

Annex 9: How to Promote Fair Remuneration

This annex of the [amfori BSCI System Manual](#) guides amfori BSCI participants and their business partners on how to assess and promote fair remuneration in their supply chain. Furthermore, it provides guidelines to auditors, which complement the [amfori BSCI System Manual Part III](#).

INTRODUCTION

Before amfori BSCI participants and their business partners can properly assess fair remuneration in their supply chain, they first need to understand the different definitions used in the context of promoting fair remuneration through the supply chain.

It is commonly accepted that everyone who works has the right to just remuneration. However, there are different understandings on:

- What just remuneration means
- What just remuneration entails
- Who is responsible to grant it

The Universal Declaration of Human Rights states in its article 23.3 that (...):

“Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.”

amfori BSCI translates this universal right to ‘everyone who works’ into the operational principle of fair remuneration, which embeds:

- Legal minimum wage enforcement
- Living wage calculation
- Additional qualitative elements that should apply to any wage payment

LEGAL MINIMUM WAGE

Legal minimum wage is a legal instrument at the disposal of governments to protect workers against unduly low pay and to overcome poverty.

- It has a binding nature
- It is quantifiable and due in legal tender
- Farmers are included in some legislations, but self-employed entrepreneurs are not

Methodology

Legal minimum wage is usually the result of an inclusive process that includes government representation, employers’ organisations, and workers organisations. In a nutshell, it is:

- Reached through tripartite consultations

- Possibly superseded by collective bargaining
- Enforced by law

amfori BSCI audits will verify that legal minimum wage or the industry standard approved through collective bargaining – whatever is more favourable for workers – is respected by producers.

Through the amfori BSCI audit methodology, the auditor will also assess if part-time workers, piece-rate workers, and workers hired through brokers or recruiting agencies all receive a remuneration consistent with the values and principles of the [amfori BSCI Code of Conduct](#).

Furthermore, when auditing producer organizations such as cooperatives, auditors will assess that their members (e.g. family farms) also receive an adequate income that corresponds to what is needed to meet a decent standard of living.

As cooperatives are not for-profit companies, but social enterprises, auditors' assessment shall take into consideration how cooperative members are compensated. For example, activities or infrastructures funded by the cooperative, based on a decision democratically taken. These collective investments need to be taken into consideration when calculating the fair income.

LIVING WAGE

Living wage is a concept introduced by civil society to address the gap between the prevailing wage and the wage level that could provide workers and their families with a decent standard of living. Living wage:

- Is not defined by law
- Has no binding nature
- Does not include qualitative elements but only quantitative ones
- Applies to wage earners
- Does not apply to self-employed entrepreneurs and farmers – for farmers, the concept of living income has been introduced

Methodology

There are many different methodologies for calculating a living wage. For the purpose of amfori BSCI audits, we highly encourage auditors to follow the [Anker Methodology](#), and its specific improvements, when compared with other methodologies. If auditors use a different calculation methodology, they should reflect it in the audit report and explain the reason why the chosen method is more appropriate for that actual context.

Living wage calculations shall estimate the food costs, health costs, and education costs for a family, as well as the cost of housing and unexpected events (e.g. an accident of one family member). That shall be estimated with the number of full time workers, per family, in mind.



Figure 1: Living wage calculation

**(Food + housing + health + education) x average family members ÷ full time workers per family
= Net Living wage**

The Anker Methodology is particularly relevant when calculating:

- **Food costs:** Auditors and producers should look at a model diet that meets WHO nutritional guidelines.
- **Housing costs:** Auditors and producers should aim at internationally accepted healthy housing and not a standard that perpetuates poverty.
- **Full time workers per family:** The number of workers per family should always be between one and two, varying by country and location. Auditors and producers should add labour force participation rates, unemployment rates, and part-time employment rate information that helps them picture the most common situation within the families they are assessing.

The net living wage will refer to the amount earned in regular working hours (e.g. 48 regular working hours or whatever the maximum regular hours per week are, according to local or national law).

