

Executive summary

Living Wage for rural South Africa with Focus on Wine Grape Growing area in Western Cape Province¹

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This paper estimates a living wage for wine grape growing area of Western Cape Province South Africa using a new methodology developed by the authors. We estimate of a living wage is R144 per month for workers in the area who do not receive free in-kind benefits. For permanent worker who receive free acceptable housing, free transport to town once per week on a regular basis, and 13th month Christmas bonus , we estimate a cash living wage of R111 because these free in-kind benefits reduce the cost of a decent living standard for a family.²

INTRODUCTION TO LIVING WAGE

The idea of a living wage is that workers and their families should not have to live in poverty. But a living wage should do more than simply keep workers and their families out of poverty. It should also allow them to participate in social and cultural life. In other words, wages should be sufficient to ensure that workers and their families are able to afford a decent basic life style considered acceptable by society at its current level of economic development. Workers should receive a living wage in normal work hours without having to work overtime. The following living wage definition has been agreed by Fairtrade and five other certifying organizations:

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

The idea of a living wage is not new. Nor is it a radical idea. Its origin can be traced back to St. Thomas Aquinas in the 13th century and Adam Smith in the 18th century both of whom felt that workers should receive, indeed are entitled to, a decent wage. In 1891, a Papal encyclical from Pope Leo XIII states that “remuneration must be enough to support the wage earner in reasonable and frugal comfort.” In 1925, industrialist John D. Rockefeller wrote “Every man is entitled to an opportunity to earn a living, to fair wage.” International Labor Organization Constitution in 1919 states that “peace and harmony in the world requires an adequate living wage”, and United Nations Universal Declaration of Human Rights in 1948 states that “everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity.”

HOW LIVING WAGE WAS ESTIMATED FOR WINE GRAPE REGION OF WESTERN CAPE

The flow chart at end of this note indicates how our living wage for wine grape growing region of Western Cape was estimated. We started by estimating the cost of a basic but decent living standard for the region at the present time (first left hand box). This was done by summing up separate estimates of the cost for nutritious food, decent housing, and all other needs at a decent level (first three right hand boxes). A small margin above this total cost of a frugal and basic life style was then added to help provide for unforeseen events such as illnesses and accidents to help ensure that common unforeseen events do not easily throw workers into poverty. This new total cost of a basic but decent quality life, that up to now was mostly expressed in per capita terms, was then scaled up to arrive at cost for a typical family size and defrayed over a typical number of full-time equivalent workers per household in the area.

² This study was funded by Fairtrade International (FLO) and is the first in a series of living wage pilot studies that uses an agreed definition and methodology to estimate living wages under the ‘Shared approach to living wage’ MOU signed by six certifying organizations associated with ISEAL (FLO, Forest Stewardship Council (FSC), Goodweave, Rainforest Alliance/SAN, Social Accountability International (SAI), and UTZ Certified).

It is important to point out that considerable thought and effort was put into making our living wage estimate. This included visits to workers' houses, visits to markets where workers shop for food, discussions and information from farm workers and farmers, and discussions and information from various key informants in the area such as doctors, municipalities, educators, and others. This also included many papers, reports and statistics from researchers, government and international agencies. The end result of this effort is we believe a solid and credible estimate of a living wage for wine grape growing region. It is also important to note that all of the information, assumptions and calculations that went into making this living wage estimate are clearly indicated in our full paper, because we feel that transparency is very important so that stakeholders are able to understand and able to question the bases for our living wage estimate as part of ongoing process of stakeholder dialogue.

COST OF BASIC BUT DECENT LIVING STANDARD

Food cost

Food costs were estimated to be R12.5 per person per day. This was estimated using a model diet and local food prices. This model diet meets World Health Organization standards for nutritional needs and is consistent with South African and Western Cape food habits and preferences. This model diet is also consistent with 5 other diets available for South Africa (University of Stellenbosch, South Africa Department of Health, University of Port Elizabeth's Household Subsistence Level, Medical Research Council, Food and Agriculture Organization).³ To ensure that food cost for our model diet reflects how workers typically shop, we used lowest prices observed for each type of food in each of four supermarkets in the area (Checkers, Check-In, Savers Lane and Pick n Pay) because workers are cost conscious shoppers who usually buy brands and quantities of foods that are low in cost per kilogram, including promotions when available. Similarly for each food group (e.g. meats, vegetables, etc.), lowest cost item for this food group was chosen. As a result, fruits in our model diet are represented by oranges; vegetables by cabbage, carrot and pumpkin; and meats/fish mainly by frozen chicken and chicken giblets. Since allowing for some variety is important for nutrition as well as reasonable since workers cannot be expected to be perfect shoppers and food preparers, 10 percent was added to cost of our model diet to allow for some variety and flexibility, 3 percent for minimal wastage and spoilage, and 3 percent for salt, spices and condiments. Note that in keeping with the concept of a basic nutritious diet, our model diet does not include soft drinks, confectionary or cakes.

Housing cost

Housing costs were estimated by summing cost of: (i) rent for a basic acceptable dwelling and (ii) utility costs and other housing costs. Costs were determined by visiting local housing, speaking to workers about local housing conditions and costs, speaking to local municipalities, and looking at online real estate websites. Before determining local housing costs, standards were set for basic acceptable housing drawing on ILO wages conventions, South African employment law, UN-HABITAT standards, United Kingdom standards in force since 1930s, and international building codes.⁴ We estimated housing costs for basic acceptable housing to be R1,280 per month for a family (R900 for rent, R250 for electricity, R100 for water and refuse collection, and R30 for minor repairs and maintenance).

