



FAIR COMPENSATION FOR FARMWORKERS
IN GLOBAL AGRICULTURAL SUPPLY CHAINS:
EMERGING GOOD PRACTICES AND CHALLENGES

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FAIR LABOR
ASSOCIATION



FLA assessor conducting a worker interview in a Hungarian sunflower field

TABLE OF CONTENTS

Executive Summary	3
Introduction.....	5
Lessons Learned from FLA Farm-Level Assessments	8
Challenges in Measuring Compensation on Farms.....	12
What’s Working? Case Studies of Emerging Good Practices.....	14
Conclusion	18

Cover photo: A worker performing rice pollination in Andhra Pradesh, India

FLA WORKPLACE CODE OF CONDUCT ON COMPENSATION:

“Every worker has a right to compensation for a regular work week that is sufficient to meet the worker’s basic needs and provide some discretionary income. Employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law or contract. Where compensation does not meet workers’ basic needs and provide some discretionary income, each employer shall work with the FLA to take appropriate actions that seek to progressively realize a level of compensation that does.”

EXECUTIVE SUMMARY

Every year, the Fair Labor Association (FLA) visits hundreds of farms in countries around the world to assess working conditions against the nine elements of the FLA Workplace Code of Conduct. This paper examines compensation-related trends indicated by the FLA’s annual monitoring visits in the 2015-2016 cycle, and elaborates on the challenges FLA assessors encountered in their first attempt to add the collection of comprehensive wage data to the labor rights information recorded on each farm visit.

The effort to record compensation data is intended to help multi-national brands better understand the wages paid to workers at the farms from which they source, though FLA assessors reported several obstacles to effective data collection – obstacles reported by company staff as well. Unlike the better-documented pay systems FLA assessors often find in factories, agricultural assessors found that many of the farms they visited lacked key documentation about workers’ wages. In many cases, farms were unable to provide corroborating materials like work contracts, pay stubs, payroll records, hours-of-work records, or documentation of in-kind benefits. Inconsistent pay structures, temporary work arrangements, and compensation provided by sharecropping also made it difficult for assessors to compare wages from farm to farm, or from region to region, to help brands prioritize where workers would benefit most from remedial action to raise wages.

The FLA will continue to refine and improve its agricultural wage data collection process to more accurately report to companies on the compensation levels found in their supply chains. In the meantime, the FLA’s annual farm assessment process has identified a number of areas that require corrective action from companies now, such as legal violations like wage discrimination and non-payment of minimum wages. FLA-affiliated companies draft remediation plans for all such violations found during the annual assessment process, and are working to find sustainable solutions to persistent issues.

In addition, this paper identifies strategies already being pursued by multi-national companies acting individually, collectively, and in cooperation with workers, governments, civil society, and others, to help raise wages where they are too low. These strategies include:

- **Increasing prices paid** to smallholder farmers,
- **Simplifying value chains** by sourcing directly from producers or by committing to purchasing their full output,
- **Raising workers' awareness of their rights** and empowering them to participate in wage-setting initiatives,
- Establishing alternative means of delivering increased income to farmers to support fair wages, such as adding a **social premium** to the prices paid to farmers, or providing **financial support** for farm-level **productivity improvements**,
- Using technology to **communicate directly with workers**, collecting candid feedback on company progress toward meeting fair compensation goals, and
- **Rewarding responsible suppliers and producers** that adopt fair compensation practices to discourage a “race to the bottom.”

Companies that aspire to be leaders in social responsibility are setting their compensation goals beyond compliance with statutory norms – which are often inadequate to meet the basic needs of workers – and are working to adopt fairer, more sustainable compensation practices. While data collection at the farm level poses special challenges, companies need not wait for the development of a perfect information gathering strategy, before taking action where initial data, or findings of legal non-compliance, indicate that workers aren't earning fair compensation.



FLA monitors interviewing the workers in hazelnut gardens in Turkey

INTRODUCTION

The World Bank reports that among the 2.1 billion people worldwide estimated to be living in poverty in 2013, “a vast majority ... live in rural areas ... mostly employed in the agriculture sector.”¹ These people live on less than the equivalent of \$3.10 a day, the World Bank reports, and adds that 767 million people (or more than a third of the global poor) also fall below the extreme poverty line, living on the equivalent of less than \$1.90 per day.

Recognizing the continued persistence of dire poverty on a global scale and the rallying and organizing power of universal development goals, in September 2015, all countries that are part of the United Nations adopted the Sustainable Development Goals 2030 agenda.² The Sustainable Development Goals aim to end poverty, protect the planet, and ensure prosperity for all. Each goal incorporates specific targets to be achieved by 2030, and the UN calls upon governments, civil society organizations, global citizens, and the private sector each to play a part.

To pursue the goal of eradicating poverty³ in their supply chains, some multi-national companies commit to codes of conduct affirming that workers have a right to earn fair compensation for their labor, despite the significant challenges that thorough implementation and verification throughout the many layers of an agricultural supply chain can pose.⁴ At the same time, the importance of company commitment to and support for fair wages in agriculture has only increased in recent years. As former subsistence farmers in many agrarian societies have shifted to commercial farming ventures, more and more of them are depending on wages derived from the prices paid by local or multi-national companies for agricultural products. For example, Figure 1 demonstrates this development in the context of the agriculture sector in India, showing the steady increase in reliance on wage payments over time for the livelihood of agriculture workers.

