exploration of existing living income and living wage benchmarks and how to use them, and applying this information and other relevant information sources to assess the living income and wage gaps in a company's own operations and supply chain.

Measuring actual incomes and wages

Considerations for the calculation of actual incomes of farmers and smallholders

Given the nature and complexity of smallholder contexts measuring household income can be a daunting task. There are several angles from which income measurement can be approached and various methods can be employed to obtain the data. Collecting or sourcing precise data requires time and resources and is typically expensive and difficult. Consequently, measurements of household income for medium to large samples are nearly always estimates. Where possible, data should be disaggregated by gender to understand if gender discrimination is an issue to be addressed. Commonly this is done through checking incomes based on female and male-headed households, see for example the income gap analysis of cocoa-producing households in Côte d'Ivoire (KIT, n.d.^[45]). As well as income data, collecting data on land tenure issues and other common barriers that affect women's incomes would be important, see (The Living Income Community of Practice, 2024^[46]) for greater discussion of these issues and examples.

It is important to realise that the income of a smallholder household may not only come from the farm (via the sale of produce). Income can, in fact, come from multiple sources, and it is not uncommon for household members to supplement collective income by undertaking other activities (for instance through additional labouring or artisanal work).

Actual income is the total net household income and can be established using a number of methods:

- **Farmer self-reported income data:** Farmer surveys can be used to understand income composition: the amount of net farm income (e.g. income from cash crops, other crops and livestock), net off-farm income, other sources of income (such as wage work or remittances) and the value of food produced at home (as this can reduce the cost of food for a family). There are varying degrees of data quality from farmer recall, as it is difficult for any individual to recall specific revenue and costs. This data can further support understanding of the value of unpaid labour and the differences in income between type of contracts (permanent, seasonal, temporary).
- **Calculated incomes from existing records:** Cooperative or aggregator records can be a source of commercial data such as yields, farm size and farm gate price (market value minus the selling costs). Some organisations also track costs of production (daily/hourly income rates) and % total household income from target crops. With these data variables, household incomes can be estimated. A review of farm records can be extremely helpful for understanding the actual costs of production in a farm's main crop and potentially their secondary crops, yields and profitability of productive land as well as size of available land. However, for smallholders in

regions with high illiteracy and poverty rates, farm records are rarely kept and would require a technical support programme.

- **Income data from research:** Research studies can provide a credible, third-party analysis of typical incomes in a region. If using third party research studies, care should be taken to understand the extent to which the results represent the farmers in the company's sourcing regions, how large the sample was, and the methods used to collect income data. Impact assessments done in the company's supply chains and sustainability programmes can yield the best quality data on farmer incomes.

See more information on this assessment approach and methodology on pp. 34-36 and pp. 51-52 of the OECD-FAO Guidance on Responsible Agricultural supply Chains.

Considerations for the calculation of actual wages

Supplier site-based assessments should be conducted to review and understand:

- Wage payment data, corroborated by worker interviews: wage systems, e.g., if payments are made on-time and if workers are free to choose how to spend their wages, if workers receive and sign formal contracts.
- Wage amount and structure, e.g., if deductions are reasonable and in accordance with national laws and collective bargaining agreements; if compulsory bonuses and/or allowances are provided; if legally required leave is paid including parental leave; and if the relationship between wages and working time is appropriate.
- Workers' level of knowledge and understanding, e.g., if workers have been adequately informed by the company of their rights, including the rights to associate freely and bargain collectively; if workers are adequately informed of their wages; if workers are provided with clear wage statements that they can read; or if trade unions are allowed and freedom of association and rights to collective bargaining are observed.
- Wage discrimination, e.g., if workers are paid different wage levels due to factors such as gender, race, nationality, etc.
- Presence of outsourcing and/or subcontracting practices.
- Relationship between wages and working time.

Take into consideration suppliers who may be reluctant to share wage data, (e.g the break-down of their expenses) and explore involvement of third parties or confidentiality arrangements to overcome fears that transparency in costs will lead to changes in pricing.

To further understand the context, activities beyond supplier site assessments may include:

- **Review of country context and legal frameworks:** Identifying prevailing minimum wage rates where they exist, understanding which groups of workers they apply to and if any are excluded, what are the normal hours of work, and other relevant factors at the national level. Consider how wage rates may vary by region, age of worker, economic activity or professional occupation. Wage rates may also differ for international migrant workers and domestic workers.
- **Review of self-reported data from companies:** conducted either by the facility itself or a joint assessment conducted with external assistance, e.g the Social Labour Convergence Program (SLCP) covers data related to minimum wage, social insurance and other benefits (Social & Labor Convergence, 2023^[47])
- **Review findings in light of other data collected by the industry:** collaborate with other industry actors operating in the country to share findings, harmonise indicators and move

towards joint assessment and action on wages. Identify other buyers sourcing from the same factory.

- **Engage with stakeholders** at the local, regional and international level to confirm findings of the site-based assessments.

See more information on this assessment approach and methodology on pp. 56-57 of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector

Establishing actual earnings for workers paid by the piece

Piece-rate payments are not compatible in the longer term with living income and wages in formal manufacturing settings (see Box 8, Step 3). As an interim measure and in informal working contexts (see Box 7, Step 3) such as homeworking where piece rate payments are more usual, companies should work with their supply chain partners to understand the actual earnings. See Step 3 for a discussion of methodologies that can be used, both for establishing actual income, and setting piece rates that provide workers with a living wage.

In-kind benefits and bonuses

In-kind benefits are non-monetary benefits that organisations offer in addition to salaries or wages. Benefits in kind are non-cash, though they do hold monetary value. In-kind benefits may reduce the cash that workers, and their families, require to achieve a decent standard of living, however, should be treated with care: companies should not base their estimates only on what employers say their costs are in employer self-assessments because this lends itself to abuse and overestimation. Instead, they should engage with workers and their representatives to understand the value of in-kind benefits and the degree to which they help people meet their and their families' needs.

Some benchmark methodologies allow for inclusion of in-kind benefits, for example the Anker Methodology which covers what might be included for in-kind benefit calculations, as well as setting maximum threshold percentage values of total remuneration for each in-kind benefit, with a maximum of 30% in-kind benefit to total remuneration (Anker and Anker, 2017^[48]).⁹

Table 3. Examples of in-kind benefits for wage earners

Benefit category	Definition / Guidance	Max threshold value
Food	Only full meals that are provided regularly can be included. Ideally following local or international nutrition guidance	10%
Transportation	Must be safe transport for workers to and from their place of work	10%
Child education support	May include education associated costs, such as supplies, uniforms, transport, or direct funding to school though this funding must be divided by total number of students	10%
Housing	Must be a single family housing and meet international standards, such as ILO recommendation concerning workers housing or WHO Healthy Housing	15%
Childcare support	This is the cost to the business for providing childcare services for workers' children	10%
Healthcare support	Must be for general practice medical support only and in addition to a country's free healthcare system. Must deduct co-payments from value credited to living wage calculation	10%

Source: GLWC, (2018^[49]), The Anker Methodology for Estimating a Living Wage, <https://globallivingwage.org/about/anker-methodology>; Anker, R. A.; Anker, M. A., Living Wages Around the World. Manual for Measurement, (2017^[48]), <https://www.elgaronline.com/display/9781786431455/chapter15.xhtml>

As a general rule, bonuses should not form part of actual income and wage calculations. Limited exceptions apply to the types of bonuses that are anticipated and guaranteed, for all workers, within a 12-month period.

Estimating living income and living wages

Living wage rates are estimates which “translate the living wage concept into a national monetary value” (ILO, 2024^[50]) and the same is true of living income rates.

Living income and living wage methodologies

Living income and living wage methodologies cover the way in which living income and living wage estimates are collected and calculated (covering, for example, what should be included in a basket of goods and how family size should be accounted for).

Over the past decade, various methodologies have been developed by voluntary initiatives or academic institutions that rest on different assumptions and combinations of data sources.¹⁰ These initiatives have made great strides in raising awareness about the concept of living income and living wages and unpacking what should be covered in living income and living wage estimates. Many methodologies are based on the calculation of a basket of goods. Other approaches include the use of needs-based surveys conducted among workers. Methodologies mostly differ in terms of:

- spending categories considered when setting living wage rates
- approaches used to set the levels of different basket items
- pricing strategies and data sources used
- assumptions on family size and working patterns.

A more detailed analysis and comparison of living wage initiatives methodologies can be found in Chapter 3 of the OECD Paper on Well-Being and Inequalities, “Living Wages in Context: A comparative analysis for OECD countries” (Balestra, Hirsch and Vaughan-Whitehead, 2023^[11]). LICoP also has a guidance on criteria for methodologies on living income and living wage estimates (The Living Income Community of Practice, 2024^[51]).

In 2024 as an outcome of the ILO’s Meeting of Experts on wage policies, including living wages, the ILO reached an agreement on a set of principles that living wage methodologies should follow (see Box 3).

Box 3. ILO on estimating a living wage

While companies may have a number of criteria and requirements which will influence the benchmark or benchmarks they use on living wages, it is recommended that companies check the methodology behind their chosen benchmark against the ILO principles, work with their benchmark providers towards alignment with those principles, and where there are gaps, compensate through additional due diligence, including stakeholder engagement, to validate and adjust the estimates given by the benchmark. Many of these principles will also be relevant to living income benchmark methodologies.

Living wage estimates translate the living wage concept into a national monetary value. These estimates can contribute to and inform an evidence-based social dialogue for wage setting. Living wage methodologies should follow a number of principles:

1. estimation of the needs of workers and their families through evidence-based methodologies

2. consultation with representative employers' and workers' organizations on living wage estimates and involvement of social partners throughout their development, with a view to ensuring national and/or local ownership
3. transparency, including details with regard to data sources and methods of processing, that are open to scrutiny, are comprehensive and replicable
4. robustness of the data in terms of representativeness and transparent data collection methods
5. timely public availability of the estimates, data and methodologies
6. specification on whether estimates are gross or net, namely whether items such as social security contributions are included or not
7. regular adjustments to consider changes in the cost of living and the patterns of consumption
8. quality control, including sound technical review, validation, as well as periodic review for continuous improvements
9. promotion of gender equality and non-discrimination
10. consideration of the regional or local context and socio-economic and cultural realities.

Source: ILO, (2024^[6]), Conclusions of the Meeting of Experts on wage policies, including living wages, https://www.ilo.org/wcmsp5/groups/public/--ed_norm/--relconf/documents/meetingdocument/wcms_915989.pdf

Living income and living wage benchmarks

Living income and living wage benchmarks are estimates of living income and living wage rates in particular geographies and sometimes for particular sectors using a living income or living wage methodology.

The selection of a benchmark source will depend on a number of factors, including the geographic and sectoral coverage. Companies may choose to use benchmarks which follow the same methodology or are from the same provider across several sourcing countries. It is highly recommended however that companies also consult trade union and CSO partners who in many cases may have their own living wage estimations which a company can use or point to other relevant resources developed at the national or local level. Where a benchmark is not available for a particular sourcing country or region, it is recommended that companies engage with peers, trade unions, CSOs and living income or living wage organisations to identify existing benchmarks and other data sources that could be suitable, or to develop a new benchmark to ensure common reference points and targets across the supply chain as well as greater harmonisation of indicators. Multi-stakeholder initiatives (MSIs) may also be able to provide support or a platform for collaboration.

Some initiatives have developed country benchmarks for specific commodities. For instance, Fairtrade International has established Living Wage Reference Prices for bananas. These reference prices are calculated to reflect the minimum income necessary for workers to meet their basic needs and achieve a decent standard of living in banana-producing regions (Fairtrade International, 2023^[52]).

Box 4 includes a non-exhaustive list of sources that provide publicly available living income and living wage benchmarks and reference values for a wide range of countries. As above, the OECD recommends that companies check the methodology used by any chosen benchmark against the ILO principles (see Box 3) and compensate according to the gaps. Additional resources for selecting benchmarks are included in Annex A.

