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A living wage, a human right

A model for calculating a living wage and related recommendations



Finnwatch is a Finnish non-profit organisation that studies the responsibility of global business.

Author: Henri Telkki

Layout: Petri Clusius/Amfibi Ky

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Contents

1. INTRODUCTION	4
2. INSUFFICIENT SALARIES SUBJECT WORKERS TO EXPLOITATION AND A CYCLE OF POVERTY	5
3. A WAGE CALCULATOR THAT OBSERVES THE WORKERS' AND THEIR FAMILY'S BASIC NEEDS IS NEEDED	7
4. A LIVING WAGE IS A HUMAN RIGHT	14
4.1. Each country has a duty to protect human rights	16
4.2. Companies have a responsibility to respect human rights	17
5. WHAT DOES A LIVING WAGE COMPRISE?	19
6. EXAMPLES OF MODELS FOR THE CALCULATION OF A LIVING WAGE	20
6.1. AFWA's Asia floor wage in the apparel industry	20
6.2. Wage based on ALARM's worker surveys	23
6.3. Wage calculation for a SA8000 certified factory	25
6.4. ISEAL Alliance's area-specific calculations based on local surveys	28
6.6. MIT's living wage calculator based on statistical data	38
6.7. JRF's minimum income standard based on the expectations of households	41
7. FINNWATCH MODEL FOR CALCULATION OF A LIVING WAGE	45
7.1. Transparency and inclusion of stakeholders	45
7.2. Area-specific estimates	45
7.3. Versatility of assessment methods	46
7.4. Determining basic essentials and living costs	48
7.5. Number of dependents	54
7.6. Observation of second parent's income and employment possibilities	55
7.7. In-hand salary earned during standard working hours	57
7.8. Periodic updates necessary to account for rise in consumer prices	59
7.9. Summary of the calculation method	60
8. RECOMMENDATIONS	62
REFERENCES	64

1. Introduction

A living wage is the take-home pay received by a worker for a standard work week sufficient to afford the worker and the worker's family a basic, but decent, standard of living in a particular location. A living wage must be sufficient to satisfy the family's basic needs (e.g. food, housing, clothing, transport, health-care, and education), must allow the worker and family to put aside modest savings for unexpected events and to participate in social and cultural life.

Although a living wage is a human right, the lowest wages actually paid may be substantially less than that. The statutory minimum wage in developing countries and elsewhere is rarely sufficient to cover basic living costs, as the basic needs of the worker and the worker's family are not taken into account adequately. The level of the minimum wage is dependent on political realities as it is often balanced against its impact on employment and economic growth. The realisation of freedom of association and collective bargaining is also often ineffective in developing countries, which increases the risk of inadequate wages.

Each country's government is responsible for ensuring that all workers are paid a living wage, but as debate on corporate responsibility has increased, companies are expected more and more often to implement measures to ensure payment of a living wage. However, companies often fall back on the argument that there is no one correct method for calculating a living wage that could be applied in all industries and in different geographical areas with varying living conditions.

Ensuring a living wage is a fundamental requirement for securing other human rights, as otherwise low-paid workers may need to work excessive overtime hours and put their children to work in order to earn their livings. Although extremely low wages is a common place specifically in developing countries, it is a problem linked to the global production structure. Even if Finnish companies were not direct employers of low-wage workers, they may contribute to the problem either directly as employers or as business partners to those factories that pay insufficient wages.

This is the first Finnish report to examine the concept of the living wage and its calculation from the perspective of corporate responsibility. The report examines the definition of living wage, why the concept is necessary, and what are the responsibilities of governments and companies in the payment of a living wage. This report describes examples of the key models used for calculating a living wage in developing countries and assesses their strengths and weaknesses.

The primary purpose of this report is to supply a practical tool specifically for Finnish companies, regardless of their field of activity, with which to determine and pay a living wage in developing countries in which they have production units of their own or by their business partners or other entities in their value chains.

2. Insufficient salaries subject workers to exploitation and a cycle of poverty

Salaries that are too low make people vulnerable. If a worker is unable to earn enough to cover his/her family's living costs within the scope of normal working hours, the worker must work overtime in order to earn enough. Often, workers cannot afford to turn down overtime work even when ill, when working conditions are dangerous or when the offered terms of employment are especially poor. Due to excess working hours, a worker does not get sufficient rest nor does the worker have time to spend with or raise his/her children or from enjoying his/her freedom for recreation. Excessive overtime work can also prevent a worker from benefit from freedom of association, as the worker does not have the time or energy to participate in trade union activities¹.

According to a report published by the ILO in 2007, up to 22 per cent of the world's labour force, i.e. 614.2 million people,

work an average of over 48 hours a week², Finnwatch's report 'Books from China' reveals that workers employed by Chinese printing factories used by Finnish publishers work an average of 20 overtime hours each week in order to earn a living wage³. Similar long stretches of overtime work have also been observed in connection to Finnwatch's other studies⁴.

In addition to overtime work, another consequence of insufficient wages is that parents force their under-aged children to work at the expense of their education, despite the fact that the use of child labour is prohibited by

1 Finnwatch, 2012, Menetetty vallankumous, Ihmisoikeusloukkaukset arkipäivää Bangladeshin tekstiiliteollisuudessa työskenteleville naisille, can be read at: <http://www.finnwatch.org/images/pdf/bangladeshweb.pdf>

2 ILO, 2007, Working Time Around the World: Main findings and policy implications, can be read at: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_082838.pdf

3 Finnwatch, 2014, Books From China, Working conditions at the Hung Hing Heshan Printing Factory, Suomessa toimivien kustantamojen vastuullisuus, can be read at: http://www.finnwatch.org/images/pdf/Publishers_Hung-Hing_Finnwatch_summary.pdf

4 E.g. Finnwatch, 2014, The Law of the Jungle, Corporate responsibility of Finnish palm oil purchases, can be read at: <http://www.finnwatch.org/images/pdf/palmoil.pdf>; Finnwatch, 2012, Menetetty vallankumous, Ihmisoikeusloukkaukset arkipäivää Bangladeshin tekstiiliteollisuudessa työskenteleville naisille, can be read at: <http://www.finnwatch.org/images/pdf/bangladeshweb.pdf>



Worker sleeping during her break. In 2012 and 2014, Finnwatch inspected Chinese print factories that produce a variety of products, such as books and home electronics, for import to Finland. Due to insufficient wages, workers must work several hours overtime every day.

law in most countries⁵. Even with these sacrifices a worker's overall income is not necessarily sufficient to cover all the family's basic needs. This leads to other poverty-related problems, such as malnutrition and untreated illnesses. The family may not be able to afford enough nutritious food or to pay healthcare fees. Children do not receive an adequate education and the family ends up living in miserable conditions. These problems also affect unmarried workers without children, as an insufficient salary may prevent them from starting a family⁶.

When a worker has enough money to just cover normal monthly expenses, he/she is still at risk of being caught up in a poverty and debt cycle, if the worker is unable to put savings aside for a rainy day. This is because, in the long-term, a worker will without a doubt incur some irregular and unexpected expenses or may become unemployed and therefore be forced to take out a loan. The ability to put money aside for savings is especially important in developing countries where there is little if any social security.

Extremely low wages are most common amongst women, young people, migrant workers and those working in the informal economy⁷. Migrant and temporary agency workers, as well as workers, who only work for short periods in factories, are usually not within the scope of agreements reached through collective bargaining, which in part explains why the salaries of these groups are so low⁸.

Women are employed in low wage fields, in which the rate of organisation is low, and they have less representation in trade unions. Other reasons for women earning subpar wages include socio-cultural factors, such as gender-based expectations and discrimination.⁹

The workers with the lowest salaries are often also uneducated and lack professional skills. It is now thought that shortcomings in the professional training system, as well as the unwillingness of companies to invest in the training and development of their workers may partly lead to the insufficient wages. Low wages are established not only in the informal economy, but also especially in the agriculture (in developing countries), as well as in retail sector jobs, the hotel and restaurant industry, social services (including domestic work), the transport industry and production industry (food and clothing industry).¹⁰

5 Finnwatch, 2012, Lapsityövoimaa ja vaarallisia kemikaaleja, can be read at: http://www.finnwatch.org/images/pdf/finnwatch_luonnonkumi_web.pdf

6 For example, the unmarried male workers at Stora Enso's Inpac factory in India, interviewed by Finnwatch, complained that their insufficient salary has prevented them from getting married and starting a family. Finnwatch, 2013, Stora Enso ja ihmisoikeudet, p. 32, can be read at: http://www.finnwatch.org/images/pdf/stora_enso_intiassa_web.pdf

7 The informal economy refers to work carried out with no official recognition and supervision. As a consequence, workers are often not afforded their legal rights.

8 For example, Finnwatch, 2013, Stora Enso ja ihmisoikeudet, p. 32, can be read at: http://www.finnwatch.org/images/pdf/stora_enso_intiassa_web.pdf

9 ILO, 2014, Global Wage Report 2014/15, can be read at: http://www.ilo.org/wcmsp5/groups/public/-dgreports/-dcomm/-publ/documents/publication/wcms_324678.pdf

10 ILO, Grimshaw, D., 2011, What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective, p. 12–13 and 31–33, can be read at: http://www.ilo.org/wcmsp5/groups/public/-ed_protect/-protrav/-travail/documents/publication/wcms_157253.pdf

3. A wage calculator that observes the workers' and their family's basic needs is needed

Global production structures and markets are controlled by multinational corporations that aim to establish production in and acquire materials and services from countries, where production costs are as low as possible¹¹. Production countries and the factories in them are tendered so that production costs can be even further minimised. A product's value is made up in great part of branding and retail sales costs at the final end of the value chain, whereas factory workers in developing countries at the start of the chain only receive a fraction of the product's value¹².

The non-existent realisation of the right to collective bargaining is the key obstacle for an increase in salaries. An efficient collective bargaining system significantly improves the bargaining power of workers in the most vulnerable position and prevents wage competition¹³. Insufficient wages are most established in countries in which bargaining does not apply to all workers or it is not coordinated or centralised and in countries in which trade unions do not have sufficient power or standing¹⁴.

Although binding minimum wage legislation has long been thought to be the key instrument for protecting workers from inadequate wages, the legal minimum wage in many countries is insufficient to cover basic living costs¹⁵. Very low minimum wages are, here too, partly a consequence of the vicious cycle of wage competition between developing countries. Each country's government endeavours to attract orders, production activities and investments to their country by promising low wages, and large corporations conduct strong lobbying to get lenient provisions¹⁶. Changing the minimum wage by way of legislation is also a slow process, and, thus, adopted minimum wages rarely keep up with the increase in living costs.

Due to inadequate minimum wage legislation, international corporations have for quite some time been required to take responsibility for the wages they pay. However, with a few exceptions, their responsibility policies and audits still lack concrete and comprehensive commitment to payment of a living wage¹⁷. Corporations do often voice their attempt to pay a living wage in principle, but lack a concrete model for calculating a living wage or an alternative point of reference. They also lack a scheduled plan for implementing an increase in salaries¹⁸. Additionally,

11 However, production and personnel costs are only one factor. Other business benefits, such as possible savings in logistics costs, taxes, indirect wage costs and the stability of the operating environment etc., also have an impact on where the company locates its activities. Additionally, it must be noted that an ever growing share of the world's largest companies are from China, India and other countries thought of as developing countries.

12 See e.g. Merk, J., AFW, 2009, *Stitching a Decent Wage Across Borders, The Asia Floor Wage Proposal*, can be read at: <http://www.cleanclothes.org/resources/publications/afw.pdf>

13 According to the ILO, the realisation of a more comprehensive and binding right to collective bargaining would result in more equal wages, and wages would react better to economic growth. ILO, *Global Wage Report, 2008/09*, can be read at: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_100786.pdf

14 ILO, Grimshaw, D., 2011, *What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective*, p. 30, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_157253.pdf

15 For example, the Finnwatch's inspection at the Stora Enso Inpac factory demonstrated that the salaries paid to workers were in accordance with legislation but were nevertheless not a living wage. In spite of the growth of India's gross national product, the country's salaries and their purchasing power have plummeted rather than grown in recent years. Finnwatch, 2013, *Stora Enso ja ihmisoikeudet*, can be read at: http://www.finnwatch.org/images/pdf/stora_enso_intiassa_web.pdf

16 Oxfam, 2014, *Steps towards a living wage in global supply chains*, can be read at: https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/ib-steps-towards-living-wage-global-supply-chains-101214-en.pdf

17 See corporate responsibility initiatives p. 34

18 In 2013, the Clean Clothes Campaign (CCC) an alliance of garment industry trade unions and non-governmental organizations, published a report on the practices of the fifty (50) leading European garment companies in paying a living wage. The study found that only a

the adopted definitions of a living wage do not necessarily correspond with the normative concept of the living wage, and the calculations carried out on the basis of these definitions do not result in a sum that is an adequate wage¹⁹. Companies rarely, if ever, independently initiate procedures to change their purchase practices and pricing, or make an effort to influence an increase in wages in their suppliers' factories to a living wage. There are also shortcomings with regard to accountability, as companies rarely want to divulge the names of their suppliers.

Minimum wage setting needs broader criteria

Minimum wages are too low because they are set without verifying that the wage is enough to cover all the basic needs of the worker and the workers' family²⁰.

few companies did enough to increase wages to a fair level in the developing countries, where these companies had activities. According to the CCC, only four companies were able to demonstrate measures that could lead to significant pay rate rises. Seven companies had adopted a credible living wage benchmarking tool. Not one of the companies had yet paid living wages. Clean Clothes Campaign, 2014, Tailored wages, can be read at: <http://www.cleanclothes.org/livingwage/tailoredwages/tailored-wage-report-pdf/view>

19 For example, H&M, which has in principle committed to paying a living wage, will not commit to one concrete calculation, and the company's definition of a living wage is inadequate, as it does not take into account such real life expenses as childcare, transport and disposable income for unexpected events, such as illness or unemployment. Finnwatch, 11.4.2014, Halpoja vaatetta elämiseen riittäväällä palkalla?, <http://www.finnwatch.org/fi/uutiset/115-halpoja-vaatteita-elamiseen-riittaevaelle-palkalla> (viewed on 5 Feb 2015). Furniture giant IKEA, for its part, announced in June 2014 that it would pay at least a living wage at its US-based factories. However, IKEA has selected a living wage calculator that is based on the basic needs of a single worker, who lives by him-/herself and the calculation model does therefore not take into account the possibility of taking care of the dependents. Washington Post, 26.6.2014, Ikea to raise workers' pay to a 'living wage', <http://www.washingtonpost.com/blogs/on-leadership/wp/2014/06/26/ikea-to-raise-workers-pay-to-a-living-wage/> (viewed on 18.11.2014); Marketplace, 6.8.2014, Meet the woman behind Ikea's living wage calculator, <http://www.marketplace.org/topics/business/meet-woman-behind-ikeas-living-wage-calculator> (viewed on 18.11.2014)

20 According to information collected by the ILO in 1992, only 26 countries out of 99 reported that they had taken into account the social and financial needs of workers and workers' families when determining a minimum wage, and 43 countries reported that they had taken into account only some related elements. ILO, Anker, R., 2011, Estimating a living wage: A

In order to assess whether a person is able to acquire a decent living standard, politicians and analysts often compare the income of households to a nationally specified poverty line, the international poverty line or another benchmark for economic wellbeing. The minimum wage is then often set close to the poverty line and sometimes even below it²¹. However, poverty lines and other currently used indicators of adequate financial wellbeing often underestimate the needs of the workers and are too low. The poverty lines are calculated in different ways in different countries, either as a relative poverty threshold or absolute poverty threshold. The latter of these only takes into account bare minimal needs (food, housing, clothing and others), and does not necessarily include costs related to childcare or healthcare²².

At times, minimum wage recommendations are also stated as a relative share of the median or average of the area's current prevailing wages, or as a relative line set above the absolute poverty line²³. Wage calculations that compare wages to what the rest of the population earns can be useful statistical tools for following wage development and minimising society's wage gap. However, this

methodological review, p. 17, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

21 WageIndicator Foundation, Guzi, M., 2013, Estimating Living Wage Globally - 65 countries, can be read at: http://www.wageindicator.org/documents/publicationslist/publications-2013/Estimating%20Living%20Wage%20Globally_201311.pdf

22 One problem is also that often only food costs are calculated from which the other expenses are then derived using secondary statistical data on consumption. See description and problems with this method p. 47. Taking childcare into account is important, as access to childcare and its price affect the individual's ability to accept employment. Farrigan, T. L., ja Glasmeier, A. K., 2001, Living Wage and Job Gap Study Beaufort County, South Carolina, can be read at: http://povertyinamerica.mit.edu/products/publications/beaufort_living_wage/beaufort_living_wage.pdf

23 E.g. the income limit is set at \$2/day, on the basis of which the living wage = \$2 (purchasing power parity) x average household size / number of persons earning a wage; or a relative low income limit, e.g. 50% x the national median. ALaRM, Prasanna R.P.I.R. ja Gowthaman, B., 2005, Sector Specific Living Wage for Sri Lankan Apparel Industry Workers, p. 10, can be read at: https://archive.cleanclothes.org/documents/06-ALaRM_LIVING_WAGE_sri_Lanka.pdf

Methods for determining poverty lines vary

The povertyline, or poverty threshold, refers to an income level deemed adequate in a particular country. If a worker earns less than the determined sum, the person is considered poor, i.e. the person cannot afford essential goods and services that are needed to maintain a decent standard of living.

The poverty line is either relative or absolute. Relative poverty is the measure commonly used in Europe to compare the income level of the poor population to the rest of the population. For example, the EU has set its poverty line at 60 per cent of the median income²⁴. Relative poverty can be described as a measure for financial equality, which automatically changes as financial wellbeing increases.

Absolute poverty, in turn, measures how adequate an income is in satisfying minimum/basic needs. The poverty line is set at a fixed level that indicates purchasing power, and this is applied from one year to the next and only adjusted to account for inflation. However, in most countries, poverty lines are adjusted from time to time as financial wellbeing increases and a common understanding of the fundamentals that make up poverty develops. However, e.g. the United States has had the same poverty line calculation in place for four decades.²⁵

There are three different methods for determining absolute poverty. The most used is the 'cost of basic needs' method, which assesses food costs for a daily diet that will fulfil a person's energy requirement, normally around 2,100 calories per day²⁶. Food expenses can be determined by using e.g. a diet that mirrors the habits and preferences of persons living on the poverty line²⁷. After this, the costs of other basic essentials, such

as clothing and housing, are calculated. According to the World Bank, there is no completely satisfactory model for determining the costs of basic needs other than food, and the models differ from one another and are case-specific. For example, a calculation was carried out in the Republic of Korea to determine the food costs and housing costs for a residence that was up to the minimum size requirement. Other costs were calculated in accordance with the average expenditure of the poorest two-fifths of the population. For example in the United States, other costs were calculated by multiplying foods costs by three, because at that time consumers used a third of their income on food in the United States.²⁸

If researchers have not had access to local prices, some have used the 'food energy intake method' instead of the basic needs income method. This method aims to find the level of income needed to be able to afford the required energy intake (no more, no less). The third method is the 'subjective poverty line', which is, simply put, based on what people themselves say they need to satisfy their basic needs.

The practices used to calculate poverty lines vary a great deal. Countries also often determine several different levels of poverty (e.g. the lowest poverty line measures extreme poverty). At times, urban and rural poverty lines are determined separately.²⁹

According to the World Bank's definition, a person lives in extreme poverty when the worker must live on less than \$1.25 a day i.e. 0,92 euros. The statistic has also been expanded to two and four dollars a day³⁰. According to this measure, there are 1.2 billion people living in extreme poverty worldwide³¹.

24 The EU uses AROPE (at risk of poverty or social exclusion) indicators as the basis for poverty and income distribution statistics. These indicators measure the risk of poverty or social exclusion from three dimensions - low income, unemployment and serious material deprivation. The income of low income households is less than 60 per cent of the median income, and underemployment is defined as employment that is less than 20 per cent of normal work time on a monthly basis. When a person's household is unable to afford four of the following, they are living in material deprivation: telephone, laundry machine, television, car, a protein-rich meal every other day, a week-long holiday once a year, adequate heating for one's home, payment of unexpected essential expenses, payment of bills and loans. The indicator for serious material deprivation can be conceived as a certain type of fixed poverty line. This poverty line does not change each year with the median income, but rather utilises an income level based on the index adjusted purchasing power from one year to the next. Tilastokeskus, Okkonen, M. ja Sauri, H., 2013, Talouskriisi sosiaali-indikaattorien valossa, http://www.stat.fi/artikkelit/2013/art_2013-03-11_001.html?s=1 (viewed on 5.1.2015)

25 Farrigan, T. L., ja Glasmeier, A. K., 2001, Living Wage and Job Gap Study Beaufort County, South Carolina, can be read at: http://povertyinamerica.mit.edu/products/publications/beaufort_living_wage/beaufort_living_wage.pdf

26 The FAO has determined that 2,100 calories a day is the required energy intake that will guarantee maintained good health. The World Bank, Houghton, J., Khandker, S.R., 2009, Handbook on Poverty + Inequality, can be read at: http://siteresources.worldbank.org/INTPA/Resources/429966-1259774805724/Poverty_Inequality_Handbook_Ch03.pdf

27 People, who are in the lowest or second lowest fifth of income distribution statistics can be used as a reference group, or, alternatively those who consume 2,000 to 2,200 kilocalories a day.

28 World Bank, Houghton, J., Khandker, S.R., 2009, Handbook on Poverty + Inequality, can be read at: http://siteresources.worldbank.org/INTPA/Resources/429966-1259774805724/Poverty_Inequality_Handbook_Ch03.pdf

29 According to a report by the World Bank, the absolute poverty line benchmark was only used in 17 cases out of 40 poverty line calculations in Africa in 1998. The majority of these (12) set a minimum energy requirement and only some another food-related requirement(5); in five cases analysts specified the content of a goods and services basket, but did not specify a minimum energy requirement. Ibid.

30 Ibid.

31 Kepa, 9.5.2014, Puolittuiko äärimmäinen köyhyys viime viikolla?, <http://www.kepa.fi/uutiset/1070> (viewed on 29.1.2015). In 2013, the limit for a low income (60 % of the median) in Finland was 14,260 euros per consumption unit i.e. a single person living alone has a low income, if his/her net income is less than 1,190 euros a month. In 2013, 12.9 per cent of the country's population had a low income. Tilastokeskus, Pienituloisuuden kehitys Suomessa 1987–2013, http://www.stat.fi/til/tjt/2013/01/tjt_2013_01_2014-12-19_kat_001_fi.html (viewed on 9.1.2014)

type of calculation cannot be thought as a recommendation for a living wage. A living wage is a normative concept determined on the basis of a person's basic essentials, and it cannot be directly tied to the current level of wages.

A living wage is a benchmark for the financial wellbeing of a worker's household that is based on universal and absolute criteria adjusted to local living conditions. As a wage standard that obligates employers, it is based on the type of living standard that every person should have the right to in the specific society in which they live³². On one hand, it is based on more than just having the most necessary basics and getting by. On the other, it is still about a guaranteed minimum for a basic living standard. This means that a living wage does not need to be high enough to finance a middle class standard of life, entertainment and luxuries. Chapter 4 examines the human rights-based content of a living wage in further detail.

32 A minimum living wage is determined and applied as a general standard and it is not designed to take into account the special needs of an individual worker or group. For example, the living wage does not vary based on how many people there are in an individual worker's family.

