

FWN LIVING WAGE METHODOLOGY

I. The living wage: Definition

What is the living wage?

The living wage is defined as a level of income that allows an individual worker to meet his/her basic needs and those of his/her family (in terms of food, housing, education, health, etc.) but at decent standards.

What differences between the living wage, the minimum wage and fair wage?

Many similar terms are used in this area by companies and academics: minimum wage, living wage, fair wage, decent wage. Although they are often used indifferently,¹ these terms do not mean the same thing and should thus be distinguished.

- **The minimum wage** is the wage floor defined by governments after consultations of social partners (or eventually in some countries fixed directly by social partners)
- **The living wage** is the minimum required for ensuring the coverage of workers' and their families' basic needs.
- **Fair wage** (decent wage being a close concept) corresponds to wage practices and levels that ensure sustainable developments at enterprise level including the payment of a living wage but also other wage elements.

II. The Living wage: Methodology

What is the living wage methodology of the Fair Wage Network?

When we started the Fair Wage approach the situation with regard the living wage was rather complex. There was no generally agreed methodology on how to measure a living wage, while there were a number of organizations involved in the calculation of a living wage. However, these methods were very different: they were often not calculated on the same year, the family size taken as the reference (1 adult, or two adults + 2 dependents etc.), or the time unit (monthly, yearly, weekly, daily) for the living wage calculation were also differing. The currency unit could also be different, some calculating in local currency unit and others for instance in USD. These large differences in the methodologies were also leading to great variations in the living wage calculations. Partly because of this, many companies were reluctant to make commitments to ensure the living wage payments in their operations or supply chains.

How does the FWN calculate the living wage for a typical family?

Field work

Confronted to this situation, the FWN took the decision to implement one major activity: extensive field work. We believe in fact that the collection of data at local/national level is the

¹ For instance in the report 'The living wage: Towards better practices', by Almundi, 2018, p.8.

most solid way to collect living wage figures that match the reality of workers and their families.

Criteria

The idea of a living wage is that workers and their families should be able to afford a basic, but decent, life style that is considered acceptable by society at its current level of economic development. Workers and their families should be able to live above the poverty level, and be able to participate in social and cultural life. The list of goods and services in the basket retained for the calculations of the living wage should reflect this objective and include all necessary and basic areas of expenditure of workers and their families, and in particular:

- Housing (according to UN-Habitat, UN criteria);
- Food (that is enough to ensure 2200-3000 kilo-calories/adult/day)
- Child care;
- Education;
- Healthcare;
- Transport & Communication
- and a percentage left for leisure and/or for some precautionary savings to face eventual unexpected expenditure.

These represent a list of 'minimum elements a living wage methodology needs to include'. At the same time it is checked whether the food list is sufficiently balanced between the basic food groups, namely vegetables, grains, fruits, dairy, meat, beans, oils, and sweets, and also within the total list between the different categories of expenditures (for instance also enough for heating, or for medication etc.). At the same time, on the basis of workers' reports on their expenditures, a structure of goods and quantity of goods is defined, with also the definition of a sort of a model diet for each country that will reflect both FAO food balance sheets and the varying food consumption patterns and habits identified in each country through the workers' survey and also local surveys. We include as far as possible all food items from the FAO database that already reflects the food preferences in a country with some adjustments due to local consumption patterns and this list is also checked against the balanced diet defined by the World Health Organisation (WHO).

In terms of housing, we ask workers whether they rent a place or if they are owners. In the first case, we ask for the rent, and in the second case for the monthly costs for reimbursing the principal capital, and also the costs in terms of interest rates on mortgages and other types of loans. Prices are collected for locations that are recognized as not being part of unsafe areas. The standard are along UN Habitat criteria, and certainly need as a minimum to have permanent walls, a solid roof, sanitary toilet facilities, adequate ventilation and permanent access to electricity, water and heating. Average costs for utilities are also calculated, for drinking water, electricity, garbage collection or other collective charges, fuel/gas for heating and/or cooking, internet connection, expenditures for maintenance, repairs or replacement of households' equipments.

The calculation of living wages is based on different standards in terms of year of reference, size of households, time unit currency units etc. We proceed to an in-depth harmonisation process of all data to put all of them to the same standards. We retained as the common standards:

- a family size along the local fertility rate (2 adults + fertility rate)

- Local currency unit
- Monthly time unit
- Adjustment to the number of income earners
- An adjustment to price increases up to the current year (here updated until end June 2022)

This allows us to have data that reflect the need of a typical family along local demographics (fertility rate) and local employment rates (number of income earners in the family).

