

## **Calculating wages in the Fresh Fruit Standard**

The latest version of the Fairtrade Standard for Fresh Fruits for Hired Labour Organizations and Traders has two requirements on wages: the Floor wage (3.1.1) and the Fairtrade Base Wage (3.1.2). While the first one applies to all fresh fruit companies, the second one applies only to banana companies. If a company produce banana and other fresh fruits, the stricter requirement applies.

This document seeks to give clarity on how to calculate them and how this translates to the countries affected.

Both wages (Floor wage or Fairtrade Base Wage) refer to baseline wages for Fairtrade certified companies, no worker on Fairtrade certified plantations can be paid below these defined wages. The floor and base wage relate to a minimum guarantee of cash income; 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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## Floor wage

The Floor wage is set based on the global poverty line of **\$1.90/day Purchasing Power Parity (PPP)** set by the World Bank (WB). 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](#). Please use the latest data provided by the World Bank at the beginning of every year. However, in case the PPP rate for private consumption updated by the WB goes down, we use the last applied PPP rate because the intention is to continually increase wages.

### Effects on actual wages after introducing WB poverty line \$1.90 as floor wages

To calculate the \$ 1.90/day PPP, the following formula is used:  $[PPP\ rate\ private\ consumption\ for\ the\ given\ year \times 1.90 \times 30.4\ (days/month) \times typical\ number\ of\ family\ members] / workers\ per\ family.$

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

| Country       | PPP private consumption (updated 20.12.2021) |   | WB poverty line per day |   | Days/month |   | No. of Family members* |   | No. of Breadwinners* | Wage required         |
|---------------|--|---|-------------------------|---|------------|---|------------------------|---|----------------------|-----------------------|
| Cameroon      | 238.02                                       | X | 1.90                    | X | 30.4**     | X | 5                      | / | 1.67                 | 41 161.78 CFA         |
| Côte d'Ivoire | 237.94                                       | X | 1.90                    | X | 30.4       | X | 5                      | / | 1.67                 | 41 147.95 CFA Franc   |
| Egypt         | 4.23   | X | 1.90                    | X | 30.4       | X | 5                      | / | 1.67                 | 731.51 EGP            |
| Ethiopia      | 10.74  | X | 1.90                    | X | 30.4       | X | 5                      | / | 1.65                 | 1 879.83 Birr         |
| Ghana         | 2.10   | X | 1.90                    | X | 30.4       | X | 4.5                    | / | 1.78                 | 306.65 Ghanaian Cedis |
| India         | 21.20  | X | 1.90                    | X | 30.4       | X | 4                      | / | 1.58                 | 3 100.03 Rupees       |
| Kenya         | 50.25  | X | 1.90                    | X | 30.4       | X | 5.5                    | / | 1.71                 | 9 335.33 Ksh          |
| Tanzania      | 843.16                                       | X | 1.90                    | X | 30.4       | X | 5                      | / | 1.76                 | 138 354.89 Tsh        |
| Uganda        | 1 267.21                                     | X | 1.90                    | X | 30.4       | X | 5                      | / | 1.76                 | 207 937.60 Ush        |
| Zambia        | 5.43   | X | 1.90                    | X | 30.4       | X | 5                      |   | 1.62                 | 968.01 Kwacha         |
| Zimbabwe      | 1.07   | X | 1.90                    | X | 30.4       | X | 5                      | / | 1.75                 | 176.58 US\$           |

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

\*\* (365 /12)

## Fairtrade Base Wage

During the latest 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. This document seeks to give clarity on the FBW is translated to the affected countries.

### Comparing wages

According to the new requirement of the Fresh Fruit Standard for Hired Labour Organizations, wages received have to be of an equal or above value than the FBW70%. The second column of table 1 shows the banana producer countries for which the FBW70% applies.

Any comparisons between wages received and the FBW70% have to be done under the frame of the Anker Methodology<sup>1</sup>, which requires that the following forms of remuneration and deduction must be excluded from the calculation of net wages received:

- a) deferred cash payments such as pensions, provident funds and severance pay<sup>2</sup>,
- 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 year<sup>3</sup>,
- 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)<sup>4</sup>,
- 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 permit<sup>5</sup>,
- e) in kind benefits<sup>6</sup>.

Fairtrade International runs comparisons between the wage received 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 payroll, after income taxes and withholding requested by law are deducted from the gross wage and after the forms of remunerations and deductions indicated in bullet points above (a, b, c, d, e) are excluded. “Usually received in each payroll” means that annual cash allowances, such as 13<sup>th</sup> and 14<sup>th</sup> 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.

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<sup>1</sup> Chapter 15 Measuring prevailing wages to compare to a living wage.pdf

<sup>2</sup> because they are received well in the future and not within one year

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

<sup>4</sup> because they do not add disposable income of workers,

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

<sup>6</sup> 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, due to the complexity for valuing in kind benefits and agreeing on values that represent to all plantations in each producer country.