According to the Food and Agriculture Organization of the United Nations (FAO),⁵ the agricultural sector now employs one billion people, representing one out of every three workers. This shift does not have to be bad for workers, as the United States Agency for International Development (USAID) has presented in several case studies where the transition to commercial farming has helped farmers lift themselves economically in countries like Nepal,⁶ Uganda,⁷ and Afghanistan.⁸

1 World Bank. 2015. Poverty Overview. Available at: <http://www.worldbank.org/en/topic/poverty/overview>

2 United Nations 2015: Sustainable Development Goals. Available at: <http://www.un.org/sustainabledevelopment/>

3 Sustainable Development Goal 1- No Poverty

4 Sustainable Development Goal 8 - Decent Work and Economic Growth.

5 <http://www.fao.org/docrep/015/i2490e/i2490e01b.pdf>

6 <https://www.usaid.gov/news-information/frontlines/extreme-poverty/commercial-farming-successes-break-poverty-cycle-nepal>

7 http://pdf.usaid.gov/pdf_docs/Pdadm231.pdf

8 http://pdf.usaid.gov/pdf_docs/pdact904.pdf

As subsistence farmers globally have shifted toward commercial employment, the Fair Labor Association (FLA)⁹ has been working since 2008 with agricultural companies to help them ensure that their operations respect the rights of workers on the farms where they source. This is done in part by assessing farms supplying to multi-national companies for compliance with all nine elements of the FLA Workplace Code of Conduct, including an element governing how workers are compensated for their labor.¹⁰ Over time, these assessments have consistently alerted agricultural companies to the need to intervene when workers are affected by legal pay violations, such as non-payment of minimum wages, or non-payment of social security benefits.

While this strategy has been critical to helping companies detect and remediate legal violations that affect the livelihood of workers struggling with poverty, the FLA has been working to strengthen the ability of the assessment process to detect where wages — while legal — may still be too low.¹¹

In 2015, beyond assessing for legal pay violations, FLA assessors began attempting to collect data on the actual wages earned by workers in farms and factories supplying to companies that commit to following the FLA Workplace Code of Conduct. This effort is intended to help FLA-affiliated companies determine whether workers in their supply chains are earning fair compensation, defined by the FLA as enough for a worker and two dependents to meet basic needs, with discretionary income remaining. Findings and analysis of the factory-level data appear in a report published by the FLA in August 2016,¹² which includes a series of factory-level charts comparing locally relevant wage benchmarks (poverty lines, minimum wages, union demands, etc.) with actual earned wages as determined by FLA inspection of factory payroll records and confirmation with workers.

However, for farm-level assessments, a lack of consistent record keeping at most farms, numerous informal work relationships, lack of local legal minimum wages defined for some small-holder farmers and their workforce, layers of intermediaries, and other challenges common to the upstream tiers of global supply chains, made it impossible for the FLA assessors to collect data as thoroughly and consistently as was possible in factories. While assessors continued to focus on reporting general non-compliances with code standards and applicable law, farm assessors also recorded the highest and lowest wage levels they could determine for each farm assessment conducted, using written records when available, while also relying heavily on worker reporting.

9 The FLA is a collaborative effort of socially responsible companies, colleges and universities, and civil society organizations to promote and protect workers' rights and to improve working conditions globally through adherence to international labor standards. FLA has been active in the agriculture sector since 2004 and has conducted mapping, monitoring and remedial exercises in ten countries, focusing on various agricultural commodities such as hazelnuts, cocoa, sugarcane, corn, soy, rice, vegetables and fruits seeds and oilseeds. FLA's work in the agriculture sector currently extends to Africa, Asia, Latin America, and Europe. www.fairlabor.org

10 <http://www.fairlabor.org/our-work/labor-standards>

11 <http://www.fairlabor.org/global-issues/fair-compensation/about-this-work>

12 *Toward Fair Compensation in Global Supply Chains: Factory Pay Assessments in 21 Countries*: <http://www.fairlabor.org/report/toward-fair-compensation-global-supply-chains-factory-pay-assessments-21-countries>

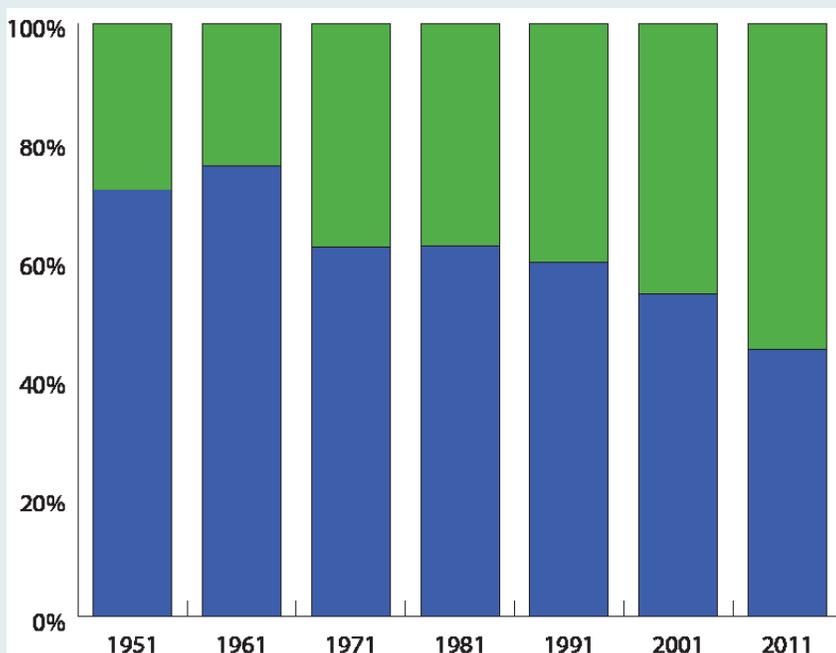
This paper examines the compensation-related trends indicated by the FLA's annual monitoring visits in the 2015-2016 cycle, and also reiterates what the FLA has publicized in previous reports on conditions in agricultural supply chains — that in some areas under assessment, wages in agriculture are in crisis, with workers earning less than the local minimum wage, as confirmed by the data collected by the FLA.