³ Our model diet includes lots of cereals (270 grams of mealie, rice and flour and 3 slices of bread per day), 8 meat meals per week, 3 eggs per week, 1 cup of milk per day for children and ½ cup of milk per day for adults to add to coffee, tea and porridge, 1 fruit per day, and 175 grams of vegetables per day.

⁴ Housing standard was: non-slum building in reasonable condition with walls made of permanent materials and durable roof without leaks (or easy to repair), glass windows that open, adequate ventilation, basic amenities (electricity; flush toilet inside dwelling or in close proximity or improved ventilated pit latrine in close proximity; safe piped water inside house or in close proximity); and floor space of at least 30 square meters with preferably 2 rooms although one large room divided into separate areas/"rooms" by curtain or tall dresser was considered acceptable.

Non-food and non-housing costs

All non-food and non-housing costs were estimated as R1,616 per month. This covers clothing and footwear; household furniture, contents and appliances; health care; education; transportation; communications; recreation and culture; eating away from home; and miscellaneous goods and services such as insurance, bank services, funerals and personal care. Non-food and non-housing costs were estimated using Engel's law (which states that percentage of household expenditure spent for food decreases as household income increases) and statistics from Statistics South Africa for all South Africa on household expenditure patterns. Note that we excluded funds for tobacco because tobacco was not felt to be necessary for decency, and limited alcohol consumption to 2 beers per week per adult as the observed high level of alcohol consumption in South Africa was not felt to be appropriate for a living wage.

Also note that after making a preliminary estimate of non-food and non-housing costs using Engel's law, we looked more carefully at whether funds included for health care and education were sufficient because these are considered rights in almost all countries as well as at funds for transportation because rural areas have different transportation needs and costs than other areas in South Africa. Based on these in-depth examinations, we increased our preliminary estimate of funds needed for health care and decreased funds needed for transportation.

Family size needing to be supported by living wage

Living wage is a family concept. It is, therefore, necessary to determine an appropriate family size for wine grape growing region. This was set based on information on total fertility rate (i.e. number of children women typically have over their life at present) and average household size in Western Cape. Both of these indicate that a family size of 4.5 persons is appropriate for estimating a living wage for rural areas of Western Cape.

Number of full-time workers per couple proving support

As living wage is a family concept, it is appropriate to expect more than one adult in the family to work to provide support through work. To determine this per couple for Western Cape, labor market data (age specific labor force participation rates, unemployment rate, and part-time employment rate) available information from 2012 Western Cape Economic Review and ILO website were put together. Based on this information, we estimated that 1.64 workers per couple is appropriate for estimating a living wage for rural areas of Western Cape.

Bonuses, mandatory deductions and free in-kind benefits

Guaranteed Christmas 13th month bonus and UIF mandatory deduction

Christmas (13th month) bonus increases annual pay. For this reason, we decreased our living wage per month estimate by 1/13th for permanent workers who are guaranteed a Christmas bonus.

UIF tax reduces take home pay. For this reason, we increased our living wage estimate by UIF tax paid by workers. Note that voluntary deductions from pay were not considered here, because they are in a sense a form of voluntary expenditure. Also note that overtime pay is not be considered, because one principle of a living wage is that it should be earned during normal working hours.

Free in-kind benefits as partial payment of living wage

Free in-kind benefits provided by farms reduce the amount of cash income required by workers to ensure they receive a living wage. For this reason, it is reasonable to consider the value of some free in-kind benefits when determining if workers receive a living wage. To help determine which free in-kind benefits it is reasonable to

consider as partial payment of living wage as well the value of such benefits, ILO conventions, South African law and national practices from around the world were used.

To be considered as partial payment of living wage, free in-kind benefits needed to be regular (so worker could count on receiving benefit); considered to be of value by workers; customary in that a reasonable number and percentage of wine grape growing farms provide the benefit; and worth at least around R500 per year per worker and his/her family for practical purposes and to avoid becoming petty. To be considered as partial payment of living wage, minimum standards also had to be met. For housing, our housing standard for acceptable housing had to be met (see above) and for transportation to nearest town South African law on safety standards had to be met.

General guidelines were established for valuing free in-kind benefits as partial payment of living wage. Value for any benefit could not exceed cost to farmer to prevent farmers from “profiting” on providing in-kind benefits; value for free accommodation (excluding electricity) could not exceed 15% of living wage; value for any other free in-kind benefit could not exceed 10% of living wage; total value for all free in-kind benefits could not exceed 25% of living wage. Limits were placed on value of free in-kind benefits as partial payment of living wage so that cash payment of living wage remains high. Note that many countries have such limits.

Value of free housing as partial payment of living wage

A “credit” for free acceptable accommodation of R464 per month was allowed. This is equal to our 15% of living wage limit. Note that this “credit” is around (i) one-half of estimated housing costs in nearby towns and (ii) twice R228 “credit” allowed for free accommodation in South African minimum wage law.

Value of free transport from farm to nearest town as partial payment of living wage

A “credit” of R44 per month was allowed for free transport to town for a worker and his/her family when this service is provided at least once per week on a regular basis. We estimated R44 as the running cost (e.g. cost of gas, oil, tires, normal wear and tear) of this service once per week using a bakkie based on cost calculation tables on South Africa Automobile Association’s website. Fixed costs (such as depreciation, insurance and license fees) were not considered in this calculation, because vehicles used to transport workers to town are mainly used for general farm work. This transport credit of R44 as partial payment of our living wage is a bargain for workers, because a private “taxi” typically costs R20 to R40 return per person.

Flow chart of how our living wage was estimated