Box 4. Useful resources for finding a benchmark

Living income and living wage initiatives, tools and benchmarks:

- **Anker Research Institute** – maintain a widely referenced methodology and produce in depth benchmark studies.
- **Asia Floor Wage Alliance** – an Asian union-led alliance which publishes a regional living wage benchmark for garment workers in Asian garment producing countries.
- **Fair Wage Network** – a global database with living wage benchmarks, including national and city level values. New benchmark values are released every year. Certification for living wage is also available.
- **Global Living Wage Coalition** – a coalition of international standard setters associated with the Anker Research Institute hosting a resource library containing a range of Anker-approved benchmark studies, reference values, working papers and case studies.
- **National and international statistical services** – most countries have a central bureau for official statistics, which generally include data on poverty levels and wages; the UN Economic Commission for Latin America and the Caribbean (ECLAC) maintains a database on cost of living in the region.
- **Numbeo** – a global database on cost of living.
- **OECD** – a number of datasets available including gender pay gap and minimum relative to average wages of full-time workers. The OECD Income Distribution Database offers data on levels and trends in income inequality and relative poverty and is updated on a rolling basis, two to three times a year.
- **WageIndicator Foundation** – a global database of living wage and living income benchmarks based on WageIndicator’s methodology, including national and regional values published in 165 countries on national websites and available as full datasets. New estimates are released every quarter.

Living income and living wage benchmark aggregators:

- **ALIGN Tool** – a guidance tool on living income and living wages with a resource library and source map on a range of benchmarks.
- **IDH benchmark finder** – a tool that lists available living wage benchmarks per country/region identified through its living wage benchmark recognition process.

Note: Please see links to these resources in Annex A Useful resources; Ilc Risk assessment: Resources for finding a benchmark.

Accounting for changes to the economic context

Inflation has a direct inverse impact on real wages (OECD, 2022^[53]). Living income and living wage methodologies should be able to take inflation into account in a timely way. How regularly a benchmark is updated, and if it is updated in light of significant changes to inflation rates will be important points to check when selecting a benchmark. See Step 3 for further discussion on addressing inflation and real wage value declines.

A key element of both living income and living wages is supporting household resilience to the shocks caused by unexpected events. When determining the wage or income required to support a decent

standard of living for a household, a living wage or living income benchmark should account for the cost of unexpected events such as medical emergencies, climate related impacts and conflict. Accounting for the cost of such unexpected events is important to ensure that households do not fall into a cycle of poverty when confronted with them. Due diligence is not a static process, and as such it is important to use regularly updated living wage and living income benchmarks to ensure they accurately reflect the cost of a decent standard of living so that stakeholders can continue setting aside a portion of their wage or income to cover the cost of unexpected events.

Some benchmarks include a threshold for unexpected events, but more research is needed to understand if this amount in practice supports the resilience of workers and their families (WageIndicator, n.d.^[54]). Climate and conflict shocks are generally not covered by current living wage estimates. Global health crises, as evidenced by the impacts on the sector by the COVID-19 pandemic, are also generally not covered by benchmarks.

In addition to regularly evaluating living income and living wage benchmarks, companies should carry out ad-hoc reviews of the estimations they are using during exceptional or unprecedented events that have or are likely to have a major impact on a decent standard of living. Meaningful engagement with workers representatives and trade unions, as well as local CSOs will be necessary to understand the impacts of such events on workers' finances. Companies can then adjust their living income and living wage estimations to reflect the stakeholder feedback.

Assessing living income and living wage gaps

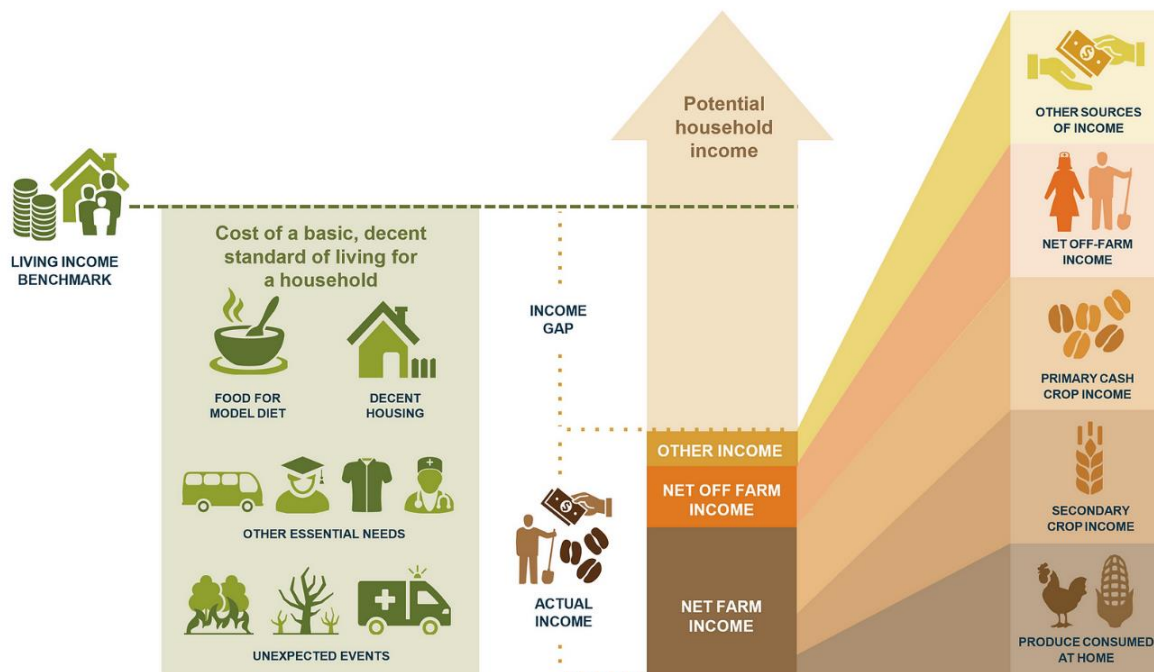
Once a company has real income and wage data and selected relevant benchmarks and validated their living income and living wage estimations, the next step is to calculate the gap, which can then inform the prioritisation process for action (Step 3). For wages, this is a matter of comparing the living wage estimate with the actual wage data in a given country, region or at the site level. This process can be more complex when it comes to living incomes.

Calculating living income gaps in own operations and the supply chain

To calculate the living income gap, a living income benchmark as well as the total (net) household income are required (see Figure 4). As for wages, the gap is the difference between the two. More detailed guidance given in the Living Income Community of Practice's Guidance Manual (The Living Income Community of Practice, 2020^[55]), and summarised here:

- Data needs to be comparable. This means that the timeframe, time period, currency, geographical region and household size referred to by both the benchmark value and actual household income need to match.
- Four different indicators (gap of mean income, gap of median income, share of those below the Living Income benchmark and the Foster-Greer-Thorbecke (FGT) index, see Box 5) should be calculated.
- Visualisations of those calculations is then important to help interpret the results.
- The FGT index (see Box 5 and the LiCOP Guidance Manual (The Living Income Community of Practice, 2020^[55])) may be particularly relevant to help get a clearer picture of the gap for the most affected workers in particular sites or regions.

Figure 4. Visualising the living income gap



Source: The Living Income Community of Practice, (2020^[55]), Guidance manual on calculating and visualizing the income gap to a Living Income Benchmark, <https://www.living-income.com/tools-resources/living-income-graphics>

Box 5. Key indicators for calculating living income gaps

The **gap of the mean income** is a simple but powerful indicator, which allows one to quickly have an indication of the magnitude of the gap in a region.

The **gap of the median income** is a slightly more sophisticated indicator, which allows a stakeholder to have a very good indication of the magnitude of the problem for a typical farming household.

The **share of those below the Living Income Benchmark** provides insights in how many are directly affected by not earning minimally a living income.

Finally, the **Foster-Greer-Thorbecke (FGT) index** sheds more light into the size of the problem among those below the Living Income Benchmark, and is particularly suitable for cases in which a meaningful share of the households are already above the line.

Source: Living Income Community of Practice, (2020^[55]), Guidance manual on calculating and visualizing the income gap to a Living Income Benchmark, <https://www.kit.nl/wp-content/uploads/2020/08/KIT-Guidance-Measuring-and-visualizing-the-gap.pdf>

Assessment of suppliers and business relationships beyond contractual relationships

The OECD Guidance recognises the challenges in getting information on risks and impacts in upper tiers of companies' supply chains. Companies may establish specific mechanisms to assess the risk of wage and income related impacts linked to upstream suppliers. Such mechanisms can be established individually or collaboratively.

- **Embed expectations into contracts:** The enterprise may require its direct supplier or intermediary (e.g. tier 1) to assess its suppliers (e.g. tier 2) and disclose the findings.

See for more information Q28 on p. 68 of the OECD Due Diligence Guidance for Responsible Business Conduct.

- **Build the capacity of suppliers to conduct assessments in their supply chain and report back:** The enterprise can establish training programs for suppliers that focus on understanding living wage standards, effective wage management systems, and the importance of transparency. This may include on-site workshops and digital learning modules tailored to the specific needs of suppliers at different tiers. Collaboration with different stakeholders can also be relevant in order to deliver technical assistance and capacity-building. Some initiatives can provide practical guidelines and tools for wage assessments, conducting regular monitoring visits, and creating a feedback loop where suppliers can report on their progress and challenges. It is important that the support provided is continuous to ensure that suppliers have the necessary knowledge and resources to conduct wage assessments and report their findings autonomously. The enterprise is encouraged to support this process, for instance by facilitating introduction to sector-wide or multi-stakeholder initiatives that assess suppliers. The intermediary may include the cost of assessing suppliers in its pricing framework.
- **Engage choke points –** It is recommended that companies identify and engage with control points, who tend to have greater visibility and leverage over other upstream segments. Depending on the commodity, choke points may differ. In the garment industry, for example, relevant choke points may include fabric mills, dye houses, and garment factories. In the agricultural sector, choke points often include processing plants, packing facilities, and export hubs. Engagement with choke points may include direct negotiations, collaborative audits, and capacity-building initiatives. Companies may conduct assessments at these stages of the supply chain, and then collaborate with them to implement improvement plans.

See for more information on control points Box 5 on p. 69 of the OECD Due Diligence Guidance for Responsible Business Conduct and Box 3 on p. 60 of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector. See also p. 38 of the OECD-FAO Guidance on Responsible Agricultural Supply Chains for more information on control or “choke points” in agricultural supply chains.

- **Increase transparency:** Disclosing supplier lists and simplifying access to that information, for example via a data sharing site such as Open Supply Hub, can help companies identify buying peers to collaborate with as well as facilitate cross-supply chain collaboration on living income and living wages.
- **Collaborate to access data:** Sustainability initiatives can help pool data on upstream suppliers or monitor issues such as gender pay equality. Utilising third parties to collect data on an independent basis, that will not impact commercial arrangements, may help to overcome confidentiality constraints. Information can also be collected via anonymous worker surveys.

Step 3: Preventing or mitigating harm related to living income and living wage gaps

Under Step 3 companies take action to stop causing or contributing to harm and to prevent and mitigate harm in their supply chains. For incomes and wages, this concerns the actions companies take to address the living income and living wage gaps identified through Step 2, normally as part of a living income and living wage strategy.

Key considerations under Step 3

- What should a living income and living wage action plan include?
- How does a company's relationship (cause, contribution or linkage) to the living income or living wage gap affect its activities?
- What are the links to purchasing practices and freedom of association and collective bargaining rights?
- What's the role of the ILO's principles for wage-setting in closing the wage gap and what can companies do to promote these principles in their supply chain?
- What additional activities can companies take to close living income and wage gaps?
- How can companies tailor their approaches to support living incomes and wages for women workers and for workers in the informal economy?

Developing an action plan

Developing an action plan is an important first step to addressing the living income and living wage gaps identified as part of Step 2. This plan should cover own operations and supply chain focusing on areas where the gap is greatest according to the company's estimates and assessments, or according to other sources such as engagement with stakeholders or complaints mechanisms. The action plan should seek to close the identified gaps. For living wages the following ILO key principles of wage-setting processes can be taken into account:

- considering the needs of workers and their families alongside economic factors
- strengthening social dialogue and empowering wage-setting institutions, particularly collective bargaining
- promoting incremental progression from minimum wages to living wages
- ensuring national and/or local ownership
- ensuring gender equality and non-discrimination
- using robust and reliable data and statistics for an evidence-based approach
- taking into account the root causes and challenges of low pay, such as unfair distribution of value, low total factor productivity, informality, weak institutions and compliance systems
- recognising the role of the State. (ILO, 2024^[6]), para 13.