The FLA will continue to refine and improve its agricultural wage data collection process in 2017 and beyond. In the meantime, to help catalyze progress, the FLA partnered with the Just Jobs Network (JJN) to report on existing case studies that indicate emerging successful strategies for ensuring fair compensation in agricultural supply chains. The JJN case studies appear as part of this report (p. 14) to provide suggestions for how FLA-affiliated companies might consider innovating new practices and procedures in their agricultural supply chains to better ensure that everyone contributing to a company's overall financial success will receive fair compensation for their labor.

INCREASING DEPENDENCE ON WAGES IN THE AGRICULTURE SECTOR IN INDIA

In 2011, for the first time since India became an independent country in 1947, the proportion of agricultural laborers exceeded the proportion of cultivators, demonstrating a shift from subsistence farming to commercial farming. More than ever before, people working in agriculture rely on wages to survive.

FIGURE 1: Persons engaged in agriculture (1951-2011)



This chart defines **laborers** as those who work on an employer's land for **wages in cash, kind, or share** and have no rights of ownership, lease, or contract on the land. **Cultivators** include persons who are engaged as employers or workers **on land they own or lease**.



MINIMUM WAGE, PREVAILING WAGE, LIVING WAGE, AND LIVING INCOME

The **minimum wage** is the statutorily defined level of wages, which every employer is required by law to pay. A minimum wage establishes a wage floor, but does not necessarily equal a living wage. In many places, the statutorily defined minimum wage is inadequate to meet the basic needs of workers.

The **prevailing market wage** is the market wage for each set of skills in a region and industry, emerging from labor market forces. Usually higher than statutory minimum wages, prevailing wages sometimes fall to levels below the legal minimum wage in areas where government enforcement is weak.

There are many different definitions of the **living wage**. The living wage was recognized as a basic human right by the International Labor Organization (ILO) in 1919 and by the Universal Declaration of Human Rights in 1948, which stated that “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.”¹³

In addition to wage-earning workers, agricultural supply chains include farmers, working on their own land or as tenants, who earn an income from selling their harvest. For these farmers, a “**living income**” can be estimated similarly to a living wage. A farmer’s income is what is left after operational costs such as rent for the land and equipment, wages for hired workers, and the cost of other inputs like seeds and fertilizers have been deducted from total revenue. If a farmer is unable to earn a living income, it is less likely that farmworkers will earn a living wage, and more likely that uncompensated and undocumented family workers may be involved in the operation of the farm.

The Workplace Code of Conduct agreed to by FLA-affiliated companies states that “every worker has a right to compensation for a regular workweek that is sufficient to meet the worker’s basic needs and provide some discretionary income.” The FLA defines basic needs as the minimum necessary for a worker and two dependents to have access to resources, including food, safe drinking water, clothing, shelter, energy, transportation, education, sanitation facilities and access to healthcare services.

LESSONS LEARNED FROM FLA FARM-LEVEL ASSESSMENTS

The first step toward achieving fair compensation for agricultural wage workers is to ensure that the farmers who employ them earn incomes high enough to pay fair wages. In cases where farmers are not able to earn a living income for themselves, this would require redistributing a greater share of value in the supply chain to farmers.

However, smallholder farmers face many specific challenges in securing greater income for themselves and their workers. For agricultural commodities, often governments, sector

¹³ http://www.ohchr.org/EN/UDHR/Documents/UDHR_Translations/eng.pdf

organizations, or stock exchanges will determine set market prices for farmers' crops that companies will not negotiate. Smallholder farmers have very little meaningful leverage to insist on negotiations, not only because of their size, but also because farmers cannot risk their crops rotting while they shop for a price that meets their needs. Even when a product is not perishable, smallholder farmers often lack stocking capabilities and must sell their produce as soon as it is ready.

For these reasons, it is all the more important for multi-national companies committed to fair compensation to take the lead on developing socially responsible procedures for establishing procurement prices that factor in the payment of living income to farmers and living wages to workers throughout their supply chains in all countries where they source. In cases where fixed market prices present special challenges, alternative means of increasing farmers' income can be explored, such as adding a social premium to the prices paid.

