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ASN Bank
develops manual



Charlotte Scheltus and Piet Sprengers

Four steps to

Living wage

Piet Sprengers and Charlotte Scheltus are developing a manual for textile companies: "Although the goal isn't simple, living wage is a human right."



The Dutch ASN Bank does not want to constantly confront textile companies that pay employees so little that they are unable to live on them. It is better to establish a goal with a group of sustainable companies by determining a time in the future when living wages can be realised. Piet Sprengers and Charlotte Scheltus of ASN Bank suggest four steps to achieve this. The ultimate goal: to ensure that all clothing companies in the investment universe of ASN Bank have implemented living wages by 2030.

Everything you need to establish living wages in the textile sector



How can ASN Bank increase its sustainable impact?

ASN Bank is not the largest bank in the world, but it has more impact than one would expect. "And that's our ambition," according to Piet Sprengers (1958) and Charlotte Scheltus (1984). He is head sustainability at the bank, while she is a sustainability policy and research consultant. ASN Bank is based in the Netherlands and heavenly invests in sustainable development. To underline their ambition, the debate about their 'living wage manual' for textile companies takes place in Utrecht, at the new Volksbank, instead of in the bank's own offices in The Hague. ASN Bank recently joined this group as a label, together with SNS, RegioBank and BLG Wonen. Sprengers: "I have been coming here a lot lately. ASN Bank's sustainability policy has been taken on board by the entire group." And ASN Bank has managed to stimulate other banks as well. Its own policy to bank in a 'climate-neutral' way has become a major topic within the Dutch Banking Association (NVB). The source of inspiration is recognised in a 'Climate Statement' published by the organisation: "Dutch banks aim to constantly reduce greenhouse gas emissions related to their operations (offices and mobility). Some

Dutch banks have already implemented climate-neutral operational management, others hope to achieve this in the short term." With managed assets at a value of 13 billion euros, ASN Bank takes it one step further by embracing the goal to make all its financing and investment activities entirely climate-neutral. This globally unique climate ambition should be realised by 2030. A similar goal has been set for clothing companies: the companies in which ASN Bank invests must all have implemented living wage by that date. Piet Sprengers: "It was mainly our sound Climate Policy method that impressed. Similarly, we want to help realise living wages in the textile industry. Together with the Impact Centre of the Erasmus University of Rotterdam we performed a benchmark among 14 textile companies and developed a practical method. We now know where every company is at, and will use this as a basis for developing our manual for companies." Charlotte Scheltus: "Companies can choose a benchmark for living wage and a goal themselves, insofar as it is a motivated decision. As a shareholder, we want to provide support in the practical realisation and results."

The first contacts with textile companies have already been established. Sprengers is familiar with the questions on living wage critical shareholders face; for example: what should such a policy entail? Sprengers: "Our knowledge is much more important than the weight of our share package. We don't have to make threats. We are not an NGO that constantly pushes negative buttons. They may see us as a difficult, demanding party, but one that is well-informed. And one that is taken seriously by the financial sector, making demands today that may be implemented by major institutional investors such as pension funds in five years." This is why ASN Bank will be providing the manual as an open source document made available to other financial institutions. Sprengers calls it due diligence: "This way, we can increase our impact on sustainable development beyond our own scope."

"As a sustainable investor, we offer textile companies a method that will allow us to exchange experiences." ➤

Step 1

Formulate your own living wage policy

- + Formulate your own vision and policy.
- + Investigate wages in the outsourcing chain.
- + Establish a clear goal with an end date.
- + Communicate this goal in the language of suppliers and manufacturers.
- + Provide insight into your own role in achieving this goal.

WHAT STOPS COMPANIES FROM IMPLEMENTING LIVING WAGES?

Books can be filled with all inhumane conditions in which textile workers live as a result of low wages. The same applies to the obstacles that hinder the realisation of living wage. Charlotte Scheltus is familiar with all the reasons why not to establish a living wage.

Moreover, she is through with the infinite discussions about the definition of living wage. "The term 'living wage' has been around since 1919 and it was defined as part of the Universal Declaration on Human Rights in 1948. It's more important to look at the figures. There have been plenty of studies analysing the gap between the minimum wage level and living wage. Use that data and start a pilot. Learn by doing. As a clothing company, it will win you sympathy from your customers."

