



Sustainable Supply Chains and Decent Work: Opportunities and Challenges for G20 Members

International Labour Organization

With contributions from OECD, IMF and World Bank Group

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The OECD and the ILO, with inputs from the IMF and WBG, have drafted complementary issue notes on sustainable supply chains at the request of the G20 German presidency. This paper by the ILO addresses the economic and social impact of global supply chains, particularly in G20 countries, the opportunities and challenges for ensuring that global supply chains maximize their contributions to sustainable growth and decent work, and some of the public and private governance measures already undertaken in that regard. A first Annex discusses the Vision Zero Fund, and a second Annex discusses living wages.

The paper by the OECD addresses ways in which to achieve and strengthen responsible business conduct, focusing on key multilateral frameworks that seek to achieve that goal, such as the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the ILO Declaration of Principles Concerning Multinational Enterprises and Social Policy. An Annex focuses on the meaning and dimensions of due diligence.

Contents

The economic and social importance of Global Supply Chains in G20 countries	- 1 -
Global Supply Chains and jobs	- 1 -
Growth trajectories and inter-sectoral linkages in GSCs	- 2 -
Decent work deficits in global supply chains	- 3 -
Cost pressures, flexibility, and decent work deficits	- 4 -
Jobs in export processing zones.....	- 5 -
Decent work and higher productivity go hand-in-hand.....	- 6 -
Governance for achieving decent work in GSCs: Initiatives and challenges	- 7 -
Public governance	- 7 -
Private governance	- 9 -
Social partner initiatives	- 10 -
Challenges for multilateral initiatives	- 10 -
Conclusions	- 11 -
References	- 12 -
Annex 1: Vision Zero Fund	- 15 -
Annex 2: Living wages in global supply chains.....	- 18 -

The economic and social importance of Global Supply Chains in G20 countries

Global supply chains (GSCs) are complex, diverse and fragmented. Across textile, clothing, retail, footwear, automotive, food and agriculture, seafood, fisheries, electronics, construction, tourism and hospitality, horticulture, transport and other sectors, GSCs have increased, facilitated by technological development. UNCTAD (2013) found that GSCs account for 60 per cent of global trade and act as an important catalyst for economic development. The same study found that in developing countries, domestic value added in trade contributes on average almost one-third to gross domestic product (GDP), compared to about one-fifth in developed countries.

Global Supply Chains and jobs

GSCs are also a growing source of job creation in many countries. For example, in Bangladesh, Pakistan, and Sri Lanka Lopez-Acevedo and Robertson (2016) have estimated that a one per cent increase in output in the apparel sector is associated with a 0.3 to 0.4 per cent increase in employment. Similarly, other sectors report significant employment effects. Thus, participation in GSCs increases workers' chances of getting a foothold in the world of formal work, doing well for themselves and their families, and succeeding in life.

The ILO has provided new evidence on the strong economic and employment impacts of GSCs (ILO 2015). Looking at 40 major countries, representing 85 per cent of world GDP and covering approximately two-thirds of the global labour force, ILO estimates that the number of global supply chain-related jobs increased by 157 million or 53 per cent between 1995 and 2013, resulting in a total of 453 million global supply chain-related jobs in 2013. In G20 countries, on average, one-fifth of the labour force worked in GSC-related jobs in 2013. The incidence of GSC-related jobs was particularly high in Germany, Republic of Korea and Italy, while it was relatively low in the US and Japan.

Women represent a large share of the workforce in GSCs in many sectors, and female employment shares are rising, particularly in export-oriented industries and in services (UNCTAD 2013). In developing countries, women hold almost 44 per cent of the jobs that are dependent on foreign investment (Kizu et al. 2016). Female employment rates are particularly high in the apparel sector. In Bangladesh, Pakistan and India, for instance, women accounted for about one-third of the sector's workforce in 2012. In Sri Lanka, the share was even greater, at over 70 per cent (Lopez-Acevedo and Robertson 2016). Hence, GSCs provide an opportunity for women to obtain formal employment.

The participation of countries in GSCs can also have an impact on wages, lead to better working conditions, and provide better opportunities for training and skill development (cf. UNCTAD 2013; ILO 2015). Research across many countries shows that exporters, as key proxies for participants in GSCs, pay higher wages than firms serving domestic markets only (cf. Javorcik 2014). However, these gaps often reflect individual characteristics such as education and skills (e.g. workers in GSCs are more skilled or educated and thus more productive (see: ILO 2017b)).

Table 1: The number of GSC-related jobs in G20 countries in 2013

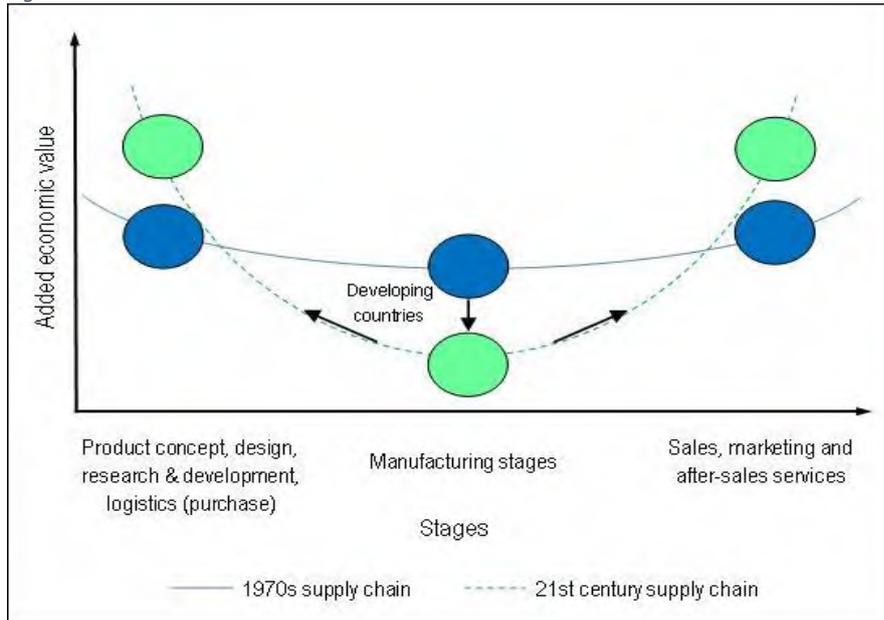
G20 country	Total number of GSC-related jobs in 2013 (000s)*	Total labour force (15+) in 2013 (000s)**	% of labour force (15+) in GSC-related jobs in 2013
Argentina	...	16085	...
Australia	2110	11451	18.4%
Brazil	18610	95880	19.4%
Canada	4406	17691	24.9%
China	177278	769770	23.0%
France	6115	25779	23.7%
Germany	16294	39531	41.2%
India	75890	392726	19.3%
Indonesia	21015	112761	18.6%
Italy	7209	22191	32.5%
Japan	8584	63120	13.6%
Korea, Republic of	9462	25066	37.7%
Mexico	10153	49275	20.6%
Russian Federation	18770	71392	26.3%
Saudi Arabia	...	10729	...
South Africa	...	14866	...
Turkey	5187	25520	20.3%
United Kingdom	8738	29954	29.2%
United States	16077	143929	11.2%