In addition to systemic challenges faced by smallholder farmers in general, the FLA's independent external monitoring has uncovered several region- or industry-specific compensation challenges faced by workers on farms visited by the FLA. Beyond the larger issue of procurement prices, these specific issues suggest further steps companies can take, or problems they must work to solve, to ensure fair compensation for workers in their supply chains. For example:

1. **Migrant-worker discrimination** — FLA assessments in the hazelnut¹⁴ supply chain in Turkey have found wage-related discrimination, with migrant workers paid around the minimum wage, and local workers earning rates around one-third higher for the same work. In addition, both migrant and local workers are paid by the day, but migrant workers must work more hours per day to earn no more than the same pay, and sometimes less. Farmers explain that the gap is justified by in-kind contributions to migrant workers, such as accommodations and transportation to work, but these inputs go largely untracked, and their value is not documented. Furthermore, to recruit migrant laborers, farmers work with labor contractors who typically deduct 10 percent from migrant workers' wages for their services, an illegal deduction that depresses migrant workers' wages below the legal minimum.
2. **Gender discrimination** — In some areas, female workers are less likely to be paid the legal minimum wage. Prevailing wage rates for female workers — or for activities that are predominantly performed by female workers — may be lower than for men or predominantly male activities. In India, for example, assessors observed gender discrimination in wages paid to women and men at farms in the states of Andhra Pradesh, Karnataka, and Maharashtra, including examples in Andhra Pradesh of men being paid INR 250 per day¹⁵ for performing the exact same task as women who were paid only INR 200 per day.¹⁶ At these rates, a man would need to work 24 days per month to earn the legal monthly minimum wage for unskilled workers in Andhra Pradesh, while women would need to work 30 days in a month.

14 <http://www.fairlabor.org/report/2015-assessments-shared-hazelnut-supply-chain-turkey>

15 INR – Indian Rupees- Exchange Rate as of December 2016 1 US\$ = INR 68

16 <http://www.fairlabor.org/report/seed-supply-chain-india-2015>

3. Minimum wages set too low, or non-existent — In Thailand, minimum wage laws do not apply to agriculture workers; however, assessors found that when compared to local manufacturing minimum wages, the lowest-paid workers earned around two-thirds of the legal minimum of 300 Baht per day.¹⁷ In Ivory Coast, minimum wages for agriculture do exist, but are set far below the manufacturing sector’s minimum, which itself is set below the World Bank’s estimated poverty line for a family of three. Assessors found in Ivory Coast that workers earned more than the minimum wage for agriculture, but even the highest monthly wage assessors could find fell below the World Bank poverty line for a family of two.

In such situations, it is impossible for companies to use minimum wages as a guideline, and they must pursue their fair compensation goals by finding other credible benchmarks to use when calculating procurement prices. For example, in Thailand, the Thai Labour Solidarity Committee (TLSC) calls for a minimum wage of 360 Baht per day,¹⁸ while in Ivory Coast, the legal minimum wage for agriculture of 15,043 CFA francs would need to be quadrupled even to clear the World Bank’s poverty line of 66,939 CFA francs.

4. Prevailing wages lower than the local minimum — In the Indian states of Andhra Pradesh, Karnataka, and Maharashtra, while assessors found workers earning the prevailing local wage, prevailing wages in these states are much lower than the legal minimum. Assessors in 2015 found tomato workers in Karnataka earning around 45 percent of the legal minimum wage, rice workers in Andhra Pradesh earning around 70 percent of the legal minimum wage, and tomato workers in Maharashtra earning around 78 percent of the legal minimum wage.¹⁹ The negative effect on workers of these low wages is compounded by the long hours of work required to earn them – up to 80 hours a week during peak production time. Assessors found that generally workers in these areas are unaware of the legal minimum wages they are owed.

5. Unionized workers receive higher pay — In very few countries do FLA assessors encounter unionized workers in their farm assessments. However, in Brazil, where the law requires unions to negotiate on behalf of all registered workers in any employment category (including farmworkers), assessors have found workers earning higher wages. In 2015, FLA assessors in Brazil visited a farm where the union had negotiated a collective bargaining agreement that secured workers wages 12.4 percent higher than the legal minimum. While not necessarily easy to replicate in countries without a strong union infrastructure for farmworkers, this finding does reiterate the importance of workers’ ability to act collectively to improve conditions on farms.

Each of these observations by FLA assessors suggests an area of potential improvement for companies pursuing fair compensation in their supply chains. Companies can make progress by working with suppliers and farmers to eliminate discrimination and to raise wages where minimums are too low, by requiring at least minimum wages to be paid without exception, by

¹⁷ <http://www.fairlabor.org/report/seed-supply-chain-thailand-2015>

¹⁸ <http://prachatai.org/english/node/6570>

¹⁹ Ibid.

finding ways to off-set the effects of practices like labor-contracting fees, and by working with unions or other worker-collective bodies to learn what wage-levels are fair in the local context. Where fixed market prices compromise farmers' ability to pay fair wages to workers, companies can support alternative means of increasing farmers' income, such as adding a social premium to the prices they pay for farmers' products, or providing further technical inputs to help farmers increase their productivity.

Where the lessons learned above reflect specific code-of-conduct violations found during FLA farm-level assessments, the companies involved submit corrective action plans that are posted on the FLA website,²⁰ or, in some cases, have begun pilot projects to test innovative strategies for more sustainable improvement.²¹

OPERATIONAL MODELS OF SMALLHOLDER FARMS

Smallholder farms are characterized by the FAO as “using mainly family labor for production and using part of the produce for family consumption.”²² In addition, smallholders may hire casual, seasonal, temporary or daily workers for specific tasks may last from a few days to a year. Incomes of smallholder farmers tend to vary based on their operational model. These are four of the most common:²³

1. Contract farming

Contract farming, refers to either formal or informal contractual agreements between farmers (who may rent or own their land) and buyers. The buyer may be closely involved in the production process – providing inputs, credit, and technical assistance, maintaining strict quality controls, or may not be associated with production at all. The arrangement may also involve intermediaries who contract with a large number of farmers, aggregate the produce, and then sell it to the buyers.

