

FAIR SHARE living wage project. A project by Continental Clothing Co. in collaboration with BSD Consulting and the Fair Fashion Network

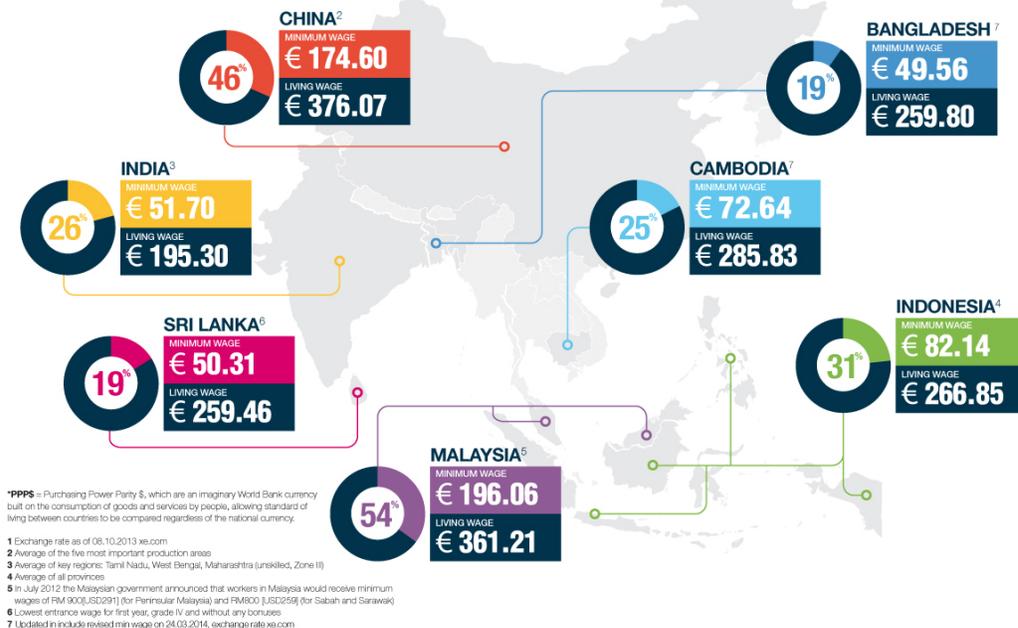
The FAIR SHARE project aims to deliver a living wage for the garment workers at a manufacturing factory in India that makes clothes for Continental Clothing. In 2015, research was undertaken to understand how living wages can be paid, and in January 2016 Continental Clothing has started the payment of a FAIR SHARE living wage premium which will be shared amongst the entire workforce of the factory. Continental Clothing intends to upscale the FAIR SHARE project in order to eventually pay a living wage to all workers in their own supply chain. To disseminate the learnings from the project, this report describes how Continental Clothing conducted the project together with BSD Consulting and the Fair Fashion Network and discusses challenges that were met.

1. FAIR SHARE project: How to implement living wages in the supply chain?

In most garment exporting countries the government defines 'minimum wages' for the workers. But these are often so low that workers and their families cannot afford to pay for a decent life. For instance, the official minimum wage in Bangladesh is 5.300 Taka per month (around 60 Euros in January 2016) and in Tamil Nadu, South India it is 7.410 Indian Rupees (INR), which is approximately 100 Euros (compare Graph 1). Many workers therefore try to work many hours overtime to afford a living.

MINIMUM WAGE VS LIVING WAGE

The difference between the minimum wage¹ and a living wage.
To say instead - The Living Wage is based on the Asia Floor Wage 2013 figure of PPP\$725.



Graph 1: Minimum vs. living wages (by Clean Clothes Campaign)

Workers, NGOs, trade unions and many other actors have been trying for many years to move brands and retailers to pay living wages has a human right in their supply chains. Additionally, NGOs argue that the workers' wages account only of a small fraction of the retail price and that consumers are happy to pay a few Cents¹ more to help workers live a decent life. However, today only very few niche market brands producing in Asia are paying a living wage in their supply chains and brands who try to implement living wages in their supply chains face many challenges.

