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# FAIRTRADE FOUNDATION'S APPROACH TO LIVING WAGES

This paper outlines the five key pillars to the Fairtrade Foundation's approach to living wages and offers reflections on industry-wide progress on the path to achieving living wages for workers. Through sourcing on Fairtrade terms, businesses are already implementing a critical 'first-step' bundle of interventions to close the living wage gap, but this action must be combined with collective action from all in the sector, including supply chain actors, plantations and workers.

At Fairtrade, we have a vision to ensure that the people who produce the goods and food we consume have the resources to flourish, both in times of stability and times of crisis.

At the heart of this vision is our deep-rooted commitment to living wages. A living wage is a human right. It means ensuring workers have enough of an income to afford a decent standard of living for their household – including a nutritious diet, clean water, decent housing, education, healthcare and other essentials – plus a little extra for savings and emergencies so they can plan for the future.

Fairtrade has been a pioneer in the campaign for living wages since 2013. As a founding member of the Global Living Wage Coalition, we've also worked closely with founders of the Anker Methodology: an internationally renowned approach to understand and map gaps, validate datapoints and co-create different solutions with producers.

More recently, Fairtrade has joined forces with IDH (the Sustainable Trade Initiative) by [signing a partnership](#) in November 2021 to accelerate our work towards achieving living wages and incomes in food supply chains. This is an important step not only for Fairtrade, but the sector as a whole. To address systemic inequalities in global supply chains, collective sector-wide action is critical. We're encouraged by the commitments both Fairtrade and non-

Fairtrade retailers are making in this crucial area, with many seeking to map and understand the living wage gaps in their own supply chains. The conversation is now turning to what we need to do, both individually and collectively, to close these gaps.

This paper offers reflections from the Fairtrade Foundation and outlines what supply chain actors need to do next, based on Fairtrade's decades of experience working with both producers and corporate partners to bring about systemic change in challenging global supply chains. This experience – together with the strengths of our producer networks across the world – makes us uniquely placed to tackle the deeply embedded barriers to living wages.

## WHY DO LOW WAGES PERSIST?

When understanding how to close the living wage gap, it is critical to consider the root causes of why low wages for workers persist. We have grouped these into three categories:

### **1. National labour markets and sector governance**

In many locations where low wages exist, statutory wages are exceptionally low, workers have been absent in wage-setting processes and there is no framework for negotiation. Exacerbating this, some vulnerable groups such as migrant workers may not have access

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to the same levels of rights, social security or contracting structures. Occupational segregation may also mean women and vulnerable groups are lower paid, clustered in low-paying jobs in low-paying sectors as per wider societal pressures. At the same time, a concern among both market actors and policy-makers is that increasing wage floors may lead to other input cost increases, mass unemployment (as workers become too costly for plantations to hire), closing down of plantations (as no longer competitive) and result in a disaster for the national economy – with no support from the wider market or price flexibility at end market.

## **2. Plantation level sustainability**

Plantations themselves may not be structured in a way that would enable living wages to be paid, with pay systems that lack transparency, do not incentivise performance, provide development or account for cost-of-living increases. Plantations may seek to improve productivity per hectare on their farms, but these measures can focus on work intensity (with longer hours or heavier loads) rather than efficiency, and gains may not be shared with workers.

Many workers on plantations also have, as part of their remuneration packages, a series of in-kind benefits,<sup>1</sup> but these may be over-valued by employers, are disempowering for workers and create economic dependency, such as in the case where housing is provided. Finally, the ongoing devastating impacts of climate change and the COVID-19 pandemic significantly affects production and transportation costs, further squeezing wages. The [impact of climate change](#) cannot be underestimated here and will only serve to exacerbate vulnerable supply chains into the future unless this is urgently addressed.

## **3. Supply chain business practices**

Global supply chains are characterised by a

multitude of actors in theory transacting for mutual benefit; however, the reality is that there is a significant imbalance of power and information between different economic actors, with many suppliers forced to become 'price-takers' from a small number of buyers. Often workers are completely absent from economic decisions within the supply chains, and business models across the supply chain are built around low wages with a lack of governance. Furthermore, when faced with competitive prices, worker wages are more likely to suffer than more established costs of transport or materials, and there is a de-linking of the costs of sustainable production from global prices.