2. Management contracts

Common in developing countries, farmers may enter into management contracts that establish tenancy arrangements or sharecropping agreements. Landless farmers may grow produce on land owned by another farmer, the buyer of the output, or a supplier for buyer. The farmers either pay a fixed rental fee and keep the profits or share the profits and produce with the landowner in lieu of rent.

3. Self-owned business

Smallholders may both work the land and also own a formal processing or marketing business, usually as part of a cooperative. The farmer-led cooperative model allows liability to be distributed among the farmers and also allows easier access to credit.

4. Joint ventures

Smallholders sometimes enter into joint ventures with companies, again usually as part of a farmer organization or cooperative. This allows for more equitable partnerships between companies and farmers.

²⁰ <http://www.fairlabor.org/transparency/workplace-monitoring-reports>

²¹ <http://www.fairlabor.org/report/ensuring-minimum-wages-field-production-hybrid-seeds>

²² Food and Agriculture Organization of the United Nations. 2012. Smallholders and Family Farmers Factsheet. Available at: <http://www.fao.org/docrep/018/ar588e/ar588e.pdf19>

²³ Paglietti, Lisa and Roble Sabrie. 2013. Review of smallholder linkages for inclusive agribusiness development. Food and Agriculture Organization of the United Nations, 2013. Available at: <http://www.fao.org/docrep/019/i3404e/i3404e.pdf>

CHALLENGES IN MEASURING COMPENSATION ON FARMS

In 2015, FLA assessors visited farms in seven countries (Argentina, Brazil, Hungary, India, Ivory Coast, Thailand, and Turkey), collecting data on workers' earnings, in addition to assessing for compliance with local laws and the FLA Workplace Code of Conduct. The farms they visited varied greatly in size and structure, ranging from large plantations in Argentina and Brazil where workers are directly hired by the FLA-affiliated company, to family-run smallholder farms in Ivory Coast, Turkey, India and Thailand. Companies report that their farm-level assessors encounter many of the same data collection challenges; among them are:

1. **Informal employment relationships** — Especially on smallholder farms, written work contracts are a rarity, with many relationships based on a verbal agreement. Assessors typically find that they are unable to corroborate wage payments with pay stubs, payroll records, or other documentation. Family members of the farmer, sharecropper, or lead worker (a worker who negotiates on behalf of a larger group of family workers) often perform uncompensated, undocumented work.
2. **Temporary work** — Many agricultural workers are hired on a temporary basis, as a daily, seasonal, or piece-rate worker. Especially when combined with an informal employment relationship or insufficiently documented wages, a high level of temporary work makes it difficult for assessors to determine a credible and comparable weekly or monthly income figure for workers.
3. **Undocumented in-kind benefits** — Farmworkers may be provided with in-kind benefits such as transportation, food, and housing, that are considered part of total compensation and deducted from their wage payments by their employers, though cost estimates for these forms of compensation may not be available.
4. **Undocumented hours of work** — Implicit in the concept of living wages and living income is the principle that workers should be able to earn these levels of compensation without working an unreasonable number of hours (limited to 60 hours per week by the FLA Workplace Code of Conduct). When working hours are unrecorded, the fairness of workers' compensation is more difficult to assess.
5. **Low literacy rates** — Lack of documentation in agricultural supply chains can be a function of literacy levels on farms where record-keeping is not meaningful for workers, or for employers.
6. **Sharecropping** — Some agricultural workers may not be paid wages at all, working land as sharecroppers who earn a percentage of their harvest's sale, but receive no further wages or other benefits.



A cocoa production worker in Ivory Coast

- 7. Inconsistent pay structures** — Even when wages are documented and data can be collected at a specific farm, comparison between farms, crops, or countries is complicated due to the many different ways compensation may be calculated. Workers may be paid hourly, daily, monthly, or seasonally, for example. Others are paid a piece-rate, or a rate determined by the size of the plot of land being harvested.
- 8. Inconsistent minimum wage enforcement** — In some countries, assessors have found that regional authorities will establish guidelines or waivers related to the payment of national minimum wages, leading to uncertainty among farmers about the legal minimum wage they must follow.

In addition to data collection challenges, assessors report that while the fair compensation definition embedded into the FLA's calculations for its factory reports accounted for a worker with two dependents, in many cases farming families include a larger number of dependents.

None of these challenges will be easy to resolve, though revisions to the FLA's data collection processes may help mitigate some issues. For example, on future farm visits, assessors will be attempting to substantiate not only wage amounts, but also the pay structures and timeframes involved (whether work is temporary or permanent) to calculate a standard rate that is comparable across several farms. Where records are not kept, the FLA has been working with companies to distribute tools to farmers to encourage record keeping.

The FLA remains committed to the collection of this information as part of its annual assessment of working conditions on farms, and will continue to innovate strategies to overcome these challenges, and ultimately inspire progress on behalf of all workers. In the meantime, companies need not wait on the collection of perfect data to take action — individually, collectively, or in collaboration with governments, unions, civil society, or other actors — wherever initial data collection findings, or findings of legal non-compliance, indicate that workers aren't earning fair compensation.

WHAT'S WORKING? CASE STUDIES OF EMERGING GOOD PRACTICES

There are many challenges in ensuring fair compensation in agricultural supply chains. Nevertheless, in recent years a number of initiatives have tried to overcome these challenges and raise compensation levels. In this section we use publicly available case studies to describe interventions that have helped companies and coalitions achieve fairer wages.