Source: * Kizu et al. 2016; ** ILOSTAT

Growth trajectories and inter-sectoral linkages in GSCs

Global supply chains do not affect countries uniformly. The “smile curve” illustrates how value creation varies among the different activities involved in the creation of a given product or service. With some exceptions, the greatest value creation is concentrated in pre-production and post-production activities related to research and development and services, while assembly and production have a lower share of value added. Concentration of labour-intensive activities in low-wage countries has decreased the value of these activities in the supply chain. Commoditization and technology transfer drive down the cost of offshored tasks further. As a result, developed countries tend to concentrate in higher-value and capital-intensive activities, while developing countries tend to concentrate in lower-value and labour-intensive activities. This has implications for wages across the supply chain, particularly in lower tiers (see Annex 1).

Figure 1: The smile curve



Source: Adapted from Baldwin, “Global supply chains: Why they emerged, why they matter, and where they are going”, in D. Elms and P. Low (eds): *Global value chains in a changing world* (WTO, 2013).

Global supply chains typically function across sectors¹. One chain may encompass agricultural inputs, manufacturing, services, distribution and retail, linking global and domestic producers. This is particularly the case for complex manufactured products. For example, while 40 per cent of a modern car involves electronic parts, other components include products from the leather, steel, and plastics sectors. GSCs may also extend beyond the traded segment recorded in trade flows and include large, medium-sized and small enterprises across multiple tiers in both the formal and informal economies. The traded segment often involves only upper-tier suppliers, which tend to be larger, more formal enterprises than the “upstream” suppliers. Although a global buyer may own few, if any, of the factories producing its sourced products, the sheer volume of its purchases may grant it an asymmetrical market relationship in which the buyer can negotiate prices and specify what, how, when, where and by whom the goods it sells are produced. Cross-sectoral supply chains present unique challenges for data collection. In addition, the cross-sectoral nature of GSCs as well as the continuous fragmentation of the production chain make it increasingly difficult for both workers and employers to articulate their interests and to have a meaningful dialogue over issues in which conflicts exist.

Decent work deficits in global supply chains

The quality of employment in GSCs does not automatically improve as economic sectors benefit from economic upgrading. Global competition based on quality, cost, volumes and delivery times, plus intense competition between suppliers, place downward pressures on wages, working conditions and respect for fundamental rights of the workers participating in GSCs (ILO 2016d).

¹ There are attempts to capture the complex interaction of nation states, products and trade, see for example *The Atlas of Economic Complexity* by the Harvard University (<http://atlas.cid.harvard.edu/>).

Indeed, failures at all levels within GSCs have contributed to decent work deficits in such areas as occupational safety and health (see Box 1 and Annex 1 on the Vision Zero Fund), wages (see Annex 2 on minimum living wages), and working time. All of these deficits impact the employment relationship and the protections it can offer. Such failures have also contributed to the undermining of labour rights, particularly freedom of association and collective bargaining. Informality, non-standard forms of employment and the use of intermediaries are common. The presence of child labour and forced labour in some GSCs is acute in the lower segments of the chain. Migrant workers and homeworkers are found in many GSCs and may face various forms of discrimination and limited or no legal protection (ILO 2016b).

As noted, women represent a large share of the workforce in GSCs but are disproportionately represented in low-wage jobs in the lower tiers of the supply chain. They are too often subject to discrimination, sexual harassment and other forms of workplace violence. In addition, they lack access to social protection measures in general, and maternity protection in particular, and their career opportunities are limited.

Cost pressures, flexibility, and decent work deficits

A study by Brown et al. (2016) of the garment sector shows that the sourcing practices of global buyers cause pressure on factories to deliver within short lead times, respond to frequent order changes and operate with a high degree of flexibility. These dynamics affect a factory's ability to maintain decent working conditions. Rush orders and late penalties are associated with higher rates of non-compliance with working hours and workplace safety and health measures. Supervisor stress also increases under these conditions, which is associated with a higher incidence of verbal abuse of workers.

Particularly in sub-contracted tiers of GSCs, suppliers respond to these pressures by seeking more flexibility in their labour costs through non-standard forms of employment. In global retailing supply chains, accelerated timelines in fashion put pressure on suppliers to increase or decrease production at short notice, which leads to excess overtime and casual employment. A survey of electronics firms in developing countries revealed that 36 per cent of firms used short-term temporary or seasonal employees (Aleksynska and Berg 2015, based on data from the World Bank Enterprise Survey, 2014). In electronics factories in Hungary, Malaysia and Mexico, workers are hired on a temporary basis and employers renew their contracts continually (Kaur 2008; Salazar Salame 2011; CEREAL 2011; Pal 2013). Animation work is project-based and often done by freelancers. In the formal gold mining industry, there are cases of forced labour by subcontractors. For example, forced labour was reported to be present in an Eritrean gold, copper and zinc mine that supplied a Canadian mining firm (Human Rights Watch 2013).

Most of the decent work challenges faced in the animation, electronics, gold and retail sectors are related to the use of non-standard forms of employment. For example, the gold sector relies on informal self-employed workers who lack social protection and face difficulties in organizing and accessing social dialogue (Veiga 1997; Buxton 2013; IIED 2002; AngloGoldAshanti Ltd. 2014; Tieguhong et al. 2009). This exacerbates their inability to deal with poor occupational health and safety conditions related to the widespread use of hazardous chemicals such as cyanide and mercury in gold pre-processing operations. Jobs in

the animation/ visual effects (VFX) industry are usually based on short-term contracts, irregular working schedules and low job security (Hesmondhalgh and Baker 2011). Irregular working schedules are a major reason why workers leave the animation/VFX industry (Okeda and Koike 2011). In apparel retailers' supplier factories, workers who attempt to organize a trade union or belong to one have in some cases been subject to violence and intimidation (CCC 2014), or "victimized, threatened and dismissed from work" (Parakuni et al. 2015, pp. 45-48). In the electronics industry, higher wages through skills upgrading are generally limited to workers in higher-skilled management and engineering positions, which normally make up only a small percentage of the overall electronics workforce (Lüthje et al. 2013).