The issues across these three areas are exacerbated by a lack of transparency, dialogue and trust between different supply chain stakeholders, creating fragmented responses and a lack of ability to address what has become a systemic issue for many global supply chains.

## **FAIRTRADE'S MODEL FOR ACHIEVING LIVING WAGES: FIVE KEY PILLARS**

Tackling such a deep-rooted systemic issue such as low wages in global supply chains requires a series of interventions that are contextually determined and supported by collective action across the sector. There is no silver bullet to closing the wage gap, and it is going to require transparent and honest reflections from all involved, a commitment to showcasing what works, and a willingness to be honest when evidence shows that interventions have failed.

There are five key pillars to the Fairtrade Foundation's approach to living wages that cut across buyer and supply chain practices, plantations, and institutionalisation by

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<sup>1</sup> In kind benefits are popular in numerous industries around the world and can consist of things like housing, meals or additional transportation costs. The Organization for Economic Co-operation and Development (OECD) defines them as follows: "Payments in kind are goods and services furnished to employees free of charge or at markedly reduced cost that are clearly and primarily of

benefit to the employee as consumers. They comprise food, drink, fuel and other payments in kind; and cost, other than capital cost, of workers' housing borne by employers (cost for employer owned dwellings, cost of dwellings not employer owned, other housing costs)."

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policymakers – all housed within the Fairtrade Living Wage Strategy.

These pillars should be used to identify the mix of interventions required to close the gap and are listed below:

1. Price-based interventions
2. Value transfer to workers
3. Plantation level processes and efficiencies
4. Institutionalisation
5. Buyer practices

**Fairtrade sourcing is a critical ‘first-step’ bundle of interventions to close the Living Wage gap.**

Sourcing on Fairtrade terms cuts across all five of the pillars and is particularly effective working through price-based interventions, ensuring ownership from producers and value transfer for workers, as well as improving both buyer and plantation level practices through strong standards.

Our programming work aims to deepen the changes put in place by the Fairtrade Standards and provide direct support to plantations on aspects such as productivity, climate-smart measures and strengthening

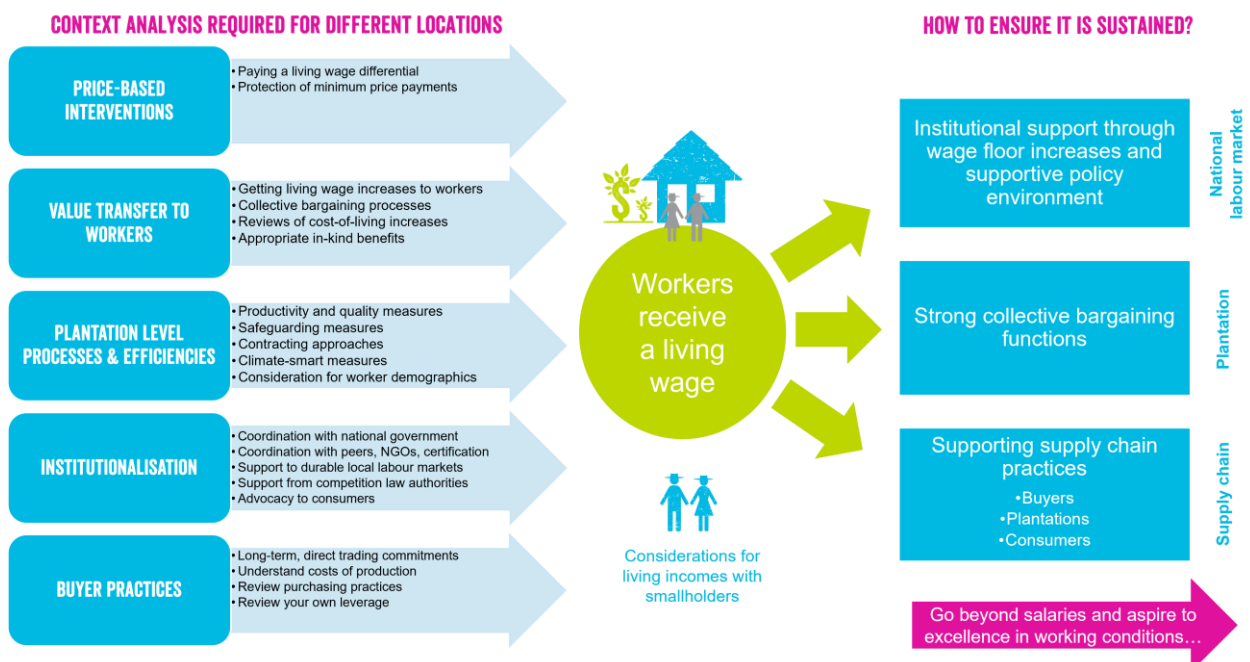
producer organisations. In areas where Fairtrade is not directly involved, such as the institutionalisation pillar, our advocacy and public engagement makes considerable progress in changing the policies within government and consumer behaviours. This work on the enabling environment is a direct result of the many businesses that source of Fairtrade terms.