FAIR SHARE is a pilot project to understand better how a European clothing company can actually pay a living wage in its supply chains. Beginning in January 2016, the project pilots a production of around 150.000 FAIR SHARE pieces (T-Shirts and hoodies certified according to GOTS and Fairtrade Cotton) for which a FAIR SHARE living wage premium will be paid to the workers in the manufacturing factory in Tirupur (India). The aim is to quickly scale this scheme, which however, depends on how this scheme will be accepted by the customers. This report explains the project, its aims and discusses its main challenges.

2. What is a living wage?

What is a living wage – this seems like a simple question. But have you ever considered how much money a family in your country really needs for a decent living? The most likely answer will be: “it depends on many questions”. For instance: How large is the family? How many people in this family earn a regular salary? How many children does the family have? How old are they? How many calories should the family members consume every day for a healthy diet? Does the family live in the city or in the country side? Do the adults need a car to commute to work? Do the parents have to pay school tuition for the kids or for daycare? What kind of subsidies does the state provide for low-income families? Are there any chronic diseases in the family? ... We could easily go on formulating such questions, it just shows how complex the issue is. A current research project conducted by ISEAL, five sustainability standards and the two living wage experts Richard and Martha Anker is now developing a guideline of 300 pages that tries to identify what a decent living means in a certain region². For Tirupur this study is not yet available, but underway as we are writing this report.

This fact that there are so many variables to be considered explains why many of the existing benchmarks of living wages vary greatly. As there are many different interpretations of the living wage calculations, for most regions different organisations have set living wage benchmarks at different levels. To provide its members with an overview of such living wage benchmarks, the Fair Wear Foundation provides a so-called ‘wage ladder’ for different countries and regions, which indicates the different regional calculations of a living wage different organisations provide. For the industry cluster Tirupur in South India, where our pilot factory is situated, the different benchmarks vary between 4.238 INR and 18.727 INR (Appendix 1 shows a wage ladder for Tirupur).

¹ The Clean Clothes Campaign suggests that in the case of a T-Shirt labour costs are only 10-20 Cents.

² ISEAL Website: www.iseal.org.

The differences may result from the fact that most living wage definitions are very vague. For example, the Fair Wear Foundation requires that a living wage for a standard working week (usually 48 hours) *“shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income.”* This does not provide much guidance for a company which wants to implement a living wage, and thus companies make use of existing benchmarks. But as every benchmark takes different assumptions the question is: which benchmark is the “right” one?

A well known living wage benchmark is that of the Asian Floor Wage (AFW) Campaign, a coalition of NGOs, trade unions and other groups that are supporting workers. It is well known because the Clean Clothes Campaign uses this benchmark in its campaigns to indicate to brands what their suppliers should be paying. Within the FWF wage ladder, the AFW benchmark is usually the highest benchmark. For India 2015, the AFW benchmark indicates that a worker should earn 18.727 INR, which is more than double the current legal minimum wage in Tirupur.

The AFW calculation is based on four main assumptions (also see this [video](#)³ for explanation):

- A worker must be able to support himself plus 1 other adult plus 2 children.
- Each adult should be able to take 3.000 calories a day (50% of the income should be spent on this)
- 40% of income is spent on clothing, housing, travel costs, children’s education, health costs
- 10% of income are for discretionary income (entertainment, savings, pensions etc.)

Unfortunately, the AFW does not provide details on how they come to their figure of 18.727 INR for India. Even after writing a few mails to different AFW campaigners we didn’t receive any data. This is problematic in two ways. First, we do not know the normative assumptions taken for the benchmark. Second, the benchmark refers to India in general but Tirupur is a cheaper place for living than many others, therefore the AFW benchmark does not reflect the local situation in Tirupur properly.

3. How to identify the FAIR SHARE living wage?

So what should the FAIR SHARE living wage be for the manufacturing factory in Tirupur? In this project we first tried to find out how much the factory needs to pay workers of the lowest pay grade so that they can have a decent life with their families. We analysed existing minimum / living wage benchmarks in detail, which are listed in Table 1 on the next page: the government minimum wage, the Tirupur Exporter Association (TEA) wage, a calculation by SA8000, and a definition by the factory Armstrong. The table also lists what is currently paid in the factory and the results of our own benchmark. Besides the name of the benchmark and a description, we show how much Rs the benchmark suggests to pay per shift or per month. As bonuses usually matter a lot and are often neglected in calculations, we also listed bonuses.

