



**ASIA
FAIR
TRADE
2016**



**The Living Wage
Calculator**

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The Living Wage Calculator

How does it work?

Why are we using it?

Can we determine wages just using the
calculator?

Frans Papma

DAWS / Fair Trade's Finest

Living Wage can be calculated

Living Wage means an income that covers the cost of living

Need to calculate the cost of living for workers and producers

So, LW is different from:

- Minimum wage (political determination)
- Prevailing wage (market forces)
- Negotiated wage (power balance worker-employer)

Elements of the costs of living

Food

Housing

Education

Health

Clothing

Saving & disaster

etc.

The method of calculation

Richard & Martha Anker (ex-ILO) designed a method to calculate the costs of living

Some aspects:

- Calculated LW should sustain a family (to count with: average family size, average number of wage earners per family)
- Cost of food based on nutritious, healthy diet
- Need to define a healthy food basket based on local diet
- Data collection from workers' families and the local market
- Different in every region/sector
- Short shelf life: need to repeat
- Research and calculation to be done by experts

Who makes the calculations?

Many scattered initiatives in the past, but now there is concerted action by:

Global Living Wage Coalition

ISEAL, FI, FSCI, GoodWeave, RFA, SAI, SAN, UTZ

WFTO wants to join the coalition

“Anker” studies so far:

Bangladesh, Vietnam, Brazil, Costa Rica, Dominican Republic, Malawi

Short term 20 more, of which in Asia:

China (Chengdu, Hangzhou, Shanghai, Shenzhen, Suzhou, Zhengzhou),
India (rural Uttar Pradesh and Tirupur, Tamil Nadu), **Pakistan** (Sialkot rural and urban), **Vietnam** (HCMC and rural)

The calculator tool


We are using a simple tool, based on Anker

Why use it besides official studies?

- 3rd Party studies (like Anker's) not available in every region/sector
- Anker studies are costly
- Our Calculator Tool is cheap, easy to use for people with basic office skills, can be repeated frequently
- It is educational; to be used jointly by Workers/Producers and management, so that all can understand LW in their own environment and the implications for business
- Discover whether the official studies apply for your situation; and be able to justify if you need to set a different LW

Possibly tool will become mandatory in WFTO Guarantee System

A quick view on the tool

| | A | B | C | D | E | F | G | |
|----|---|------------------------|----------------------------------|----------------------|--------------------------|--|---|--|
| 1 | WFTO – Living Wage Calculator | | | | | |  | |
| 2 | <p>Important notice. The 2 tools in this document are distributed by WFTO's Fair Prices Fair Wages working group, and were presented at the WFTO Milan Conference, May 2015. They are not yet part of any official WFTO policy. But the working group encourages every-one to use them. Your feed back is welcome.</p> | | | | | | | |
| 3 | 1. Basic data | | | | | | | |
| 4 | Your name | Xxxxxx | | | | Cell colour legenda | | |
| 5 | Your company/organization | Xxxxxx | | | | Questions | don't change | |
| 6 | Date | January 10, 2016 | | | | Data | fill in please | |
| 7 | Country | Indonesia | | | | Calculated results | don't change | |
| 8 | Region | Xxxxxx | | | | Final results | don't change | |
| 9 | Location | Xxxxxx | | | | | | |
| 10 | Rural or Urban | Urban | | | | | | |
| 11 | Currency used (abbreviation) | IDR | | | | | | |
| 12 | Exchange rate (1 Euro or 1 Dollar = ... currency used) | 14.674,00 | | | | Click to find your exchange rate | | |
| 13 | How many Kcal should food basket have (WFTO standard: 2300 Kcal) | 2300 | | | | WFTO requires 2300; you can experiment with other values | | |
| 14 | | | | | | | | |
| 15 | 2. Food basket for 1 adult | | | | | | | |
| 16 | Food item | Weight in grams | Caloric value kcal / gram | Calories kcal | Price per kg. IDR | Costs per adult IDR | | |
| 17 | | | | | | | | |
| 18 | Rice | 250 | 3,48 | 870 | 9.200,00 | 2.300,00 | | |
| 19 | Meat / Fish | 135 | 2,00 | 270 | 30.000,00 | 4.050,00 | | |
| 20 | Tempe/ Tofu | 150 | 1,20 | 180 | 15.000,00 | 2.250,00 | | |
| 21 | Vegetable | 300 | 0,63 | 189 | 8.000,00 | 2.400,00 | | |
| 22 | Fruit | 150 | 0,72 | 108 | 10.000,00 | 1.500,00 | | |
| 23 | Milk | 125 | 0,50 | 63 | 15.000,00 | 1.875,00 | | |
| 24 | Oil | 40 | 9,00 | 360 | 12.000,00 | 480,00 | | |

Simple tool? What's the trick?