The action plan may need to take into account a series of connected and overlapping actions but should have a focus on root causes and durable, long-term improvements. For example, it is likely that an effective living wage action plan would need a strong focus on purchasing practices and supplier engagement at a central level, and include a country-by-country focus, material and product focus, including identifying relevant collaborative initiatives. A living income action plan could include a commodity-by-commodity approach, a clear approach to use of certifications, a rethink of buying practices (for example building longer-term supply chain relationships and forecasting) and collaborative engagement relating to productivity measures and pricing premiums. The action plan should respond to the sourcing model, so if the company predominantly sources via intermediaries, engaging intermediaries should be a clear focus. More examples are presented and discussed throughout this step.

Ceasing, preventing and mitigating harm linked to living income and wage gaps in own operations

Where living income and living wage gaps are identified in a company's own operations, the company should take action to cease and remediate.

For **direct employees**, the first consideration should be to engage directly in social dialogue with workers' representatives and trade unions, particularly collective bargaining, to achieve living wages in accordance with international labour standards and the ILO's principles of wage setting Box 6. This process should be informed by living wage estimates alongside information on economic factors, as well as taking into account other national institutions, such as minimum wage commissions. It should be based on robust data and statistics, ensure gender equality and non-discrimination, and consider national circumstances and root causes of low pay.

Box 6. ILO principles of wage setting

In accordance with international labour standards, wage-setting practices should be based on the following institutions and principles:

- collective bargaining and tripartite social dialogue
- take into account the needs of workers and their families, and economic factors
- ensure gender equality and non-discrimination
- utilise robust data and statistics for an evidence-based approach
- consider national circumstances and root causes of low pay.

Note: See (ILO, 2024^[6]) for a detailed description of each of the above principles.

Companies can also take action to support good-faith collective bargaining:

- Supporting workers to have a complete understanding of living wage concept and access relevant knowledge and training on living wages.
- Supporting and not undermining freedom of association rights in the workplace, see Box 2 in the second chapter.
- Providing equal access to economic and other relevant information to social partners

Improving systems to plan production and establishing effective financial management and planning systems can help mitigate the risk of insufficient resources to provide living wages.

Where the workers concerned are employed indirectly (for example via **third party recruiters and employment agencies**), the company should seek to engage with their representatives and trade unions, ensure to engage with the recruiters and agencies to share the company's expectations and living wage strategy, and crucially specify wage expectations in contracts with agencies and set up appropriate monitoring. In general, it is recommended to reduce reliance on agency staff where feasible.

Where a company has **service contracts with third party companies** for operations, such as security and cleaning, the company should seek to engage with workers' representatives and trade unions, engage with contractors throughout the contracting process to inform them of the company's policies and living wage strategy, including writing expectations into new tenders and specifying wage expectations in contracts. Companies are also encouraged to explore alternative employment arrangements, for example directly employing workers to fulfil the same job roles.

These activities should form part of the company's living wage policies, programmes, procedures and corrective action plans (CAPs).

Where **wage discrimination** is at issue, the company should prioritise redressing the imbalance, as well as cooperating and providing for remedy if relevant (see Step 6).

Preventing and mitigating harm linked to living income and wage gaps in the supply chain

Closing living income gaps

To close living income gaps a holistic action plan combining a number of approaches will be needed. Deciding the best combination and sequencing of options to close the gap will require careful consideration and contextual understanding, as well as consultation with supply chain partners, particularly farmers themselves and cooperatives where applicable. Figure 5 gives an overview of potential strategies to close living income gaps:

Figure 5. Strategies for closing living income gaps



Source: The Living Income Community of Practice, (2024^[46]), Entry Points and Good Practices/ Gender-sensitive interventions to close the Living Income Gap, <https://www.nachhaltige-agrarlieferketten.org/en/tips-tools#c3796>

Responding to risk factors

- **Informality and vulnerable workers:** In the agricultural sector, both independent and waged employment often remains informal, and many agricultural workers are excluded from the scope of labour laws. Informal and marginalised groups, such as women, youth and indigenous and migrant workers, often face exploitative or unsafe working conditions. Companies may need to adapt their action plans to take into account certain characteristics of their value chain, particularly considering vulnerable workers. An action plan should include strategies to create (or engage with business partners to create) stable employment for workers with social security (OECD/FAO, 2016^[4]). See Box 7 for further approaches.
- **Casual, seasonal and piece rate work:** Workers employed on a casual, piecework or seasonal basis makes earnings unpredictable. For example, workers who harvest coffee are typically paid by the kilo, which makes their daily earnings reliant on weather and sick days are unpaid. Due to price pressures, banana plantations also increasingly resort to piece-rate, temporary, subcontracted or casual work, all of which push worker incomes lower (Fairtrade International, 2024^[56]). To overcome these risks, companies may for instance, establish piece rates at levels that enable workers to earn a living income within a normal number of working hours¹¹; offer contracts that guarantee a minimum number of working days or hours per season to provide workers with more predictable income; support workers in diversifying their income through additional training and opportunities in off-season activities.
- **In-kind payments:** In the agricultural sector, it can be the case that workers rely on in-kind benefits from their employer. However, there are numerous instances where poor quality and costly housing, healthcare, education, and other benefits have exacerbated malnutrition and left workers indebted to their employers (Fairtrade International, 2024^[56]). In-kind payments should be very carefully considered and only agreed in consultation with workers, their representatives and trade unions.

Box 7. Strategies to support informal workers (non-exhaustive list)

- Globally, 93.6 per cent of agricultural workers are informally employed, making it the sector with the highest level of informal employment. Over 80 per cent of the world's farms are engaged in smallholder farming of which the majority operate in the informal economy and rely on informal networks to access markets. The challenges faced by workers and enterprises in the informal economy are complex and diverse, ranging from regulatory constraints to capacity and representation issues, to conditions of economic and social marginalisation. This complexity and diversity calls for multiple approaches and initiatives that are driven by a range of stakeholders. Business and industry associations can work with government to ensure that policy and regulatory instruments are designed and implemented in a way that takes into consideration the needs of workers and enterprises of the informal economy. Simplifying regulations, administrative processes and procedures for compliance and making them more understandable and accessible is an important means to removing barriers to formalisation.
- Limitations in financial, technical and managerial capacity and in access to information, technology and finance often constrain the abilities of workers and enterprises in the informal economy. Businesses can tailor capacity building and other support services that take into account the specific characteristics and constraints of informal economy operators.

- Incentives play an important role in motivating transitions to formality. Clear benefits for enterprises and workers are more likely to trigger action towards formalisation.
- Many workers and enterprises in the informal economy are not members of organisations that can represent them, and they seldom participate in policy processes. Organising informal economy operators and ensuring their voice is heard in business and policy processes is key to identifying and advancing their specific needs.

Source: ILO, (2022^[57]), A double transition: formalization and the shift to environmental sustainability with decent work, <https://www.ilo.org/publications/double-transition-formalization-and-shift-environmental-sustainability>

Internal measures, including long term partnerships

- **Establishing long-term partnerships and building longer-term shared value:** Building long term buyer-supplier partnerships, simplifying supply chains, committing to shorter payment terms are among practices that may build longer term shared value (Farmer Income Lab, Mars, 2019^[58]). Committing to purchasing a particular volume of the crop at a certain price can help farmers offset risks in their business models of income gaps and give farmers and cooperatives greater confidence to make investments which may improve their resilience and longer-term incomes.
- **Prequalifying intermediaries:** Assessing intermediaries prior to the placement of orders, directing sourcing towards suppliers that comply with minimum income and are moving towards living incomes. Requesting contractual business relationships to direct their activities towards business relationships that have been pre-qualified, building into contracts an obligation to support supply chain due diligence of living income risks linked to upstream production where appropriate.
- **Engaging with choke points:** Establishing traceability on higher risk supply chains and/or building enterprises' capacity and monitoring enterprises operating at choke points on their living income due diligence on their upstream suppliers (e.g. through training, management audits and random site-checks) (see Step 2). Choke points could be processing factories, wholesalers or exporters, for example.

Responsible purchasing practices

Companies should review their own purchasing practices as a risk factor for low incomes in their supply chain (Step 2) and implement control measures to prevent contributing to harm through its purchasing practices regardless of whether it has identified specific contributions to harm.

Studies in the agricultural sector have shown in which ways and to what extent purchasing practices can impact producers living income and how changes in specific practices, contractual terms and engagement and coordination can lead to increased incomes (Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ) GmbH, inclsv, Fair & Sustainable Consulting, 2023^[59]); (Ethical Tea Partnership, 2022^[60]).

In light of this, governments have started to regulate purchasing practices to strengthen the bargaining power of agricultural producers and fishermen against large buyers. For instance, the Unfair Trading Practices Directive (UTP) was specifically adopted to protect farmers and small businesses by prohibiting various unfair practices, such as late payments, last-minute order cancellations, and unilateral contract changes. (European Commission, 2019^[61]). Under the EU Corporate Sustainability Due Diligence Directive (CSDDD) companies are expected to adapt purchasing practices and develop and use purchasing policies that contribute to living incomes and wages. The Directive explicitly recognises the link between purchasing

practices and price pressures on producers, particularly smaller operators, in relation to sales of agricultural and food products. (European Union, 2024^[16])

Closing the living income gap through support to farmers and business relationships

- Direct pricing increases:** The company can build into its action plan a strategy to work with suppliers to gradually increase prices to rates that ensure sustainable livelihoods for farmers and their families. A Living Income Reference Price (LIRP) indicates the price that a model farmer household with a viable farm size and a sustainable productivity level needs to earn a living income from the sales of their crop. Calculating a LIRP by commodity and sourcing region and establishing a plan to incrementally work to that price is key, and companies can collaborate through initiatives to establish LIRPs. Example tools include GIZ's Living Income Reference Price Estimator which serves to estimate the price required to achieve various income benchmarks such as living income under different conditions (GIZ, n.d.^[62]) or Fairtrade's Living Income Reference Price, which represents the price a typical farmer household with a viable farm size and a sustainable productivity level needs to earn a living income from the sales of their crop (Fairtrade International, n.d.^[63]). Some companies find that price increases can be funded through increased consumer pricing, particularly where the reason can be communicated clearly, for example through certification schemes and other consumer engagement (Tony's Chocolonely, 2021^[64]). In many cases, price increases in the amount needed to pay the LIRP is only a very small percentage increase of the final retail price. Any direct pricing increases should be carefully considered not to distort markets and avoid unintended consequences.
- Direct cash transfers:** An approach that is gaining traction is to close the living income gap through direct cash transfer programmes. This is a household-based approach rather than a price increase tied to volumes produced. The household transfer is designed to be more inclusive, including spouses (often women) rather than just farmers. As a measure it should not be used on its own, but to complement other work to close income gaps, ideally for a bridging period while other longer-term measures take root. For example, in Nestlé's income accelerator programme cocoa farmer households will receive a transfer of up to 500 Swiss francs per year, which is estimated to increase household incomes by an average of 20-25% per year. The approach is targeted and limited, designed to taper off support over a period of two years (Nestlé, n.d.^[65]). The International Cocoa Initiative (ICI) also provides useful information and evidence on the use of cash transfers (ICI, n.d.^[66]).
- Certification premiums:** Many certification schemes have premium mechanisms such as Fairtrade's Smallholder Producer Organisations (SPOs) or cooperatives. Depending on how premiums are paid out to farmers, they can either increase the net income for farmers or can support the improvement of their standard of living. For example, since 2020 Fairtrade has extended the use of premium payments to include cash or COVID-19 related responses (Fairtrade International, n.d.^[67]). The premium is paid to the cooperative who collectively decides how the premium is distributed amongst its members. This can also be targeted to the poorest farmers through specific projects or via solidarity arrangements that aim to increase farmer incomes.
- Efficiency and quality enhancing initiatives:** Companies may also directly or indirectly support farmers to make farm level productivity and quality changes which in a number of crop cycles may lead to improvements in income. Supporting activities can include providing technical advice, input provision, supporting services, capacity building, mechanisation, post-harvest loss reduction, warehousing, and if relevant, cooperative strengthening. However, care should be taken that the costs of these interventions are properly accounted for when taken into consideration. Generally, higher farm productivity requires investments in inputs and labour. As

such, agronomic efforts to increase net household income should be supported by calculations of the necessary investments, with additional labour being calculated at minimum at a living wage level. It is extremely important to note that direct productivity increases should be carefully designed to avoid unintended consequences, such as risk of increased child labour and deforestation (KIT, n.d.^[68]).