Comparing different benchmarks used for measuring the adequacy of wages³³

Standard	Method of determining	Strengths	Weaknesses
Legal minimum wage	the criteria for determination are not necessarily related to basic essentials or a sufficient standard of living	clean-cut standard nationally valid as a legally binding minimum obligation can be legally enforced	the level of the minimum wage varies significantly between different countries is often determined with criteria other than the essential need of the worker and the worker's family is often not adequate to cover living costs and to prevent poverty
A wage in relation with prevailing wages	measures an adequate salary on the basis of other field-specific wages can be seen as a measure of fairness in relation to others	usually higher than the minimum wage employers should be able to pay this wage without it having an effect on employment rates or competitiveness	measurement of this method may be inaccurate and requires resources may vary a great deal between different fields and geographical areas is also dependent on in-kind benefits that are included in the worker's salary can be too low to pre-empt poverty
Relative wage based on low income line	is calculated in relation to other wages, e.g. a personal income that is a certain percentage of the national median income (e.g. 50 or 60 %) criteria for the wage are not based on basic essentials	the purpose is to pre-empt excessive wage gaps a tool for monitoring of wage development and comparison of wages	does not completely correlate with poverty as a relative benchmark, and does not guarantee that the wage is sufficient to satisfy basic essentials is often not adequate to cover living costs or to prevent poverty
Wage based on absolute poverty	the scope in which a household's basic essentials are taken into account varies sometimes the existing poverty line is scaled up by a certain percentage	easy to use as a benchmark as there are ready-made nationally specified poverty lines this method includes estimates on the typical living costs required to satisfy basic essentials	this method does not often take the all basic needs and living costs of the worker and the worker's family into account as cohesively and extensively as should be different criteria used in different countries
Living wage	determined on the basis of universal criteria (based on human rights declarations, treaties and international conventions) the basic needs of the worker and the worker's family as the defining criteria	guarantees that a wage is sufficient to cover the costs of the basic needs of the worker and the worker's family pre-empts poverty may improve the productivity of work a concise human rights-based model that obligates people to act consistent criteria for calculation of wages worldwide allows for area-specific calculations, which take into consideration the geographical difference in living costs within a country	there is no clear consensus on the correct method for calculating a living wage can be relatively complicated to calculate and may require abundant resources can at times result in sums that are considered unrealistically high in relation to current prevailing wages may see a downturn in employment or in the competitiveness of producers depending on the sum of the pay hike and the way in which it is realised

33 The following source was utilised in the compilation of the table: Settrini, G., 2005, Wages in the Apparel Industry: What Constitutes a Decent Standard?, The Background Paper for the Jo – In MIT meeting on Exploring Common Approaches to Corporate Accountability and Workers Rights, can be read at: <http://www.jo-in.org/pub/docs/JoIn-MIT-livingwages2005.pdf>

A living wage pre-empts poverty and can also financially benefit companies and the public economy

A minimum living wage is a significant tool for fighting poverty with the condition that the income is distributed more evenly throughout the society so that the purchasing power of all the poor families in an area or country increase.

Companies benefit from paying a living wage, because the wellbeing of their employees will increase and it can be assumed that this in turn can increase productiveness. Satisfied and healthy workers are motivated and committed to their work, which means there will be fewer absences. It can be argued that paying employees higher wages will improve the likelihood that workers remain with the same company for a longer period of time, that their professional skills develop and they have a more flexible attitude towards changes to their job description. The company saves on the orientation costs it would incur from constant employment of new personnel. Higher wages also increase a company's competitiveness as the company can then attract better specialised and educated workers. Having a reputation as a fair wage employer is also an advantage in the consumer market.³⁴

A living wage will also have a positive economic impact on the public economy. When workers are paid a living wage, they will no longer have to seek financial aid from the government, i.e. social welfare. Workers, who are better paid also pay more insurance payments. Furthermore, the high purchasing power of better paid workers will mean increased consumption on their part.³⁵

On the other hand, some people believe that a minimum living wage somewhat increases unemployment among unskilled workers³⁶ and can slow economic growth. It is also claimed that implementing an increase to minimum wages will

not necessarily benefit the poorest households³⁷. In addition to this, it may have detrimental side-effects on the poorest households other than unemployment that are in contradiction with the income distribution policy objectives related to a raise in minimum wages³⁸.

However, research over the past few years has called into question these negative effects and their overall economic significance³⁹. Some economists believe that the resulting decline in jobs and employment will be minimal in the long-term, in addition to which the hike in the minimum wage can also have a positive impact on employment⁴⁰. For large companies, giving a pay rise to the company's low-income workers often signifies a fairly small cost item for the company⁴¹, and the company can gain this back by freezing the salaries of workers with higher wages⁴², by reorganising the company's activities

34 See more information on business benefits e.g.: Living Wage Commission, 2014, Work that pays, The Final Report of the Living Wage Commission, p. 14, can be read at: http://livingwagecommission.org.uk/wp-content/uploads/2014/06/Work-that-pays_The-Final-Report-of-The-Living-Wage-Commission_w-3.pdf

35 Houston Chronicle, Minimum Wage: Pros & Cons, <http://smallbusiness.chron.com/minimum-wage-pros-cons-2765.html> (viewed on 8.1.2015)

36 As a result of a requirement to pay significantly higher wages, especially smaller companies may not be able to employ new workers and may have to fall back on dismissals.

37 A low-wage worker does not necessarily live in poverty, as the worker may live in the same household as a high-income worker or the worker can receive public support or subsidies or an alternative form of income. On the other hand, a household may suffer from poverty, even when a worker has a relatively high wage, if the worker has a large number of dependents, debts, etc. Many households are also poor because neither parent works in which case a hike to the minimum wage will do nothing to help them. ILO, Grimshaw, D., 2011, What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective, p. 51, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_157253.pdf

38 E.g. transferring the costs of wage increases to consumer prices can regressively hike the expenses of the poor who use bigger part of their income to consumer products. MacCurdy, T., 2014, How Effective Is the Minimum Wage at Supporting the Poor?, can be read at: <http://faculty.chicagobooth.edu/workshops/econ-policy/PDF/Macurdy%20presentation.pdf>

39 ILO, Grimshaw, D., 2011, What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_157253.pdf

40 ILO, 2014, Global Wage Report 2014/15, p. 59

41 In relation to the benefits for low-wage workers from a pay rise

42 It has been noted that minimum wage legislation also has positive knock-on effects in the wages of those workers, who earn more than the established minimum wage. ILO, Grimshaw, D., 2011, What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective, p. 26, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_157253.pdf

Benefits of a living wage⁴⁷



and/or by charging higher consumer prices for their products⁴³. An increase to minimum wages has been found to increase overall productivity, as higher wages will see companies improve the efficiency of their activities⁴⁴. Together with improved collective bargaining rights, an increase to minimum wage has been noted as one of the key instruments that has contributed to a more fair income distribution in many Latin American countries, as well as in other rising and developing economies⁴⁵.

Although the link between a non-living wage and the poorest households is not always a straightforward one, it is safe to conclude that workers who earn less than a living wage are generally at much greater risk of poverty than other workers⁴⁶.

However, economists still have contradicting ideas on the positive and negative impacts of a living wage on the micro and macro-economy, although these matters have been discussed and researched for quite some time. Impacts can vary between different societies especially between industrialised and developing countries, and the impacts are dependent on a company's size, the size of the pay rise, the way in which it is realised and many other factors. However, the purpose of this report is not to compile economic impact assessments. This study is normative. A living wage is a human right, which obligates governments and companies regardless of economic impacts, and the obligation to pay a living wage cannot be conditional and based on cost-benefit calculations.

Dollars & Sense, Real World Economics, Measuring the Full Impact of Minimum and Living Wage Laws, <http://www.dollarsandsense.org/archives/2006/0506wicks-lim.html> <http://www.dollarsandsense.org/archives/2006/0506wicks-lim.html> (viewed on 8.1.2015).

43 Schmitt, J., Center for Economic and Policy Research, 2013, Why Does the Minimum Wage Have No Discernible Effect on Employment?, can be read at: <http://www.cepr.net/documents/publications/minwage-2013-02.pdf>

44 See e.g. the newly published study on the effects of China's 2004 minimum wage reform: Mayneris, F., Poncet, S., Zhang, T., 2014, The cleansing effect of minimum wage Minimum wage rules, firm dynamics and aggregate productivity in China, can be read at: https://www.wto.org/english/res_e/reser_e/gtdw_e/wkshop14_e/florian_mayneris_e.pdf

45 ILO, Global Wage Report p. 59. Empirical research data from Europe supports the view that minimum wages reduce the share of low-wage work. ILO, Grimshaw, D., 2011, What do we know about low-wage work and low-wage workers? Analysing the definitions, patterns, causes and consequences in international perspective, p. 24, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_157253.pdf

46 Ibid, p. 51

47 Modified from the source: Living Wage for Families Campaign, How Living Wage Benefits Employers, saatavilla osoitteessa: <http://www.livingwageforfamilies.ca/wp-content/uploads/2013/12/2.-How-Living-Wages-Benefit-Employers.pdf>

4. A living wage is a human right

The right to a living wage is recognised as a human right in numerous human rights instruments drafted by the UN and other international organisations, in the ILO's conventions and recommendations and the constitutions of some countries.

According to article 23 of the UN Universal Declaration of Human Rights (1948), every worker shall have the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection⁴⁸. According to article 7 of the UN International Covenant on Economic, Social and Cultural Rights (1966), every worker shall have the right to safe and healthy working conditions that ensure fair wages and equal remuneration for work of equal value and a decent living for themselves and their families.⁴⁹

From the time it was established, the ILO has held the view that a minimum living wage is a fundamental human right. According to the Constitution of the International Labour Organization (1919), a living wage is one of the requirements for peace and harmony⁵⁰. A worker must be paid a wage adequate to maintain a reasonable standard of life as this is understood currently in the country they live in⁵¹.

The ILO Minimum Wage Fixing Convention (No. 131, 1970)⁵² highlights the ILO's views on a living wage, as, according to the Convention, the needs of the worker and the worker's family should be taken into account when determining the minimum wage⁵³. However, these needs are not specified⁵⁴.

According to the Convention, factors that influence how needs are taken into consideration include the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups. These criteria demonstrate that determining a living wage depends in great part on the level of a country's development and is therefore tied to a specific time and place. In addition to needs of the worker and the worker's family, also economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment are to be

⁵² ILO Convention 131, Convention Concerning Minimum Wage Fixing, with Special Reference to Developing Countries. ILO's other minimum wage convention is the Convention Concerning the Creation of Minimum Wage-Fixing Machinery (1928).

⁵³ The Convention highlights the ILO's view on the content of a living wage, as it refers to the worker's and the worker's family's needs, which are a key defining factor in determining a living wage. According to the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (2006), the salaries, benefits and terms of employment offered by multinational enterprises must be as favourable to workers as the salaries, benefits and terms of employment offered by employers in the same field in the country in question. When a company has activities based in developing countries, where there may not be employers in the same field, a multinational enterprise must offer the best possible wages, benefits and terms of employment, which must be sufficient to at least cover the costs basic essentials needed by the worker and the worker's family. If a multinational enterprise provides basic essentials such as housing, healthcare or food for their workers, these must be of a good standard. ILO, 2001, Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy

⁵⁴ The ILO has not provided detailed points of reference for determining when a minimum wage is sufficient to cover the cost of basic essentials. Instead, the ILO promotes social dialogue, especially collective bargaining, as a tool for determining field-specific wages, as well as tripartite consultations for determining national minimum wages or expanding the term of validity of collective agreements. ILO, Q&As on Business, Wages and Benefits, http://www.ilo.org/empent/areas/business-helpdesk/faqs/WCMS_DOC_ENT_HLP_WAG_FAQ_EN/lang--en/index.htm (viewed on 14.1.2015)

⁴⁸ The declaration allows for a wage that is lower than the requirement, if the worker and the worker's family can receive supplementary social security in addition to the salary. On the contrary, the UN International Covenant on Economic, Social and Cultural Rights makes no reference to social security.

⁴⁹ The right to a living wage is also recognised in the United States Declaration of Human Rights (1948), American Declaration on the Rights and Duties of Man (Organization of American States, 1948), the Additional Protocol to the American Convention on Human Rights in the Area of Economic, Social and Cultural Rights (Organization of American States, 1988), as well as the European Social Charter (Council of Europe, 1961).

⁵⁰ Extract from the Constitution: "Whereas universal and lasting peace can be established only if it is based upon social justice; And whereas conditions of labour exist involving such injustice, hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled; and an improvement of those conditions is urgently required; as, for example, by - - - the provision of an adequate living wage - - -".

⁵¹ Article 427 of the Treaty of Versailles, on the basis of which the ILO was established in 1919.

taken into account when determining the minimum wage.

Thus, the Convention states that a hike to minimum wages can be fit in with more broad-scoped national objectives such as economic growth or job creation⁵⁵. According to the ILO Committee of Experts, the ultimate objective of the ILO's Minimum Wage Conventions is nonetheless to ensure a satisfactory living standard for workers and their families⁵⁶.

Section 18 of the Constitution of Finland⁵⁷ affords every person the right to work, but does not include any provisions on wages⁵⁸. Section 19, which concerns the right to social security, does however guarantee every person the right to a certain minimum standard of living: "Those who cannot obtain the means necessary for a life of dignity have the right to receive indispensable subsistence and care." On the other hand, the constitutions of some other countries recognise the fundamental right to a living wage as a right independent of supplementary public social security and support. For example, the Constitution of the Federative Republic of Brazil states that the nationally unified minimum wage shall be capable of satisfying the basic living needs of the worker and those of their families, and these basic needs are further specified as housing, food, education, health, leisure, clothing, hygiene, transportation, and social security.⁵⁹

The living wage is a normative concept. Its obligating nature and content are determined by definitions and criteria recorded in legal

documents that establish that it is a fundamental right that must be guaranteed to everyone. However, the criteria in question are of a general nature.

In brief, human rights instruments define a reasonable and dignified/decent standard of living, which workers must be able to attain for themselves and their families with their wages. A wage must also be high enough to allow a worker to start a family, as this is guaranteed as a human right⁶⁰. A living wage must be high enough to cover more than just basic necessities of life, such as food, shelter and clothing. However, human rights instruments (unlike the constitutions of some countries) do not directly specify the exact scope of basic/essential needs a wage should satisfy⁶¹.

Human rights instruments and the ILO's conventions dictate that the living wage shall be adjusted according to each society's level of economic development. An acceptable standard of living and the wage that affords this standard varies depending the time and place. For this reason, a living wage in a developing country may be lower in general than a living wage in a high-wage industrialised country. According to current human rights doctrine, economic, social and educational rights must be realised progressively as far as possible taking into consideration the society's current economic resources⁶².

55 According to the Convention a minimum wage shall also be practical and suitable with regard to the country's practices and conditions.

56 ILO, 1992, Committee of Experts on the Application of Conventions and Recommendations

57 The Constitution of Finland 731/1999

58 According to the section, everyone has the right, as provided by an Act, to earn his or her livelihood by the employment, occupation or commercial activity of his or her choice. The national and local governments must strive to guarantee the right to employment for everyone.

59 The constitutions of Mexico, India and Namibia all reference the right to a living wage. See Anker, 2011, p. 4, can be read at: Estimating a living wage: A methodological review, can be read at: http://www.ilo.org/wcmsp5/groups/public/@ed_protect/@protrav/@travail/documents/publication/wcms_162117.pdf

60 According to article 23 of the UN's International Covenant on Civil and Political Rights and article 10 of the UN's International Covenant on Economic, Social and Cultural Rights, the family is the natural and fundamental group unit of society and is entitled to society's and the state's protection.

61 Everyone's right to essential and basic goods and services is regulated in human rights instruments' articles and provisions on a decent standard of life and other specific provisions on sufficient nutrition, clothing, housing, healthcare, elementary and vocational education and the right to continuous improvement of living conditions. See e.g. Article 25 of the UN Declaration of Human Rights and article 11 of the International Covenant on Economic, Social and Cultural Rights.

62 E.g. article 2 of the UN's International Covenant on Economic, Social and Cultural Rights, according to which "Each State Party to the present Covenant undertakes to take steps, individually and through international assistance and co-operation, especially economic and technical, to the maximum of its available resources, with a view to achieving progressively the full realization of the rights recognized in the present Covenant by all appropriate means,

As countries develop, the population's expectations of the content of basic essentials and an acceptable standard of living will grow. It should be also noted that an established minimum wage cannot in principle ever be cut, only increased. The obligation to progressively promote human rights and fundamental rights includes a prohibition on impairing or diminishing achieved rights.⁶³

4.1. EACH COUNTRY HAS A DUTY TO PROTECT HUMAN RIGHTS

States assume obligations and duties under international law to respect, to protect and to fulfill human rights. This means that states must refrain from interfering with or curtailing the enjoyment of human rights. They must also protect individuals against human rights abuses. According to the UN Guiding Principles on Business and Human Rights (2011, hereinafter UNGPs)⁶⁴, this requires taking appropriate steps to prevent, investigate, punish and redress such abuse through effective policies, legislation, regulations and adjudication⁶⁵. The obligation to fulfill means that States must take positive action to facilitate the enjoyment of basic human rights.

The UNGPs make a clear distinction between states' obligations and business enterprises' responsibilities with regard to human

rights (see the following section on corporate responsibilities). The two sets of duties or responsibilities are mutually exclusive, meaning that a state cannot be liberated from its obligation to a living wage by delegating this duty solely to companies or members of the collective bargaining system⁶⁶. A living wage is a human right that cannot be dependent solely on collective negotiations when these do not produce the adequate result.

Minimum wage legislation is one of the key instruments national governments use in governing the realisation of human rights related to wages. Legislation is intended to protect especially those who are in a weak position and workers who are not trade union members. According to the ILO's Minimum Wage Fixing Recommendation, (1970, No. 135), a minimum wage should be one of the instruments used by political actors to eradicate poverty and to ensure that the basic needs of workers and their families are satisfied. Only 52 countries have ratified the ILO's Minimum Wage Fixing Convention⁶⁷. However, the duty to realise the living wage to all human beings can be based also on ILO Constitution and the UN Universal Declaration of Human Rights that is elaborated in subsequent international treaties, regional human rights instruments, national constitutions, and other laws.

The state duty to protect applies to business enterprises in the country's territory and/or jurisdiction. The UNGPs state that there are strong policy reasons for home states to set out clearly the expectation that businesses

including particularly the adoption of legislative measures. - - - Developing countries, with due regard to human rights and their national economy, may determine to what extent they would guarantee the economic rights recognized in the present Covenant to non-nationals."

63 Rautiainen, P., 2013, Perusoikeuksien heikennyskielto, http://www.academia.edu/5354604/Perusoikeuden_heikennyskielto http://www.academia.edu/5354604/Perusoikeuden_heikennyskielto (viewed on 30.12.2014)

64 UN, OHCHR, 2011, Guiding Principles on Business and Human Rights, Implementing the United Nations "Protect, Respect and Remedy" Framework, can be read at: http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

65 States should e.g. enforce laws that are aimed at, or have the effect of, requiring business enterprises to respect human rights, and periodically to assess the adequacy of such laws and address any gaps; provide effective guidance to business enterprises on how to respect human rights throughout their operations, and; encourage, and where appropriate require, business enterprises to communicate how they address their human rights impacts. Ibid.

66 According to the commentaries to the UNGPs, "the business enterprises' responsibility to respect human rights does not diminish States' obligations".

67 ILO, Normlex, Ratifications of C131 - Minimum Wage Fixing Convention, 1970 (No. 131), http://www.ilo.org/dyn/normlex/en/f?p=1000:11300:0::NO:11300:P11300_INSTRUMENT_ID:312276 (viewed on 30.12.2014). As was mentioned above, minimum wages and currently prevailing wages, in light of many studies, do not provide an adequate living wage even if the minimum wage has been the result collective bargaining. Even countries that have ratified the ILO's Minimum Wage Fixing Convention often lack statutory provisions on the basic needs related criteria for determining minimum wages required by the Convention. Therefore, it can be concluded that states have failed on their responsibility to protect in the area of the living wage.

respect human rights also abroad. Some human rights treaty bodies have also urged that home states shall take steps to prevent abuse abroad by business enterprises within their jurisdiction. Countries must provide effective guidance to companies on respecting human rights throughout their activities.⁶⁸

Cross-border responsibility is needed especially in order to intervene in the structural causes for low wages. A non-living-wage, like many other human rights violations experienced by workers, is often linked to the “global governance gap” that corporations and brands take advantage of and which the UNGPs aim to intervene in. The objective of a more just and fair form of globalisation is also noted in the ILO Declaration on Social Justice for a Fair Globalization (2008), which emphasises policies in wages as a measure for social protection and other conditions of work as guarantees for ensuring that everyone gets their fair share of the fruits of development and earns at least a living wage⁶⁹.

68 According to the commentaries to the UNGPs, at present states are not generally required under international human rights law to regulate the extraterritorial activities of businesses domiciled in their territory and/or jurisdiction. Nor are they generally prohibited from doing so, provided there is a recognized jurisdictional basis. However, some human rights treaty bodies have established broader expectations. E.g. UN Committee on Economic, Social and Cultural Rights has stated that “State Parties [to the UN’s International Covenant on Economic, Social and Cultural Rights] should also take steps to prevent human rights contraventions abroad by corporations which have their main seat under their jurisdiction, without infringing the sovereignty or diminishing the obligations of the host States under the Covenant. UN, Committee on Economic, Social and Cultural Rights, 2011, Statement on the obligations of States parties regarding the corporate sector and economic, social and cultural rights, <http://www2.ohchr.org/english/bodies/cescr/docs/E.C.12.2011.1-ENG.doc> (viewed on 19.5.2015)

69 According to the Declaration, “the commitments and efforts of Members and the Organization to implement the ILO’s constitutional mandate should be based on the four equally important strategic objectives of the ILO, which can be summarized as follows: (ii) developing and enhancing measures of social protection - - which are sustainable and adapted to national circumstances, including - - policies in regard to wages and earnings, hours and other conditions of work designed to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection.”

4.2. COMPANIES HAVE A RESPONSIBILITY TO RESPECT HUMAN RIGHTS

According to the UNGPs, business enterprises have a responsibility independent of countries to respect human rights⁷⁰. The responsibility applies to any business enterprise regardless of the size, sector, operational context, ownership and structure of the enterprise. According to the UNGPs, this responsibility refers to “internationally recognized human rights”, which are understood, at a minimum, as those expressed in the Universal Declaration of Human Rights, the UN International Covenant on Civil and Political Rights, the UN International Covenant on Economic, Social and Cultural Rights and the ILO Declaration on Fundamental Principles and Rights at Work⁷¹. As told above, the first two instruments include references to the living wage as a human right. Hence, the UNGPs lay down expectations to enterprises to pay a living wage at minimum.

According to the UNGPs, all business enterprises shall avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur. They must also seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts. A company can therefore be complicit to adverse human rights impacts by either causing them, contributing to them or being in a business relationship with an actor causing the adverse human rights impact.

70 According to the interpretive guide to the UNGPs, this responsibility exists regardless of the country’s capacity and/or desire to fulfill its own human rights-related obligations and this responsibility does not mitigate the obligations of the state. Additionally, this responsibility surpasses compliance with all national laws and provisions on the protection of human rights. UN, 2012, The Corporate Responsibility to Respect Human Rights, An Interpretive Guide, saatavilla osoitteessa: http://www.ohchr.org/documents/publications/hr.pub.12.2_en.pdf

71 According to the commentaries to the UNGPs, depending on circumstances, business enterprises may need to consider also additional standards.

A company has caused an adverse human rights impact, if it pays its own workers a wage below the living wage. The company may have contributed to adverse impacts, if the company sets a requirement for too quick delivery at a low purchase price, in which case the supplier falls back on forcing their workers to work (excessive) overtime at a non-living-wage in order to fill the order on time and at a profit. However, the purchaser may also be complicit to negative human rights impacts plainly on the basis of its business partnership, if its supplier pays too low wages despite the fact that the purchaser company may pay an appropriate price for the order.⁷²

Finnish internationally operating companies like others often have activities in countries that have not ratified international human rights instruments or e.g. the ILO's Minimum Wage Fixing Convention, and which lack legislation or collective agreements on a decent and adequate minimum wage. In these cases, the requirement for the payment of a minimum living wage is not legally binding and companies that have activities in those countries cannot be forced through legal means to pay a living wage.

However, respecting human rights, including the payment of a living wage, are not voluntary for companies⁷³. According to the interpretive guide to the UNGPs, the responsibility to respect human rights is not limited to compliance with domestic law provisions. It exists over and above legal compliance, constituting a global standard of expected conduct applicable to all businesses in all situations. It therefore also exists independently of an enterprise's own commitment

to human rights. There can be legal, financial and reputational consequences if enterprises fail to meet their responsibility to respect.

The global expectation that companies pay a living wage is reflected in the ILO Declaration on multinational enterprises (2006)⁷⁴, according to which multinational enterprises should provide the best possible wages, benefits and conditions of work in developing countries and should be at least adequate to satisfy basic needs of the workers and their families⁷⁵.