However, we recognise that standards work most effectively alongside collective action from all within the sector, with a series of interventions informed by contextual analysis and co-creation with all supply chain actors, plantation and workers, playing to the strengths of each. Therefore, within the explanations of the pillars below, we identify where Fairtrade is already moving the dial towards living wages.

**1. Price-based Interventions**

**The importance of price-increases in meeting living wages for workers on plantations cannot be underestimated, and remains one of the most important ways that buyers, consumers and other supply chain actors can ensure workers achieve a decent standard of living.** Ultimately, living wages will be achieved through wage floor

*Below: Five key pillars to Fairtrade’s living wage model*



increases in national countries of origin. However, for governments to have the confidence to enforce this institutional wage underpinning, there must be assurances both that the market is supportive, and that national economies are not at risk.

Due to their critical nature, **price-based interventions** form the first pillar, and include the Fairtrade Premium and any additional Living Wage top-ups that buyers may pay to plantations or governments mandate as wage floors to workers.

Through Fairtrade sourcing, producers receive Premium and Minimum Price protections so that plantations can maintain costs of production (including wages) during commodity price crashes. The Fairtrade Premium – an additional sum that producer groups can spend on community or business projects of their choice – reduces the pressure on wages. For instance, in cases where producers choose to use their Premium funds to cover the costs of housing, healthcare and schooling, or pursue additional income-generating activities. Meanwhile, as is explained in the case study below, in bananas Fairtrade plantations are also required to pay a base wage to all workers, calculated at 70 percent of a living wage.



Banana farmer Ángel Guzmán Santana, from the Las Mercedes producer association in the Dominican Republic. Credit: Fairtrade

When implementing Living Wage top-ups, actors must consider several important pre-conditions that need to be in place to be effective and, importantly, sustainable in the

long-term. Firstly, all buyers that a plantation sells to must have committed to pay a living wage differential (otherwise, if one buyer is purchasing 30 percent of the produce and paying a living wage differential on that, the additional money they are paying is diluted across 100 percent of workers on the plantation).

Secondly, buyers also need to have long-term trading commitments in place with the supplier, to ensure that wage improvements will not adversely impact a supplier's competitive position in the market. Lastly, clear processes must be in place at the plantation to support these increased payments, including transparent value transfer mechanisms to workers (see below).

## 2. Value transfer to workers

The second pillar focusses on **value transfer to workers**. As mentioned previously, it is important to ensure that any living wage increases in payments paid to plantations is effectively transferred to workers. Collective bargaining mechanisms through trade unions and democratically elected worker cooperatives are important in ensuring equitable distribution of wage top-ups, and should also be regularly consulted on the appropriateness of any in-kind benefits and cost of living increases, to ensure the living wage top-ups are sufficient.

