

A Shared Approach to Estimating Living Wages

Short description of the agreed methodology

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Background

Despite the recognized need for a decent and living wage, lack of a generally accepted definition or methodology for measuring living wage has often been used to justify ignoring living wage in practice. A recent ILO review indicates that this is no longer an appropriate reason to avoid addressing living wage. There is in fact a clear consensus in the world about what a living wage is (R. Anker, *Estimating a Living Wage: A Methodological Review*, ILO 2011). Moreover, a new methodology for measuring living wage has been developed and is being supported by six sustainability standard systems. This methodology has been used to date to estimate living wages in nine countries for a multi-national corporation and in two countries for Fairtrade and Social Accountability International. Fairtrade International, Forest Stewardship Council (FSC), GoodWeave, Sustainable Agriculture Network/Rainforest Alliance (SAN/RA), Social Accountability International (SAI) and UTZ Certified are joining hands (see Box 1) and working with us to further refine and test this methodology for using in estimate living wage levels for the areas in which they work. This note briefly describes the methodology.

A Shared Approach to Living Wage

Fairtrade International, Forest Stewardship Council, GoodWeave, Sustainable Agriculture Network/Rainforest Alliance, Social Accountability International and UTZ Certified are working together on the methodology, promotion and implementation of a living wage for the workers that are protected by their respective labour standards. The organisations have agreed to a common definition of living wage and will use the same methodology for estimating living wage. All are committed to using a wide range of strategies, appropriate to each of their respective standards systems, to work towards the long term goal of improving wages and to involving brands, buyers, retailers, and other relevant stakeholders in this process.

Definition of living wage

The six sustainability standard systems have agreed to the following definition of living wage. This definition succinctly incorporates the main characteristics of living wage found in over 60 living wage descriptions and definitions from human rights declarations, national constitutions, NGO, multinational and corporate codes of conduct, ILO documents, and statements of major historical figures, Popes and the Catholic Church (Anker 2011). Living wage is:

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.

Methodology for measuring living wage

The living wage methodology has two main components, each of which is described in more detail below. The first component estimates cost of a basic but decent life style for a worker and his/her family in a particular place. The second component determines if the estimated living wage is being paid to workers.

Several aspects of this methodology are new and path breaking. First, the methodology emphasizes participation of local people and organizations in order to increase its credibility and acceptance by stakeholders. Second, housing costs are estimated using international and national standards for decent housing. By estimating the cost of decent housing, the methodology enables different living wages estimates within countries and helps ensure that workers can afford decent housing.

Third, the methodology requires transparency and detailed documentation and analysis to ensure that the living wage estimate is solid and credible. This includes critical appraisal of available secondary data and adjustments to these data when required. Fourth, a judicious combination of new local data collection and available secondary data is used to make the methodology simultaneously practical and credible. Thus, local food prices and housing costs are collected as are education, health care and transport costs to make sure that workers are paid enough to afford these.

Finally, the estimation of living wage is explicitly separated from determination of whether particular workers receive a living wage or particular employers pay a living wage. The evaluation of wage levels by certification bodies requires considering not only gross cash payment but also deductions from pay, overtime pay, bonuses, and in-kind benefits.

Estimating the cost of a basic but decent life style for worker and family

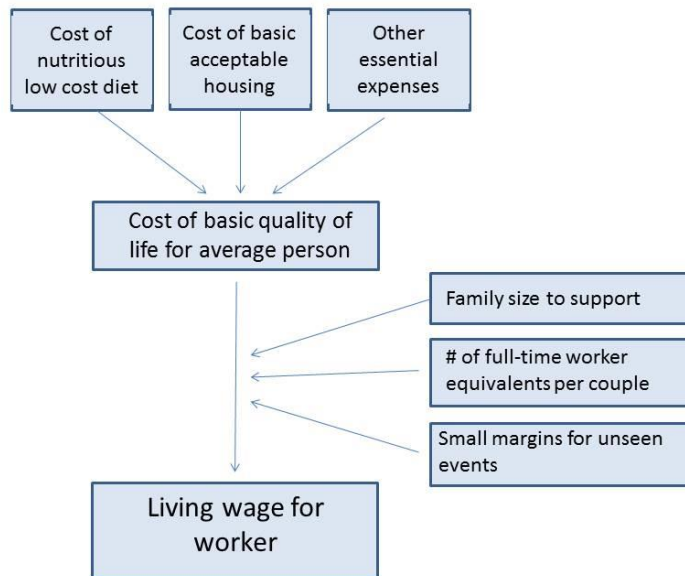
Figure 1 depicts how the methodology works in graphical form. In the first step, living costs are divided into three categories: food, housing, and other essential needs.