Based on the current international human rights doctrine, it is thus clear that the global purchaser at the final end of the value chain cannot be freed of its responsibility for the too low salaries that are paid at the beginning of the same value chain, on the basis that the production company guilty of paying low wages is judicially an independent party with which the purchaser has no direct agreement. Companies are responsible for their impact throughout the multitier production chain regardless of at which point in the chain low wages are paid.

72 See more examples of business impact on human rights, *Ibid.*, s. 17

73 According to the Interpretive Guide to the UNGPs, respect for human rights is not voluntary, but an obligation. *Ibid.*

74 ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy

75 According to the Declaration, where multinational enterprises provide workers with basic amenities such as housing, medical care or food, these amenities should be of a good standard. The declaration does not legally bind enterprises, but the principles are recommendations to the governments of home and hosting countries, employer organisations and trade unions, as well as multinational enterprises. The Tripartite Declaration and other relevant documents concerning a living wage drafted by the international community can be used as tools for interpreting the content of the human rights responsibilities laid down in the UNGPs.

5. What does a living wage comprise?

In order for states and businesses to be able to realise their human rights duties or responsibilities related to wages, it is important to determine the elements which make up the living wage that there is a prevailing understanding on, and which are pursuant to the living wage as defined in human rights instruments. A research report published by the ILO in 2011 has done just this⁷⁶. The report runs through the definitions for a living wage as determined by international organisations, NGOs, countries and cities, multinational enterprises and other stakeholders, as well as their models for calculating a living wage. On the basis of this comparative analysis, the report bracketed the most commonly observed elements of a living wage, which seem to be consistent with human rights instruments mentioned in the previous chapter that mention the living wage. On the basis of these, a living wage must:

- be enough to afford a decent basic standard of living, i.e. it must be adequate to satisfy a person's basic needs, which are broader than just necessities of life (i.e. more than food, clothing and shelter);
- be enough to provide a living not only for a worker, but also the worker's family;
- be appropriate for a particular place and time, i.e. the minimum living wage is determined in relation to the society's current level of economic development, as well as local customs and habits;
- be a worker's in-hand salary after taxes and other mandatory deductions earned within the scope of normal working hours.⁷⁷

According to the ILO report, most living wage models determined the wage using the following steps. First, the monthly expenses necessary for one adult to achieve a basic but decent/dignified standard of living is estimated.

This estimate is calculated by adding up the cost of basic necessities, i.e. the cost of a nutritional but low-cost diet, basic housing and clothing. Additionally, a wage calculation must include the costs for other basic needs; these expenses include at least those for transportation, education for children, healthcare, child-care, household equipment and furnishings, communication, personal hygiene products, as well as recreation and cultural activities.

Some methods include a portion in their wage calculation to cover discretionary expenses, savings and unexpected events, such as illnesses, accidents, and other emergencies. A savings portion will protect the worker from having to rely on debt and spiralling into a cycle of poverty.

When the sum of expenses necessary for a basic but decent standard of living has been calculated, it is increased according to the size of the worker's household, so that the wage is sufficient to cover the basic needs of not only the worker, but also the worker's family. As both parents can earn an income to provide for their family either through fulltime, part-time or seasonal employment, some methods divide the costs by the number of adults assumed to be working in a household⁷⁸.

The common elements of living wage models

- + Living costs for one adult
- × The size of the worker's household (most commonly 4)⁷⁹
- ÷ the number of fulltime equivalent workers in the household
- + portion for savings (e.g. 5–15 %)

⁷⁶ ILO, Anker, R., 2011, Estimating a living wage: A methodological review, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

⁷⁷ The criteria for a living wage will be further specified in Chapter 7.

⁷⁸ An equivalent of fulltime workers, which is a whole number or decimal between 1 and 2. See Chapter 7.6.

⁷⁹ This does not mean a simple multiplication calculation. The estimated amount for living costs for one adult (the worker) is scaled up in different ways in different methods so that the wage estimate is considered to be enough to support the worker and the worker's family. E.g. with regard to food consumption, it is noted that small children consume less food than adults.

6. Examples of models for the calculation of a living wage

There is currently a common understanding internationally on the definition of the living wage and the elements that make it up. On the other hand, there are varying understandings of the specific content of these elements and how they should be measured.

For example, there is no clear consensus on all the basic needs that a living wage must be able to satisfy. Also, there is no accord on the number of workers that provide for a household or the number of dependent children to be supported by the wage, although a four-person family is most commonly used as the built-in assumption. Similarly, e.g. the way in which food expenses are calculated varies as these are based on different requirements for energy and nutrition.

This chapter lists and examines examples of different living wage calculation methods, of which the first four have been applied in developing countries and the last two have been developed in high-wage countries (in addition to these, one is an effort to develop a global wage calculator).

The methods differ from one another in that they may be based on country-, area-⁸⁰, or factory-specific data. Some methods rely mainly on statistical or other ready-made data, others use surveys and market research to determine locally the content and price of a basket of goods and services considered a person's basic essentials. Other methods determine only the food basket (or also housing), after which other expenses are derived from calculated food expenses based on information from consumption statistics on the average share of expenditure for specific categories of goods and services.⁸¹ Some

methods convert local currencies into purchasing power figures that can be internationally compared.

6.1. AFWA'S ASIA FLOOR WAGE IN THE APPAREL INDUSTRY

The Asia Floor Wage Alliance (AFWA) is an Asia-based alliance of trade unions and labour rights activists, who work together to demand the full realization of the rights of workers. It has developed a model for calculating a living wage for Asia's textile and garment factory workers. The purpose of implementing a single wage calculation for the whole of Asia is to prevent wage competition between countries. The AFWA emphasises that their calculation is the floor wage, i.e. the lowest acceptable, and applies to the wages of all workers in very broad geographical area, which means that wages should vary only upward from the floor wage.⁸²

The AFWA's calculation was designed to act as a tool in collective bargaining to help in raising factory wages to a living wage. The garment industry is one of the world's largest employers, and most of the industry's workers are based in Asia. A notable majority of workers are women. Despite the global fashion industry being a highly profitable business sector, the AFWA demonstrates that the factory worker's income is only 1–2 per cent of the price of the final product. As the share is this small, it is possible to up the pay of factory workers' to a living wage without increasing the retail prices of the products, AFWA argues.⁸³

80 E.g. data on cities and rural areas

81 An estimate based on food expenses is utilised especially in developing countries except where factory-specific surveys are utilised. The method complies with so called Engel's Law, an economic theory based on the relation between a household's income and the food expenses. The assumption is that the higher the household's income, the smaller the percentage of income used on food. Ibid p. 39. The methods examined in this chapter that utilise estimates based on statistical data are the AFWA's method, audits based

on the SAI's SA8000 certification (these two are based on food expenses), as well as the ISEAL's and the WageIndicator Foundation's methods (based on food as well as housing and transportation expenses).

82 AFWA's method is developed within the Clean Clothes Campaign (CCC). CCC, Living Wage, <http://www.cleanclothes.org/livingwage/calculating-a-living-wage> (viewed on 28.10.2014)

83 Merk, J., AFW, 2009, *Stitching a Decent Wage Across Borders, The Asia Floor Wage Proposal*, can be read at: <http://www.cleanclothes.org/resources/publications/afw.pdf>



The Asia Floor Wage is calculated in purchasing power parity dollars (PPP\$). PPP\$ is a hypothetical World Bank currency based on consumption of goods and services, which makes it possible to make direct comparisons of the market baskets between different countries regardless of their national currency. The calculated floor wage can also be converted via the PPP to a wage in the currency of any country.⁸⁴

In order to calculate the Asia Floor Wage, the AFWA carries out food basket surveys in seven Asian countries. The surveys are carried out once a year to account for a rise in inflation and consumer prices. AFWA member trade unions base negotiations on these surveys and determine an average for purchasing power parity. In 2009, the AFWA's executive committee determined the living wage as 475 PPP\$. In 2011, the figure was

540 PPP\$ a month, and based on a food basket survey in 2013, the figure had risen to 725 PPP\$.⁸⁵

The AFWA method is very simple. The method only determines food expenses on the basis of local price surveys. According to the AFWA, food expenses form the core of the wage calculation, because food expenses are significantly higher in the global south compared to the global north and they form a key share of the working population's household expenses.

The AFWA specifies a daily calories requirement, which is 3,000 kcal for a working adult and half of this, i.e. 1,500 kcal, for children. The consumption volume for a family of four is therefore 2,250 kcal per family member⁸⁶. The number was set at 3,000 kcal because this is the minimum energy requirement that Indonesia's minimum wage is based on, and

⁸⁴ Clean Clothes Campaign, Living Wage, <http://www.cleanclothes.org/livingwage/calculating-a-living-wage> (viewed on 28.10.2014)

⁸⁵ Ibid.

⁸⁶ 3 x 3,000 calories: 4 = 2,250 calories

it is the highest energy requirement used in the AFWA's comparison countries. The AFWA did not wish to mitigate the minimum standard of any country⁸⁷.

According to the AFWA, the model diet is based on the normal diet of the working population, i.e. the type of food commodities that are bought from the street market and local shops and are prepared at home⁸⁸. The AFWA does not give any further information/guidance on how it compiles its model food basket as it lets its local groups to alter the food basket to what they are accustomed to.⁸⁹

The total sum of other expenses is statistically derived from the food costs which were determined with a food basket survey. According to research, workers in Asia's garment and textile industry typically use half of their income on food. This is why food expenses account for one half of all expenses and other expenses account for the other half⁹⁰.

Around 40 per cent of other expenses comprise the cost of clothing, housing, transportation, an education for the family's children and healthcare. Approximately 10 per cent of a worker's income should be allocated to discretionary expenses (recreation and savings, as a form of security in case of unemployment). Additionally, the total living costs calculation can still be modified with regard to other expenses by 10 per cent in either direction according to the particular country's level of development⁹¹.


The AFWA's calculation model has a built-in assumption of only one wage earner per


family. Even though this assumption does not correspond with the typical number of full-time workers per family, the solution allows childcare costs to be included in the calculation⁹². The idea is based on childcare costs being dependent on whether the other parent works. If the second parent is at home, no childcare costs are generated as the non-working parent can care for the family's children. Then again, if both parents work, it is probable that the family will have to rely on external childcare. The assumption made by the AFWA is a handy simplification, but it is still unclear how close it is to reality with regard to the inverse relationship between childcare costs and the second parent's income.

The worker must be able to support themselves and two other "consumption units" with their salary. A consumption unit refers to one adult or two children, i.e. a child is presumed to consume half of what an adult does. Hence, the assumed worker's family consists of 2 parents and 2 children⁹³.

A wage must be earned within the scope of the nationally legal work week, but the ultimate maximum number of working hours a week shall be no more than 48.⁹⁴

Strengths and weaknesses of the AFWA model

 *The Asian floor wage is thought of as a significant initiative especially with regard to intervening in the low wages of women, and it is used as a point of comparison for the garment of textile industry's wages.*

 *The method for calculating the floor wage is handy and its simplified built-in assumptions for the most part are consistent with the human rights-based general criteria for a living wage.*

87 The calorie requirement in Indonesia has been determined according to the energy requirement for a factory worker, whose work is reasonably or very physically demanding. According to the AFWA, factory work can be defined as reasonably or very physically demanding.

88 According to the AFWA, Asians generally eat rice, wheat, legumes, meat, fish, milk, vegetables, water and fruits.

89 Merk, J., AFW, 2009, *Stitching a Decent Wage Across Borders*, The Asia Floor Wage Proposal, p. 48–49, can be read at: <http://www.cleanclothes.org/resources/publications/afw.pdf>

90 As an example, the AFWA refers to India's Ministry of Labour's estimate that workers use an average of 47.8 per cent of their income on food.

91 Ibid, p. 50–51.

92 Bhattacharjee, A. and Roy, A., 2012, *Asia Floor Wage and global industrial collective bargaining*, p. 67–83, in the publication: ILO, 2012, *Social justice and growth: The role of the minimum wages*, can be read at: http://apirnet.ilo.org/resources/social-justice-and-growth-the-role-of-the-minimum-wage/at_download/file1

93 Or the adult worker and either 2 adults or 4 children.

94 Merk, J., AFWA, 2009, *Stitching a Decent Wage Across Borders*, The Asia Floor Wage Proposal, can be read at: <http://www.cleanclothes.org/resources/publications/afw.pdf>

+ It is easy for companies to lean on a regionally extensive and ready-made wage calculation.

+ The floor wage aims to confine wage competition between Asian countries within the garment and textile industry.⁹⁵

– However, a unitary wage recommendation for all of Asia is problematic from the point of view that it is inconsistent with the determination of the living wage. A living wage should be compared against the level of economic development of each country, the established living costs and social values⁹⁶. Asia's countries and their internal rural areas and individual cities differ in this regard significantly from one another. It is no surprise that the floor wage calculation establishes demands that are of notably in-equal and downright unrealistic for some Asian countries in relation to their prevailing wages.⁹⁷

– The AFWA's calculation is not all that transparent. E.g. the manner in which the food basket surveys are carried out and the pricing principles for these baskets are not explained in the publications that describe the calculation model. The built-in assumptions that the calculation method is based on are not described in adequate detail to allow for an assessment of their accuracy.

– The calculation model is quite simple, which means it is handy, but this is also a drawback, as it means that the built-in assumptions are very rough in nature. The calculation method's margin of error is even greater because the method only verifies food expenses with separate market surveys⁹⁸. The built-in assumption of one provider means that the method cannot take into account regional differences in employment opportunities, and the impact of this on the household's net income.

– The method's only requirement with regard to food is an energy requirement; there are no specific requirements for protein or any other nutritional values⁹⁹.

– The use of purchasing power parity can cause deviations. PPP is equal to average consumer habits, which are likely not equal to the practices and habits of households that receive a living wage. The PPP is based on a standardised list of goods and services. Additionally, a large number of products have no equivalent in all countries and hence are not sold and consumed in all the developing countries¹⁰⁰.

6.2. WAGE BASED ON ALARM'S WORKER SURVEYS

In 2008, AlaRM, Apparel Industry Labour Rights Movement which works to defend the rights of garment and textile industry workers, compiled a report in which the living wage was calculated on the basis of actual consumption data gathered from female factory workers¹⁰¹. The living wage was calculated individually for factories located within

95 However, the power of this objective is in part eroded by the fact that competition in the garment industry is global and, in addition to Asia, clothes are also made in Eastern Europe, Central America, Africa and the Mediterranean. The AFWA calculation for an Asian floor wage cannot be applied in these areas as such.

96 Although a wage recommendation tied to purchasing power parity takes national differences into account to some degree, in reality, the Asia Floor Wage is in a decision on a shared floor wage made on the basis of calculations from seven countries. The level of development of these countries is taken into account during the first step of calculating the floor wage. At this time, a living costs calculation is compiled based on national shopping basket surveys. This calculation can be modified up or down by 10 percent for all expenses except those for food to take into account the differing development level of different countries. In this regard, the floor wage follows the general criteria for the living wage. However, when a floor wage for all of Asia is determined on the basis of national floor wage calculations from seven different countries – i.e. it is somewhere between the lowest and highest national figure – this leads to clear deviation from the concept of the living wage.

97 In 2009, the AFWA campaigned for a 138 per cent increase to minimum wages in China, a 64 per cent increase in India, a 92 per cent increase in Indonesia, a 231 per cent increase in Sri Lanka and a 73 percent increase in Thailand. Clothesource, 13.10.2009, How realistic is an Asian Floor Wage?, <http://clothesource.net/opinion/how-realistic-is-an-asian-floor-wage-2/> (viewed on 4.1.2015)

98 However, other essential cost items such as the standard and rent price for adequate housing are not separately specified. See criticism on page 46.

99 At least the AFWA's method description does not give any indication that the share of different dietary elements is taken into account in any way. However, it is not impossible that these are taken into account in some manner in the AFWA's local food basket surveys.

100 The PPP also does not accurately specify which basic goods and services it is based on. Brenner, M., University of Massachusetts, 2002, Defining and Measuring a Global Living Wage: Theoretical and Conceptual Issues, can be read at: http://www.peri.umass.edu/fileadmin/pdf/gls_conf/glw_brenner.pdf

101 The information was collected from the workers of garment factories of different sizes located in 9 different provinces, who worked in different parts of the production process.

the special economic zone and outside it and separately for single and married women.¹⁰²

Unlike the AFWA's floor wage calculation, described above, the report commissioned by ALaRM estimated all cost items that were considered essential (not only food expenses) on the basis of surveys to which workers provided responses. However, as the responses given by workers may reflect the costs the workers have learned to adapt to on the basis of their current low wages – i.e. responses may be conditioned by the respondents' poverty –, the report specified the content and price of a food basket based on an energy in-take requirement considered decent. On the basis of this, the workers with the responses that were the closest to the established food consumption were selected for the target group. Additionally, the reported data was edited on the basis of external information on living costs.¹⁰³

The method first calculates food expenses. The daily energy requirement for one worker was specified at 1,900 kcal, which is equal to the daily energy recommendation for a woman who have moderately active jobs given by the Medical Research Institute of Sri Lanka in 1989.

The energy value is below the national per capita caloric requirement (2,030 kcal) that is used to measure the food poverty line (gender neutral).¹⁰⁴

After the calculation of food expenses, the average expenses of the selected reference groups was determined on the following basic goods and services:

- housing (rent, electricity, maintenance)
- clothing and textile, tailor services, and other)

- personal care and personal medical expenses (tooth brushes, facial cream as well as charges for private healthcare services, pharmaceuticals, etc.)
- fuel and electricity (kerosene oil, firewood) gas, matches, batteries, other)
- education (exercise books, stationary, tuition fees, other)
- transportation and communication (bus, van, taxi/three wheelers fee, postal services, telephone calls, other)
- other expenses (contribution to family and societies, payments of debits, expenditure on wedding/funerals)¹⁰⁵

Because the information in the report is based on responses by workers, the cost assessment was upped by 10 per cent¹⁰⁶. In addition to this sum, another 25 per cent share was added for durable consumer goods (furniture, TV), savings and employee pensions¹⁰⁷.

The fourth step includes editing of the expense estimate so that it is adequate to cover the needs of an average size household. After the consumption of one adult was defined, this sum was multiplied to equal a family's consumption with an assumption that a child consumes half of what an adult does¹⁰⁸. However, the report includes also an alternative calculation, a fixed sum, which equalled the average amount of money women workers reported they had used to cover their family's expenses. This sum has traditionally been low, and it has never been thought the ideal way to calculate a living wage.¹⁰⁹

102 ALaRM, Prasanna R.P.I.R. and Gowthaman, B., 2006, Sector Specific Living Wage for Sri Lankan Apparel Industry Workers, can be read at: https://archive.cleanclothes.org/documents/06-ALaRM_LIVING_WAGE_sri_lanka.pdf

103 Ibid, p. 14.

104 The prescribed nutritional levels vary from 1710 to 2530 among working adults in Sri Lanka. According to the study used in the ALaRM report, the calorie requirement for men, who work, is much greater than that for women: 2,530 kcal. The price of a woman's and a man's food basket are as follows: 1583 rupees and 2530 rupees. Ibid.

105 Ibid, p. 17–18.










106 This percentage is not explained nor justified in the research report.

107 The workers selected for reference group in the special economic zone set approximately 11 per cent of their income aside as savings, and purchased consumer products with approximately 17 per cent of their income. Outside the special economic zone, these numbers were correspondingly 17 and 17 per cent. As savings are often used for the purchase of durable consumer goods, it was assumed that due to overlapping a combined 25 per cent portion should be set for these both expense items. Ibid.


108 Conversion numbers were based on the OECD's model, according to which, the multiplier for each extra adult is 0.7 and 0.5 for children

109 Ibid, p. 18–19.

Strengths and weaknesses of the ALARM method

-  The method measures actual realised consumption data on all the basic essentials as its basis, and do not resort to rough statistical estimates inferred from food expenses as in the AFWA's method.
-  Factory or area-specific surveys provide a comprehensive understanding of the actual costs and expenses of workers..
-  Worker questionnaires can be applied to area or factory-specific wage calculations, which makes it possible to take the differences between living costs in different areas into account. On the other hand, ALaRM's wage calculations cannot be generalised to apply to workers outside the target group.
-  A living wage is calculated with a clear, confirmed formula in accordance with open and transparent built-in assumptions. Also the basic essentials that a wage must be able to satisfy are listed clearly and openly.
-  The methodological shortcomings and compromises, as well as the possible distorting effects of these on the accuracy of the calculation are openly explained..
-  The wage calculation takes into account various "hidden expenses" that reduce the in-hand salary the worker receives. The wage calculation includes e.g. financial support provided to relatives.
-  Employee-surveys often provide sums that are far too small to be acceptable as a living wage, because the information on living costs reported by the worker is the sum they use with their current wage. An effort has been made in the ALaRM report to minimise this by selecting a group of workers that earns a certain wage and by increasing the wage calculation by 10 per cent and 25 percent supplementary portions¹¹⁰.
-  The calculations have also been reworked using external data, but the source of this data is not specified. For example, the increases made to reported housing expenses have not been justified in any way.
-  The wage recommendation has been calculated according to information supplied by women factory workers. Therefore factors such as a women's lower energy needs in comparison to men have influenced the size of the wage

recommendation. The solution is problematic, as it can distort employment policy, and it can contradict with the principle of non-discrimination¹¹¹. The same wage recommendation should apply to both single and married workers¹¹².

-  The calculation does not take childcare expenses into account. This was in part justified on the basis of the composition of the target group. Estimation of childcare costs is important, as this will allow women with children to accept employment, if they so wish.

6.3. WAGE CALCULATION FOR A SA8000 CERTIFIED FACTORY

This report has examined a version of the 2008 SA8000 Guidance Document that was updated in 2013. The SA8000 Standard is presently being updated again, but a new version had yet to be published at this time this report was written.

The SA8000 Standard is held as one of the most ambitious and comprehensive social accountability auditing systems for factory production. The standard was developed by non-profit organisation Social Accountability International (SAI), which is dedicated to improving workplaces and communities by developing, implementing and monitoring socially responsible standards¹¹³.

The SA8000 Standard stipulates that a company respects their workers' right to a living wage. A living wage is one of the aspects audited during SA8000 Standard certification. SA8000 does not dictate that the audited company pay a higher wage immediately, but that the company must compile a model according to which it will modify its wage structure gradually to the level of a living wage. The company will be required to pay its workers a living wage 18–24 months after starting certification procedures.¹¹⁴

111 13 per cent of the factories' workforce is made up of men, who have a higher energy requirement than women.

112 The requirement of equality necessitates that the wage for the same job cannot vary according to the worker's gender or the number of people in the worker's family.

113 SAI website: <http://www.sai-intl.org/>

114 SAI, SA8000 Guidance – 2014 Standard, s. 102, saata-villa osoitteessa: http://sai-intl.org/_data/n_0001/resources/live/SA8000ConsolidatedGuidance2013.pdf

110 The percentages are rough estimates.

During the audit, a factory seeking SA8000 certification must draw up their own calculation for a living wage, and an SA8000 accredited auditor verifies the accuracy of this calculation by comparing it to one the auditor has compiled.¹¹⁵

SA8000 stipulates that a living wage must be the salary a worker earns during the standard working week: the working week must be in accordance with local legislation, and no more than 48 hours per week. The wage must be adequate to satisfy the worker's basic needs and half of the basic needs of the worker's family. These basic needs comprise food, clean water, clothing, shelter, transport, education and social security. Additionally, the wage must allow for moderate monthly savings.¹¹⁶

The SA8000 Standard guidance document notifies the auditor that there is no single correct method for calculating a living wage. However, the SA8000 lists general criteria, which should be taken into account in the calculation.


When compiling a calculation a company must:


- a. assess workers' expenses
- b. assess the average family size in the area
- c. analyse typical number of wage earners per family (according to the SA8000, usually this is not more than 1.6)
- d. analyse government statistics on poverty level
- e. poverty level analysis will indicate the cost of living above the poverty line
- f. worker's income should at least enable him/her to support him/her and two dependents above the poverty line and with some discretionary income¹¹⁷.