A. Raising Wages Where the Minimum is Too Low — *Tea Workers in Malawi*

In 2013, the Ethical Tea Partnership (ETP), Oxfam, and the Sustainable Trade Initiative (IDH) project published a study based on research conducted in Malawi; West Java, Indonesia; and Assam, India in 2011 and 2012.²⁴ The researchers studied wages paid to hired labor — especially tea pluckers — in various estates, some of which had been certified by Fairtrade International,²⁵ Rainforest Alliance,²⁶ or UTZ Certified.²⁷ The study found that most workers were paid the legal minimum wages in all three areas.

However, because minimum wages in Malawi are so low, actual wages paid to workers were far below international poverty lines, including below the extreme poverty benchmark set by the World Bank for Malawi of the equivalent of \$1.25 per person per day. Even after including in-kind benefits such as food, fuel, and accommodation, compensation was still found to be below the World Bank's extreme poverty line at the household level. Another stark observation was that wages were the same in

EMERGING GOOD PRACTICES

WAGE LADDERS: Statutory minimum wages are often not high enough to provide a basic standard of living and are meant to serve as wage floors and not as the default wage rate. To assess the fairness of compensation in their supply chains, companies should compare actual wages paid to workers with a variety of benchmarks such as national and international poverty lines, living wage benchmarks, and the national and regional median income. This methodology — known as a “wage ladder” — provides information about the gap between actual wages and a living wage.

PRICE INCREASES: Some certification initiatives use price premiums as a way to ensure better wages for workers. In this case, the price increase was not considered a premium voluntarily provided by a single certified buyer, but a necessary development for the industry to support the coalition's living-wage goals.

COLLECTIVE BARGAINING: The wage-setting process should ultimately move towards a participatory, collective bargaining model, so that workers can provide their own input on what constitutes a fair wage.

24 Malawi 2020 Tea Revitalisation Programme Agreed in Blantyre. <http://www.ethicalteapartnership.org/wp-content/uploads/Malawi-2020-Tea-Revitalisation-Programme-%E2%80%93-Blantyre-Communique-14.09.15.pdf>

25 <http://www.fairtrade.net/>

26 <http://www.rainforest-alliance.org/>

27 <https://www.utz.org/>

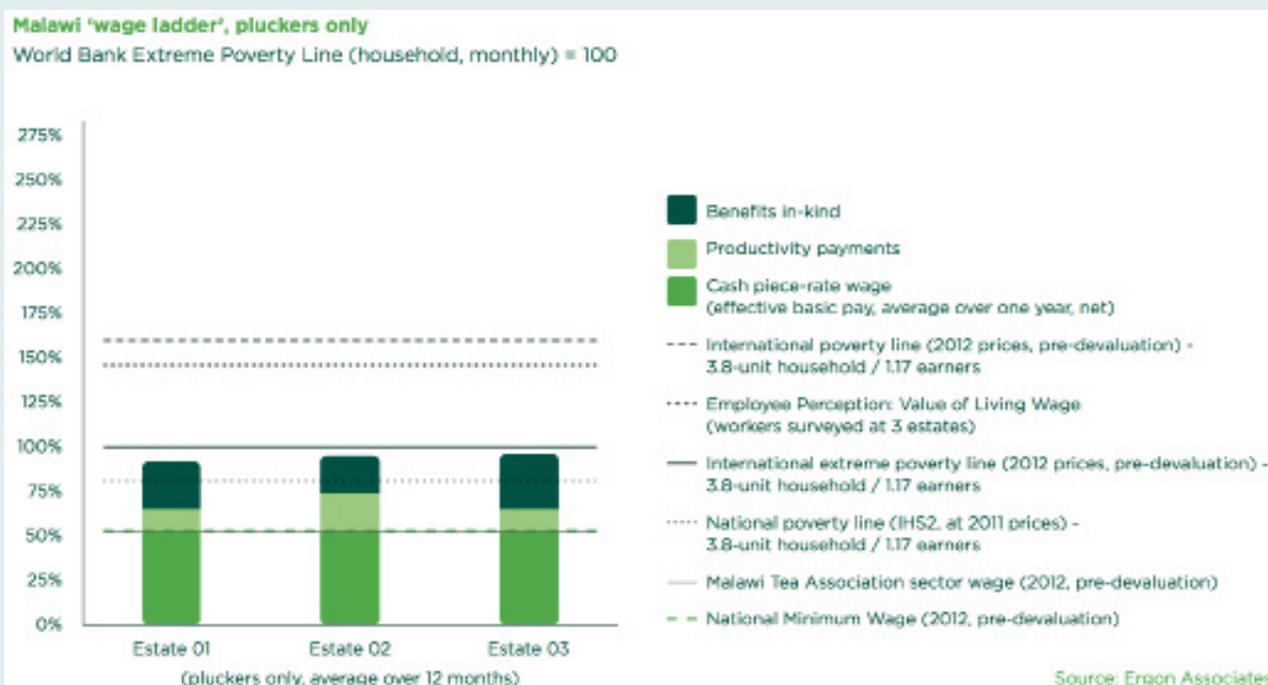
certified and uncertified plantations since the requirement for certification was payment of the legal minimum wage.