- **Income diversification:** Another approach is to support income earners to diversify their income streams. These additional income streams may be other crops cultivated on-farm, livestock or off-farm income streams. Investing in activities that support farmers to diversify their income can contribute to increases in the net income and build resilience to shocks and hazards. However, activities focused on increasing additional income streams should be thoroughly evaluated before implementing, as convincing farmers to risk switching their efforts requires adequate incentives, confidence in the market and the right external environment.
- **Access to finance:** Access to competitive longer-term finance can support farmers to increase their income (Sustainable Food Lab and Business Fights Poverty, 2017^[69]). It can solve challenges on timely access to inputs and services, but also can support plantation renovation initiatives that are extremely important when crops have reached their optimum productivity. Where the company's judgement of the farmer's creditworthiness is more positive than that of a third-party bank or finance provider, risk sharing schemes, collateral or loan guarantee schemes can be developed to support this access to finance. For example, the Nestlé Cocoa Plan supports Village Savings and Loans schemes in cocoa growing communities in Côte d'Ivoire and Ghana that enable farmers and their communities to invest small amounts and to earn interest on their income. It also offers a loan fund from which members can borrow to fund small business opportunities. The programme has focus on enabling financial literacy and empowerment for women in the communities. (Nestlé, 2021^[70]) Another example is the Better Cotton Initiative (BCI), work with local partners in Mozambique to facilitate access to credit for cotton farmers. These efforts include establishing credit schemes that help farmers purchase necessary inputs, improving their productivity and income (Better Cotton Initiative, 2020^[71]).

Closing living wage gaps

This section presents potential options for actions to close identified living wage gaps in a company's supply chain. Often, a combination of these options will be needed to address gaps effectively in a given context. A critical step is engaging directly or building leverage with suppliers to participate in good faith in wage-setting processes in line with international labour standards.

Responding to risk factors

Before getting to the fundamentals of wage setting itself (see Closing the living wage gap through wage-setting processes and Box 6) companies can address a number of the factors that can contribute to higher risk. Some of these are important areas of action which require companies to establish programmes of work by themselves (purchasing practices, for instance). Companies can work on these areas alongside direct work on wage-setting.

- **Informality and vulnerable workers:** See Responding to risk factors in Closing living income gaps and Box 7.
- **High-risk payment methods:** for example working with suppliers and workers' representatives to reduce and find alternatives to piece rate payment systems in manufacturing contexts in their supply chain, see Box 8. Where day work (workers who are paid by the day) and outsourced homework (work released from the factory to be completed in the home) is practised, the company should similarly engage with workers, their representatives and employers to

investigate the circumstances of the practice and improve payment and contracting systems without disadvantage to workers themselves.

Box 8. Addressing the use of piece rate payments in manufacturing contexts

The OECD Garment Guidance identifies piece-rate payments as a risk factor for wages that do not meet the basic needs of workers and their families, as well as for compliance with local minimum wage laws. Piece-rate payments are also a risk factor for excessive working hours and occupational health and safety, where workers seek to supplement their income through working longer hours.

A Fair Labor Association case study showed that through a number of measures, including shifting from piece-rate payment systems to higher base wages and bonuses, workers' wages increased during the regular working week. It is recommended that companies that identify piece-rate payment practices in formal factory settings in their supply chain work with their suppliers and with the union or workers' representatives at the factory to shift towards guaranteed base pay and achievable incentive pay that meets a living wage. In the United States, the State of California passed the Garment Worker Protection Act to regulate the use of piece rate in own operations to ensure payment of minimum wages in factory settings in California.

Sources: Fair Labor, (2021^[72]), Reaching Living Wage for Garment Workers, <https://www.fairlabor.org/projects/reaching-living-wage-for-garment-workers>; The Garment Worker Protection Act (SB62), (2022^[73]), <https://www.dir.ca.gov/dlse/Garment/#GWPA>

As an interim measure companies should undertake to work with their supply chain partners to ensure that the piece rate is set on the basis that it is possible to earn a living income or wage for work carried out within a normal working day.

- This can be done via a time trial method, with intermediaries recording average timings per piece, and setting the rate to ensure that all workers are able to earn a living wage, that is, not going by the fastest worker's timing.
- The rate can also be set through consultation with workers about how many pieces they can produce within an eight-hour day.
- Given workers that earn piece rate often have to provide their own equipment or materials, it should also be discussed with workers whether their expenses should be reimbursed based on actual cost, or if an approximate percentage should be added to the piece rate, which may need to be adjusted based on the piece.
- In terms of estimating the living income or living wage rate (see Step 2), where consultations are held with informal and homeworkers on piece rate calculations, they could also serve the purpose of checking that living wage rates, as calculated via the methods discussed in this Handbook, are accurate for their particular circumstances, and adjusting accordingly.

The two approaches mentioned for setting piece rates – using time and motion studies and setting rates in consultation with workers earning piece rate – can be explored in more detail in the Ethical Trading Initiative's briefing document 'Setting fair piece rates for homeworkers: key principles and possible approaches' (ETI, 2013^[74]).

- **Methods of pay:** it may still be necessary to work with suppliers to ensure that workers have a good understanding of their rights and how to read their payslips and calculate their wages,

benefits and other forms of compensation, as well as to ensure that suppliers provide clear wage statements to workers and establish and keep clear, complete and accurate payroll records. Automated payments are a good practice to reduce risk of fraud in payments.

See for more information on wages Module 7, OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.

- **Other considerations:** In-kind payments should be very carefully considered and only agreed in consultation with workers, their representatives and trade unions. Bonuses should not be used as established pay. See Step 2 for further discussion in the context of establishing actual wages.

Internal measures, including prequalification and building long term relationships

Internal measures that the enterprise establishes work to prevent and mitigate impacts in its supply chain by either decreasing the likelihood of engaging with high-risk business relationships in the first place or by building its leverage with new suppliers and business relationships.

Leverage exists “where the enterprise has the ability to effect change in the wrongful practices of the entity that causes the harm” (OECD, 2018^[2]). Using leverage with suppliers captures a range of activities including incentivising, supporting and otherwise effecting change in the behaviour of a business relationship (or other entity causing harm). How an enterprise uses leverage will depend on the context – including the nature of its relationship, the degree of leverage it has, the nature of the risk or impact, and the supplier’s capacity to prevent, mitigate or remediate the impact. In the context of living wages, leverage tends to be highly determined by the proportion of business the enterprise represents for the supplier; whether the enterprise is directly sourcing from the supplier or sourcing through a buying agent and whether sourcing agreements are short term or long term. Where leverage is low, companies are encouraged to adopt measures to build leverage.

See more information p. 80 (Q38) of the OECD Due Diligence Guidance for Responsible Business Conduct and p75-79 of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, and p. 32 of the OECD-FAO Guidance on Responsible Agricultural Supply Chains.

Possible internal measures to prevent and mitigate risks related to living wage gaps include:

- **Integrate expectations into supplier contracts:** Building expectations around living wage due diligence specifically into commercial contracts. Clearly communicating the consequences if expectations around progress towards living wages are not respected (e.g., through meeting with management of the business relationship).
- **Prequalify suppliers and intermediaries:** The enterprise assesses a supplier prior to the placement of orders, directing sourcing towards suppliers that comply with minimum wage and negotiated wages and move towards living wages. Request contractual business relationships to direct their activities towards business relationships that have been pre-qualified, build into supplier contracts an obligation to support supply chain due diligence of living wage risks linked to upstream production where appropriate.

- **Engage with choke points:** Establish traceability and/or assess choke points to evaluate whether enterprises operating at choke points are applying living wage due diligence to their upstream suppliers (e.g. through management audits and random site-checks) (See Step 2).
- **Establish business incentives linked to living wage criteria:** Build leverage with direct suppliers by increasing orders, giving prospective orders or commit to long term contracts with suppliers that perform well in relation to implementation of the living wage strategy.

Support suppliers and business relationships

Where feasible, support suppliers and business relationships by:

- **Capacity building and awareness raising:** Provide technical guidance – for example, in the form of training, management systems upgrading, etc.; share tools on record keeping and financial management systems and resources such as this Handbook.
- **Participation in initiatives:** Facilitate participation in broader sector-wide initiatives or regional initiatives to prevent impacts.
- **Facilitating linkages to local service providers:** Where available and appropriate (e.g., to provide automated payments to workers).
- **Facilitating access to financing:** To help implement corrective action plans, for example, through direct financing, low-interest loans, guarantees of continued sourcing, and assistance in securing financing.
- **Supporting suppliers in improving production efficiency:** to address the business driver for cheap labour.

Responsible purchasing practices

Responsible purchasing practices are an essential component of the living wage strategy as it is directly linked to the capacity of employers to pay wages. Responsible purchasing practices such as inaccurate technical specifications, labour costing or insufficient lead times may lead to lower wages, which often represent an adjustment variable once other costs have been covered (See Step 1).

Companies should review their own purchasing practices as a risk factor for low incomes and wages in their supply chain (Step 2) and implement control measures to prevent contributing to harm through its purchasing practices regardless of whether it has identified specific contributions to harm (See Annex A):

- **Control measures:** Indicators may include e.g. percentage of orders placed late, percentage of orders changed after order is placed; number of days between the last change and shipment, percentage of cancellations, amount of late or delayed payments, etc.
- **Red flag systems:** Develop procedures for purchasing teams to follow in instances in which practices could contribute to harm. For example, in instances in which orders are changed after order placement or orders are placed late, the enterprise may mitigate risks by paying for rushed order delivery; changing the delivery date or providing a list of prequalified subcontracts to fill a portion of the order.
- **Pricing considerations and labour cost:** Develop pricing models that account for the cost of wages, benefits and investments in decent work. Free on board (FOB) prices reflect these costs together with traditional pricing considerations such as quantities being purchased, cost of materials, skill requirements etc. Ring-fence labour costs in negotiations to ensure that the price paid allows suppliers to pay a living wage to their workers. This means incorporating all direct and indirect labour costs as a distinct block in pricing negotiations, alongside other costing blocks. In the textiles sector, this could include fabric costs, trim costs and factory contributions

(see Box 9) taking into consideration the share of the supplier's production for which the company is responsible.

Box 9. Approaches for ring-fencing labour costs

Ring-fencing labour costs in the garment industry involves isolating and protecting the wage component of manufacturing costs to ensure that workers receive fair compensation. This approach promotes transparency and accountability in pricing negotiations between buyers and suppliers. See below example of two methodologies for ring-fencing labour costs.

Cost-Based Calculation Model for Ring-Fencing Labour Costs (ACT on Living Wages)

ACT's Cost-Based Calculation Model focuses on isolating labour costs within the total production expenses to ensure fair wages. This involves a detailed breakdown of both direct and indirect labour costs, taking into account local living wage benchmarks. The model emphasizes the need for transparency in cost allocation, regular adjustments for inflation and productivity, and risk-sharing mechanisms between brands and suppliers. This approach also incorporates rigorous financial audits and compliance checks to maintain fair wage practices across supply chains.

Labour-minute Costing method (Fair Wear)

Fair Wear's Labour-Minute Costing method calculates the fair labour cost per item by determining the exact time required for production and multiplying it by a fair labour rate. This approach ensures detailed transparency in production costs, clearly identifying the portion allocated to labour. The methodology aligns wages with established benchmarks and involves regular stakeholder engagement to maintain fair wage practices. Monitoring and periodic adjustments are key, ensuring that the labour-minute costing remains accurate and fair in varying economic conditions.

