

# Wage ladders: Introduction and overview

WBF WG-02  
Guayaquil  
February 2012

# Overview

1. What wage ladders do, and don't do
2. The assumptions we need to make to be able to compare figures – to create 'rungs' on the ladder
3. What these 'rungs' on the ladder signify
4. What the initial comparative analysis tells us, and outstanding questions
5. Areas which WBF WG02 can productively pursue

# What is a 'wage ladder'?

Benchmark against 'objective' criteria –  
normative, economic

Track changes over time

Building on methodology developed by:

- JO-IN initiative (Turkey, textiles)
- FWF (global, textiles)
- IDH-Ethical Tea Partnership-Oxfam (global, tea)

# What 'wage ladders' don't tell us

Wage distribution – including gender distribution, and (direct and indirect) discrimination

Extent of *implementation* of legal and agreed protections / minima

Significance of informality

Quality of industrial relations

Value chain dynamics

These are all **vital factors** in understanding distribution of value in banana value chain

# What are the reference points?

Cost of basic goods and services (*canasta familiar*)

National median income

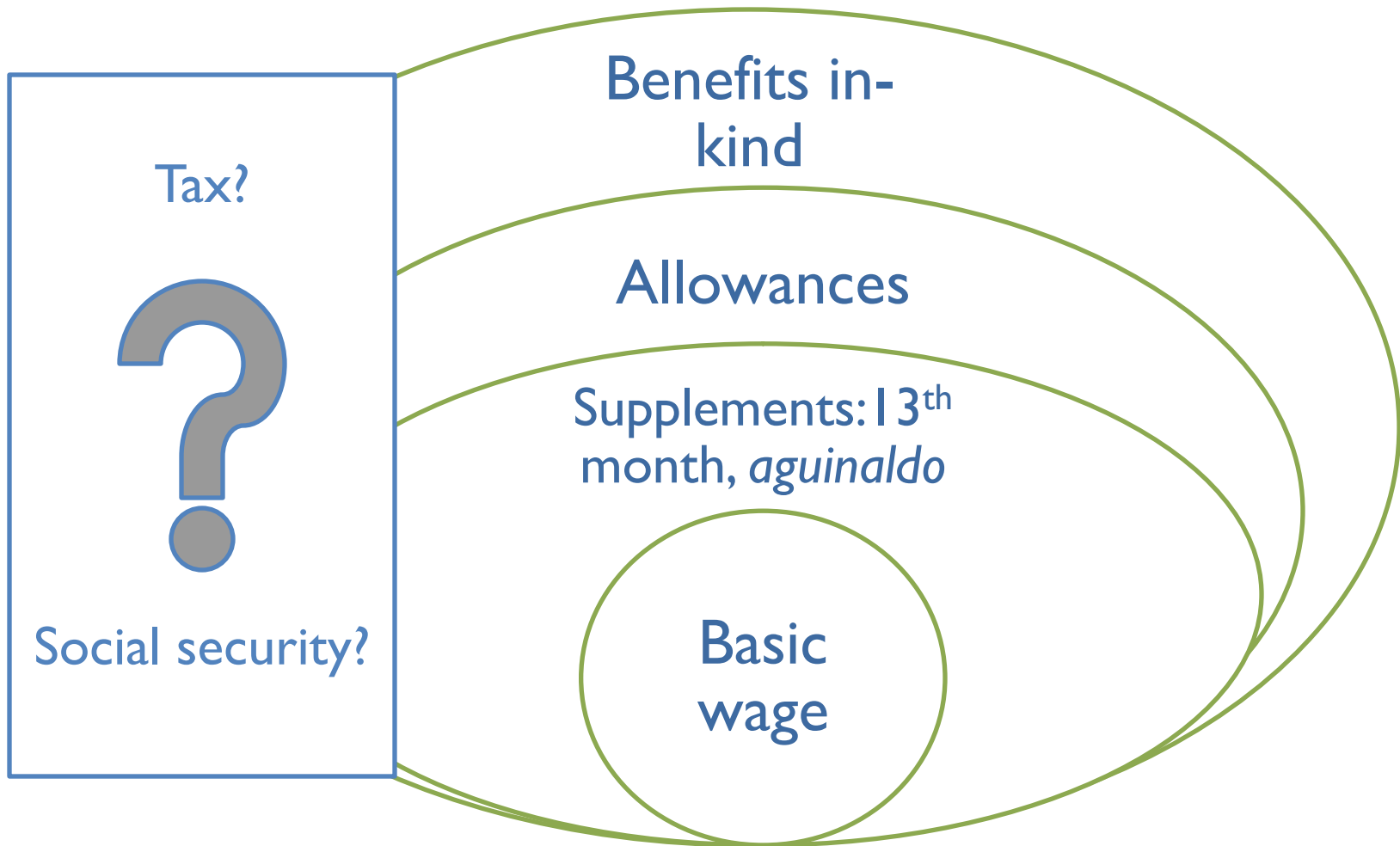
Collectively-agreed minimum wage/s (sector, farm)

Legal minimum wage (as applicable to agriculture)

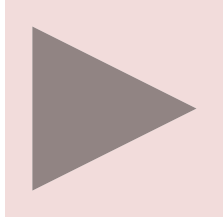
National poverty line

World Bank extreme poverty line (US\$1.25 2005 PPP / day) & poverty line (US\$2 2005 PPP / day)

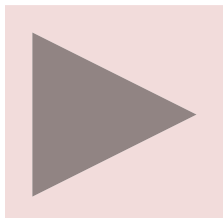
# What is a 'wage'?



# Assumptions – wages (minimum wage and CBA minima)



Need to compare poverty lines and basic needs with **net** pay, not gross wage



Establish **monthly** basis for comparison, on basis of **full-time work** under national laws (eg 6-day week = 26.6 days / month)



Include **all** mandatory supplements and allowances *pro rata* (eg 13<sup>th</sup> month)



Cash value of **in-kind benefits** needs to be factored in when ladders are populated with wage data

# Key issues relating to in-kind benefits

Proportion and voluntariness

Attributing monetary value

‘Discretionary spending and savings’?



# Net pay – assumptions

In most cases, we have assumed that banana workers are unlikely to earn enough to be obliged to pay income tax.

Employee social security contributions are assumed to be paid as per law, but analysis of social security coverage suggests that many workers are *not* covered.

# Net pay – assumptions

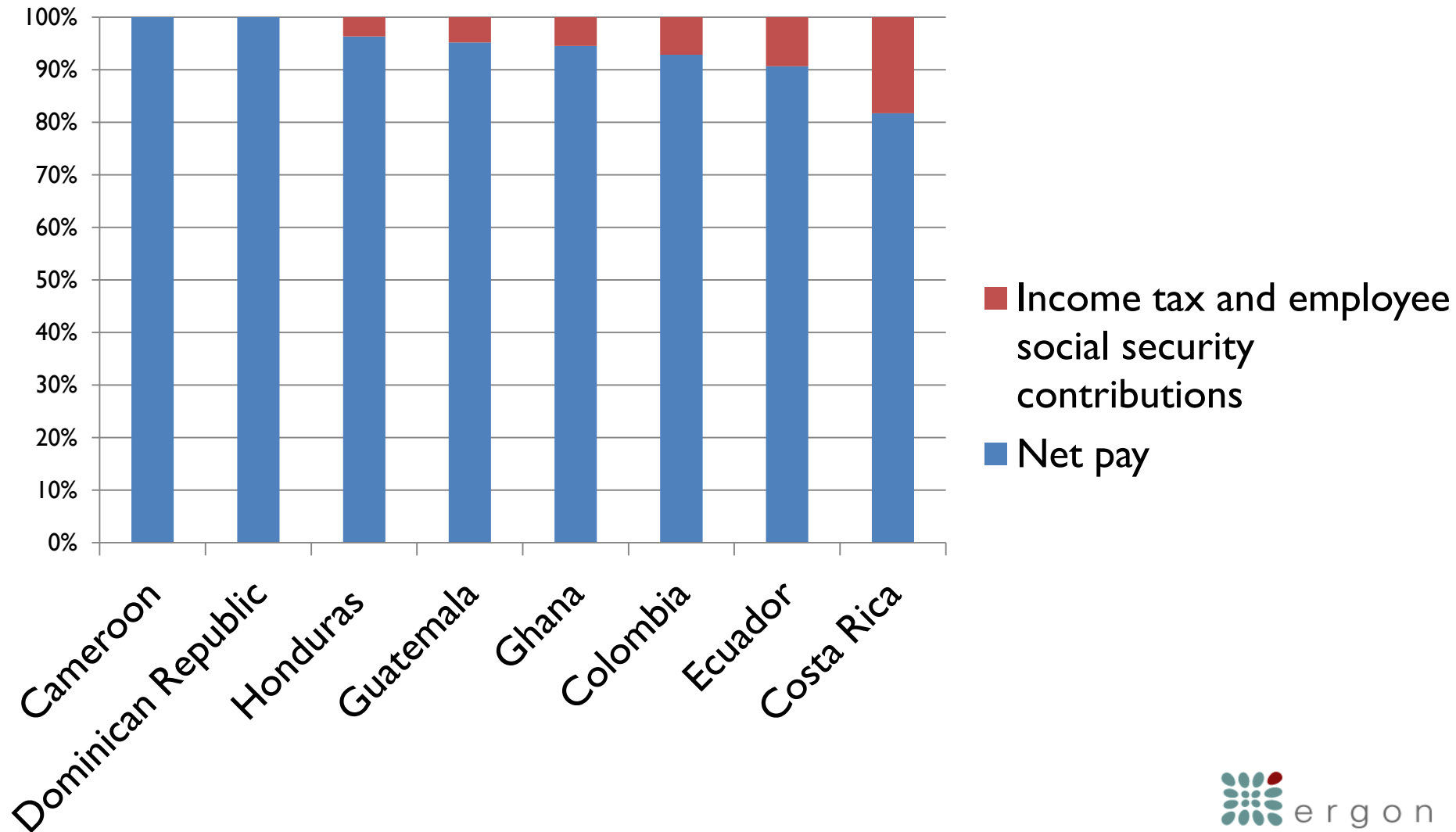
Where social security provides basic services, these should not be included in ‘basic needs basket’ to be met from net income – this is implicit in some calculations of *canasta familiar*.