As part of the Fairtrade Standards, workers form democratic Premium committees to govern how the Premium is spent within the communities, which can serve as an important mechanism to distribute increased differentials to workers. Fairtrade's commercial partners are therefore able to leverage these Premium committees to distribute any living wage top-ups they are paying to producers, ensuring workers can negotiate for higher wages in the future (alongside price support) as and when the living wage top-up is stopped.

Interventions in this pillar should focus on strengthening such collective bargaining mechanisms, engaging formal trade unions, enhancing awareness of worker's rights and supporting plantation management capacities to be able to negotiate effectively with worker representatives.

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### 3. Plantation level efficiencies and processes

Within this pillar, interventions focus on driving sustainable productivity and quality enhancements within plantations; ensuring appropriate environmental practices and satisfactory quality controls are in place; addressing and adapting effectively to the impacts of climate change; and ensuring the appropriate management processes. Such management processes include safeguarding of workers, considerations for different contracting approaches for different worker demographics (youth, migrants, women), and effective governance and financial management approaches.

The Fairtrade Standards provide assurance on social, environmental and management structures with the support of continuous training by our producer networks, and further interventions can analyse and provide support to specific issues they may have on their farms in these areas.

### 4. Institutionalisation

The fourth pillar provides consideration for wider sector governance and addresses the **institutionalisation** of supportive policies. Within this pillar, coordination with the wider sector among supply chain actors, NGOs, certification, trade unions and government is critical to ensuring effective action with national government, to design and implement effective policies that can embed practices within supply chains and provide support to ensure durable local labour markets.

Fairtrade's advocacy teams provide an important platform to engage with governments and other NGOs on changing policies and increasing understanding of what producers need to happen through governments, and our public engagement teams create and track significant behaviour changes amongst consumers through the high recognition of the Fairtrade Mark.

### 5. Buyer practices

Under the fifth pillar, **buyer practices** must safeguard long-term sustainable business performance, minimise short-term gains from

commercial practices and ensure critical changes to achieve lasting wage improvements in global supply chains. The Fairtrade Standards are holistic, working across the supply chain, and enforce minimum terms of trade for buyers. There are some critical actions below that all buyers should undertake in addition to the Fairtrade Standards if they are seeking to achieve a living wage for the workers in their supply chains:

- Firstly, buyers must grow potential to build longer term trading relationships and not endorse sourcing practices that leave out vulnerable suppliers with larger living wage gaps, resisting the temptation to switch sourcing geographies where living wage gaps are smaller to avoid further requirement for action. These long-term contracting commitments will ensure that any wage improvements will not adversely affect suppliers' competitive position in the market.
- Secondly, it is also important for buyer procurement teams to have a full understanding of the real costs of production faced by plantations. What are their labour costs? What ability do plantations actually have to pay higher wages and where are procurement negotiations cutting back critical wage costs? Buyers must review their pricing policies and align procurement incentives with their Living Wage commitments, considering what skills upgrading is needed both internally and for suppliers on understanding the costs of production when negotiating prices.
- Thirdly, it is important for buyers to review purchasing practices such as contract timings, working arrangements, margins, and specifications on volumes to minimise practices that could increase waste and put pressure on producers.
- Finally, buyers must review their own position in the sector, understanding what levers of influence are open to them. As part of this buyers should identify what they are able to do

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individually, and where they need collective support. Partnerships are critical here, and buyers should think through coordination with peers, suppliers, employers' associations, trade unions, NGOs and national governments, adopting a sector-wider perspective and linking other actors to broader sector developments. Pre-competitive dialogue and collective action on issues such as living wage is critical and requires trust and openness.

These five pillars should be undertaken collectively by market actors, from buyers to traders, national governments, trade unions, plantations and NGOs. Consideration must also be given to more indirect stakeholders **such as smallholder farmers** of the same crop, whose farms are too small (under 30ha) to fall under Living Wage commitments. These farms should also be included in analysis and rollout of interventions, ensuring that improvements to living wage mechanisms on larger plantations do not adversely impact incomes and business functions for either larger or smaller farms.

But it is not just closing the gap that matters, but also **how** it is closed. This process must involve close dialogue with all actors in the supply chain, peers, national government, plantations and, most importantly, workers themselves – all supported by robust data and feedback processes to measure impact and to learn when approaches aren't working.