Jobs in export processing zones

Decent work deficits are also pronounced in a significant number of export processing zones (EPZs) linked to global supply chains. EPZs, which aim to attract investment and to create jobs, are often characterized by exemptions from labour laws and taxes as well as restrictions on trade union activities and collective bargaining. Long working hours, forced overtime and pay discrimination are common practices in EPZs. A survey conducted by UNCTAD on 100 EPZs around the world found that "[m]ost EPZs provide a variety of services and infrastructure benefits to companies operating within their zone" (UNCTAD 2015, p. 10). However, the survey also found that these services and benefits generally did not include promoting or making available key aspects of labour law compliance: 80 per cent of EPZs reported wages below the national minimum wage and only 20 per cent of the EPZs set clear standards regarding labour inspections within their boundaries. In only one out of four EPZs there is evidence of unionized labour and a general public policy on labour issues was identifiable in less than half of the EPZs (UNCTAD 2015).

However, the survey also revealed that some EPZs require all companies that operate within the zone to abide by clear standards, often set by national laws and regulations covering minimum wages, working hours and other conditions, as well as freedom of association. In some EPZs in China and India, EPZs require higher labour standards than are found in national legislation (ibid).

As a result of this mixed record in EPZs, there is growing recognition of the challenges to sustainability that result from exemptions from national laws. For example, the Addis Ababa Action Agenda calls for "all companies, including multinationals, [to] pay taxes to the Governments of countries where economic activity occurs and value is created, in accordance with national and international laws and policies". The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) states that "where governments of host countries offer special incentives to attract foreign investment, these incentives should not include any limitation of the workers' freedom of association or the right to organize and bargain collectively" (ILO 2014b, para. 52 of the 2017 version). In response to the challenges faced by EPZs, the ILO Governing Body has requested the Office to organize a tripartite Meeting of Experts to identify possible action to promote decent work and protection of fundamental principles and rights at work in EPZs.

Decent work and higher productivity go hand-in-hand

Recent evidence from the Better Work programme demonstrates that better working conditions, higher compliance rates and well-trained supervisors lead factories to be more productive and profitable.

Better Work – a collaboration between the ILO and the International Finance Corporation (IFC), a member of the World Bank Group – is a comprehensive programme bringing together all levels of the garment industry to improve working conditions and respect of labour rights for workers, and boost the competitiveness of apparel businesses. Currently, the programme is active in almost 1,500 factories employing more than 1.7 million workers in seven countries.

An independent evaluation of Better Work (Brown et al. 2016) shows that the programme has had significant impact on working conditions, including reducing the incidence of abusive workplace practices, increasing wages, reducing excessive working hours, and creating positive effects for workers and their families in terms of health, education and wellbeing. At the same time, the study demonstrates that better working conditions are leading to better business outcomes for factories in the global garment industry. The study, based on more than 12,000 worker surveys and 2,000 manager surveys, shows that productivity increased by 22 per cent as a result of supervisory skills training, which also helped lower turnover, injury rates, and unbalanced lines. Profitability, measured as revenue to cost ratio, increased by 25 per cent in Vietnam as a result of participation in the programme. Curbing abusive practices such as verbal abuse and sexual harassment is also associated with higher productivity. Factory managers reported achieving better business terms with buyers. The study also finds that firms making progress on compliance with key issues such as pay and working hours typically see an increase in order sizes from buyers.

The ILO's Sustaining Competitive and Responsible Enterprises (SCORE) programme suggests the same productivity gains when working conditions improve. SCORE works directly with SMEs through practical classroom training and in-factory consulting based on international labour standards and adapted for each sector and country.

In March 2012, SCORE launched a pilot in which it trained a group of Shanghai suppliers to improve their productivity, product quality, and business practices while ensuring cleaner production and compliance with international labour standards. In the baseline review, SCORE trainers found supplier factories suffered from low productivity, high levels of staff turnover, storage space problems, and a lack of occupational health and safety procedures. The impact of the SCORE training on supplier factories was measured through a before-and-after comparison of a series of indicators including cost savings, defect rates, energy consumption, and waste produced.

By the end of the pilot, factories were able to reduce raw material waste, open new warehouses, and reduce worker absenteeism by improving worker-management communication. One factory saved approximately US\$30,000 each month by terminating leases of no longer-needed storage space. Another company implemented a new human resource policy including an employee suggestion system, a job qualifications matrix, an improved staff handbook and an annual training plan.

Workers and managers were surveyed on the changes they noticed: 90 per cent of respondents reported that internal communication had improved significantly; 92 per cent indicated that relations between management and workers were improving and trust and mutual respect was strengthened. Overall 87 per cent of workers indicated their working efficiency had significantly increased (ILO 2017c).

Governance for achieving decent work in GSCs: Initiatives and challenges

Enterprises participating in GSCs operate within a complex framework of national laws and regulations. However, as the ILO recognized (ILC Conclusions 2016), weak national governance in supplier countries often impedes the development of decent work within domestic borders. At the same time, significant gaps also exist in cross-border dispute resolution mechanisms.

The social partners have developed a number of initiatives to address that issue. In addition, a number of key multilateral initiatives have developed over the decades to provide guidance for multinational enterprises engaging across GSCs.

The G20, whose members encompass enterprises operating along the entire GSC, including multinational buyers and domestic suppliers, is in a unique position to address the governance challenges that exist in supply chains. Below we describe some of the public measures and private initiatives that have developed to strengthen decent work along GSCs, as well as the challenges these initiatives face. Our discussion, in the context of the ILO's normative framework, complements the OECD's paper on the role of business and governments in implementing sustainable supply chains.

Box 1. The Vision Zero Fund

The Vision Zero Fund (VZF), described in more detail in Annex 1, represents a concrete example of how G20 countries can address decent work deficits in GSCs. Created in 2015 as a G7 initiative under Germany's leadership, VZF is a workplace injury and disease prevention and protection fund administered by the ILO. The fund aims to achieve zero fatal and severe work-related injuries and diseases by improving occupational safety and health practices and conditions in sectors operating primarily in low-income countries that link to GSCs. It aims at strengthening institutional frameworks such as labour inspectorates and employment injury insurance schemes. During its initial three-year phase, the VZF will focus on the garment and textile sector as well as the agricultural and food sector. Projects are underway in Myanmar and Ethiopia. Vision Zero operates through a Multi Donor Trust Fund that accepts contributions from governments, intergovernmental or non-governmental organizations, and private sources.