Surveys and collection of data

The field work is carried out by the FWN in a multi-step process:

First with surveys being carried out among workers in factories/farms in the different locations that allows to capture what are the daily and also monthly expenditures of workers and their families, and also what do they consume and in what quantities. These surveys are then combined with surveys carried out in local markets and local shops to capture the right prices of basic goods and services.

Surveys on workers' expenditures

A representative sample of workers and a minimum number of 80 workers are interviewed in each factory/farm under survey. Questions are asked on their family expenditures with also more qualitative questions on the eventual living difficulties they may face. The survey results allow us to know what do workers consume in their family and for what prices. In order not to have the responses of workers on their living standards be influenced by their income situation, we interview workers in different grades and positions in the companies (under the assumption that quality and quantity of items increases along the income situation). We also add to their expenditures 15 to 20% for precautionary savings to cover eventual unexpected expenditures. The Covid-19 crisis confirmed that in periods of crisis workers have to face unexpected expenditures, in this case increased costs due to health care. The amount for savings is adjusted according to the data collected through qualitative questions asked to workers about their past capacity to face such unexpected expenditures and the ways they were able to cover them, either through using their own savings or through loans asked to family members or financial institutions, which help us to identify the living difficulties of workers and their families.

Surveys among local markets/shops

Workers' expenditures are then combined with surveys carried out in local markets and local shops. This allows to check that the prices provided by the workers are fully accurate since there is always a risk that workers would over-estimate prices and their expenditures with the expectation that this would push the company to increase their wages. The local market surveys are carried out both in urban and rural areas since costs of living are different between these two types of areas. These two sources of information then help us to define what should the living wage be for the workers in the respective factories and localities.

The above surveys are collected through two different channels. Since the FWN carries out fair wage assessments for companies all over the world, they represent a unique opportunity to systematically carry out workers' expenditures surveys and local market surveys.

When the FWN identifies countries and/or regions where there is a need for more and newer data, its team of local assessors carries out extensive surveys in those localities to provide new data and living wage benchmarks (see example below on India and other countries).

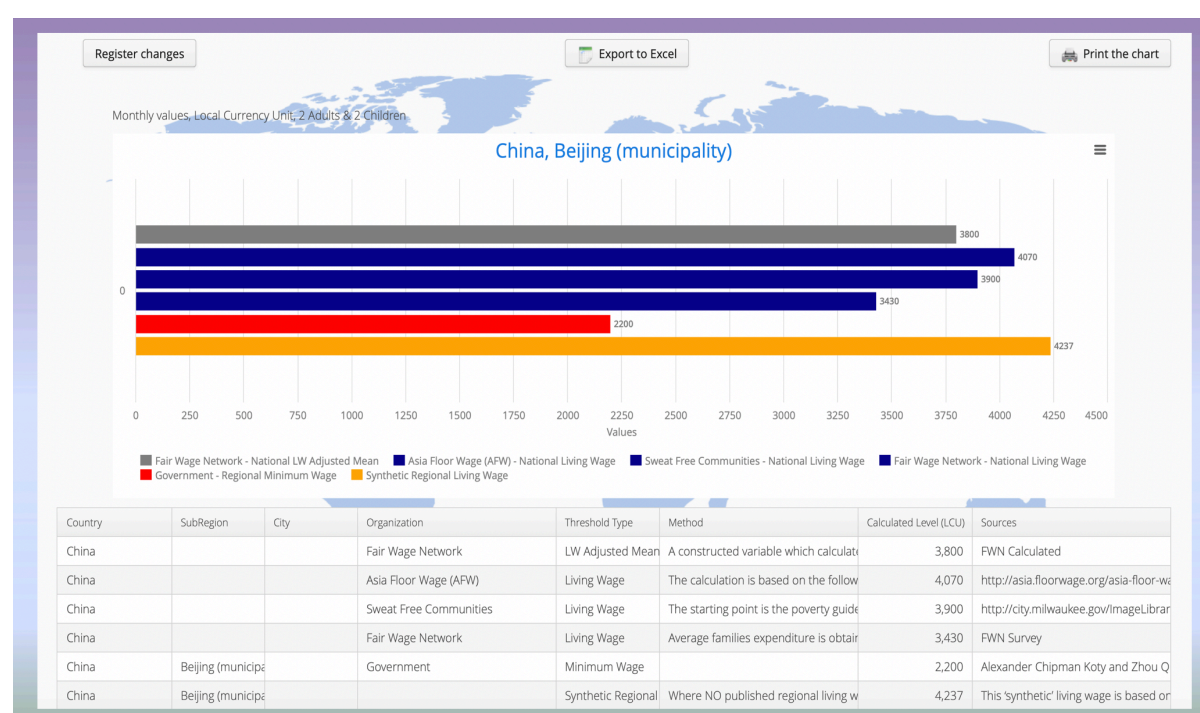
Progressively, the online living wage database has been enriched by more living wage data by region and city enabling to make living wage gap analyses more granular. Stimulated by companies' requests, the current focus of the FWN is to collect a maximum number of data to calculate more regional and city living wage thresholds.