It is critical that any interventions are co-created by producers and underpinned by consistent dialogue and an effective monitoring system, enabling all those involved both to understand the impact they are having, and to listen to how others are experiencing the interventions, while modifying and improving. Partnerships are not easy, but they are the most effective way to achieve systemic change in this challenging sector.

Through successful coordination across these five pillars, the sector should be able to move towards ensuring that wage floors can be institutionalised by local governments within a

supportive policy and market environment, strong collective bargaining processes are in place, and supply chain practices prioritise the living wage commitments by sector actors. But we should not stop there: it is then important to push ourselves beyond salaries and aspire to excellence in working conditions for producers.



Fairtrade flower worker Kennedy Simiyu, at the Bigot flower farm in Kenya. Credit: Fairtrade Foundation / Vincent Owino

## **WHERE WE ARE GOING NEXT AND WHY PARTNERSHIPS ARE KEY**

There is increasing momentum among both Fairtrade and non-Fairtrade actors towards accelerating an approach to living wages for workers. It is clear to everyone that if we want to see wider impact, then everyone in supply chains – including non-Fairtrade retailers – must pick up the baton. We all have a role to play in making living wages for workers a reality.

Fairtrade is at the start of working on our new 'The Future is Fair' strategy, due to run from 2021 to 2025, and as part of this we'll continue to engage closely with others across the entire supply chain to develop both pilot and sector-wide programmes that test practical solutions to the barriers to living wages.

We invite more partners to join us on the path with us to achieve living wages for all. It's the right thing to do, for workers, for their communities and for a more sustainable world.

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## **FAIRTRADE'S LEARNINGS AND CASE STUDIES**

### **A better deal for banana workers**

Fairtrade has taken concrete steps towards closing the living wage gap for banana workers in recent years. Notably, in July 2021 we launched the Fairtrade Base Wage for banana plantations. Set at 70 percent of the take-home pay needed for a living wage, the base wage is unique among certification schemes in making a concrete step towards a living wage.

In countries where banana workers currently earn less than the Fairtrade Base Wage, such as the Dominican Republic, earnings are estimated to rise by up to 15 percent, benefiting 15,000 workers.

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*"This base wage proposed by Fairtrade means for us more access to health, education, self-improvement, happiness and motivation to continue working. With perseverance, hard work and a living wage, anything can be achieved."*

***María Jorge, a leader of the Fairtrade Worker Network in the Dominican Republic***

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Although many banana workers receive the national legal minimum wage, this often falls far short of a living wage: and with many unrepresented by trade unions, they struggle to negotiate better wages. Our base wage is, therefore, a vital safety net for Fairtrade banana plantation workers.

Fairtrade has also introduced a new Living Wage Differential – an additional voluntary payment per box of bananas sold, as a contribution towards a full living wage.

Meanwhile our tailored programmes address specific root causes of low wages and challenges per origin, allowing businesses to partner with us to address key issues such as gender pay gaps and productivity.

### **A fair wage for flower workers**



A worker at the Tulaga flower farm in Kenya. Credit: Fairtrade Foundation / Vincent Owino

Wages for flower workers have historically been low, and fall below the poverty line in many places, including east Africa. Fairtrade's introduction of a floor wage for Fairtrade flowers in 2017 has made a significant impact for workers in Tanzania, Uganda and Ethiopia. Approximately 15,000 workers benefited from these changes and saw their wages increase between 29 and 127 percent as a result.

Much remains to be done, however, particularly for non-Fairtrade workers. The average flower worker in Kenya, for instance, earns around £78 a month: far below the estimated living wage of £211. As part of Fairtrade's Building Resilience in Flower Supply Chains project – run in Kenya in partnership with MM Flowers and funded by the UK Foreign and Commonwealth Office (FCDO), Tesco, Co-op and M&S – we are engaging with other industry players, including the UK retail sector, to explore how sustainable pricing can support a roadmap to living wages for flower workers.

**Contact the Fairtrade Programmes team for more information:  
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