The SA8000 Guidance Document also states that a credible living wage calculation and


method uses transparent built-in assumptions and it is supported by regular stakeholder consultations. The SA8000 recommends that the correct wage is sought through dialogue with workers, trade unions and NGOs.

Strengths and weaknesses of the SA8000 Standard

 *The principles listed in the SA8000 Guidance Document for calculating a living wage are for the most part the same as the criteria for a living wage upon which there can be considered to be international consensus.*

 *SA8000 is one of the only certification standards that stipulates that a company must pay a living wage at a certain point in time after joining the certifications system (compare to other examples of corporate accountability initiatives p. 34).*

 *The Guidance Document is also good in that it stipulates that the calculation method and its realisation must be transparent and stakeholders are asked to participate in determining a living wage.*

 *The HKQAA conducted SA8000 audit lacked transparency and stakeholders were not heard¹¹⁸. The Finnwatch inspection at the factory demonstrated that SA8000 certification did not, in this specific case, guarantee a living wage¹¹⁹ (see the box next page).*

¹¹⁸ It would seem that although the SA8000 Guidance Document states a requirement for transparency, this does not seem to be a reality, as Finnwatch was not shown the calculation model used by audit company HKQAA, which had carried out a SA8000 audit. The company claimed it could not show this to third parties as it had signed a confidentiality agreement with the audited factory. However, the Hung Hing Heshan factory, which had been audited, sent the calculation and the model to Finnwatch when requested to do so. It also remains unclear, whether workers and trade unions had been consulted when the wage calculation was carried out, as the SA8000 Guidance Document requires. The auditing company did not comment on whether the result of the wage calculated at the audited factory had been compared to the local statutory minimum wage and why it was lower than this at the factory that Finnwatch inspected.

¹¹⁹ The calculation by audit company HKQAA was a far cry from the views of the workers and recommendations of NGOs. The wage recommendation was lower than the local minimum wage. Even the Chinese government and trade union ACFTU, which works for the government, recommended a higher wage.

¹¹⁵ Ibid, p. 67

¹¹⁶ The SA8000 Standard emphasises that a living wage cannot be substituted with the local minimum wage except in the rare cases where the local minimum wage really is a living wage. Ibid.

¹¹⁷ There seems to be an inexplicable contradiction between points f and c. According to the guide, a living wage must be sufficient to cover the basic needs of half a medium-sized family, based on local prices near the worker's workplace.

— The method does not establish detailed enough criteria nor is there a clear model for calculating a living wage¹²⁰. The guidance document does not give proper instructions on how to determine the workers living expenses or on how to estimate the size of an average family. Additionally, there is an internal contradiction in the guidance document with regard to how many providers a family is assumed to have.

— The method also leans too heavily on the auditor's ability to calculate a living wage. The guidance document is very open to interpretation, and for this reason in certain areas the wage recommendations may vary a great deal depending on the factory and auditor.¹²¹

120 The guidance document states that a living wage is very difficult to determine, and for this reason this is no one correct method for doing so.

121 Even if the factories are similar and part of the same industry. The possibility to prevent inconsistency will depend on how the SAI coordinates the calculation process between different auditors.

A living wage calculation at a SA8000 certified factory

In its report "Books from China", Finnwatch investigated the responsibility of Finnish publishing houses and visited and inspected at one of the printing factories used by them (Hung Hing Heshan factory) located in China, which had received SA8000 certification for the period of 22.7.2010–21.7.2013. The calculation model designed by Hong Kong -based audit company HKQAA listed the daily energy requirement for an adult at 2,100 calories. The auditor had filled in the food requirements of workers and the calories from these in advance and the factory only had to fill in the sections concerning local

prices. The calculation model had a built in assumption for family size (3 persons), according to which food costs were multiplied by three.¹²³

Other expenses were derived from food expenses. Food expenses were estimated to account for 40 per cent of a family's monthly expenses. An additional 10 per cent was added for savings. Finally, the cost calculation was divided by two, as a family was assumed to have two providers, who worked full-time. The result was below even the local minimum wage.¹²⁴

Calculation of workers' food expenses from SA8000 certified factory Hung Hing Heshan¹³⁰

			A	B	C	D
	Food	amount (g)	amount consumed (g)	total calories	price/500g	price for amount consumed
pork	100	215	171	490.2	10	3.42
vegetables	76	17	500	85	2	2
rice	64	234	344.62	1260	2.2	1.5
milk	250	163	83	54.12	3	0.5
eggs	100	105	140	210	5.2	1.45
Daily calorie requirement				2099.32		8.87

122 When the calculation was reviewed, small errors were observed, such as calculation of the total number of calories. Here the calculation is presented in exactly the format Finnwatch received it in from Hung Hing Heshan.

123 Finnwatch, 2014, Books from China – Working conditions at the Hung Hing Heshan Printing Factory, p. 38–39, can be read at: http://www.finnwatch.org/images/pdf/Publishers_HungHing_Finnwatch_summary.pdf.

124 Ibid.

6.4. ISEAL ALLIANCE'S AREA-SPECIFIC CALCULATIONS BASED ON LOCAL SURVEYS

Six international certification schemes that are members of the ISEAL Alliance¹²⁵ have worked together with international experts Richard and Martha Anker¹²⁶ and developed a country-specific method for calculating a living wage. The ISEAL Alliance trains local partners to ensure an increase in the number of wage calculations calculated with this method. The objective is to get to a point where the living wages will be calculated for a total of 50 countries using this method.¹²⁷

The ISEAL Alliance's method is a compromise somewhere between the AFWA and ALaRM methods. The AFWA method, like many other methods applied in developing countries, only determine food expenses from which other expenses are then derived using secondary data. The ALaRM method, on the other hand, determined the expenses incurred by a household for the purchase for each basic good or service without any statistics-based estimate. ISEAL, in turn, utilises statistics-based estimation, but in addition to food it determines the housing expenses for one adult. After this, other expenses are derived from these, and the accuracy and sufficiency of basic essentials which are considered especially important is reviewed at the end.

The first step of the method is to determine the acceptable minimum standard for food and housing expenses in the target area. After this, the amount of money needed for

a basic diet and for a residence of adequate standard and size is calculated.¹²⁸

The diet must fulfil the FAO/WHO recommendations for a sufficient calorie count. In addition to this, the diet must contain sufficient amounts of protein, fats, carbohydrates, minerals and vitamins (a certain share of calories must come from these dietary elements)¹²⁹. The assumption is that the higher a country's level of economic development, the greater the share of protein in the diet and correspondingly the smaller the share of carbohydrates. The content of the model food basket is determined country-specifically, to meet with local preferences, and the food expenses for food goods are calculated according to local prices. The type, quality and volume of food items are also taken into account in the food expense calculation according to what locals typically buy.

Housing expenses are also estimated by first determining an acceptable minimum standard for housing on the basis of internationally (UN-HABITAT¹³⁰) and nationally specified standards. After this, the price range for the housing standard in question is estimated by visiting local residences and by consulting local workers and real estate agents.¹³¹

Other expenses are estimated by first using consumer statistics to determine the percentage shares of other expenses in a typical household's overall expenses in relation to food and housing expenses. The estimate for other expenses derived from food and

125 The ISEAL Alliance members are Fairtrade International, Forest Stewardship Council (FSC), Good-Weave, Sustainable Agriculture Network/Rainforest Alliance (SAN/RA), Social Accountability International (SAI) and UTZ Certified. The alliance is a cross-sector partnership, as its members' certification systems apply to toys, electronics, textiles, forestry and agriculture.

126 Richard Anker, who has worked as an economic expert at the UN's International Labour Organization (ILO), has conducted research on the living wage and its different methods, and in various publications has developed a method that can be applied universally. Martha Anker has worked as a statistician for WHO.

127 The purpose is to enter the calculations into a public database so that everyone can use them and comment on them. ISEAL, 9.6.2014, Living Wage and the Textiles Sector: the best wage is a negotiated one, <http://www.isealliance.org/online-community/blogs/living-wage-and-the-textiles-sector-the-best-wage-is-a-negotiatedone> (viewed on 29.1.2015)

128 ISEAL Alliance, 2014, A Shared Approach to Estimating Living Wages, Short description of the agreed methodology, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

129 10–15 per cent of calories should come from proteins, and a reasonable share of these from "high-quality" sources, such as animal-based products; 15–30 per cent from fats, 55–75 from carbohydrates. WHO/FAO, 2003, Diet, Nutrition, and the Prevention of Chronic Disease, Report of a Joint WHO/FAO Expert Consultation, p. 56, can be read at: http://whqlibdoc.who.int/trs/who_trs_916.pdf; FAO/WHO/UNU, 2007, Protein and amino acid requirements in human nutrition, http://whqlibdoc.who.int/trs/WHO_TRS_935_eng.pdf?ua=1 (viewed on 5.1.2015)

130 United Nations Human Settlements Programme

131 ISEAL Alliance, 2014, A Shared Approach to Estimating Living Wages, Short description of the agreed methodology, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

housing expenses is reviewed. The sums are checked in order to verify that they are adequate to cover typical healthcare, education and transportation expenses. The purpose is to ensure that the estimate is based on current data on actual consumption.¹³²

Last, the total expenses calculated to satisfy one adult's basic needs is increased to correspond with the area's typical family size and the family members' basic needs. A small sum is added for unexpected events and emergencies, such as illnesses and accidents. The sum is then divided by the number of people in the family who are employed full-time. Statutory taxes and other contributions are accounted for as deductions, as a living wage must be the in-hand salary a worker receives.¹³³

Local stakeholders invited to participate in drafting of estimates

Local stakeholder groups, such as trade unions, employer associations and workers, are consulted during the calculation of a living wage. In order to determine food and housing expenses, a researcher group visits the workers' homes and the place where they buy food. Workers supply information on local habits, preferences and living conditions. Researchers receive information on in-kind benefits, bonuses and deductions made from wages from a random sampling of workers and employers.

When an initial estimate on a living wage has been calculated, stakeholders are asked to give comments and possible suggestions for changes. According to ISEAL, the objective of their method is to produce a credible and reliable wage estimate that stakeholders can believe is fair and reasonable regardless of whether or not local employers feel they can pay the estimated living wage.¹³⁴

Strengths and weaknesses of the ISEAL model

+ Provides a calculation model and principles that can be applied to the calculation of a living wage in various developing countries and in their different areas.

+ Information collection based on local surveys takes into account the differences between different areas including the area's level of development, living costs, consumer and purchasing habits and other preferences.

+ The calculation process is transparent: the calculation model, built-in assumptions, basic goods and services and the selection criteria for these, the methods for calculating living costs, and various compromises are detailed and justified openly.¹³⁵

+ Local stakeholder groups, including workers, trade unions and employer associations, are consulted during drafting of estimates, which adds to their accuracy and their credibility and legitimacy among stakeholders.

+ Although not all living costs are determined with market surveys, the margin of error for the estimation method is partly curbed because estimations are not based merely on food expenses, but also on housing expenses which are both considered significant cost items for household on the basis of clearly defined standards and price assessments. Additionally, the estimates are re-evaluated to ensure that the wage calculation is adequate to cover healthcare, education and transportation costs.¹³⁶

+ In addition to an energy requirement a person's basic diet must include an adequate amount of proteins and other dietary elements. Ensuring the nutritional value of food is also important, because this impacts the price of goods and services as well as living costs and increases the required wage.

+ The wage includes an additional portion with which workers can provide financial assistance to poor relatives and another supplementary portion for savings and as a backup fund for emergencies.


¹³² Ibid.


¹³³ Ibid.


¹³⁴ Ibid.


¹³⁵ E.g. the model diet is examined in detail one food item at a time which adds to the credibility of the wage calculations. Anker argues that although the recommended living wage is most likely higher than the area's prevailing wages, an outsider sees that a living wage has nothing to do with luxury, but allows people to maintain a basic, but decent standard of living.


¹³⁶ In the Malawi the adequacy of the wage was measured with regard to household furniture and appliances instead of transportation.

 *The impacts of unemployment, under-employment and other obstacles to employment on household expenses are taken into account in when taking into account the second parent's income.¹³⁷*

 *Family size is increased in the calculation model to over 4 persons, if this is equal to the average size of a household a worker must provide for in the area in question.*

 *Clear limitations have been set for the use of in-kind benefits as an instrument for the payment of wages. These have been derived from the ILO's conventions (See Chapter 7.9.).*

 *The method does not utilise rules of thumb to simplify the calculation. Surveys are carried out locally, which requires a considerable amount of resources (time, labour force, expertise and money). On the other hand, a case-specific report may be the only option for a credible calculation in developing countries, where little if any current statistical data is available.*

 *The calculation is not easy to generalise or adopt as the calculations are complex and demanding. However, a user-friendly guide to the method is in the works, which can soon be utilised by organisations, companies and other interested parties¹³⁸. If ISEAL's objective is to increase the number and geographical expansion of calculations (to a total of 50 countries), in future, companies and stakeholders will more and more often be able to rely on ready compiled wage recommendations without a need to carry out their own comprehensive researches.*

¹³⁷ See chapter 7.6.

¹³⁸ Richard Anker, email 26.10.2014; Natalia Gawor, ISEAL, email 3.12.2014

The ISEAL Alliance model in practice: The living wage in rural Malawi

Southern Malawi's tea plantation area is one of the regions in which the ISEAL method has been used for calculating a living wage. According to a report published in January 2014, the model diet for Malawi contains at least 2,364 kcal/day, which is close to the figure 2,400 kcal/day used by the World Bank and Malawi's national statistics centre as the determinant for the poverty line¹³⁹. According to ISEAL, the small difference in the numbers is due to different family-size built-in assumptions. The so-called Schoenfeld's method has been applied for the calculation of calorie volumes. The same model is commonly used for determining calorie requirements according to sex, height and level of activeness¹⁴⁰. It is assumed that workers at Malawi's tea plantations are physically very active, as people in rural Malawi walk great distances, carry heavy loads and participate in heavy farm and domestic work¹⁴¹.

This model diet differs in some extent from WHO's recommendations, e.g. in how much milk a person should drink¹⁴², because milk is relatively expensive in rural Malawi (milk is, for the most part an import, as there are no cows or dairies in the countryside¹⁴³.

¹³⁹ World Bank, 2007, Malawi Poverty and Vulnerability Assessment: Investing in Our Future, Synthesis Report, <https://openknowledge.worldbank.org/bitstream/handle/10986/7557/365460vol1010E1disclosed09130120081.pdf?sequence=1> (viewed on 18.11.2014)

¹⁴⁰ Further information on the method in ISEAL's report and WHO's and the FAO's publications: WHO/FAO, 2003, Diet, Nutrition, and the Prevention of Chronic Disease, Report of a Joint WHO/FAO Expert Consultation, can be read at: http://whqlibdoc.who.int/trs/who_trs_916.pdf

¹⁴¹ Information on the average height of people, which is necessary for application of the method, was derived from a research report on the subject published in 1991. Pelletier D, Low J, and Msukwa L. 1991. Malawi Maternal and Child Nutrition Study: Study Design and Anthropometric Characteristics of Children and Adults. American Journal of Human Biology.

¹⁴² The diet also contains less fruits and vegetables than the normally recommended 400 grams a day (by WHO/FAO, 2003), as this recommendation is rarely an option in developing countries.

¹⁴³ It is still unclear whether the ISEAL report takes into account that households in rural areas often have livestock and goats instead of cows. Rural households sell their excess milk to their neighbours and villagers who live in the surrounding area. Due to swift consumption, milk

This is not yet a problem, as even though people drink only a small amount of milk, the Malawian diet includes relatively many other sources of calcium. Maize is an inexpensive source of energy, and, for this reason, it is a key part of the model diet making up 70 per cent of the total calorie requirement. Only low-priced, but highly nutritional foods, such as sun-dried small-sized fish, fruits and vegetables at their lowest price per kilo, local cooking oil and cheap beans, were included in the model diet.

A daily portion of the model diet comprises the following food items:

450 grams of maize
40 grams of beans
60 grams of cassava
12 grams of dried or smoked small-sized fish
(2 fish-based meals a week)
one cup of milk for 2–5 year-olds and pregnant women
63 grams of fruit (one banana)
189 grams of vegetables (2/3 greens)
24 grams of sugar (6 tea spoons)
24 grams of cooking oil (2 table spoons)
3 cups of tea for adults¹⁴⁴

In order to guarantee a diverse and nutritional diet, 8 per cent was added to the expenses calculated on the basis of this food basket as people must be able to alter the content of the basket to ensure variety. A further 1 per cent supplement was added to the sum for salt and seasoning and another 3 per cent to account for wastage.

The effect of the seasons on the price of food was assessed by comparing monthly price statistics in the city of Blantyre¹⁴⁵, which is located near the tea plantations in southern Malawi. A ratio was calculated based on the

monthly fluctuation of prices, and on the basis of this the estimate was reworked to meet the annual average.

Housing expenses were estimated by adding the rent for an adequate and basic residence for a family of five, expenses for its use and normal small repair and maintenance fees. The expenses for use included water, lighting, firewood and gas for cooking. Electricity, on the other hand, was not included in these expenses as there is no electrical supply, or it is too expensive in rural Malawi.¹⁴⁶

The locally adjusted Rainforest Alliance standard was used as a benchmark for decent housing, and this was also accepted by Malawi Tea Association (TAML). Standard housing consisted of a small three room residence, 30 m² in size, which was in good condition. The residence must have a cement floor, brick walls, a roof that does not leak, a sufficient amount of windows, adequate ventilation and lighting, a water point at an accessible distance, and an outhouse of decent condition near the residence.¹⁴⁷ The standard is higher than the current living conditions in rural Malawi, as according to the report, only 14 per cent of rural residences have a cement floor.

Housing expenses could not be determined directly on the basis of local rents, as very few tea plantation workers lived in rented housing. Instead, expenses were determined according to the costs involved in building a house of basic but acceptable standard. HABITAT for Humanity's standard and realised expenses from tea plantations that had recently built new houses were used to determine housing expenses.

Other expenses were calculated in three steps. First their statistical percentage share of total

does not need to be pasteurised. FAO, Milk production from the indigenous Malawi goat, <http://www.fao.org/wairdocs/ilri/x5473b/x5473b2d.htm> (visited 16.1.2015); FAO, Milk processing requirements for satisfying the demand for milk in Malawi, <http://www.fao.org/docrep/x5661e/x5661e0n.htm> (viewed on 2.1.2015)

144 Anker R. ja M, 2014, Living Wage for rural Malawi with Focus on Tea Growing area of Southern Malawi, pp. 8–12, can be read at: http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/LivingWageReport_Malawi.pdf

145 Information was collected by local organisation Center for Social Concern, CfSC. CfSC website: <http://www.cfscmalawi.org/> (viewed on 11.1.2014)

146 Anker R. ja M, 2014, Living Wage for rural Malawi with Focus on Tea Growing area of Southern Malawi, pp. 14–19, can be read at: http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/LivingWageReport_Malawi.pdf

147 As the Rainforest Alliance standard does not determine the amount of living space a family requires, this was determined by using the UNHABITAT (2006) standard for a maximum of three people per room and the 30 m² living space standard used in by the Maharashtra Housing Development in India for government subsidised housing for low income families, as well as requirements in South African legislation for housing for workers on large farms.

costs was determined. Based on information by the national statistics centre, households in rural Malawi use on average 62.3 per cent of their money on food, 13.7 per cent on housing and 24 per cent on other expenses¹⁴⁸. The ratios supplied by the statistics centre were reworked so that the cost of tobacco products and the cost of purchasing and using a car were no longer taken into account (public transportation or a bicycle were considered adequate transportation)¹⁴⁹. A percentage calculation was carried out to determine other expenses on the basis of food and housing expenses.¹⁵⁰

The estimate for other expenses was reviewed to guarantee it was adequate to cover the costs of the most essential goods and services such as healthcare, the education of a family's children, as well as household furniture and equipment, for which a more detailed individual cost assessments were carried out.

The use of private healthcare services were approved in part as healthcare costs. The reasoning for this was that free-of-charge services produced by the Malawian government are considerably poor in quality and private services are needed to supplement these to ensure sufficient healthcare.

Although elementary school in Malawi is free in principle, financial support given to schools by families' was considered an education expense to be taken into account. Education expenses include the money required to cover all costs involved when a family has one child in elementary school and a second child in a government funded secondary school (despite the fact that participation in secondary education is very low)¹⁵¹.

An additional 5 per cent was added to the cost calculation to account for unexpected expenses. Illnesses (such as HIV), accidents and funerals were considered essential to be accounted for in Malawi.

The presumed family size was 5 persons: 2 adults and 3 children. This is a traditional assumption that research reports have found to correspond with the typical number of children (per adult woman) and the average size of a household in rural areas. The assumption of three children is based on the net renewal figure for the Malawian population, which takes into account the birth and death rates. In addition to this, the method takes into account that on average a woman gives birth at three year intervals. This affects the estimate on how many children a household must provide for the most of the time time.

A sum equal to the wage for one full workday was added to the wage calculation so that the worker could provide financial support for his/her poor relatives without having to sacrifice his/her own financial wellbeing. This was considered a better option than increasing the average family size to 5.5 or 6 persons.¹⁵²

The method assumes that based on statistical data on age and gender distribution, employment and unemployment rates and typical working hours, there is an average of 1.59 full-time workers for each couple. Many adults cannot find year-round work in rural Malawi, especially outside of the peak season. They work part-time on farms and plantations for most of the year. Some people of working age care for children or their elderly parents full-time.¹⁵³

The in-kind benefits approved as part of a living wage for workers at Malawi's tea plantations include free meals during worktime, free housing at the plantation, use of a healthcare clinic, recreational services, day-care and use of the school building¹⁵⁴.

148 The corresponding numbers for urban areas are 43.9%, 20.6% and 35.5%. Third Integrated household survey, (IHS3) 2010/2011, can be read at: http://www.nsomalawi.mw/images/stories/data_on_line/economics/ihs/IHS3/IHS3_Report.pdf

149 Additionally, the estimate took into account that eating outside of the home decreased the need to prepare meals at home.

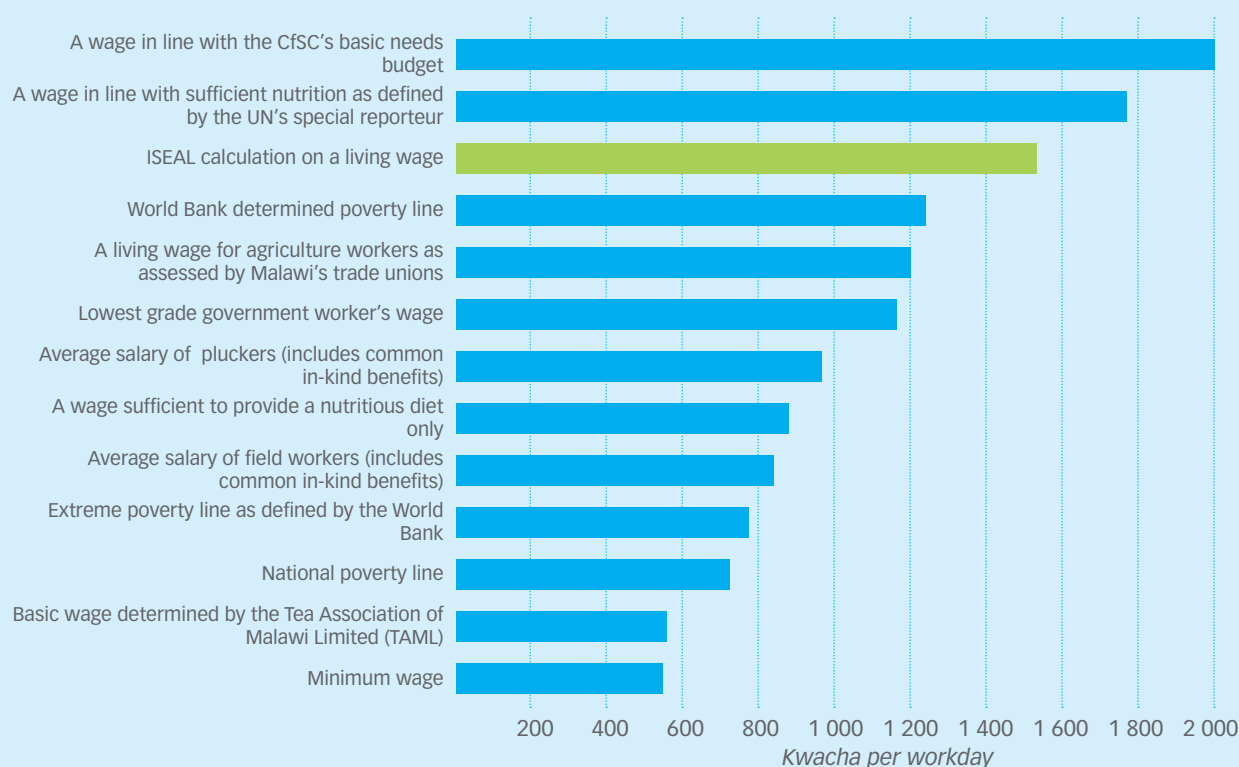
150 Anker R. ja M, 2014, Living Wage for rural Malawi with Focus on Tea Growing area of Southern Malawi, pp. 21–24, can be read at: http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/LivingWageReport_Malawi.pdf

151 The age distribution of the children was mirrored in the wage calculation in that one child is expected to be at a certain school at one time as the youngest is still too young to attend school.