Table 1. Figures on Living Wage for the banana producer countries

| Country     | Does FBW70% apply? | Local currency (LCU) | Gross FBW70% <sup>1</sup> |                  | Net FBW70% <sup>2</sup> |                  |
|-------------|--------------------|----------------------|---------------------------|------------------|-------------------------|------------------|
|             |                    |                      | Full Time [A]             | Daily tariff [B] | Full Time [C]           | Daily tariff [D] |
|             |                    |                      | LCU/month/worker          | LCU/day/worker   | LCU/month/worker        | LCU/day/worker   |
| Colombia    | NO                 | pesos                | 848,739                   | 35,616           | 887,294                 | 37,234           |
| DomRep      | NO                 | pesos                | 10,741                    | 451              | 10,106                  | 424              |
| Ecuador     | NO                 | US dollar            | 283                       | 12               | 257                     | 11               |
| Ghana       | YES                | cedis                | 638                       | 27               | 672                     | 28               |
| Mexico      | YES                | pesos                | 6,709                     | 282              | 6,594                   | 277              |
| Nicaragua   | YES                | cordobas             | 5,141                     | 216              | 4,741                   | 199              |
| Peru        | NO                 | soles                | 787                       | 33               | 637                     | 27               |
| Cameroon    | YES                | CFA francs           | 61,070                    | 2,563            | 57,894                  | 2,429            |
| Ivory Coast | YES                | CFA francs           | 61,090                    | 2,564            | 56,936                  | 2,389            |
| Panama      | NO                 | US dollar            | 322                       | 14               | 292                     | 12               |

<sup>1</sup> The gross wage value refers to the amount of money earned by a worker for the work he/she performs, prior to any taxes, withholding, deductions and contributions requested by Law and prior to any granted in-kind benefits. In some countries the "gross" wage is also known as "basic" wage.

<sup>2</sup> The net wage value refers to the "take home cash money", which is the net wage received by workers, in cash, usually received in each payroll, after income taxes and withholding requested by law are deducted from the gross wage and after the forms of remunerations and deductions indicated by the Anker methodology (shown in page 3 of the explanatory document "Calculating wages in the Fresh Fruit Standard") are excluded. "Usually received 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.

**Table 2. Reference values used to decide on which countries the net FBW70% applies**

| Country     | Local currency<br>(LCU) | Net Cash LW<br>(take home cash money)<br>LCU/month/worker | National minimum<br>gross wage<br>LCU/month/worker |
|-------------|-------------------------|---|--|
| Colombia    | pesos                   | 1,263,775   | 908,526  |
| DomRep      | pesos                   | 14,437  | 11,915   |
| Ecuador     | US dollar               | 367   | 400  |
| Ghana       | cedis                   | 956   | 572  |
| Mexico      | pesos                   | 9,394   | 4,099  |
| Nicaragua   | cordobas                | 6,773   | 3,507  |
| Peru        | soles                   | 911   | 930  |
| Cameroon    | CFA francs              | 82,706  | 35,840   |
| Ivory Coast | CFA francs              | 81,337  | 21,971   |
| Panama      | US dollar               | 418   | 406  |

### What wages to compare

In the banana industry workers earn gross wages on monthly or daily basis. The **gross wage** refers to the amount of money earned by a worker for the work he/she performs, prior to any taxes, withholding, deductions and contributions requested by Law and prior to any granted in-kind benefits. In some countries the "gross" wage is also known as "basic" wage. The gross wage is the starting value for calculating the **net wage** for a specific accounting period set for the payroll, such as month, fortnight, etc.

Depending on the evidence checked by auditors during audit (documentation or interviews with workers) and on the basis on which workers earn gross wages, it has to be identified the steps for running wage comparisons. Please note that comparison of wages has to be done at gross and net levels.

#### i. Steps for running wage comparisons when documentation is used as evidence

- For wages earned on **monthly** basis
  - (1) Checking that workers earn and receive wages on monthly basis under the full-time employment situation, by looking at the employment contract.
  - (2) Getting the **monthly gross wage earned** and the **corresponding monthly net wage received** by workers, by looking at the payroll book of the plantation, with special focus on those workers that earn less (lowest monthly wages).
  - (3) Checking that the **corresponding monthly net wage received** by workers refers to the "**take home cash money**", which is the net wage received by workers, in cash, usually received in each payroll, after income taxes and withholding requested by law are deducted from the gross wage and after the forms of remunerations and deductions indicated in bullet points above (a, b, c, d, e) are excluded. The expression "Usually received in each payroll" means that annual

cash allowances, such as 13<sup>th</sup> and 14<sup>th</sup> salaries, national independence day bonus, etc. (which are received as cash once per year), are also excluded from the calculation of the monthly net wage received.

- (4) The **monthly gross wage earned** must be equal to or above of the **monthly gross FBW70%**, which is **column [A]** in table 1.

The **corresponding monthly net wage received** (at the level of the “take home cash money”) must be also equal to or above of the **monthly net FBW70%**, which is in **column [C]** in table 1.

- For wages earned on **daily** basis

- (1) Checking that workers earn wages on daily basis, by looking at the employment contract.

