Living Wage in the garment sector: results of the 2018 reviews

by ASN Bank
Dear reader,

ASN Bank has had a history of social justice since it was founded in 1960. This still actively underpins our present and future policy. Human rights are inextricably linked to our mission. This means that for everything that we do as a bank we formulate a concrete policy to deliver a positive contribution with respect to human rights. It is therefore no coincidence that we have chosen to make the promotion of a living wage the focus of our human rights policy.

We cannot as a bank change the fact that so many people in deprived circumstances are paid too little to have an existence worthy of human dignity. We cannot as a bank change the fact that due to our consumption habits, we sometimes contribute unconsciously to the continuity of these degrading living conditions.

But what we can indeed do is make maximum use of our expertise as a financier to bring about change. Not alone, but in alliance with partners. What we can indeed do is make maximum use of our influence to exhort others to revise their policy. What we can indeed do is take personal responsibility and not enjoy prosperity at the expense of others.

It is not a law of nature that many garment industry workers earn a far from living wage in often deplorable conditions. This is the result of human action and so can also be changed by human action. That offers hope, but also urgency to actually bring about a change. Not just sometime, but today and tomorrow.

This report gives a clear picture of what we can do and why.

I shall speak out loud and clear about this and we, as a sustainable bank will continue to do all we can, within our limitations, to achieve our aim.

Arie Koornneef,
CEO ASN Bank

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Foreword

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Human rights at ASN Bank

In this report, we present the results of the 2018 ‘Living wage in the Garment Sector’ reviews that we undertook during 2018. Through this work, we at ASN Bank wish to dive deeper into the social dimension of sustainable banking and investing; an area that has been engrained in our bank’s DNA since we were founded by trade unions back in 1960 to watch over workers’ savings and provide access to finance. Over the years we have developed into a bank that takes a holistic approach to sustainability, integrating both environmental and human rights issues into our activities.

To achieve a more profound understanding of the issues, we have adopted a long-term goal for each of the three pillars of our sustainability policy framework: human rights, environment and biodiversity. With our work on living wage, we are not only contributing to our long-term goal (see box) but also to bringing the social dimension of sustainability more to the forefront, which we believe is currently needed. Many people point to the lack of attention to the social side of sustainable investment. As the founding father of ‘business and human rights’, Professor John Ruggie puts it in a recent paper):

‘The S remains the weakest link in the ESG chain [environment, social and governance]; ad hocery has prevailed. We have argued that this need not be so, for two main reasons. First, many of the elements we do find under the S either are human rights elements or are closely related to them. Second, there are internationally agreed human rights content and process standards that can be drawn upon to strengthen the S. Our best guess about why this has not happened yet is that there is little expertise or, frankly, interest in human rights in the investment community, coupled with some interest but little expertise about investment issues in the human rights community.’

We indeed notice that more research has been done on other domains of ESG, resulting in concrete action to align financial activities with international agreements on climate change for instance. A good example is the initiative taken by ASN Bank several years ago to develop a carbon accounting methodology for financed emissions. The social domain is not so easy to quantify and this is perhaps why the financial community has not yet looked at it in a more analytical way.

The social dimension is indeed not mechanical; there should always be room for creativity, flexibility and at times diplomacy. Equally, we believe that by taking a rational approach to human rights, it opens the door for mainstream business to embrace the topic as ‘business as usual’, which is needed to scale up and make real progress.

Living wage as a salient risk

A key task of our sustainability department is the analysis we do to assess whether or not listed companies are eligible for our investment universe. We apply stringent sustainability criteria, as we like to be ahead of the curve when it comes to putting together truly sustainable investment funds. We owe this to our clients who trust us to invest their money in forward-looking companies that want to co-create a sustainable future.

Having said that, we acknowledge that there may well be companies approved for our funds that still have exposure

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1. Introduction

1 Throughout the report by ‘garment’, we mean textiles, apparel and footwear.
3 For more information on PCAF, please see: www.carbonaccountingfinancials.com.
to human rights risks, simply because the world is not black and white. In this day and age of globalisation, long supply chains reach into emerging and developing markets where weaker governance structures exist. In most garment producing countries, the legal minimum wage is not at a living wage level. So it is up to companies to partly fill the governance gap and uphold universal human rights, which isn’t straightforward as there are limitations as to what they can achieve, in particular, on their own.

ASN Bank fully recognises this and as such we follow the UN Guiding Principles on Business and Human Rights (UNGPs) – and the accompanying Interpretative Guide. The principles state that companies should act with due diligence and mitigate human rights risks, in particular salient risks. In other words, companies should analyse where they run the highest risks with the most severe consequences to people and find ways to mitigate these risks. Companies are only just starting to find ways of mitigating the living wage risk, and that is why we do not yet exclude listed companies on the basis of non-payment of living wages.

Hence our living wage project, which aims to keep assessing, engaging, supporting and monitoring companies on their way to realising living wages in garment producing regions. We chose the garment sector because when we undertook our own salient risk analysis as a bank, we came to the conclusion that wages in the consumer durables and apparel sector are one of the few salient risks we have in our investment portfolio, meaning wages have the highest probability and highest severity in these sectors. A living wage as a salient issue is especially prevalent in the garment sector because of:

- the complex supply chain, which involves many actors
- highly fragmented supply and customer base
- short-term contracts (between actors and in relation to labour)
- a lack of transparency and data

We believe that when workers receive a living wage, they can find a way out of poverty not only for themselves but for their families. A living wage as such is an enabling human right, which opens the door to an overall improvement in living standards, reducing the risks of child labour or excessive overtime to make ends meet and reducing the health and safety risks that come with long working days. Many workers will have a chance in our lifetime to escape the poverty trap. We want to make our contribution to that, relating directly to the Sustainable Development Goals to end poverty (1), to promote decent work and economic growth (8) and ensure responsible consumption and production (12).

Commentary Fair Wear Foundation
There is no internationally binding definition of a living wage, but in most production countries the legal minimum wage is 20-50% of any estimated living wage. The large gap between prevailing wages and living wages should not allow the search for the perfect living wage benchmark to stall wage improvements. Gradual increases in wages over the next several years can mean real improvements for workers, now and in the future. Labour usually accounts for only a small percentage of the total retail price of a garment – often just 2-3%. This means wages could be increased without a huge effect on the price to the consumer.

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5 On salience (UNGP Reporting Framework): ‘A company’s salient human rights issues are those human rights that stand out because they are at risk of the most severe negative impact through the company’s activities or business relationships. This concept of salience uses the lens of risk to people, not the business, as the starting point, while recognising that where risks to people’s human rights are greatest, there is strong convergence with risk to the business.’ For more information on due diligence and salience, please see: https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

6 The salience analysis we conducted will be published in early 2019 in our annual human rights report.
How did we get here?

In 2016 we started analysing and rating 14 investee companies in the garment sector with regard to living wage. The results were published in a baseline study7 that we co-wrote with the Impact Centre of the Erasmus University in Rotterdam. The assessment showed mixed results with some frontrunners, some laggards, and a few companies in the middle. The initial methodology was adopted by MN and Triodos IM. Together, we started engaging with the brands and presenting our work externally.

Then in 2017, ASN Bank published a Living Wage Manual to support brands by explaining the due diligence steps that companies can take to implement living wages in their own manufacturing operations and supply chains8. We, the three financial institutions, continued the dialogue with the 14 brands on the basis of this manual throughout 2017. The 2017 rating showed some improvements with regard to setting an appropriate definition of living wage and a living wage policy, particularly on the part of the laggard companies.

PLWF and upgrade in 2018

This year, we upgraded our living wage work. We had the methodology by which we review the 14 brands redrafted by the human rights specialists at the international audit, tax and consulting firm Mazars, so that it is now aligned with the UNGP Reporting Framework9. We also set up a governance structure for the reviews and the assurance trajectory by Mazars, which is explained further in the chapter below. The external and independent assurance of our work is important to us, as we want to publish credible results.

On that basis, we believe we are in a position to set up meaningful engagement processes with investee companies. Expertise employed by the Bank is one side of the engagement coin. The other is leverage. In order for us to have more influence on investee companies, this year we started to widen the collaboration. To date, eight Dutch financial institutions have signed up to jointly analyse and engage companies under the umbrella of the Platform Living Wage Financials (PLWF®). Together, we represent over Euros 725 billion in assets under management (AUM), which we believe gives us the leverage to make a difference.

The 2018 review of the garment companies forms the basis of our collaboration. Later this year we will start fine-tuning our engagement strategy and planning engagement calls with the 14 companies under review. In addition, platform member MN has, itself, already started reviewing other investee garment brands, adding another eight reviews to the 14 this year. Other members are redrafting the methodology, so they can start applying living wage research to the retail and agri-food companies in which they invest. More information will be available at www.livingwage.nl.

Aside from our engagement with investee companies, we regularly consult with (multi-)stakeholder initiatives (MSIs) and expert organisations that help companies implement living wages. Examples are: the Fair Labour Association (FLA), ACT, Solidaridad, Dutch trade union FNV and Fair Wear Foundation (FWF). We applaud their important work, realising that companies cannot and should not do this alone. We also welcome the emphasis on building capacity for social dialogue and a bottom-up approach, as this provides the foundation for lasting results.
Commentary Fair Wear Foundation

Fair Wear Foundation’s living wage strategy focuses on a step-by-step process of identifying and overcoming obstacles to the payment of living wages. Payment of a living wage – one that is sufficient to meet basic needs of workers and their families, and to provide some discretionary income – is one of FWF’s eight core labour standards, derived from United Nations and ILO norms.

While many organisations focus on the question: How much is a living wage? in different countries, FWF’s emphasis is on the question: How can living wages be implemented? The complexity of international supply chains means that a significant number of practical questions need to be answered if wages for workers are to improve, even once a living wage benchmark has been agreed upon by a brand, a factory, and workers.

For more information on FWF’s work on wages, please visit: www.fairwear.org/living-wage-portal

Note: Fair Wear Foundation (FWF) became ASN Bank’s official partner organisation in 2018. ASN Bank will support FWF in its efforts to improve labour conditions in garment supply chains in 2018 - 2021. Since FWF staff have been working with companies on living wages for many years now, we asked them to add expert commentary throughout this report. Although PLWF focuses on publicly listed companies, as these are our investees, we are learning much from FWF’s experience with often smaller companies and see where there is scope to scale up.

We also maintain close contact with governmental bodies, both national and international (e.g. UN PRI, UNEP FI and ILO). The Dutch and German governments have taken the lead in setting up textile agreements that aim at improving working conditions in sectoral supply chains. Many PLWF members support these agreements and/or are signatories to the Banking, Insurance or Pension Fund Agreement. For more information on all the sources we studied and the experts we consulted while rating the 14 companies under review, please see appendix d.

11 These are the United Nations Principles for Responsible Investments, the UN Environmental Programme Finance Initiative and the International Labor Organization.

12 For more information, please see: https://www.imvoconvenanten.nl/?sc_lang=en
Developing a new methodology
Before we present the results of the 2018 reviews, we would first like to provide more context on how we governed the reviewing process under external assurance. We believe it is important to share the governance and assurance requirements in this report because this clearly demonstrates the deep dive we took, thoroughly analysing each and every company and also making sure the process we follow is transparent, inclusive and fair.

The update of the methodology lasted for four months from November 2017 to March 2018. A small team from ASN Bank, consisting mainly of (senior) sustainability experts, met several times with the business and human rights specialists at Mazars to write a draft methodology based on section C1 – C6 of the UNGP Reporting Framework. We sought feedback on the draft methodology from some 10 internal and external stakeholders; mainly other colleagues and financial institutions, brands, governmental bodies, stakeholder organisations and civil society experts.

On 7 March 2018, we hosted a kick-off meeting on the Platform Living Wage Financials (PLWF) with the aim of informing more financial institutions about our work on a living wage and of encouraging them to join us. During this meeting, the new methodology as well as the assurance trajectory was presented and discussed. Richard Karmel from Mazars and Martin Curley from Fair Wear Foundation gave presentations about their expertise in respectively human rights reporting and assurance and fair labour standards in the garment sector.

In April 2018, we finalised the new methodology, incorporating feedback we had received. Our analysis of the 14 garment companies commenced shortly after. It took time for us to analyse, discuss and rework the review sheets before finalising. These final versions include not only the main questions and indicators from the methodology, but also separate columns for setting out examples of evidence and commentary by ASN Bank reviewers and the Mazars’ assurance team.

The review process
Two human rights experts at ASN Bank conducted seven company studies each in the second quarter of 2018. We gathered data on each company from different sources, for example, from annual reports, websites and codes of conduct. During this research phase, we also contacted each company individually with additional questions, as well as independent stakeholder organisations. In appendix d we list all the sources we reviewed and the data we obtained through bi-lateral engagement.

Two sustainability analysts at ASN Bank then re-read the draft reviews for a thorough cross-check. Their valuable feedback was incorporated into the final versions of the review sheets that were sent to Mazars. During a daylong meeting in London on 9 July 2018, the ASN and Mazars teams discussed the findings of ASN Bank. Mazars, having reviewed our working papers, challenged us where they believed greater evidence was required to justify the ASN prescribed rating or where there was inconsistency with ratings applied to other investee companies. It was a helpful and efficient process to go through, as the discussions refined all of our views.

All in all, we spent approximately two weeks reviewing each company and four to six weeks finalising cross-references and assurance for each company. The assurance period spanned from mid-April 2018 to mid-August 2018. Following this, we did not consult any new sources or material for evidence.

For a more detailed overview of the governance process, please see appendix c (Assurance memo).
Closing the gaps

A living wage is a universal human right. It is referred to in many international declarations going back to 1919 when the International Labour Organisation (ILO) was founded. In recent years, many studies and reports have been published, detailing the context and definition of a living wage. We are not going to repeat these here. As said, ASN Bank published its own Living Wage Manual in 2017, which already explains the concept in more depth, and also highlights the urgency for closing the wage gap between minimum wages and living wage estimates in many producing countries.

Economic relationships in the global apparel industry have evolved far faster than regulatory or social dialogue structures. The problem has come to be described as a governance gap in supply chains, where responsibility for human rights compliance is fragmented between different government and private actors, leading to widespread and recurrent human rights violations. This gap poses problems for government, non-governmental organisations, and private and trade union efforts to improve conditions in the industry.