152 Ibid.

153 Ibid.

154 See criteria on use of in-kind benefits as a wage, adopted mainly from the ISEAL model, in Chapter 7.7.



Malawi wage ladder (2014)

A living wage as compared with prevailing wages in Malawi

In January 2014, a living wage for rural Malawi was calculated to be 35,222 kwacha a month (69,90 euros¹⁵⁵), and 1,531 kwacha (3,00 euros) a workday for permanent employees. When the aforementioned in-kind benefits are added to this, a worker's in-hand salary for one workday is 1,408 kwacha (2,80 euros). The sum is smaller than this (1,193 kwacha/ 2,40 euros) for the relatively few permanent workers, who are given a decent free housing in which they can live with their family.

Malawi is the world's eighth poorest country. Healthcare and living conditions in the country are dismal. For this reason, the living standard used as the basis for calculation of a living wage is very basic and the wage estimate low when compared internationally. On the other hand, the calculated living wage is high in

comparison to currently paid wages in Malawi¹⁵⁶, the minimum wage (only 551 kwacha/day in rural Malawi), the minimum wage negotiated by the Tea Association of Malawi Limited, TAML (560 kwacha/day), the national poverty line (728 kwacha a day) and the extreme poverty line as specified by the World Bank (776 kwacha/day). On the other hand, the poverty line as specified by the World Bank is quite close to the living wage as calculated with the ISEAL Alliance model (see above wage ladder).¹⁵⁷

¹⁵⁶ The income level of tea plantation workers varies according to the season, year, tea company, plantation, job description (picker, factory or field worker) and according to whether the worker is a seasonal worker or a permanent employee. Anker estimates that workers work 23 days a month on the annual average, 6 days a weeks during peak season and less than 5 days a week outside of the peak season. E.g. the average income of a tea picker was estimated at 841 kwacha/day and that of a field worker at 715 kwacha/day.

¹⁵⁷ The calculated living wage is, however, less than the wage based on food requirements reported by the UN's UNSR on Right to Food (1,772 kwacha) and a great deal less than the wage determined by basic essentials specified on the CfSC website (Centre for Social Concern, <http://www.cfscmalawi.org/>) (2,934 kwacha). Ibid, p. 49.

¹⁵⁵ Converted into euros with the exchange rate for early 2015.

Examples of the living wage policies implemented by other business and certification initiatives

The Ethical Trading Initiative (ETI) calls for the payment of a living wage, but the ETI does not supply a wage recommendation or a method for calculating a living wage¹⁵⁸. Neither does ETI set any time limits for implementation of the obligation of payment¹⁵⁹. The ETI recommends a 7 step approach for increasing salaries and urges companies to publically commit to making an effort to increase salaries of their production chain to the level of a living wage. The lack of clear benchmarks for a living wage and binding time-bound commitments make ETI's responsibility criteria powerless.

The Fair Wear Foundation (FWF) requires its members to commit to paying a living wage. The FWF has developed a wage ladder, which contains information on statutory minimum wages, the national poverty line, local average wages of industry workers, wages agreed to through collective bargaining and the living wage in 12 key countries¹⁶⁰. The online tool seeks to help FWF member companies and their stakeholders assess the fairness and sufficiency of wages. The companies must select their own point of reference for a living wage, but no instructions are given on what standards the company should comply with¹⁶¹. The FWF

Wage Ladder is not very comprehensive and still a work in progress. The tool's selection of comparison points and calculations is sparse.

The FWF has stated that it had initiated the use of wage comparisons in its audits. The systems gives points to brand names according to indicator concerning workers' rights (processing of employee complains, measures taken to pay a living wage, etc.). If a brand receives unsatisfactory points, it is required to implement corrective measures (e.g. change its purchasing practises on the basis of an action plan) or ultimately resign from the FWF. Even if the brand does not pay a living wage at the end of its productions chain, the company can attain a high standing on account of other points.¹⁶²

The Business Social Compliance Initiative (BSCI) is a company driven responsibility network, with a membership of 1,400 companies. The network maintains a database on BSCI audited suppliers and promotes the responsibility of companies' supply chains in high-risk countries. The BSCI does not require that factories pay their workers a living wage, it merely "encourages" them to do so¹⁶³. It is the view of the BSCI that the SA8000 standard is the best possible of current practices¹⁶⁴.

158 The key countries are Bangladesh, Bulgaria, China, India, Macedonia, Portugal, Romania, Thailand, Tunisia, Turkey, Ukraine and Vietnam. Ethical Trading Initiative, ETI Base Code, <http://www.ethicaltrade.org/eti-base-code> (viewed on 11.12.2014); Ethical Trading Initiative, ETI's expectations of members regarding the ETI Base Code clause on living wage, can be read at: http://www.ethicaltrade.org/sites/default/files/resources/ETI%20Living%20Wage%20Expectations_2.pdf

159 The ETI only requires that its members set clear objectives and timetables for themselves with regard to practical measures that will see them pay a living wage in their production chain.

160 These are Bangladesh, Bulgaria, China, India, Macedonia, Portugal, Romania, Thailand, Tunis, Turkey, Ukraine and Vietnam.

161 The FWF wants to disregard all discussion on different living wage models and does not make an effort to assess their weaknesses and strengths nor does it rank them. According the FWF, it is important that companies commit to at least some concrete method of calculating a wage. Skype call, Kees Gootjes, Fair Wear Foundation, 18.11.2014; Fair Wear Foundation, 2012, Climbing the Ladder to Living Wages, can be read at: <http://www.fairwear.org/ul/cms/fck-uploaded/documents/policydocs/ClimbingtheLadderReport.pdf>

162 During audits, brands are divided into three categories on the basis of observations made on their practices (leader, good, needs improvement). The brands that are in the leader-category have demonstrated the best practices in areas such as payment of a living wage. FWF, 2014, Brand Performance Check Guide for Affiliates, can be read at: <http://www.fairwear.org/ul/cms/fck-uploaded/documents/PerformanceChecks/2014/FWFBrandPerformance-CheckGuideOnlineMay2014.pdf>

163 Its members are only required to pay at least the statutory minimum wage. BSCI, Position on wages, 11/2009, <http://www.bs-ciintl.org/resources/bsci-positions> (viewed on 29.1.2015); BSCI, Code of Conduct 1/2014, can be read at: http://www.bsci-intl.org/system/files/bsci_code_of_conduct_2015.pdf

164 There are no consequences for a company that does not meet with the requirements of the SA8000 guidelines in payment of a living wage. BSCI, FAQ, <http://www.bsci-intl.org/resources/faq> (viewed on 25.11.2014)

The Fair Labor Association (FLA) is a non-profit-organisation that works to promote and secure the rights of workers. It is a collaborative effort of socially responsible universities NGOs and companies. According to the association's rules and practices, a worker's wage must be adequate to cover the costs of basic needs, in addition to which the worker must have money left over for discretionary expenses. However, the rules do not directly reference a living wage and its definition is very vague (e.g. in addition to the worker, it makes no reference to the basic needs of the worker's family). Employers are required to pay at least a minimum wage or the wage applicable in the field in question depending on which is higher.¹⁶⁵ The FLA also audits companies, but there is no evidence that the auditors compare salaries to a living wage¹⁶⁶.

165 FLA, Workplace Code of Conduct, can be read at: http://www.fairlabor.org/sites/default/files/fla_code_of_conduct.pdf

166 Clean Clothes Campaign, 2014, Tailored wages, p. 12, can be read at: <http://www.cleanclothes.org/livingwage/tailoredwages/tailored-wage-report-pdf>

WAGEINDICATOR FOUNDATION'S GLOBAL WAGE CALCULATOR BASED ON ONLINE SURVEYS

The WageIndicator Foundation, an organisation with the primary objective of promoting a more transparent labour market, is trying to develop a living wage database. The calculations are based on simplified built-in assumptions and a standardised calculation formula derived from ISEAL's method. The Living-WageIndicator database is to contain and calculate the living wage in numerous countries and areas based on the answers provided by participants of online surveys.¹⁶⁷

Prices of goods and services are collected via online surveys that are currently in use in 80 countries. The service asks internet users to provide information on a total of 100 goods and services (of these 50 are food items, the price of which is given in price per kilos or litres).¹⁶⁸ By October 2014, the LivingWageIndicator had received over 250,000 answers on the prices of different goods and services.

However, the wage calculator does not currently provide the correct figures and it is clearly still a work in progress. Despite its severe shortcoming, the built-in assumptions and principles that the wage calculator is based on are interesting for methodological comparisons.

According to the WageIndicator Foundation's methodology description, their method does not base its estimates and calculations solely on online surveys, as food costs are also assessed on the basis of the national food database published by the FAO, which includes information on consumption of 50 basic food groups (per person). The content of a model diet, in turn, is based on the FAO's food balance sheets. The balance sheets

167 WageIndicator Foundation strives to produce data on how expensive it is to maintain a decent living standard in different parts of the world that is easy to interpret and compare. LivingWageIndicator, FAQ Living Wage, <http://www.wageindicator.org/main/salary/living-wage/faqlivingwage> (viewed on 12.11.2014)

168 However, users do not need to give information on all 100 goods and services at one time as this would likely see a massive drop in the number of responses. Users can submit the price of just one product, if they so wish. Ibid.

contain the goods that are available in each country, and this is presumed to mirror the average consumption of food. The information on the balance sheets act as guidelines for which price data can be used in the food survey for calculation of food expenses.¹⁶⁹

Additionally, the indicator guarantees that the food basket for low income countries fulfills the FAO's/WHO's recommendation for the minimum amount of protein the same way the ISEAL method does¹⁷⁰. If the food basket does not meet with the requirement for protein content, it will be replaced by a model food basket from a neighbouring country that meets with the criteria.¹⁷¹

The food expense calculation is based on the assumption that all food stuff is purchased for an affordable price at supermarkets and meals are prepared at home. The daily energy requirement for one person is estimated as 2,100 kcal, which applies to both adults and children. This assumption is consistent with the energy requirement that the FAO/WHO has determined necessary for maintaining good health. Another justification for using this figure, is that it is roughly the same as numbers used in other methods for determining a living wage.¹⁷²

Acceptable housing costs accounted for by WageIndicator are determined as follows: the monthly rent for a one bedroom residence outside of the city for a single person or a three bedroom residence outside the city for a worker with a spouse and children. The assumption used by WageIndicator of a "standard family" is a four-person family, as 2 adults and 2 children roughly meets with the ideal number of children to ensure renewal of the population. However, the plan is to later

add a family default indicator to the online calculator, where the number of children for a two parent household varies according to the birth-rate and other applicable statistics in each country¹⁷³. Additionally, the online survey establishes the cost of electricity and water use, and other housing-related expenses¹⁷⁴.

Acceptable transport expenses in a city are equal to the price of a monthly public transport ticket for one adult. The built-in assumption is that children travel for free with their parents. Because similar public transport is not available in the countryside, transport expenses include a weekly return ticket to the nearest city.¹⁷⁵

Just like in many other country-specific methods, other expenses are estimated on the basis of the ratio indicated by consumer statistics, in which case, individual price reviews are not considered necessary for these. In accordance with the ISEAL method, WageIndicator appropriate 10 per cent of income for discretionary expenses (savings). However, the survey currently also gathers information on healthcare, education and clothing expenses.¹⁷⁶ It seems that the ISEAL method is also the model used for these. The method makes an effort to determine that the estimated total expenditure is adequate to cover these basic essentials that have been specified of critical importance.

In-kind benefits are not included, meaning the calculated wage is that which the worker receives in the form of money. Annual bonuses are also not considered a part of the living wage, as these are irregular income and vary in amount. According to WageIndicator, a worker must be able to cover regular monthly expenses with his/her standard monthly salary, and irregular income

169 FAOSTAT, Food Balance Sheets, http://faostat3.fao.org/faostat-gateway/go/to/download/FB/*/E (viewed on 12.12.2014)

170 The method makes no mention that the food basket would be checked to ensure it contains other nutritional factors, such as fats, carbohydrates and fruits.

171 WageIndicator Foundation, Guzi, M. ja Kahanec, M., 2014, WageIndicator Living Wages, Methodological Note, can be read at: http://www.wageindicator.org/documents/publicationslist/publications-2014/141110-Living-Wage-Method_FINAL.pdf

172 The method descriptions make reference to the following figures: AFWA 2,250 kcal, ISEAL numbers for Malawi 2,364 kcal and South Africa 2,261 kcal. Ibid, p. 9.

173 Ibid, p. 9, 13, 14.

174 The survey form lists essential services (electricity, heating, water, waste management) for an 85 m² residence. LivingWageIndicator, FAQ Living Wage, <http://www.wageindicator.org/main/salary/living-wage/faq-livingwage> (viewed on 12.11.2014)

175 WageIndicator Foundation, Guzi, M. ja Kahanec, M., 2014, WageIndicator Living Wages, Methodological Note, p. 9- 10, can be read at: http://www.wageindicator.org/documents/publicationslist/publications-2014/141110-Living-Wage-Method_FINAL.pdf

176 Ibid, p. 10-11.

is intended for covering irregular and unexpected expenses.¹⁷⁷

The WageIndicator calculator does not at this time take income taxes or social security contributions into account, which is not consistent with the understanding that a living wage must be the amount of money a worker receives after statutory deductions. According to WageIndicator, this was the solution that was decided on, because very low income is not usually taxed or the tax rate for these wages is quite low. Social security deductions are not taken into account, because these are very low in developing countries, according to the methodology. However, the plan is, in the long-term, to investigate the possibility of including taxes and social security deductions.¹⁷⁸

The idea behind the WageIndicator method is to update the estimates for living wages regularly, so that they can be adjusted to account for fluctuations in prices. The calculator is also meant to calculate separate wages for cities and other areas, when enough data has been gathered on area-specific prices. According to WageIndicator, the method is flexible and can be expanded so that municipalities, companies and universities can enter their own assumptions into the calculator.

WageIndicator publishes the living wage as a wage drift; the highest sum is the median for reported living costs and lowest sum is the point at which 75 per cent of respondents have reported higher living costs. WageIndicator believes that the lowest sum indicated in the wage drift represents the shopping basket of a household that optimises its expenses, which contains goods and services that are cheaper than the average. According to WageIndicator, the wage drift allows the method to take differing prices and consumer preferences into account.¹⁷⁹

In addition to living wage calculations, the WageIndicator database includes information on each area's statutory minimum wages, prevailing wages, the national poverty line and collectively agreed upon minimum wages.

177 Ibid, p. 17

178 Ibid. p. 16.

179 Ibid. p. 15–16.

Strengths and weaknesses of the WageIndicator method

— *Despite its innovativeness and potential, the wage calculator has significant shortcomings, straight-out errors, and it seems incomplete. The wage calculator does not currently provide the correct figures even for minimum wages. At present, the wage calculator contains very little information on middle income and low income countries.*

— *Online surveys are not reliable for determining living costs, as the source cannot be controlled. At the moment, WageIndicator's online surveys do not even attempt to limit answers to those from a suitable target respondent group.¹⁸⁰ The WageIndicator method description states that the credibility of calculations is assessed with local partners and experts, but the content or significance of assessments is not specified in any way.¹⁸¹*

— *The living costs survey form is exactly the same in all countries, although the products offered and the demand for these products differ a great deal from one country to another. Some of the questions are too general in nature and are based on problematic assumptions.¹⁸²*

180 The selected respondents are more likely to include more persons who are not workers in need of a living wage in the case of the poorest countries. There is often no internet connection in the countryside, and some of the country's poorest workers are illiterate.

181 E.g. universities, trade unions and employer organisations, NGOs and various experts. According to the WageIndicator, the use of media campaigns to promote a higher number of responses can add to the comprehensiveness and accuracy of information. Internet users are also asked to give an estimate of their own monthly expenditure that goes into acquiring essential goods and services. This "subjective" estimate (median of the respondents' responses) acts as a point of reference for a living wage determined via the price survey. According to WageIndicator, if this reveals significant disparities, its national experts make an effort to pin point the reasons for distortions and correct the calculated recommendations.

182 The survey form includes questions on the prices of studio flats and three room flats in city centres and outside the city centre, as well as the price of electricity, heating, water and waste management in a residence 85m² in size, etc. It is unclear why a residence of this large a size has been selected as the point of reference. A residence of this size does not match the reality of a 4 person family's home in developing countries and sometimes not even in industrialised countries (this also depends on whether the family lives in the city or countryside). In developing countries the most common form of transport for the poor working class is a bicycle or

– It is not a good idea to use only a wage drift to indicate a living wage that should be paid. A company using the calculator will not know which recommendation to choose, and will likely select the lowest possible option¹⁸³. The assumption that the lower end of the wage drift represents the shopping basket of a household that optimises expenses, and in this way mirrors the range of the living wage, is too vague.

+ However, the WageIndicator model is a serious attempt at building built-in assumptions and simplifications for practical solutions. It includes good points to consider on how salaries could be calculated in a simple manner on the basis of a universal method.

+ Use of the digital centred database and calculator to gather data and calculate and compare wages is also most likely relatively cost-effective, simple and fast. It is easy to adopt and update. However, the basic assumptions and data gathering methods of the database are problematic and must still be developed at length.

6.6. MIT'S LIVING WAGE CALCULATOR BASED ON STATISTICAL DATA

Development of the methods for calculating a living wage has taken place for quite some time in western countries, in which research institutes have been able to allocate significantly larger resources for compiling these calculation than in developing countries. When compiling wage calculations, in high income countries it is possible to utilise up-to-date, regionally-itemised, comprehensive consumer and other statistical data that are not available in equal degree in developing countries. For these reasons, the methods used by industrialised countries offer a good point of reference on good practices for how living wage calculations could be drawn up and published in developing countries in the future.

motorbike. This means that transport expenses cannot be determined by asking the price of a single or monthly public transport ticket or the price per litre of fuel.

183 Variability is significant, which is telling of the current reliability of WageIndicator's online survey. E.g. in Vietnam the minimum for a living wage is 103 euros and the maximum 114 euros, but in Angola these corresponding numbers are 224 and 551 euros.

The WageIndicator Foundation's model described in the previous chapter has been designed to be a worldwide model, but is still in its development stage. A more functional wage database have been developed at the Massachusetts Institute of Technology (MIT) in the United States. MIT's Living Wage Calculator is not based on online surveys but on the utilisation of broad-scoped statistical data. Internet users can use to the database to find out wages and salaries in all of the United States' states, countries and cities with just a few clicks of their mouse.¹⁸⁴

The purpose of the wage calculator is to bring to light how inadequate minimum wages are in covering the living costs of an average American family. In the US, the federal government's minimum wage (\$7.25) has not been adjusted in decades and there has been avid political debate on an increase in the past few years. According to the MIT's Living Wage Calculator, in the US, the parents in a typical family of 2 adults and 2 children must work 68 hours a week to earn a living wage, which is equal to 3 full time minimum wage jobs per family. This means that a worker must have multiple jobs simultaneously, in addition to which the family may have to rely on social aid.¹⁸⁵

The Living Wage Calculator determines the living wage as an hourly salary or the annual income an individual worker needs to satisfy his/her family's basic essentials and pay all statutory taxes. The wage calculator is used to calculate the cost of food, childcare, healthcare, housing, transport and other basic essentials. A worker's salary must allow the worker financial independence without the need for public benefits and subsidies, such as housing aid.¹⁸⁶

A living wage is calculated for a total of eight different types of households¹⁸⁷. The default for the calculator's formula is that the worker is the family's sole provider and works full

184 MIT Professor Amy Glasmeier developed the Living Wage Calculator.

185 Living Wage Calculator, <http://livingwage.mit.edu> (viewed on 16.11.2014)

186 Ibid.

187 1 adult; 1 adult and 1 child; 1 adult and 2 children; 1 adult and 3 children; 2 adults; 2 adults and 1 child; 2 adults and 2 children; 2 adults and 3 children

time, a total of 2,080 hours year. For example, in the case of a typical household with 2 parents and 2 children, the worker's income is accounted for but not the income possibly earned by the worker's spouse. This means that the calculation is based on the assumption that no childcare expenses need to be accounted for (just like the AFWA calculation).

MIT carries out calculations based on regionally itemised market data, which, according to the method description, is available from numerous regularly updated statistics and other sources¹⁸⁸. However, a problem that has come up is that the wage calculator very likely underestimates costs in urban areas.

The wage calculators default settings are based on a 2001 report on the living wage in Beaufort County. According to the report in question, the basis for the food expenses in the wage calculator is a low cost basic diet planned by the U.S. Department of Agriculture (USDA)¹⁸⁹. The USDA updates the pricing data for food items by carrying out nation-wide consumer questionnaires. Regional consumer price indexes have been utilised to adjust the USDA's figures so they meet with area-specific living costs.

A food budget varies according to family-size, the average age of the family's adults and children and according to sex of the family members¹⁹⁰. The assumption is that families select affordable food products and that all meals are prepared at home.¹⁹¹

After food expenses, childcare expenses are considered the second most important cost item for families with children, as it has been more and more difficult for parents to find affordable childcare in USA. For poor families this has meant that one parent has had to turn down employment opportunities. The report assessed childcare expenses according to the lowest market prices. Information on regional costs were taken from a report by an organisation that defends the rights of children¹⁹² containing average prices for day-care centres and nannies for several states and cities.

Healthcare expenses accounted for in the calculation include healthcare insurance policies (of which an employee normally pays part), the average prices for healthcare services and medical supplies. An online tool was used to assess the cost of healthcare insurance premiums¹⁹³.

Housing expenses were determined by examining annual statistics¹⁹⁴ depicting rental market prices. The data in these statistics were specified according to the number of bedrooms (0–4) and the geographical area¹⁹⁵ in question. The share of a household's income used on housing expenses varied from 24 per cent (family of four in a 2 bedroom home) to 43 per cent (one adult in a studio flat).

The transport costs accounted for in the background study for the MIT Living Wage

188 E.g. healthcare costs: Consumer Expenditure Survey 2010, Medical Expenditure Panel Survey 2010, housing costs: Fair Market Rents 2010, U.S. Department of Housing and Urban Development.

189 The selected food plan is the second cheapest of the USDA's basic diets. The cheapest model diet does not guarantee a sufficient amount of nutrients and energy, as it was designed for temporary use and for emergencies taking into account the country's poverty line.

190 E.g. the food costs for a household with one adult are calculated according to a woman's consumption, and in a household with two adults food costs are calculated according to the consumption of one man and one woman.

191 Farrigan, T. L. ja Glasmeier, A. K., 2001, Living Wage and Job Gap Study, Beaufort Country, South Carolina, p. 5–6, can be read at: http://povertyinamerica.mit.edu/products/publications/beaufort_living_age//beaufort_living_wage.pdf

192 Children's Defense Fund (CDF), <http://www.childrensdefense.org> (viewed on 26.1.2015)

193 The description of the tool given in the background study: "Health insurance costs are estimates calculated using the Health Insurance Component Analytical Tool (MEPSnet/ IC) provided online by the Agency for Healthcare Research and Quality. Baseline statistics used in the tool are derived from the insurance component of the Medical Expenditure Panel Survey. The criteria for cost estimation included premiums and contributions of plans of employees enrolled at private sector establishments; both single and family plans separately; all provider types combined; average employee contribution; by specific state. Therefore, the health insurance costs in the basic needs budget represent state-wide averages for the percentage of total healthcare premiums contributed by employees for both single and family-based premiums."