Note: we have not deducted required costs to workers, such as purchase of equipment or clothing, nor additional costs necessitated by employment, such as daily travel. Country-level work needs to refine these assumptions.

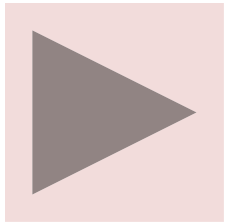
# Net pay – our assumptions

	<i>Social security deducted?</i>	<i>Income tax deducted?</i>
<b>Cameroon</b>	<i>Not material</i> – worker contributions levied only above minimum wage	No – annual allowance of XAF 500,000
<b>Colombia</b>	<b>Yes</b> – workers contribute 8% of basic pay	No – annual allowance of COP 27.4m
<b>Costa Rica</b>	<b>Yes</b> – workers contribute 9.17% of basic pay	<b>Yes</b> – 10%-15% marginal rates over CRC 685,000
<b>Dominican Republic</b>	<i>Not material</i> – worker contributions levied only above minimum wage	No – annual allowance of DOP 371,124
<b>Ecuador</b>	<b>Yes</b> – workers contribute 9.35% of basic pay	No – annual allowance of US\$9,720
<b>Ghana</b>	<b>Yes</b> – workers contribute 5.5% of basic pay	<i>Not material</i> – annual allowance of GHS 1,008
<b>Guatemala</b>	<b>Yes</b> – workers contribute 4.83% of basic pay	No – annual allowance of GTQ 36,000
<b>Honduras</b>	<b>Yes</b> – workers contribute 3.7% of basic pay	No – annual allowance of HNL 110,000

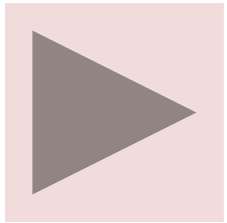
# Tax wedge – compulsory employee contributions at level of minimum wage



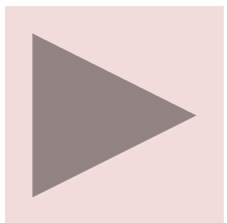
# Assumptions – updating numbers



We have used the most recent data wherever possible (current minimum wage, CPI for Dec. 2011).

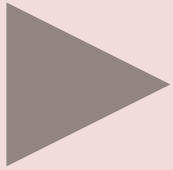


Where recent data not available – eg cost of living in Ghana and Cameroon – we have updated using appropriate food price and consumer price indices.

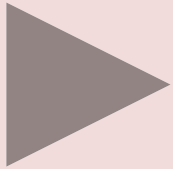


We have not updated official measures which are still in effect – eg 2007 poverty line in Cameroon.

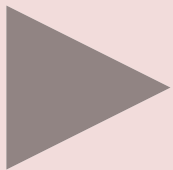
# Assumptions – demographic



Wages support households, not just individuals: establish **household** needs, not individual



But: households may have more than one earner, so **divide** household total by (most accurate available) average number of earners

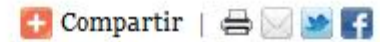


Use most recent **national survey data** on average household size, number of earners – rural not urban, and regional to banana production where available

# Per person / per household?

This is a significant issue: note recent debate in Colombia after government's announcement of (per person) poverty line without clarifying assumptions

## “Esas cifras son una ofensa para los pobres”: Garzón



ARTÍCULO | SEPTIEMBRE 12, 2011 - 1:06PM



Fuertes críticas recibieron los asesores del sistema de medición de pobreza por parte del vicepresidente Angelino Garzón. Los consejeros aseguraron que con 190mil pesos ya no se era pobre en Colombia.

El vicepresidente Garzón retó

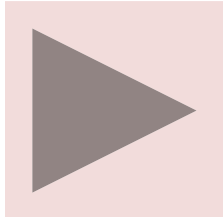
a los asesores tanto nacionales como internacionales a hacer un mercado con esa cifra, “yo estoy dispuesto a regalarles los 190 mil pesos para que nos vayamos a Corabastos o a cualquier supermercado para ver si hacemos un mercado para cuatro personas para un mes.

# Our demographic assumptions

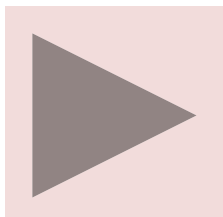
	<i>Average household size</i>	<i>Average no. of earners</i>	<i>Source</i>
<b>Cameroon</b>	6 members	1.2 earners	ECAM III survey, 2007 (rural)
<b>Colombia</b>	4.2 members	1.86 earners	DANE ENCV surveys, 2008/10 (Atlantic region)
<b>Costa Rica</b>	3.65 members	1.48 earners	INEC ENAHO survey, 2010 (rural)
<b>Dominican Republic</b>	5 members	2 earners	[Official basis for first quintile <i>Canasta Familiar - ONE</i> ]
<b>Ecuador</b>	4 members	1.6 earners	[Official basis for calculation of minimum wage – MCPE]
<b>Ghana</b>	4.4 members	2.2 earners	GSS GLSS survey, 2005-6 (rural)
<b>Guatemala</b>	5.38 members	2.2 earners	INE ENCOVI survey, 2011 (rural)
<b>Honduras</b>	6 members	2.6 earners	INE EPHPM survey, 2010 (rural) / official basis for <i>Canasta Básica</i>



# Demographic assumptions – points to note

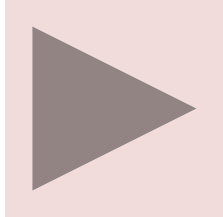


Where survey data conflict with assumptions used to calculate official measures (eg *canasta familiar* or minimum wage), we have used the latter to ensure internal consistency between benchmarks.

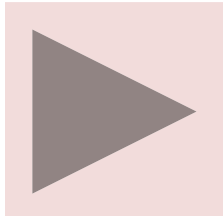


INCAE fieldwork in Ecuador suggests that, in banana regions, no. of earners may be lower, and households larger, than official statistics suggest. **This is an important area for continuous refinement, and WG02 input – particularly to understand extent of (single) female-headed households.**

# Demographic assumptions – points to note



We have followed the Central American convention of treating each household member as a (whole) ‘consumption unit’ (eg in calculation of *canasta familiar*)



Note: international convention is to treat each adult as a whole ‘consumption unit’, and each child (minor) as 0.5 consumption unit (ie 4-member household = 3 consumption units)

# Poverty lines

We have referred to World Bank poverty lines and national poverty lines. These are both measures of absolute, not relative, poverty.

**‘Extreme poverty’** – also known as food poverty, *indigencia* : this refers to the ability to meet basic nutritional needs, calculated on the basis of food prices.

**‘Poverty’** – this refers to the ability to meet basic needs in terms of consumption of basic goods and services beyond food.

# Poverty lines

These lines reflect *poverty*, not a minimum standard of living which allows for emergencies, or future planning.

Cf: Living Wage definition – sufficient for discretionary income and saving

# Poverty lines

For the purposes of the wage ladders, we refer to:

- Extreme poverty – the World Bank \$1.25 / day line
- Poverty – the World Bank \$2 / day line
- Poverty – the national poverty line (established on basis of local prices and local consumption patterns)

These lines are presented as they are experienced by a ‘typical’ household, assuming a ‘typical’ number of members, and a ‘typical’ number of earners.

- $\text{Per person poverty line} \times \text{average no. of household members} / \text{average no. of earners}$

The source of this information is national survey data.

# World Bank poverty lines

World Bank Poverty lines:

US\$ (2005 PPP) 1.25 /day = extreme poverty

US\$ (2005 PPP) 2 /day = poverty

‘PPP’ means ‘purchasing power parity’ – a way of converting currency which takes into account differences in cost of living

2005 refers to the last time the World Bank conducted a global comparison of prices (IPC) – next one is due to be ready in 2013

# PPP

## An example: Ecuador

In 2005, US\$ 0.5 could buy the same amount of goods and services in Ecuador as US\$ 1 would buy in USA

So: the 2005 PPP conversion factor is 0.5



# PPP

## There are several recognised problems with PPP:

- Different people consume different things – how to find a comparable ‘market basket’?
- Tends to reflect urban prices, not rural
- Denomination in US\$?