Investigate the cost of food only

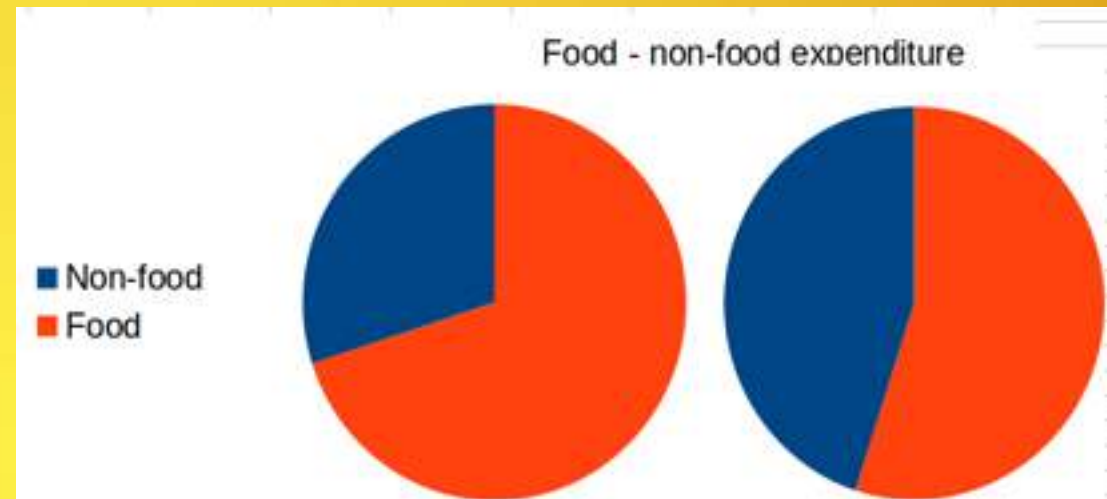
Ratio between food and non-food expenditure is roughly the same in a given region or country

So: find the ratio from national statistics. Same for: family size

Taking it one step further...

Number of family members and number of wage earners per family is roughly the same in countries with a given income level.

So: use the World Bank classification of countries (LIC, LMIC, etc), and set (just once) a multiplication factor for LIC, LMIC...



Calculating the cost of a healthy daily food basket

| 15 | 2. Food basket for 1 adult | | | | | | |
|----|--|----------|---------------|----------|----------------|-----------------|-----|
| 16 | Food item | Weight | Caloric value | Calories | Price per kg. | Costs per adult | |
| 17 | | in grams | kcal / gram | kcal | IDR | IDR | |
| 18 | Rice | 220 | 3,48 | 766 | 9.200,00 | 2.024,00 | |
| 19 | Meat / Fish | 135 | 2,00 | 270 | 30.000,00 | 4.050,00 | |
| 20 | Tempe/ Tofu | 150 | 1,20 | 180 | 15.000,00 | 2.250,00 | |
| 21 | Vegetable | 300 | 0,63 | 189 | 8.000,00 | 2.400,00 | |
| 22 | Fruit | 150 | 0,72 | 108 | 10.000,00 | 1.500,00 | |
| 23 | Milk | 125 | 0,50 | 63 | 15.000,00 | 1.875,00 | |
| 24 | Oil | 40 | 9,00 | 360 | 12.000,00 | 480,00 | |
| 25 | Sugar | 35 | 4,00 | 140 | 13.000,00 | 455,00 | |
| 26 | Spices | 45 | 0,64 | 29 | 17.000,00 | 765,00 | |
| 27 | | | | | | | |
| 28 | | | | | | | |
| 29 | | | | | | | |
| 30 | | | | | | | |
| 31 | | | | | | | |
| 32 | | | | | | | |
| 33 | | | | | | | |
| 34 | This basket has a total Kcal value of: | | | 2.104 | ... and costs: | 15.799,00 | IDR |
| 35 | This basket converted to | | | 2.300 | ... will cost: | 17.271,59 | IDR |

