

Explanatory Document

Requested by: FLOCERT India

Date of request: February 24th, 2023

Country: Sri Lanka

Product: Tea

Topic: Retroactive correction of wages in high inflation situations

Prepared by: Pricing Unit / 11th May 2023. **Revised 23rd August 2023**

How to proceed with high inflationary periods and ensure real wages are annually increased?

This Explanatory Document builds-on the Interpretation Note “How should remuneration increase be assessed” published by Fairtrade in May 2021 https://files.fairtrade.net/HL-INT_EN.pdf, improves the guidance for Sri Lanka’s Tea Hired Labour Companies, and gives recommendation that is expected to be followed by FLOCERT to enforce the implementation of the 3.5.4 requirement in the Hired Labour Standard. Fairtrade expects that companies use the below methodology and recommendation as a reference when proposing corrective measures.

Retroactive payments for workers in Sri Lanka tea estates

The recommendation follows discussions with Sri Lanka Tea stakeholders. Network of Asia & Pacific Producer (NAPP) collected feedback from tea estates about the current economic situation of the country and the difficult financial position that companies face in the tea sector to fully compensate wage losses.

After reviewing the analysis provided by NAPP showing tea estates’ financial constrains to retro-pay, the amount in our first recommendation in the Explanatory Document published on July 11th is revised. This new recommendation follows the same methodology described in the Explanatory Note of July 11th, 2023, but proposes a significant concession towards certified tea plantations. It is based on the rationale that companies need time and flexibility to comply with the requirement 3.5.4, therefore the analysis reflects a shorter inflationary period and gives a phased timeline for companies to implement a corrective measure with a partial compensation scenario that takes into account the six-month period where the inflation was at its highest level, January 2022-June 2022.

Our analysis brings together Consumers Price Index evolution with producers’ revenue and cost of production resulting in a feasible and more flexible alternative for producers to take into consideration when proposing corrective measures to FLOCERT:

Cumulative inflation Jan-June 2022

Current Nominal Monthly Wage: Rs.26,000

Real Monthly wage Rs. 37.385

2022 Monthly compensation Rs. 11.385

6-month compensation/worker Rs. 68.311

Recommendation

Companies should use the 6-month compensation period that reflects a compensation relief of Rs. 68.311 **as a reference value** when proposing corrective measures to FLOCERT. Fairtrade expects that FLOCERT uses the above recommendation as a reference value when assessing compliance.

Fairtrade understand that the new recommendation does not fully compensate loss due to inflation incurred by workers' wages. However, it gives relief to workers' losses and guarantees a partial financial feasibility for producers to pay as a "relief package" towards the wage loss from workers. The corrective measure should be in line with the requirement 3.5.4 related to "real wages that should be increased annually to continuously close the gap with living wage", therefore any relief package should focus on the value of wages and no other forms of remuneration or in-kind benefits.

For a wage-setting perspective, we acknowledge that negotiations for a new wage level are underway between the workers and the Wages Board for Tea Growing and Manufacturing Trade in Sri Lanka. These negotiations may lead to a Collective Bargaining Agreement by the end of 2023, and FLOCERT should conduct audits in accordance with requirement 3.5.4.

Annex 1 reflects the methodology, notation and formulas used to calculate cumulative inflation and correct wages accordingly and extracts for convenience a partial text of the Interpretation Note published by Fairtrade in May 2021 that gives guidance to companies to comply with requirement 3.5.4.

Annex 1

Hired Labour Standard

3.5.4 Wage level increase

If remuneration (wages and benefits) is below the living wage benchmarks as approved by Fairtrade International, your company ensures that **real wages** are increased annually to continuously close the gap with living wage. The incremental steps and timeline toward the applicable **living wage are negotiated** with trade union/elected worker representatives.

Guidance: ‘Remuneration’ consists of wages, other monetary benefits and in-kind benefits. The living wage benchmarks approved by Fairtrade International are the “Living Wage Reference Values” published by the Global Living Wage Coalition, published at www.globallivingwage.org. Once a living wage is reached, wage increases are expected to continue to keep up with inflation at a minimum to maintain purchasing power. Where living wage benchmarks (LWB) have not yet been established, regular wage increases are required in addition to increases for inflation. Real wages refer to wages that have been adjusted for inflation. The real wage increase is intended to raise wage levels to an eventual living wage. To ensure that real wages are increased and to show this your company uses a table or platform where a full salary calculation is reflected. The data provided in this table will be verified by the assurance provider. As a basis for the negotiation of incremental steps and timeline toward the applicable living wage your company makes the LWB available to TU and worker representatives. Timeline and steps agreed in the negotiation are available in writing. The Wage negotiations with trade unions or elected worker representatives can take place in different periods such as every year, every two or even three years, depending on the term or duration of the wage agreements. Nevertheless, real wages are increased every year according to the average annual inflation for the country.