Public governance

Governments may have limited capacity and resources to effectively monitor and enforce compliance with laws and regulations that govern workplace labour standards within their jurisdiction. The expansion of GSCs has exacerbated these governance gaps. Challenges include: (i) restricted human and financial resources to enforce legislation, (ii) lack of coherence and coordination among the different government agencies and departments with

authority to regulate workplaces, (iii) limited technical capacity to regulate new businesses, (iv) inadequate enforcement processes to ensure democratic accountability as well as (v) access by victims to effective judicial or non-judicial remedies.

In addition, resolution of disputes related to labour conditions and workplace compliance present unique challenges in the context of GSCs. Since the scope of labour legislation, regulation and jurisdiction is at the national level, dispute resolution mechanisms cannot address conflicts that arise from cross-border sourcing of goods and services and which, of necessity, implicate cross-border actors.

Many countries have taken action to diminish governance gaps by strengthening national laws and regulations as well as their labour administration and inspection systems. Countries have also worked through other international and multilateral organizations and regional groups, and by integrating labour provisions, including core labour standards, in trade agreements and public procurement regimes and through technical cooperation programmes. Other interventions include legislation governing enterprise responsibility throughout the chain, sometimes providing for cross-border regulation of supply chains.

While wages in GSCs are frequently determined in reference to existing statutory national or sectoral minimum wages, many advocates have called for the provision of an “adequate living wage” or “minimum living wage” for workers throughout the chain. As discussed in Annex 2, while no consensus has yet emerged on how to define the elements of such a wage, a number of methodologies have been developed. Legislation, collective bargaining, complementary social protection systems, and responsible public purchasing practices all play a key role in setting adequate wages.

The inclusion of social provisions in public procurement processes can have a strong effect on workers’ rights and working conditions along GSCs, due to the size of public spending and the strong bargaining power of public administrations. There are many examples of the use of public procurement instruments and initiatives that promote decent work in GSCs, at the international, national and local levels. In the EU, a new public procurement Directive addresses the inclusion of social provisions in the technical specifications of the tender. The directive makes it compulsory for contracting authorities to reject abnormally low tenders if the low price results from non-compliance with EU legislation or international labour standards, particularly the use of child labour. In the US, Executive Order No. 13126 establishes that federal contractors who supply products on a list published by the Department of Labor must certify that they have made a good faith effort to determine whether forced or indentured child labour was used to produce the items listed.

Recent legislative initiatives have aimed at improving transparency and due diligence in supply chains by lead firms. One example is the California Transparency in Supply Chains Act (2012), which requires bigger retailers and manufacturers doing business in California to disclose their efforts to eradicate slavery and human trafficking, and to protect basic human rights along the entire supply chain. In the UK, the Modern Slavery Act (2015) requires companies with annual revenue above £36 million to report on their efforts to combat human trafficking in their supply chains.

Specific sectors in supply chains, such as conflict minerals, have also come under regulation and other measures. These efforts include the Dodd–Frank Wall Street Reform and Consumer Protection Act (2010) in the US, a forthcoming EU Directive and the OECD’s Due Diligence Guidance for Responsibly Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

Labour provisions in bilateral or regional trade agreements can also provide a vehicle for advancing decent work in GSCs. These provisions range from commitments to mutually enforce national labour law or refrain from lowering labour standards to compliance with minimum internationally-recognized workers’ rights. The 1994 North American Free Trade Agreement was the first regional trade agreement to include labour provisions (in a side agreement, the North American Agreement on Labor Cooperation). Over the past few decades, trade agreements of the EU, the US, and Canada, respectively, with a number of countries in Africa, Asia, Latin America, and the Middle East have made various references to the ILO 1998 Declaration on Fundamental Principles and Rights at Work and its follow-up as a baseline. More recently, some labour provisions in trade agreements of African, Asian, Latin American and Caribbean countries require the parties to refrain from lowering labour standards to encourage trade or investment. In general, trade agreements establish institutional and promotional mechanisms for consultation, supervision, and development cooperation in order to implement their labour provisions, as well as dispute settlement clauses to resolve matters arising from those provisions. Recent evidence from the ILO (ILO 2016c) shows that labour provisions in trade agreements, when applied coherently with international labour standards, do not divert trade, increase labour participation (particularly among women) and offer important opportunities to promote decent work in the global economy.

Private governance

Weak enforcement of national laws and regulations also pose challenges for firms operating at the international level who seek to maintain labour standards in their GSCs. In response to these public governance gaps at the national level, international buyers have implemented private compliance initiatives (PCIs) – mechanisms established by lead firms or groups of enterprises to monitor compliance with codes of conduct or other specific standards. PCIs also assist enterprises perform their human rights due diligence responsibilities as well as manage reputational risk that arises from participation in GSCs. They may also include social auditing, certification initiatives or self-reporting mechanisms, as well as best-practice sharing, grievance mechanisms, peer learning, guidance and capacity building. They are more common in industries where international brand image is susceptible to trade union, consumer and NGO pressure, than in business-to-business supply chains.

While PCIs respond to governance gaps at national level, they cannot substitute for adequate public labour enforcement regimes. In addition, PCIs have limitations in ensuring long-term change in the behaviour of suppliers. For example, they are often limited to upper tier suppliers, lack coordination with local labour administration, and may not have adequate accountability mechanisms. Enterprises subscribing to such initiatives choose which issues to address, who is covered and the remedy for violations, thus determining the parameters of overall compliance. Suppliers may be subject to different, potentially conflicting codes of

conduct in addition to national legislation; this causes difficulties for compliance that may even affect productivity.²

PCIs may make reference to ILO Conventions and instruments, but research has shown that they are weak in ensuring enabling rights, such as freedom of association, collective bargaining or non-discrimination. Even when enabling rights are clearly included in voluntary codes, they are difficult to measure and monitor, and private social audits often fail to detect violations of non-discrimination or freedom of association and the right to collective bargaining.