Family size, Food/non-food, etc

| Now we know the cost of food per day for 1 adult: 17.271,59 IDR | | | | | |
|--|----------------------|--|--|--------------|----------------|
| 3. Adapt for family size and non-food expenses Chose a method below, depending on available data, or use both methods and compare them | | | | | |
| SAI method | | DAWS method | | | |
| Family size | | World Bank country classification | | | |
| Average family size | 4,0 | Income class of your country | LMIC | | |
| Where did you find information about the average family size in your region? | | Multiplication factor | 5,0 | | |
| | | Link to Work Bank web site | | | |
| Distribution food/non-food cost | | | | | |
| Food | 43% | | | | |
| Non-food | 57% | | | | |
| Where did you find information about which percentage of total expenditure is food, and which percentage is non-food? | | | | | |
| 4. Applying multiplication factors | | 4. Applying multiplication factor | | | |
| Food cost per adult per day | 17.271,59 | Food cost per adult per day | 17.271,59 | | |
| Non-food cost | 22.894,90 | Multiply with | 5,0 | | |
| Sub total | 40.166,49 | Total | 86.357,95 | | |
| 10% savings | 4.016,65 | | | | |
| Sub total | 44.183,14 | | | | |
| Correct for family size | x 50% of family size | | | | |
| Total | 88.366,28 | | | | |
| Now we know the cost of living per day for a family | | | | | |
| 5. From daily cost of living to Living Wage salary | | | | | |
| Calculated cost of living per day (SAI) | 88.366,28 | IDR | Calculated cost of living per day (DAWS) | 86.357,95 | IDR |
| Living Wage per month (x30) | 2.650.988,36 | IDR | Living Wage per month (x30) | 2.590.738,63 | IDR |
| | 180,66 | Euro or Dollar | Living Wage per month (x30) | 176,55 | Euro or Dollar |
| Living Wage per day (+26) | 101.961,09 | IDR | Living Wage per day (+26) | 99.643,79 | IDR |
| | 6,95 | Euro or Dollar | Living Wage per day (+26) | 6,79 | Euro or Dollar |
| Living Wage per hour (+8) | 12.745,14 | IDR | Living Wage per hour (+8) | 12.455,47 | IDR |
| | 0,87 | Euro or Dollar | Living Wage per hour (+8) | 0,85 | Euro or Dollar |

Caution when using the tool!

In practice the tool is surprisingly accurate

But no guarantee for correctness

Such a simple tool can never on its own “define” LW to be paid

The outcome must be compared with official studies. If different, the cause must be understood

Then, make an informed decision which LW level applies in your situation

Also that LW level is not a “law”; it is an important point of reference for processes of wages & prices negotiation

FTO and Workers/Producers must justify if they divert from calculated, applicable LW

Calculating LW prices

The tool also has a feature to calculate Living Wage level prices for workers and producers paid per piece

| WFTO - Pricing Tool | | | | |
|--|------------------|-------------------------|----------------|------|
| 1. Basic data | | | | |
| Product name | 011101 | | | |
| Date | January 10, 2018 | | | |
| Country | Belgium | | | |
| 2. Calculating the production costs of one order or batch | | | | |
| 2.1. Raw material | | | | |
| Kind of material | Unit | Quantity needed | Price per unit | Cost |
| 2.2. Transport | | | | |
| Transport with what? | Unit | Quantity used for order | Price per unit | Cost |
| 2.3. Piece production costs per unit | | | | |
| Material costs | Unit | Quantity used for order | Price per unit | Cost |
| 3. Labour | | | | |
| performed by | Rate | Quantity used for order | Price per unit | Cost |
| 4. Adding up all costs of the order | | | | |
| Material | 1.00 | 1.00 | 1.00 | 1.00 |
| Transport | 0.50 | 1.00 | 0.50 | 0.50 |
| Labour | 1.00 | 1.00 | 1.00 | 1.00 |
| Material | 1.00 | 1.00 | 1.00 | 1.00 |
| Transport | 0.50 | 1.00 | 0.50 | 0.50 |
| Labour | 1.00 | 1.00 | 1.00 | 1.00 |
| Material | 1.00 | 1.00 | 1.00 | 1.00 |
| Transport | 0.50 | 1.00 | 0.50 | 0.50 |
| Labour | 1.00 | 1.00 | 1.00 | 1.00 |
| Material | 1.00 | 1.00 | 1.00 | 1.00 |
| Transport | 0.50 | 1.00 | 0.50 | 0.50 |
| Labour | 1.00 | 1.00 | 1.00 | 1.00 |

22 Rental of a truck (example) day price

LW Calculator Pricing tool +

Sheet 2 / 2

Thanks for your attention!