

# Position Paper

## Living Wage



### Introduction

*The concept of a Living Wage has been around for centuries. Adam Smith wrote about it in the 18th century and it is referred to in the Constitution of the International Labor Organization (ILO) of 1919. The United Nations Universal Declaration of Human Rights (1948) and the UN International Covenant on Economic and Social Cultural Rights (1966) both recognize the need for workers to receive a Living Wage. At present, due to declining wage shares worldwide, widening wage and income inequalities and interest in Corporate Social Responsibility, attention on the topic of a Living Wage is growing.*

*The ILO's intention when introducing a Minimum Wage was for it to function as a Living Wage: remuneration sufficient to cover a worker and his/her family's basic needs. Today however, in some countries, legal minimum wages do not exist and in others they are set extremely low, not guaranteeing that workers receive remuneration sufficient to meet their basic needs. This is a challenging situation and not in line with the mission of UTZ:*

*"UTZ mission is to create a world where sustainable farming is the norm. Sustainable farming helps farmers, workers and their families to fulfil their ambitions and contributes to safeguarding the earth's natural resources, now and in the future."*

*UTZ reaches 432,000 workers and their families with its programs. Our Codes of Conduct include rigorous control points in line with ILO fundamental principles to improve the working and living conditions of workers, and enforce the payment of a minimum wage or the agreed upon sector wage, whichever is higher. Based on consultation with our stakeholders during our recent Code revision, and studies we undertook to understand wage mechanisms, we have seen that, while it is very important, the statutory minimum wage does not always ensure that workers are paid a Living Wage. Thus the decision was made to include the concept of a Living Wage in our programs. By gaining a thorough understanding of what the Living Wage concept entails, in collaboration with other interest groups, UTZ plays an important role in defining and implementing the concept of Living Wage.*

*It is important to note that although this paper focuses on Living Wage, relevant to all hired labor, UTZ also underlines the importance of a Living Income. UTZ works with hundreds of thousands of smallholders across the globe. Our program aims to allow producers to earn an adequate income and have a decent standard of living: better farming will lead to a better income. The concept of a Living Income is therefore vitally important. It is however also conceptually different to Living Wage in the sense that whereas wage requirements can be (and are, as you will read in this paper) part of a Code of Conduct, Living Income is an outcome of UTZ Certification through increased efficiency, productivity, quality of produce and increasing market access. The concept of a Living Income is therefore out of the scope of this position paper.*

*economy". One of the first steps UTZ took in collaboration with other voluntary standards*

### What is a Living Wage?

*There are a number of definitions of a Living Wage. For instance, the ILO described it as "the level of wages sufficient to meet the basic living needs of an average-sized family in a particular*

*and labor experts was to arrive at a shared understanding and a shared definition of this concept. The definition we agreed upon and refer to in our Code is:*



*A Living Wage is the remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs, including provision for unexpected events.*

## What has UTZ so far been doing with regard to wages?

Before discussing what improvements UTZ is implementing, it is important to note what we have done thus far. Ever since we began, our Codes of Conduct have included requirements that comply with the following ILO conventions (including all ILO Core conventions):

- ILO Convention No. 26 for determining minimum wages (Revised in 1970: Convention No. 131)
- Freedom of association and the recognition of the right to collective bargaining (87, 98)
- Elimination of all forms of forced or compulsory labor (29, 105)
- Effective abolition of child labor (138, 182)
- Elimination of discrimination in respect of employment and occupation (100, 111)
- ILO convention 95: Protection of Wages Convention (1949)
- ILO Convention 1: Hours of Work (1919)
- ILO Convention 155: Occupational Safety and Health Convention (1981)

This means that no child labor, unsafe working conditions, excessive working hours, forced labor or discrimination are tolerated. It also means that UTZ requires the payment of at least the minimum wage in line with legal requirements or the prevailing sector wage (whichever one is higher) and that workers are free to join labor unions and collectively bargain for improved wages.

Furthermore, basic needs that can be assessed during the audit are also included as control points in our Codes of Conduct, such as safe housing and access to education, clean water, energy and transport. In this way workers at least have access to these basic needs.

