

Calculating base wages in the Fairtrade Standard for Fresh Fruits, applicable for banana companies only

During the 2021 review of the Fairtrade Standard for Fresh Fruit, a new clause was introduced, which requires companies to ensure that a **Fairtrade Base Wage (FBW)** is paid to workers. It is set at the level of 70 percent of the Cash Living Wage applicable for the respective country. **Cash Living Wage (Cash LW)** is defined as the value of the Living Wage Benchmark (LWB) based on the Anker methodology without considering the in-kind benefits.

3.1.2 NEW 2021** Fairtrade Base Wage

Applies to: Banana companies

Your company ensures that no worker is paid a wage, in cash after taxes and mandatory deductions, lower than the Fairtrade Base Wage as defined at the level of 70 percent of the Cash Living Wage applicable for your country. You ensure that no remuneration is worsened/reduced after the introduction of this requirement except when formally agreed with a trade union that has the right to bargain. The Fairtrade Base Wage is applicable from the 1 July 2021.

Guidance: Fairtrade, as a member of the Global Living Wage Coalition, defines a ‘living wage’ as the remuneration received for standard work week by a worker in a particular place sufficient for the worker and her or his family to afford a decent standard of living. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events. Workers are defined as waged employees (permanent or seasonal/temporary, migrant, or local, sub-contracted or directly employed) whether they work in the field, in processing sites, or in administration. The term is restricted to personnel who can be unionised, meaning middle and senior management and other professionals are generally not considered workers. Cash Living Wages are periodically updated by Fairtrade International and available at the Calculating wages in the Fresh Fruit Standard section. Requirements 3.4.11, 3.5.4, 3.5.9 and all other relevant sections of the Hired Labour Standard continue to apply.

Why the Fairtrade Base Wage methodology considers the cash income only?

Although largely based on the globally recognized methodology of the Anker Research Institute, the Fairtrade Base Wage methodology excludes a standardized 10% of in-kind benefits, which is an average of customary benefits reflected in the Anker’s benchmark studies for banana origins and considers only cash payments that are not entitled to overtime worktime or are too uncertain to ensure them on a regular basis. The overall reason to exclude in-kind benefits is the complexity to give a monetary value and agreeing on standardized values that represent different labour conditions in different producer countries. Other exclusions related to cash payments or allowances that do not add disposable income to workers, depend on different worker’s circumstances, and amounts are not equally represented. Some exceptional allowances could be included such as regular monthly entitlement/allowance which workers have full discretion on how to spend it/them. The formula excludes all statutory deductions and withholdings required by law that are not considered “take home cash money”.

Leaving in-kind benefits, allowances and bonuses that are discretionary or deferred cash payments out of the formula, the benchmark for this methodology is called the Cash Living Wage Benchmark. To calculate the Cash Living Wage Benchmark, we consider the Anker Living Wage Benchmark reference, and excludes statutory deductions and withholdings, non-statutory allowances and bonuses and keep, if applicable, bonuses and allowances that are paid on a regular basis.

Fairtrade publishes each year updated values with the Net Living Wage Benchmark for each banana producer country and can be consulted in Table 1.

Table 1
Living Wage Benchmark
Applicable as of 8 March 2024

Country	Units of values <i>month/worker</i>	Gross LWB	Net LWB
Cameroon*	CFA francs	125,475	109,731
Colombia	Pesos	2,111,077	1,940,329
Dom Republic	Pesos	27,209	25,601
Ecuador	US dollars	489	450
Ghana	Cedis	2,922	2,313
Ivory Coast	CFA francs	143,236	132,493
Mexico	Pesos	13,750	12,050
Nicaragua*	Cordobas	11,310	12,726
Peru	Soles	1,960	1,529

*Source: Fairtrade compilation based on values published in 2023 by the Global Living Wage Coalition
2023 LWB updated for the rural area.

Comparing wages

Any comparison between wages paid and FBW70% must be done within the framework of the Anker methodology¹, which requires that the following forms of remuneration and deductions must be excluded from the calculation of net wages:

- a) deferred cash payments such as pensions, provident funds and severance pay²,
- b) cash benefits, cash allowances and cash bonuses which are at the whim or discretion of the employer or are not earned in standard working hours, such as overtime pay; incentive pay bonuses that require working overtime; pay premium for holidays, weekends and night work; bonus at the end of a profitable year³,
- c) cash fringe benefits such as unpaid vacation days; maternity/paternity leave; sick leave; annual leave; public holidays; time off for holidays and employer payments required by law (such as employer contributions to government social security programs, unemployment insurance, workers' compensation, injury insurance)⁴,
- d) cash deductions not required by law, such as amortization of loans with plantation, payment of loan interests with plantation, direct payments to supermarkets, visa, or work permit⁵,
- e) in kind benefits⁶.

¹ Anker, R. and M, 2017, Living Wages Around the World Manual for Measurement. Chapter 15 Edward Elgar Publishing Limited. Glos GL50 2JA, Cheltenham, UK and Northampton Massachusetts 01060 USA.

² because they are received well in the future and not within one year

³ because they are too uncertain to ensure that workers can afford to maintain a decent life each and every month

⁴ because they do not add disposable income of workers,

⁵ because these deductions depend on each worker (the same amount is not deducted equally to all workers)

⁶ despite the Anker methodology does recognize some in-kind benefits as partial payment of a living wage, Fairtrade International excludes all in kind benefits when comparing wages paid and LWB.