Another obstacle is whether customers will want to pay a fairer price for their summer dress. Buyers can't be blamed for being hesitant: they don't have a direct impact on the management of their shopping chains. Scheltus: "Support can be stimulated by working with organisations that act on behalf of the customer. It has been proven that people who feel committed to a company are willing to pay a higher price in the shops."

Moreover, governments in developing countries rarely cooperate. It is in their best interest to keep the minimum wage low so the country continues to be attractive to companies, either to invest or to settle. Here too, Scheltus sees a task for cooperating textile companies: "When competitors join forces, no one benefits from lower minimum wages."

The final argument to not establish living wage is that it results in higher production costs. Scheltus has her doubts. "Living wage motivates employees to work hard, make fewer mistakes. Textile workers will not look for other employment as quickly, which means that training investments offer greater returns."

MODERATE OR HARDLINER?

During the religious disputes in the Netherlands in the 17th century there were two sides: the moderates and the hardliners. The first explained the Bible loosely, while the latter took everything literally: if it says a snake said something, it meant the snake could talk.

A similar discussion is possible for living wage. Take rose grower Van den Berg Roses in Kenya. Although the Dutch company doesn't pay living wages, it's still known as a frontrunner in the social field. The reason for this is that there is a free clinic on the company premises, offering free medical care to employees and discounts to their families. Transport is free and local schools are sponsored. These are all living costs that do not have to be paid by the rose pickers themselves. This is a different kind of solution. Or is it?

Sprengers of ASN Bank wouldn't choose this moderate approach. "It's good and probably well-intended, but to me it's more of a temporary solution for where governments fail. It involves a 'truck system': if you're not happy and want to work elsewhere, all benefits must be left behind. This makes employees very dependent."

"The remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events."

DEFINITION OF LIVING WAGE FROM SOCIAL ACCOUNTABILITY INTERNATIONAL (SAI)

Step 2

Determine the wage level of employees

- + Make an inventory of the actually paid wages in cooperation with the textile manufacturers.
- + Also analyse external sources that determine the level of living wage at the production location.
- + Calculate the scope of the gap between paid wage and living wage.

THE SUCCESSFUL APPROACH OF H&M

Swedish company Hennes & Mauritz developed its own term, the 'Fair Wage Method', with an associated roadmap. It even includes a date: in 2018 all H&M's strategic suppliers must pay their employees 'living wages'. No other company of this size has done this before, although the small Swedish label 'Nudie' goes much further in India by more than doubling the minimum wage; from 62 euros to 150 euro a month.

The H&M policy was established in 2013 and the first results will be visible soon. Despite its size, it's not easier for H&M to arrange a higher wage than it is for other textile companies, as it doesn't own any of the production locations. The factory owners, which represent some 850,000 employees distributed over 750 factories, must be convinced first. This demanded a promise, which H&M made: "We will develop a price method that guarantees actual labour costs. By doing so, we enable our suppliers to pay living wages and limit overtime." H&M also publicly resolved to convince governments of establishing a minimum wage at the living wage level, and then adapting it to the increased costs of living on an annual basis. In addition, H&M promised to work with employee associations in the process, and even initiate a pilot project in Bangladesh in cooperation with Swedish trade union IF Metall.

To Piet Sprengers this proves that even H&M still had to explore which wages were being paid. "This is something all companies face: they need sufficient insight into what is actually being paid. This information is just not readily available."

ASN BANK'S COOPERATION WITH TEXTILE COMPANIES

The companies in the investment funds of ASN Bank must meet a number of sustainable criteria to be accepted. In investment jargon these are known as exclusion criteria. But one could also look at it from another perspective, according to ASN Bank. "We include good companies," Piet Sprengers explains.

In case of textile companies there are 13 that have been 'included' in the investment universe of ASN Bank. Karen Maas of the Impact Centre of Erasmus University Rotterdam actually supported the bank in analysing the sustainable ambition, policy and implementation of 14 companies. She is a specialist in impact measurement. Swedish company H&M holds the first position, with Puma and Adidas on positions two and three.