194 Drawn up by the U.S. Department of Housing and Urban Development (HUD)

195 Metropolitan areas and counties outside of metropolises.








Calculator included the fuel and maintenance expenses related to the use of one car¹⁹⁶, as well as an affordable annual insurance policy. On the other hand, the study does not account for the cost of purchasing a car¹⁹⁷. A car was considered the most probable form of transport in the rural area the study examined.

The cost of other essential goods and services, such as clothing, telephone calls and cleaning supplies are estimated on the basis of consumer price studies. According to the national average, the cost of other essential goods and services make up about a third of total food and housing expenses. However, the estimates produced from these averages were adjusted on the basis of region-specific consumer data to account for geographical variability.

Finally, a worker's personal income tax and other state and federal income taxes are included in the living costs calculation. Real estate taxes and value-added taxes have been automatically accounted for in the costs of goods and services.

For a reference point to the calculated living wage, the MIT Living Wage Calculator provides wage information on a minimum wage based on the U.S. poverty line and the typical hourly wages paid in each county/city in 20 different fields. For example, in Washington State, the minimum wage, which is based on the poverty line for a household with 2 adults and 2 children, is \$10.60, whereas the area's living wage is nearly twice as much at \$18.61. Of the 20 employment sectors included, the calculator has found that a living wage is not paid in 9. The minimum wage in the State is \$8.55, which is \$1.30 more than the federal minimum wage (\$7.25). The minimum wage is the same for all workers regardless of their family-size and the number of dependents they are responsible for.¹⁹⁸

Strengths and weaknesses of MIT's Living Wage Calculator

-  *A comprehensive tool that makes it easy to compare salaries in different states, counties and cities.*
-  *The key points of reference for comparison of salaries (minimum wages, typical field-specific salaries, etc.) have been entered into the calculator.*
-  *The wage recommendation is for the most part pursuant to the concept of a living wage (basic essentials and adequate basic goods and services).*
-  *Has achieved growing interest as for example multinational furniture company IKEA has adopted the MIT's Living Wage Calculator.¹⁹⁹*
-  *Is partly based on locally itemised statistical data on living costs (including price data collected by organisations). There has also been an effort to edit information from the federal government to account for area-specific differences, but the method for editing this information is unclear in the method description.*
-  *Calculations based on different types of households are informative. However, at times, it is difficult to figure out the logic behind wage calculations. E.g. the wage recommendation for a household with 1 adult and 1 child is larger than that for 2 adults and 1 child (this is because in the second option the other parent is at home)²⁰⁰. Another point that can be seen as a shortcoming is that the impact of unemployment on the household's net income is not accounted for as a moving variable.*
-  *However, as there are numerous wage recommendations, a company has no way of knowing which of these it should select and they may tend to choose the lowest one, as IKEA did. A living wage must make it possible for a worker to start a family and support the family. In order to achieve equality, a company must commit to paying the same wage to every worker that has the same job, and this cannot vary according to a worker's family background. MIT's Living Wage Calculator must clearly state which of its wage recommendations is the primary recommendation for a living wage.²⁰¹*

¹⁹⁶ Estimates based on per mile statistics (U.S. Department of Transportation Nationwide Personal Transportation Survey, NPTS).

¹⁹⁷ The majority of Beaufort residents live outside of the urban area and in the countryside.

¹⁹⁸ Living Wage Calculator, <http://livingwage.mit.edu> (viewed on 16.11.2014)

¹⁹⁹ Forbes, 26.6.2014, IKEA Joins Movement of Minimum Wage Increase, <http://www.forbes.com/sites/nicole-leinbachreyhle/2014/06/26/ikea-joins-movementminimum-wage-increase/> (viewed on 18.11.2014)

²⁰⁰ On the other hand, the spouse also earns an income, which reduces the household's need for money.

²⁰¹ The salary levels that were determined by MIT's living wage calculator are compared to a living wage for a one income earner and one provider household, in which case this assumption may be thought to be the primary one.

— The Living Wage Calculator does not include a recommendation for funds to be used for recreation or savings.

— The Living Wage Calculator has not been updated since 2010 except for an inflation adjustment in 2012. For this reason, it is likely that the wage recommendations supplied by the wage calculator are not high enough.

6.7. JRF'S MINIMUM INCOME STANDARD BASED ON THE EXPECTATIONS OF HOUSEHOLDS

The Minimum Income Standard (MIS) is based on the understanding of households on what goods and services they require to maintain a decent standard of life. MIS was developed between 2006 and 2008 in cooperation with the University of York²⁰², after which annual wage surveys have been compiled by Loughborough University²⁰³. The programme is funded by the Joseph Rowntree Foundation (JRF), which publishes minimum income calculations each year for four different types of households: single adult living alone, childless couple, family with two children²⁰⁴ and a single parent with one child²⁰⁵.

A single minimum income level has been determined for all of the UK excluding London, in addition to which a minimum income has been determined separately for the English countryside, Scotland, Northern Ireland and Guernsey²⁰⁶.

The MIS takes into account changed in consumer prices, taxes and social benefits and allowances such as child benefits. Calculations are adjusted once every year to match the development of inflation on the basis of

the retail price index (RPI)²⁰⁷. The minimum content of the basket of goods that the wage calculation is based on is updated once every two years²⁰⁸. If the price of the products selected for the basic goods and services basket grow faster in relation to other goods and services, this will be taken into account as a larger inflation increase than indicated by the retail price index²⁰⁹.

The MIS method sees groups of 6–8 persons selected from the general population. These people are from different types of households²¹⁰. The members of each group are from the same type of household, but they have differing socioeconomic backgrounds. Each group holds negotiations the key purpose of which is to find a common understanding on what goods and services and of what quality a household needs, the expected life span of these goods and services and where they can be acquired. People are not asked to assess their own needs and preferences, but to consider what households need in order to maintain a socially acceptable living standard in Britain²¹¹. The groups are instructed to e.g. answer the food basket survey on the basis of predetermined nutritional and other criteria.²¹²

202 Family Budget Unit, University of York

203 Loughborough University, Centre for Research in Social Policy (CRSP)

204 One child between the ages of 2 and 4, 1 school-aged child and 2 adults

205 A child no older than 1.

206 According to the JRF, the MIS method is now also utilised by researchers in other countries such as Ireland, France, Japan and Portugal for the purpose of similar wage calculations. The Centre for Research in Social Policy, A Minimum Income Standard for the UK, <http://www.lboro.ac.uk/research/crsp/mis/> (viewed on 10.2.2015)

207 The MIS is based on the retail price index (RPI), because goods and services groups are categorised similarly to the MIS and prices are reported in a way that makes it simple to make increases to the minimum income calculation. As the RPI is so easy to apply, the Consumer Price Index (CPI) is not used nor is the Consumer Price Inflation Index (CPIH) Hirsch, D., 2013, A Minimum Income Standard for the UK in 2013, p. 27, can be read at: <http://www.jrf.org.uk/sites/files/jrf/income-living-standards-full.pdf>

208 Reviews and adjustments are carried out every other year for different types of households, either on the basis of the old list or from a "blank slate".

209 Ibid, p. 10.

210 E.g. participants with families discuss the needs and requirements of families, and working aged people with no children will discuss the needs and requirements of single people and childless couples.

211 Participants are asked to imagine that they are in the home of a hypothetical person and to develop a clear picture of how the person lives in according to a determined living standard.

212 Davis, A., Hirsch, D. Ja Padley, M., Joseph Rowntree Foundation, 2014, A Minimum Income Standard for the UK in 2014, p. 9, can be read at: <http://www.jrf.org.uk/sites/files/jrf/Minimum-incomestandards-2014-FULL.pdf>

Groups do not always reach consensus or a satisfactory outcome, but points of confusion and dispute can be solved during later negotiation rounds, in which other people are asked to participate²¹³. Experts also assess the selected goods and services in order to guarantee that e.g. the selected food goods contain enough nutrients and energy. In some cases expert assessments are left for later negotiation groups, the job of which is to review and edit the final budget listing. When the basket of goods and services has been clearly finalised, the research team prices the products after visiting shops.²¹⁴

The MIS budget includes food and drink, clothing, household goods and services, personal items and services, personal transport, social and cultural participation, as well as housing. A typical daily diet for an adult contains:

- cereal and/or toast for breakfast
- morning tea or coffee and a biscuit
- a light lunch (e.g. a triangle sandwich and a fruit)
- a larger dinner (e.g. a home-made pasta dish, salad, canned fruits and vanilla sauce)²¹⁵

Food discounts and sales were accounted for, for the first time in the 2014 report (in Britain, outside of London). Although the initial premise was that purchase choices did not need to be limited according to discounts, a shopping basket typically contains discounted products. Limitations related to the storage and transport of food were noted with regard to buying in bulk.

²¹³ There can be up to three negotiation groups for each household type. The first group draws up a list of basic goods and services, the second assesses and edits the list and, finally, the third group reviews the list just in case for deviations and inconsistencies.

²¹⁴ Food and drinks are priced according to their cost at Britain's largest supermarket chain Tesco. Tesco does not price its products differently by region, and for this reason no differences between rural and urban areas need to be taken into account. Discount supermarket chains, such as Lidl, Aldi or Netto have, as of yet, been taken into account, because according to negotiation groups the shops of these chains are not as easily accessible and their product range is not as good as that of Tesco. Ibid, p. 13–15.

²¹⁵ Ibid.

With regard to housing, it was determined that a single worker needed to lease a studio flat from the private market, while a family with children should get a government subsidised rental residence with one bedroom for the parents and one for each child²¹⁶.

Personal items and services accounted for in the MIS included prescriptions, eye examinations, dentists fees (only for adults), a first aid kit, personal hygiene products, hair products and personal items such as watches, umbrellas and jewellery.

Transport costs included public transport (bus and train tickets), taxi trips, prams, bicycles (a used bicycle for a childless adult, a helmet, a lock, lights, etc.), a car for workers with families (a used Ford Focus or Vauxhall Zafira for a larger family).

Participation in culture included entertainment and online services, such as a television, radio, computer and broadband internet connection, presents (birthday and Christmas presents for immediate family and relatives), spare time recreation (holidays, hobbies).

The Minimum Income Standard's list of goods and services has remained relatively the same for the entire six year the MIS calculation has been published. However, some changes have taken place.

The single greatest budget increase was implemented in 2012, when a car was added to the goods and services basket of families with children due to the decline of public transport. Also, the price of occasional restaurant dining has been added.²¹⁷

In November 2014, the estimate for the Minimum Income Standard for Britain (outside of London) was 7.85 British pounds an hour (an increase of 20 pence from the previous year). A single parent with one child needs to earn over £27,100 a year, a couple with two children need to earn more than

²¹⁶ However, a family of four lives in a residence with four bedrooms.

²¹⁷ Davis, A., Hirsch, D. Ja Padley, M., Joseph Rowntree Foundation, 2014, A Minimum Income Standard for the UK in 2014, p. 36–43, can be read at: <http://www.jrf.org.uk/sites/files/jrf/Minimumincome-standards-2014-FULL.pdf>

Consumer Society Research Centre compiled budget for reasonable minimum consumption in Finland

In 2010, the Consumer Society Research Centre carried out a study on the reasonable minimum level of consumption required for a person to get by without the need to save on the most essential expenses and still feel that one is able to participate in social activities in Finland. The purpose was to determine which goods and services were required for life, how much of these goods and services are available and what their quality is, as well as what they cost. The method included the construction of a reasonable minimum reference budget for four different household types for the necessary goods and services: the household types included a young single person living on their own, an elderly single person living on their own, a middle-aged couple and a two-child family with two guardians. The budgets included the following expense items: food, clothing, household items and devices, information and communication, recreation, healthcare, personal hygiene, housing and transport.²¹⁸

The study followed a consensual approach similar to that used in the UK's Minimum Income Standard (MIS). Consumers, expert and researcher teams took part in compiling the reference budget. Consumer participants were selected for the study on the basis of the household types studied, as consumers are believed to be the best in drafting a budget for their own household (they know its special characteristics and requirements). Consumers are included especially in determining the range of basic goods and services²¹⁹. A team of experts assesses the content of the budget and the researcher team makes the final decisions on the content of the reference budget. After a list of goods and services has been compiled, the goods and services are priced.²²⁰

According to the Consumer Society Research Centre, the purpose of reference budgets and the method, used to draw these up, is to provide material for debate on the content of supplementary income support and the factors that impact this, approaches and who sets the level of support and the content. However, the method could, just as well, be used as applies for determining a suitable living wage in Finland. The reference budgets for the study produced expenditure that was somewhat more than supplementary income support in Finland.²²¹

218 Kuluttajatutkimuskeskus, Lehtinen, A. & al., 2010, https://helda.helsinki.fi/bitstream/handle/10138/152360/Mita_elaminen_maksaa.pdf?sequence=1 (viewed on 10.2.2015)

219 People are given a list drawn up by experts and researcher that includes goods and services that have been previously determined essential and are asked to assess whether they are necessary for everyone.


220 Ibid.


221 Ibid.


£20,200 each, and a single working-aged person must now earn more than £16,200 (up from £13,500 in 2008).²²²


According to the JRF, people could no longer afford the same goods and services as they could six years earlier. The cost of essential goods and services have risen by 28 per cent in six years²²³, whereas the average income have risen only 9 per cent and the minimum wage by 14 per cent in this same time. The benefits afforded to working aged people have declined notably. Although better tax easements have eased the need for money, this advantage has been mitigated by freezing of child benefits in low income households with children.²²⁴


Strengths and weaknesses of the Minimum Income Standard


 *Mirrors the real needs of households in a fundamental manner: the content of all basic essentials including goods and services and costs must be determined with the help of the target group.*


 *E.g. the Living Wage Foundation is campaigning on behalf of the Minimum Income Standard and numerous public and private actors, as well as NGOs have adopted the standard.*

 *Annual adjustments for inflation guarantee that purchasing power keeps up with consumer prices.*

 *Compiling a wage calculation requires resources that are not available in developing countries at least in the short-term. However, the MIS method provides concrete ideas for hearing stakeholders when factory-specific wage recommendation are being compiled or when wage negotiations are underway with stakeholders.*

 *The principles that must be followed in calculation of the minimum income are somewhat open to interpretation and the subjective views of participants can play too great a role for this very reason. E.g. it is unclear who these experts are, what are the standards of acceptability that negotiating groups will be asked to use as points of comparison in their assessments and how well guided the negotiation process is in the end, taking into consideration that the representatives of negotiating groups are also from different socioeconomic backgrounds.*

 *Basic needs, goods and services are comprehensively included, but calculations lack a savings portions, which is an important security buffer for when a worker and the workers family are struggling financially.*

 *A number of wage recommendations are given, i.e. these are calculated according to the needs of different types of households. However, it is important to clearly state a stance on which wage recommendation a company should use in payment of workers' salaries.*

²²² Ibid. GLA economics (Greater London Authority) has used the MIS method to compile a separate calculation for a living wage in London. Centre for Research in Social Policy, <http://www.lboro.ac.uk/research/crsp/mis/thelivingwage/> (viewed on 17.11.2014).

²²³ Growth has been greater than the 19 per cent consumer index, which is due to the faster than average increase in the prices of products selected as the minimum requirement for goods and services.

²²⁴ Ibid.

7. Finnwatch model for calculation of a living wage

As was explained in Chapter 5, there is currently a fundamental consensus on the definition of a living wage and the basic factors that make up a living wage. On the other hand, the aforementioned examples demonstrate that there is no one established method or model for calculating a living wage. However, based on internationally recognised human rights instruments and a critical analysis of the methods, a general set of criteria that all living wage calculations should fulfil can be discerned.

7.1. TRANSPARENCY AND INCLUSION OF STAKEHOLDERS

Calculation of a living wage must be well documented and transparent. The documentation must describe the methodology, the built in assumptions and data sources explicitly and accountably. It is also advisable to give sound reasons for the use of different solutions²²⁵. This will make it easier for a third party to determine the accuracy and adequacy of the wage calculation. Consequently, it is simple for companies that require wage recommendations to test and approve a drawn up calculation model transparently and to use the method for calculating a living wage in the areas and factories they themselves select without having specific expertise in the process.

Additionally, a wage recommendation can only be considered accurate and legitimate, if workers and trade unions have been included in drawing up and reviewing the wage calculation. Workers and their representatives are the best at assessing the accuracy of estimates for the monthly cost of various goods and services. Workers should not only be asked how much they normally pay for goods and services. Instead, in order to avoid falling into poverty trap, workers should be told what they have the right to and what basic essentials their family should be able

to afford with a living wage. In other words, workers and their representatives must be aware of the correct benchmarks, on which they can base their assessments for the necessary minimum amount of money needed²²⁶.

In addition to workers and trade unions, it is important to hear NGOs that defend worker's rights, as these organisations can often offer an abundance of information and expertise to use in compiling a wage recommendation. It is also a good idea to consult locally-based research institutions and experts, as well as other stakeholders that can provide already existing area-specific data and possibly even calculations for a living wage.

It is important to note that living wage calculations compiled by companies must not replace freedom of association, the activities of trade unions or other collective bargaining with workers. Freedom of association and the right to collective bargaining like the living wage are human rights.

7.2. AREA-SPECIFIC ESTIMATES

Country, area or factory/plantation-specific data, or all of these, as apply, have been used as the basis for calculating a living wage.

Country-specific wage calculations must be taken with a grain of salt as these do not take into account the differences in living costs between population centres and sparsely populated areas. As e.g. food and housing are usually more expensive in cities than in the countryside, a wage recommendation based on national averages is not sufficient to cover the costs of living in a city, whereas workers living in the countryside would earn more than what they need to cover their family's basic essentials.

²²⁵ E.g. why does the calculation model use a certain family-size; why is a residence of a certain size used as the basis for calculation of housing costs; what information sources have been used as the basis for the wage calculation and why, etc.

²²⁶ In other words, worker also assess what they cannot afford to get with their present salary. The SA8000 guidelines state that workers can feel uncomfortable divulging information on their subjective basic essentials. For this reason, it is important to base estimates on objective benchmarks, as well qualitative and quantitative analyses.

In addition to living costs, social customs, practices and a society's level of development can vary a great deal within a country. Although one comprehensive national wage recommendation seems fair and just with regard to citizens, it would not in practice be equal for people living in different areas.²²⁷

In order for a salary to actually constitute a living wage in different areas, the wage recommendation must be calculated separately for residents of urban and rural areas and, when necessary, for individual areas such as certain cities. Differences should be accounted for especially in developing countries that are geographically large, and where variations in living costs can be significantly larger than in richer industrialised countries. Differences in consumer prices between special economic zones and the areas outside of these must also be taken into account.

A wage calculation can also be carried out specifically for one factory (ALaRM, SA8000) or e.g. plantation-specifically (ISEAL). If data is collected from factories located in numerous different areas, the difference in area-specific living costs must be noted in the wage calculation. The advantage of factory-specific wage recommendations is that these can take field or industry-specific special characteristics of a job into account. These can e.g. note energy requirements, if the job in question is physically demanding. On the other hand, the calculation model's key assumptions, such as family size, cannot be determined on the basis of averages of what factory workers state, as in these cases factory-specific wage recommendations can distort employment policy and lead to discriminatory wage practices, linked to the worker's family-size or gender²²⁸.

Calculation of factory-specific wage recommendations requires a relatively larger amount of resources than calculations based on country and area-specific statistical data, because these necessitate local surveys. On the other hand, a factory-specific wage calculation, when carried out correctly, is far more accurate in determining the workers' real basic needs, and in addition to this including local stakeholders in the process increases the credibility and legitimacy of the provided wage recommendation.

7.3. VERSATILITY OF ASSESSMENT METHODS

Living costs can be assessed and determined with the help of many different information sources. It may be simplest to utilise statistical data on household consumption, supply of goods on the market, consumer prices, the income level of households, employment and unemployment rates, etc.

The best statistics are those that are new and area-specific. Information can be sought from databases and statistics maintained by international organisations (ILO, FAO, the World Bank, UNDP), but the data is often too general in nature (not area-specific), outdated or scarce specifically concerning developing countries²²⁹. When compiling estimates and calculations, it is best to request statistical data from a developing country's own statistics centre and other public institutions that produce a growing amount of data due to their nowadays more developed statistical methods. Additionally, NGOs and other expert organisations that have activities in a country may maintain country-specific statistics on salaries and living costs.

227 A comprehensive national wage recommendation based on country-specific data is, of course, the simplest option and perhaps meets with the country's practice for laying down legislation on a national minimum wage. Collective agreements that are the result of collective bargaining, and the minimum wage stated in these are, in turn, often field-specific. Depending on the country, collective agreements are also agreed upon locally or factory-specifically, but the collective agreement system does not take area-specific differences into account in all countries.

228 If there is no clear definition and estimate for a living wage, factory-specific salary recommendations can vary greatly within an area according to what type

of workers typically work in the factory in question (men or women, young single women or older women with a husband and children). E.g. at a factory that predominantly employs young, unmarried women, a wage is determined according to a single person household. If this is the assumption, the employer does not need to pay nearly as large a salary as do companies that predominantly employ older women with a husband and children.

229 E.g. the ILO Laborsta database contains country-specific data only up until 2008 and information concerning developing countries is often limited. See <http://laborsta.ilo.org/>

Statistics-based estimation of other costs can be used as a point of comparison

Calculation methods applied in developing countries often only define the content and price of a nutritious diet (AFWA) and, possibly, also the cost of an adequate standard of housing (ISEAL). Other living costs are derived from these according to a multiplier based on specific consumer statistics²³⁰. For example, the AFWA method is based on the built-in assumption that a household uses roughly half of its income on food, in which case food costs are multiplied by two to get the total living costs.

The benefit of this method is that it is simple. By using this method, costs for basic essentials that a household must be able to buy with a living wage, other than food and housing need not be specified individually²³¹. Additionally, no toilsome price analyses need to be compiled, which would have to be carried out individually for each goods category that contains basic essentials. Food and housing costs should be calculated as these are the most fundamental expense items in developing countries and living costs can be calculated in comparison to the minimum standards that have been developed for these.

The advantage of this method is also its drawback, as the accuracy and legitimacy of a calculation can be called into question, as the share of other costs is based entirely on food and housing costs. Only outdated consumer statistics are available in a large number of developing countries, and, for this reason, an estimation based on food costs will likely emphasise the share of total expenditure for food, due to economic development that has taken place in the country after the statistic was compiled.

Additionally, national statistics do not take into account regional variations in price. Consumer statistics often include alcohol and cigarettes in food expenses, which also distorts the share of food expenses, because they are unnecessary with regard to nutrition and should therefore not be included in a living wage calculation²³². In addition to food and housing, households also have other significant expense items such as transportation or childcare fees, which vary a lot by area. E.g. it is important to estimate childcare expenses as a separate expense item, as the high cost of childcare is often an obstacle for employment and its share is not sufficiently highlighted in consumption statistics. If the estimate for other costs is too small, a family will not have enough money for such things as healthcare.²³³

Due to these shortcomings, the best method is to determine living costs with regard to all basic essentials, even though this method requires a great deal more work. The largest and most essential expense items must be determined as accurately as possible. Statistical estimates based on these expense items can be used as one benchmark for assessing the accuracy of an overall costs calculation²³⁴. For example, the ISEAL Alliance method derives other costs from food and housing expenses, but these other expenses were then reviewed in a local assessment to ensure they were adequate for covering healthcare, education and transport costs that were considered specifically important basic needs.

230 On the other hand, methods applied in industrialised countries assess at least food, housing and transport costs with goods-specific price analyses, and separate assessment of clothing, healthcare and childcare costs is also a common practice. E.g. the MIS standard described in Chapter 6.7. is made up of a total of 15 different categories of goods and services. However, also the methods used in industrialised countries include the flexible “other expenses” item, which is unspecified and which forms 1–20 per cent of total costs depending on the calculation model.

231 The valuations in question are always to some extent subjective, and should take into account the area’s level of development.

232 On the other hand, statistics can include this type of “unnecessary” or “extra” goods and services also in other goods and services categories.