We acknowledge that governments are the primary actors in setting legal minimum wages at a level that meets a living wage, as well as providing freedom of association and facilitating sound wage setting mechanisms and collective bargaining opportunities. This is, however, not the case in most garment producing countries, so in the meantime brands have the responsibility to help close the gaps. In order to do so, action should take place not only at factory level but also at sectoral level and national level for the necessary scale-up of smaller pilot projects.

High level results

In this chapter we will review the 2018 results, highlighting the stage that each of the 14 companies has reached with regard to the implementation of a living wage, starting with some companies viewed as embryonic and progressing ultimately to the leading category. We discuss these findings from the perspective of the garment sector as a whole, followed in the next chapter with a closer look at results per question that draw more in-depth conclusions.

We have presented the sector results in four categories following consultations with stakeholders and experts at Mazars. Whilst individual rating sheets and accompanying scores are useful for bi-lateral engagement purposes (investor-investee), they don’t necessarily reflect the underlying sectoral issues and themes. We therefore find it more insightful to consider the process and the development, which is less static and more dynamic in nature. By dividing the companies into four categories, it has given us a good overview of where the sector is as a whole which as we would like it to go.


Positive outcome
We can see from the sector overview that most companies are at the developing and maturing stage, which is positive. It means that most garment companies we reviewed at least identified payment of a living wage in the supply chain as an issue. Some companies believed this issue to be more important than others with a few actually identifying it as salient and adopting a living wage policy and definition (C1). This is an important step and not something to take for granted. After all, salience uses the lens of risk to people, not business, as the starting point.

A key obstacle to realising living wages in the garment sector is that the brands in which we invest aren’t those directly paying the workers’ wages; instead it is their supplying manufacturers in producing countries. Ever since the endorsement of the UNGPs, however, brands are expected to identify and put in place processes to mitigate against salient human rights risks arising in practice. The challenge is how to achieve that if you are not the one hiring people and paying their wages. In recent years, initiatives have been taken to find creative solutions at both factory or industry level17.

Commentary Fair Wear Foundation
Knowing the labour cost component of the price a brand pays is the first step towards ensuring the payment of minimum wages — and towards the implementation of living wages. A mature pricing system allows a brand to know labour costs at style level. Knowing real costs — commonly a calculation of cost per minute X minutes per piece— allows companies to ensure that enough is being paid to the production location to at least cover minimum wage payments. This information also forms the basis for discussion on the movement towards living wages. No knowledge of the labour cost component of prices paid, i.e. ‘lump sum’ costing of styles, makes the meaningful assessment of minimum wage payments impossible. At the moment, the reality is that most prices are based on a crude bargaining model or set by agents/intermediaries, without taking any wage level information into account and/or without brands influencing or understanding the breakdown of prices.

This leads to another aspect that most of the companies under review have embraced: collaboration with partners and stakeholders to further the cause of a living wage (C2). It is very difficult for companies that buy from manufacturers in producing countries or via a third party to realise payment of a living wage on their own. An essential element is working together with other garment companies, trade unions, (multi-)stakeholder organisations and governments. This is simply because wages cannot be determined top down by a buyer; there are many stakeholders involved and to be heard.

Note: 2018 was the first year we applied the new methodology. Accordingly, we do not compare these results with those of the previous years. We have secured a good baseline from which to continue measuring and engaging companies for the future. We have applied a weighting system that places greater emphasis on the first part of the methodology, as we want to promote companies having a secure foundation from which to progress. Over time we may increase the weighting more towards the middle and advanced indicators. In other words, in the first years we will focus on companies adopting a living wage policy, defining the concept and collaborating with others (C1 – C3 in our methodology). Chapter 6 covers our weighting / engagement strategy.

17 Please see, for example, the living wage initiatives of the Fair Labour Organisation (FLA), ACT (actonlivingwage), Sustainable Apparel Coalition (SAC) and Fair Wear Foundation (FWF)
Collaborative effort
In an ideal world, governments in producing countries such as Bangladesh, Myanmar and Cambodia would host social dialogue, and set and enforce legal minimum wages at a living wage level. In most of these countries, however, this is not the case. Minimum wages, if they exist, are well below living wage estimates\(^\text{18}\). This leaves a wage gap; in most cases a considerable wage gap, which it is up to buyers to help close. But since they do not directly pay the workers and since local wage setting mechanisms are to be respected, they need to collaborate and create leverage to make progress.

Commentary Fair Wear Foundation
Analyses conducted by FWF and others show that the majority of the value in value chains is controlled at the consumer end of the supply chain — by brands and retailers. Despite this imbalance, factories are still held responsible for human rights compliance — under national laws, under traditional factory or national-level collective bargaining agreements, and under mainstream corporate social responsibility (CSR)-based code/audit/corrective action plan (CAP) systems. This imbalance, combined with the general inability of factories to force their customers (i.e. brands) to pay for the cost of human rights compliance is a major challenge.

As said, most of the companies under review showed best practices when it came to working with, for instance, the Fair Labor Association (FLA), global union IndustriALL and the ILO Better Work initiative. Some of the companies took up membership of the initiative ACT, which aims at building sector-wide collective agreements in the garment producing region. An innovative approach, as these Collective Agreements would be accompanied by buyers’ statements on responsible purchasing practices.

A living wage is likely to only be realised if buyers agree to align their purchasing practices with their human rights policies. It is not enough to include a living wage policy in a code of conduct for the manufacturer to comply with or to outsource living wage projects to a stakeholder initiative. Buying companies should own the process of implementation. Thereby assessing the impact and integrating the findings into their business. Changing purchasing practices to enable manufacturers to pay a living wage is an essential feature.

Buyers may also want to take into greater account the growing evidence of the business case for a living wage. Meaning that payment of living wages is likely to lead to a happier and healthier workforce, less personnel turnover and higher productivity. It is time that the growing evidence for the business case is scaled up to mainstream strategic practices in order to reach more workers. Only then, will we be able to move away from the stalemate situation where everybody is pointing to the complexity of the issue.

Thorny issue
The crux of the matter is that living wage goes right to the heart of business. It has been described as a thorny issue because it relates to many issues that are potentially in tension with each other; pricing, competition and customers who are used to cheap clothing and fast fashion. How to reconcile these areas? How to ensure that living wages are paid, but that business still remains competitive in a very competitive market (on-line versus traditional)? Is a fast fashion business model at all suitable for enabling a living wage for the workers who make the clothes? There are no easy answers to these questions.

When we look at the middle area of the company reviews (C3 – C6 in our methodology), there is little evidence to support higher scores. This implies that most companies under review need to do more to assess the impact of
non-payment of living wage and integrate the findings into their business. We do not see many examples of companies actually gathering data that show the wage gap between minimum or prevailing wages and living wage estimates. Nor of them changing their purchasing practices profoundly to help close the gap and monitoring key indicators.

Commentary Fair Wear Foundation
Fair Wear Foundation advocates that its members know the labour minute costs of their products and the minutes necessary to produce their garments, which will allow them to demonstrate the labour cost component of the price. Demanding fixed (non-negotiable) labour costs in the buying conditions is also considered an advanced effort. If a brand is unable to get full insight into the actual labour costs of its products, Fair Wear Foundation expects them to use available information, such as FWF wage ladders, country or regionspecific labour minute values, standard allowed minutes information, etc., to carry out a plausibility check. This allows buyers to verify whether the agreed price is sufficient to pay the legal minimum wage, even in cases where a supplier is not transparent in sharing the breakdown of their costs.

Transparency
We would like to encourage investee companies to enhance their transparency when it comes to wage data. At the moment, they tend to refer to projects within MSIs. However, these MSIs only publish aggregate data, which we cannot refer back to an individual company’s efforts. Increased transparency (final question 8 in our methodology) is needed to ensure integration of the living wage policy or statement to the heart of the business, showing progress or explaining the lack of it.

Going forward
What we would like to see is companies doing more to own the process of implementing a living wage by integrating this into their strategic business models. By being transparent about how they contribute to wages and gather related data, they can better assess their progress but also the difficulties and obstacles faced. As an investor, we are not interested in window dressing but in open and honest sharing of what works, what does not work and what support is needed; either at factory level, sector level or national level.

Together with brands, other financials, experts and civil society, we want to engage in forward-looking activities and co-create innovative solutions to the seemingly unsolvable issue of a living wage in supply chains. There are obstacles to this, such as:
- compounding price escalation (mark-up), when wages are raised.
- an overall rise in living costs when wages go up, e.g. rents, leaving the worker with no net gain.
- reluctance of governments/producers to raise (minimum) wages, afraid of losing competitive edge over new supply countries such as Ethiopia.

Still, we are positive that with collaboration and using out-of-the-box thinking, a living wage can be realised by 2030 for workers in the garment industry and other sectors where poverty wages prevail. We are interested in working with experts to look at blockchain to increase transparency and, potentially, at cryptocurrency to make extra money available to workers. Or to raise awareness among consumers and find solutions that will enable consumers to make concrete contributions to a living wage, such as Continental Clothing’s Fair Share line or Tip Me, an organisation allowing consumers to directly reward producers, using blockchain technology.
Commentary Fair Wear Foundation
Over the past few years, various Fair Wear Foundation members have carried out projects to increase wages at their production locations. Each project starts with identifying the target wage, i.e. selecting a living wage benchmark or doing onsite research into basic needs. Next a brand and factory identify the additional costs related to higher wages, incorporating the gross/net differences. They then decide how to cover the additional costs and together with the workers decide how to distribute the additional wage payments. Examples of FWF member brands are Continental Clothing and Schijvens.

We will continue lobbying our government and political parties to introduce legislation that facilitates companies’ efforts to help close the wage gap. Whether by putting pressure on Asian governments to set minimum wages at a living wage level or by forming European alliances and EU legislation. Why not make a living wage a prerequisite for entry into the EU market? It is so essential to the wellbeing of millions, possibly billions, of unskilled workers who make the clothes we wear. The experts at Shift, the leading centre on the United Nations Guiding Principles, put it this way:

‘The provision of living wages for workers in global value chains could contribute to supporting entire families and communities in surfacing from conditions of poverty, fuelling the economic and social development called for by both public and private actors in their endorsement of the SDG’s.’ Shift 2018 (www.shiftproject.org).
5. Results of the reviews

Context: The UNGP Reporting Framework
The Interpretive Guide to the UNGPs defines human rights due diligence as comprising ‘an ongoing risk management process that a reasonable and prudent enterprise needs to undertake, in the light of its circumstances (including sector, operating context, size and similar factors) to meet its responsibility to respect human rights’ 19. In practice, what this means is the identification of actual and potential human rights impacts, the implementation of measures to mitigate these impacts and the tracking of the effectiveness of these measures. The ultimate goal of human rights due diligence is the prevention or mitigation of actual and potential adverse impacts a company causes or contributes to or is linked to through its business relationships.20

The UNGP Reporting Framework21 is designed to provide guidance to companies on reporting on human rights as set out in the UNGPs. The framework consists of three parts. Part A requires from companies a public statement to respect human rights. This statement should relate to a company’s operations and its business relationships (including its supply chain). Part B is about defining focus. The UNGPs explain that companies have the responsibility to address all potential adverse impacts on human rights. However, when companies are unable to address all human rights impacts at the same time (e.g. due to the size of the company) they should prioritise and start addressing those human rights that are potentially most severely impacted. These are the most salient human rights issues.

In Part C of the Reporting Framework, companies report on how they manage salient human rights issues. Part C consists of six elements (C1–C6) and includes the steps in the human rights due diligence process as set out in the UNGPs. The responsibility that a company has for preventing or mitigating the adverse impact depends on its relationship to the issue. If a company causes or contributes to an adverse impact on human rights, it has a greater responsibility to prevent or mitigate the impact than if it is directly linked to the issue.

Our methodology is aligned with the UNGP Reporting Framework. The methodology consists of a comprehensive set of questions related to the different elements of the Reporting Framework. We have structured this chapter accordingly. The results on the transparency question (question B in our methodology is beyond the C1 – C6 scope) are presented in a seventh separate sub-section of this chapter.

19 https://www.ohchr.org/Documents/Publications/HR.PUB.12.2_En.pdf (p. 6)
21 Please see: www.ungpreporting.org
Introduction
The methodology of our living wage assessment contains two questions on element C1 of the UNGP Reporting Framework (for an example, see rating sheet appendix B). We chose to do this because, as stated above, companies are only just starting to find ways of mitigating the living wage risk: a gap between actual wage levels and living wage estimates is the rule rather than the exception. This means that we want to emphasise the first part of the due diligence process, thereby giving credence for companies to base their living wages strategies on solid policy foundations.

The first step for garment brands towards closing the wage gap is to formulate a living wage policy or statement. The second question, which is on the definition of a living wage, results from the importance of embracing all universally accepted elements of the living wage concept. Although we acknowledge that a universal consensus may be hard to reach, we do observe commonalities in the different descriptions of a living wage. We deem it key that the companies under review incorporate all universally accepted elements in their definition of a living wage (as explained in our methodology).

Question 1: Living wage policy

Background
As many of the brands in our review have outsourced manufacturing to third parties, it is particularly important that their policy applies not only to the company’s own operations but also to suppliers. Another important element in the first question is the recognition of the salience of living wages and who within the organisation governs the issue. Board level responsibility for the company’s living wage policy and for progress towards living wages in practice gives a strong signal of the importance that the company attaches to the subject. It means that companies are more likely to integrate the issue into their strategic thinking and ultimately to their decision making.

The importance of this cannot be underestimated given that manufacturing in this industry has been outsourced to countries specifically for reasons of low cost and low wages. Furthermore, committing to living wages at board level also gives a strong signal to the rest of the company. By putting the subject on the (strategic) agenda, an executive board can enhance awareness of the problem and its urgency and create scope for new initiatives to promote higher wages for factory workers.

Key observations question 1
The company scores on the first question are shown in the figure below.

There is a striking division between two groups of brands. First, there is a group of leading brands when it comes to living wage policy. These brands have identified a living wage as a key or salient issue, have translated this into policies that extend to the supply chain and are committed at board level to working towards living wages. The second group of companies also have a living wage policy that extends to the supply chain but do not recognise living
wage as a key or salient human rights risk and put it on a level with other human rights issues, giving it no priority.