- 1 Hennes & Mauritz (Swedish)
- 2 Puma (German)
- 3 Adidas (German)
- 4 Inditex (Spanish)
- 5 Marks & Spencer
- 6 Esprit Holdings Limited (USA / Hongkong)
- 7 Gildan Active Wear (Canadian)
- 8 Asos (British)
- 9 Kappa hl (Swedish)
- 10 Nike (USA)
- 11 GAP (USA)
- 12 Asics (Japanese)
- 13 Lojas Renner (Brazilian)
- 14 Amer Sports (Finnish)

The list includes major names, global players even, of which the labels are sometimes more well-

known than the name of the mother companies. Every winter sports enthusiast is familiar with skis from Salomon and Atomic, but not necessarily the name of the holding Amer Sports. A widely known name in Dutch shopping streets is Zara, while its clothing is produced for the little-known Spanish mother company Inditex.

Some other major brands are not on the list for various reasons. C&A is not included, while it is one of the two largest buyers of organic cotton worldwide. But as the Dutch chain isn't listed, it can't be included in an investment fund. More remarkable is the absence of the more luxurious fashion brands, of which one would expect that their higher product prices would easily be able to accommodate living wage. Where are Hugo Boss, Dior, or Burberry? These pricey fashion brands have their high-fashion made by very cheap textile workers in India and Bangladesh too. Moreover, the top segment still uses real fur. Charlotte Scheltus: "This may involve collars or trimmings on gloves. Regardless, ASN refuses to invest in companies that mistreat animals via its funds."

"We will develop a price method that ensures actual labour costs."

Step 3 Bridge the wage gap

- + Compare the various initiatives that calculate a living wage level.
- + Decide when to start application.
- + Choose an initiative to work with.
- + Formulate your own strategy.
- + Check the effects and reactions at the production location.

ARE THERE COUNTRIES WHERE MINIMUM WAGE IS SUFFICIENT?

Companies can consult various 'wage indicators' (benchmarks for living wage) to learn about the common wages in a production country. There is even an indicator focused exclusively on companies in Asia, called the Asian Floor Wage Alliance. The Wage Indicator Foundation is an initiative from the Netherlands, with a website that already totals over 40 million visitors. The website also provides an overview of the gap between minimum wage and living wage in 25 'textile countries'. Surprisingly, only the Central American country Honduras has a minimum wage that is sufficient to live on. In Peru and China, the actually paid wages are lower than the legally established minimum wage.

The following countries have a minimum wage that is lower than a living wage:

- | | | |
|---------------|-------------|---------------|
| + Vietnam | + Turkey | + Tunisia |
| + Thailand | + Sri Lanka | + Philippines |
| + Peru | + Panama | + Pakistan |
| + Morocco | + Mexico | + Malaysia |
| + South Korea | + Indonesia | + India |
| + Hong Kong | + Guatemala | + El Salvador |
| + Egypt | + China | + Cambodia |
| + Bangladesh | | |

Charlotte Scheltus of ASN Bank: "In an ideal world, governments would put the minimum wage at the living wage level. This is why it's wise for companies and stakeholders to try and convince governments to raise their minimum wage. It is part of the strategy."

DO BRITS NEED A LIVING WAGE?

It's not just people in developing countries who suffer from poor wages from companies and governments. In the USA, there is no minimum wage, which means that companies can pay whatever they want. In areas with large-scale unemployment, this results in wages which are insufficient to live on when people work a regular 40-hour work week. As a result, five per cent of the employed population in the USA has two jobs, according to the American Bureau of Labor Statistics.

A living wage may also be needed in countries which do apply a minimum wage, namely wherever living costs are higher than the minimum wage. The UK is such a country. Instead of raising the legal minimum wage, former Minister of Finance George Osborne decided to make the payment of living wages a company responsibility. This wasn't received well. The majority of the large companies associated with the British employer association still doesn't apply living wages, including companies such as BP, Shell, ExxonMobile and British Airways. For Brits, the living wage has been determined by the government at £7.20 per hour, with a differentiation between expensive London and the rest of the country. This wage level is £0.70 above the minimum wage, but still far below the level calculated by the Living Wage Foundation. According to this organisation, an hourly wage in London should be at least £9.75, and £8.45 for the rest of the UK.

Swedish Ikea is the only company of many that approaches this level. As of April, the home furnishings company has been paying its

employees £9.15 an hour in London and £7.85 an hour in the rest of the UK. But this is not surprising for a company with Swedish roots, and one could even say it is expected.