³ <https://youtu.be/ZTn8jD2GcRA>

Table 1: Different minimum/living wage benchmarks for Tirupur.

Benchmark	Description	INR per shift INR per month	Bonuses & deductions
Minimum wage for the tailoring industry (Zone A). TN Govt. Gazette dated 3.12.2014	Defined for the time between 1.4.2015 and 31.3.2016 for one worker. A detailed description of the food basket assumptions is not available.	285 INR per 8-hours shift (helper) up to maximum of 312 INR for a general manager 7.410 INR per month (26 8-hours shifts), including 5.256 INR basic salary and 2.142 INR dearness allowance (DA)	+8.33% annual bonus -12% provident fund -1.75% ESI (health insurance)
TEA wage (agreed between the Textile Exporters Association and workers' representatives)	The TEA wage was fixed in 2011 and based on the 2011/2012 basic wages, the industry and civil society agreed on annual wage increases in percent for four years from 30.1.2012 until 29.1.2016 for the different categories. A detailed description of the food basket assumptions is not available.	45.35 INR per shift lowest wages ("fold & tie") up to 158.40 INR („cutting, tailoring, ironing, packaging“) +44 INR per shift DA and Travelling allowance (see on right)	Based on the year 1936 Chennai city Consumer Price Index number, the Dearness Allowance (DA) of INR 880/- per month and a travelling allowance of INR 10/- per day shall be given to all the employees during all working days.
Basic needs calculation by SA 8000 auditor for the factory	The basic need wage calculation assumes that a person needs 2.140 Calories a day and that two people must be able to live from one income.	248 INR per shift calculated from 6.455 INR per month	
Living wage defined by Armstrong (a factory that did a similar living wage project together with Nudie Jeans)	Armstrong defined this wage in a similar project with Nudie Jeans. They assumed that men need 2.800 calories and women 2.200 and pregnant women 2.500 and children 3.000 calories.	364 INR per shift (minimum) 9.459 INR per month (2014)	Unclear
Current lowest wage in the factory		285 INR per shift (minimum) up to 550 INR per shift (maximum)	-12% provident fund -1.75% ESI (health insurance) +12.5% annual bonus +15 shifts /year gratuity pay ⁴ +13 shifts / year annual leave ⁵
FAIR SHARE living wage	Estimated with factory, local NGOs and workforce how much money a family of four needs for a decent living. We assume that 2 people in a family earn the family income, which is the case for the majority in the factory.	Assumption: A family of 2 adults and 2 kids requires a minimum of 24.231 INR per month for a decent living. Most workers in the factory who have 2 kids or more also have at least 2 income earners. So we assume that one person should earn at least 12.116 INR, which equals 466 INR per shift NET.	This system includes the following: -12% provident fund -1.75% ESI (health insurance) +12.5% annual bonus +15 shifts /year gratuity pay +13 shifts / year annual leave

⁴ This assumes that a worker worked more 12 months a year.

⁵ This assumes that a worker worked at least 260 shifts a year.

How did we calculate the FAIR SHARE living wage? We developed a questionnaire for a food basket and in a discussion with factory management, a local NGOs, and the workers we tried to come up with a suggestion for a living wage figure representing what a family of two adults and 2 children needs for a living. Our result came up with 24.231 Rs (a detailed list can be found in Appendix 2). Regarding the family structure of the workers in the factory many factory workers either do not have children or have two incomes when they have one or more children. So we defined that one income earner needs to earn the income for himself and one additional person. Based our living wage requirements for a family of four of 24.231 INR, the net wage required by one worker is therefore only half of this (12.116 INR) for a shift.

In conclusion, our analysis and definition came to the result that the lowest grade of workers must earn 466 INR (net) per shift or 12.116 INR per month so that they receive a FAIR SHARE living wage. Grossed-up by 13.75% this leads to a necessary monthly salary of 14.048 INR.