An interesting observation is that companies that identify a living wage as a salient issue also receive higher overall scores than the companies which do not recognise the salience of a living wage. This can in part be explained by the weighting we have attached to the first question. However, this research also finds evidence that the companies under review have on average higher scores on the other elements of the UNGP Reporting Framework. As argued, companies should allocate resources to those human rights that are most salient and the findings of this research support this hypothesis.

Another interesting observation ensuing from the results of question 1 is that all companies which have identified a living wage as a key or salient issue have also expressed board level support for living wage policy. Furthermore, these companies have also provided evidence that those responsible for implementing the policy (i.e. the purchasing officers in most cases) receive training to better understand the issue. Board level support for the living wage policy seems to trickle down the organisation to the buying departments, again emphasising the importance of identifying living wage as a salient issue.

Recommendations question 1
Based on the scores for this question, we have three recommendations. We recommend that the group of companies in the developing phase:
- Recognise a living wage as a key salient issue to their company. Current wage levels in many producing countries do not respect this key human right as recognised in the international normative frameworks.
- Address the issue of living wages at board level by advising your management to commit to the promotion of a living wage by embedding this commitment in the organisation’s strategic business model. Paying a living wage to workers can also have a positive effect on a company’s business. There is a growing body of evidence that implementing living wage in supply chains has positive effects on the bottom line. The growing business case for a living wage is connected to lower personnel turnover, higher productivity, lower costs of recruitment and training of new workers, and to stable relationships with preferred suppliers.
- Provide training on living wage to those in your company that are responsible for the purchasing process. Educating your purchasing officers on the effects of their actions on suppliers offers good opportunities to increase a supplier’s ability to pay its workers a living wage.
Introduction
We deem it important that companies embrace the key elements of the living wage concept. The most important reason for this is that the UNGPs very clearly state that it is a company’s responsibility to respect, at the very least, human rights as defined in the International Bill of Human Rights and the fundamental rights set out in the ILO’s Declaration on Fundamental Principles and Rights at Work. These documents leave no room for interpretation: ‘Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection’.22 The UN Declaration of Human Rights also states: ‘Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control’.23 We have referred to the definition of the Dutch Social Economic Council (SER)24 in previous publications and this definition includes all these elements.

Using a definition of living wage that lacks one or more of the components inevitably leads to the problem that the concept of living wage tries to solve: workers earn too little to be able to afford the basic needs of human wellbeing and remain trapped in poverty. That is why we attach so much importance to the definition of living wage that we have included a specific question on it in our methodology.

Question 2: Living wage definition

Background
When reviewing the companies we have seen different terms and definitions of concepts comparable to living wage. We do not consider it very important what term a company uses to explain its understanding of a wage that is enough for workers and their families to live on. It is important though, for us to see that all the elements are included in the definition. These elements are explained in our methodology.

Key observations question 2

The first positive observation is that all companies that have a living wage policy also explain what they mean by a living wage. Almost all the companies under review are either in the developing phase or in the maturing phase as regards the definition of a living wage. The difference between the two phases is that companies in the maturing phase include a family component in their definition.

A second observation is that in some cases there is a discrepancy between a company’s own definition of a living wage and the definition of the multi-stakeholder initiative

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22 Universal Declaration of Human Rights, article 23.3
23 Universal Declaration of Human Rights, article 25.1
(MSI) in which it participates. Although some of the companies responded that they do adhere to the MSI’s definition, we have not awarded points for referring to this definition of an external party. We want the companies under review to use the definition in their own documents to explicitly express to all stakeholders what exactly they have identified as a salient human rights issue and what it is they are trying to remediate.

A third observation is that there is no company in this review that uses a definition in its own documents in which all necessary elements of a living wage are included. What does this mean? An incomplete definition of living wage could seriously jeopardise the effectiveness of the living wage due diligence of the companies under review. If a company focuses its efforts on solving an issue that it has defined in an incomplete way, it runs the risk of ineffectively mitigating the negative impact on workers. The most important element that is missing from the definition of companies that are in the developing phase is the family component. This is a crucial element as workers in manufacturing countries often have a substantial number of dependents.

Recommendations question 2
We recommend that the companies under review:
- Use a definition of a living wage that includes a family component and also explains the food and non-food costs that a worker should be able to cover with a living wage.
- Explicitly mention and use the definition of the MSI in which the company participates if that is the definition the company actually uses. If a company believes the MSI’s definition is not explicit enough, it should go beyond this definition.
Introduction
The second element of the management of salient issues as set out in the UNGP Reporting Framework refers to stakeholder engagement. Engaging with stakeholders can add to a company’s understanding of the salient issues, can inform the company of the concerns of (potentially) impacted stakeholders and can inform the company about measures that can mitigate or prevent the (potential) impact on workers human rights. The most important stakeholders with regard to any salient issues are those that are (potentially) impacted or those that represent the (potentially) impacted.

This is why labour unions are, with regard to living wages, one of the most important stakeholders for companies to engage with. This could be either through a bilateral engagement or through a global union or an MSI. MSIs exist in different compositions but often bring together the private sector, civil society, trade unions and governments. Working together is key as these issues cannot be tackled individually. Companies tend to refer to national minimum wage levels or industry averages for competitive reasons; governments are reluctant to raise wage levels because they do not want companies to move production elsewhere and civil society is urging both sides to raise wage levels. Because there is no (internationally) enforceable policy, a governance gap exists with regard to a living wage. It is in this context that the work of MSIs on living wages is extremely important and companies are encouraged to join and actively participate in these initiatives.

Question 3: Engagement
Background
This question pays particular attention to whether the company has joined an MSI working on living wage, the role the company plays in this MSI, the benefits it derives from the collaboration and how it knows that the collaboration has a beneficial effect on the negative impact it seeks to mitigate through the collaboration. Examples of MSIs and other expert organisations such as global unions that we have awarded points for are the FLA, ACT, ETI, FWF, ILO Better Work, IndustriALL and Amfori/BSCI.

Key observations question 3
The results show that the companies under review are in different development phases regarding stakeholder engagement. All companies have identified some of the relevant stakeholders or stakeholder groups and almost all companies have also joined a relevant MSI. Given the governance gap that exists on living wages, this is something we consider very positive.

However, only being a member of an MSI without active involvement will not bring about any change. To have a learning curve on the issue and to progressively mitigate
the impact on workers a company needs to be an active member. That is why we have looked at whether the companies under review describe the benefits of their membership and how they know that the collaboration has a positive impact on workers. As the results show, most companies describe the benefits for them of their membership, but do not articulate the positive effect it has on those that are impacted. We realise that positive impacts on workers are not achieved overnight. Minimum wage levels are set by governments and need to go through legislative processes and wage setting mechanisms, and collective bargaining processes also require time to bring results. But MSIs can offer other ways for companies to create a positive impact. For example, MSIs can help with understanding and mitigating the impact of a company’s purchasing practices. MSIs can also help a company with wage data collection upon which companies can act, or can help with designing and developing pilot projects to generate a higher income for workers.

We would like to motivate companies to be more transparent about the benefits to workers of their membership of an MSI. This includes, among other things, reporting on the data that is collected in MSI projects. Ultimately, we hope that the companies under review will undertake a deeper engagement with MSIs and other relevant stakeholders in order to develop and share knowledge and to use the often tripartite composition of these organisations to progress to wage levels that approach living wage estimates.

**Recommendations question 3**

Based on the results of the companies under review on this question, we recommend that companies:

- Explain in detail the benefits of the collaboration on wages and the positive impact this has on (potentially) impacted stakeholders.
- Integrate the views of stakeholders into internal discussions and decisionmaking procedures on living wages.
- Increase transparency of the way stakeholders are engaged and how their views are integrated.
Introduction
The third step in the UNGP due diligence process is the assessment of any changes in the potential severity or likelihood of the impact. Identifying the involvement in the payment of wages lower than a living wage requires different steps. The first and most obvious is the collection of data on wages paid at supplier facilities. Without this information a company cannot identify its impact and unless this is reported, an investor will be unable to assess an investee’s exposure to human rights risks. Specifying the wages paid at supplier facilities should therefore be a key element of a company’s human rights reporting.

Another important step is the monitoring of the development of other relevant wage levels (i.e. minimum wage, industry average, collective bargaining wage, etc). This gives an indication of how the wages paid at supplier facilities relate to other wage levels. Particularly important in this regard is to compare wages paid with living wage estimates. This provides insights into the extent of the wage gap and gives a good indication of the severity of the issue.

Question 4: Assessing impacts

Background
To identify wage gaps, companies should have in place processes to collect wage data from their different sourcing countries and to compare this data with living wage estimates for the corresponding country or region. As both the wage levels paid at production facilities and living wage estimates in the geographic regions of those facilities are subject to change, companies are expected to monitor the wage gap and to report on it. As will also be discussed in the section on transparency later in this chapter, the number of companies reporting on wages paid at facilities in sourcing countries is very limited. There are no companies referencing living wage estimates and publicly reporting on wage gaps.

Key observations question 4

In a small majority of the companies under review we only found limited evidence that the company identifies and assesses its involvement in paying wages lower than a living wage. On the one hand, this indicates that almost all companies identify their involvement in the issue at least to some degree. On the other hand, the evidence indicates that most of these companies are still far away from knowing exactly what their involvement is (i.e. little to no reporting on wages paid at supplier facilities or identified wage gaps). Lacking this exact knowledge leaves a company unaware of where and how it fails to meet its responsibility to respect human rights. This could, in turn, also lead to a lack of implemented actions to mitigate the impact or to the implementation of ineffective measures to mitigate the impact.

Where the companies under review are beyond the developing phase, we found more detailed evidence of the identification of wage gaps and the impact that these wage gaps have on workers’ lives. Interesting observations on
these companies include the engaging of an external assessor to study the impact of wages lower than a living wage on workers and collaborating with an MSI to assess the impact. As companies may lack specific knowledge on the dynamics surrounding living wages in individual geographic contexts, these kinds of collaboration can be very important for assessing the adverse impacts.

**Recommendations question 4**

We recommend that the companies under review:
- Collect data on wages paid at supplier facilities and publicly disclose the information.
- Monitor the development of national minimum wage levels, industry average wages and collectively bargained wage levels and compare the wage paid at suppliers’ facilities to these wage levels.
- Use living wage estimates to determine the wage gap in the different sourcing countries/regions.

**Commentary Fair Wear Foundation**

Fair Wear Foundation has developed a Labour Minute Costing methodology, which provides guidance on using factory payroll data to calculate the total annual cost of living wage increases. Using this information, it is possible to evaluate the factory’s labour cost per minute. This is the factory’s ‘labour minute cost’. Based on this information, it is possible to calculate the living wage factor – the total amount of money needed to close the wage gap divided by the total capacity in minutes. This methodology is an important step forward for the garment industry, where numerous brands source in shared factories. Labour minute costing makes it possible for each brand to pay its share of wage costs, depending on the total time required to make its products.
Introduction
Integrating Findings is about the implementation of appropriate and effective controls and processes through which a company mitigates the adverse impact on human rights. Regarding a living wage in the garment sector, there are a few important characteristics that influence the kinds of actions that garment brands can and should undertake.

The first is that in the garment industry production is in most cases outsourced to third party suppliers. This means that garment brands have no direct control over working conditions at supplier facilities. At factory level, garment brands can therefore have an indirect positive impact on the wage level of factory workers through their purchasing practices and by providing training on social dialogue.

There are different aspects in the purchasing process through which a company affects a supplier’s ability to pay a living wage. Many of these are directly related to the negotiation process and the way a company cooperates with its suppliers. On the one hand, there is a direct financial element (i.e. what price does the brand pay for each piece? What are the payment conditions? Are suppliers paid on time, etc.?). On the other hand, there are a number of factors that create additional costs for suppliers, which are not always compensated for (e.g. short lead times, bad forecasting, late changes to orders, etc.).

The outsourcing of production also leads to a situation where suppliers do not only produce for one garment brand but for many. This reduces the leverage of individual brands over suppliers to improve working conditions. This is why the actions that garment brands undertake to improve working conditions at supplier facilities should go beyond the direct relationship with the supplier (i.e. cooperation at factory level). Garment brands should, wherever possible, also work together to increase leverage in order to positively impact the wages paid at supplier facilities. This kind of cooperation is referred to as cooperation at industry level.

The second characteristic is that wage levels are not only determined by suppliers or by buyers and suppliers, but are also dependent on national wage levels and wage setting mechanisms. This brings in the country level. To enhance its efforts at factory and industry level and to create a level playing field in the industry with regard to wages, garment brands should engage with national governments to advocate higher national wage levels.

Question 5: Integrating findings

Background
The emphasis in question five of the methodology is on how companies, through their purchasing practices, can have a positive impact on a supplier’s ability to pay a living wage to its workers. We have chosen to place the emphasis on actions at factory level because this is the most direct impact that garment brands can have through their partnership with suppliers. Nevertheless, we have also awarded points for a company’s efforts at industry or country level.

Key observations question 5

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The table above shows the rating scale for different stages of development. Each stage is represented by an emoji that reflects the level of development in question 5: Integrating findings.
The results of question five of the methodology show that the majority of the companies under review have at least included living wages in the policies governing their own operations and supply chain. As production is outsourced, the supplier code of conduct can be considered the starting point for addressing living wages in the supply chain and for emphasising the importance of this to suppliers.

What is intriguing here is that only a minority of the companies actually assess their involvement in the payment of wages lower than a living wage (as explained under element C3). This indicates the difference between what we have observed as ‘hard’ and ‘soft’ requirements in buying companies’ supplier standards. Hard requirements are mandatory requirements and the failure of a supplier to comply with them may lead to the termination of the contract. We observed that in most companies’ approaches to wages, the minimum wage is the hard requirement and a living wage is the soft requirement. If, for example, a company conducts social compliance audits, it checks for compliance with minimum wage levels. This means that, with regard to living wages, companies use their supplier code of conduct primarily as a tool to express the importance they attach to the subject and not as a means to assess suppliers’ performance.