III. Living wage thresholds presented on the FWN online local database

The above research work allows to collect living wage data at local level, with now more than 3,000 living wages at the level of the individual regions and cities, with also differences between rural and urban areas (see the example with India in the box below). This then allows to have also national living wage thresholds in nearly 200 countries.

Calculation of the FWN living wage adjusted mean

Once all the local living wage thresholds have been defined and applied the same standards, they all appear in the FWN online living wage platform. They also generate the FWN living wage adjustment mean which is the national average of all the local thresholds. It is this national adjusted mean that represents the FWN benchmark (with also the relevant local threshold) used by brands like UNILEVER, MARS, VODAFONE, Barclays Bank etc. to compare the wage levels of their employees in different countries. At the same time, the graph is also showing the national minimum wage in the country or the relevant region (here-below Beijing in China) as another important reference.



FWN collecting living wage thresholds at local level: the example of India 2020-2022

India is a good example of a country when the FWN saw recently the need to collect more data at regional level considering the scale of the country and the huge differences in costs of living between provinces, but also -within each province- between urban and rural areas. This is the reason why the FWN conducted from early June 2020 (immediately after the lockdown due to Covid-19 until December 2020) a large scale field exercise that consisted in different steps:

- Collecting data on wages and living costs in 14 different States of India.
- Visiting a number of companies in each of the 14 states with individual interviews of workers among a minimum sample of 80 workers in each company (both direct employees and contractual workers) to know their family expenditure in different fields (housing, food, education, health, etc.).
- Carrying out surveys of market rates in the same 14 states to have also a feedback from the consumers' markets and to complement the figures provided by the workers.
- Reproducing the above two exercises (factory visits and market surveys) in both urban and rural areas within each state to capture differences in living costs but also in terms of wage levels and wage structure.
- Building a comprehensive database on wages and living wages and in particular defining 28 living wage thresholds to cover both urban and rural areas in the 14 states.

This led to one of most unique living wage database currently existing in India, and which will be complemented early 2022 by similar field work carried out in more states to progressively cover different categories of workers in all states of the country.

This exercise was extended to neighbouring countries early 2022, with similar surveys being conducted in Bangladesh, Nepal, Pakistan and Sri Lanka.

During the second half of 2022 new surveys have also been carried out in a number of African countries, in particular in Burundi, Nigeria, Democratic Republic of Congo and Ethiopia.

IV. A method that respects 5 key basic principles

The FWN has the merit to respect the basic principles that we believe a worldwide living wage methodology should have if it wants to represent a reliable benchmark for brands working on operations in multiple countries.

The five basic principles for a worldwide living wage methodology

Such method should be:

Principle 1	Reliable
Principle 2	Transparent
Principle 3	Scalable
Principle 4	Adapted on a regular basis
Principle 5	Legitimate

Reliable

To be reliable, the living wage methodology must be based on objective and not subjective criteria. This is the case of the FWN through its multi-step process based on a comprehensive list of criteria, its data coming from field work and research, and with the aim of getting the most balanced figure and the closest to the reality of workers and their family.

Transparent

It should be possible at any point to trace back how a living wage threshold was calculated, with data being also available on the structure of consumption and the costs included in the living wage. This is important for companies that are often the target of NGOs campaigns and that should thus explain their living wage method.

Scalable

A brand working in different markets cannot be using different living wage methodologies according to the countries but requires one coherent methodology across countries. This methodology should also have data on all countries. By using the same multi-step process in every country, and by proposing living wage thresholds in nearly 200 countries, the FWN online living wage database can represent a precious tool to companies willing to evaluate their living wage gap in all the countries where they operate.

Adapted on a regular basis

To be reflecting the living wage situation of workers' families in the closest way, the living wage data should be adapted on a regular basis, at least once a year. This is the case of the FWN database for which a team of researchers collects data every day in order to be ready to adjust the database once a year. Data are also checked for consistency over time. In case structural discrepancies are detected (for instance a significant increase or decrease by more than 20% over the year) a thorough analysis is carried out with local experts and eventually additional surveys can be carried out.