Table 2: Three living wage benchmarks in comparison (figures in INR)

Costs of living in INR	FAIR SHARE calculation 2015	SA 8000 calculation	Armstrong calculations 2014
Size of family	2 adults 2 children	2 persons	2 adults 2 children
FOOD	8'192	3'435	6'180
HOUSING	3'760	1'650	1'500
TRANSPORT	3'161	245	350
EDUCATION & SCHOOL	1'667	300	250
CLOTHING & HYGIENE	1'150	525	400
HEALTH	2'100	-	170
OTHER EXPENDITURES (INCL. SAVINGS)	4'200	300	500
SUM	24'230	6'455	9'350
SUM for 1 adult and 1 child	12.116	6'455	

4. How much were workers paid in 2015 before the project?

So far, the factory paid the lowest grade workers with the shortest length of service 285 INR for a normal shift⁶, which is gross 7.410 INR for a month when working 26 days. Table 2 shows that workers pay from their basic shift earnings obligatory 12% provident fund (PF) and obligatory 1.75% health scheme (ESI) – so their NET shift salary is 245.81 INR.

At the end of the year, a worker receives various bonuses: annual bonus of 12.5%, annual leave and gratuity bonus (see Table 3). Adding this together results in a net wage of 307 INR per shift. If the worker works overtime, this money is paid on top of that.

Table 3: Basic shift wages with bonuses and deductions

Description	Amount	Sum
Shift wage (GROSS)	285 INR	285 INR
12% provident fund (savings scheme) 1.75% ESI		- 39.19 INR
TOTAL net per shift		245.81 INR
Annual bonus	12.5% of gross wage	+35.65 INR
Annual leave	13 days (no of shifts worked / 20) * 285 /12	+11.88 INR
Gratuity bonus	15 days (no of months worked * 1.25) * 285	+13.70 INR
TOTAL shift salary NET		307 INR

In chapter 3 we showed that the workers who received a wage of 285 INR (gross) / 307 INR (net) should receive a net wage of 466 INR including annual bonuses for working an 8-hours shift in 2016 to receive the FAIR SHARE living wage. Basically, these workers must receive 159 INR more per shift than they get today. To understand how Continental Clothing implements this, three questions will be answered in the following paragraphs:

1. Which of the workers in the factory should receive the FAIR SHARE living wage premium?
2. How much shall the salaries of the higher skilled workers increase, who already earn a higher wage?
3. Where will the money for the increase for the salaries come from?

⁶ The average net wage in the factory is 397 Rs per shift and 28% of the workforce received more than 466 Rs living wage benchmark in 2015 (in net, without PE, ESI but with annual bonuses). However, also these actors will also receive the FAIR SHARE living wage premium as part of the project.

5. Which of the factory workers should receive the FAIR SHARE living wage Premium?

The FAIR SHARE living wage Premium could be paid only to the few workers who actually produce the FAIR SHARE collection. In this case, a few workers would have received the full FAIR SHARE living wage for a rather short period of time. However, it is very likely that those of the workforce not getting the living wage would have regarded this as unfair. Also the FWF recommends to distribute living wage premiums to all workers in a factory and not only to some.

In the case of this project, the whole workforce in the factory is almost 200 workers; in addition, the owner of the factory owns another factory close to the first one with around 120 workers. It was decided to spread the additional money to all 320 manufacturing workers of Continental Clothing's partner, which reduces the money each worker receives (the first order of the FAIR SHARE pilot project takes around 5-10% of the factories' capacity). Continental Clothing and the factory also agreed that the workers should receive the FAIR SHARE living wage Premium from the first order through the whole year 2016, and that the factory would ensure that this new baseline would not be reduced after 2016.

It was also discussed why only the workers in this factory should benefit from the project and why not the workers from the spinning mill, the dyeing house, the knitting mill etc. However, to increase all of their wages would require much more money, and this would be a matter of discussion at a more advanced stage of the project.

6. How much shall the salaries of higher skilled workers increase, who already earn a higher wage?

There are two easy answers to this question: Either all workers of all working skills receive the same *absolute* amount of increase (i.e. the difference between 307 INR and 466 INR, which is 159 INR) or they receive the same percentage increase (in this case around 52%).

In the project it was decided for two main reasons to use the first model and to pay the same absolute increase to all workers, no matter what skills they had: 1. The whole workforce agreed to the model. 2. This model focusses on the workers who are the worst off, and whom this project aims to benefit.