A positive observation from the results is that most companies go a step further than only including living wages in the supplier code of conduct. The companies in the maturing phase have provided evidence of responsible purchasing practices. This implies an awareness of the adverse impacts that companies (can) have on a supplier’s operations and on the human rights of the workers employed by that supplier. We found evidence of purchasing practices that range from capacity building training and processes to minimise late changes to orders to sufficient lead times and training of the buying company’s purchasing officers on living wage.

The ultimate goal of responsible purchasing practices would be that companies integrate living wage estimates into their pricing model. We do, however, recognise that workers are only likely to benefit from higher prices if companies collaborate at industry level and at country level. Progress on the issue therefore depends on simultaneous progress at these three levels.

Recommendations question 5
We recommend that the companies under review:
- Seek active collaboration with stakeholders at factory level, industry level and country level to advance the case for a living wage.
- Improve purchasing processes to decrease negative impacts on a supplier’s operations and on workers’ human rights.

Commentary Fair Wear Foundation
Fair Wear Foundation believes that improving conditions for garment factory workers requires change at multiple levels. Traditional efforts to improve conditions focus primarily on the factory. FWF, however, believes that the management decisions of clothing brands have an enormous influence on factory conditions. In other words, factory conditions cannot be separated from the purchasing practices of brands.
Introduction
Tracking the effectiveness of the measures that a company has implemented to mitigate the impact it has identified is almost the last step in the due diligence process as explained in the UNGPs. By reporting on its performance, a company can signal to all stakeholders that it is working on reducing its human rights risks and how successful it is in this. As an investor, this is the information we need in order to assess the robustness of the processes an investee company has in place to mitigate its exposure to human rights risks.

A tool widely used by companies to track their performance and to signal their social responsibility to stakeholders is the social compliance audit. However, in many cases these audits have not significantly improved working conditions for factory workers. Merely checking minimum wage compliance will not lead to higher wages for workers. To advance towards the wage levels to which workers are entitled, companies first need to understand the root causes of the problem and this requires deep and meaningful engagement with suppliers and other stakeholders that goes beyond audits.

Question 6: Tracking performance

Background
The key performance indicator with regard to living wage is the wage level of factory workers. Measures to mitigate the adverse impact on workers’ wages should have a positive impact on the wages paid and should in the end contribute to closing the wage gap. But as explained under element C4, wage levels are the result of different interrelated processes at three levels and are in part beyond the garment brands’ ability to exert leverage for positive change. That is why we have looked for evidence from any indicator that rates the effectiveness of any measure that potentially influences a supplier’s ability to pay a living wage (as explained in our methodology).

Another element we have included in this question is whether the views of external stakeholders have informed the company on the effectiveness of the measures it has implemented. Many social issues are difficult to quantify and data often need interpretation before being understood. External stakeholders can play an important role in informing a company on the dynamics behind the data. Furthermore, these external stakeholders can also advise a company on the next steps it could take based on the findings.

Key observations question 6

In the case of most of the companies under review, we have found some evidence of tracking the performance of the integrated measures. In most cases MSIs have provided companies with indicators that address the issue of living wages and companies have reported some evidence of using these indicators. A small number of companies have reported evidence of own processes to track the effectiveness of their measures to mitigate the impact on workers’ lives.
As offset out in the UNGP Reporting Framework, the engagement of stakeholders can also have great benefits for companies with regard to performance tracking. Stakeholders can keep a company appraised on the effectiveness of the implemented measures, can assist in interpreting the results of the data collection processes and can advise on actions that companies could take. We found, however, little evidence that stakeholders have informed companies on the effectiveness of the measures that companies have implemented.

We also found limited disclosure of the results of the tracking process and of what companies have done to act upon the results. Disclosing this information is an opportunity for companies to signal the positive effects of the measures they have implemented to mitigate their impact on workers’ lives. We therefore want to encourage companies not only to track their performance in a way that is more comprehensive than social compliance audits but also to report on this process and on the results of this process in a meaningful way.

**Recommendations question 6**

We recommend that the companies under review:
- Increase transparency on the way the effectiveness of implemented actions is measured. Disclosure of the indicators used in this process and of the results, increases investors’ ability to assess the extent to which investees can actually mitigate the impact of their business operations on workers’ lives.
- Engage with stakeholders to increase the effectiveness of the implemented measures.
Introduction
Access to remedy for those impacted is the third pillar of the UNGPs and this is a key element of corporate responsibility to respect human rights: ‘Where a business enterprise identifies such a situation, whether through its human rights due diligence process or other means, its responsibility to respect human rights requires active engagement in remediation, by itself or in cooperation with other actors’. Grievance mechanisms can, when they meet the requirements as explained in the UNGPs, be an effective way to identify adverse impacts and to provide remedy to the people that are impacted.

The UNGP Reporting Framework includes remediation as element C6 of the framework. When companies report on this element, it is important that they are transparent about the complaints procedures they have in place, the way the company knows that people feel empowered to submit complaints and the way it processes complaints. Within the bounds of confidentiality, companies should report the number and type of complaints it has received, how they have assessed the complaints and in the case of remediation the form of remediation provided.

Question 7: Remedy
Background
It is clear that in most garment producing countries it is normal that wages are too low to live on. If something is normal the likelihood of workers complaining about it is questionable. This is especially the case when workers (and their dependents) heavily rely on their jobs. In many of the garment producing countries the garment industry is a key sector of the economy. The likelihood of submitting complaints about wages that are too low is further reduced when workers have few alternative means of employment. It is for this reason that we have included in this question an indicator of whether a company promotes the availability of its grievance mechanisms to those that are potentially impacted. This is defined as accessibility in the UNGPs and it is an important requirement for the effectiveness of grievance mechanisms.

Key observations question 7
A positive observation is that all the companies under review have in place a grievance mechanism through which complaints related to human rights can be submitted. However, in half of the cases this mechanism is only open to internal stakeholders and/or the companies have no processes in place to independently assess complaints. As explained above, most garment brands outsource manufacturing to third party suppliers. This means that if garment brands have the responsibility to respect the human rights of factory workers in their supply chain, they should also allow these people (and other external stakeholders) to submit complaints against them. This is a key component of human rights due diligence as explained in the UNGP framework.

Once grievance mechanisms are open to external stakeholders (e.g. factory workers) they should also be accessible to them. We consider it positive that some of the companies

that have opened up their grievance mechanisms to external stakeholders also report evidence of the promotion of their grievance mechanisms at supplier facilities. We encourage companies to continue to do this and to explicitly make clear to all stakeholders that these complaints channels can be used to submit complaints related to human rights and living wages.

Another observation ensuing from the results is that a majority of the companies under review are not transparent about the way their grievance mechanisms are used. Companies could, for example, report the number of complaints received, the subject of the complaints and how the company has assessed the complaint. This is an opportunity for companies to signal their accountability to stakeholders and to become informed on the issues that their workers are confronted with and on which they could use their leverage to address. We have found little evidence of this and companies that are transparent are currently considered exponents of best practices in the sector with regard to remedy.

**Recommendations Question 7**

We recommend that the companies under review:

- Extend the scope of grievance mechanisms to external stakeholders and make sure that complaints are independently assessed.
- Promote the availability of grievance mechanisms to all relevant stakeholders and explicitly explain the appropriateness of these mechanisms for human rights and living wage complaints.
- Increase transparency with regard to the way grievance mechanisms are being used and how the company has responded to the complaints it has received.
Introduction
Transparency is an underlying element in the UNGP Reporting Framework. We therefore choose to give transparency special attention in our final question. Transparency is absolutely essential for companies to show how they fulfil their responsibility to respect human rights: ‘The responsibility to respect human rights requires that business enterprises have in place policies and processes through which they can both know and show that they respect human rights in practice. Showing involves communication, providing a measure of transparency and accountability to individuals or groups who may be impacted and to other relevant stakeholders, including investors.’

Companies often indicate the challenge that the reporting of non-financial information can pose to them. In contrast to financial reporting, meaningful regulatory requirements for non-financial reporting only started to appear in recent years. Most prominent in this regard is the EU directive on non-financial reporting, which requires large public-interest companies in the European Union to disclose information on ESG. Official EU guidance on this directive publicly recommends that companies use the UNGP Reporting Framework. Creating convergence in reporting standards eases the burden on companies to report on non-financial metrics and this was an important reason for us to align our methodology with the UNGP Reporting Framework. In addition to these regulatory developments, private initiatives like the SAC’s Higg Index also aim to converge the different approaches to disclosing non-financial information.

We recognise the data challenge for garment companies. However, as we have identified a living wage as a salient issue of companies in this industry, it is fair to say that companies should not only prioritise their means and efforts on this issue, but should also prioritise transparency accordingly. Supplier lists, wage data and wage gaps (to name a few examples) are essential information for investors to assess how well a garment company mitigates its impact on workers with regard to a living wage. This information should therefore be made available to investors and other interested stakeholders.

Question 8: Transparency

Background
In the last question we awarded points for nine different elements, as explained in our methodology. Some of these elements were already touched on in the previous questions (e.g. information about responsible purchasing practices). However, with this question we want to make clear how important transparency is for assessing a company’s performance on managing its salient human rights issues. Without this information, it is impossible, for us, as an investor, to have idea clear view of the risks to which a company believes it is exposed, the degree to which it is exposed and what it is doing to prevent the exposure or mitigate the impact.

Besides the information that has been included in previous questions, there are also some new elements in this question. We have awarded points, for example, for being transparent on manufacturing locations, types of contracts with suppliers, wage data, and the number of living wage complaints the company has received. These data are crucial for assessing the impact of the company’s operations on the wages paid to factory workers (i.e. for identifying the wage gap) and for tracking the effectiveness of the measures the company has implemented to remediate the impact. In contrast to the other seven questions, there is no build-up in the indicators as regards the kind of information that companies report. We have merely looked at the number of elements that companies report on.
Several companies under review report evidence of elements that we have identified as important with regard to a living wage. One element about which most companies are transparent and that we highly value is the suppliers they use and the geographic location where these suppliers are to be found. This is an important step towards identifying the countries and regions where companies source and towards identifying the human rights risks to which a company is potentially exposed.

We have found little evidence of factors relating to wages (i.e., types of contracts, overtime, collective bargaining mechanisms, etc.). These are important for understanding the context in which factory workers exist and the influence this can have on wage levels at the factory. This is also important information for the company to have and to use when deciding on the purchasing practices that it wants or needs to modify in order to enable suppliers to pay their workers a living wage.

Another finding is that companies report very little evidence of the wages that are paid to workers at supplier facilities and we have found no evidence of the identification of wage gaps. Some companies have reported that they are working on this and we see this as a hopeful signal for the future. Identifying wage gaps gives the company and other stakeholders a good sense of the severity and likelihood of the problem and creates urgency to effectively address the problem and restore workers’ basic human rights. Increasing transparency on the wages paid at supplier facilities and connecting these wages to living wage estimates is therefore an important next step towards the payment of living wages.

**Recommendations question 8**

We recommend that the companies under review:
- Increase transparency regarding wage data at supplier facilities and wage gap analysis of the individual sourcing countries.
- Increase transparency regarding supply chain regions and key suppliers.
- Increase transparency regarding ownership of living wage ambition in the company.
6. Engagement and final remarks

Process based engagement
As mentioned throughout this report, we see the deep dive on the right to a living wage in the garment sector as a process-based, forward looking project with the emphasis on qualitative research. For us, the 14 reviews are a means to an end, not a goal in itself. By this we mean that the annual reviews are only the starting point of our engagement with PLWF. As we acknowledge the non-mechanical, complex qualities of human rights in international supply chains, we want to engage with our investee companies in a meaningful, less technical way.

To this end, we decided on an engagement strategy that exemplifies a process-based movement forward between now and the years to come. The figure below shows that we will put the emphasis on policy (C1) in the first few years, gradually increasing the weighting system within the methodology, so that the emphasis shifts to practice (C4 and further) in the mid to longer term. Note that ASN Bank, in particular, has embraced this approach, but that individual members of the PLWF will decide for themselves in which timeframe they expect certain results.
Nevertheless, within the PLWF, we are setting a few ground rules in a terms of reference (ToR) document, so that we do commit as a group to a joint multiple year strategy for living wage engagement. Next year, we will be exploring innovative ways to not only give investee companies the chance to discuss the review results with us, but also to get to know them better, as well as the obstacles they face in realising living wages in supply chains. We will do our utmost to support companies and other stakeholders in moving forward on this topic. This means a continued collaboration with the relevant MSIs, governmental bodies and experts.

Innovation for us means that we are open to exploring alternative routes to living wages, for example involving customers more and researching ways to increase the spending power of workers outside of regular wage systems. Innovation to us also means that we stay away from obligatory engagement calls with a pre-set outcome and instead invest in real relationships with investees by visiting headquarters and factories in-country to get a better feel for what investees are doing, what works and what doesn’t.

We will continue reviewing the investee companies annually, as we believe solid research and independent assurance are the foundations of the engagement trajectory. As other members of the platform are already applying the methodology to new companies and also redrafting it to fit other sectors, we are confident that this collaboration has all the ingredients to be successful. If, however, we encounter difficulties in making progress, we will not shy away from asking for help or adjusting strategies.

New thinking
We would like to end this report by first and foremost thanking the garment companies with whom we are engaging. We would like to thank them for their openness, trust and patience when continuously answering our questions and engaging in a dialogue with a growing number of financial institutions under the PLWF umbrella. We are also grateful that so many financial colleagues have taken an interest in the living wage issue, developing their own set of questions and strategies.

Many thanks to Richard Karmel (Mazars), Mardi Smid (Mazars), Daniel Pearson (Mazars) and Anne van Lakerveld (FWF) for their invaluable feedback and input. Our living wage project, including this report, would not have been the same without their expertise and drive to challenge us sometimes and make it better. We look forward to continuing this work and finding ever-better solutions to a problem that is vast, but not unsolvable. We may just need to start looking at it from different perspectives, following the advice of Albert Einstein, who famously said:

'We cannot solve problems by using the same kind of thinking we used when we created them.'
7. Appendices

A. New Living Wage Methodology
B. Example of the Excel Rating Sheet (blank)
C. The Assurance Governance Memo
D. All Sources and Contacts
E. PLWF Strategy Paper
F. PLWF Launch Programme
A. New Living Wage Methodology

ASN Bank
Introduction to the new Living Wage Methodology
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ASN Bank first introduced its living wage methodology and rating system in 2016. Its objective is to encourage those garment companies in whom ASN Bank invests to strive to pay living wages both in the manufacturing arms of their own organisations and in the whole of their manufacturing supply chain.