Socio-economic context of the Sri Lanka’s tea plantations (Year 2021-2022)

Sri Lanka has been suffering one of its worst economic and political crises and as a result it has experienced soaring inflation rates during the last several months¹. The crisis is also social with a disastrous effect on the most vulnerable people, particularly children². This situation points to a need to enforce the requirement for Hired Labour Standard 3.5.4, to ensure that real wages increase annually and continuously to close the gap of the Living Wage Benchmark.

Labour conditions in the tea sector

Sri Lankan Tea plantation sector is facing a number of challenges like high cost of production, market price fluctuation, continuous increase of input (fertilizer, agro chemicals) prices, labour scarcity, climate change etc. The labour scarcity is one of main challenges faced by the green tea leaf producers in Sri Lanka. Green leaf producers or estate owners struggle in finding workers for manual plucking. More than 80% of the labour component in tea is representing by women workers as they have specific skill and demand for this job. Therefore, security problems are also arising due to the remoteness, hilly and forest locations of the estates and villages. The salary is one of the main factors that workers are concerning these days due to availability of different kind of labour options (i. e. garments industry)

¹ World Bank 2022. Sri Lanka Development Update. Protecting the poor and the vulnerable in a time of crisis.

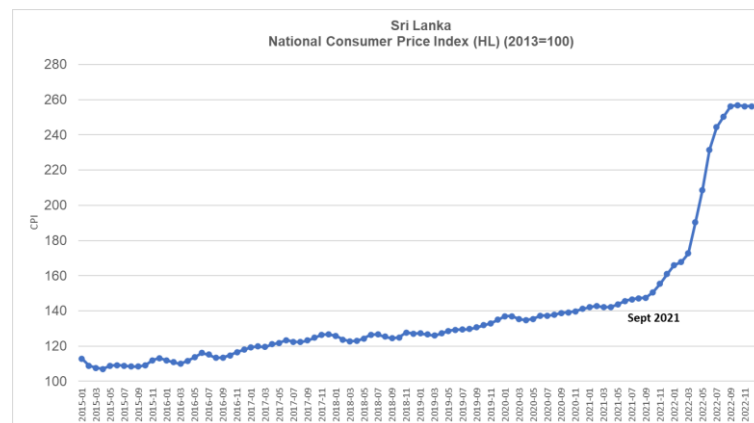
² <https://www.aljazeera.com/news/2023/3/2/half-of-sri-lanka-families-reducing-children-food-intake-charit>.

with having comparatively higher pay scale than tea sector. The tea plantation sector struggles in increasing their labour wages to attract new work force because of the high labour component in the Cost of Production, plus the unavailability of good welfare system to pluckers and low motivational activities that discourages them from remaining in the tea plantation sector³.

Amid economic, political and social unrest, in January 2021, the newly formed government of Sri Lanka accepted the cabinet paper to increase estate wages from March 2021 onwards, amend the Wages Board Regulations (WBR) and make it mandatory for tea plantation workers to be paid a minimum of Rs.1,000 a day, Nevertheless, shortly after the announcement of the increase in the national minimum wage, inflation rates began to rise steadily.

Inflation and the National Consumer Price Index in Sri Lanka

A News Release dated 23, January 2023 of the National Consumer Price Index of the Department of Census and Statistics of Sri Lanka states that “...Issuing the National Consumer Price Index (NCPI), for the month of December 2022, the Actg. Director General of Census and Statistics said that headline inflation as measured by the Year-on-Year change (The percentage change in the current month NCPI over same month NCPI of last year) based on the NCPI has been compiled as 59.2%. The headline inflation reported for the month of November 2022 was 65%...”⁴. As the chart shows the level of the inflation has skyrocketed since September 2021.



Source: Department of Census and Statistics, Sri Lanka. April 2023.

How to calculate accumulated inflation over a period?