Social partner initiatives

In social partner initiatives, also called social governance, unions, enterprises, employers' organizations and other civil society organizations engage in a process to define and implement joint governance schemes, often through cross-border social dialogue. Unlike private governance mechanisms, which are unilaterally adopted by enterprises, social governance requires negotiation between workers and employers. Workers are represented by unions in collective bargaining negotiations at the workplace, sectoral or national levels. Some MNEs and Global Union Federations have negotiated international (or global) framework agreements (IFAs) to improve labour relations in GSCs. Some employers, unions and NGOs have engaged in multi-stakeholder initiatives (MSI) as a means to formalize collaborative approaches to GSC governance. In 2013, in response to the Rana Plaza building collapse that led to the death of more than 1,100 people and injured more than 2,000, global brands and retailers and trade unions signed the Accord on Fire and Building Safety in Bangladesh, a five-year legally binding agreement. The Accord establishes, inter alia, an independent inspection programme, public disclosure of all factories, inspection reports and corrective action plans, democratically elected health and safety committees in all factories, and a commitment by signatory brands to ensure sufficient funds for remediation and maintenance of sourcing relationships.

Social governance generally, and MSIs and IFAs in particular, are collaborative approaches to promoting decent work in GSCs. As with private governance, the social partners may have limited tools to enforce compliance when compared with government institutions. However, social initiatives could be used to complement public governance to enhance public accountability and democratic legitimacy by giving workers and their representatives greater visibility and decision making power, particularly when both lead firms and supplier firms are engaged. Particular attention should be paid to the rights to freedom of association and collective bargaining, especially for vulnerable groups of workers.

Challenges for multilateral initiatives

In recognition of the governance gap, several international institutions have led initiatives to promote internationally harmonized standards for good governance in GSCs. References to responsible business conduct are increasingly frequent in international agendas and agreements, such as the 2016 G20 Guiding Principles for Global Investment Policymaking,

² The International Trade Centre's Standards Map gives an overview of all the private compliance standards with which enterprises need to comply if they envisage becoming part of global supply chains. See <http://www.intracen.org/itc/market-info-tools/voluntary-standards/standardsmap/>

Addis Ababa Action Agenda 2015, Sustainable Development Goals - in particular Goals 8 and 12 - and the Council of the European Union conclusions on Business and Human Rights in June 2016.

The MNE Declaration, first adopted in 1977 and updated in 2000, 2006 and 2017, aims to maximize positive impacts of multinational enterprises on socio-economic development and decent work and resolve possible negative impacts. The MNE Declaration articulates roles and responsibilities for governments (home and host), enterprises (multinational and national), and workers' and employers' organizations to that effect and brings these actors together to solve decent work challenges and identify opportunities for inclusive growth. It contains recommendations in the areas of employment, training, conditions of work and life and industrial relations, all founded on international labour standards. In addition, the MNE Declaration recognizes that appropriate laws, policies, measures and actions adopted by governments, as well as cooperation among governments and employers' and workers' organizations will further its twofold aims (ILO 2014b, para. 52 of the 2017 version).

Recognizing the importance of the MNE Declaration as a tool for achieving decent work in an ever-globalizing world, the ILO Governing Body appointed a tripartite ad hoc working group to review this tripartite instrument adopted in 1977 and last updated in 2017. A revised version was adopted by the ILO Governing Body in its March 2017 session, together with operational tools at the regional and national levels, technical assistance, information and guidance through the ILO helpdesk for Business, and an updated dispute settlement mechanism.

The OECD Guidelines for Multinational Enterprises (OECD 2011) provide non-binding guidance for responsible business conduct in all areas of corporate governance. The Guiding Principles on Business and Human Rights; Implementing the UN "Protect, Respect and Remedy" Framework provide guidance for governments to take up its duty to protect and for private actors to respect human rights, as well as ensuring victims' access to a remedy for corporate-related human rights violations through state and non-state based mechanisms. They apply to all States and business enterprises, both transnational and others, regardless of size, sector, location, ownership or structure.

Multilateral initiatives are defined by international organizations and then implemented by different actors, such as governments, enterprises and unions. These initiatives may require reporting, monitoring activities or complaints processes, but they have limited capacity to enforce their standards directly. Policy coherence among multilateral initiatives and processes requires partnerships between international organizations and forums.

Conclusions

Global supply chains are engines of growth. They hold tremendous potential for sustainable development if action is taken to create decent work across the chain. Evidence shows that realizing decent work in GSCs does not have to come at the expense of productivity or profitability. Instead, if governments, businesses and social partners act on their distinct but complementary responsibilities, then GSCs will fulfil their potential as engines of inclusive growth for the millions of people who work in global supply chains as well as the global economy itself.

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Annex 1: Vision Zero Fund

Introduction

The ILO estimates that 2.3 million workers die every year from work-related injuries and diseases. An additional 160 million workers suffer from work-related diseases and 313 million workers from non-fatal injuries per year (ILO 2004). Thirty four developing countries lack an employment injury insurance system and approximately 60 per cent of the world's labour force has ineffective protection in the event of a work-related injury or illness (ILO 2014a). The world loses more than four per cent of annual GDP as a consequence of work-related injuries and diseases.

In June 2015 at the G7 Summit, against this background of unacceptable social and economic losses, the German Ministry of Employment and Social Affairs (BMAS) and the German Ministry for Economic Cooperation and Development (BMZ) proposed the creation of a workplace injury and disease prevention and protection fund - the Vision Zero Fund (VZF) - within the framework of the "sustainable supply chains initiative"³. The VZF aims to achieve zero fatal and severe work-related injuries and diseases by improving occupational safety and health practices and conditions in sectors that link to GSCs. It aims to strengthen institutional frameworks such as labour inspectorates and employment injury insurance schemes in countries linked to such GSCs.

The ILO administers and implements the Fund's projects. This allows the Fund to benefit from the ILO's expertise as a global leader in occupational safety and health and social protection systems. The Fund also complements the ILO-IFC Better Work programme. In addition, VZF collaborates with and seeks the support of other relevant multilateral processes including within the UN system, international financial institutions, intergovernmental regional bodies and the G20.

Approach of the VZF: Objectives, Action Framework, Focus

Objectives: Strengthening company-based practices and public frameworks

VZF's primary objective is to increase collective public and private action that fosters and enhances concrete prevention activities in businesses operating in low-income countries. The Fund brings national and international stakeholders in both public and private spheres together to engage jointly in sectoral activities in a country.