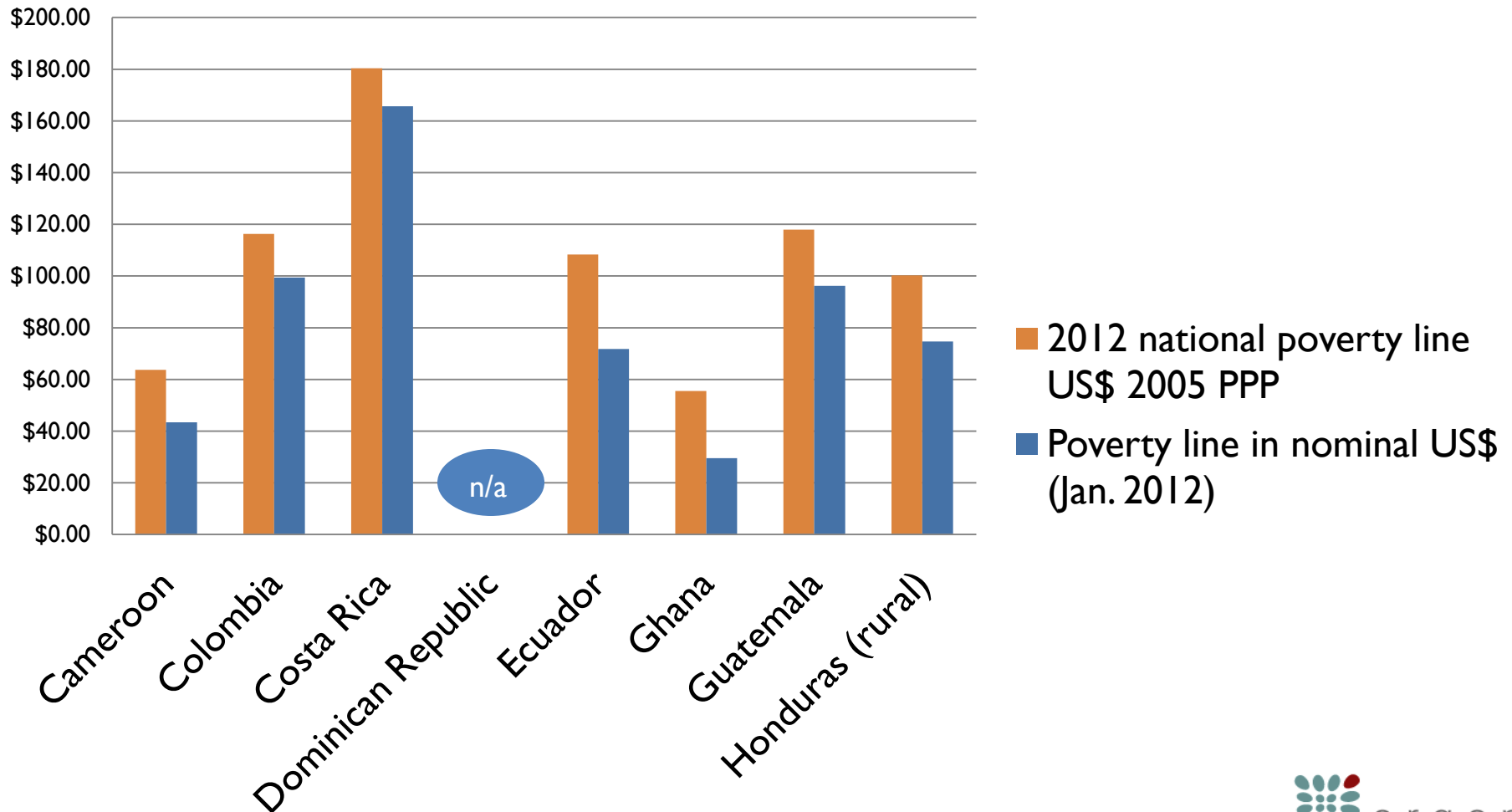


# Poverty lines – national

	<i>Per person / month</i>	<b>Note</b>
<b>Cameroon</b>	FCFA 22,454	<i>Last revised in 2007 – based on Yaoundé prices</i>
<b>Colombia</b>	COP 87,079	<i>Last revised in 2010</i>
<b>Costa Rica</b>	CRC 84,852	<i>Last revised in Oct. 2011</i>
<b>Dominican Republic</b>	n/a	<i>DR is working with World Bank to develop poverty line</i>
<b>Ecuador</b>	US\$ 72	<i>Figure for Sept. 2011</i>
<b>Ghana</b>	GHS 51	<i>Our revision of 2006 figure of GHS 370.89 / year</i>
<b>Guatemala</b>	GTQ 753	<i>Last revised in 2011</i>
<b>Honduras (rural)</b>	HNL 1,424.03	<i>Poverty line for rural areas: last revised in March 2011</i>

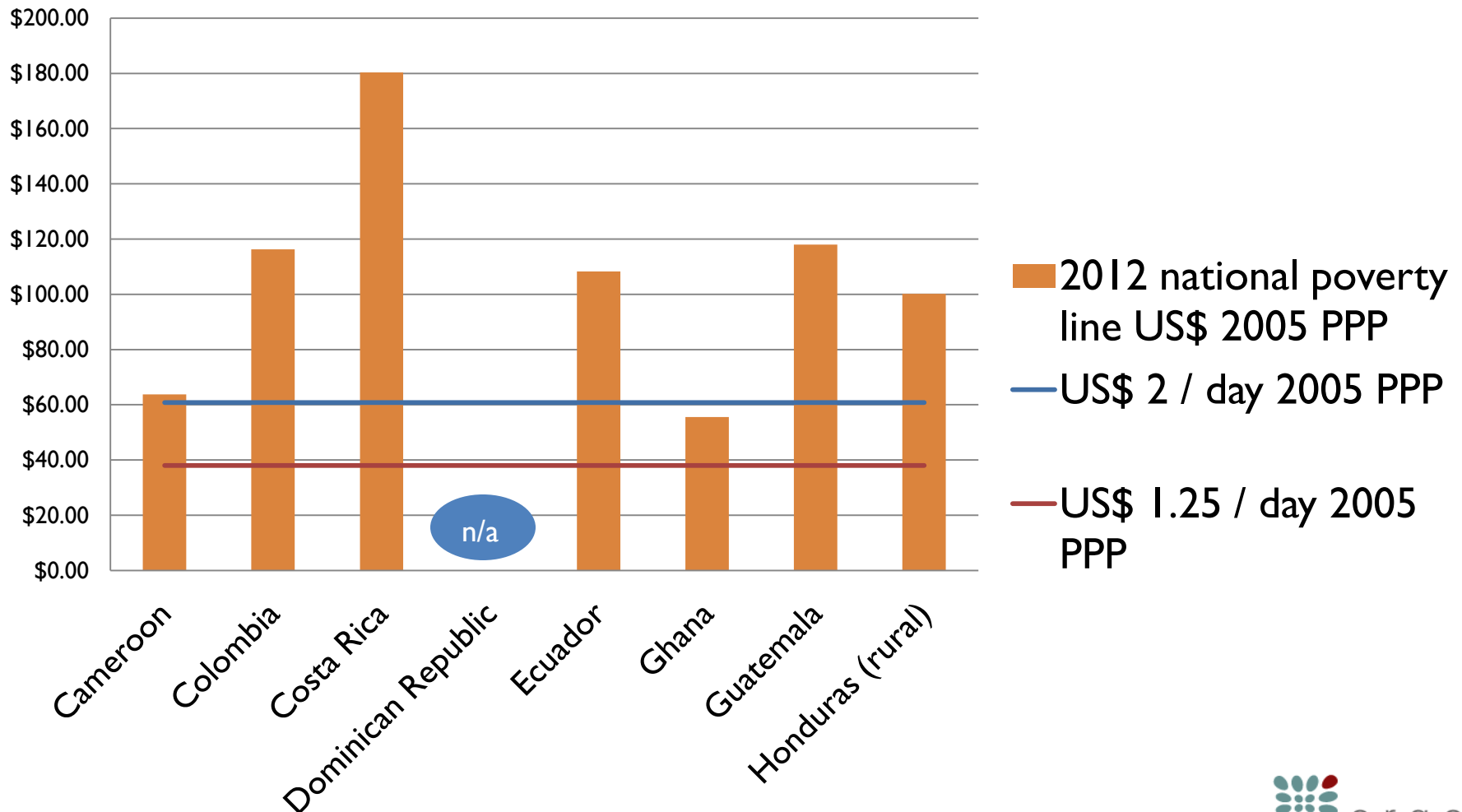
# Poverty lines – national, per person

## 2012 national poverty lines in US\$ 2005 PPP and nominal US\$ (Jan. 2012)



# Poverty lines – national and World Bank

**2012 per person national poverty lines cf. World Bank per person poverty lines (US\$ 2005 PPP, per month)**



# Cost of basic goods and services

‘Basket of goods and services’ is central to understanding the local cost of basic needs, and therefore the extent to which incomes meet these needs.