7. How much will the addition costs of the FAIR SHARE living wage be per piece?

How much will the FAIR SHARE living wage Premium be that Continental Clothing needs to pay? On the basis of the currently paid wages it was calculated that the wage costs for production, checking, packing a T-Shirt at the factory are 10 INR (0.14 Euro) or 54 INR (0.74 Euro) for a hoody (Table 4 on the next page shows how this is calculated for a T-shirt).

In the project, the difference between the lowest wage (307 INR) and the required living wage (466 INR) was 159 INR. If we now increase the wage costs of every worker working on the FAIR SHARE product by 159 INR, the new wage cost element of a T-Shirt – as shown in table 4 – will increase from 10.37 INR to 15 INR. For the hoody, the wage costs will increase from 54 INR by 27 INR to 81 INR. In order to move the project on in a quicker way, Continental Clothing decided to pay a FAIR SHARE living wage Premium of 10 INR per T-Shirt and 54 INR per hoody. This would generate 2.500.000 INR (33.500 Euro) for the first order that will be distributed among the workers.

Table 4: Labour costs of producing a T-Shirt

<u>Operation</u>	<u>Labour costs INR / piece</u>
<u>Cutting</u>	0.80
<u>Neck rib attaching</u>	0.43
<u>Shoulder overlock</u>	0.44
<u>Sleeve overlock</u>	0.80
<u>Side overlock</u>	1.13
<u>Sleeve flatlock</u>	0.75
<u>Bottom flatlock</u>	0.90
<u>Neck finish</u>	1.00
<u>Line supervisors</u>	0.55
<u>Trimmer</u>	1.00
<u>Line helpers (loading, machining, operation)</u>	0.41
<u>Checking</u>	1.20
<u>Ironing</u>	0.60
<u>Packing & boxing</u>	0.24
<u>Packing supervisor</u>	0.13
TOTAL <u>Production, checking, packing (Rs)</u>	10.37
TOTAL <u>Production, checking, packing (Euro)</u>	0.14

8. How much more will every worker receive and how will it be paid?

The aim is to finally pay the lowest wage category (who now get gross 285 INR per shift at least 466 INR per shift (net)). This will not happen at the start of the project because the additional money is distributed to the whole workforce, and because the FAIR SHARE orders only amount to around 5-10% of the whole 2016 production capacity.

This additional money will be put as “FAIR SHARE living wage Premium” onto the payslip. It will generate funds of 33.500 Euros for the factory. This money will be evenly distributed to all 320 workers over the whole year of 2016, which will be 650 INR per month per worker, which equals 25 INR per 8-hour shift.

Continental Clothing takes over the costs of conducting the project. The producer will bear the costs of distributing the money to the workers. For assurance purposes, the FWF will later verify whether the workers have continuously received the higher pay.

9. The way forward

Continental Clothing intends to list the FAIR SHARE living wage Premium as separate cost item on the invoices to its buyers on the wholesale and retail price. This way, the common margins do not apply to the premium to prevent that some people up the chain earn extra money just from buying a product that aims at paying living wages to the workers. Whether the project can be scaled up now very much depends on whether the customers are willing to pay a FAIR SHARE premium for the products. Continental Clothing and the Fair Fashion Network will analyse this and report next after the first year.

Contact

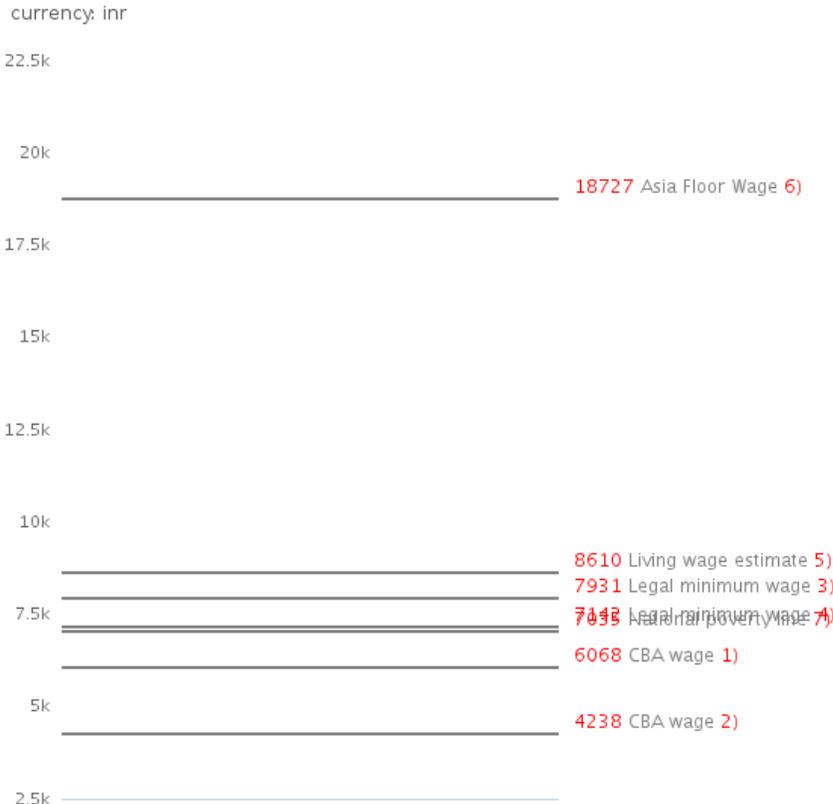
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Appendix 1: Wage ladder of the FWF