Sources: ACT, (n.d.^[75]), ACT Labour Costing Protocol, <https://actonlivingwages.com/app/uploads/2021/04/ACT-Labour-Costing-Protocol.pdf>; Fair Wear Foundation, (n.d.^[76]), Labour-minute costing tool, <https://api.fairwear.org/wp-content/uploads/2020/12/FWF-LabourMinuteCosting.pdf>

- Contractual terms:** Current contracts typically cascade business risk and due diligence responsibility to suppliers including that the costs of production and of meeting the buyers' due diligence requirements fall disproportionately on them. Buyers can rebalance this by integrating clauses for shared responsibility into their contracts, for example drawing from model contract clauses such as developed by the Responsible Contracting Project in collaboration with the Sustainable Terms of Trade Initiative, a group of manufacturers associations in the garment and footwear sector (Responsible Contracting Project, 2023^[44]) (See Living income and living wage due diligence expectations in supplier contracts or written agreements). Inclusion of responsibilities and purchasing terms in contracts to enable living wages could include: payment in time and payment in full (including retrospective changes); fair distribution of payment risks (e.g. air freight, raw materials, exchange rate volatility); visibility over end price paid to factories (transparency, hidden cost between agent and supplier); conditions for technical and delivery modifications (formal commitment to cover any costs arising from these); and providing full compensation or on-time/early payment despite orders being held or quantities being reduced.

See for more information on Control measures for purchasing practices Box 4 on p.73 of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector

Closing the living wage gap through wage-setting processes

The ILO states that living wages should be achieved through the wage-setting process in line with ILO principles on wage setting (ILO, 2024^[6]), see also Box 6. For own operations, see Ceasing, preventing and mitigating harm linked to living income and wage gaps in own operations above.

In the supply chain, companies should build this expectation into their living wage strategy and action plan, ensuring to use and build leverage with suppliers to promote, and not undermine, social dialogue and collective bargaining, see Box 2. The action plan should also take into account the extent to which other actors fulfil their obligations in supporting the conditions for living incomes and wages, especially the role of the government in investing in quality public services, including health, education, social protection and infrastructure to contribute to realising a decent standard of living, and strengthening compliance systems, such as labour inspectorates and other relevant authorities.

Successful collective bargaining relies on a number of factors, starting from whether workers can freely enjoy their rights to freedom of association and collective bargaining, and including the need for social partners to have access to the same information, including living wage estimates and financial and economic factors. The process also needs to take into consideration national circumstances and root causes of low pay. Companies not directly partner to collective bargaining processes but seeking to promote living wages in their supply chains may be able to play an additional role, on their own or through collaboration with peers, through the following activities:

- **Contribute to implementing sound standards on trade union rights** in the supply chain, companies may consider entering into direct agreements with trade unions, such as through global framework agreements (GFAs) or Freedom of Association (FoA) protocol agreements (see Box 10). Companies may also support and refer employees and suppliers to training programmes that strengthen the capacity of workers' representatives and trade unions, as well as managers.
- **Increase transparency on purchasing practices and buying commitments:** Greater assurance and protections for suppliers can increase supplier confidence and provide a more optimistic economic basis to inform collective bargaining. Companies can gain a deeper understanding of how their purchasing practices are perceived and experienced through participating in factory-level data collection via anonymous surveys such as those conducted by the Better Buying Institute.
- **Increase wage transparency:** For a company committed to closing the living wage gap in its supply chain, it can be challenging to ensure that its efforts reach workers and increase their wages. Working with suppliers to increase transparency through digital payroll systems can give companies greater oversight on whether higher purchasing prices with ring-fenced labour costs translate to improved wages for workers.
- **Facilitate participation in sector-wide or regional initiatives** which promote collective bargaining towards living wages such as ACT on Living Wages in the garment sector.
- **Facilitate linkages with local service providers:** Enterprises in the supply chain can build connections with local civil society organisations that work in collaboration with government and business, as well as with local enforcement authorities and play a role in raising awareness and monitoring companies at the supplier level.

- **Support suppliers' efficiency enhancing initiatives.** Higher productivity and material and process efficiency measures can increase profit margins to accommodate wage or price increases needed to close the living wage gap. In the garment sector, for example, promoting more efficient cutting techniques to minimise waste can reduce fabric costs. The Ethical Trading Initiative (ETI, n.d.^[77]) recommends that companies work closely with suppliers on productivity and efficiency initiatives to avoid unintended consequences such as increased quotas for production and to ensure that the increased margins for a company result in increased wages for workers. The ILO also includes low total factor productivity as a root cause and challenge of low pay, and recognises the importance of raising productivity as a factor in allowing sustainable wage growth.

Box 10. Direct agreements with trade unions

Enterprises may partner with or enter directly into agreements with trade unions to facilitate worker involvement in the design and implementation of due diligence processes and the implementation of standards on workers' rights and the raising of grievances. Agreements with trade unions can take various forms and can be made at the workplace, enterprise, sectoral or international level. They tend to be legally binding with embedded grievance mechanisms, for example ACT on Living Wages includes dispute resolution mechanisms which are negotiated at country level and handle cases pertaining to violations of freedom of association and wages.

- **Collective bargaining agreements** – a collective bargaining agreement is a written agreement between an employer and a trade union that recognises the right of the union to represent workers in negotiations on the terms of employment. Evidence shows that workers in workplaces with collective bargaining agreements are paid more than their counterparts in workplaces without collective bargaining. Upholding the rights to freedom of association and collective bargaining in the supply chain is a necessary component of a living wage action plan.
- **Global framework agreements** – bilateral agreements negotiated at a global level between a global trade union and a multinational company. They serve to uphold workers' rights across a company's operations and supply chains by implementing global standards on trade union rights, health and safety, and quality of work principles. Global framework agreements can help to protect workers' rights regardless of the legal protections that may exist in their countries.
- **Freedom of association protocols** – agreements establishing a joint understanding and commitment between trade unions and enterprises regarding the implementation of freedom of association within industrial relations relating to a specific context. They may be established locally between a single brand, supplier and trade union or at a regional or sector-wide level between a group of buyers, suppliers and trade unions.
- **Multi-company agreements** – agreements between a group of multinational enterprises and trade unions which tend to address specific and severe labour risks within the sector. An example on living wages in the garment sector is ACT on Living Wages.

Sources: OECD, (2015^[78]), *Negotiating Our Way Up: Collective Bargaining in a Changing World of Work*, <https://doi.org/10.1787/1fd2da34-en>; IndustriALL, (n.d.^[79]), *Global Framework Agreements*, <https://www.industrialunion.org/global-framework-agreements>; ITUC, (2011^[80]) *Freedom of Association Protocol*, https://www.ituc-csi.org/IMG/pdf/FOA_Protocol_English_translation_May_2011.pdf

Addressing gender income and wage gaps

When addressing living income and wage gaps companies should also seek to close gender pay gaps and end wage discrimination, taking as a basis the principle of equal pay for work of equal value (ILO, 2024^[50]).

To do this, companies can:

- Ensure the company has the tools to estimate the gender pay gap (as part of Step 2) including collecting and assessing sex-disaggregated data and ensuring living income and wage benchmarks are gender-sensitive.
- Prioritise actions where gender pay gaps are severe and likely.
- Consider whether a programme or policy could have unintended negative consequences for women.
- Include women in the design of monitoring and evaluation measures.
- Develop gender sensitive warning systems and protection of whistleblowers.
- Support women's equal and meaningful participation in consultations and negotiations.
- Consult women outside the presence of men and facilitating separate spaces for women to express opinions and provide input.
- Adjust, as appropriate, the actions to identify, prevent, mitigate and address those impacts to ensure these are effective and appropriate in light of gender discrimination.

Collaboration at industry and government level to close living income and wage gaps

Efforts to promote wage-setting processes towards living wages based on the ILO wage-setting principles may be impeded by the prevailing context of freedom of association and collective bargaining rights in the sourcing location. Enterprises in consultation (and collaboration where appropriate) with trade unions and other enterprises, may consider engaging at a national or sector-wide level to demonstrate support for effective wage fixing and enforcement mechanisms, and leverage their positions to promote living incomes and wages. Broader engagement may take a number of forms and the nature of engagement should reflect the specific context and leverage.

On addressing systemic issues, see Box 6 on p 76 of the OECD Due Diligence Guidance for Responsible Business Conduct and Section 3.2.6 “Engage government” of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector. On responsible disengagement, see the Garment Guidance, Section I, 3.2.5.

Factors that may inform where companies choose to collaborate:

- the severity of the living income or wage gap
- the policy environment
- the effectiveness of existing wage-setting mechanisms
- the leverage of the industry broadly with government (e.g. percentage of economy's total merchandise exports).

Broader engagement may take a number of forms and the nature of engagement should reflect the specific context. Example forms of engagement include:

- Collaborate with other enterprises to jointly indicate support for living incomes and wages; and/or industry-wide collective agreements to be registered and legally enforceable under national laws.
- Encourage suppliers to enter into collective bargaining (see above).
- Commit to continued sourcing in high-risk countries if improved wages towards living wages are negotiated and incorporated into national law.

On sourcing indirectly, see Box 5 “Implement control measures when sourcing indirectly” on pp. 76-77 of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.

Responsible disengagement

Businesses may decide to disengage from a supplier or supply chain for a number of legitimate reasons, including for commercial or other reasons. Where risks and impacts have been identified at a business relationship, according to the MNE Guidelines appropriate responses with regard to the business relationship may include continuation of the relationship throughout the course of risk mitigation efforts; temporary suspension of the relationship while pursuing ongoing risk mitigation; or, as a last resort, disengagement from a business relationship either after failed attempts at mitigation, or where the enterprise deems mitigation not feasible, or because of the severity of the adverse impact. A company should also take into account potential social, environmental and economic adverse impacts related to the decision to disengage. It is also important that a company considers its own relationship (purchasing practices etc.) to the living income or living wage gap and addresses its own contribution as part of considering disengagement. No matter the reason for disengagement, companies should do so responsibly including by seeking meaningful consultation with relevant stakeholders in a timely manner and where possible, by taking reasonable and appropriate measures to prevent or mitigate adverse impacts related to their disengagement.

On responsible disengagement, see the MNE Guidelines Ch II, para 25; Garment Guidance, Section I, 3.2.5.

Step 4: Tracking implementation and results

Step 4 of the OECD due diligence framework is about making sure that due diligence activities are effective. This chapter describes how companies can verify, monitor and validate that the measures they are taking are preventing and mitigating the living income and living wage gaps in their own operations and supply chains.

Key considerations under Step 4

- How is meant by a company's responsibility to track the effectiveness of its due diligence on living incomes and wages?
- Who should be involved in tracking implementation and results within the company?
- What sources of information can be used?
- How can a company respond to negative findings?

Verifying, monitoring and validating

Tracking involves first and foremost verifying the action plan has been implemented, putting in place ongoing monitoring and validating that the actions taken are indeed effectively preventing and mitigating living wage gaps.

- **Verification:** Confirmation that requirements have been filled.
- **Monitoring:** The ongoing tracking of the situation on-the-ground in relation to specific risks and the measurement and tracking of indicators of success.
- **Validation:** Determination of whether the actions taken to prevent impacts are indeed effective in preventing impacts. Verification and monitoring data feed into validation.

Responsibility for tracking implementation and results may be assigned to a number of individuals across business units or offices within the enterprise, as relevant. Senior management oversight of an enterprise's progress with respect to implementation and results will provide a more complete picture of the enterprise's progress across the organisation as a whole.¹²

See more information on p. 83 Q43 of the OECD Due Diligence Guidance for Responsible Business Conduct.

Verifying

Here, the requirement is to verify internally that the enterprise has carried out the actions to which it has committed (for example, under the corrective action plan, see Step 3) within the agreed-upon time period. For example, whether planned activities have been executed: e.g. trainings have been conducted, identified purchasing practices implemented; suppliers contracts updated.

Monitoring

Whenever possible, the enterprise should monitor indicators, information and data collected through several sources over time to track progress and validate that living income and living wage gaps are being mitigated and prevented.