Important also because:

- Used to calculate CPI (inflation)
- Used to calculate national poverty line
- Used to inform wage bargaining

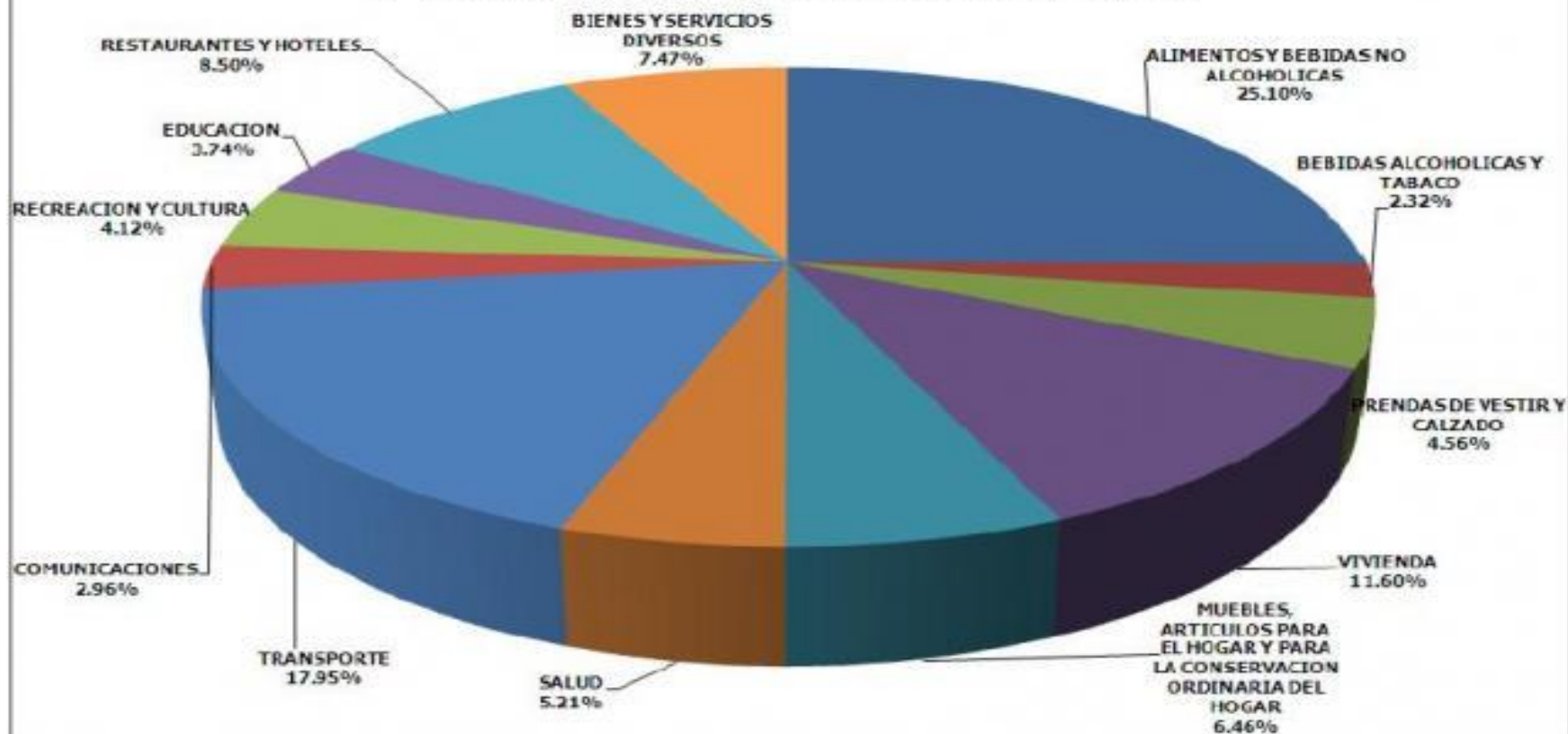
Baskets are commonly calculated per household – we have retained this convention (ie *not* divided by average number of earners, unlike other household benchmarks).

# Cost of basic goods and services

	<i>Food basket (subsistence)</i>	<i>Basic needs basket (food, non-food goods and basic services)</i>
<b>Cameroon</b>	Panier de biens de consommation	
<b>Colombia</b>	Canasta Normativa	Canasta Familiar – by region, rural / urban, income quintile
<b>Costa Rica</b>	Canasta Básica Alimentaria	n/a – ‘Cost of Living’ calculated econometrically (rural / urban)
<b>Dominican Republic</b>	Canasta Familiar – by income quintile	
<b>Ecuador</b>	Canasta Familiar Vital (CFV)	Canasta Familiar Básica (CFB)
<b>Ghana</b>	‘Lower Poverty Line’ basket	‘Upper Poverty Line’ basket
<b>Guatemala</b>	Canasta Básica Alimentaria (CBA)	Canasta Básica Vital (CBV)
<b>Honduras</b>	Canasta Alimentos	Canasta Básica

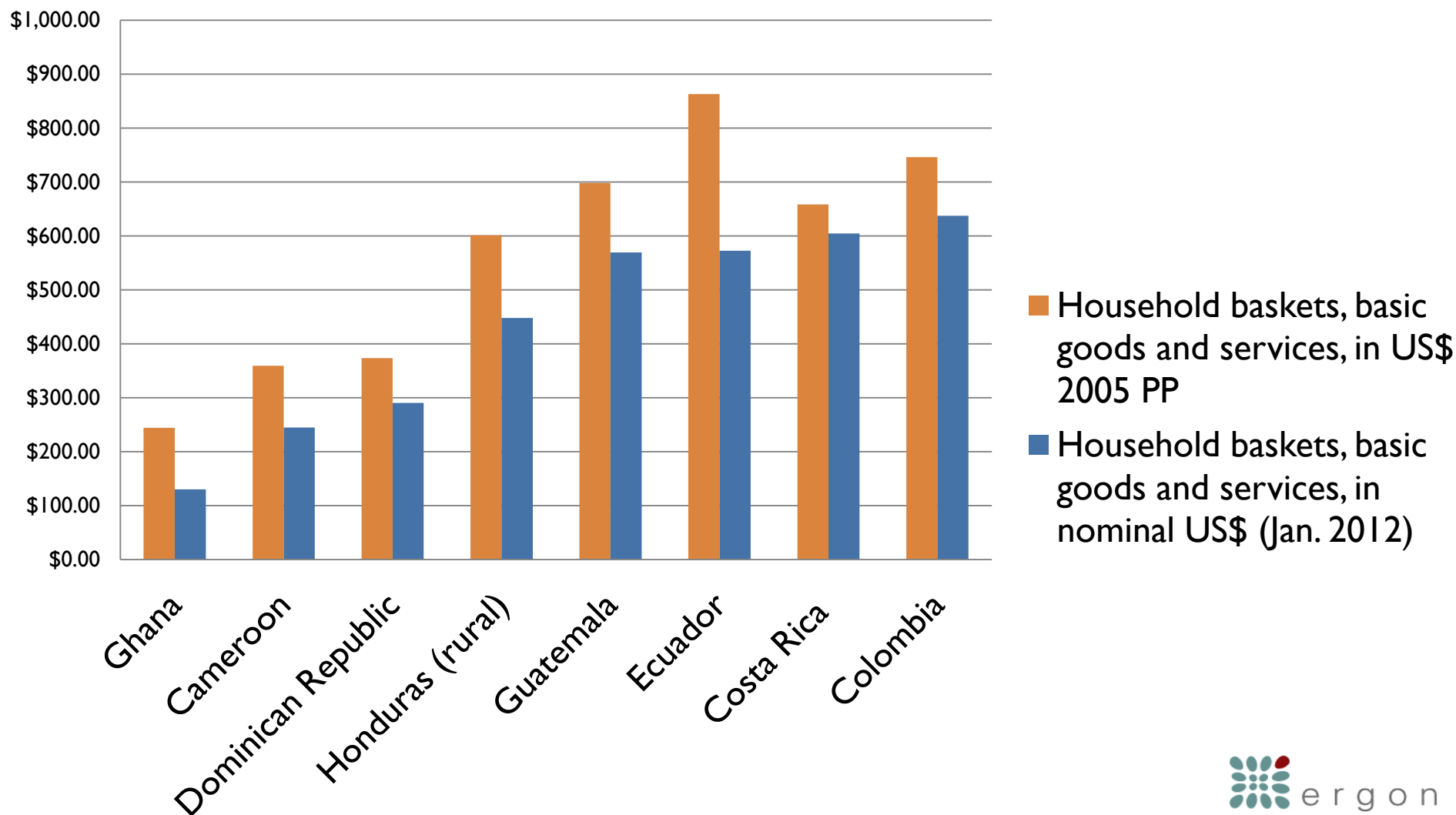
# Content of 'extended' basket of goods and services: example from Dominican Republic

