

## - FSI Key Topic Paper – Living Wage

### Introduction – context

The concept of a Living Wage dates back to Adam Smith’s “The Wealth of Nations” from the 18<sup>th</sup> century. The concept is now embedded in the International Labor Organization (ILO) constitution<sup>1</sup>, various Human Rights conventions, and is explicitly mentioned in the UN Sustainable Development Goal (SDG) 10.<sup>2</sup>

In the horticulture industry, recent developments include the publication of new reports under the guidance of the Global Living Wage Coalition (GLWC) in partnership with industry stakeholders, some of which are FSI members.

### Definition of a Living Wage

Consensus among FSI members is to follow the GLWC definition, based on the methodology developed by Richard and Martha Anker, in which a Living Wage is: *“Remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. 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”*.

### FSI Ambition

FSI’s ambition is to work on wage improvements over time, towards the internalisation of a living wage in the horticulture sector. This will lead to broad business benefits, including:

- Increased productivity, reflecting improved worker motivation, engagement and welfare;
- Reputational gains (intangible asset growth), as a result of buyers and workers having a more positive perception of the sector;
- Reduced staff turnover and recruitment costs;
- Reduced training costs (workers stay longer so there are fewer induction courses or basic up-skilling. Employees with higher skills can also give on-the-job support to newer employees).

### Living Wage calculations

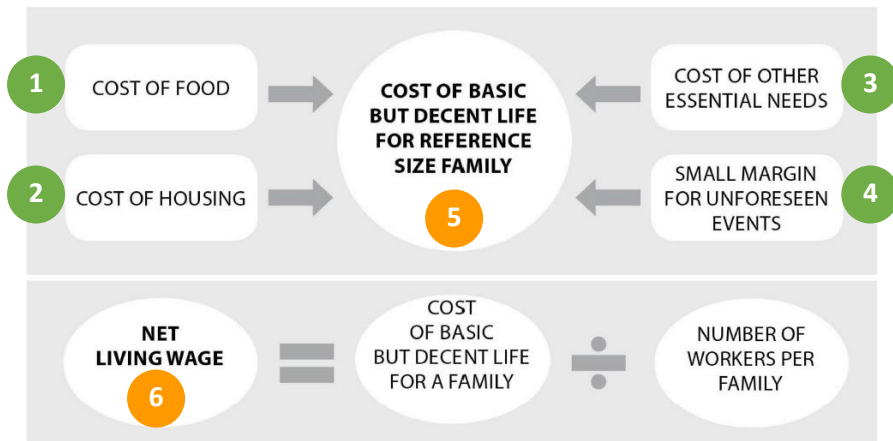
Based on the globally-accepted methodology developed by Richard and Martha Anker, the Living Wage is estimated by summing the cost of a low cost nutritious diet that is appropriate for food preferences and development level of a country (1), the cost of decent housing in the area (2), and other costs for essential needs (3), where each of these are assessed through a method of extrapolation. A small additional margin is also included to provide for unforeseen events, such as illnesses and accidents, to ensure that these events do not push workers into poverty (4). The total across these four components translates into the cost of a decent standard of living for a typical family (5). This is then divided over the typical number of full-time equivalent workers per household (6).

→ See illustration on following page

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<sup>1</sup> [International Labour Organisation, Wages](#)

<sup>2</sup> [United Nations Sustainable Development Goal 10: Reduce Inequality within and among countries](#)



### FSI approach to Living Wage: From calculation to implementation

To drive effective change requires us to 'think local and act global'. Wage setting decisions need to be made at the local, national level in sourcing countries, while action to facilitate this is taken collaboratively at an industry or sector-wide level.

- ➔ Share knowledge and raise awareness
  - Support and share further research relevant to wage setting and for determining living wages in other flower production areas.
  - Look for best practices and develop business cases to showcase practical and effective solutions that can be implemented in the supply chain.
  - Prepare the sector to gradually integrate Living Wage criteria as a requirement in Standards and Schemes.
- ➔ Coordinate responses within the international flower supply chain as well as with other sectors/coalitions.
  - Facilitate dialogue between FSI members and with different stakeholders, such as companies, governments, certification standards, CSOs and Trade Unions
  - Bridge efforts with other similar supply chain initiatives (Tea, Bananas, etc.)
  - Support joint projects to implement practical and scalable solutions.
  - Ensure representation of all supply chain actors and provide specific recommendations for each stakeholder group to play an active and coordinated role.

### Scope of action for FSI members:

- Stimulate wage improvements by building a commercial argument for paying a living wage
- Include wage improvements in trading relationships
- Include clients and suppliers in building in the real cost of LW in the value chain
- Explore potential areas of cost absorption
- Evaluate the impact of LW on workers and communities
- Engage with national governments and stakeholders
- Build a better understanding of how wages are set and paid in suppliers' workplaces

# ANNEXES

## 1- FSI PROJECTS

In 2014-2015, IDH the Sustainable Trade Initiative has financially supported an FSI project lead by HIVOS, Fairtrade and Fair Flowers Fair Plants, to conduct wage structure analysis and benchmarking studies in Kenya, Ethiopia and Tanzania.