Workers, their representatives, trade unions, farmers and cooperatives should play an integral role in monitoring progress against goals and feed into ongoing monitoring of these indicators. Companies can implement a monitoring and evaluation method that builds the capacity of workers and farmers to play an active role in tracking progress on achieving living income and living wages over time. Using this method, workers and farmers can evaluate and analyse progress and contribute to designing solutions. While this

method may be more time-intensive than a compliance approach, it can be more cost effective and efficient in the long run (Align, n.d.^[81]). In the Garment Sector, initiatives such as Garment Worker Diaries provide an example of direct data collection from workers by sampling to monitor income and wages impacts for workers over time (Garment Worker Diaries, n.d.^[82]). Global framework agreements can formalise the role for trade unions in monitoring the company's due diligence, see Box 10, for example the IndustriALL Global Union and H&M global framework agreement set up national monitoring committees in important garment-producing countries in H&M's supply chain (IndustriALL Global Union, 2015^[83]). Worker hotlines and other early warning systems as well as case data from grievance mechanisms can be used for monitoring purposes.

The following is a non-exhaustive list of indicators and resources that can be used to track progress.

Table 4. Example indicators to track progress

Type of indicator	Grouping	Description of indicator
Direct indicators	Income and wage metrics	<ul style="list-style-type: none"> Estimate living income or living wage gap per country/region Percentage living income or living wage gap disaggregated by gender or other characteristics Net wage and income increases for workers and farmer households Real value of wages by determining percentage change in wages after inflation
	Worker information	<ul style="list-style-type: none"> No. of or percentage of workers/producers and household members experiencing living income or living wage gap disaggregated by gender or other characteristics
	Collective bargaining agreements	<ul style="list-style-type: none"> No. of agreements in place by country or region
	Stakeholder engagement	<ul style="list-style-type: none"> No. of internal and external stakeholders engaged with during assessment and response, disaggregated by gender and other intersectional aspects. Minutes from meetings Final agreements reached through negotiation processes Commitments made to stakeholders by the enterprise, and vice versa Responses to complaints and agreements as to how adverse impacts should be addressed.
	Supplier engagement	<ul style="list-style-type: none"> Trainings delivered on company living income and living wage policies and approaches through supplier engagement programmes. Progress of individual suppliers against correct action plans: e.g. updated wage gap, specific incidents and how they were handled.
Indirect indicators	Worker	<ul style="list-style-type: none"> Knowledge levels of workers Attitude Wellbeing-related indicators
	Systems	<ul style="list-style-type: none"> Policy implementation metrics Pre-qualification of suppliers
Other	Purchasing practices (more control measures in Step 3)	<ul style="list-style-type: none"> Projected and actual orders placed Changes in orders Types of contracts Use of buying agents

Data sources, resources and collaborative approaches:

- Supplier assessment:** Long term partner and supplier relationships are critical to be able to measure results over time. The longer these relationships have been in place, the easier it will be to track progress against indicators and targets. For new relationships, it is recommended to embed the company's monitoring system in its reporting processes early on to capture data from the start. This will however require investment in engagement, awareness raising and capacity building to be effective. Supplier data can include third-party audit reports or other assessment reports, suppliers' public reporting, evidence of site

visits and/or stakeholder engagement, information on grievances raised through the suppliers' operational-level grievance mechanism, or other information sources that can inform the enterprise on the status and management of gaps by the supplier.

- **Assessment of indirect and upstream business relationships:** Assessments of mid-stream suppliers' due diligence practices (as well as intermediaries as applicable) to verify that corrective action measures are up-to-date. Establishing a system for regular transfer of information from upstream to downstream enterprises is crucial for promoting transparency in the supply chain over time. Triangulate information with other resources and stakeholder engagement to ensure monitoring does not rely only on audits.
- **Meaningful stakeholder engagement and expert consultation:** Corroborate information through engagement with relevant stakeholders (or their legitimate representatives), desktop research, collaborative approaches or the establishment and regular meetings of supply chain management or other consultation with experts is recommended. Stakeholders and relevant unions are well placed to give valuable insights on the impacts of a company's living income or living wage activities on the lives of workers and their families.
- **Data from grievance mechanisms and red flag systems:** Input and feedback from remediation processes and red flag systems can help strengthen identification of actual and potential adverse impacts by highlighting issues that may not have received sufficient attention, and by providing inputs on how to effectively respond to adverse impacts.
- **Collaboration:** Where the risk of harm affects more than one sector within a particular region, the enterprise is encouraged to coordinate and collaborate across sectors to harmonise indicators tracked. The sharing of data will provide those operating in the region with a more complete picture and therefore enable the enterprise to better target its prevention measures.

See more information on tracking p. 82 (Q41) of the OECD Due Diligence Guidance Responsible Business Conduct, and pp. 83-85 of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.

Validating

Here companies should determine whether the actions taken to prevent impacts are indeed effective in preventing impacts, and feed results back into the due diligence process, to adjust and improve. Verification and monitoring data should feed into validation.

Responding to negative findings

Where objectives and targets are not being met, enterprises can consider whether modifications to the due diligence process, including decisions made with respect to prioritisation, are necessary. This helps to ensure that an enterprises' due diligence is effective, dynamic and adapted.

There are a number of reasons why risks of living income and living wages gaps may not have been effectively prevented or mitigated, including that the measures taken to prevent the harm were not in of themselves effective, insufficient time was provided to see progress, or inadequate resources were allocated to implement the corrective action plan. The enterprise should seek to understand why this is the case.

An internal assessment may be useful:

- Consulting employees involved in the due diligence processes and external relevant stakeholders in this process.
- Establishing senior oversight of tracking also helps to ensure that lessons learned are taken into account and due diligence systems can be continuously improved.
- Include feedback of lessons learned into the enterprise's due diligence to continuously improve the process and outcomes.
- If the company identifies, through its tracking, that harmful purchasing practices (e.g. changes in orders) are common, it should seek to identify why. Team members responsible for the placement of orders should be included into the analysis.
- Given the indirect relationship that companies will usually have with wage setting processes in their supply chain, the company should also seek to engage with stakeholders and other relevant external experts to understand how to improve their due diligence to address income and wage gaps more effectively.

Companies should undertake a broader assessment of overall due diligence efforts periodically, including through third-party audits by competent and accredited independent parties who are knowledgeable and experienced in wage and income risks. If using information from audits companies should seek to validate and build on the information through engaging relevant stakeholders.

Step 5: Communicating commitments and actions taken to address living income and living wage gaps

This chapter provides recommendations on how to externally communicate relevant information on living income and wage due diligence, including with affected stakeholders, drawing from Step 5 of the due diligence framework

Key considerations under Step 5

- How can a company communicate publicly regarding its due diligence on living income and living wages?
- What kind of communication with affected stakeholders is appropriate and expected?
- How can commercially sensitive information be handled in the reporting process?

Information to communicate publicly about due diligence on living income and living wages

Communication on due diligence to address income and wage risks and harm will be expected where these issues have been identified as significant risks in a company's own operations or supply chain. Through public communication companies are expected to account for how adverse human rights impacts are addressed (OECD, 2023^[11]). Such disclosure is of importance to a broad set of stakeholders including workers, worker representatives, local communities and civil society, among others. It is also of interest to investors making assessments of a company's value (OECD, 2023^[11]), (G20/OECD, 2023^[5])¹³.

Communication may take a number of forms. However, in all cases, information should be maintained and communicated in a way that is relevant, accurate, current, clear and user-friendly and enable intended users to access information. This can include:

- **Living income and living wage policies and management systems:** Companies should report on their commitments to enabling a living income and living wages in their own operations and supply chain, as well as relevant management systems and capacity building, such as training, resource allocation, key performance indicators for responsible staff members and the level of senior oversight of the policy commitment (See Step 1 for further information). Likewise, it is recommended that companies refer to any relevant value statements subscribed to by the company, such as through membership in multi-stakeholder initiatives or agreements with unions.
- **Due diligence process and supply chain risks.** This may include:
 - **Identification and prioritisation process:** How living income and wage related risks were identified and prioritised, including justification where the company has prioritised addressing income and wage gaps in one part of its supply chain over another.
 - **Transparency:** The benchmark methodologies used to estimate living incomes and living wages as well as actions the company has taken to check the credibility of the methodology and verify information and its adequacy with stakeholders.
 - **Components of corrective action plan:** Actions that were taken in response, indicators to measure actions and timeline of implementation.
 - **Vulnerable workers and gender considerations:** How the company's response is tailored to address workers in vulnerable situations. For instance, migrant workers who are supporting family overseas through regular remittances, or homeworkers paid by the piece.
 - **Use of initiatives and certifications:** If the company uses information from collaborative initiatives or uses certification to provide assurance on living incomes and

living wages, the scope of the coverage of those initiatives in their due diligence, and how they take action to verify and fill in any gaps.

- **Stakeholder engagement:** For manufacturing contexts this should include the activities conducted to meaningfully engage, consult and involve trade unions and workers representatives, when they were conducted, and on the fulfilment of commitments or agreements (e.g. Global Framework Agreements, wage negotiation processes). For agricultural workers (both formal and informal) and smallholder farmers (scheme and independent), information should be included on the specific engagement mechanisms that were used (such as smallholder focus groups or meetings with cooperatives associations and/or their representatives), records of when consultation and engagement with stakeholders took place and what was discussed and agreed, as well as an up-to-date list of nominated representatives for stakeholders.
- **Progress and outcomes:** Companies should report where possible on their progress on living income and wage gaps, on what has worked as well as what should be improved. Providing as much concrete information as possible, for example verified data on incomes or wages pre- and post-intervention (using real values), references to publicly available information about the company's engagement in collective bargaining agreements, and number of relevant complaints brought through legitimate processes and the outcomes. Other information may include any constraints likely to limit the quality or scope of relevant due diligence findings, and where possible, lessons learned and plans for continuous improvement.

When communicating information on suppliers' due diligence, information may be shared in aggregate form, or the conditions of reporting can be agreed with the relevant suppliers.

It should be noted that for broader transparency purposes companies are increasingly choosing to disclose lists of their direct suppliers and higher tier suppliers. This is a good practice also for the topic of living incomes and wages as it helps workers, farmers, their representatives and trade unions identify the customers of their employers and build engagement and raise grievances, if needed, via relevant mechanisms. It can also help upstream or midstream manufacturers gain visibility of their downstream customers and find channels to raise disputes, if needed, related to payment terms and other purchasing practices.

Communication with affected stakeholders

As well as public reporting, companies should also take steps to communicate with affected stakeholders on their due diligence where they cause or contribute to living income and living wage gaps, to demonstrate the adequacy of their response to the gap, in addition to sharing information and reporting to stakeholders throughout engagement process. Following through and reporting back to stakeholders on how outcomes of stakeholder activities have been taken into account in practice allows stakeholders to feel that their perspectives are being considered and is also helpful in managing expectations of stakeholders.

Communication should be with workers, trade unions and representative organisations of the workers' own choosing. This communication needs to take place with impacted or potentially impacted rightsholders in a timely, culturally sensitive and accessible manner (e.g. language, literacy, location, time, availability, technical competence). It may, for example, be appropriate to organise informational meetings with supply chain partners, workers and their representatives. Engaging local partners, including trade unions, will help companies understand what form of communication will be effective, as well as to understand what they deem to be material information and ensure communication does not pose risks to affected stakeholders, personnel or to legitimate requirements of commercial confidentiality.

For farmers, particularly scheme and independent smallholder farmers, companies' communication on their response to living income gaps could include providing access to current and previous prices paid for agricultural commodities, pricing mechanisms and calculations, evidence that all parties (including e.g. women, minority groups and independent representative organisations assisting smallholders) are consulted on their needs for support to improve their livelihoods and are involved in contractual decision-making processes. This includes financing, loans/credits, and repayments and other support mechanisms where applicable. Companies may use a variety of communication and engagement mechanisms, including smallholder focus groups, meetings with village or community leaders, or meetings with cooperative associations and/or their representatives.

Key examples of relevant information to be shared with stakeholders include the relevant benchmark methodologies used to collect or calculate living income and wage estimates, data on living wage or living income gaps, gender pay gaps where measured, and information about the company's progress to track and improve their purchasing practices, where relevant. Sharing information on progress against commitments and agreements, how issues can be reported, including which grievance mechanisms are available, how complainants will be protected through the process, and what outcomes they can expect is also a critical aspect of communication with affected stakeholders.