## ESTRUCTURA DE LA CANASTA FAMILIAR DE LA REPÚBLICA DOMINICANA Período Base Diciembre 2010



# Local measures of cost of living: household baskets

## Cost of household 'basic needs basket'



# Local measures of cost of living: household baskets

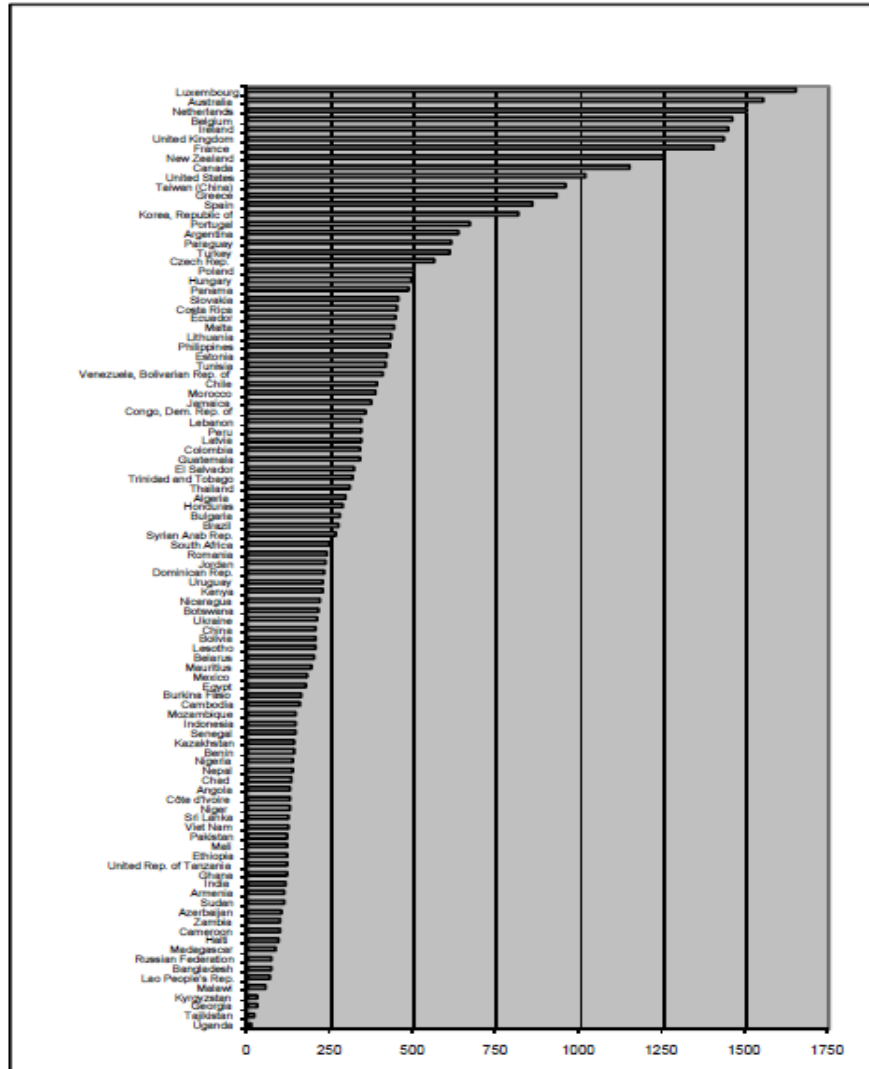
Where cost of living is established only per capita (Cameroon, Costa Rica), we have used national assumptions to calculate a household figure. NB larger assumed household size increases cost of basket (eg Cameroon)

While they broadly follow World Bank guidelines, each contains different goods and services, so they are *not strictly comparable*.

These are national average figures (except Honduras): in the wage ladders, we have used rural prices wherever available .



# Minimum wages worldwide, corrected for differences in cost of living



*Update on  
minimum wage  
developments,  
ILO Governing  
Body  
Committee on  
Employment and  
Social Policy,  
March 2009*

# 2007 monthly minimum wages around the world in US\$ PPP

(Source: ILO Governing Body, 2009)