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### *Rough summary of the situation:*

**Ethiopia:** the living wage estimate is **2.5 - 3.0 times higher** than the prevailing wages paid by flower farms<sup>3</sup>. There is no minimum wage. CBAs exist only for few farms and generally do not include wage rates.

**Kenya:** in Naivasha, the living wage estimate is **2.1 higher** than the remuneration of a new hire, and 4 times higher than the minimum wage<sup>4</sup>. In rural areas, the gap between living wages and current wages is significantly lower. CBAs do not consider where farms are located.

**Tanzania:** living wage benchmark study to be completed. Minimum wage exists. CBAs exist at sector level (close to min wages) and enterprise level (higher levels for wages).

### **Suggested approach:**

Work in Kenya and Ethiopia should involve all stakeholders (buyers, government, sectoral industry bodies, trade unions, workers).

### **Concrete ideas on the table:**

Fairtrade proposal of a **Flower Floor Wage** for East Africa: it seeks to address the absence of a legal minimum wage in Ethiopia and Uganda. It applies the World Bank absolute poverty line of US\$ 1.90 to create a minimum requirement for base wages. The Flower Floor Wage is approximately 75% higher than current entry-level base wages in Ethiopia (1400 vs. 800 Birr). Fairtrade allows a transition period for already certified plantations of 2 years, whereby 85% of the floor needs to be reached after year 1. The Flower Floor Wage is also meant to reduce the unlevelled playing field between Ethiopian and Kenyan producers, the latter having to comply with minimum wage laws and CBA rates.

### *Documents to download:*

[Living Wage benchmark in Kenya](#)

[Living Wage benchmark in Ethiopia](#)

[True Price proposal of a living wage payment system for Kenya on top of normal negotiation](#)

[Ergon Wage study in Kenya and Ethiopia Summary \(NOT FOR CIRCULATION\)](#)

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<sup>3</sup> The living wage estimate is of Birr 3,367/month. Prevailing wages are estimated to be between Birr 1,058 and Birr 1,233 per month including common cash allowances and values for in-kind benefits.

<sup>4</sup> The Naivasha living wage estimate is of Ksh 22,104 (corrected for inflation in 2016) and the remuneration of a new hire is of 10,388 Ksh incl. in-kind. Minimum wage is of 5,437 Ks.

## 2- OTHER INITIATIVES IN THE FLORICULTURE SECTOR

### ➔ THE FAIRTRADE SOLUTION

After the living wage benchmarks have been set, Fair trade tackled the question of how to make companies to pay a legal minimum wage and turning to a proper living wage:

- a) The idea is that workers can themselves negotiate for better pay and working conditions. They need therefore to be well represented by trade unions and strong organisations; for this reason, one of the key point of the Fairtrade International's Standard for Hired Labour is to ensure and strength their Freedom of Association.
- b) Fairtrade International also changed the rules of the Fairtrade Premium, so that now workers can spend up to 20% of it for cash or in-kind benefits, amount reaching the 50% if the majority of workers are migrants.
- c) The organisation has reached out to several companies and joined multi-stakeholders platforms, like FSI, the World Banana Forum and the Ethical Tea Partnership, but also other standard-setting organizations to collaborate towards a living wage.

<https://www.fairtrade.net/new/latest-news/single-view/article/journey-towards-a-living-wage.html>

### ➔ SELECTA ONE AND WAGAGAI FLOWER FARM IN UGANDA TAKE A FURTHER STEP TOWARD A LIVING WAGE

Selecta one and its cutting farm Wagagai Ltd. launched a project with Fairtrade to improve the wages of the employees: both partners will in the future refrain from placing certification costs and marketing costs of the poinsettias on the selling price. By adding just a few cents to the price of the fairly traded cuttings a significant bonus can be generated on the back of the volume of Fairtrade sales. The bonus flows directly into Fairtrade bonus fund for the workers. With this decision they are able to transfer already in 2017 about 45,000 Euro in addition to the Fairtrade premium. This is true not only for 2017, but for every poinsettia season. Quite aptly, this collaboration between Fairtrade, Wagagai and Selecta One is called the Wagagai Cents project.