In the public sphere, the Fund works in three distinct but interrelated areas: (i) Strengthening legislative frameworks on occupational safety and health and social insurance; (ii) improving the capacity of the regulatory authorities – primarily the labour inspectorate in order to strengthen injury, disease and accident prevention; and (iii) supporting the development of Employment Injury Insurance schemes. In the private sphere, VZF implements targeted interventions at sector and company level to achieve sustainable safe and healthy working conditions and practices, and to improve the linkages between enterprises and the social security system, in particular with the Employment Injury Insurance scheme.

Action framework: Building Public/Private Partnerships for collective action

The Fund makes investments only in countries with a joint public-private commitment of businesses, government, the social partners and other relevant stakeholders via action plans for specific sectors, sustainability compacts or similar agreements. The Fund only supports those countries and

³ https://www.bmz.de/g7/en/Entwicklungspolitische_Schwerpunkte/Menschenwuerdige_Arbeit/index.html

stakeholders that commit themselves to prevention and the implementation of minimum labour, environmental and safety standards.

Basing allocation from a global Fund on this key prerequisite will steer actors towards taking sustainable action: A global Fund provides the flexibility required to provide funding in a targeted manner, allocate funds to champion pioneering undertakings, complement or co-finance ongoing activities to scale up, provide seed finance to develop new initiatives, step in to cover existing gaps - and also withdraw support in case of non-compliance.

Focus on pilot countries and sectors

Pilot countries

The VZF targets a selected number of pilot countries based on the following criteria:

- Least Developed Countries and other low- or lower-middle-income countries according to OECD-DAC (Development Assistance Committee) eligibility;
- Consultation with and expressed interest by beneficiary country and national social partners;
- Expressed commitment by all relevant stakeholders, including the government and social partners to apply principles of relevant ILO standards on prevention, workplace safety and ILO fundamental principles and rights at work, and to develop social dialogue in their implementation;
- Potential synergies with similar activities already in existence or planned and with existing capacity development measures and support framework.

Sectoral scope of the Fund

To support growth and job creation, least-developed (LDCs) and low-income countries (LICs) typically focus on accessing GSCs in labour-intensive export sectors. While this strategy creates potential for employment and output growth, as well as poverty-reduction, experience demonstrates that it also presents workplace safety and health compliance challenges which all too frequently result in work-related fatalities and serious injuries and diseases. As a result, the VZF criteria for sector selection include:

- Sectors forming part of global value chains (e.g. textile/ready-made garment, footwear, electronics, agro-food processing);
- Sectors that have a large work-force;
- Sectors that are prone to decent work deficits in supply chains;
- Sectors supporting national and international companies' responsible business practices.

Based on these factors, as well as extensive consultations with social partners and stakeholders in the selected pilot countries Myanmar and Ethiopia, VZF projects during the first three-year phase of operations (2017-2019) will focus firstly on the garment and textile sector⁴ and subsequently on the agricultural and food sector⁵.

⁴ The garment and textiles sector contains many hazards to workers. Each processing stage, from the production of materials to manufacturing, finishing, colouring and packaging of final products, exposes workers to hazards that are harmful to their health, with certain of these hazards being particularly dangerous for women's health (OSHA 2008).

⁵ Agricultural and food GSCs, in particular, represent a significant percentage of global trade in value and in volume. The agricultural and food sector is labour-intensive with numerous hazards that frequently result in

This first phase will emphasize the formalized, manufacturing component of these sectors.⁶ During the second phase of its work (2020 and beyond) VZF aims to move beyond the more formalized parts of GSCs to include businesses and workers in the informal economy.

Financial Mechanism: Multi Donor Trust Fund

The VZF Multi Donor Trust Fund (MDTF) accepts contributions from governments of sovereign States, intergovernmental or non-governmental organizations, and from private sources including companies, foundations and individuals.⁷ Donors are encouraged to contribute with multi-year pooled/non-earmarked resources to ensure maximum flexibility and low administrative costs. The VZF also accepts appropriate “in-kind” contributions.

Status of country projects

As indicated above, the VZF’s interventions at country level are being piloted in Myanmar and Ethiopia. VZF launched its activities in **Myanmar** in June 2016. After extensive VZF consultations with national constituents and stakeholders, the National Tripartite Dialogue Forum (NTDF) formally endorsed the proposed VZF activities in the country in September 2016. Strong support for the VZF has also been received from Hennes & Mauritz (H&M) which has committed to encouraging its suppliers to enrol in the VZF project’s enterprise-level activities during its first phase of operations. In the first quarter of 2017, VZF will commence its project activities in the country. This includes: (i) A baseline survey to assess OSH risks in the garment industry; (ii) an OSH awareness campaign in the sector, working closely with the Myanmar labour inspectorate⁸; (iii) a workshop for Parliamentarians to prepare them for consideration of the new OSH bill; and (iv) social security training for workers and employers organizations.

In Myanmar, the VZF project collaborates closely with the SafeYouth@Work (SY@W) project, which aims to promote OSH of young workers, with a focus on those aged 15 to 24. The project is funded through the US Department of Labor-contribution to VZF.⁹ The focus on the agriculture (as well as construction) sectors by the SY@W project will pave the way for targeted interventions on OSH in the agro-food global supply chain during the second phase of the VZF activities.

In **Ethiopia**, VZF’s first scoping mission took place in November 2016 to introduce tripartite constituents and other stakeholders to the VZF’s project design. The development of a socially sustainable textile and garment industry is one of the priorities identified in Ethiopia’s second Growth and Transformation Plan (GTP II). As a result, there is broad support on the part of the tripartite constituents for the VZF’s proposed focus on the garment sector during the first phase of its intervention.¹⁰ A follow-up mission to finalize the project document and seek the formal endorsement

serious injury, ill-health and death. With its integration in to GSCs, the sector brings to the GSC business model longstanding and significant OSH challenges (ILO 2000).

⁶ Processing, packaging and cold-storage facilities in the agri-food sector; first-tier suppliers in the garment sector.

⁷ ILO guidelines on cooperation between the ILO and private sector, which stipulate that all engagement with the private sector should be in conformity with ILO principles and values, will guide the acceptance of private sector donations.

⁸ Factories and General Labour Laws Inspection Department (‘FGLLID’).

⁹ For more detail, see http://www.ilo.org/safework/projects/WCMS_516592/lang--en/index.htm.

¹⁰ During the second phase, VZF will target the agri-food sector.