**Costa Rica** → **Ecuador**

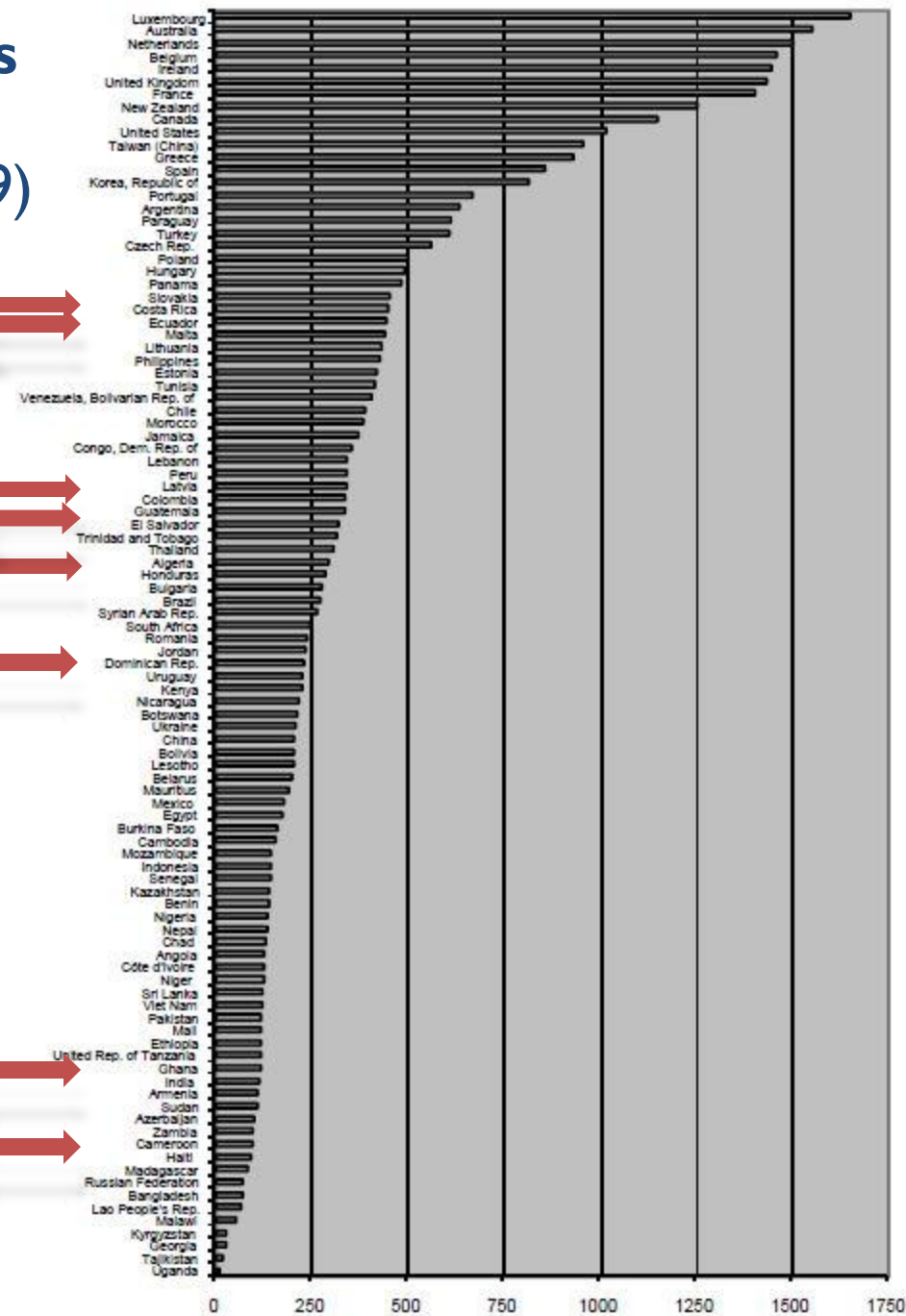
**Colombia** → **Guatemala**

**Honduras**

**Dominican Republic**

**Ghana**

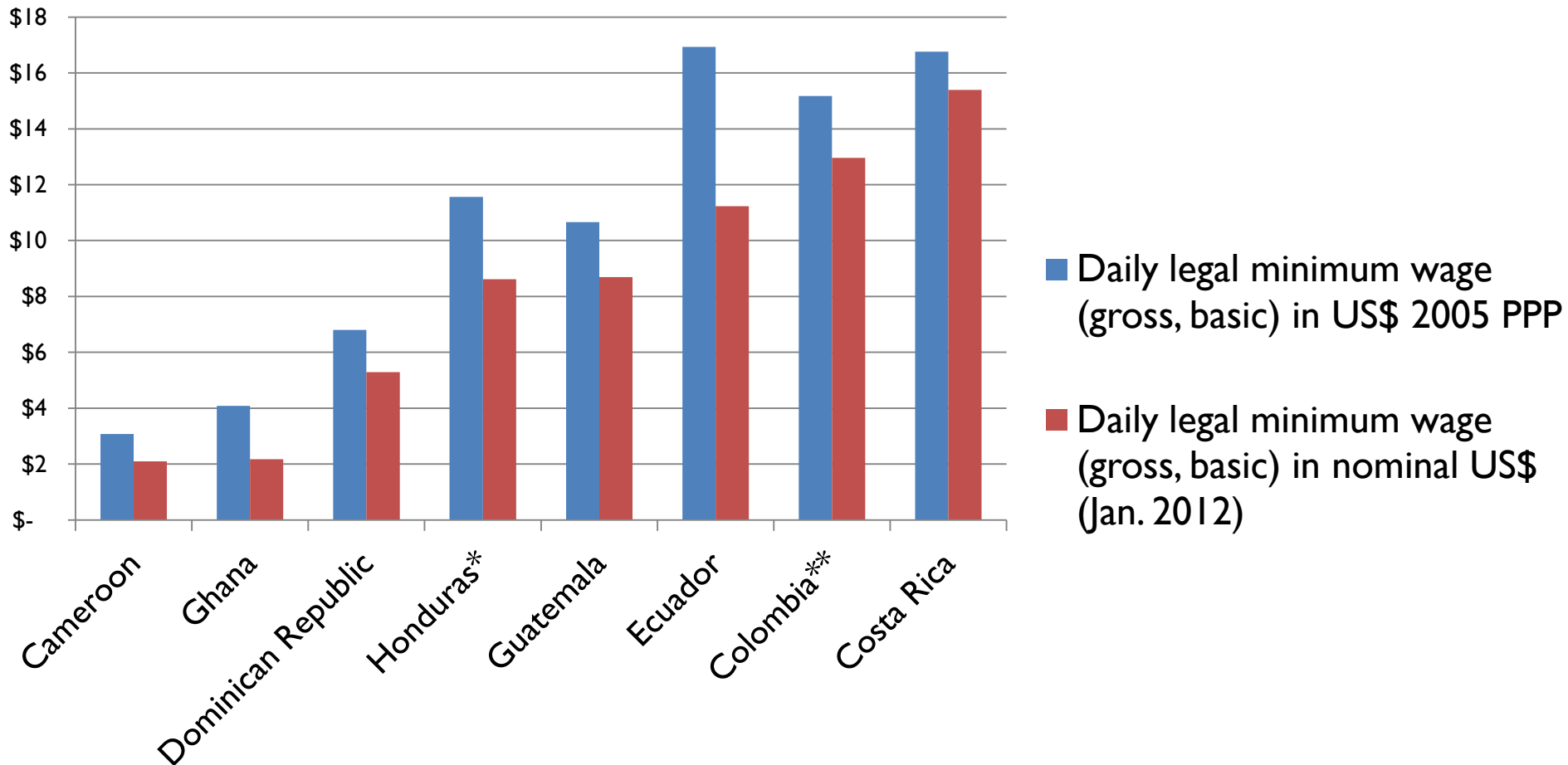
**Cameroon**



# Minimum wages in 8 focus countries

	<i>Minimum wage at Jan. 2012</i>	<i>Note</i>
<b>Cameroon</b>	FCFA 28,216 per month	Last revised June 2008 – includes agriculture
<b>Colombia</b>	COP 634,500 per month	2012 rate – includes transportation allowance
<b>Costa Rica</b>	CRC 7,883.82 per day	2012 rate for unskilled worker – excludes <i>aguinaldo</i>
<b>Dominican Republic</b>	DOP 205 per day	2012 rate for agricultural fieldwork (10-hour day)
<b>Ecuador</b>	US\$ 292 per month	2012 rate – excludes 13 <sup>th</sup> and 14 <sup>th</sup> months
<b>Ghana</b>	GHS 3.73 per day	Last revised Feb. 2011
<b>Guatemala</b>	GTQ 68 per day	2012 rate – excludes <i>aguinaldo</i> and productivity bonus
<b>Honduras</b>	HNL 4,929.21 per month	Rate for 151+ employees; excludes mandatory additions