[http://www.selecta-one.com/en/posts/Selecta\\_one\\_and\\_Wagagai\\_Flower\\_farm\\_in\\_Uganda\\_initiate\\_new\\_role\\_model\\_of\\_trading\\_fair\\_poinsettias/latest\\_news/91782403057/](http://www.selecta-one.com/en/posts/Selecta_one_and_Wagagai_Flower_farm_in_Uganda_initiate_new_role_model_of_trading_fair_poinsettias/latest_news/91782403057/)

### 3- CASE STUDIES FROM OTHER SECTORS

#### ➔ ETHICAL TEA PARTNERSHIP: FROM ANALYSIS TO IMPLEMENTATION

Following concerns raised by NGOs about low wages on tea estates, ETP/Oxfam/IDH commissioned a 'Wage Ladder' assessment of tea worker wages against international benchmarks in Indonesia, India and Malawi. The findings of this initial assessment were broadly accepted by most stakeholders, even though challenging. In light of the findings ETP, Oxfam, and number of certification bodies (Fairtrade, Rainforest Alliance and UTZ Certified) commissioned detailed analysis by wage and basic needs experts Richard and Martha Anker of what would constitute a living wage for rural Malawi with focus on tea growing area of Southern Malawi. ETP, Oxfam and IDH have been holding ongoing dialogue with Malawian producers, tea buyers, civil society, government and development partners on the reports' findings and how a living wage could be implemented. This dialogue has led to an agreed roadmap, supported by IDH and GIZ, and underpinned by an MoU for 'Supply Chain Commitment to Living Wages on Tea Plantations and Living Income on Smallholder Farms in Malawi by 2020' signed in March 2015 by estates, buyers, traders and supporting parties (including donors). While not a signatory, the global agricultural trade union IUF has been engaged in the development of the MoU. The ensuing Roadmap outlines the following objectives and responsibilities:

- For tea producing companies: progressively close the gap to living wage; continue to improve in-kind benefits to workers; implement programme components
- For tea buying, trading and retail companies: implement business practices that support the economic ability of employers to pay a living wage; support industry improvements; particularly quality; co-fund programme
- For trade unions: increase worker representation and bargaining power in wage negotiations
- For standards and certification organisations: support programme commitments and link to standard and certification progress
- For supporting organisations: provide technical and financial support; implement specific programme components

ETP notes that the engagement and support of the Government of Malawi was vital to the successful agreement on the Roadmap. The 2020 roadmap includes a number of short- and longer-term elements to provide an economically sustainable living wage:

- Nutrition: improving the nutritional value of the employer-provided midday meal
- Tea revitalisation, including estate replanting, supported by the entire supply chain, aiming to improve product quality and estate productivity in order to enable living wages to be paid
- Human resource management consultancy on raising labour productivity
- Scale-up of Farmer Field Schools to increase quality and smallholder business skills
- Improving wage-setting processes by improving capacity of labour unions and engaging with government
- Building real-time living wage data assessment; regular update of value of real wages and benefits and progress towards living wage

<http://www.ethicalteapartnership.org/blog/view-malawi/>

## ➔ **WORLD BANANA FORUM: TARGETING WAGES IN THE CONTEXT OF COSTS OF SUSTAINABLE PRODUCTION**

Since 2010, the WBF has enabled multi-stakeholder dialogue on issues facing the industry, with support from the FAO and IDH through a project for the calculation of the LW benchmark levels in Ecuador and Ghana, and for starting the discussion with the relevant stakeholders of the implementation of living wages in the two countries. WBF actively involves trade unions, small producer organisations and southern governments in the process. Vitrally, the WBF approaches wages not as a 'labour compliance' issue but through its working group on distribution of value. Since 2013, the Working Group has a mandate to explore ways to identify the 'cost of sustainable production' and to ensure that the additional value reaches workers. As a labour-intensive crop, labour accounts for a significant proportion of total banana production costs, so an accurate means to capture labour input costs worldwide is required. This is the next step in identifying and 'building-in' externalities with regard to inadequate wages.

In Cameroon, a joint platform led by local trade unions and IUF, and supported by Fairtrade International and BananaLink, has negotiated wage increases and abolished the lowest wage grades. In 2014, the Government of Cameroon raised the SMIG national minimum wage – which applies to agriculture and non-agriculture alike – by some 29%.

In 2013 Tesco, as a result of the work of the World Banana Forum, committed to pay banana prices that at least covered the Fairtrade minimum price, and in November 2014 became the first retailer to announce that it would enable payment of a living wage to banana workers on exclusive farms (where Tesco is the sole buyer) by 2017. The Tesco strategy is informative here. Tesco's approach of having direct relationships enables the supermarket to pay its banana suppliers, on average, 6% above the Fairtrade Minimum Price. The vital question of how to ensure a mechanism for value transfer, potentially in the absence of recognised trade unions, remains a challenge which Tesco is addressing with WBF partners. The model of a 'Foundation' to oversee gain-sharing and value transfer to wages, but which would not undermine the potential for social dialogue further down the line, is a productive possibility. As NGO Banana Link notes: "Tesco's meaningful effort in driving forward work towards the payment of living wages in the banana industry is a significant step forward".

<http://www.fao.org/economic/worldbananaforum>