Since the introduction of our methodology it has become clear that the UN Guiding Principles and the related Reporting Framework (www.UNGPreporting.org, co-authored by Mazars and Shift) have become the authoritative guidance and best practice for companies to address their respect for human rights on the most salient issues (see the definition at www.UNGPreporting.org).

Given that, as an investment bank, we believe there is a rebuttable presumption that the living wage should be a salient issue for all garment companies, we have taken this opportunity to align our methodology more closely with that of the UNGP Reporting Framework. Parts C1 to C6 of the UNGP Reporting Framework set out a logical process for garment companies to follow in order to best address and positively impact the payment of a living wage.

As a bank, we recognise that it is a journey for garment companies to put into practice the full implementation of a living wage. It is unlikely that companies will be able to move from current wage levels to that of a living wage in the short to medium term. However, we aim to influence the speed and momentum of the move to the implementation of a living wage. Accordingly, the questions we use to rate garment companies, at least for the next two years, should act as a guide as to what good performance looks like. We anticipate that, over a period of time, these questions may become more detailed as best practices continue to evolve.

We do not seek to increase the workload of garment companies by asking them to provide information that should not already be available to them. Given that the living wage should be a salient issue, the information we require, as set out in the questions, should already be publicly reported. However, we recognise that meaningful reporting on human rights is in its infancy. Accordingly, as part of the process of obtaining relevant information to rate these companies, we contact them on an individual basis to request information that we were unable to find in the public domain. This will help us to gain a better understanding of where these companies stand on their journey to a more widespread payment of a living wage.

As with our earlier ratings, we are looking to rate the garment companies for performance within the manufacturing arms of their own organisations and then separately on their manufacturing supply chains. We intend to separate our rating conclusions for both areas to increase the levels of transparency on how we perceive companies.

Lastly, we are implementing two further changes compared to previous years:

1. In order to recognise that most companies are only at the beginning of their living wage journey, we weight the questions as follows:
   - Questions (1) to (3) = 60%
   - Questions (4) to (7) = 28%
   - Question (8) = 12%

   We anticipate that, as we see improvements, we will progress the weightings to increase the significance of certain questions. We will also update the questions as best practices evolve and based on company feedback.

1 ASN Bank is not prescribing only one living wage estimate as being the correct benchmark, but expects companies to disclose their own definition.
2. Rather than concentrating on the specific score, we group companies into four categories based on where we perceive them to be on their journey to implementing a living wage. These four categories are: embryonic, developing, maturing and leading. Definitions for each of these categories can be found below.

**Embryonic:** The company has barely recognised the importance of a living wage and has not articulated the benefits for itself or more widely.

**Developing:** The company recognises that the payment of a living wage is an issue but there is no formal process to tackle it within its own manufacturing arms or those within its supply chain and there is little evidence of improvement.

**Maturing:** The company recognises that the payment of a living wage is a salient issue and has formal processes in place to address it. There is evidence of improvement in high-risk areas.

**Leading:** The company believes that payment of a living wage is a salient issue and is important for its wider strategic intent. It has effective processes in place to ensure progress to widespread payment of a living wage in its own manufacturing arms or those within its supply chains. The company is seen as a leader and acts as a catalyst for other organisations to strive to pay a living wage.
<table>
<thead>
<tr>
<th>Overarching position</th>
<th>Questions</th>
<th>UNGP RF ref</th>
<th>Weighting</th>
<th>Question Number</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy</td>
<td>Is there a specific living wage policy or statement?</td>
<td>C1</td>
<td>20%</td>
<td>1</td>
<td>5 Points 1. The company has a formal policy, or detailed statement, that addresses the living wage issue in its own manufacturing operations (where applicable) and it is clearly addressing manufacturing operations in its supply chain. 2. The company identifies a living wage as a salient/paramount issue. 3. The company ensures that the living wage is addressed at Board level and that there is Board level commitment to implementing a living wage. 4. The company states that it adheres to relevant international human rights standards to address this issue. 5. It is clear that those who are implementing the policy or statement operationally understand the importance of a living wage and the business rationale, e.g. through training.</td>
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<td>4 Points 1. The company has a formal policy, or detailed statement, that addresses the living wage issue in its own manufacturing operations (where applicable) and it is clearly addressing manufacturing operations in its supply chain. 2. The company identifies a living wage as a salient/paramount issue. 3. The company ensures that the living wage is addressed at Board level and that there is Board level commitment to implementing a living wage.</td>
</tr>
<tr>
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<td></td>
<td>3 Points 1. The company has a formal policy, or detailed statement, that addresses the living wage issue in its own manufacturing operations (where applicable) and it is clearly addressing manufacturing operations in its supply chain. 2. The company has identified a living wage as a salient/paramount issue.</td>
</tr>
<tr>
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<td></td>
<td>2 Points 1. The company has a formal policy, or detailed statement, that addresses the living wage issue in its own manufacturing operations (where applicable) and it is clearly addressing manufacturing operations in its supply chain.</td>
</tr>
<tr>
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<td></td>
<td>1 Point The company refers to a living wage in its documentation but there is no formal policy or statement.</td>
</tr>
<tr>
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<td></td>
<td>0 points The company makes no reference to a living wage in its documentation.</td>
</tr>
</tbody>
</table>

| Policy              | Does the company formulate a definition for a living wage?                | C1          | 20%        | 2               | 5 Points The company has formulated a definition that includes all the elements of widely recognised definitions (Basic Needs for a person and his/her family, food and non-food costs, discretionary income) and articulates which elements it believes are included within Non-Food Costs as identified in the 2-point indicator. It also includes a vision on the relationship between excessive overtime and wages. |
4 Points The company has formulated a definition that includes all the elements of widely recognised living wage definitions: Basic Needs for a person and his/her family, food and non-food costs, discretionary income.

3 Points The company has formulated a definition that includes the fundamental elements of widely recognised living wage definitions, i.e. Basic Needs for a person and his/her family and discretionary income, but does not further explain food and non-food costs.

1 Point The company has formulated a definition that refers only to minimum wages or statutory compliance.

0 Points The company has not formulated any definition of wages.

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Engagement

What processes are in place to collaborate with others to help advance the payment of a living wage?

<table>
<thead>
<tr>
<th>Weighting</th>
<th>Question Number</th>
<th>Indicators</th>
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</thead>
<tbody>
<tr>
<td>C2</td>
<td>20%</td>
<td>3</td>
</tr>
<tr>
<td>5 Points</td>
<td>1. The company has identified relevant stakeholders, in particular trade unions or any other collective employee representation groups. 2. The company has joined more than one Multi-Stakeholder Initiative (MSI)¹. 3. The company has articulated how, through these collaborations, it is advancing the payment of a living wage to its supply chain. 4. The company has articulated how it knows that these collaborations are having a positive impact. 5. There is evidence that feedback from stakeholders has been fed into internal discussions and decision-making processes.</td>
<td></td>
</tr>
</tbody>
</table>

| 4 Points  | 1. The company has identified relevant stakeholders, in particular trade unions or any other collective employee representation groups. 2. The company has joined more than one Multi-Stakeholder Initiative (MSI)¹. 3. The company has articulated how, through these collaborations, it is advancing the payment of a living wage to its supply chain. 4. The company has articulated how it knows that these collaborations are having a positive impact. |

| 3 Points  | 1. The company has identified relevant stakeholders, in particular trade unions or any other collective employee representation groups. 2. The company has joined a Multi-Stakeholder Initiative (MSI)¹. 3. The company has articulated how, through this collaboration, it is advancing the payment of a living wage to its supply chain (see examples at question 5). |

<p>| 2 Points  | 1. The company has identified relevant stakeholders, in particular trade unions or any other collective employee representation groups. 2. The company has joined a Multi-Stakeholder Initiative (MSI)¹. |</p>
<table>
<thead>
<tr>
<th>Overarching position</th>
<th>Questions</th>
<th>UNGP REF</th>
<th>Weighting</th>
<th>Question Number</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>C3</td>
<td>7%</td>
<td>4</td>
<td>1 Point</td>
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<tr>
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<td>The company has identified relevant stakeholders, in particular trade unions or any other collective employee representation groups, and their importance but has not yet collaborated with them.</td>
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<td>0 Points</td>
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<tr>
<td></td>
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<td></td>
<td>There are no processes in place to collaborate with others.</td>
</tr>
<tr>
<td>Assessing Impacts</td>
<td>What processes does the company use to identify the impacts of paying wages below a living wage level as included in their policy or statement</td>
<td>C3</td>
<td>7%</td>
<td>4</td>
<td>5 Points</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1. There is evidence that the company has identified the nature of its involvement in paying wages below a living wage level throughout its own manufacturing operations or - if it does not have manufacturing operations of its own - through its supply chain. 2. The company is aware of any changes in wages (minimum wages, average industry wages, collective bargaining wages, etc.) that arose in the past year, through the use of government and other reliable data sources, for example, and it is monitoring the gap that exists between actual wages and living wage estimates. 3. There is evidence that either an internal audit team or an external assessor has been engaged to review the impact of paying wages below a living wage. 4. There is evidence that the company has obtained third-party information (e.g. from trade unions or any other collective employee representative group) to assess the impact of paying wages below a living wage level. 5. There is evidence that the company has assessed internal and external living wage data and is aware of the impact of the wage gap (e.g. impact of entrapment in the poverty cycle, excessive overtime, child labour).</td>
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<td>4 Points</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>1. There is evidence that the company has identified the nature of its involvement in paying wages below a living wage level throughout its own manufacturing operations or - if it does not have manufacturing operations of its own - through its supply chain. 2. The company is aware of any changes in wages (minimum wages, average industry wages, collective bargaining wages, etc.) that arose in the past year, through the use of government and other reliable data sources, for example, and it is monitoring the gap that exists between actual wages and living wage estimates. 3. There is evidence that either an internal audit team or an external assessor has been engaged to review the impact of paying wages below a living wage. 4. There is evidence that the company has obtained third-party information (e.g. from trade unions or any other collective employee representative group) to assess the impact of paying wages below a living wage level.</td>
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<td></td>
<td>3 Points</td>
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<td></td>
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<td></td>
<td>1. There is evidence that the company has identified the nature of its involvement in paying wages below a living wage level throughout its own manufacturing operations or - if it does not have manufacturing operations of its own - through its supply chain. 2. The company is aware of any changes in wages (minimum wages, average industry wages, collective bargaining wages, etc.) that arose in the past year, through the use of government and other reliable data sources, for example, and it is monitoring the gap that exists between actual wages and living wage estimates. 3. There is evidence that either an internal audit team or an external assessor has been engaged to review the impact of paying wages below a living wage.</td>
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<tr>
<td>Overarching position</td>
<td>Questions</td>
<td>UNGP RF ref</td>
<td>Weighting</td>
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<td>Indicators</td>
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</tr>
<tr>
<td>2 Points</td>
<td>1. There is evidence that the company has identified the nature of its involvement in paying wages below a living wage level throughout its own manufacturing operations or - if it does not have manufacturing operations of its own - through its supply chain. 2. The company is aware of any changes in wages (minimum wages, average industry wages, collective bargaining wages, etc.) that arose in the past year, through the use of government and other reliable data sources, for example, and it is monitoring the gap that exists between actual wages and living wage estimates.</td>
<td>C4</td>
<td>7%</td>
<td>5</td>
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<tr>
<td>1 Point</td>
<td>There is limited evidence that the company has identified the nature of its involvement in paying wages below a living wage level.</td>
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<tr>
<td>0 Points</td>
<td>The company does not have any formal processes in place for identifying the impact of paying wages below a living wage level.</td>
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</tbody>
</table>

Integrating Findings

<table>
<thead>
<tr>
<th>What action does the company take to progress the payment of a living wage?</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>5 Points</th>
<th>C4</th>
<th>7%</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. There is evidence that the company communicates within its own organisation the importance of paying a living wage. 2. There is evidence that the company communicates within its supply chain the importance of paying a living wage, e.g. through a code of conduct. 3. There is evidence of responsible purchasing practices, e.g. of the company having introduced capacity building training on social dialogue/collective bargaining. 4. There is further evidence of responsible purchasing practices, such as taking into account procurement measures enabling suppliers to uphold working conditions that support a living wage, e.g. providing enough lead time to orders (or changes to orders) so that work rosters can be rearranged without infringing other human rights. 5. There is comprehensive evidence of responsible purchasing practices, e.g. of the company having developed pricing models that account for the cost of providing a living wage, help set up wage management systems or help calculate labour minute costing for a living wage.</td>
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<table>
<thead>
<tr>
<th>4 Points</th>
<th>C4</th>
<th>7%</th>
<th>5</th>
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<tbody>
<tr>
<td>1. There is evidence that the company communicates within its own organisation the importance of paying a living wage. 2. There is evidence that the company communicates within its supply chain the importance of paying a living wage, e.g. through a code of conduct. 3. There is evidence of responsible purchasing practices, e.g. of the company having introduced capacity building training on social dialogue/collective bargaining. 4. There is further evidence of responsible purchasing practices, such as taking into account procurement measures enabling suppliers to uphold working conditions that support a living wage, e.g. providing enough lead time to orders (or changes to orders) so that work rosters can be rearranged without infringing other human rights.</td>
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<td>Overarching position</td>
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<td>Weighting</td>
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<tr>
<td>3 Points</td>
<td>1. There is evidence that the company communicates within its own organisation the importance of paying a living wage. 2. There is evidence that the company communicates within its supply chain the importance of paying a living wage, e.g. through a code of conduct. 3. There is evidence of responsible purchasing practices, e.g. of the company having introduced capacity building training on social dialogue/collective bargaining.</td>
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</tr>
<tr>
<td>2 Points</td>
<td>1. There is evidence that the company communicates within its own organisation the importance of paying a living wage. 2. There is evidence that the company communicates within its supply chain the importance of paying a living wage, e.g. through a code of conduct.</td>
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<tr>
<td>1 Point</td>
<td>There is evidence that the company communicates within its own organisation the importance of paying a living wage.</td>
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<tr>
<td>0 Points</td>
<td>There are no formal processes to ensure a living wage is paid and there is no evidence that this risk is being addressed.</td>
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<tr>
<td>Tracking Performance</td>
<td>What qualitative and quantitative indicators are used to monitor the effective implementation of the living wage policy or statement?</td>
<td>C5</td>
<td>7%</td>
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</table>