# Minimum wages in comparison – gross, daily

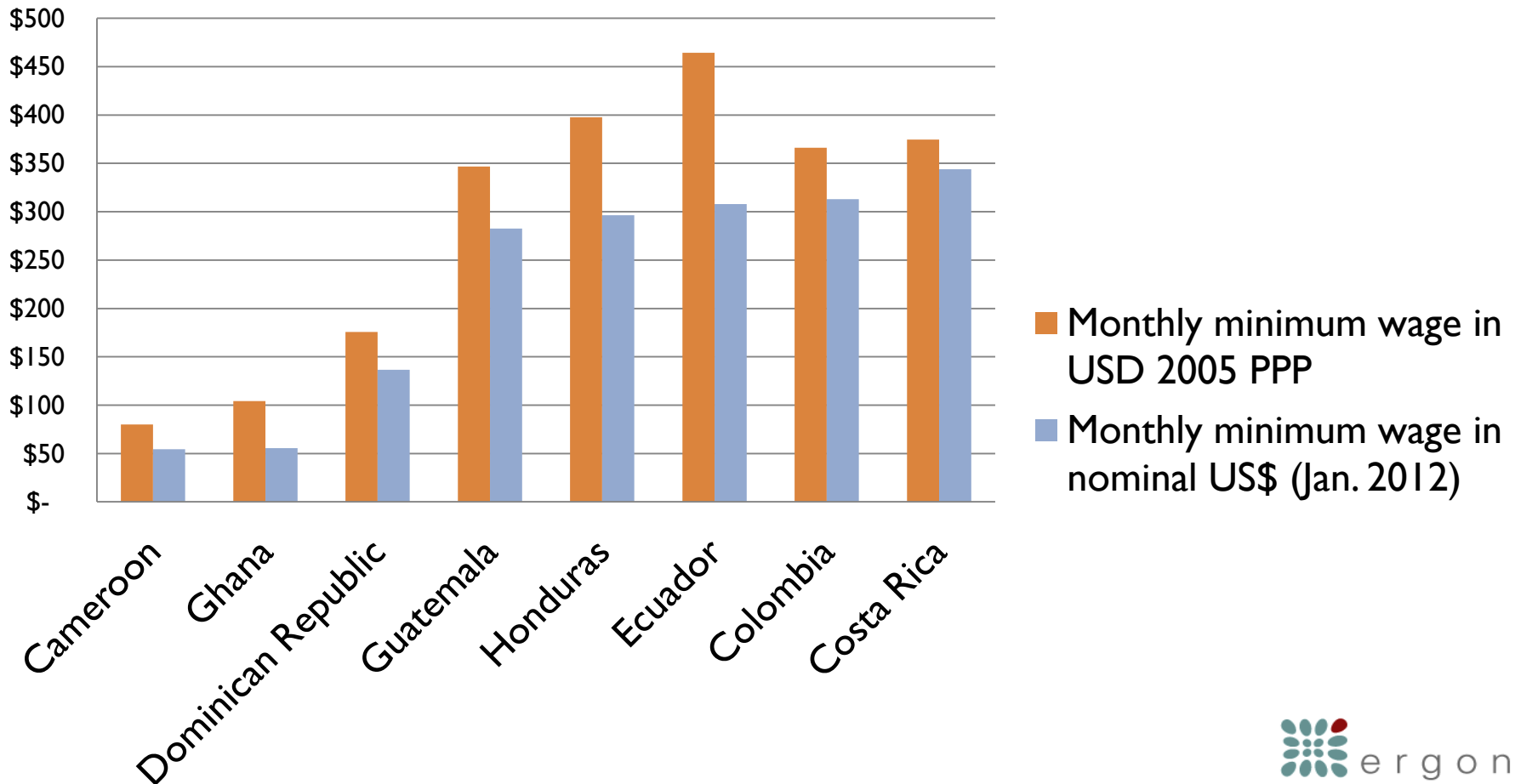


\* Rate for 151+ employees

\*\* Includes transport allowance

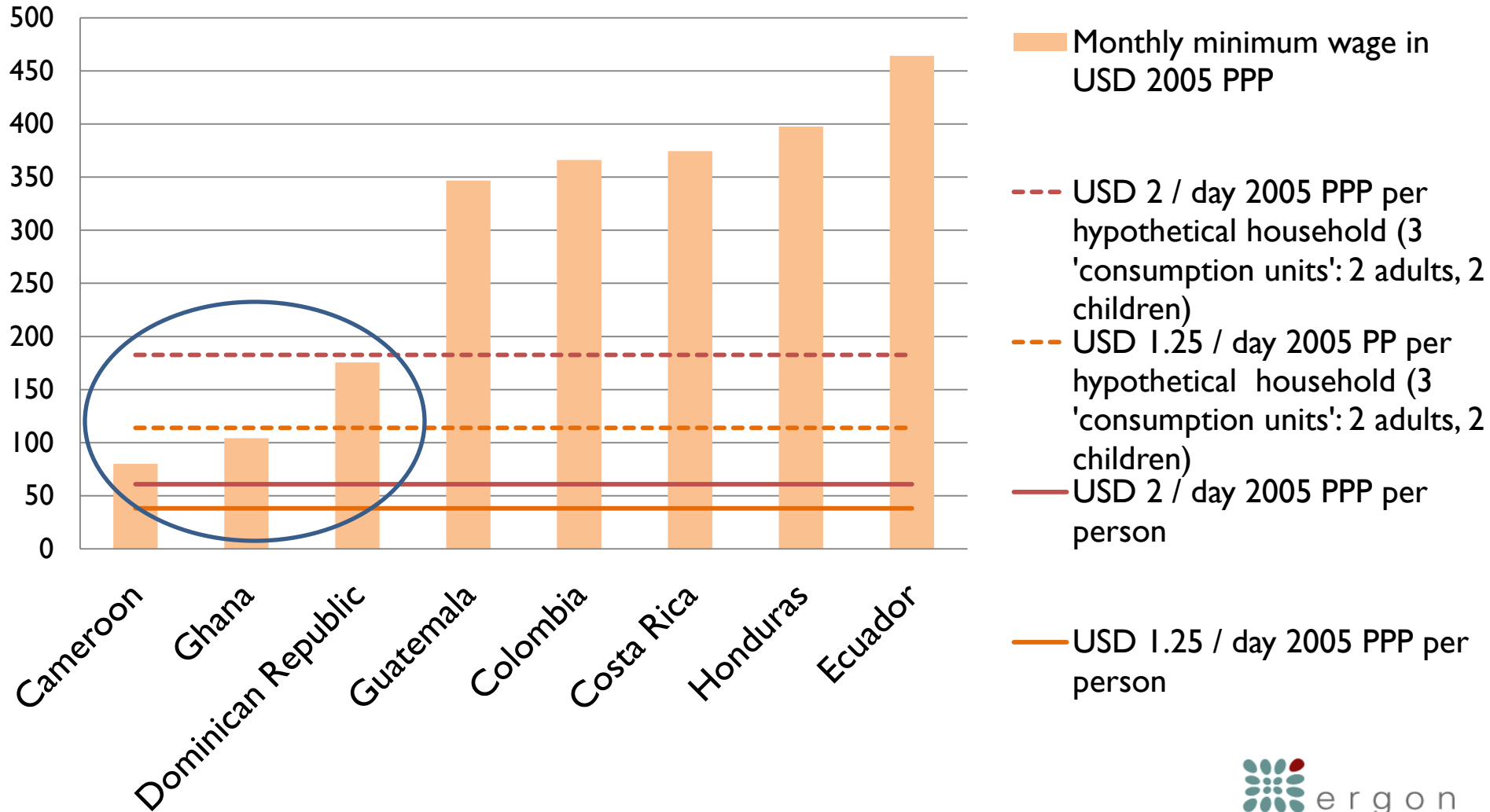
# Minimum wages in comparison – net, monthly

## Monthly net pay at legal minimum wage level in USD 2005 PPP and in USD at 2012 exchange rates



# Minimum wages and poverty lines

Monthly net income at 2012 legal minimum wage level  
(USD 2005 PPP – our calculation)

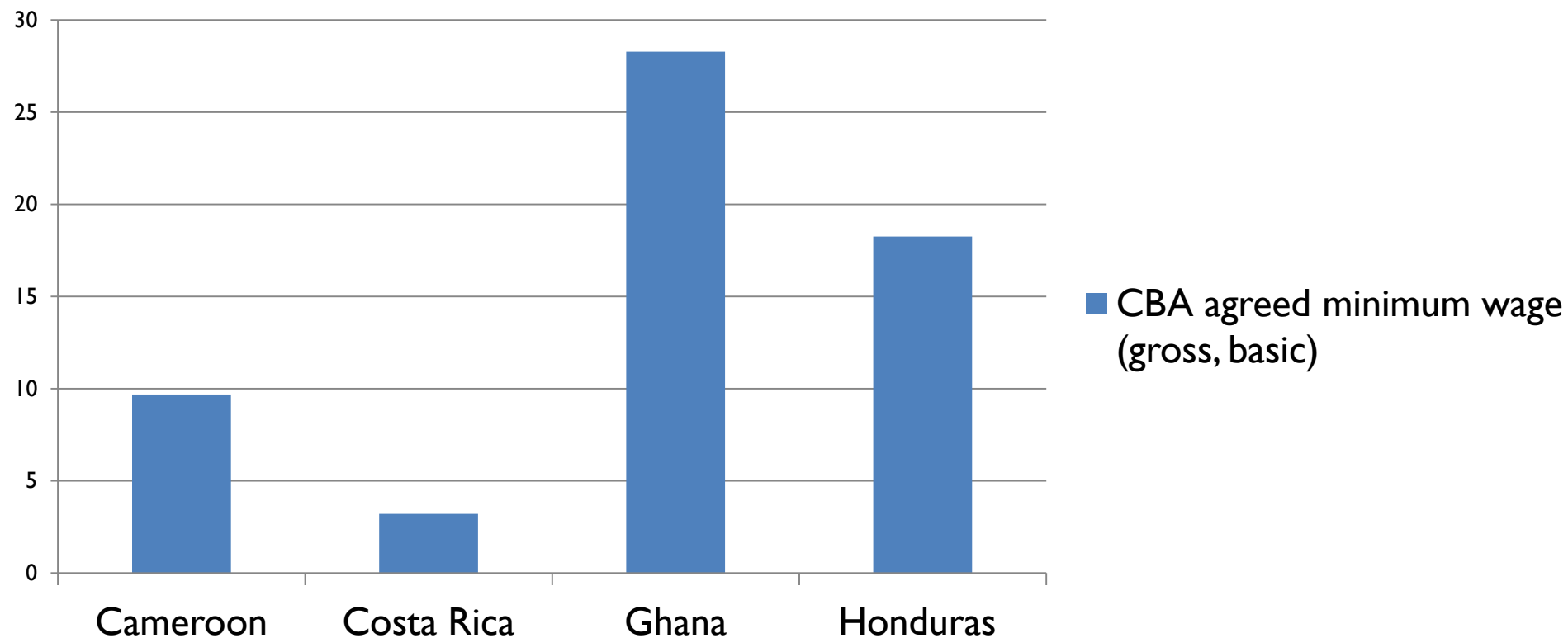


# Collective agreements analysed

		Wage data?
<b>Cameroon</b>	Cameroon Development Cooperation (Del Monte)	✓
<b>Colombia</b>	Augura – Sintrainagro	
<b>Costa Rica</b>	SITRACHIRI – Chiriqui Land Co. (Chiquita, Sixaola)	✓
<b>Dominican Republic</b>	Quinta Pasadena regulation (not formal CBA)	
<b>Ecuador</b>	Reybanpac Megabanana (Dole) Hacienda Italia	
<b>Ghana</b>	GAWU – Volta River Estates (VREL) GAWU – Golden Exotic (Compagnie Fruitière)	✓ ✓
<b>Guatemala</b>	UNSITRAGUA – Cobigua (Chiquita) SITRABI – Bandegua (Del Monte)	✓ ✓
<b>Honduras</b>	Agricola Santa Ines SA – SITRAEASISA (Dole) Guaruma Agroindustrial – SITRAGUA Tela Railroad Co. (Chiquita)	✓ ✓ ✓

# Impact of collective bargaining on wages

**% increase of CBA minimum rates on legal minimum wage (gross, basic)**



*Averages of agreed minima for Ghana and Honduras (multiple wage agreements available) – data not available for other countries*



# Median income

Median income is important in establishing *relative* poverty: eg in EU, poverty line defined at 60% of national median income (Eurostat “relative poverty risk threshold”).

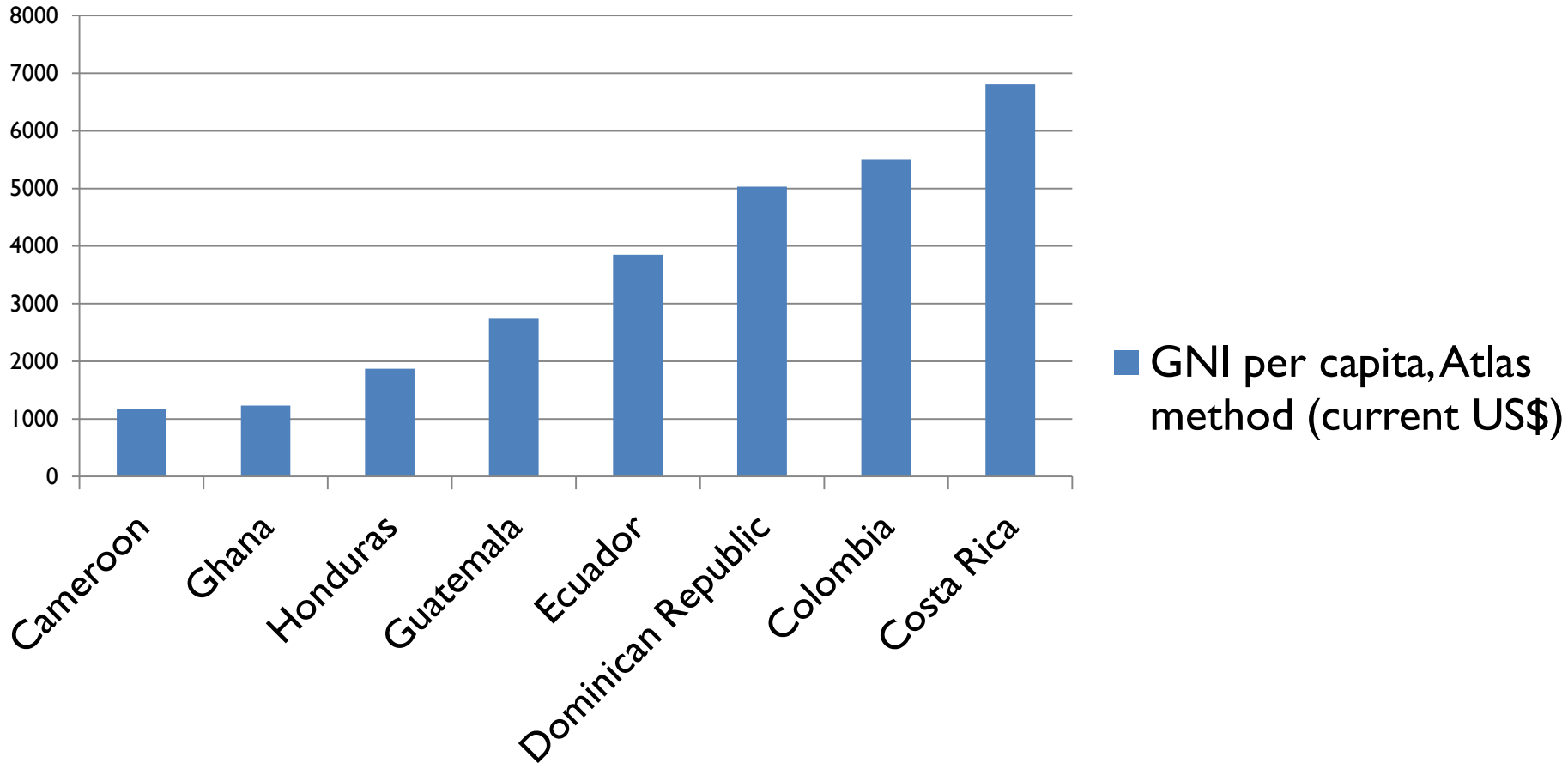
Comparable measures not available for all countries: requires survey data which is costly and difficult to collect, particularly where informality dominates.