- Food costs are estimated based on: (i) a low cost nutritious diet that meets WHO recommendations on calories, macronutrients and micronutrients and is consistent with local food preferences and a country's development level; and (ii) local food prices for the types, qualities and quantities of foods that workers typically buy based on new data collection that involves workers and key informants. This approach to the model diet uses a more stringent nutrition standard than the more typical approach at present, which ensures only a sufficient number of calories. By collecting local food prices with worker input, realistic food prices are obtained that mimic workers' food shopping habits and preferences.
- Housing costs are estimated using international (UN-HABITAT) and national standards for decency (e.g. dwellings located outside slums and unsafe areas that have permanent walls, roofs that do not leak, and adequate ventilation; amenities such as electricity, water, and sanitary toilet facilities; and sufficient living space so parents can sleep separately from children). The cost of acceptable housing is established based on visits to local housing with workers.
- Lastly for practical reasons, cost of other essential needs is estimated using an extrapolation method based on secondary household expenditure data. This is then "post checked" to make sure that sufficient funds are included for health care and education and transport. This guards against the extrapolation method replicating poor living conditions as it is based on currently observed expenditure according to available household expenditure data.

Total cost per capita of a basic but decent standard of living is then scaled up to arrive at a cost for a typical family size in the area. A small margin is then added to provide for unexpected events and emergencies such as illnesses and accidents, to help ensure sustainability and avoidance of perpetual poverty trap. At arrive at the living wage

estimate, the estimated total cost of a decent standard of living for a typical family is then defrayed over the typical number of full-time equivalent workers per family for the location.

Figure 1. Flow chart of methodology for estimation of living wage



This methodology is a practical compromise between separately estimating cost of each and every expense families have, and the most common approach currently used for estimating living wage in developing countries, which uses just two expense groups (food costs based on a model diet and nonfood costs based on secondary data). Using normative standards for decent housing and estimating housing costs separately (not as part of nonfood costs as in typical methodologies) ensures that living wage estimates enable workers to afford decent housing. In contrast, typical methodologies rely on available expenditure data to estimate housing costs and so replicate current (often substandard) housing conditions. Our methodology also better allows for different living wage estimates for rural and urban areas because housing costs are usually the most important cause of differences in living costs. Our methodology also increases transparency, because size of the ‘all other essential costs’ bucket is much smaller and examined more thoroughly (and adjusted when necessary) than in typical approaches.

Determining if a living wage is being paid

To determine if a worker receives a living wage, the methodology takes into account how workers are paid. For example: (i) overtime pay is excluded because living wage needs to be earned in standard working hours; (ii) productivity bonuses and allowances are excluded unless they are guaranteed; (iii) mandatory taxes are taken into consideration because sufficient disposable income is required so workers can afford a decent living standard; and (iv) fair and reasonable value for in-kind benefits provided is taken into consideration, because in-kind benefits reduce amount of cash income workers require for a decent living standard. However, since too great a reliance on non-monetary benefits hinders empowerment and free choice, the methodology includes rules on how to value in-kind benefits to ensure that their value is fair and reasonable. The methodology will also include guidance on how to check wage levels in different labour situations (e.g. standard employment, temporary or seasonal labor, piece rate).

Involvement of local stakeholders in estimation process

The process of estimating a living wage for a particular location involves consultation and participation of local stakeholders, including trade unions and employer organizations when present. The goal of the estimation process is to obtain a credible living wage estimate that stakeholders are likely to view as legitimate and reasonable regardless of whether or not local employers feel they can pay this living wage. Local stakeholders are closely involved in collection of local food and housing costs based on visits to workers' homes and places where workers shop for food; workers provide information on local preferences and living conditions; employers and workers provide information on in-kind benefits, bonuses and deductions from pay; and, before final conclusions are taken, stakeholders are asked to provide feedback and suggestions on preliminary living wage estimates.