To ensure that wages are increased every year above annual inflation for the country, companies should consider the gross wage value and shouldn't consider the in-kind benefits. To calculate real wages the best approach is to calculate the accumulated inflation over a period of analysis and follow the methodology “Year-on-Year change” (the percentage change in the current month of National Consumer Price Index (NCPI) over the same month NCPI of the last year. The CPI measures the monthly

³ Tharaka Jayasinghe, 2020. Labour Issue in Tea Plantation Sector in Sri Lanka. Research Gate Net. A Baur & Co. (Pvt.) Ltd.

https://www.researchgate.net/publication/345505675_Labor_Issue_in_Tea_Plantation_Sector_in_Sri_Lanka

⁴ 2023, January. Department of Census and Statistics Ministry of Finance, Economic Stabilization and National Policies. Director News/News Editor. NEWS RELEASE THE NATIONAL CONSUMER PRICE INDEX (BASE 2013=100): December 2022, Sri Lanka.

change in prices paid by consumers. It is a weighted average of prices for a basket of goods and services representative of aggregate consumer spending. The CPI serves several purposes. It is an indicator to measure the changes in the general level of consumer prices and it is used as one of the key indicators of inflation. A Consumer Price Index is also used for socio-economic analysis and policy purposes, mainly in the determination of monetary and income policies. It is used in the analysis of the trends in wages and other monetary incomes, for indexation of salaries and wages etc.

The calculation for the accumulated inflation over the period of March 2021 and December 2022 is as follows:

Notation:

t_0 = starting date
 t_1 = end date
 I_{t_0} = starting date of CP Index value
 I_{t_1} = end date of CP Index value

Formula: Percentage Inflation Rate of the Consumer Price Index in the Period

$$I_{(t_0,t_1)} = [(I_{t_1}/I_{t_0}) - 1] * 100$$

Sample⁵:

To calculate the inflation observed between September 2021 and December 2022 measured by the National Consumer Price Index⁶:

t_0 = starting date = September 2021
 t_1 = end date = December 2022
 I_{t_0} = starting date CP Index value = 147.5
 I_{t_1} = end date CP Index value = 256.3
 $I_{(t_0,t_1)} = [(256.3/147.5) - 1] * 100 = (1.7376271186 - 1) * 100 = 73.8\%$

The inflation observed over between September 2021 and December 2022 was 73.8%.

How to correct wages by inflation

To correct wages retroactively over a period:

Notation

W_{t_0} =Wage starting period
 I = inflation rate (%)
 W_c = Wage corrected

Formula

$$W_c = W_{t_0} * I\% + W_{t_0}$$

Sample:

⁵ April 2023, Department of Census and Statistics, Sri Lanka.

⁶ September 2021 is when CPI shows a high increase trend.

Taking the example of the new daily wage approved for the Sri Lanka state for the tea sector of 1,000 Rupees:

W_{t_0} = Wage starting period = 1,000 Rupees (Nominal Wage).

I = inflation rate (%) = 73.8% between September 2021 and December 2022.

W_c = Wage corrected = $1,000 * 73.8\% + 1000 = 1,738$ Rupees.

The requirement to adjust wages to inflation has been in effect since 2014. To assist certified companies in complying, also in this case, Fairtrade published an Interpretation Note in May 2021

How should remuneration increases be assessed as required in HL 3.5.4? The text is inserted below for convenience.

The company systematically ensures that the real wages are increased every year above annual inflation for the country. For the calculation of the real wage, the company should consider the gross wage value. The calculation should not consider the in-kind benefits. The calculation of the real wage is based on the wage increases that take place within a full calendar year, from January to December. The resulting percentage value of increases in wages is compared with the latest available information on the average annual inflation rate over the year of the country.

It means that the wage of a worker or job category should be increased higher than the inflation rate from the previous full calendar year, or the latest available average annual inflation rate. The reference value of inflation should be based primarily on the nationally recognized source or national statistics institution from the country where the company is based. In case the information of inflation is not available in the country, the alternative source is the World Bank official statistics on inflation and Consumer Price Index per country:

<https://databank.worldbank.org/reports.aspx?source=2&series=FP.CPI.TOTL.ZG&country>

For the calculation of the real wages, the following parameters should be taken into consideration:

- *The percentage values and inflation rate should be preferably calculated with one numeral and one decimal fraction. For example: 3,8%.*
- *In case the approximation of a percentage is necessary, numbers that are less than five should be rounded down and numbers that are five or higher get rounded up. For example: 1.47 rounds to 1.5; 1.42 rounds to 1.4; 1.4535412 rounds to 1.5.*
- *If reference inflation rates are agreed in a collective bargaining agreement covering the workers in the company, the calculation of real wages described above is not necessary.*
- *In the case certain job categories or a number of workers are not covered by a collective bargaining agreement, then either the calculations of real wage Fairtrade Standard for Hired Labour presented above should be applied to these workers, or the CBA rates extended to such workers.*