Due diligence factsheet

introduction

In 2017, ASN Bank published a report on garment companies and living wage, providing a practical implementation tool for companies[1]. Wages in garment producing countries are often too low to meet the basic living needs of workers. The legal minimum wage laws do not protect workers sufficiently, as in most of these countries they are lower than living wages. And a living wage is a human right. Following the developments in international norm setting within the UN and the OECD, ASN Bank expects companies to act with due diligence and respect universal human rights in their operations. Within the due diligence cycle companies are expected to assess wage levels and implement a living wage in their supply chain.

Fair Wear Foundation has generated knowledge through working closely with different garment companies and assessing their progress in the annual performance check. Based on this information this document provides further guidance on the application of human rights due diligence in the area of wages, for garment companies and for those assessing companies' progress. In order for wage compliance to be achieved and for wages to improve, both a greater transparency in cost price negotiations between apparel buyers and their suppliers, and a precise determination of the labour component must take place.

assessment

Besides wage levels, garment companies need to assess the link between the prices they pay, and the wages workers earn in the factories where their products are made. Isolating the labour cost in the form of a minute value establishes the price of labour and, when multiplied by the agreed standard allowed minutes with an allowance for efficiency, allows a determination of the labour part of the cost price.

the number of minutes required to make one complete garment.

Requesting a supplier to provide this information and comparing this figure with a mandatory labour minute value for the country in question should enable a buyer to exercise due diligence in determining costs, ensuring that mandatory wage elements are covered in the agreed price of labour. Such an approach also enables a supplier to determine the precise amount that needs to be added to projected costs, providing either an increase in the minimum wage or a wage negotiation in a collective agreement.

Wage elements as required by national law, such as basic legal minimum wage, legally required social security and pension contribution, legally required overtime premiums, etc.

1 ASN (2017) Garment companies and living wage: A practical implementation tool for companies http://bit.ly/ASN-LW

FAIR WEAR

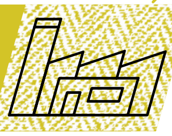
When engaging garment brands, investors could consider asking the following questions to get insight into the company's progress in the due diligence cycle.

- Who determines the price of a product – and are labour costs taken into account?
- Does the company use standard allowed minutes for its products, or is there another way buyers know the minutes needed to produce garments?
- Does the company know the labour minute cost for its different suppliers?
- Has the company checked the labour costs and the minutes needed against wages?

implementation

When a company knows the current link between the prices they pay, and the wages workers earn, it is possible to calculate the living wage factor – the additional amount needed per minute to reach a living wage estimate. This is done by calculating the total cost of raising wages for the employer (taking mandatory wage elements into account) and dividing this by the capacity minutes of a production location. With this information a garment company can take responsibility for higher wages in their supply chain.

the total number of minutes a factory is in operation.



When engaging garment brands, investors could consider asking the following questions to get insight into the company's progress in the due diligence cycle.

- Does the company know the living wage factor for different suppliers?
- Can the company demonstrate an increase in labour minute cost – i.e. that it has contributed to higher wages?
- Can the company demonstrate an increase in wages?