The biggest surprise in the UK was the decision of discount supermarket chain Lidl to start paying living wages. Lidl hereby exceeds Ikea: the German company may also pay its employees in London £9.15 an hour, its employees elsewhere in the UK receive £8.20. For Lidl, this has resulted in an average wage cost increase of 14 per cent.

Lidl's gesture made a huge impression in 2016, especially as the UK was experiencing an intense price war between supermarkets. Other supermarkets, including market leader Tesco, have yet to follow Lidl's example, but are not expected to do so in the near future.

"The largest surprise was the decision of discount supermarket chain Lidl to start paying living wage in London."

Step 4 Report the results to everyone

- + Organise cooperation with the stakeholders in the production countries.
- + Share experiences with the living wage strategy openly, both in English and in native languages.
- + Be transparent about the achieved and not-achieved results.
- + Monitor current results in view of closing the wage gap.
- + Improve the strategy where needed to achieve the formulated goal.

WHO WANTS TEXTILE COMPANIES TO SUCCEED?

Cooperating with trade unions? There are plenty of textile companies that would rather not welcome union leaders. Nonetheless, unions could be good stakeholders that would benefit fashion companies, Sprengers and Scheltus believe. "They want you to succeed. They will do everything possible to make other companies pay the same wage via collective wage negotiations. And they won't hesitate to meet with governments. This way, trade unions combat unfair competition."

There's even an international partnership, called ACT. Scheltus: "ACT stands for 'Action, Collaboration, Transformation'. It is a collaborative initiative in which parties such as brands and unions work together to achieve a living wage for production employees in the clothing chain via collective labour agreements. It's still quite new, but ACT has already appointed a director." Scheltus: "And remember the Internationale Labour Organisation (ILO) too. It is the only organisation as part of the UN that is governed by unions, employer associations and governments." Scheltus recently spoke at the UN Forum on Business and Human Rights in Geneva. The Dutch government stimulates the 'sustainable clothing covenant' and will also help realise living wage. No less than 50 companies, trade associations and trade unions FNV and CNV signed the agreement to work together to protect against child labour, forced labour, and fight for safe working conditions and less use of water, energy and chemicals, among other issues. A similar agreement was signed in Germany.

The goal of the covenant is being developed further in working groups, including a 'living wage' working group which attracted a great deal of interest with 22 registrations. The person heading the group is Mrs Jos Huber from the Dutch Ministry of Foreign Affairs who is active in the 'Private Sector and CSR' unit. Huber: "The Dutch Ministry of Foreign Affairs will contribute to a training for companies associated with the textile covenant to enable them to investigate living wages in their chain. The Netherlands Enterprise Agency (RVO) is also contributing via a brochure, and courses on living wage in the supply chain. In addition, the Netherlands aims to organise a round-table meeting in Bangladesh this year as a follow-up to the Asian Living Wage Conference, and minimum wage increase will certainly be one of the topics discussed. Trade unions and employer associations can make collective labour agreements as an alternative or supplement to higher minimum wages. In the textile sector, this is stimulated by the Netherlands via initiatives such as the Strategic Partnership with the Fair Wear Foundation."

WILL PENSION FUNDS START CONFRONTING COMPANIES?

In the Netherlands, major asset manager MN is one of the financial pioneers in the sustainable clothing covenant. In 2015 one of MN's employees was part of a delegation of Dutch Foreign Trade and Development Cooperation Minister Ploumen who visited clothing workshops in Bangladesh. MN took part on behalf of its clients, including the Dutch occupational pension fund for fashion,

interior, carpet and textile (MITT). On behalf of various pension funds, MN invests in major clothing companies that purchase products from clothing workshops in developing countries where 'the working conditions aren't as good as they should be' and holds these companies accountable, much like ASN Bank. In its socially responsible investment (MVB) report, MN states that "by improving the working conditions we can improve prosperity in a country." Living wage is an important element therein. Human rights and working conditions are fundamental issues for which institutional investors hold the companies in their investment portfolio accountable. The MVB annual reports show that a dialogue programme specifically aimed at living wage has not yet been developed. As yet, the focus is on safety, working environment, working hours and union rights. With its living wage manual ASN Bank takes on the trendsetter role. It is expected that an increasing number of institutional investors will soon make living wage part of their dialogue programmes with companies. ■

Website ASN Bank presents itself

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