**Questions UNGP RF ref Weighting Question Number Indicators**
<table>
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<tr>
<th>Overarching position</th>
<th>Questions</th>
<th>UNGP RF ref</th>
<th>Weighting</th>
<th>Question Number</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Points</td>
<td>1. An MSI provides the company with appropriate qualitative and quantitative indicators to address living wage issues. 2. There is some evidence that the company uses indicators to track the effectiveness of its efforts.</td>
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<tr>
<td>1 Point</td>
<td>1. An MSI provides the company with appropriate qualitative and quantitative indicators to effectively address living wage issues. There is no evidence that the company uses indicators to track the effectiveness of its efforts. (Quantitative indicators could be: the number of minutes to manufacture a garment, the wage cost per minute, the % of a supplier’s business the company has (clue to leverage), wage ladders, rate of staff turnover, overtime levels, average industry wage rates. Qualitative indicators could be: identification of the stakeholder groups engaged with, articulation of the business rationale for a living wage, identification of the challenges of implementation, feedback from MSIs, improvement in quality of garments, etc.)</td>
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<tr>
<td>0 Points</td>
<td>The company has no data-collection processes or indicators.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Remedy</th>
<th>Through what means does the company receive complaints about non-payment of a living wage?</th>
<th>C6</th>
<th>7%</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Points</td>
<td>1. There is a formal mechanism by which the company can receive complaints (e.g. a telephone line/email operated by a third party or by an MSI). 2. This mechanism can be accessed by both internal and external stakeholders and the grievances are independently assessed. 3. There is evidence that such mechanisms are being monitored. 4. There is evidence that such mechanisms are being promoted and used (e.g. there is evidence of human rights-related complaints). 5. There is evidence that the company responds appropriately to all complaints and that effective remedy is provided.</td>
<td></td>
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<tr>
<td>4 Points</td>
<td>1. There is a formal mechanism by which the company can receive complaints (e.g. a telephone line/email operated by a third party or by an MSI). 2. This mechanism can be accessed by both internal and external stakeholders and the grievances are independently assessed. 3. There is evidence that such mechanisms are being monitored. 4. There is evidence that such mechanisms are being promoted and used (e.g. there is evidence of human rights-related complaints).</td>
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</tr>
<tr>
<td>3 Points</td>
<td>1. There is a formal mechanism by which the company can receive complaints (e.g. a telephone line/email operated by a third party or by an MSI). 2. This mechanism can be accessed by both internal and external stakeholders and the grievances are independently assessed.</td>
<td></td>
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</tr>
<tr>
<td>2 Points</td>
<td>1. There is a formal mechanism by which the company can receive complaints (e.g. a telephone line/email operated by a third party or by an MSI). 2. This mechanism can be accessed by both internal and external stakeholders and the grievances are independently assessed.</td>
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<tr>
<td>Overarching position</td>
<td>Questions</td>
<td>Weighting</td>
<td>Question Number</td>
<td>Indicators</td>
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</tr>
<tr>
<td>Transparency</td>
<td>How transparent is the company both publicly and further to information requests?</td>
<td>12%</td>
<td>8</td>
<td><strong>1 Point</strong>  There is a formal mechanism by which the company can receive complaints (e.g. a telephone line/email operated by a third party or by an MSI), but it is only internal and the grievances are not independently assessed.</td>
</tr>
<tr>
<td></td>
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<td></td>
<td><strong>0 Points</strong>  There are no formal processes for receiving complaints and no evidence that complaints have been received.</td>
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<tr>
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<td></td>
<td><strong>5 Points</strong>  The company provides all elements on publicly available sources.</td>
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<tr>
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<td></td>
<td><strong>4 Points</strong>  The company discloses &gt; 7 of the elements below in publicly available sources and all other relevant information is supplied upon request.</td>
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<tr>
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<td><strong>3 Points</strong>  The company discloses 6 to 7 of the elements below in publicly available sources and some additional, relevant information is supplied upon request.</td>
</tr>
<tr>
<td></td>
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<td></td>
<td><strong>2 Points</strong>  The company discloses 4 to 5 of the elements below in publicly available sources and little additional, relevant information is supplied upon request.</td>
</tr>
<tr>
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<td><strong>1 Point</strong>   The company discloses 1 to 3 of the elements below publicly but does not supply any information upon request.</td>
</tr>
<tr>
<td></td>
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<td><strong>0 Points</strong>  The company discloses minimal living wage information publicly and fails to address information requests in a meaningful way.</td>
</tr>
</tbody>
</table>
### Nine Elements to Question 8 above

<table>
<thead>
<tr>
<th>Number and geographic areas of the company’s own manufacturing operations and manufacturing operations in the supply chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage data in the company’s own manufacturing operations and manufacturing operations in the supply chain:</td>
</tr>
<tr>
<td>- National minimum wages</td>
</tr>
<tr>
<td>- Average industry wages</td>
</tr>
<tr>
<td>- Reliable living wage estimates</td>
</tr>
<tr>
<td>- Collectively bargained wages</td>
</tr>
<tr>
<td>Data about wage-related aspects in the company’s own manufacturing operations and manufacturing operations in the supply chain:</td>
</tr>
<tr>
<td>- Excessive overtime</td>
</tr>
<tr>
<td>- Types of contracts</td>
</tr>
<tr>
<td>- Freedom of Association</td>
</tr>
<tr>
<td>- Collective bargaining mechanisms</td>
</tr>
<tr>
<td>Information about responsible purchasing practices that enables management of manufacturing operations in the supply chain to pay a living wage (procurement, lead times, wage management systems, etc.)</td>
</tr>
<tr>
<td>Information about capacity building and training provided in the area of social dialogue/collective bargaining at the company’s own manufacturing operations and manufacturing operations in the supply chain</td>
</tr>
<tr>
<td>Information about length of relationship with key suppliers</td>
</tr>
<tr>
<td>Number of living wage grievances raised and plans to remedy</td>
</tr>
<tr>
<td>Name of Board member accountable for human rights/living wage implementation</td>
</tr>
<tr>
<td>The company has reported on other relevant initiatives and information that are driving the payment of a living wage throughout its own manufacturing base and supply chain.</td>
</tr>
</tbody>
</table>

¹ The reference to multi-stakeholder initiative (MSI) also includes industry initiatives and standard-setting organisations. Examples are Fair Labour Association (FLA), ACT, Ethical Trading Initiative (ETI) and Amfori.
### B. Example of the Excel Rating Sheet

<table>
<thead>
<tr>
<th>Overarching position</th>
<th>Questions</th>
<th>UNCP Reference</th>
<th>Weighting</th>
<th>Question Number</th>
<th>Indicators</th>
<th>Indicator achieved</th>
<th>Evidence</th>
<th>Reference</th>
<th>ASN Interpretation</th>
<th>Score</th>
<th>Weighed Score</th>
<th>Mazars Queries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy</strong></td>
<td><strong>Is there a specific living wage policy or statement?</strong></td>
<td></td>
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<td>5 Points: The company states its alignment with relevant international human rights standards to address this. It is clear that those who are implementing the policy or statement operationally understand the importance of a living wage and the business rationale eg through training.</td>
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<td>4 Points: The company ensures that living wage is addressed at Board level and that there is Board level commitment to implementing living wage.</td>
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<td>3 Points: The company identifies living wage as a salient / paramount issue.</td>
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<td>2 Points: The company has a formal policy or expanded statement, addressing living wage in their own manufacturing operations (where applicable) and it is clear that they are addressing manufacturing operations in their supply chain.</td>
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<td>1 Point: The company refers to living wage in their documentation but there is no formal policy or statement.</td>
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<td>0 Points: The company makes no reference to living wage in their documentation.</td>
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<tr>
<td><strong>Policy</strong></td>
<td><strong>Does the company formulate a definition for a living wage?</strong></td>
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<td></td>
<td></td>
<td>5 Points: The company articulates the elements that it believes are included within Non-Food Costs as identified in the 2 point indicator. It also includes a vision on the relationship between excessive overtime and wages.</td>
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<td>4 Points: Basic Needs for a person and his/her family, food and non-food costs, discretionary income.</td>
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<td>3 Points: The company has formulated a definition that meets the fundamental elements of widely recognized living wage definitions ie Basic Needs for a person and his/her family and discretionary income but does not further explain food and non-food costs.</td>
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<td>2 Points: The company has formulated a definition that covers Basic Needs for one person only. When adequately defined, the living wage definition should include Basic Needs for his/her family and provide for a level of discretionary income. Moreover, Basic Needs cover food and non-food costs. Non-Food costs include housing, clothing, education and healthcare.</td>
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<td>1 Point: The company has formulated a definition that refers only to minimum wages or statutory legal compliance.</td>
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<td>0 Points: The company has not formulated any definition on wages.</td>
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<td><strong>Engagement</strong></td>
<td><strong>What processes are in place to collaborate with others to help advance the payment of a living wage?</strong></td>
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<td>5 Points: There is evidence that feedback from stakeholders has been fed into internal discussions and decision-making processes.</td>
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<td>4 Points: The company has articulated how it knows that these collaborations are having a positive impact.</td>
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<td>3 Points: The company has articulated how, through this collaboration, it is advancing the payment of a living wage to their supply chain (see examples at question 5).</td>
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<td>2 Points: The company has joined a Multi-Stakeholder Initiative (MSI)</td>
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<td>1 Point: The company has identified relevant stakeholders, in particular trade unions or any collective employee groupings, and their importance has not yet collaborated with them.</td>
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<td>0 Points: There are no processes in place to collaborate with others.</td>
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<tr>
<td><strong>Assessing Impacts</strong></td>
<td><strong>What processes does the company use to identify the impacts of paying wages below a living wage as included in their policy or statement?</strong></td>
<td></td>
<td></td>
<td></td>
<td>5 Points: There is evidence that the company assessed internal and external living wage data and is aware of the impact of the wage gap. (eg. impacts of entrapment in the poverty cycle, excessive overtime, child labour)</td>
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<td>4 Points: There is evidence that the company obtained third party information (eg from trade unions or any other collective employee representative group) to assess the impact of paying wages below a living wage level.</td>
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<td>3 Points: There is evidence that either an internal audit team or an external assessor have been engaged to review the impact of paying wages less than a living wage.</td>
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</tbody>
</table>
### Integrating Findings

**What action does the company take to progress the payment of a living wage?**

<table>
<thead>
<tr>
<th>Points</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Points</td>
<td>1. There is comprehensive evidence of responsible purchasing practices, e.g., that the company has developed pricing models that account for the cost of providing a living wage, or they calculate wage management systems help.</td>
</tr>
<tr>
<td>4 Points</td>
<td>2. There is evidence of responsible purchasing practices, such as taking into account procurement measures that enable suppliers to uphold working conditions that support a living wage (e.g., providing enough lead time to orders or changes to orders) so that work rosters can be rearranged without infringing on human rights.</td>
</tr>
<tr>
<td>3 Points</td>
<td>3. There is evidence of responsible purchasing practices, e.g., that the company has introduced capacity building training on social dialogue/collective bargaining.</td>
</tr>
<tr>
<td>2 Points</td>
<td>4. There is evidence that the company communicates within its supply chain the importance of paying a living wage, e.g., through a code of conduct.</td>
</tr>
<tr>
<td>1 Point</td>
<td>5. There is evidence that the company communicates within its own organization the importance of paying a living wage.</td>
</tr>
<tr>
<td>0 Points</td>
<td>The company does not have any formal processes in place for identifying impacts of paying wages below a living wage level.</td>
</tr>
</tbody>
</table>

### Tracking Performance

**What qualitative and quantitative indicators are used to monitor the effective implementation of the living wage policy or statement?**

<table>
<thead>
<tr>
<th>Points</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Points</td>
<td>1. There is evidence that the use of this data is leading to positive changes, e.g., pilot projects in-country to work with suppliers and unions on raising wage levels or providing capacity building training.</td>
</tr>
<tr>
<td>4 Points</td>
<td>2. There is evidence that the views of external stakeholders have informed the effectiveness of the implementation of the living wage policy/statement.</td>
</tr>
<tr>
<td>3 Points</td>
<td>3. As well as the MSIs' provided indicators, the company also has reasonable data collection processes for qualitative and quantitative indicators.</td>
</tr>
<tr>
<td>2 Points</td>
<td>4. There is some evidence the company uses indicators to track the effectiveness of its efforts.</td>
</tr>
<tr>
<td>1 Point</td>
<td>5. An MSi provides the company with appropriate qualitative and quantitative indicators to effectively address living wage issues. There is no evidence the company uses indicators to track the effectiveness of its efforts. (Quantitative indicators could be: the number of minutes to manufacture a garment, the wage cost per minute, the % of that supplier's business the company has (due to leverage), wage ladder, rate of staff turnover, overtime levels, average industry wage rates. Qualitative indicators could be: identification of the stakeholder groups engaged with, articulation of the business rationale for a living wage, identification of the challenges of implementation, feedback from MSIs, improvement in quality of garments etc).</td>
</tr>
<tr>
<td>0 Points</td>
<td>The company has no data collection process or indicators.</td>
</tr>
</tbody>
</table>

