

## Calculating floor wages in the Fairtrade Standard for Flowers and Plants

During the review that took place in 2016-17 of the Fairtrade Standard for Flowers and Plants, a new clause was introduced, which requires companies to ensure that **base** wages paid do not fall below the global poverty line of **\$1.90/day** set by the World Bank (WB). **The WB updated the global poverty lines to \$2.15/day in September 2022<sup>1</sup>.**

**The change in Fairtrade's floor wage requirement is applicable as of January 2023 with a transition time of 3 months, to be implemented by 15 April 2023.**

This document seeks to give clarity on how this affects our calculation of the floor wage and how this translates to values for the countries affected.

Besides the dollar value, purchasing power parity (PPP) is another essential component for the poverty line. PPPs are the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the differences in price levels between countries.

The PPP rate for private consumption is updated by the WB on a regular basis and can be found [here](#). For the publication of the calculation in January each year, Fairtrade has been using the PPP rate provided by the World Bank of the previous year.

For farms to get closer to the Living Wage (LW), steady wage increases above inflation in line with section 3.5.4 of the [Fairtrade Standard for Hired Labour](#) are important.

On occasion the PPP rate *has gone down compared to the previous year*, Fairtrade freezes the floor wage value based on that PPP until the PPP goes up again.

There are also cases, where the WB experiences a delay in *updating* the PPP rate in the relevant year which is especially important in situations with high inflation. Fairtrade has worked together with renowned economists to develop a calculation which adjusts the PPP including inflation effects. The calculation to update the PPP values, is as follows: *Multiply the latest available PPP by 1 plus the average inflation rate<sup>2</sup> in the country of interest in the given year, divided by 1 plus US inflation rate in the given year<sup>3</sup>.*

The 2.15 \$ PPP/day Floor Wage relates to base wage; therefore, in-kind benefits cannot be counted. There may be cash allowances issued monthly to all workers as an entitlement and allowing workers full discretion on how to spend the money (a monthly housing or transport allowance for instance) without a link to the attendance or performance of workers. Those cash allowances count towards the base wage.

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<sup>1</sup> More information about the adjustment can be found [here](#)

<sup>2</sup> Based on the IMF forecasts published in October (<https://www.imf.org/en/Publications/WEO/weo-database/2022/October> )

<sup>3</sup> <https://www.imf.org/en/Publications/WEO/weo-database/2022/October>

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### Effects on actual wages after introducing WB poverty line 2.15 as floor wages

To calculate the \$ 2.15/day PPP, the following formula is used:

*[PPP rate private consumption for the previous year x 2.15 x 30 .4 (days/month) x typical number of family members] / workers per family.*

The table below presents the provisional calculation for a selected number of countries.

Country	PPP private consumption		WB poverty line per day		Days/month		No. of Family members*		No. of Breadwinners*	Wage required
Ethiopia	19.13***	X	2.15	X	30.4**	X	5	/	1.65	<b>3 789 Birr</b>
Kenya	50.25	X	2.15	X	30.4	X	5.5	/	1.71	<b>10 564 Ksh</b>
Tanzania	843.16	X	2.15	X	30.4	X	5	/	1.76	<b>156 559 Tsh</b>
Uganda	1,267.21	X	2.15	X	30.4	X	5	/	1.76	<b>235 298 Ush</b>
Zambia	6.59***	X	2.15	X	30.4	X	5		1.62	<b>1 329 Kwacha</b>
Zimbabwe	99.60***	X	2.15	X	30.4	X	5	/	1.75	<b>18 600 ZWD</b>

\* Source : Living Wage benchmarks (<https://www.isealliance.org/our-work/improving-effectiveness/global-living-wage-coalition>)

\*\* (365 /12)

\*\*\*Countries for which Fairtrade has calculated the PPP private consumption rate, as a most current PPP rate is not available from the WB

### Important Note:

The numbers stated above only include inflation up to the end of 2022. Farms will have to follow inflation in their country very closely in 2023 in order to adjust their wages during the year to cost of living increases.

### Change history

Date of publication	Changes
07.06.2017	<b>First version</b> Explanatory document on how to calculate floor wages for selected countries introduced.
26.02.2018	<b>Second version</b> Updated the PPP private consumption data
20.12.2018	<b>Third version</b> Updated the PPP private consumption data. Included the Fresh Fruit Standard Additional countries included (Cameroon, Egypt, Ghana, India, Ivory Coast and Zimbabwe)
08.01.2020	<b>Fourth version</b>

	Updated the PPP private consumption data and deletion of references to 2018 and 2019.
15.01.2021	<b>Fifth version</b> Updated the PPP private consumption data. Included Zambia in the list of countries.
31.12.2021	<b>Sixth version</b> Updated the PPP private consumption data.
2.12.2022	<b>Seventh version</b> Adjusted the global poverty line to \$2.15/day in line with the WB update  Additional information on how to calculate wages in case there is a delay in updating the PPP