Legitimate

A living wage methodology should somehow be recognized by the multiple stakeholders working on global supply chains and more generally on sustainability. The FWN has progressively acquired such notoriety with its living wage database being used by an increasing number of companies and diversified sectors. The FWN typical family living wage benchmark was also recognized by the IDH recognition process (see above). The 2021 questionnaire carried out by Standard & Poor in the frame of the Dow Jones Sustainability Index has revealed that the FWN living wage database was the living wage methodology most used by the companies.

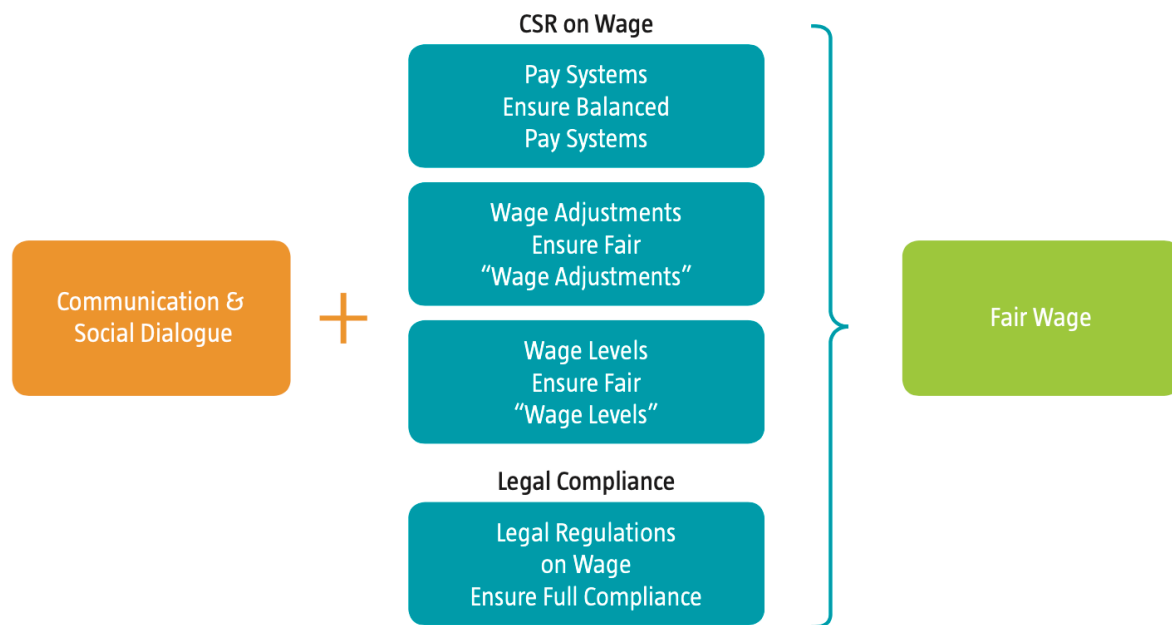
V. A living wage method enshrined into a more global Fair Wage strategy

The original aim of the FWN is to provide companies with a concrete tool to better understand the wage practices of their own enterprises or suppliers through fair wage assessments at factory level that combine both management and worker surveys to reproduce the performance of the individual factory on 12 complementary dimensions (see below).

A fair wage could be defined as:	
1. Payment of wages	A wage which is regularly and formally paid in full to the workers.
2. Living wage	A wage that ensures minimum acceptable living standards.
3. Minimum wage	A wage which respects the minimum wage regulations.
4. Prevailing wage	A wage which is comparable to wages in similar enterprises in the same sector.
5. Payment of working time	A wage that does not generate excessive working hours and properly rewards normal working hours and overtime.
6. Pay systems	<p>A wage that leads to a balanced wage structure/composition between the basic wage and additional bonuses and benefits.</p> <p>A wage that reflects different levels of education, skills and professional experience, as well as rewarding individual and collective performance.</p> <p>A wage that complies with regulations on social insurance payments and paid holidays and is not dominated by disciplinary wage sanctions.</p>
7. Communication and social dialogue	<p>A wage on which workers receive sufficient information in advance (through an individual work contract), in the course of the production process (through regular communication channels) and at the time of the wage payment (with a detailed pay slip).</p> <p>A wage that is negotiated individually (between the employee and his or her own individual employer) and if appropriate collectively (notably through collective bargaining between the employer and the workers' representatives who are freely accepted in the company).</p>
8. Wage discrimination/ wage disparity	An equal wage for equal work that does not lead to wage discrimination and does not generate unjustified and high wage differentials within the company.
9. Real wages	A wage that progresses at least in proportion to increases in the cost of living.
10. Wage share	A wage that progresses proportionally along with enterprise sales and profit growth and which does not lead to a fall in the wage share in enterprise performance growth.
11. Wage costs	A wage whose progression does not lead to a dramatic reduction in wage costs within total production costs and as a percentage of employment.
12. Work intensity, technology and increases in skill	A wage that progresses along with changes in intensity at work, technological content and the evolving skills and tasks of the labour force.