This prompted the certification organizations, along with other members of the ISEAL Alliance to commission a living wage benchmarking study for the tea growing areas of Southern Malawi by living wage experts Richard and Martha Anker. The study concluded that for workers receiving in-kind benefits, the living wage benchmark would be Malawi Kwacha (MK) 1408 (US\$3.30) per day. The minimum wage was found to be only 36.5 percent of this estimate.

In 2015, members of a coalition of companies, industry associations, and certification bodies signed a Memorandum of Understanding to raise wages up to the living wage benchmark (based on the Anker benchmark) by 2020. Since then, wages have increased slightly in real terms and more nutritious midday meals are now provided. A first collective bargaining agreement has been signed between the Tea Association of Malawi and The Plantation and Allied Workers Union (PAWU), Oxfam has engaged individually with tea companies to review their procurement practices, and a supply chain survey has been undertaken by the Norwich Business School.

For companies in other countries or sectors to take action similar to the agreement to raise wages in Malawi, the first challenge is to identify credible benchmarks of fair compensation that demonstrate where minimum wages are too low. “Wage ladders,” like the one developed for the tea estates monitored in Malawi (see below), or for the FLA study on factory wages, can help companies assess the fairness of the wages their workers are earning.

WAGE LADDER OF TEA PLUCKERS IN MALAWI



Source: Oxfam International and the Ethical Tea Partnership (2013)

B. Redistributing Value in the Supply Chain — *Banana Growers in South America*

The World Banana Forum (WBF) — a collective of the primary stakeholders in the banana supply chain — was launched in 2009 by the Trade and Markets Division of the FAO with the goal of making the production and trade of bananas more sustainable. Bringing together retailers, importers, exporters, producers, governments, trade unions, research organizations, and civil society organizations, the WBF operates through three different working groups, with one group addressing distribution of value, another addressing labor rights, and the third focusing on sustainable production systems and environmental impact. This means that issues of compensation are addressed separately from issues related to occupational health and safety, gender equity, and decent work.

As a part of its work on distribution of value across the global supply chain, the WBF has developed a methodology for determining the level of living wages in South American countries.²⁸ The methodology relies on information obtained from statistics provided by companies, field surveys of working conditions and wage use, and national indicators like the minimum wage, poverty line, and standard consumption baskets. Living wages will be implemented once gaps between actual and living wages have been empirically determined. The WBF plans to run pilots in Ecuador and Costa Rica.

Tesco, a UK-based supermarket retailer and member of the WBF, proposes to adopt the living wage for 100-percent of the workers in its direct supplier plantations, once a living wage is determined by the WBF. Tesco states that almost half of the bananas it sells come from suppliers with which the company has a direct and exclusive relationship, allowing it much greater ability to ensure that workers earn fair wages.

“This direct approach not only means that we can source the right amount of good quality bananas but also helps us to ensure that our growers are operating to the highest ethical standards, protecting workers and the environment,” says Tesco. “We have committed that the banana workers on our dedicated farms will be paid the living wage (to be defined by the World Banana Forum) by 2017.”²⁹

EMERGING GOOD PRACTICES

DIRECT RELATIONSHIPS: The supply chain can be restructured and simplified in order to redistribute value to the primary producers. If brands have a direct relationship with producers, wage increases at the lowest level of the supply chain are not compounded manifold by the time the product reaches consumers.

EXCLUSIVE RELATIONSHIPS: Retailers and international suppliers may be able to guarantee higher compensation if they restrict sourcing to producers that supply exclusively to them and they buy the full output.

MULTI-STAKEHOLDER AGREEMENT ON LIVING WAGES: Because all members of the WBF agree together on what constitutes a living wage in South American countries, they reinforce each others’ commitment to higher standards.

28 Victor Hugo Quesada Arce. 2010. Base Study on A Living Wage Methodology for Latin American Banana Production. WBF Secretariat at the Food and Agriculture Organisation. Available at: http://www.fao.org/fileadmin/templates/banana/documents/WGs_outputs/WBF_WG02_o1_LivingWage_en.pdf

29 https://www.tescopl.com/assets/files/cms/Resources/Trading_Responsibly/Fairtrade_Position_Statement_2015_1.pdf

C. Worker Empowerment — *Strawberry Workers in Morocco*

Morocco is a leading exporter of fresh, frozen, and processed strawberries to the European Union (EU). The berries sector has witnessed rapid growth since 1995 in terms of production as well as export volumes. In a study conducted in 2009, Oxfam found that growth in this sector had not translated into improved living standards for workers, most of whom are women. The study found that workers on farms and in packaging and processing houses were employed on a temporary basis, usually without contracts. Working hours were excessively long, and farm workers were not paid the statutory minimum wage or overtime wages. Most seasonal workers in particular were not registered for the National Social Security Fund (CNSS), which provided benefits like medical insurance and family allowance. These conditions persisted despite regular auditing by international buyers, which focused more on quality, hygiene, and safety.³⁰

In response, Oxfam launched a program to improve the working conditions of women workers in the berry sector. In a series of joint initiatives, Oxfam collaborated with key stakeholders in Morocco like civil society organizations, state institutions, berry producers, and major global buyers to train women workers on leadership and communication. As a result, women organized themselves into a regional workers' association that raises awareness of minimum wages and conducts other worker empowerment activities, such as developing mechanisms for workers to bring their complaints to local authorities and partner organizations.