ADDITIONAL QUALITATIVE ELEMENTS

Fair remuneration includes other components, which are excluded from the legal minimum wage and living wage calculations:

- Premium paid overtime
- Social benefits
- In-kind benefits and bonuses
- Subsidised or free transportation
- Subsidised or free-living space
- Subsidised or free canteen services
- Opportunities for education or training
- A reflection of workers' skills and education in the level of payment

Furthermore, it should be paid:

- **Timely:** As agreed and communicated during the contract negotiation to workers prior to their engagement.
- **Regularly:** With a frequency that allows the worker to make use of her/his earnings without incurring debts.
- **Fully and in legal tender:** The work performed by the workers in regular working hours is to be paid in legal tender only.

STIMULATE CONSTRUCTIVE DIALOGUE

By requesting that factories and farms learn how to calculate their workforce's decent standard of living, amfori BSCI aims at stimulating constructive dialogue between the employer and the workforce. Furthermore, it raises employer understanding on current efforts to provide workers with a fair remuneration and the gaps that need to be overcome in order to do so. For that purpose, producers are encouraged to use [Template 5 Fair Remuneration Quick Scan](#).

When producers are able to show a thorough calculation of the fair remuneration components relevant to their own workforce (including seasonal workers), this effort will be captured during the amfori BSCI audit and disclosed as good practice in the audit report.

Dialogue between workers and employers on decent standards of living and wages may help to build trust and discuss other relevant topics (e.g. OHS), which contribute to the overall improvement of working conditions.

HOW AMFORI BSCI PARTICIPANTS CAN CONTRIBUTE TO FAIR REMUNERATION

Awareness raising: amfori BSCI participants should create necessary channels to raise awareness among their staff (particularly buyers) on the fair remuneration discussion. They should have a good understanding on the risks their own business could face if sourcing from business partners that systematically fail to provide fair remuneration to their workforce.

Risk assessment: amfori BSCI participants should have a good understanding of the share of business partners that may not meet fair remuneration standards. amfori BSCI audits provide a good basis of information to identify where these business partners are and who they are (e.g. how significant they are in the supply chain and in terms of purchasing volume).

Root cause analysis: amfori BSCI participants should leverage their expertise to calculate the commercialisation costs and have a good understanding on how their preferred buying price impacts the wages in production facilities

Furthermore, amfori BSCI participants should map out their purchasing practice against those business partners who do not meet the fair remuneration standard. This comparison may identify some purchasing practice that could help addressing the fair remuneration gap. In making that comparison, amfori BSCI participants may ask themselves:

- Is this business partner's remuneration gap endemic or could it be attributed to my own purchasing practice? Is it a punctual gap or is it being identified as recurrent?
- Is there any common denominator in the purchasing practices used with these business partners and not with others?
- Are these business partners new in my portfolio of suppliers? Have they attended relevant training on improving working conditions?
- Does my business include progress on fair remuneration as part of the selection criteria for new suppliers?

These questions may help amfori BSCI participants to identify if they could be directly or indirectly contributing to the fair remuneration gap in some areas of their supply chain.

GOOD PRACTICES ON THE PROMOTION OF FAIR REMUNERATION

As businesses identify possible avenues to promote fair remuneration practice in their supply chains, some examples may inspire other businesses to take their practices to the next level:

- Request producers to share their cost breakdown, separate their labour cost from the total and allow that price negotiation does not impact labour costs.
- Reward producers, who have a credible plan to raise minimum wages, with commercial incentives and long-term contracts
- Have producers rate buyers' purchasing practices (e.g. in the textile sector) and allow producers to rate business practices related to:

- Planning and forecasting
- Design and development
- Cost and cost negotiation
- Sourcing and order placement
- Production management, payment, and terms
- Management of purchasing practices

Regular surveys, or tackling these topics during business visits, can provide very valuable information and insights on how to become a more responsible business enterprise.