233 ILO, Anker, R., 2011, Estimating a living wage: A methodological review, pp. 26–27, 40–41, can be read at: http://www.ilo.org/wcmsp5/groups/public/-ed_protect/-protrav/-travail/documents/publication/wcms_162117.pdf

234 The idea is that because the food and housing expenses used as the basis for estimation of other expenses are strictly determined according to a decent standard of life, a statistics-based ratio can be used to get also the other expense categories to an acceptable standard.

However, even the best statistics do not provide enough information to form the basis for a living wage calculation. Statistics always mirror averages to some extent, and in developing countries it is not possible to collect information based on area or household specific income on all the factors that make up a living wage. For this reason, local living cost surveys must be carried out or commissioned, and local stakeholders must be included in this work. It is advisable to request help and data on living costs from a broad-scope of different stakeholders. This can include local market surveys and questionnaires involving a limited group of workers, which are used to clarify the living costs of a household with regard to all basic essentials.

Surveys must be controlled, i.e. there must be procedures for ensuring that the information provided is given by workers from the factory or area in question²³⁵. However, it is not beyond the bounds of possibility that the workers who respond to surveys come from various different socioeconomic groups. In this case, it is important to guarantee with adequate instruction that they understand that they are giving an estimate on what basic essentials every person in their surrounding society should have the right to. And as was mentioned previously (Chapter 7.1.), in order to prevent a repetitive cycle of poverty, living costs calculations should not be directly and singularly based on the price and other consumption data provided by workers with inadequate salaries.

7.4. DETERMINING BASIC ESSENTIALS AND LIVING COSTS

A worker's salary must be adequate to provide a basic but decent and locally acceptable standard of living for a worker and the worker's family that will satisfy their basic needs. Expenses that will be recognised as living costs include affordable goods and services that are of adequate quality. We must strive to determine the minimum

requirements for a decent standard of life with regard to all basic essentials, on the basis of which living costs are then calculated. Smaller and less significant cost categories can, if necessary, be based on rough estimates.

Local preferences and habits, as well as the market supply must be taken into account. Living costs are determined on the basis of what locals typically buy. According to research, low income workers are price-conscious consumers with regard to shopping locations, cheap single purchase volumes and quality of goods and services.²³⁶

Adequate nutrition and energy

Acceptable food and drink (water/milk and other basic beverages) expenses are defined as the amount of money required for the purchase of nutritious and affordably priced foods. At first, the minimum requirement for energy and nutrition must be determined, after which the model diet in accordance with these values is designed and finally the price for the food basket in question on the local market is calculated.

A simple and commonly used minimum daily energy requirement is 2,100 calories. This is what the FAO/WHO have determined as necessary for maintaining good health. The recommendation is the same for adults and children between the ages of 10 and 18, whereas the energy requirement for children between the ages of 1 and 10 is considered roughly half of this (1,000 kcal/day)²³⁷. However, this global standard does not take into account the differences between countries with regard to their populations and level of economic development. Factors that affect a person's energy requirement include their gender, age, height and weight, as well as how physically strenuous

²³⁵ For this reason, uncontrolled internet surveys should not be used as a data source.

²³⁶ ILO, Anker, R., 2011, Estimating a living wage: A methodological review, p. 39, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

²³⁷ FAO/WHO/UNU (United Nations University), 2001, Human energy requirements, <http://www.fao.org/docrep/007/y5686e/y5686e00.htm> (viewed on 30.1.2015)



Bowls of food at a Chinese factory. To save money, workers often eat unbalanced and innutritious meals.

their work is²³⁸. These factors mean that the average energy requirement varies between countries according to the composition of its population as well as between different sectors of work. As the country's level of economic development may be noted when determining energy requirements, the FAO's recommendation must be maintained as the international minimum standard, and deviations can also be higher than this.²³⁹

In order to take national variations into account, it is possible to adopt the minimum number of calories used as the basis for national (absolute) poverty line calculations. According to ILO's study carried out in 2005, in developing countries this is generally 2,200 kilocalories (2,140 in Asian countries and 2,250 elsewhere)²⁴⁰. However, energy

requirements used as the basis for poverty lines are not determined in a similar manner in different countries, which means that when using these, the aforementioned variations between different countries are not accounted for in the correct way. In this case, if the energy in-take used as the basis for national poverty line calculations are higher than the minimum standard set by the FAO/WHO or the averages in developing countries, the nationally determined amounts should be used instead. A more ambitious method entails calculating country and area-specific energy in-take requirements based on the FAO's/WHO's nutritional recommendations.²⁴¹ The minimum energy needs have been derived from these calculations by applying so called Schoenfeld's method and using country-specific statistical data.²⁴²

²³⁸ These four factors are generally used in order to keep the method as simple as possible. Other factors that influence a person's energy requirement include metabolism, health, climate, pregnancy and lactation. FAO, Latham, M., 1997, Human Nutrition in the Developing World, FAO Food and Nutrition Series No.29, <http://www.fao.org/doCrEp/W0073e/w0073e00.htm> (viewed on 8.12.2014)

²³⁹ Thereby, this limit is only applicable in the world's poorest areas and for persons who do not have physically demanding jobs.

²⁴⁰ E.g. the World Food Programme WFP and the UN's UNHCR both recommend that the minimum daily energy requirement for refugees be 1,900–2,100 kcal and the UN Subcommittee on Nutrition recommends 2,080 kcal. India has rural and urban-specific calorie requirements. In 1972–73, the requirement for people living in the countryside was 2,400 calories, whereas in the city it was 2,100. ILO, Anker, R., 2005,

A new methodology for estimating internationally comparable poverty lines and living wage rates, p. 14, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

²⁴¹ WHO/FAO, 2003, Diet, Nutrition, and the Prevention of Chronic Disease, p. 56, can be read at: http://whqlibdoc.who.int/trs/who_trs_916.pdf; FAO/WHO/UNU, 2007, Protein and amino acid requirements in human nutrition, can be read at: http://whqlibdoc.who.int/trs/WHO_TRS_935_eng.pdf?ua=1

²⁴² See e.g. Anker R. ja M, 2014, Living Wage for rural Malawi with Focus on Tea Growing area of Southern Malawi, p. 7–11, can be read at: http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/LivingWageReport_Malawi.pdf. In his 2005 research Anker specified that the calories requirement in Bangladesh was 2,100 kcal, on the

Industry and factory-specific assessments must take into account the higher physical demand of a job with a higher need for energy.²⁴³

In addition to a certain amount of energy, a basic diet must contain an adequate amount of different nutrients. FAO/WHO currently recommends that at least 10–15% of calories must come from proteins 15–30% from fats and 55–75% from carbohydrates. The greater a country's economic development the more of its average diet should consist of proteins and correspondingly of less carbohydrates²⁴⁴. Even if the recommendations state that a reasonable share of proteins must be animal-based proteins, it is more environmentally-friendly to cut down on the use of animal proteins in the long term, which should be taken into account in the wage calculation²⁴⁵.

Food items and their prices are determined according to local prices and shopping practices with the assumption that all meals are prepared at home²⁴⁶. If a certain essential

basis of which he determined the minimum calorie requirements for other countries included in the research. His method involved use of unpublished FAO data, in the basis of which the physical size of residents in a specific country, their age and gender distribution affected the national average. Anker, 2005, A new methodology for estimating internationally comparable poverty lines and living wage rates, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

243 Gender should not be a determining factor with regard to energy requirements, as it is probable that a family will have parents of both sexes and specifying a difference between parents would be problematic with regard to gender-based discrimination. On the other hand, it is reasonable to take into account the level of physical demand of a worker's job in assessments on the number of calories required.

244 WHO/FAO, 2003, Diet, Nutrition, and the Prevention of Chronic Disease, p. 56, can be read at: http://whqlibdoc.who.int/trs/who_trs_916.pdf; FAO/WHO/UNU, 2007, Protein and amino acid requirements in human nutrition, can be read at: http://whqlibdoc.who.int/trs/WHO_TRS_935_eng.pdf?ua=1

245 Excess livestock and animal production results in a significant amount of greenhouse gases, which in turn accelerate climate change. For this reason, calculations may take into account that people should shift from the use of animal proteins to plant-based proteins. See e.g. The Guardian, 7.9.2008, UN says eat less meat to curb global warming, <http://www.theguardian.com/environment/2008/sep/07/food.foodanddrink> (viewed on 22.1.2015)

246 Dining out at restaurants can be taken into account as recreational and cultural activities in other expenses.

food or ingredient is especially expensive due to lack of supply, an alternative product containing the same nutrients can be sought. Workers will naturally adjust their consumer choices according to prices, but the nutritional value of foods must be reviewed²⁴⁷.

Seasonal fluctuations in prices must be taken into account, so that food expenses can be calculated appropriately to meet with average expenditure throughout the year. This is usually automatically noted in consumer price statistics, but this must be taken into account in market surveys carried out at a certain point in the year. When necessary, it is recommended to increase the food cost estimates to enable people to purchase food that is as versatile as possible. Additionally, a small increase should be added to account for spoilage of food, if this is not already taken into account.

Housing

Just as with other needs, an adequate standard, and an appropriate price must be determined for housing (sufficient space, protection, safety, equipment and furnishings). According to the UN International Covenant on Economic, Social and Cultural Rights, every person shall have the right to a safe, peaceful and dignified life. The minimum requirements for housing include the permanent right of occupancy, affordability, proximity of services, access to infrastructure and that the housing is culturally appropriate.²⁴⁸

According to UN-Habitat, the United Nations Human Settlements Programme, sufficient housing refers to more than just four walls and a roof. It also includes materials, equipment and infrastructure: residents must have access to clean drinking water, power for

247 As other expenses, the food expense calculation based on an average diet should be compiled in close cooperation with stakeholders.

248 Housing is guaranteed for everyone as a fundamental human right. According to the UN Declaration of Human Rights, housing and clothing must be adequate to guarantee the health and wellbeing of a family. According to the UN International Covenant on Economic, Social and Cultural Rights, all people shall have the right housing that ensures a satisfactory standard of life.



The housing provided to tuna fish factory workers in Thailand. Workers at many Finnwatch inspected factories in Malaysia, Thailand and India etc. save money by sharing small rented rooms in which 3 to 5 workers live.

cooking, the possibility to store food, heating, lighting, adequate sanitation and waste management. A residence must be inhabitable and physically safe. Special needs due to cultural factors must also be taken into account²⁴⁹. Housing must be located in an area that has sufficient basic services, such as healthcare, schools and day-care centres. The area may not be polluted or dangerous. The residence itself must have enough space for each resident.²⁵⁰

UN-Habitat's minimum criteria for housing are universal and establish the general quality framework for national and regional definitions. Local and concrete housing standards have been determined by governmental organisations, in addition to which NGOs such as Habitat for Humanity and Rainforest Alliance have drawn up some

region-specific recommendations²⁵¹. Determining a minimum standard for acceptable housing requires close-knit cooperation with local stakeholders. In addition to an existing standard, information on local housing can be used as a point of reference²⁵².

A median rent for housing that is of adequate size (floor-space) for the family in question can be determined as an acceptable housing expense. In addition to the rent, other housing expenses include those for electricity, water, as well as other use and maintenance.

Other basic needs and savings

Other basic needs include clothing, transport, healthcare, an education for the family's children, childcare, furniture and appliances, communication, personal hygiene products

²⁴⁹ E.g. in Kenya, culture strongly dictates that parents must sleep separately from their children and that girls and boys may not sleep in the same space. For this reason, adequate housing may have to include as many as three separate sleeping spaces. The living room may of course act as one bedroom, and, in larger rooms, curtains can be used to create the illusion of privacy. Anker R. ja M, 2014, Living Wage for Kenya with Focus on Fresh Flower Farm area near Lake Naivasha, p. 16, can be read at: http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/LivingWageReport_Kenya.pdf

²⁵⁰ UN-Habitat, 2010, The Right to Adequate Housing, p. 3–9. can be read at: http://www.ohchr.org/Documents/Publications/FS21_rev_1_Housing_en.pdf

²⁵¹ E.g. ISEAL has utilised the requirement for 30 m² of living space specified by Indian organisation Maharashtra Housing Development Association in Malawi. This is used as the minimum standard for living space for low income families living in government supported housing in India. Anker R. ja M, 2014, Living Wage for Kenya with Focus on Fresh Flower Farm area near Lake Naivasha, p. 17, can be read at: http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/LivingWageReport_Kenya.pdf

²⁵² Estimation of living costs is even more difficult because national statistics centres in different developing countries assess living costs in different ways. Some base their figures on the costs of owning a home and others on the costs related to rented housing. Additionally, statistical data is not always area-specific.

and personal care, as well as recreation and cultural activities.

The right to healthcare is a fundamental human right, which must be secured also in the world's poorest countries. Healthcare services are free-of-charge in many countries or only a small administrative or other fee is charged for their use²⁵³. Workers who have a very basic standard of life are most likely to use government-funded basic services, and their salary does not need to be large enough to cover the more expensive private healthcare services. However, especially in developing countries, free public services may be of poor quality or they might be difficult to access²⁵⁴. For this reason, private services are sometimes needed to supplement public services in order to ensure access to healthcare. In this case, the service charges for private services must be included in the living wage calculation, but only to the extent to which public services are not adequate or available.

Right to education is also a human right and its provision is one of the key means for reducing poverty in developing countries²⁵⁵. Elementary education is normally free-of-charge even in developing countries, but a tuition is often charged for secondary education and they should be appropriately taken into account in the calculation. Additionally, various maintenance costs that parents must

pay, as well as the cost of exercise books and writing supplies must be taken into account.

As a point of comparison for the living wage calculation, a family's typical education-related expenses and the monthly sum of money required for sending one child to elementary school and a second child to secondary school can be used²⁵⁶.

Depending on the location of the worker's place of work and the area, transport expenses may form a relatively large share of a household's total expenses. These include daily work and school trips, trips for the market, bank and healthcare centre, travel required for completion of other necessary errands, transport related to recreational activities, as well as visiting relatives (e.g. during the year's most important holidays and festivals).

In practice, this may constitute the price of public transport in cities in developing countries (e.g. monthly bus ticket), but estimation is in great part dependent on access to and the expensiveness of local public transport. In many countries, the most common and often the only form of transport is a bicycle or motorbike. In these cases, fuel expenses and the cost of acquiring the bicycle or motorbike must be included in the calculation in monthly appropriations according to the typical lifespan of the bicycle or motorbike. The use of relatively expensive taxis or the purchase of a car cannot be considered acceptable expenses for a basic standard of life in developing countries²⁵⁷.

253 These small payments must of course be noted as expenses in the living wage calculation. E.g. healthcare and education can be free-of-charge in principle, but workers may have to pay unofficial one-off maintenance and other payments that are not observed in statistics.

254 Not all treatment types or drugs are always available, or public healthcare centres and hospitals may be so jam packed and waiting times long that patients are not treated quickly enough. In rural areas, another prevalent problem is that people must often travel great distances to get to medical facilities that provide emergency care.

255 In addition to free early childhood and primary schooling, human rights instruments often set a requirement for general access to technical and vocational education. Additionally, according to the Universal Declaration of Human Rights, higher education must be open to everyone according to their skills and talents. These points of view must be taken into consideration when determining a living wage, the right of each child to a primary education is not realised in some countries in the required manner.

256 As in the ISEAL's method in Chapter 6.4, a reasonable assumption and benchmark for education costs is that in a family with children, one child at a time is attending primary school and one child is attending secondary school.

257 However, this is necessary in special cases. For example, workers who work on remote farms may not have their own vehicles and no buses or other public transport operate in the nearby area, which means that workers may have to travel the long journeys to the city for different purposes by local taxi or minibus (ISEAL). Target group workers reported in ALARM's factory-specific calculations that they also used rickshaws. In turn, from 2012, the UK's Minimum Income Standard (MIS) has included that a family has their own car, as the standard of public transport services has diminished. Although this is a solution adopted in a rich industrialised country,

The wage calculation must include an adequate sum for childcare expenses, so that both parents can work, when work is available. The problem often is that the price of childcare is so high in relation to low wages that it is not financially viable for the family's other parent to accept a low wage job²⁵⁸. For this reason, it is important that in addition to market prices and realised expenses, the calculations take into account the views of households on how much more money they believe households need to cover childcare expenses in order for workers to be able to accept employment (see chapter 7.6. on the reverse relation between childcare costs and a spouse's employment).

A salary must be such that a family is able to purchase a reasonable amount of clothing and footwear for all family members. This is not only a matter of physical protection, but clothing is also an important social symbol. Workers and their families must be able to dress appropriately during different seasons and for different situations and events, such as work and festivals. If used clothing is used as the basis for a budget, it must be noted that these do not remain in adequately good condition for as long as new clothing.²⁵⁹

Furniture and appliances are often durable consumer goods, which are not purchased monthly or even annually. These expenses can be estimated as monthly expenses and appropriated, according to how long these items are expected to endure normal use²⁶⁰.

and not recommended for developing countries, it can be seen as problematic, as it promotes private motoring which is hazardous to the environment, at the expense of public transport.

258 In some cases, the worker's extended family members may be able to take care of the children for free, but this cannot be taken as a general assumption for a living wage calculation.

259 Kuluttajatutkimuskeskus, Lehtinen, A. & kumpp., 2010, Mitä eläminen maksaa? Kohtuullisen minimin viitebudjetit, p. 31–34, https://helda.helsinki.fi/bitstream/handle/10138/152360/Mita_elaminen_maksaa.pdf?sequence=1 (view on 9.2.2015)

260 E.g. a wage estimate compiled by ISEAL for Malawi included 5 chairs, 4 beds, 4 mattresses, 1 bicycle and 1 radio in the normal expenses for a 5 person household. The lifespan of each commodity was estimated at 30 years, except mattresses (15 years). According to the Malawi Third Integrated Household Survey (IHS3) only a minority of rural households owned a bed (28%), a chair (34%), a bicycle (41%) or a radio (43%), which reflects the prevalent poverty in Malawi. People own very little. These items were

These are not luxuries but basic daily tools which are necessary for cooking, dining, rest, maintaining hygiene and safety. Necessary everyday activities should be considered the premise. A salary must be such that it allows a worker and the worker's family to purchase the needed number of chairs and beds (including mattresses and blankets) and other important furniture, household textiles, cooking equipment, a radio and a television.

Communication expenses are predominantly made up of postal and telephone/mobile costs. These days, even the world's poorest often own cell phones.²⁶¹ The global significance of the internet as a source of information and communication tool speaks in favour of including also expenses related to internet use in basic needs calculations. The purpose of a living wage is to make it possible for the worker and the worker's family to participate in cultural and social life as fully involved members society.

The family should also have a small sum of money left over to use for leisuretime activities. The worker and the worker's family must have the opportunity to participate in events required by their culture, such as christenings, weddings, funerals and other locally important festivities.

Additionally, the worker's salary must allow for moderate savings, which can be accounted for as a 10 per cent additional part in wage calculations depending on the situation. Savings are needed when workers or their family members encounter an illness, an accident, unemployment or other unexpected events. The accumulating savings will protect the worker in surprising situations from having to take out a loan or being driven into

included in the calculation, because on the basis of interviews with the target group, villagers wish to purchase these goods and services and it is not too much to expect that they earn a wage that would allow them to afford to do so.

261 According to a new study, the general public living in sub-Saharan Africa and in Asia feel that a mobile phone is a necessity and are even ready to save from their food expenses to pay their telephone bills. Although 60 per cent of the population in the target countries earned less than 2 dollars a day, the majority of adults owned a mobile phone. Fortune, 2.7.2014, Helping the world's poor, via cell phones, <http://fortune.com/2014/07/02/helping-the-worlds-poorvia-cell-phones/> (viewed on 30.1.2015)

a cycle of poverty. The purpose of the savings portion of the salary is not to enable broad-scope planning for the future, such as saving for a supplementary pension or purchasing a home.²⁶² A key criteria is that a wage must guarantee economic independence without the need for supplementary social aid.

Expenses not included in the wage calculation

The purpose of a living wage is to guarantee a worker and the worker's family a basic, but decent standard of living. The salary does not need to be enough to ensure the standard of living experienced by the majority of middle class households. Hence, the wage calculation does not need to include budgeting for restaurant dinners, as the need for nutrition can be satisfied with cheaper home cooked meals. Cigarettes and alcohol are not considered basic needs, nor are other stimulants that have no health or nutritional benefits.

However, dining out with friends and the consumption of alcohol may be included as a non-itemised part of recreational expenses. Households also have the possibility of using their savings for these expenses in the amount that is their preference. When tight on money, these are the expenses one can save on. As was previously stated, workers can be expected to use public services in the healthcare and education sectors instead of expensive private services, if these services are accessible to everyone and are of a good enough standard locally.

7.5. NUMBER OF DEPENDENTS

A worker's wage must be such that it does not only cover the workers living costs, but also those of the worker's family. In most models the wage calculation is reworked and multiplied based on the number of family members according to an assumption/typical number.

²⁶² It is, of course, not impossible that due to a household's lower than average consumption, there could be resources left over for other consumer needs. In this way, a worker may be able to set aside a small portion of their salary for future purchases of a larger scale.

However, there is no consensus at the moment on the size of the household or family that a living wage should be able to provide for and support²⁶³. The most commonly used standard assumption is a family of four (2 adults and 2 children). The assumption of two children roughly corresponds with the number of offspring needed for maintaining the population, as well as reasonably well with birth-rate statistics for many developing countries. It is also argued that if the family-size were assumed larger than this, this could be considered a personal choice by the worker, and is no longer under the employer's responsibility to take into account in determining the adequacy of the salary.²⁶⁴

One cohesive standard solution would make it possible to compare living wages globally. However, households in many developing countries, such as those in Africa and the Middle East, typically have more than 2 children²⁶⁵. Large families are a consequence of such things as cultural factors, relatively high child mortality and lack of social security: children participate in providing for a family and provide a security net for their parents when they get old²⁶⁶. In these cases, a large family is not due to a worker's individual choice, which means that the wage calculation should be upped to correspond with society's realities and sociocultural customs and practices.

On the basis of this, every calculation model applied in all countries, regions and areas should apply at least the 4 person standard family size model, which is due to the family concept of the living wage. Because an

²⁶³ Family-size most often is believed to be a subjective choice and cannot have a correct value. Especially wage calculators used in developed countries include salary recommendations for numerous family-size options. However, these calculators should clearly state for practical purposes which family-size calculation is the primary one for determining a recommended wage.

²⁶⁴ ILO, Anker, R., 2011, Estimating a living wage: A methodological review, p. 45., can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

²⁶⁵ E.g. ISEAL's Malawi-specific calculation uses a 5 person household as the assumption for family-size due to the country's high birth-rate.

²⁶⁶ Yale University, Schultz, P., 2007, Fertility in Developing Countries, can be read at: <http://www.econ.yale.edu/~pschultz/cdp953.pdf> (viewed on 5.2.2015)

insufficient salary often prevents people from starting a family, the assumption of family-size should not be directly based on what is typical if this is under 4 persons. However, as families may be larger than this in many developing countries, the assumption of what a typical family's size is should be expanded to correspond with what statistical data shows is the typical/average family size where this exceeds 4 persons. Family-size/number of children can be observed with the accuracy of a decimal number.

Providing financial support to relatives

The family-centred concept of the living wage is also evident in that even a worker, who lives alone, may have to provide financial support to his/her relatives, even if the worker does not have children of his/her own.

Often, the relatives in question are the worker's parents and/or younger siblings, who live in the countryside, and who the worker sends monetary assistance to every month, even if the worker has children of his/her own. In countries, where social security is poor, it is normal for employed persons to be expected to support their family members and relatives. In these situations, the worker shares a portion of his/her wages, even if they are meagre, with his/her poor relatives and the worker does not in practice have the possibility of declining to do so. Financial assistance to relatives also accounts for a significant share of the monthly expenses of migrant workers. In developing countries, wage calculations must include a separate share for this monetary support, as this allows workers to help their relatives without driving the worker into poverty.²⁶⁷

267 ILO, Anker, R., 2011, Estimating a living wage: A methodological review, p. 44, 51, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

7.6. OBSERVATION OF SECOND PARENT'S INCOME AND EMPLOYMENT POSSIBILITIES

A living wage is always determined and calculated as the salary of one full-time worker. It can in this way be compared to the statutory minimum wage and prevailing salaries in different sectors. However, both parents in a family can be employed full or part-time either permanently or e.g. seasonally. Because a spouse's income lowers the amount of money a worker needs to earn in order to provide for his/her family, some living wage methods divide the sum by the number of adults in a household who work full-time. The divisor is a decimal between one and two depending how much the other parent is assumed to work²⁶⁸. The assumption built into the division is that both parents earn a living wage.