Internationally, Oxfam worked with the Ethical Trading Initiative, buyers from the UK, and other stakeholders to form the Better Strawberries Group. The group held a stakeholder meeting in 2011 and subsequently developed an action plan focused on payment of minimum wages and registration of workers for CNSS among other improvements to be implemented by 2015. In a paper released in 2014, Oxfam tracked the progress on the action plan, finding marked progress on both targets, with around 65 percent of all workers registered for the CNSS, and 70 percent of the processing units for which data was collected paying minimum wages.³¹ The report found that women workers were more aware of their rights and had refused to work at lower wages or demanded an increase in wages. This has been aided by rapid growth in the berry industry and a tight labor market.

EMERGING GOOD PRACTICES

CSO AND TRADE UNION

COLLABORATION: Brands can establish a policy of empowering workers by reaching out to local civil society organizations (CSOs) and trade unions to develop trainings for workers on leadership, communication, and their basic rights. This strategy helps workers understand that a company is prioritizing fair compensation, and gives workers a role in finding solutions.

30 Julie Théroux-Séguin. 2014. Social Protection, Building Dignity! Improving working conditions of women workers in the berry sector of Morocco. Oxford: Oxfam Intermón. Available at: <http://policy-practice.oxfam.org.uk/publications/social-protection-building-dignity-improving-working-conditions-of-women-worker-560924>

31 Ibid.

D. Data Collection and Direct Communication — *Good World Solutions and LaborVoices*

Good World Solutions and LaborVoices are two organizations that are working on improving monitoring in global supply chains, by capitalizing on increased penetration of mobile phones in developing countries. They are developing continuous monitoring systems that can facilitate direct communication with workers, and provide greater feedback to companies on issues workers face at the beginning of their supply chains.

LaborVoices conducted a pilot study in a garment factory in Bangladesh in 2014 using an automated hotline that would enable workers to give anonymous feedback on issues like wages, health and safety, and child labor, by using inputs from mobile keypads. The hotline also allowed workers to leave voicemail messages to relay their complaints. LaborVoices was also able to follow-up with workers after an issue was raised to check if it had been resolved.³² Such technology could be adopted by companies seeking more direct feedback from workers on the success of their fair compensation initiatives.

EMERGING GOOD PRACTICES

DATA AND COMMUNICATIONS TECHNOLOGY ADVANCES:

Innovative assessment and survey practices that use technologies like mobile phones and the internet can help bridge the gap between buyers and workers engaged with suppliers. A more continuous monitoring process is established that can supplement, verify or even replace information received from more traditional audits.

CONCLUSION

Companies that aspire to be leaders in social responsibility must look beyond compliance with statutory compensation norms — which are often inadequate to meet the basic needs of workers — and adopt fairer, more sustainable compensation practices.

This begins with due diligence on compensation, by measuring farm-level compensation and comparing against benchmarks including poverty thresholds, legal minimum wages, and estimates of living wage levels provided by unions, civil society organizations, academics, and governments. It is followed by risk analysis to determine where wages and income don't meet company fair compensation standards for workers and smallholder farmers, and then by collaborative engagement with all stakeholders — farmers, workers, worker representatives, trade unions, and civil society organizations — to determine fair levels of compensation. The risk analysis may also determine areas where basic compliance issues — such as pay discrimination, illegal labor contracting fees, or payment below the minimum wage — must immediately be addressed.

³² LaborVoices Inc. 2014. Supplier Analytics: Improving Workplace Safety & Employee Satisfaction through Anonymous Worker Feedback. Available at: <https://s3.amazonaws.com/lv-documents/LaborVoices+Case+Study+-+Bangladesh+Garment+Factory+Pilot+2.pdf>

Governments in many cases may need to raise minimum wages while facilitating robust legal frameworks for enforcing the payment of legal wages. While companies can engage in advocacy efforts to encourage government action, they cannot wait on governments to make progress before taking action themselves to provide fair compensation for the workers in their supply chains. To ensure fair compensation, companies must, in many cases, adjust their business model to account for procurement prices that provide enough financial input to fairly compensate the workers contributing to the company's success. Such adjustments may also need to be accompanied by verification steps to ensure that a greater proportion of value in the supply chain is redistributed to farmers and laborers.

This can be achieved by several of the methods articulated in this paper, such as by:

- Increasing prices paid to smallholder farmers,
- Simplifying value chains by sourcing directly from producers or by committing to purchasing their full output,
- Making workers aware of their rights and empowering them to participate in wage-setting initiatives,
- Establishing alternative means of delivering increased income to farmers to support fair wages, such as adding a social premium to the prices paid to farmers, or providing financial support for farm-level productivity improvements,
- Using innovative technology to communicate directly with workers, collecting more frequent and candid feedback on company progress toward meeting fair compensation goals, and
- Rewarding suppliers and producers that adopt fair compensation practices to discourage a “race to the bottom”

This paper has identified some areas where FLA data indicate that wages fall short of the organization's fair compensation standards. For example, opportunities for engagement and improvement were found in Ivory Coast, where workers earned less than the World Bank poverty line; in Thailand, where the lowest paid workers earned two-thirds of manufacturing workers' minimum wage; and in India, where assessors found workers earning as little as 45 percent of the minimum wage.

It can be challenging for companies to implement their fair compensation commitments when sourcing from smallholder farms in a multi-layered supply chain, but as many responsible companies sourcing agricultural commodities from around the globe are demonstrating, with a company commitment to responsibility and a willingness to implement innovative solutions, fair compensation for workers all across the supply chain is possible. The FLA commits to playing its part to identify areas where action by companies is most needed, and where the opportunities to improve conditions for workers are the greatest.