### Remedy

**Through what means does the company receive complaints about non-payment of a living wage?**

<table>
<thead>
<tr>
<th>Points</th>
<th>Description</th>
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<tbody>
<tr>
<td>5 Points</td>
<td>1. There is a formal mechanism by which the company can receive complaints (e.g., telephone, line/email operated by a third party or by an MSi). 2. This mechanism can be accessed by both internal and external stakeholders and the grievances are independently assessed. 3. There is evidence that such mechanisms are being monitored. 4. There is evidence that such mechanisms are being promoted and used (e.g., there is evidence of human rights related complaints). 5. There is evidence that the company responds appropriately to all complaints and that effective remedy is provided.</td>
</tr>
<tr>
<td>4 Points</td>
<td>1. There is a formal mechanism by which the company can receive complaints (e.g., telephone line/email operated by a third party or by an MSi). 2. This mechanism can be accessed by both internal and external stakeholders and the grievances are independently assessed. 3. There is evidence that such mechanisms are being monitored. 4. There is evidence that such mechanisms are being promoted and used (e.g., there is evidence of human rights related complaints).</td>
</tr>
<tr>
<td>3 Points</td>
<td>1. There is a formal mechanism by which the company can receive complaints (e.g., telephone line/email operated by a third party or by an MSi). 2. This mechanism can be accessed by both internal and external stakeholders and the grievances are independently assessed. 3. There is evidence that such mechanisms are being monitored.</td>
</tr>
<tr>
<td>2 Points</td>
<td>1. There is a formal mechanism by which the company can receive complaints (e.g., telephone line/email operated by a third party or by an MSi). 2. This mechanism can be accessed by both internal and external stakeholders and the grievances are independently assessed. 3. There is evidence that such mechanisms are being monitored.</td>
</tr>
<tr>
<td>1 Point</td>
<td>1. There is a formal mechanism by which the company can receive complaints (e.g., telephone line/email operated by a third party or by an MSi). 2. This mechanism can be accessed by both internal and external stakeholders and the grievances are independently assessed. 3. There is evidence that such mechanisms are being monitored.</td>
</tr>
<tr>
<td>0 Points</td>
<td>1. There is a formal mechanism by which the company can receive complaints (e.g., telephone line/email operated by a third party or by an MSi). 2. This mechanism can be accessed by both internal and external stakeholders and the grievances are independently assessed. 3. There is evidence that such mechanisms are being monitored.</td>
</tr>
<tr>
<td>Transparency</td>
<td>How transparent is the company both publicly and further to information requests?</td>
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<tr>
<td>--------------</td>
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</tr>
<tr>
<td>5 Points</td>
<td>The company provides all elements on publicly available sources.</td>
</tr>
<tr>
<td>4 Points</td>
<td>The company discloses 7 of the elements below on publicly available sources and any remaining, relevant information is supplied when approached.</td>
</tr>
<tr>
<td>3 Points</td>
<td>The company discloses 6 to 7 of the elements below on publicly available sources and some additional, relevant information is supplied when approached.</td>
</tr>
<tr>
<td>2 Points</td>
<td>The company discloses 4 to 5 of the elements below on publicly available sources and little additional, relevant information is supplied when approached.</td>
</tr>
<tr>
<td>1 Point</td>
<td>The company discloses 1 to 3 of the elements below publicly but no information when approached.</td>
</tr>
<tr>
<td>0 Points</td>
<td>The company discloses minimal living wage information publicly and fails to address information requests meaningfully.</td>
</tr>
</tbody>
</table>

### Nine Elements to Question 8 above

<table>
<thead>
<tr>
<th>Elements reported</th>
<th>Link to information</th>
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<tbody>
<tr>
<td>Number and geographic areas of own manufacturing operations and manufacturing operations in supply chain.</td>
<td></td>
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<tr>
<td>Wage data at own manufacturing operations and manufacturing operations in supply chain:</td>
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<tr>
<td>- National minimum wages</td>
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<tr>
<td>- Average industry wages</td>
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<tr>
<td>- Reliable living wage estimates</td>
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<td>- Collectively bargained wages</td>
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<tr>
<td>Data about dimensions surrounding wage own manufacturing operations and manufacturing operations in supply chain:</td>
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<tr>
<td>- (Excessive) overtime</td>
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<tr>
<td>- Types of contracts</td>
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<td>- Freedom of Association</td>
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<tr>
<td>- Collective bargaining mechanisms</td>
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<tr>
<td>Information about responsible purchasing practices that enables management of manufacturing operations in supply chain to pay a living wage (procurement, lead times, wage management processes etc).</td>
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<tr>
<td>Information about capacity building and trainings provided in the area of social dialogue/collective bargaining at own manufacturing operations and manufacturing operations in supply chain</td>
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<tr>
<td>Information about length of relationship with key suppliers</td>
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<tr>
<td>Number of living wage grievances raised and plans to remedy</td>
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<tr>
<td>Name of Board member accountable for human rights/living wage implementation</td>
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<tr>
<td>The company has reported on other relevant initiatives and information that are driving the payment of a living wage throughout their own manufacturing base and supply chain.</td>
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</table>

1. The reference to multi-stakeholder initiative (MSI) also includes industry initiatives and standard setting organisations. Examples are Fair Labour Association (FLA), ACT, Ethical Trading Initiative (ETI) or Amfori.
C: The Assurance Governance Memo (3 April 2018)

1. Background
- ASN Bank formulated a long-term goal on living wage in the garment sector.
- In order to reach that goal, ASN Bank annually measures the original 14 garment companies that were in the ASN Investment Universe in 2016.
- In 2018, Mazars developed a new methodology to rate the original 14 garment companies on their efforts to help implement a living wage for workers in their supply chains.
- This new methodology is better aligned with international standards, in particular with the framework of the UN Guiding Principles for Business and Human Rights.
- ASN Bank management approved the new methodology on 12 March 2018.
- ASN Bank will share the new methodology with its partners in the Platform Living Wage Financials (PLWF).
- The ratings for 2018 will form the basis of our joint engagement strategy.
- Mazars will provide external independent assurance to our rating process. This memo sets out the assurance trajectory.

2. Assurance planning
- ASN Bank and Mazars will agree on the scope of the assurance engagement, i.e., Mazars will provide an assurance report in conformity with ISAE 3000 (assurance of historical non-financial information). Reasonable assurance will be provided on the ratings report prepared by ASN Bank. It will cover three main areas: - the robustness of the control process that resulted in the ratings being attributed to the 14 companies, - the reasonableness of the attributed ratings, based on the evidence provided, and - the mathematical integrity of the attributed weightings and the overall ratings.

3. Assurance Report
- Mazars will prepare a draft assurance report (in line with ISAE 3000) prior to commencement of the assurance process, and will confirm that such a report meets the needs of ASN Bank. The report will include the addressees, the process, the limitations and the conclusion (based on it being unqualified).

4. Preparation for the 2018 Rating
- ASN Bank will prepare Excel sheets that list the questions for each company according to the new methodology; they will include room for answers and evidence. However, it will also be possible to refer to another file if evidence is too extensive for the space on the company’s Excel sheet.
- ASN Bank has prepared a special inbox (the Sustainability inbox (sustainability@asnbank.nl) in which all communications with the 14 companies is stored. This inbox is accessible to the employees of the Sustainability department as well as the IT department.

5. Rating procedure
- Between April and June 2018, sustainability analyst Sjirk Prins and senior human rights advisor Irina van der Sluijs, will each rate seven garment companies. Together these comprise the 14 original garment companies.
- In that same period, PLWF partner MN will rate an additional eight brands on the basis of the same methodology. These will not yet get external assurance.
- Between April and June 2018, sustainability analysts Jonna Tjapkes and Margot Reijtenbagh of ASN Bank will read the 14 ratings and provide feedback after which the principal analysts (Sjirk and Irina) will discuss and adjust the ratings accordingly.

6. Assurance process
- In week 25 (18 – 22 June), ASN Bank will send the first two batches of ratings to Mazars for review.
- In weeks 26 and 27, Mazars will conduct assurance on the first two batches of reviews, based on information provided by ASN Bank.
- In week 28 (9 – 13 July), analysts Sjirk and Irina will visit Mazars’ office in London to go through the ratings and the assurance.
- In week 32, ASN Bank will send the last batch of reviews to Mazars to be discussed on 20 August.
- In week 34, assuming no issues, ASN Bank will formally approve their ratings report and Mazars will issue the final assurance report.

7. Retention policy
- ASN’s policy is to have data, documents and other records available for recovery for a period of seven years.

- We also envisage cross-referencing a few ratings with analyst Kristina Stonjeková of MN.
D: Sources and contacts

Note: During the review process we emailed or telephoned all 14 companies under review to ask for any further information that could help the rating score 2018. These contacts were logged in a separate inbox: sustainability@asnbank.nl.

The links included were correct at the time of our review, but may have been subsequently updated or superseded.

Adidas:
• Adidas 2020 Goals & Ambitions: https://www.adidas-group.com/media/filer_public/4c/b0/4cb0904ac9e4-48dd-b4d9-6b3676598a0e/adidas_group_sustainability_strategy_2020_goals_and_ambitions_eng.pdf
• Adidas Third Party Complaint Process for Breaches to the Adidas Group Workplace Standards or Violations of International Human Rights Norms, October 2014: https://www.adidas-group.com/media/filer_public/3a/a8/3aa87bcaf-9af9-477b-a2a5-100530e46b19/adidas_group_complaint_process_october_2014.pdf
• Summary of Third Party Complaints Handled by Adidas Group in 2016: https://www.adidas-group.com/media/filer_public/1f/db/1fd8b97b-4a50-4b6f-8b1d-e37a78a69b8/summary_of_human_rights_complaints_handled_by_adidas_group_in_2016.pdf
• E-mail exchange with Frank Henke of Adidas, 17, 23, 30 April and 12 July 2018

Asics:
• https://corp.asics.com/en/csr/partnering_with_our_supply_chain/transparency
• E-mail exchange with Mariella Noto of Asics, March, June and August 2018

Asos:
• https://www.asosplc.com/corporate-responsibility/our-products/ethical-trade-partnerships
• https://www.asosplc.com/corporate-responsibility/fashion-with-integrity/business-integrity
• https://www.asosplc.com/corporate-responsibility/our-products/sourcing-map
• https://www.asosplc.com/corporate-responsibility/our-products/ethical-trade-programme
• Email exchange with Adil Rehman on 28 March, 30 April and phone call on 17 April 2018

Esprit:
• Supplier code of conduct (page 7, section 8.6): http://www.esprit.com/press/sustainabilityreport/supplier-code-of-conduct.pdf
• http://www.amfori.org/content/bsci-code-conduct
• https://www.esprit.com/sustainability/people/living-wage/
• https://www.esprit.com/sustainability/overview/where-esprit-is-made/
• https://www.esprit.com/sustainability/yes-center/
• https://www.esprit.com/sustainability/people/womens-empowerment/
• Email exchange with Larry Brown of Esprit on 13 and 17 April 2018

GAP:
• GAP Code of Vendor Conduct, June 2016: http://www.gapinc.com/content/dam/gapincsite/documents/CodeofVendorConduct_FINAL.pdf
• http://www.gapincsustainability.com/strategy/our-sustainability-strategy/engaging-stakeholders
• http://www.gapincsustainability.com/node/75
• http://www.gapincsustainability.com/strategy/our-sustainability-strategy/acting-integrity
• http://www.gapinc.com/content/gapinc/html/aboutus/gapincexecutives/gapincexecutives.html
• No response to email for further information

Gildan:
• http://www.genuinegildan.com/eng/people/human-and-labour-rights/code-conduct/
• http://www.genuinegildan.com/en/company/reporting/
• http://www.genuinegildan.com/en/company/stakeholders-partners/
• http://www.genuinegildan.com/eng/people/social-compliance/methodology/
• http://www.genuinegildan.com/eng/people/social-compliance/findings/
• http://www.genuinegildan.com/eng/people/working-conditions/wages-benefits/
• http://www.genuinegildan.com/eng/people/working-conditions/grievance-mechanisms/
• http://www.genuinegildan.com/eng/people/working-conditions/employment-practices/
• http://www.genuinegildan.com/eng/people/working-conditions/unions/
• No response to email for further information

H&M:
• Progress group supplier factories, 2017: http://sustainability.hm.com/content/dam/hm/about/documents/masterlanguage/CSR/2017%20Sustainability%20report/Wage%20progress_180410_FINAL.pdf

Email contact with Hendrik Alpen of H&M, 24 April and 7 May 2018.

Inditex:
- Microsoft's Slavery and Human Trafficking Statement, 2016 (page 6): C:\Users\9405238\AppData\Local\Packages\Microsoft.MicrosoftEdge_8wekyb3d8bbwe\TempState\Downloads\Modern Slavery and Human Trafficking Statement FY2016 (1)
- No response to email for further information

KappAhl:
- https://www.ethicaltrade.org/
- Email exchange with Charlotte Hogberg of KappAhl, May and August 2018

Lojas Renner:
- No response to email for further information

M&S:
- https://corporate.marksandspencer.com/plan-a/clothing-and-home/supplier-management#5e0f41685c44b-59448c288af325641
- Conference call with Fiona Sadler of M&S, 22 May 2018
- E-mail contact with Fiona Sadler, 7 August 2018

Nike:
- https://sustainability.nike.com/human-rights
- https://investors.nike.com/investors/news-events-and-reports/Sustainability
- https://sustainability.nike.com/building-supplier-capabilities
- https://sustainability.nike.com/partnerships-collaborations
- https://sustainability.nike.com/learning-from-our-past
- https://sustainability.nike.com/sourcing-manufacturing-standards
- The Nike Code of Ethics, 2011: https://www.investors.nike.com/default.aspx?SectionId=ac8f2dc-4a08-4098-8f9e-ced4a21498&LanguageId=1
- http://manufacturingmap.nikeinc.com/
- Conference call with Shelly Hubbard of Nike, 16 May 2018

Puma:
http://about.puma.com/en/sustainability/strategy
No response to email for further information

Contact with (multi) stakeholder Initiatives, governmental and expert organisations:

- 16-1-2018, meeting with Roger Frank of Better Buying at ASN Bank
- 23-1-2018, call with Martin Curley of Fair Wear Foundation
- 24-1-2018, call with Jo Watson of AMFI-Amsterdam Fashion Institute
- 26-1-2018, call with Baptiste Carriere Pradal of Sustainable Apparel Coalition (SAC), MN, UNPRI, and Mirova
- 30-1-2018, talk with Marieke Weerdesteijn of Dutch Agreement on Textiles at the OECD Forum Paris – ASN is a supporter of the covenant.
- 30-1-2018, talk with OECD at the OECD Forum Paris – Irina van der Sluijs in Panel on LW
- 30-1-2018, talk with Jos Huber of the Netherlands Ministry of Foreign Affairs at the OECD Forum Paris
- 30-1-2018, talk with Tamar Hoek of Solidaridad
- 31-1-2018, talk with Matthijs Crietee of International Apparel Federation at the OECD Forum Paris
- 31-1-2018, talk with Alex Ivanco of the Czech Ministry at the OECD Forum Paris
- 31-1-2018, talk with Christina Raab of ZDHC Foundation at the OECD Forum Paris
- 31-1-2018, talk with Sarah Ditty of Fashion Revolution at the OECD Forum Paris
- 6-2-2018, meeting with Paulien Osse of Wage Indicator Foundation at ASN office
- 6-2-2018, call with Nicole Bigby of Risk at @ Berwin, Leighton, Paisner
- 7-2-2018, email contact with Lary Brown of ESPRIT
- 12-2-2018, call with Angela McClellan of Transparency International
- 13-2-2018, meeting with Tamar Hoek & Sophie Fonville of Solidaridad
- 20-2-2018, meeting with Maryse Hazielzet of NVB at NVB, Amsterdam
- 21-2-2018, skype meeting with Nino de Vries of InHolland / Esprit project
- 22-2-2018, meeting with Mihela Hladin Wolfe of Patagonia at Patagonia, Amsterdam
- 13-3-2018, meeting with Mireille Reij at NVB, Amsterdam – interview on LW for bank online
- 15-3-2018, skype meeting with Sioned Jones at The Circle NGO
- 26-3-2018, meeting with Frank Hoffer of ACT in the Hague
- 28-3-2018, call with Sarah Ditty of Fashion Revolution
- 2-4-2018, presentation at Symposium University Leiden – Sustainability at ASN with the focus on living wage
- 5-4-2018, SER Participation day – Irina van der Sluijs in panel on LW
- 16-4-2018, UNPRI webinar – Irina van der Sluijs in panel on LW
- 18-4-2018, call with Anna Pot of APG
- 14-5-2018, meeting with FLA at MN – living wage and FLA affiliates
- 17-5-2018, meeting with Susan van Kruisbergen of Sustainalize
- 21-5-2018, call with Renee Bowers of FLA
- 30-5-2018, call with Anne van Lakerveld of FWF – about partnership
- 6-6-2018, mtg with Irina vd Sluijs and Alexander Kohnstam of FWF at ASN Live, Breda
- 14-6-2018, mtg with Edwin Koster, garment and human rights specialist
- 9-7-2018, call with Elsa Biotière of Amundi asset management
- 11-6-2018, meeting with Ruben Korevaar of FNV at ASN office – living wage
- 3-7-2018, meeting with Stijn van Geel, Solidaridad – living wage
- 4-7-2018, meeting with Anne van Lakerveld, FWF
- 9-9-2018, assurance review day at Mazars London with Richard Karmel, Mardi Smid and Daniel Pearson
- 11-7-2018, call with James Coldwell, ShareAction
- 26-7-2018, meeting with Jos Huber, senior CSR advisor at Dutch ministry of foreign affairs
- 15-8-2018, meeting at Foreign Affairs on living wage and ILO
E. PLWF Strategy Paper

PLATFORM LIVING WAGE FINANCIALS (PLWF) STRATEGY PAPER

INTRODUCTION

Under the umbrella of the Platform Living Wage Financials (PLWF), financial institutions come together to encourage, support, assess, and monitor investee companies with regard to their commitment to paying a living wage to the workers in their supply chains. As recognized by, among others, the ILO and OECD, living wage is a fundamental human right. By engaging on living wage, we therewith honor our commitment to the United Nations Guiding Principles (UNGPs) and OECD Guidelines for Multinational Enterprises, wherein financials are asked to act with due diligence and to identify and mitigate salient human rights risks. In doing so, we also aim to help reduce poverty and stimulate economic growth.

In sectors that employ and rely on masses of manual labor, such as the garment and footwear, consumer electronics, food and beverage or retail sectors, wages are often insufficient to cover workers’ basic living expenses such as food, clothing, housing, health care, and education. Research shows these wages are often on the poverty line and well-below living wage estimates.

The benefits of paying a living wage are clear. Workers who earn a living wage can meet their own basic needs and those of their families as well as to put aside savings, thus being more likely to find their way out of poverty. They work regular working hours instead of excessively working overtime to make ends meet, and they are more likely to send their children to school instead of sending them to work. In short, our focus on living wage also advances the respect for a number of other fundamental human rights in global supply chains. It is also a concrete contribution to advancing the United Nations Sustainable Development Goals, specifically Goals 1: No poverty; and 8: Decent work and economic growth.

1 These can be banks, pension funds, asset managers, insurers, other (institutional) investors.

2 See for example data provided by Wage Indicator Foundation and the Global Living Wage Coalition.
As of 26 June 2018, the PLWF consists of 8 members: a.s.r., Achmea Investment Management, ASN Bank, Kempen Capital Management, MN, NN Investment Partners, Robeco and Triodos Investment Management who collectively represent over €725 bil. AUM. ABN Amro acts as a supporting party of the PLWF.

WHAT DO WE DO?

In the PLWF, we collaborate in three main areas:

1. **Methodology:** We apply a comparable rating approach to assess investee companies
2. **Engagement:** We coordinate our engagement strategy/collectively engage with investee companies
3. **Communication:** We jointly promote our work and inform stakeholders at (inter)national events

For that, we hold quarterly meetings in person and frequently coordinate via phone and e-mail.

WHY DO WE DO THAT?

We fully recognize that bundling our forces may have significant positive effects as we may allocate our resources more efficiently by sharing our workload and expertise. It also allows us to exercise more leverage so as to effectively influence investee companies to move forward on living wage. Furthermore, our experience shows that focusing on a single engagement topic makes for better engagement strategies. We also hear that the investee companies under our engagement welcome such a harmonized approach as that enables them to talk to us simultaneously, which is more efficient.

We increasingly recognize the benefits of investing in socially conscious brands. Companies that analyze and mitigate their human rights risks have a lower risk profile and healthier financial and overall policies, and they perform better across all Environmental, Social and Governance (ESG) metrics. Lastly, we find that ‘deep diving’ into one specific human right issue in a single sector has more potential for positive impact on the ground.

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3 Important stakeholders in the garment sector are: FLA, ETI, ACT, Amfori, SER Textile, Banking and Pension Funds Agreements (in Dutch: IMVO Convenanten), FWF, Better Buying, SAC/Higg, and so forth.
BACKGROUND

In 2016, ASN Bank published a baseline study on living wage and its 14 investee companies in the garment sector\(^4\). The garment sector was selected after a thorough due diligence process, analyzing salient risks in ASN Bank’s investment universe. The assessment showed mixed results with some frontrunners, some laggards, and a few companies in the middle. The initial methodology was adopted by MN and Triodos IM. Together, we started engaging with the brands and presenting our work externally.

In 2017, ASN Bank published a Living Wage Manual explaining the due diligence steps that companies can take to implement living wages in their own manufacturing operations and supply chains\(^5\). We, the three financials, continued the dialogue with the 14 brands on the basis of this manual throughout 2017. The 2017 rating showed some improvements with regard to setting an appropriate definition of living wage and a living wage policy, particularly on the part of the laggard companies.

PLAN 2018

EXPANDING

In Q1, we want to invite colleagues from other financials to join our platform (during a meeting on 7 March). We believe that we can increase our leverage, improve our engagement strategy, and increase our impact if we form a larger group that collectively gathers behind the living wage objective. Ideally, we would welcome if other financials join the ongoing engagement with garment sector companies to remain fully focused, but we are also open to cross-learn and reference other sectors (such as consumer electronics or food products).

RATING THE BRANDS

In Q2, we will start rating the brands according to the new methodology. We will cover the 14 brands that we started out with in 2016 and add more brands that feature in either of our members’ investment universes. Following this, we will contact the target companies to present the results of the progress review and continue the dialogue on the way forward. During these conversations, we will present the companies with concrete objectives to be achieved, while keeping individual company differences and progress achieved so far in mind.


GAINING AN INDEPENDENT EXTERNAL ASSURANCE
In Q2 and Q3, Mazars will guide us through the rating process so as to gain an independent external assurance at the end of the process. ASN Bank will write an assurance memo setting out the steps to be taken in that process.

STAKEHOLDER ENGAGEMENT
Throughout 2018, we will continue our dialogue with key stakeholders in the garment sector, such as the Dutch Agreement on Sustainable Garment and Textile (SER), Fair Labor Association (FLA), Sustainable Apparel Coalition (SAC), and the like. We also have the pleasure to work closely with our partner organization, the Fair Wear Foundation, to include their invaluable expertise in our work.

SETTING UP AN ADMINISTRATIVE FRAMEWORK
In 2018, the expected enlargement of the PLWF should entail:
- setting up a secretariat;
- draft a joint work plan for 2018-2020;
- coordinate the rating in Q2-Q3 (adopt the methodology and the assurance memo);
- present the results of the rating in Q3 (nationally at MN in The Hague on 27 September 2018 and internationally at the UN Business and Human Rights Forum in November);
- draft a joint engagement plan; and
- start engaging the brands in Q4.
F. PLWF Launch Programme

PLATFORM LIVING WAGE FINANCIALS
LAUNCH EVENT – 27 September 2018

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
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<tbody>
<tr>
<td>11:30-12:30</td>
<td>Lunch</td>
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<tr>
<td>12:30-12:35</td>
<td>Welcome by Bart Slob, moderator</td>
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<tr>
<td>12:35-12:50</td>
<td>Opening speech by Arie Koornneef, Director ASN Bank</td>
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<tr>
<td>12:50-13:15</td>
<td>Keynote address by Jessica Simor, QC, Matrix Chambers and leading member of The Circle NGO</td>
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<tr>
<td>13:15-13:50</td>
<td>PLWF introduction video</td>
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<tr>
<td>13:20-13:25</td>
<td>Introduction of the Platform members by the moderator</td>
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<tr>
<td>13:25-13:35</td>
<td>PLWF’s trajectory, achievements and company rating</td>
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<tr>
<td>13:35-13:50</td>
<td>Conversation with the Platform members and Q&amp;A</td>
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<tr>
<td>13:50-14:10</td>
<td>Coffee break</td>
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<td>14:10-15:30</td>
<td>The company perspective: What are the companies under engagement doing on living wage?</td>
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<tr>
<td>14:10-14:15</td>
<td>Company representatives share their perspective and progress on living wage:</td>
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<tr>
<td>14:15-15:10</td>
<td>• Fiona Sadler, Head of Ethical Trading at Marks and Spencer</td>
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<td>15:10-15:30</td>
<td>• Lary Brown, Vice President and Head of Global Social Compliance &amp; Sustainability at Esprit</td>
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<td>• Cecilia Tiblad Berntsson, Social Sustainability Manager at H&amp;M</td>
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<td>• Frank Henke, Global Director Social &amp; Environmental Affairs at Adidas</td>
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<td></td>
<td>• Alice Strevens, Head of Ethical Trade at Asos</td>
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<td></td>
<td>•反应 by Anne van Lakerveld, International Verification Coordinator at Fair Wear Foundation</td>
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### Collaborations on living wage: What are the ways in which companies can collaborate with all stakeholders to enhance the payment of living wage at the national, sectoral and supply chain level?

15:30-16:10

- **The moderator presents the panel members**
- **Panellists discuss collaborative efforts between brands and unions to raise wages of workers in international supply chains:**
  - Jenny Holdcroft, Assistant General Secretary at IndustriALL Global Union
  - Renee Bowers, Director of Accountability at the Fair Labor Association
  - Patrick Belser, Senior Economist and Wage Group Coordinator at the International Labour Office (ILO)
  - Frank Hoffer, Executive Director at ACT

16:00-16:10

- **Moderated discussion and Q&A**

16:10-16:30

- **Coffee break**

### The role of government: How can governments create an enabling environment and effective policy frameworks for the payment of living wages?

16:30-17:00

- **The moderator presents the panel members**
- **Panellists talk about what governments can do to create an enabling environment for companies that seek to improve wages in their supply chains:**
  - Jos Huber, Senior Policy Advisor, Ministry of Foreign Affairs of The Netherlands
  - Jef Wintermans, Coordinator of the Dutch Agreement on Sustainable Garments and Textile

17:00-17:10

- **Closing speech by Gerald Cartigny, Member of the Executive Committee and Chief Investment Officer at MN**

17:10-18:00

- **Drinks**
We all wear clothes and shoes. Their importance goes far beyond the protection they offer against cold, sun and rain. Clothes contribute to our sense of wellbeing and our self-confidence. They reflect our social position. And we also use them to express our personal preferences, sometimes subtly, sometimes very explicitly.

That has been the case for a long time; just look at the paintings of past centuries. But the difference between then and now is that clothing used to be very costly. Fabric was expensive in relation to what people earned. A great deal of work went into sewing garments by hand. That task belonged partly to the women of a household. And partly to tailors, dressmakers and shoemakers. They had a respectable occupation with which they earned a decent living.

Today, it is very different. Garment production in low-wage countries has increased enormously over the past decades. This has created a lot of employment, but has that employment created more prosperity? That is often not the case, because workers in the garment industry do not receive a living wage. They work hard and for long hours, but they are still unable to support themselves, never mind their families.

ASN Bank aims to do something about this. Because we feel that workers in the garment industry deserve a living wage, just like garment makers in earlier times. People who provide us with such an important service are entitled to remuneration on which they and their family can live. We underpin this aim in this report by referring, inter alia, to the Social Development Goals of the United Nations.

But what also motivates us is common decency. When we button up our shirt in the morning or smooth down our dress, we want to be able to look ourselves straight in the eye in the mirror. In the knowledge that the person who has ensured that we look smart is not sitting behind a sewing machine with an empty stomach, health problems and worries about their children.

The report before you is a step towards this goal. It explains how we as an investor are promoting a living wage in the garment industry, and the results we have achieved so far. I hope that you read it with pleasure and interest.

Arie Koornneef
CEO ASN Bank

This report was written by Inara van der Sluijs and Sjirk Prins of ASN Bank, supported by Margot Reijtenbagh.
Commentary by Anne van Lakerveld (Fair Wear Foundation)
Design by Katja Visser (www.katjavisser.nl)
Living Wage in the garment sector: results of the 2018 reviews

by ASN Bank