For comparability, alternative is to look at Gross National Income (GNI) per capita – this is World Bank methodology.

- GNI refers to the total value of goods and services produced within a country (GDP), together with income received from other countries (eg interest and dividends), less similar payments made to other countries.

# GNI per capita

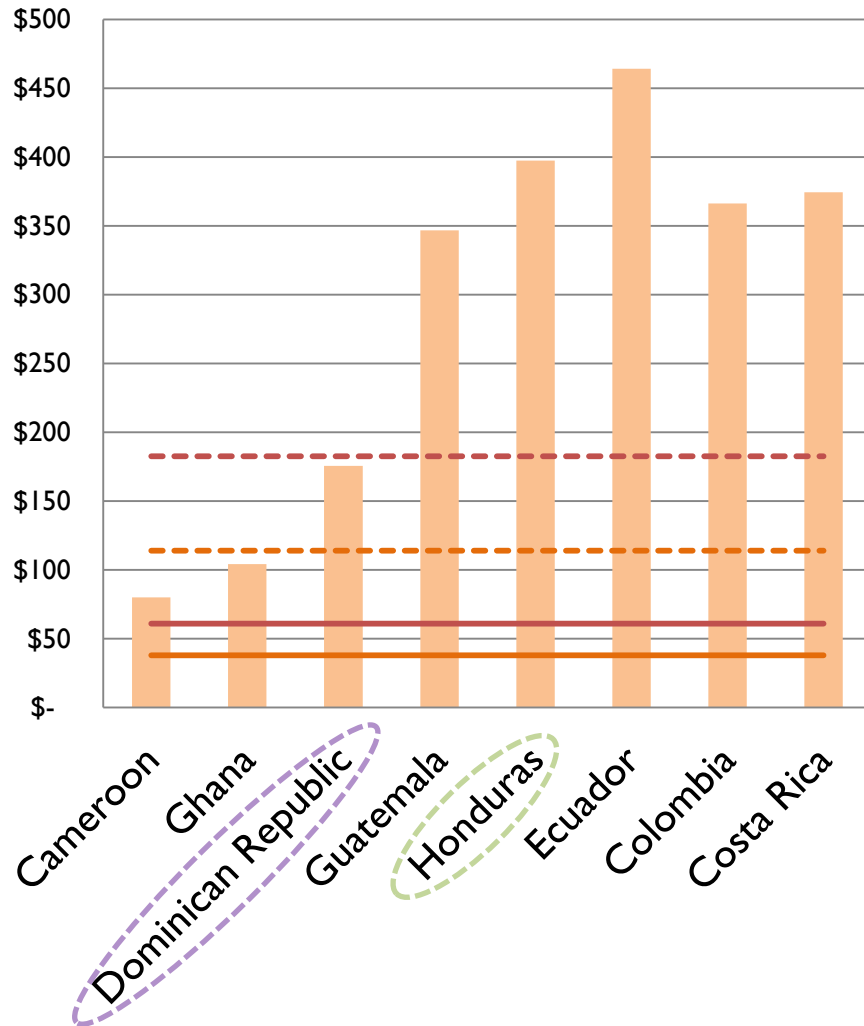
**GNI per capita, Atlas method\* (current US\$ / year) - 2010**



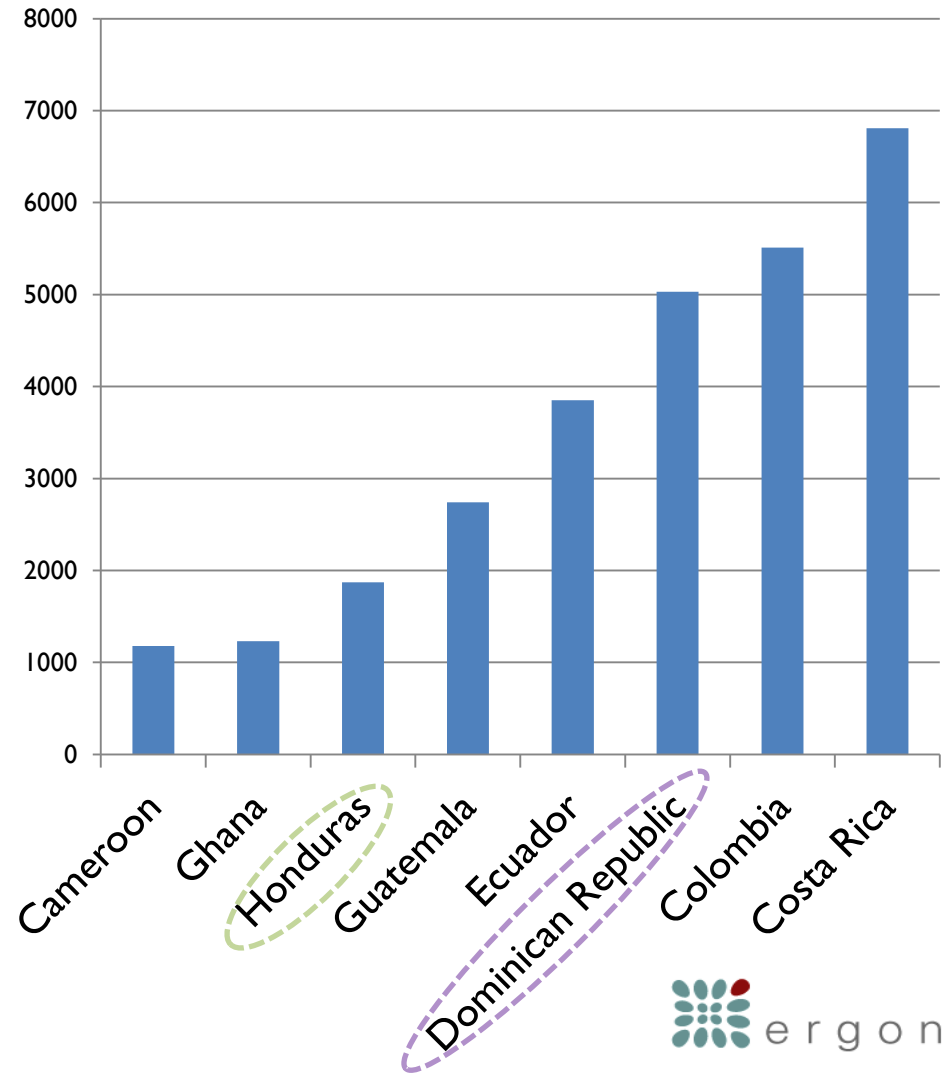
**Source: World Bank World DataBank: \* GNI converted to US\$ using the World Bank Atlas method, divided by the mid-year population**

# Minimum wages cf GNI per capita

Monthly net income at 2012 legal minimum wage level (US\$ PPP 2005)



GNI per capita, Atlas method (current US\$ / year) - 2010



# Summary

- With the exception of CBA minima, these are **benchmark data**. They do not reflect the real wages and livelihoods of banana workers.
- Rather, they give a context – the ‘rungs on the ladder’ – to analyse these wages, and their sufficiency, in the context of the distribution of value in the banana value chain.
- Assumptions are made explicit so they can be refined and improved by experts in-country: workers and employers themselves.
- Now let’s look at the wage ladders...