Step 6: Providing for or co-operating in remediation when appropriate

The provision of remedy is a critical step that due diligence should enable and support. This chapter describes different ways of how a company in the agricultural, garment or footwear sector can provide for or co-operate in remediation of actual harm it causes or contributes to resulting from living income and wage gaps.

Key considerations under Step 6

- What does it mean to “provide for or co-operate with legitimate processes” for remedy of income and wage harms?
- In which instances should remedy be provided?
- How can appropriate forms of remedy be identified?

Legitimate processes

The MNE Guidelines state that “enterprises should provide for or co-operate through legitimate processes in the remediation of adverse human rights impacts where they identify that they have caused or contributed to these impacts.” (MNE Guidelines. IV. 6). For cases of direct linkage, see Box 11.

Providing for or co-operating with legitimate processes means that a company should ensure there are proper channels that allow workers in its own operations and supply chains to raise a complaint against it on any RBC matters covered by the MNE Guidelines. The complaint mechanism may provide for grievances across the spectrum of RBC issues but should be able to treat income and wage complaints effectively. Operational-level grievance mechanisms (OLGM) that meet the core criteria of legitimacy, accessibility, predictability, equitability, compatibility with the MNE Guidelines and transparency can be an effective means for providing for such processes. Establishing an OLGM in own operations and checking whether suppliers have OLGM through the risk assessment process is a good approach. If a company decides to create its own complaints mechanism, it should make sure that it does not undermine the role of local grievance mechanisms, including judicial and non-judicial mechanisms, and the role of trade unions in addressing labour disputes; and that it is managed by trusted parties.

For more information on legitimate processes and for example components of the core criteria see OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (2018), step 6 from p93, including Table 8, p96-97, as well as the OECD Due Diligence Guidance for Responsible Business Conduct (2018) A.6 (from p88).

Box 11. What is the expectation when a company has not caused or contributed to an adverse impact but is directly linked?

“If an enterprise has not caused or contributed to an adverse impact, but is rather directly linked to the impact, the enterprise may still take a role in remediation, despite not having an expectation to provide for remedy itself. For example, the enterprise may use its leverage, to the extent practicable, with its business relationship to compel the business relationship to participate in processes to provide for remedy. Where relevant, the enterprise may provide information which can facilitate investigations or dialogue.”

Source: OECD, (2018₂₁), OECD Due Diligence Guidance for Responsible Business Conduct, Q52, <https://doi.org/10.1787/15f5f4b3-en>

When to provide remedy?

Income and wage theft and breaches of contract

When it comes to harm relating to incomes and wages, the most severe and most reported harms will typically relate to non-payments of wages or wage theft, or other breaches of contractual wage or income agreements, unpaid social contributions or to wage discrimination issues. These issues can be prevalent in both the agriculture and garment and footwear sectors and as part of any income and wage strategy and due diligence action plan, companies should commit to understanding their role and co-operating in remedy accordingly. Alleged cases of income and wage harm have been brought in a number of National Contact Point for Responsible Business Conduct (NCP) cases, see Box 12 for some examples.

Understanding harm related to living income and living wages

What may be less obvious is what action companies should take where income and wages fail to meet the basic requirements of workers and their families, even while they could be legally compliant or meeting negotiated wage levels. That is, what action is required to remedy living income and living wage gaps?

As explained through this Handbook, the identification of a living income or living wage gap should lead a company to generate a corrective action plan and take good faith efforts to close the gap (see Steps 1-5). The extent to which a company might be expected to cooperate in remedy of a living income or living wage gap may depend on whether a company is causing or contributing to the living income or living wage gap, for example via purchasing practices, or where their actions or omissions undermine collective bargaining. As a component of its due diligence, the company should seek to understand whether it has caused, contributed to or is linked to the impacts that it has identified. This will be important in terms of the expectations of its response.

For information on enterprise relationship to harm and appropriate action, see p.72 (Q30) of the OECD Due Diligence Guidance for Responsible Business Conduct, and p. 66 of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.

Box 12. National Contact Points for Responsible Business Conduct

The MNE Guidelines have a built-in non-judicial grievance mechanism through the National Contact Points for Responsible Business Conduct (NCPs). NCPs are agencies established by governments. Their responsibilities are twofold: to promote the MNE Guidelines, and related due diligence guidance, and to contribute to the resolution of concrete RBC issues ('specific instance') as raised through a voluntary process. To date, 52 governments have an NCP, and over 700 specific instances have been received by the network.

Any individual or organisation can bring a specific instance against an enterprise to the NCP where the enterprise is operating or based regarding the enterprise's operations anywhere in the world. NCPs facilitate access to consensual and non-adversarial procedures, such as conciliation or mediation, to assist the parties in dealing with the issues. NCPs are required to issue final statements upon concluding the specific instance processes. NCPs can also make recommendations based on the circumstances of the specific instance.

Examples of cases relevant to income and wages submitted to NCPs:

- NCP Germany: Südwind Institute, Sedane Labour Resource Centre and Clean Clothes Campaign & Adidas AG (2018): The complainants alleged that Adidas had failed to use its influence as a buyer vis-à-vis a manufacturing subcontractor in Indonesia. The allegations related to the temporary avoidance of minimum wage compliance, anti-union behaviour, and dismissals. The NCP undertook mediation between the parties, which led to a resolution of the issues concerning wages and related due diligence. The company imposed a requirement on its main partner that it should no longer use the subcontractor as an overflow facility in its production for Adidas.
- NCP United States of America: Jamaa Resource Initiatives et. al vs US Company (2016): The complainants alleged that the Subsidiary had given poor wages that did not meet their needs, despite promises made by the company to improve the local economy. The NCP accepted the specific instance for mediation. On 28 February 2017, the US Company declined to participate in mediation citing ongoing legal proceedings.
- NCP Netherlands: Specific instance notified by the trade union FBV Eemshaven regarding the activities of Nuon, a multinational enterprise operating in the Netherlands (2012): FNV accused the utility company of failing to observe fair labour standards, including wage rates, in its dealings with subcontractors. Through discussions facilitated by the NCP, the parties reached a joint solution. In particular, Nuon required its principal contractors to impose on their suppliers the same obligations that Nuon imposed on its principal contractors, including compliance with regulations such as minimum wage provisions and collective labour agreements.
- NCP Switzerland: International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association (IUF) vs Nestlé (2008): The IUF claimed that Nestlé Panjang management had not respected the rights of the local trade union SBNIP and refused to engage in collective bargaining and, in particular, to negotiate wages. The NCP was informed that in Indonesia the parties had reached an agreement to include wages into the 2010-2011 collective bargaining agreement (CBA).

Note: Specific instances is the term used in the MNE Guidelines to describe practical issues that may arise with its implementation.

Source: OECD, (2018^[2]), OECD Due Diligence Guidance for Responsible Business Conduct, <https://doi.org/10.1787/15f5f4b3-en>; OECD, (2020^[84]), Providing access to remedy: 20 years and the road ahead, <https://mneguidelines.oecd.org/NCPs-for-RBC-providing-access-to-remedy-20-years-and-the-road-ahead.pdf>

Determining the appropriate form of remedy

For income and wage harms, compensation is often the most relevant form of remedy. When determining the appropriate form of remedy, companies should particularly take into account barriers to access to remedy for vulnerable groups such as migrant workers, women and socially marginalised communities. For instance, many migrant workers may be unable to meet evidentiary requirements to succeed in a wage claim or recover funds paid to a fraudulent recruiter because they lack records of their hours worked and wages received, or they possess fraudulent or forged documents. Private legal assistance is costly and they may lack access to sufficient legal aid. Migrant workers also often lack information about their rights and how to access remedial processes and legal or paralegal services. For many, remedial forums are physically inaccessible because they are located in capital cities, far from workers' homes or worksites (ETI, n.d.^[85]).

For general principles on determining appropriate remedy see section 6.3, pp. 101-102 of the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.

Annex A. Useful resources

OECD resources

Below is a list of key OECD resources which should be used in conjunction with this Handbook.

Resource	Description	URL
OECD Guidelines for Multinational Enterprises on Responsible Business Conduct	A set of government-backed expectations for responsible business conduct consistent with applicable laws and internationally recognised standards	https://doi.org/10.1787/81f92357-en
OECD Due Diligence Guidance for Responsible Business Conduct	Practical guidance for businesses on implementing OECD due diligence and meeting responsible business conduct expectations	https://doi.org/10.1787/15f5f4b3-en
OECD-FAO Guidance for Responsible Agricultural Supply Chains	Sector-specific guidance on due diligence expectations as laid out in the OECD Guidelines for Multinational Enterprises	https://doi.org/10.1787/9789264251052-en
OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector	Sector-specific guidance on due diligence expectations as laid out in the OECD Guidelines for Multinational Enterprises	https://doi.org/10.1787/9789264290587-en

Further resources

Resource	Description	URL
I. General guidance		
UN Global Compact, Achieving the Living Wage Ambition: Reference Sheet and Implementation Guidance	An illustrative guide on implementing a living wage programme in a business system	https://www.unglobalcompact.org/library/5887
UN Global Compact, Living Wage Analysis Tool	A free, user-friendly and strictly confidential online tool that helps companies identify actions and further opportunities to provide a living wage to ensure all workers, families and communities can live in dignity	https://livingwagetool.unglobalcompact.org/
Living Income Community of Practice, Guiding Steps Towards Living Income in the Supply Chain: How to Mainstream Living Income in your Company's Activities.	A guide on integrating living income into sourcing programmes and sustainability programmes	https://sustainablefoodlab.org/wp-content/uploads/2020/06/Guiding-Steps-Toward-a-Living-Income-in-Supply-Chains.pdf
Ethical Trade Initiative, Base Code Guidance: Living Wages	Practical guidance on implementing living wages in global supply chains	https://www.ethicaltrade.org/resources/base-code-guidance-living-wages
IDH, Living wage action guide	This guide is part of the Roadmap on Living Wages created by IDH. It supports companies and other organisations on their journey towards a living wage	https://www.idhsustainabletrade.com/living-wage-platform/what-is-a-living-wage
II.a Risk assessment: Methodologies for measuring living income and living wage gaps		
ILO, A Methodology to Estimate the Needs of Workers and their Families	Methodology for estimating the needs of workers and their families in different country circumstances	https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed_protect/@protrav/@travail/documents/projectdocumentation/wcms_826326.pdf

Resource	Description	URL
Anker Research Institute, Chapter 2: Overview of the Anker living wage methodology in: Living Wages Around the World	A manual that describes how to estimate a living wage using the Anker methodology	https://www.elgaronline.com/view/9781786431455/chapter02.xhtml
Anker Research Institute, Chapter 15: Measuring prevailing wages to compare to a living wage in: Living Wages Around the World	Gives considerations for measuring prevailing wages to compare to a living wage	https://www.elgaronline.com/view/9781786431455/chapter15.xhtml
Anker Research Institute, Gender Pay Gaps in Global Supply Chains: Findings from Workplaces in Bangladesh, Colombia, Morocco, Thailand, and Turkey	Presents the findings of studies to test the Anker Research Institute's methodology for measuring the size and determinants of gender pay gaps at workplaces in global supply chains.	https://www.ankerresearchinstitute.org/working-papers/gender-pay-gaps-feb24
IDH, IDH Living Wage assessment	Can support companies, brands and certifications with supply chain living wage gap assessments	https://www.idhsustainabletrade.com/living-wage-assessment/
Living Income Community of Practice, Guidance on calculating household income	Key principles, elements, and considerations for measuring actual income of farming households. Focuses on field measurement and surveys	https://thecosa.org/wp-content/uploads/2021/06/Guidance-on-Calculating-Living-Income.pdf
Living Income Community of Practice, Estimating farmer household income	How secondary data can be used to estimate income in circumstances where field data is incomplete or absent.	https://c69aa8ac-6965-42b2-abb7-0f0b86c23d2e.filesusr.com/ugd/0c5ab39443320ff33a4256b4d2d583ea810078.pdf
Living Income Community of Practice, Guidance manual on calculating and visualizing the income gap to a Living Income Benchmark	How to adjust data and calculate, report, and visualise the living income gap	https://www.kit.nl/wp-content/uploads/2020/08/KIT-Guidance-Measuring-and-visualizing-the-gap.pdf
Living Income Community of Practice, Applying the Household Economy Analysis to measure and address income gaps	Framework for organising income gap measurement that builds on a legacy approach to livelihood measurement	https://c69aa8ac-6965-42b2-abb7-0f0b86c23d2e.filesusr.com/ugd/0c5ab3409bab5a18e4403aaff9ddbe11cc081c.pdf
Living Income Community of Practice, How to calculate (living income) reference prices of agricultural commodities	A practitioner's guide to calculating living income reference prices of agricultural commodities	https://www.living-income.com/fileadmin/living_income/The_Concept/Measurement/Final_v1_Guidance_on_Calculating_Household_Income_.pdf
Fair Wear Foundation, Labour-Minute Costing	A methodology for calculating the cost of closing a living wage gap in garment factories	https://api.fairwear.org/wp-content/uploads/2020/12/FWF-LabourMinuteCosting.pdf
Fairtrade International, Living income Reference Price Model	A guidance on the Living income Reference Price (LIRP) for a range of commodities	https://www.fairtrade.net/issue/living-income-reference-prices