Fairtrade International runs comparisons between the wage paid and the FBW, both at the level of the “**take home cash money**”, which is the net wage received by workers, in cash, usually received in each payslip, after income taxes and withholding requested by law are deducted from the basic wage and after the forms of remunerations and deductions indicated in bullet points above (a, b, c, d, e) are excluded. **The basic wage is the value used to determine the mandatory social security and parafiscal contributions imposed by law on employers.** “Usually paid in each payroll” means that annual cash allowances, such as 13th and 14th salaries, national independence day bonus, etc. (which are received as cash once per year), are also excluded from the calculation of the net wage received and the net FBW.

Notation

$$\mathbf{FBW = 70\% \times \text{Cash LW}}$$

where:

$$\mathbf{\text{Cash LW} = \text{LWB (net)} - \text{IKB}}$$

where:

$$\mathbf{\text{IKB} = 10\% \times \text{LWB (net)}}$$

$$\mathbf{\text{FBW} = 70\% \times 90\% \times \text{LWB (net)}}$$

The formula for the **FBW** at the take home cash money wage level is:

$$\mathbf{\text{FBW (THCM)} = \text{FBW} - \text{ratio for allowances (\%)} \times \mathbf{\text{basic wage}} - \text{cash allowances}$$

where:

$$\mathbf{\text{Basic wage} = [\text{FBW} + \text{cash deductions} - \text{cash allowances}] / [1 - \text{ratio for deductions (\%)} + \text{ratio for allowances (\%)}].$$

Fairtrade Base Wages (THCM) applicable as of 8 March 2024

According to the requirement 3.1.2 of the Fresh Fruit Standard for Hired Labour Organizations, wages paid must be of an equal or above value than the 70% of the cash living wage benchmark. **Table 2 shows the banana producing countries to which the FBW70% applies.** There are three values: the FBW, the FBW (THCM) and the Basic Wage. The FBW is the net value of the wage, the FBW (THCM) is the net wage that excludes some non-cash bonuses and allowances, therefore is called the FBW “take home cash money”. In alignment to the requirement 3.1.2 of the Fresh Fruit Standard, auditors must check the column FBW (THCM) and compare to cash wages paid by companies. The basic wage value is also important as a reference for workers and employers because the statutory deductions and allowances are calculated from this value, and it is the base for calculating the net wage and the labour cost. Besides complying with the FBW minimum the company must comply with other requirements in the Hired Labour Standard to continuously increase wages; requirement 3.5.1 applies whenever legal minimum or CBA regulations where exists, are higher, and section 3.5.4 that requires companies to ensure that workers receive a steady wage increase above the annual average inflation of the previous year. This is particularly relevant in countries where the FBW values have not been increased.

Table 2
Fairtrade base wage: net, cash and basic

Country	Units of values month/worker	FBW 2024	FBW (THCM) 2024*	basic wage 2024
Cameroon	CFA francs	69,131	63,645**	74,230
Colombia	Pesos	1,222,407	969,754	1,077,504
Dom Republic	Pesos	16,129	14,817	15,748
Ecuador	US dollars	284	227**	249
Ghana	Cedis	1,457	1,457	1,685
Ivory Coast	CFA francs	83,471	83,471	92,073
Mexico	Pesos	7,592	6,935	7,881
Nicaragua	Cordobas	7,125	7,125	7,553
Peru	Soles	963	626**	628

**The ratio of deductions and cash allowances has been adjusted according to new information in the national labour legislation, where available. For Nicaragua and Cameroon, the rural 2023 LWB has been used.*

***Due to changes in the ratio deduction the FBW 2024 for Cameroon, Ecuador and Peru would have dropped. Fairtrade froze the base wage value of 2023 to ensure that workers do not receive a lower wage.*

Change in history

Date of publication	Changes
27.05.2021	<p>First version</p> <p>Explanatory document on how to calculate wages for the Fresh Fruit Standard (Floor wages and the Fairtrade Base Wage).</p>
04.08.2021	<p>Simplification of information contained in table 1 and on the steps for running the wage comparison. Incorporated values used as reference to decide on which countries applies the net FBW 70%, as “take home cash money”.</p>
23.03.2023	<p>Updated Values of FBW70% at Net Take Home Cash Money, by using LWBs updated to June 2022. Updated clarifications on what wages to compare and how to do it.</p>
08.03.2024	<p>Updated values for FBW70% at Net Take Home Cash Money, by using net LWBs updated in September 2023 by the Living Wage Coalition.</p> <p>Clarification on what the net wage received by workers might and might not include.</p> <p>Basic Wage references are provided.</p> <p>The ratio for deductions and values for cash allowances have been adjusted according to information of national labour legislations of each banana producing country, where available.</p> <p>LWB studies for rural regions in Cameroon and Nicaragua, updated in September 2023, were used in the calculation of the FBW70% at Net Take Home Cash Money.</p> <p>Due to changes in ratios and/or benchmarks the FBW 2024 for Cameroon, Ecuador and Peru would have dropped. Fairtrade froze the base wage value of 2023 to ensure that workers do not receive a lower wage.</p> <p>The document has been split and the wording has been improved to differentiate the values applicable to the base wage for banana companies from the floor wage values applicable to other fresh fruits.</p>