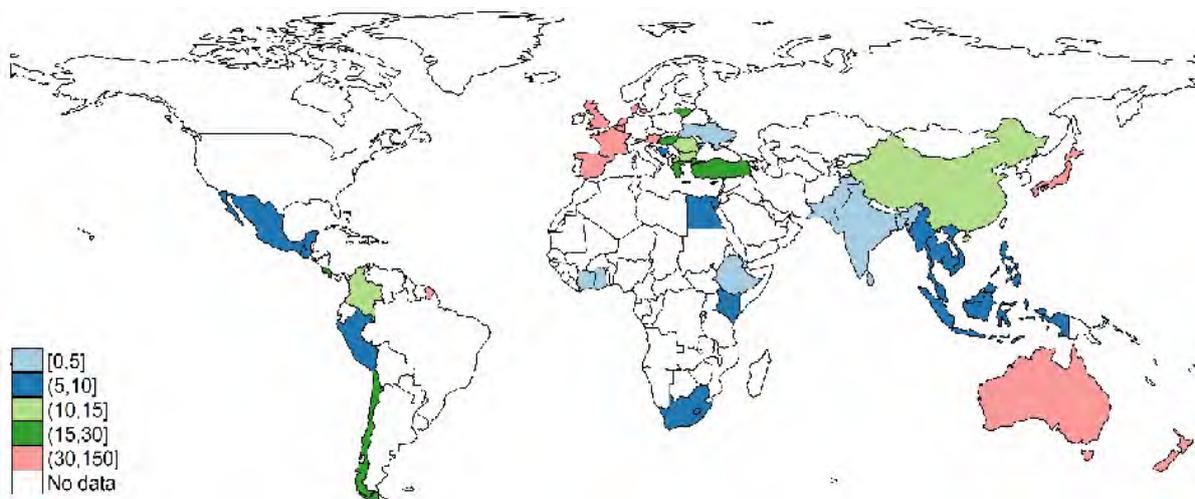
of the VZF high-level action plan by the tripartite constituents will take place in the first quarter of 2017, after which project activities will commence.

Annex 2: Living wages in global supply chains

Low pay in global supply chains

While methodologies for setting living wage benchmarks diverge and are subject to debate (see Box 2), there is ample evidence that wages paid to women and men at the end of supply chains are sometimes insufficient to cover the cost of basic needs related to food, housing, clothing, education, health and other essential components of a dignified life. Reports by groups that campaign for living wages have documented the existence of low pay and low livings standards of workers.¹¹

Figure 2: Lowest wages by country, in US\$ of 2015 for an eight-hour workday



Note: The data refers to the simple average of the lowest wages reported by all responding enterprises in a country. Light blue means for example that the average of the lowest wages falls between US\$ 0 and US\$ 5 for eight hours of work.

Source: ILO (2017a).

The existence of low wages in supply chains has also been found in the Purchasing Practices and Working Conditions Survey implemented by the ILO together with SEDEX and the ETIs¹² in 2016. This survey has collected information from the managers of 1,453 enterprises in 86 countries registered with SEDEX or the ETIs, who are engaged in GSCs and most likely to report on first-tier suppliers. The wage data extracted from this survey (Figure 2) shows that in some countries, the lowest paid workers – many of whom are women – in responding enterprises earn on average less than US\$ 5 for eight hours of work.

The wages in GSCs are not always lower, and may even be higher, than they are in the rest of the local economy in producing countries, particularly in exporting firms (see Global Supply Chains and jobs - 1

¹¹ See for example <http://www.wageindicator.org/main/Wageindicatorfoundation/publications/2016/wages-in-context-in-the-garment-industry-in-asia-2016-amsterdam-wageindicator-foundation>; <https://www.isealalliance.org/our-work/improving-effectiveness/global-living-wage-coalition>; <http://asia.floorwage.org/workersvoices>; <https://cleanclothes.org/livingwage>

¹² SEDEX is a not for profit membership organisation dedicated to driving improvements in ethical and responsible business practices in global supply chains. ETIs are the Joint Ethical Trade Initiatives of UK, Sweden and Denmark.

-). One distinguishing feature, however, is the relatively higher productivity of enterprises within these chains and the capacity of international buyers to pay higher wages. Case studies from the apparel sector show, for example, that of a Polo Shirt sold for US\$ 67 in the final retail market, or a T-Shirt sold for US\$ 39, less than US\$ 1 goes to the payment of direct labour costs to production workers. Other case studies show that the wages paid to produce a pair of jeans in some Asian supplier countries varies only slightly, between US\$ 1.10 and US\$ 1.44, regardless of the garment's final retail price (Miller and Hohenegger 2016). Hence, most of the value-added accrues to intermediaries, the brands or the retailers. In addition, productivity gains are unevenly distributed, often resulting in lower Free on Board (FOB)¹³ prices and lower retail prices for consumers in destination countries, rather than higher wages in producing countries. These low wages mean that the workers must resort to excessive overtime to earn sufficient wages.

Box 2. Defining and measuring living wages

In 1919, the Preamble to the ILO Constitution called for an urgent improvement of conditions of labour through, inter alia, “the provision of an adequate living wage”. Later in 1944, the Declaration of Philadelphia recalled the importance for Member states to adopt wage policies 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”. More recently, the 2008 ILO Declaration on Social Justice for a Fair Globalization used the same terminology. The ILO MNE Declaration emphasizes that multinational enterprises should “provide the best possible wages, benefits and conditions of work. The elements to be taken into consideration should include: (a) the needs of workers and their families [...] and (b) economic factors” (ILO 2014b, para. 41 of the 2017 version). Similarly, the ILO Minimum Wage Fixing Convention 1970 (No.131) also identifies “(a) the needs of workers and their families” and “(b) economic factors”, as the two elements to be taken into consideration in determining the level of minimum wages.

Operationalizing this concept for wage determination in practice requires addressing a number of questions in a transparent manner and in consultation with the social partners, including: How exactly to determine “living wages” or basic needs of workers and their families?; what quantities of specified goods and services should be considered essential for meeting basic needs, and who should decide?; once identified, how should the cost of the basket of essential goods and services be estimated?; and the needs of how many family members should a single worker be expected to cover?

While there are still no universally agreed methods, various methodologies have been developed around the world to define and measure a living wage in the recent past. The Global Living Wage Coalition has, for example, used a methodology that includes the participation of local stakeholders and involves estimates of the cost of food, water, housing, education, health care, transport, clothing, and other essential needs as well as provision for unexpected events. Total cost per capita of a basic but decent standard of living is then multiplied by the number of members of a typical family size in the area under consideration, and divided by the typical number of full-time equivalent workers per family in that location.¹⁴ The WageIndicator Foundation has estimated living wages for several countries based on its own Cost-of-Living Survey and a predefined but locally adapted food basket, as well as expenditures for housing, transportation and a margin for unexpected expenses. It assumes a family size which is consistent with the most common family type in the relevant country.¹⁵ The Asia

¹³ FOB specifies at what point (e.g. port) respective obligations, costs, and risk involved in the delivery of goods shift from the seller to the buyer.