II.b Risk assessment: Resources for evaluating living income and living wage estimation methodologies

ILO, "Principles that the estimation of living wages should follow", Conclusions of the Meeting of Experts on wage policies, including living wages, Section III, 8.	ILO principles on estimating a living wage	https://www.ilo.org/resource/gb/350/report-meeting-experts-wage-policies-including-living-wages
Living Income Community of Practice, Guidance Document on Criteria for Methodologies on Living Income and Living Wage Estimates	Criteria for methodologies on living income and living wage estimates	https://www.living-income.com/fileadmin/living_income/Publications/Studies/Criteria_LILW_Estimates.pdf

II.c Risk assessment: Resources for finding a benchmark

OECD, Gender wage gap	Database on gender wage gap across countries	https://www.oecd.org/en/data/indicators/gender-wage-gap.html
OECD, Employment protection and minimum wages	Information on minimum wages in times of rising inflation	https://www.oecd.org/en/topics/sub-issues/employment-protection-and-minimum-wages.html
OECD, Income and wealth distribution databases	Two databases on income and wealth distribution across countries	https://www.oecd.org/en/data/datasets/income-and-wealth-distribution-database.html
Anker Research Institute, Country Index	Living income and living wage estimations	https://www.ankerresearchinstitute.org/ar

Resource	Description	URL
Asia Floor Wage Alliance, Calculating a living wage	for over 200 locations, updated annually An Asian union-led alliance which publishes a regional living wage benchmark for garment workers in Asian garment producing countries	i-country-index https://asia.floorwage.org/living-wage/calculating-a-living-wage
Fair Wage Network, Fair wage	A global database with living wage benchmarks, including national and city level values. New benchmark values are released every year. Certification for living wage is also available	https://fair-wage.com
Global Living Wage Coalition	A coalition of international standard setters associated with the Anker Research Institute hosting a resource library containing a range of Anker-approved benchmark studies, reference values, working papers and case studies.	https://globallivingwage.org/about
Numbeo, Cost of living	A global database on cost of living	https://www.numbeo.com/cost-of-living
WageIndicator Foundation, WageIndicator's Frequently Asked Questions on living wages and guidance on implementation	A global database of living wage and living income benchmarks based on WageIndicator's methodology, including national and regional values published in 165 countries on national websites and available as full datasets. New estimates are released every quarter	https://wageindicator.org/salary/living-wage/faq-living-wage
ALIGN Guidance tool on living wages and living income	A guidance tool on living income and living wages with a resource library and source map on a range of benchmarks	https://align-tool.com
IDH, Benchmark Finder	A tool that lists available living wage benchmarks per country/region identified through its living wage benchmark recognition process	https://salarymatrix.idhtrade.org/benchmark-finder
Clean Clothes Campaign, Europe floor wage	A living wage benchmark for European garment workers	https://cleanclothes.org/campaigns/europe-floor-wage
Living Income Community of Practice, Looking for a Living Income Benchmark?	Slide deck addressing frequently asked questions around living income benchmarks	https://www.living-income.com/fileadmin/living_income/Publications/Living_Income_Benchmark_Definition_and_Calculation/FAQ_Living_income_benchmarks_LiCoP_v1_May_26_2020_final.pdf
Fair Wear, Wage ladder	An online tool that allows the wages paid at any factory to be compared against a range of wage benchmarks	https://www.fairwear.org/resources-and-tools/wage-ladder
III.a Mitigating the gap		
IDH, Close the Gap	A guide to identifying and addressing the root causes of low wages	https://www.idhsustainabletrade.com/living-wage-platform/closethegap
Sustainable Food Lab, Enabling Smallholder farmers to improve their income	A paper that aims to clarify the roles and levers for companies and other actors to increase smallholder farmers' incomes	https://sustainablefoodlab.org/wp-content/uploads/2017/09/BFP-Improving-Incomes-WEB.pdf
III.b Mitigating the gap: Purchasing practices		
ILO, Redistributing Value Added towards Labour in Apparel Supply Chains: Tackling Low Wages through Purchasing Practice	Combines academic and policy information with real-life business case studies on strategies to tackle low wages through purchasing practices	https://www.ilo.org/travail/info/publications/WCMS_534536/lang-en/index.htm
Common Framework for Responsible Purchasing Practices, The Common Framework	A reference point for companies working to improve their purchasing practices	https://www.cfrpp.org
Partnership for Sustainable Textiles, Wages & purchasing practices - Partnership for Sustainable Textiles	Guidance on the implementation of living wages and purchasing practices	https://report.textilbuendnis.com/en/pst2022/wages-and-purchasing-practices

Resource	Description	URL
Better buying, Research and tools	A guide on how purchasing practices impact working conditions, including wages	https://betterbuying.org/research-tools
ACT, Purchasing Practices: Accountability & Monitoring	A practical guide to the cost based calculation model for ring-fencing labour costs	https://media.business-humanrights.org/media/documents/files/documents/ACT-Info-Brief_PPC-and-accountabilityv2-2.pdf
IV. Monitoring and reporting		
IDH, Recommended KPIs	Guidance on setting and monitoring key performance indicators on living wages	https://www.idhsustainabletrade.com/uploaded/2021/10/Roadmap-on-Living-Wages-Recommended-minimum-KPIs-for-tracking-progress_30Sep21-.pdf
ALIGN, Track Progress	A practical guide on monitoring and communicating progress on a living wage or living income journey	https://align-tool.com/action-process/4/4.1-track-progress
Fair Labor Association, Fair Compensation Dashboard	A tool allowing companies to analyse workers wages, measure those wages against living wage benchmarks for over 30 countries and track progress over time	https://www.fairlabor.org/about-us/fair-compensation-toolkit
ISEAL, Making credible living wage claims - A framework to guide practice	A guiding framework to support companies and sustainability systems to make credible living wage claims	https://www.isealalliance.org/get-involved/resources/making-credible-living-wage-claims-guiding-framework
Fair Labor Association, Living Wage Public Reporting	Guidance for members to improve wage transparency in supply chains	https://www.fairlabor.org/living-wage-public-reporting-guidance
Living Income Community of Practice – Living Income Toolkit: Take Action & Monitor Results	Slide deck providing guidance on creating a living income strategy and monitoring and evaluating outcomes	https://www.living-income.com/tools-resources/company-toolkit
V. Co-operation and collaboration		
Sustainable Food Lab, The role of governments in enabling living income in global value chains	Living income guidance for governments	https://sustainablefoodlab.org/living-income-guidance-for-governments/
Sustainable Food Lab, Guiding steps towards living income in the supply chain	Guidance for companies on living income in the supply chain	Available from: https://sustainablefoodlab.org/small-scale-farmer-livelihoods/
IDH, Living Wage Action Guide	Provides guidance on roles of various actors in supply chain, as well as producing and buying country governments, and how they collaborate to close living wage gaps	https://livingwageguide.idhtrade.org

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Notes

¹ The MNE Guidelines provide voluntary principles and standards for responsible business conduct consistent with applicable laws and internationally recognised standards. Matters covered by the Guidelines may be the subject of domestic law and international commitments. The Guidelines outline recommendations on responsible business conduct that may go beyond what enterprises are legally required to comply with. The recommendation from governments that enterprises observe the Guidelines is distinct from matters of legal liability and enforcement.

² Article 7 of the International Covenant on Economic, Social and Cultural Rights (ICESCR) as well as Article 23 (paragraph 3) of the Universal Declaration of Human Rights (UDHR)

³ Leverage is considered to exist where the enterprise has the ability to effect change in the wrongful practices of the entity that causes the harm (MNE Guidelines, chapter II paragraph 22).

⁴ This section addresses prioritisation decisions with respect to identifying most high-risk activities and/or business relationships associated with living income and living wage impacts. More broadly this Handbook can help businesses understand if living income and/or living wage impacts are a significant and priority issue for them in the context of their due diligence.

⁵ The OECD recommends that companies and the collaborative initiatives in which they are involved take proactive steps to understand competition law issues in their jurisdiction and avoid activities that could represent a breach of competition law. However, credible responsible business conduct initiatives are not inherently in tension with the purposes of competition law and typically collaboration in such initiatives will not be in breach of such laws. When it comes to prices and wages, factors to avoid are collusion between employers on salaries (wage-fixing) and hiring practices. (OECD, 2023^[11]), commentary 121 and 122. A recent example in Germany in the banana supply chain, found that a collaboration between German retailers on the promotion of living wages did not present anti-competitive violations (BananaLink, 2022^[88]; Bundeskartellamt, 2022^[89]). This was avoided by aligning on tools and processes, such as for the calculation of price markups instead of agreeing on prices or price components, by separating out the living wage cost from the product price, by maintaining a direct and transparent relationship with their peers and suppliers and by inviting others to join their collaboration.

⁶ For example, in the negotiations of the EU Directive on Corporate Sustainability Due Diligence (CSDDD), an alliance of over 60 companies, investors and initiatives of different industries, countries and sizes called on the European Parliament to ensure that living income and wages are included as a human right in the final text of the directive and that their definitions should not be compromised (Fairphone, 2022^[86]). The global 'Business for Inclusive Growth' (B4IG) coalition of major companies, with the OECD as its Strategic Partner, engages with governments to advance inclusive growth at both global and local levels. Its member

companies committed to take action to achieve living wages and are working on enabling companies to learn from their peers and share best practices to advance on the journey (B4IG Coalition, 2023^[87]).

⁷ See “Living income and living wages in global supply chains” for a discussion of such interlinked risks.

⁸ See Step 3: Preventing or mitigating harm related to living income and living wage gaps for a more in-depth discussion on actions concerning the informal sector.

⁹ The Anker Research Institute plans to revise these guidelines in 2024, which is expected to result in lower allowable limits for most in-kind benefits.

¹⁰ A paper from the OECD Well-being, Inclusion, Sustainability and Equal Opportunity (WISE) Centre contributes to this debate by reviewing different living wage methodologies, identifying points of convergence and divergence, and assessing the impact of the various assumptions on the resulting estimates. In addition, the paper benchmarks living wage estimates against some commonly used international wage metrics and poverty lines. In the annex, the paper provides detailed information on the reviewed living wage initiatives including on their coverage, living wage definition used, spending categories included, computation strategies etc. (Balestra, Hirsch and Vaughan-Whitehead, 2023^[11]).

¹¹ Per the ILO definition, the “normal hours” of work refers to the time at the disposal of the employer within the legal working time determined by regulations and national practices. This definition excludes overtime. (ILO, 2024^[6])

¹² Also see “Step 2: Identifying and assessing living income and living wage gaps and impacts in own operations and supply chain” on creating accountability/oversight of due diligence.

¹³ Companies are recommended to consult internationally agreed standards on disclosure, including the OECD MNE Guidelines chapter III, as well as the G20/OECD Principles of Corporate Governance 2023 which are aligned with the MNE Guidelines.



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