The income of a household's second parent is justified to take into account, as a living wage is a family concept. Because the total sum must be increased to take into account that the worker must not only provide for him/herself, but also for his/her spouse and children, it is logical that the sum would be lower in relation to how much his/her spouse works and earns (a household's net income must cover the household's net expenses).²⁶⁹

A spouse's income can be used to determine the impacts of unemployment and other obstacles to employment to the household's total income.²⁷⁰ If it is difficult for workers to find employment other than seasonal work, the living wage is increased in order to compensate for the resulting (spouse's) risk of

268 I.e. the divisor in question is the equivalent of the number of adults, who work full-time.

269 All in all, the "family income model" reflects the real, flexible nature of the living wage that is influenced by surrounding society and the family's actual conditions. The actual sufficiency a typical household's total income earned during normal working hours ("family income") must be assessed in relation to the household's total expenses (and savings).

270 In areas that have a high rate of unemployment, a living wage must be larger than in areas with a high rate of employment. In this case, the assumption for the number of providers in a family is closer to one, whereas in the theoretical case of full employment, there would be two providers.

unemployment.²⁷¹ On one hand, a spouse's employment increases a household's overall income, but on the other it increases childcare and transport costs, as well as possibly other household expenses. This inverse relationship must in some way be taken into account when estimating living costs.²⁷²

Calculations on what a living wage is, may be based on the assumption of either one or two providers. Neither assumption is equivalent to reality, which is more of an average between these numbers. The built-in assumption of two providers is unrealistic, because many adults are not able to gain full-time or even part-time employment. It is also typical that there is more than one provider. The assumption of one provider can also be associated with the old-fashioned assumption of a man as the head of the family and income provider, which is no longer the norm in most developing countries. On the other hand, it is completely acceptable to calculate a wage recommendation with the premise of a single parent household, as this is a reality in some families.

However, the one provider model is not necessarily based on the assumption that a family has only one income earner, but the solution includes childcare expenses and takes into account the other spouse's unemployment (e.g. AFWA, chapter 6.1.). However, this simplified assumption cannot meet with the actual relation between work and childcare expenses in all countries or areas, and there is no clear evidence that the assumption is viable as a thumb rule either.

Two living wage reports compiled in high income countries observed that living costs are approximately the same, when both parents work full-time (full childcare expenses) as they were when one parent worked full-time and the other part-time and the family had no childcare expenses²⁷³. Instead of the one provider model, these observations (though no similar ones have been made in developing countries), as well as the unemployment rate, employment rate and working hour-based averages²⁷⁴ is argued to speak in favour of the rough assumption of 1.5 workers per household. The impact of unemployment is noted in this as the underemployment of the spouse and the childcare expenses are assumed as zero as the spouse is partly at home taking care of the children.²⁷⁵

However, the standard assumptions described above are rough simplifications. By applying these, the conditions of surrounding society, time-bound economic trends and the impacts of unemployment on the household's expenditure would not be accounted for. For this reason, the most precise method, although the one that requires the most effort, is to assess childcare expenses separately and divide the household's monthly expenditure with the typical number of employed persons in the household. The solution adheres to the living wage family concept and is structurally logical and the most distinct method for the calculation (childcare and other expenses will be assessed separately).

271 The worker's own risk of unemployment is buffered with a small share of the worker's salary being appropriated for savings. If the worker becomes unemployed, the employer is naturally no longer obligated to pay him/her a salary, and the state becomes responsible to provide adequate public social security and services to the worker and his/her family.

272 If both parents work full-time, it can be inferred that childcare expenses are at their maximum. On the other hand, if one parent is at home and does not work at all, this will most likely mean that there are no childcare expenses. And again, if one parent works part-time or seasonally, this parent can take care of the family's children for part of the day or full-time for part of the year; this would mean that childcare expenses would be smaller than if both parents are fully employed.

273 With regard to this, Anker refers to reports by the CRSP (Center for Research on Social Policy, Loughborough University) and the EPI (Economic Policy Institute). ILO, Anker, R., 2011, Estimating a living wage: A methodological review, p. 52, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

274 E.g. According to an ISEAL report, there are 1.59 - 1.69 providers in a family in Africa's rural areas; according to the SA8000 guidelines there are usually no more than 1.6 providers in a family. See chapters 6.3 and 6.4.

275 Anker suggests this sort of solution as one viable option. ILO, Anker, R., 2011, Estimating a living wage: A methodological review, p. 52, can be read at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

The number of (equivalent) full-time workers in a household can be determined on the basis of employment and unemployment rates, as well as information on typical working hours. Statistical data is produced by national statistics centres. Country-specific estimates collected by the ILO on the economically active portion of the population can also be utilised. Estimates should take into account regional or area-specific differences with regard to the possibility of gaining employment. And as already stated, workers and their representatives should be consulted to determine what they consider the reality of their situation.

However, it should be said that, if looking for a simple solution there is no obstacle for using the one-provider model. This assumption produces a higher wage recommendation than an calculation based on an area-specific estimate based on averages, which is naturally an advantage for the worker. The 1.5 provider standard assumption can also be used, but in this case the possible need for childcare services must be taken into account in living costs (a part-time worker cannot be expected to be responsible for full-time childcare). The 1.5 provider assumption is also a good benchmark for calculations based on averages, as the average result cannot be significantly higher than this²⁷⁶. If the resulting figure is larger than 1.5 full-time workers, it must be justified and local stakeholders consulted to ensure that the estimation corresponds with the actual situation over a longer period of time in a sufficiently large and relevant area.

7.7. IN-HAND SALARY EARNED DURING STANDARD WORKING HOURS

Workers must be able to earn a living wage during standard statutory working hours, i.e. overtime hours cannot be included in calculating a living wage. As was stated above, the purpose of ensuring that a wage is sufficient to cover costs of living is to protect workers from exploitation and excess overtime work

and to ensure that a worker receives enough time for rest and recreation²⁷⁷. This standard means also that a living wage can be compared to the statutory minimum wage and prevailing salaries.

The statutory normal number of work days and hours varies per country. The ILO's Minimum Wage Fixing Convention (No. 131, 1970) and Recommendation (No. 135, 1970) do not specify a maximum number of work days or weekly working hours, but e.g. the ILO's Hours of Work Convention 1919 (No. 1) limits a workers normal daily work to 8 hours and weekly work to 48 hours²⁷⁸. National statutory weekly worktime limits are noticeably lower, and in developing countries usually 48 hours at their maximum, but this is not always reality²⁷⁹. As in some living wage calculation models, 48 hours should be the specified as the absolute maximum.

Although performance based bonuses and other bonuses in addition to a basic salary may be an important part of a worker's salary package, these usually vary from one worker or factory to the next and are dependent for example on achieving production targets. For this reason, these must not be accepted as part of a living wage. The fundamental idea behind the living wage is that a worker must be able to cover monthly expenses with a regular monthly income²⁸⁰.

The models used to calculate a living wage are also based on the premise that a living wage is the in-hand salary of workers after all statutory deductions such as taxes and social security contributions (healthcare and unemployment premiums, pension contributions, etc.). This is the only way to ensure that the salary truly is adequate for satisfying

²⁷⁶ E.g. according to the SA8000 guidelines there are usually no more than 1.6 full-time workers in a family.

²⁷⁷ According to article 7 of the UN International Covenant on Economic, Social and Cultural Rights, the countries that are party to the agreement each recognise the right of workers to fair and safe working conditions, which specifically ensure rest, leisure and reasonable limitation of working hours and periodic holidays with pay, as well as remuneration for public holidays.

²⁷⁸ Similar provisions in the ILO Conventions for Hours of Work and Manning (No. 57) and Hours of Rest and Work (No. 153).

²⁷⁹ E.g. China uses a 40-hour work week, and India and Thailand a 48-hour work week.

²⁸⁰ Irregular income in turn is used to fund irregular expenses.

the family's basic needs (net-income covers net-expenses).

On the other hand, voluntary payments must not be included in the living wage calculation as they may be considered voluntary expenses. However, many seemingly voluntary payments may be mandatory in practice. For example, membership fees to a trade union must be included in the calculation as trade union membership is often in practice the prerequisite for freedom of association.

Many other changes and hidden costs that the worker must pay and are related to their job must be included in the calculation model on a case-by-case basis. E.g. migrant workers are often required to pay various documentation and recruitment fees. This type of expenses, as well as the fees paid to an employer for compulsory supplementary training must be added to the calculation.

The methods for calculating a living wage do not always clearly state whether a living wage can be paid in the form of in-kind benefits. A point in favour of in-kind benefits is that in principle, basic needs can be satisfied with in-kind benefits just as well as they can with money, as they mean the household has less need for cash money.

However, conditions should be set for the use of in-kind benefits, as otherwise employers could neglect their responsibility to pay salaries. If too large a share of a worker's wage is paid in the form of in-kind benefits, this will mean the worker has less disposable income that he/she may use as they wish. Minimum wage legislation usually does not allow for in-kind benefits to be included as part of a worker's wage. In these cases there remains a possibility to pay a living wage in the form of in-kind benefits for the share of the salary that exceeds the local minimum wage.

ILO Conventions 95, 99 and 110²⁸¹ provide a good set of guidelines on the requirements for paying a living wage in in-kind benefits. In-kind benefits must in this case be:

- provided regularly

- appropriate and beneficial, i.e. they must be of practical benefit to the worker and the worker's family with regard to their needs²⁸²,
- usual in that a reasonable share of the employers in the field in question provide the in-kind benefit ,
- of sufficiently good standard with regard to the surrounding society's level of development,
- reasonably and fairly valued, i.e. the in-kind benefit must be market-based and it cannot exceed the price that the employer themselves pays for it or the price which the worker would pay to acquire the commodity in question him-/herself²⁸³,
- In-kind benefits can only account for a very reasonable share of the worker's salary, as the majority must be paid in money²⁸⁴.

At times, an employer sells different services or goods at the workplace that the employer deducts from the worker's salary in accordance with the purchases. In these cases, all provided services must be priced reasonably and at maximum at market prices. The employer shall not produce these goods or services for the purpose of gaining a profit, but rather only to benefit workers. A worker cannot be in any way forced or pressured into using the goods or services sold by the employer.²⁸⁵

281 ILO Protection of Wages Convention (No. 95), Minimum Wage Fixing Machinery (Agriculture) Convention (No. 99), Plantations Convention (No. 110).

282 Salaries may also not be paid in goods that are not considered basic needs, such as alcohol or cigarettes, because also in-kind benefits must fulfil the criteria that apply to a living wage.

283 According to the ILO Workers' Housing Recommendation (No. 115), employers may only provide housing for their workers in exceptional conditions. In these cases the employer must respect the worker's housing and living conditions-related human rights, and rents cannot exceed a reasonable share of the worker's income.

284 This ensures that an in-kind benefit does not increase a worker's vulnerability when a worker's employment ends or changes. The ISEAL Code of Good Practice specified the percentages for reasonable in-kind benefits, as follows: the value of free housing shall not exceed 15 per cent of a living wage and the value of other in-kind benefits shall not exceed 10 per cent of a living wage. In all, in-kind benefits shall not exceed 30 per cent of the living wage. Anker R. ja M, 2014, Living Wage for rural Malawi with Focus on Tea Growing area of Southern Malawi, s. 28–37, can be read at: http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/LivingWageReport_Malawi.pdf

285 ILO, Q&As on Business, Wages and Benefits, http://www.ilo.org/empent/areas/business-helpdesk/faqs/WCMS_DOC_ENT_HLP_WAG_FAQ_EN/lang-en/index.htm (viewed on 28.1.2015)

7.8. PERIODIC UPDATES NECESSARY TO ACCOUNT FOR RISE IN CONSUMER PRICES

It is important that the calculation for a living wage is increased periodically and adequately often so that the purchasing power of wages can keep up with inflation and consumer prices²⁸⁶. This is also a requirement of minimum wage legislation, as according to the ILO's Minimum Wage Fixing Convention (No. 131, 1970) and Recommendation (No. 135, 1970), countries must periodically review their wages and take into account changes to living costs and other economic conditions.²⁸⁷

If inflation adjustments were not made to wages, this would see the actual value of salaries fall. This would mean income transfers from workers to employers, who save in personnel costs on account of smaller wages. Workers, who are paid a living wage, live on the very precipice of wellbeing, and even a relatively small drop in the purchasing power of their salary will prevent them from putting money aside for savings and will threaten the family's possibilities of acquiring adequate healthcare and other basic needs. In developing countries and emerging economies, inflation is also relatively high and fluctuates more than in developed countries, which emphasises the importance of taking inflation into account with calculating a living wage.²⁸⁸

An inflation increment must be carried out at least once a year based on the regional consumer price index or retail price index or other available and possibly more suitable index. If prices rise in a short span of time before a year has passed, the minimum wage should be adjusted to this change, with an inflation increment before a year has passed to ensure a living wage.²⁸⁹

The consumer price index is based on annual average changes to the consumer's goods and services basket²⁹⁰. However the impacts of inflation can vary between households in different income brackets, as consumer prices can rise in different ways in different groups of goods and within these groups. For example, rises to food prices can impact the poorest people the most as they use a relatively larger share of their income on food. This means that official statistics based on averages can undermine the inflation experienced by the poorest workers. For this reason, index increments and their adequacy should be discussed with workers and trade unions, which have grassroots information on price developments. If the consumer price of those basic goods and services used as the basis for the wage calculation rise more than those of other goods and services, this must be taken into account as an index increment larger than the index indicates.

286 The term inflation refers to the rate at which the general level of prices for goods and services rises, and, subsequently, purchasing power falls.

287 According to the ILO, it is just as important to periodically review salaries with regard to rising prices, as it is to initially determine a minimum wage. ILO, 2008, *The Global Wage Report 2008–9: Minimum wages and collective bargaining: Towards policy coherence*, p. 49, can be read at: http://www2.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_100786.pdf. Sometimes annual index increments are part of the collective agreements in which a salary is tied to an index. However, most of the time national minimum wages lag behind price increases.

288 E.g., in recent years, inflation has been in the 1 to 3 per cent range in Finland, whereas the highest inflation of developing countries is in India at over 10 per cent, Bangladesh at 6–11 per cent and Malawi at its highest at over 20 per cent as a result of devaluation (in 2010–2013). World Bank Inflation, Consumer prices (annual %), <http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG/countries/1W?display=graph> (viewed on 14.1.2014)

289 Anker feels that salaries should be increased immediately when prices rise at least 5 per cent according to the consumer price index. Anker R. ja M, 2014, *Living Wage for rural Malawi with Focus on Tea Growing area of Southern Malawi*, p. 44, can be read at: http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/LivingWageReport_Malawi.pdf

290 Tilastokeskus, Kuluttajahaintaindeksi, <http://www.stat.fi/meta/til/khi.html> (viewed on 14.1.2015)

7.9. SUMMARY OF THE CALCULATION METHOD

Definition	A living wage is a take-home pay received by a worker for a standard work week sufficient to afford a basic, but decent, standard of living for the worker and his/her family in a particular location. The wage is enough to satisfy the family's essential needs – food, housing, clothing, transportation, healthcare, education etc. – and also enables modest savings for unexpected events and participation in social and cultural life.
Formula for calculation <div style="border: 1px solid black; padding: 5px; display: inline-block;"> $\frac{C}{W} + S$ </div>	<p>C = monthly living costs of a household at the level of basic, acceptable quality of life (household = family of 2 adults and 2 children or more if typical)</p> <p>W = number of full-time workers in a household (typical number: w=equivalent 1.x or simplified assumption: w=1.5 or w=1.0 in which case c=living costs-childcare expenses)</p> <p>S = share of salary set aside for savings (10 %)</p>
General guidance for measuring living costs	<ul style="list-style-type: none"> – living costs should be estimated for a particular location so that significant differences in living costs between cities and areas within a country are taken into account – calculations should be based on basic essentials that are of low cost, but of sufficiently good quality, and that local workers typically buy (in accordance with shopping habits, preferences, availability of commodities) – prices should be adjusted for seasonality where appropriate (food and possibly other) – minimum decent standards for most important basic essentials should be determined, as a point of reference for calculating living costs – should be consistent with what is considered acceptable in the specific location at a country's current development level – a variety of information sources should be utilised in a versatile manner, for example statistics, market surveys, employee questionnaires and interviews, data from local organizations and stakeholders – available secondary household expenditure data (on the average share of food, housing and other basic essentials in total household expenditure) can be used as a point of reference for checking that estimated living costs are sufficient – where needed, estimated adjustments should be made to take into account for e.g. assumed workers' hidden costs and unreported costs – local employees, trade unions and other stakeholders should be consulted and involved in estimating the living costs in order to ensure an adequate living wage
Food and drink	<ul style="list-style-type: none"> – the cost of a nutritious, low-cost diet in a particular location is calculated by determining <ol style="list-style-type: none"> (1) a minimum energy and nutritional intake, (2) the composition of a model diet, and (3) the price of a food basket needed to acquire the model diet – dietary energy requirement should meet FAO's and WHO recommendations on calories (at least 2,100 calories per day necessary for good health, according to FAO/WHO; or the dietary energy requirement specified in connection with the national poverty lines, if more than the aforementioned; a higher energy requirement for workers with physically demanding jobs) – the diet should meet at least the FAO's and WHO's dietary nutritional recommendations (at the moment a minimum of 10-15% of energy from proteins, 15-30% from fats, 55-75% from carbohydrates)
Housing	<ul style="list-style-type: none"> – housing costs comprise of <ol style="list-style-type: none"> (1) local average rent of basic acceptable housing for a living space required by a typical family, (2) utility costs such as electricity, water, fuel, and maintenance – benchmarks for decent housing: UN-Habitat, Habitat for Humanity and other organizations that have issued international, national and local standards and guidelines for housing – important to consult stakeholders
Other essential needs	<ul style="list-style-type: none"> – transportation (public transport, two-wheeled vehicles) – healthcare – childcare – children's education (typical costs; benchmark: one child in primary school, the other in secondary school) – household furnishings and equipment – communications (telephone and internet) – personal hygiene – recreational and cultural activities

Public or private services	<ul style="list-style-type: none"> – in principle, only the use of free-of-charge/affordable public services should be taken into account – private fee-based services are only taken into account, if more affordable public services are not effectively available or they are not of sufficiently good quality
Savings	<ul style="list-style-type: none"> – a margin of 10% is added to living cost estimation (“poverty buffer”) to cover discretionary expenses, savings and unexpected events (illnesses, accidents, unemployment, etc.)
Monetary support to relatives	<ul style="list-style-type: none"> – wage should also cover worker’s possible regular monetary aid to close relatives (common in some developing countries)
Size of family to be supported	<ul style="list-style-type: none"> – at least 4 persons (2 adults and 2 children) – more than two children, if families typically have more children to provide for in the location
Number of full-time workers per couple in family	<ul style="list-style-type: none"> – 1.x full-time workers per household providing monetary support (equivalent corresponding with the average for full-time workers per household in a particular place) – can be estimated based on the labour force participation rates, employment/unemployment rates and data on typical working hours in the area (adjusted for seasonality) – 1.5 providers as a benchmark (equivalent cannot generally be much greater than this): a greater number must be explained and justified and local stakeholders consulted to ensure that the estimation corresponds to the actual situation for a longer period of time in a sufficiently large and relevant area – OR: a simpler model is to use an assumption of 1.5 full-time workers (1 full-time, 1 part-time), if this, more or less, meets with the area’s average and does not exceed it (it must be ascertained whether the salary is sufficient to cover childcare) – OR: a simpler option is to use a default that does not take the other parent’s income into account at all, in which case living costs estimation need not include typical childcare costs (also other effects to other household costs, such as spouse’s transportation costs, could be discussed with workers and other stakeholders)
Working hours	<ul style="list-style-type: none"> – a salary must be earned within standard working hours, i.e. regular working hours (not including overtime) – the absolute maximum limit is 48 hours per week
In-kind benefits	<ul style="list-style-type: none"> – a worker’s salary can be paid partly in the form of in-kind benefits only if these are in accordance with legislation and they are fair and reasonable (paid regularly, appropriate and beneficial, usual, of sufficiently good standard, reasonably and fairly valued) – only a small portion of a salary can be paid in the form of in-kind benefits, as workers have the right to use their disposable income in the manner they desire (at most 30%) – pay bonuses and other additions to the basic salary should not be included to the living wage calculation as they are usually irregular and uncertain)
Taxes and other mandatory payments	<ul style="list-style-type: none"> – living wage estimation covers statutory and other mandatory payments, such as taxes and social security payments (health, unemployment insurance and employee pension premiums, etc.) – also trade union membership fees, documentation and recruitment fees deducted from workers’ salaries as well as in-service training costs and other employees’ hidden costs the employer is responsible for should be taken into account
Adjustment to inflation	<ul style="list-style-type: none"> – regularly, and at least once a year – before the annual cycle, if there has been a swift and relatively large rise in consumer prices
Transparency of the living wage calculation	<ul style="list-style-type: none"> – the calculation process shall be well-documented – the calculation shall be transparent: methodology, assumptions used and information sources shall be described in sufficient detail
Involvement of local stakeholders	<ul style="list-style-type: none"> – stakeholders including workers, trade unions and civil society organisations should be consulted and involved in the living wage estimation process
Respecting the right to collective bargaining	<ul style="list-style-type: none"> – a living wage estimation cannot replace freedom of association and collective bargaining

8. Recommendations

RECOMMENDATIONS FOR COMPANIES WITH REGARD TO PAYING A LIVING WAGE

- A company must determine the minimum level for an area-specific living wage and commit to paying this throughout its value chain. The company may use the calculation model recommended in this report or compile or commission a wage calculator of their own, which complies with the aforementioned human rights-based criteria and Finnwatch's recommendations for calculating a living wage.
- Workers, trade unions and NGOs must be included in the process of determining the amount of the living wage. The company must respect its workers' freedom of association and right to collective bargaining, as well as ensure that also its business partners respect these.
- The company must carefully assess the risks and impacts in its business activities that might lead to the payment of insufficient wages, as well as assess its leverage and means to have an impact on the payment of a living wage throughout its value chain.
- The company must act openly and transparently in all matters related to payment of wages. The company must publish its supplier chain and set concrete and schedule-bound extensive measures that will help in ensuring that different employers throughout the company's value chain progressively increase salaries to a living wage.
- The company must e.g. change its purchase practices, so that the payment of a living wage is truly a possibility at the beginning of the production chain.
- The company must also adopt specific terms and conditions in its agreements and carry out audits to ensure that its suppliers and partners pay a living wage in practice and must intervene if suppliers do not do so.
- Companies must demand more from current auditing schemes, and a binding requirement for the payment of a living wage must be added to the criteria of these schemes. Together with other actors in their field, companies must implement their own projects for increasing the wages of workers employed by factories, which belong to their value chain and are located in high-risk countries.

RECOMMENDATIONS FOR DECISION MAKERS

- The objective of the implementation of the UN Guiding Principles on Business and Human Rights must be to develop binding corporate responsibility provisions that will promote the responsibility of businesses in the payment of a living wage and other human rights impacts in production chains.
- A statutory binding standard must be drawn up for a businesses' duty to assess their human rights risks in their production and value chains. Human rights risks have to be brought into the scope of statutory corporate responsibility reporting. Victims of human rights violations should be provided with the access to effective remedies.
- State services that promote export must provide support for companies in observing human rights and in ensuring payment of a living wage.
- Finland must also use active diplomacy to promote the adoption of a minimum living wage in those production countries where minimum wages and prevailing wages are insufficient to cover living costs.

RECOMMENDATIONS FOR CITIZENS

- Companies must be required to provide more information on their suppliers and the wages they pay. Social media is an efficient tool for requesting information and for providing responsibility-related feedback.
- Citizens must demand that decision-makers enact ambitious corporate responsibility legislation. Assessment of and reporting on human rights risks must be statutory for large corporations with business activities in high-risk countries.

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Finnwatch ry
Malminrinne 1B, 2.krs
00180 Helsinki
info@finnwatch.org
www.finnwatch.org
[@Finnwatch1](https://www.instagram.com/Finnwatch1)