## Strengthening UTZ commitment to Living Wage: a shared approach

For a number of years UTZ has been investigating how to approach this subject. We noticed that there was limited consensus over its definition, how to calculate it and how to implement it successfully. It became clear to us that there is a great need to collaborate with others on this complex issue and therefore actively sought collaboration with like-minded organizations. This led to UTZ joining hands with Fairtrade International, Forest Stewardship Council (FSC), GoodWeave, Sustainable Agriculture Network/Rainforest Alliance, Social Accountability International (SAI), under the auspices of ISEAL Alliance. The goal of this collaboration is to work on a joint methodology, and the promotion and implementation of a living wage for the workers that are protected by their respective labor standards.

The six organizations are collectively working together with Dr. Richard Anker, an international specialist on the Living Wage concept, to design and test a common methodology to estimate living wage levels for the countries in which we work<sup>ii</sup>. The organizations have expressed this vision and commitment in a [joint statement](#) we released in November 2013.

Through this collaboration we will share experiences, bring harmonization and consensus on how Living Wage is defined, calculated and approached in our standards. Most importantly, by working together and with other stakeholders, we hope to collectively increase our influence on wage levels.

We realize that for many producers, wages form an important part of the costs of production. Although it is undeniable that in some countries and areas wage levels need to increase, they should do so steadily to avoid undesired consequences for farmers that might see their margin of profit declining and consequently hire less labor, increase levels of mechanization or even go out of business. As such, it is important to introduce wage requirements in our standards in combination with dialogue and



involvement of actors at all levels of the supply chain.

## Methodology for calculating Living wage

In the developed methodology, the Living Wage is estimated by adding up the cost of a low cost nutritious diet that is appropriate for food preferences and development level of a country, plus the cost of decent housing in the area, plus other costs for essential needs. These are assessed through a method of extrapolation. A small margin above the total cost is then added to help provide for unforeseen events such as illnesses and accidents, to help ensure that these events do not throw workers into poverty. This total per capita cost is scaled up to arrive at the cost of a decent standard of living for a typical family and then defrayed over a typical number of full-time equivalent workers per household.

## UTZ Code requirement

During the Code revision cycle of our Codes of Conduct, a multi-stakeholder process with several consultation rounds, the proposed

Living Wage approach was extensively discussed. It was decided to introduce a Living Wage criterion in the UTZ Code of Conduct for Individual Farms which applies to large farms or estates and therefore affects a vast number of workers.

Recognizing the important role of work and trade unions, freedom of association and collective bargaining are leading principles in UTZ's approach, since they enable workers to ensure standards are upheld. Living Wage benchmarks can serve as a tool to support social dialogue between workers and employers. If current wages are found to be below the Living Wage benchmark, employers need to consult with workers' representatives to build an improvement plan that will result in a gradual rise in real wages (adjusted to inflation) towards the benchmark.

In March 2014 the new Code of Conduct for Individual Farms, which introduced a new criterion on Living Wage, was approved. As of July 2014, farms and estates can start being audited against this new Code and as of July 2015, this will become mandatory.

## Conclusion

With the introduction of the Living Wage criterion, UTZ has strengthened its commitment to creating an environment where workers' wage negotiations are bolstered. We see this as a first but very important step towards achieving an upward trend in wage levels and making Living Wages a reality. Through collaboration with other standards and experts in the field, UTZ not only aims to increase clarity for all supply chain actors, but also increase the influence we can have as a group on wage levels.

<sup>i</sup> ILO documents referring to minimum/living wage include the ILO Constitution and its preamble, the 2006 ILO Declaration on Principles concerning Multinational Enterprises and Social Policy and the 2008 ILO Declaration on Social Justice for a Fair Globalization.

<sup>ii</sup> Since some standards deal with mostly urban workers, and others including UTZ exclusively work with rural workers and price levels between urban and rural settings can differ significantly, where two living wage benchmarks will be developed per country: one for urban settings and one for rural settings.