- (2) Identifying the frequency on which payroll payments are done, for instance daily, weekly, fortnightly, monthly, etc.

- (3) Looking for the **daily gross wage earned** and the **corresponding net wage**, received by workers in the payroll period (day, week, fortnight, month, etc.), at the payroll book of the plantation, with special focus on those workers that earn less (lowest salaries).

- (4) Checking that the **corresponding net wage**, received by workers in the payroll period (day, week, fortnight, month, etc.), refers to the “take home cash money”, which is the net wage received by workers, in cash, usually received in each payroll, after income taxes and withholding requested by law are deducted from the gross wage and after the forms of remunerations and deductions indicated in bullet points above (a, b, c, d, e) are excluded. The expression “Usually received in each payroll” means that annual cash allowances, such as 13<sup>th</sup> and 14<sup>th</sup> salaries, national independence day bonus, etc. (which are received as cash once per year), are also excluded from the calculation of the monthly net wage received.

- (5) All **daily gross wages**, earned by workers during one payroll period (day, week, fortnight, month, etc.), must be equal to or above of the **daily gross FBW70%**, which is in **column [B]** in table 1.

For workers, working all working days of the payroll period (i.e. 5.5 days per week; 11 days per fortnight; 23.83 days per month), the **corresponding net wages**, received in the payroll period (day, week, fortnight, month) at the level of the “take home cash money”, must be equal to or above of:

- a) (for a daily payroll period) the **daily net FBW70%**, which is in **column [D]** in table 1;
- b) (for a weekly payroll period) the **daily net FBW70%**, which is in **column [D]** in table 1, **multiplied by 5.5**;
- c) (for a fortnightly payroll period) the **monthly net FBW70%**, which is in **column [C]** in table 1, **divided by 2**;

d) (for monthly payroll period) the **monthly net FBW70%**, which is in **column [C]** in table 1.

ii. **Steps for running wage comparisons when interviews with workers is used as evidence**

- For wages earned on **monthly** basis
  - (1) Requesting to workers the **monthly net wage** they have received in cash.
  - (2) Confirm that workers earn and receive wages on monthly basis under the full-time employment situation, by looking at the employment contract
  - (3) Confirming that the monthly net wage received in cash: a) was received under the full-time employment situation and b) represents the “**take home cash money**”, which is the net wage received by workers, in cash, usually received in each payroll, after income taxes and withholding requested by law are deducted from the gross wage and after the forms of remunerations and deductions indicated in bullet points above (a, b, c, d, e) are excluded. “Usually received in each payroll” means that annual cash allowances, such as 13<sup>th</sup> and 14<sup>th</sup> salaries, national independence day bonus, etc. (which are received as cash once per year), are also excluded from the calculation of the monthly net wage received. It should be expected that workers do not provide any documentations to confirm that the **monthly net wage received** is the “take home cash money”.
  - (4) The **monthly net wage received** (at the level of the “**take home cash money**”) must be equal to or above of the **monthly net FBW70%**, which is in **column [C]** in table 1.
- For wages earned on **daily** basis

Workers earning wages on daily basis will provide **net wages** on the frequency on which payrolls are paid (day, week, fortnight, month, etc.), instead of providing daily net wages, unless the worker only works one working day of the whole payroll period. Workers do not necessarily receive the same **net wage** every payroll period, because workers: a) might not perform the same tasks every day (tasks usually have differentiated prices) and b) do not necessarily work all working days of the payroll period. For this reason, the wage comparison should start by:

  - (1) Requesting to workers the **daily gross wage earned** and the **corresponding net wage**, received by workers **in the payroll period** (day, week, fortnight, month, etc.) at the level of the “**take home cash money**”.
  - (2) Confirm that workers earn and receive wages on daily basis, by looking at the employment contract
  - (3) Confirm the payroll period

- (4) The **daily gross wage earned** by workers must be equal to or above of the **daily gross FBW70%**, which is **column [B]** in table 1.

For workers, working all working days of the payroll period (i.e. 5.5 days per week; 11 days per fortnight; 23.83 days per month), the **corresponding net wages**, received in the payroll period (day, week, fortnight, month) at the level of the “take home cash money, must be equal to or above of:

- a) (for a daily payroll period) the **daily net FBW70%**, which is in **column [D]** in table 1;
- b) (for a weekly payroll period) the **daily net FBW70%**, which is in **column [D]** in table 1, **multiplied by 5.5**;
- c) (for a fortnightly payroll period) the **monthly net FBW70%**, which is in **column [C]** in table 1, **divided by 2**;
- d) (for monthly payroll period) the **monthly net FBW70%**, which is in **column [C]** in table 1.

#### Change history

| <b>Date of publication</b> | <b>Changes</b>  |
|----------------------------|---|
| 27.05.2021                 | <b>First version</b><br>Explanatory document on how to calculate wages for the Fresh Fruit Standard (Floor wages and the Fairtrade Base Wage).  |
| 04.08.2021                 | 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”. |
| 31.12.2021                 | <b>Second version</b><br>Updated the PPP private consumption data   |