¹⁴ <http://www.isealalliance.org/online-community/resources/global-living-wage-coalition-anker-methodology>

¹⁵ <http://www.wageindicator.org/main/salary/living-wage/faq-living-wage>

Floor Wage Alliance has taken a transnational approach by estimating the value in US\$ (PPP) of a living wage which allows in all Asian countries for food consumption of 3,000 calories a day per person, leaves 50 per cent of income for other expenses, and supports two other “consumption units” (one adult or two children).¹⁶ Finally, living wages have also been estimated in developed countries. The UK based Living Wage Foundation calculates, for example, a living wage for London and another one for the entire country, based on a basket of goods that represents a decent standard of living, determined through research with the public, and for a range of different family types (with and without children).¹⁷

Mechanisms towards living wages

What can be done to ensure not only a minimum living wage but also an equitable share of the fruits of progress to all those involved in global supply chains, including growing wages when productivity grows? The following outlines some general steps that aim at ensuring basic needs of workers and their families through a combination of sustainable wage policies which take into account social and economic factors, as well as social transfers.

Minimum living wages: Wages in GSCs are frequently determined in reference to existing statutory national or sectoral minimum wages. It has been documented that the FOB prices quoted by manufacturers to potential buyers consist of two main elements – labour costs and factory overheads. This then leads to a *factory working minute (or sewing minute)*¹⁸ cost. Adequate and meaningful minimum wages which are set in line with the ILO Minimum Wage Fixing Convention, 1970 (No.131) and the ILO MNE Declaration take into account the needs of workers and their families, as well as economic factors. They can thus play a key role in raising wages in supply chains. In recent years, minimum wage systems have been established or strengthened in many countries around the world to address working poverty and inequality. In support of Member states, the ILO has recently developed an online minimum wage policy guide¹⁹. Undertaking a review of the extent to which existing minimum wage levels cover the needs of workers and their families, taking into account economic factors and constraints, and are effectively enforced could be a useful starting point. Stronger international coordination in minimum wage fixing has also been highlighted at the recent ILO Asia Pacific Regional Meeting as a possible way forward to avoid unfair international competition based on low minimum wages.²⁰

Collective bargaining for fair living wages: While minimum wages can set a wage floor, collective bargaining works to achieve a just share of the fruits of progress. Offering a mechanism to reinforce compliance with a statutory minimum wage, collective bargaining also set equitable and sustainable wages in line with industry productivity, above an existing floor. Collective bargaining also deals with other conditions of work that affect take home pay, such as bonuses and working time (overtime). It frequently also addresses relations between employers and unions and thus can contribute to the

¹⁶ <http://asia.floorwage.org/calculating-a-living-wage>

¹⁷ <http://www.livingwage.org.uk/calculation>

¹⁸ A factory working minute (say for example 6.7 Cents/minute) is calculated by dividing the factory’s total annual operating costs, e.g. US\$ 8.16 million, by the number of workers (e.g. 850 workers) times the available minutes over a year (e.g. 300 days x 480 minutes). This number is then multiplied by the standard allowed minutes (or SAM), which is the estimated time it takes to complete one item (say 20 minutes for cutting to packing of a pair of jeans).

¹⁹ www.ilo.org/minimumwage

²⁰ See the ILO Report of the 16th Asia and the Pacific Regional Meeting.

stability of enterprises and industries. Multi-employer bargaining can also be an effective way to establish training and social security funds, thus contributing to social protection. Collective agreements, signed by sufficiently representative parties, can also be used to standardize wage rates in a particular branch or industry through the 'extension' or general application of an agreement by a public authority. The extension of collective agreements to all enterprises, in accordance with national law and practice, can be used to ensure fair competition by providing a level playing field and extend coverage to all workers that fall within its scope, irrespective of their contractual status. Collective bargaining and social dialogue also offer an important vehicle for workers to participate in the success of enterprises to gain a fair share in the benefits of economic activities and increased productivity, and to participate in the determination of a 'living wage' that is based on their needs. Some enterprises have highlighted the difficulty of raising wages at the enterprise level in a competitive environment where buyers can shop for the lowest prices. One response to this challenge is ACT (Action, Collaboration, Transformation), a joint initiative with manufacturers and trade unions to promote multi-employer collective bargaining at the industry level in garment-producing countries in order to eliminate the downward pressure on wages that results from competition among suppliers.²¹

Responsible purchasing practices for making living wages possible: To address the issue of wages in GSCs, it is necessary to develop an approach where social dialogue is supplemented by engagement with buyers.²² When buyers aggressively drive down sourcing costs, this can result in too much downward pressure on wages. If buyers want to ensure that minimum wages are complied with – or that higher voluntary or negotiated wages can be paid – they need to adapt their buying practices, taking into account the question of how labour should be costed. In addition, poorly planned just-in-time purchasing practices can result in excessive working hours, with negative consequences for workers and employers. Hence, responsible purchasing practices need to be encouraged. This could go hand in hand with higher productivity and efficiency.

The role of social protection in complementing living wages: Basic income needs of workers and their families vary and depend not only on individual needs and prices of goods and services, but also on family characteristics, such as the number of children and other dependents. In addition, the actual incomes of workers and their families depend not only on the wage level, but also on the number of workers in a particular family and the existence of other sources of income, including from social security. It is thus essential that minimum income needs are tackled through both wages and social transfer payments to lower-income households. The payment of living wages does not imply that social assistance measures are no longer necessary.

Improve compliance through strengthening public governance, promoting multilateral initiatives and increasing awareness: Compliance with laws and regulations should be improved through information campaigns and by strengthening labour and social security inspectorates and improving employers' and workers' information about their rights and duties. Measures should be taken to provide workers means to access their rights and recover losses, and, in particular, protect them against victimization. Imposing adequate sanctions on non-compliance is also important. In this context, the support of governments and social partners is essential in facilitating the transition from the informal to the formal economy.

²¹ See the ACT initiative at <http://www.ethicaltrade.org/act-initiative-living-wages>

²² This was also highlighted in the Conference Statement of the Asian Living Wage Conference held in Islamabad in 25/26 May 2016.