These 12 dimensions can also be regrouped in the following five major areas: legal compliance (on minimum wage, number and payment of overtime); wage levels (living wage, prevailing wage, pay equality); pay systems; wage adjustments (real wage, wage share, wages and skills); and communication and social dialogue (See Figure 2)

Figure 2: A Fair Wage Framework



The Fair Wage assessment leads to a series of results, graphs and scoring on each of the 12 dimensions that helps identify the areas where the individual factories are relatively strong and those where they might be weaker and would require some possible remediation. If the individual factory reaches the threshold of 70% of the maximum possible score (that is 280 out of possible 400 points), it will be provided with the Fair Wage certification qualifying it as a 'fair wage employer'. The Fair wage report will give the possibility to those not reaching the threshold to identify the areas where they would need to progress to improve their wage practices -including on the living wage- and to reach the necessary threshold and the certification in the following Fair Wage assessment. This is the exercise that was carried out in 2019 among 40 factories in the luxury sector in Italy covering more than 1,000 employees (see more detailed results below in Step 8).

VI. The possible support by the FWN

The FWN is ready to help companies to develop their living wage/fair wage strategies through different tools:

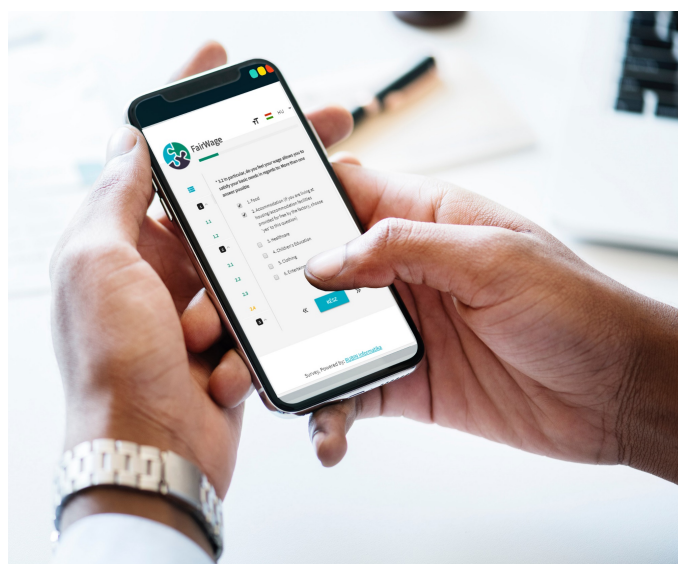
- Its living wage database with living wage thresholds in nearly 200 countries with also more than 3000 living wage thresholds at regional and city level;
- Its advisory services to help companies to define and develop their wage strategy;
- Its in-depth analysis by country by carrying out for them a living wage analysis in their different markets, that consists in comparing systematically all their individual

workers' wages to living wage thresholds and identifying how far would their eventually fall behind.

- Its fair wage assessments to help companies to get a more global picture of wage practices, and implement necessary remediation;

The above activities help every company to improve their knowledge of wage practices in all their companies and suppliers, and to identify the remedial action they should develop to improve the living wage situation -and more generally all their wage policies- in their different markets of operation.

All the data and reports generated by the FWN are available anytime on a dash board to facilitate the companies' management access to results and data in any circumstances. Fair Wage assessments can also be carried out online to facilitate the collection of data worldwide, notably to obtain data on worker families' expenditure on a regular basis, thus helping to enrich the FWN online living wage data in all relevant regions.



The Fair Wage assessments, beyond providing a number of useful information on wage practices, represent a useful tool to collect all the individual workers' data at factory level and to then carry out the living wage gap analysis. They also allow a brand to identify all possible areas of improvements, and then also help individual units to progress on wage practices, and through this, facilitate their achievements in terms of living wage payment.

FAIR WAGE NETWORK 2023



For more inputs on how to calculate the living wage please and relevant criteria look at the joint FWN-OECD working paper (May 2023): 'Living wages in context: A comparative analysis for OECD countries':

https://www.oecd-ilibrary.org/social-issues-migration-health/living-wages-in-context_2e622174-en