- 1) CBA with TEA (Tailor)
- 2) CBA with TEA (Helper).
- 3) State minimum wage for skilled workers (Zone A)
- 4) State minimum wage for unskilled workers (Zone C)
- 5) According to a research conducted by various trade unions 2009
- 6) Asia Floor Wage revised in October 2015.
- 7) National Poverty Line estimate in rural area, according to study conducted by Planning Commission as of June 2014. The value estimate is INR 1407 (monthly per capita). The estimate projected in the ladder is an estimate provided by Planning Commission, for a family of five members.

Legend

- Male
- Female

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This chart was created using the Fair Wear Foundation wage ladder tool, which is available for public use. This chart does not imply that it is compiled by the Fair Wear Foundation itself.

Appendix 2: Calculation of basic needs for a FAIR SHARE living wage

First we asked the factory management to fill in the questionnaire and also a local NGO to fill in the questionnaire. Finally, we conducted a workshop with 30 workers from the factory in which we asked them to fill in the questionnaire and tell us how much money they need every month. The results of the workers certainly varied very much. We then took the different benchmarks and – based on the different results we collected – determined what a family of two adults and two kids would require for a decent life:

Expenditure	INR
FOOD	
Vegetables	1'000
Rice / bread	1'400
Sugar	135
Fruits	520
Pluses	700
Eggs	260
Milk (500 ml per day)	730
Oils / ghee / spices etc.	1'345
Meat / Fish (0.5kg fish, 1kg chicken, 0.5kg mutton per week)	1'842
Water	260
FOOD SUM	8'192
HOUSING	
Rent (3room house, including water)	2'800
Sewage	150
Gas (cylinder for cooking)	435
Electricity	265
Fuel wood / carosene (for hot water)	10
Cleaning incl. Materials (cleaner for communal toilet)	100
HOUSING SUM	3'760
TRANSPORT	
Bus travel (visit family in country 4xper year, 2x wedding / funeral)	800
Vehicle dues (42.000 Rs, downpayment 18.5%, balance paid over 18 months)	1'491
Fuel for two wheeler, car, motorbike, scooter	870
TRANSPORT SUM	3'161
SCHOOL & EDUCATION	
Private school fees (semi-private or convent schools age 6-18 yrs 10,000 per year)	1'667
Cost of school bus	
Costs of school meals	children take food from home
SCHOOL & EDUCATION SUM	1'667

See next page ...	
CLOTHING & HYGIENE	
Clothes, shoes, handbags, scarves, luggage, school uniforms	550
Soap / oil / cosmetics	600
CLOTHING & HYGIENE SUM	1'150
HEALTH & MEDICAL	
Hospital	1'500
Treatments, doctors	600
MEDICAL SUM	2'100
OTHER	
Telephones, mobile phones	600
Long-term loans for TV, radio	usually paid at a time
Entertainment: movies, meals, theatre, parks etc.	1'500
Gifts for birthdays, festivals, marriages, etc.	200
Alcohol, tobacco, etc	not covered by LW
Regular savings plan	2500 COVERED BY PF
Insurance: life, motor	400
Annual holidays, feast days, etc (18.000 per year)	1'500
OTHER EXPENDITURES SUM	4'200