

## Calculating floor wages in the Fairtrade Standard for Flowers and Plants

During the review that took place in 2016-17 of the Fairtrade Standard for Flowers and Plants, a new clause was introduced, which requires companies to ensure that **base** wages paid do not fall below the global extreme poverty line of **\$1.90/day** set by the World Bank (WB). **The WB updated the global extreme poverty line to \$2.15/day in September 2022<sup>1</sup>.**

**The change in Fairtrade's floor wage requirement has been applicable since January 2023.**

This document seeks to give clarity on how this affects our calculation of the floor wage and how this translates to values for the countries affected.

Besides the dollar value, purchasing power parity (PPP) is another essential component for the poverty line. PPPs are the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the differences in price levels between countries.

The PPP rate for private consumption is updated by the WB on a regular basis and can be found [here](#). For the publication of the calculation each year, Fairtrade has been using the most recent PPP rate provided by the World Bank.

On occasion the PPP rate *has gone down as compared to the previous year*, Fairtrade freezes the PPP rate, so that floor wages do not decrease, until the PPP rate goes up again. There are also cases, where the WB experiences a delay in *updating* the PPP rate in the relevant year which is especially important in situations with high inflation. Fairtrade has worked together with renowned economists to develop a calculation which adjusts the PPP rate including inflation effects.

The calculation to update the PPP rate, is as follows:

*[Latest available PPP for private consumption x 1 + average inflation rate<sup>2</sup> in the country of interest in the given year] / 1 + US inflation rate in the given year<sup>2</sup>*

The \$2.15 PPP/day Floor Wage relates to base wage; therefore, in-kind benefits cannot be counted. There may be cash allowances issued monthly to all workers as an entitlement and allowing workers full discretion on how to spend the money (a monthly housing or transport allowance for instance) without a link to the attendance or performance of workers. Those cash allowances count towards the base wage.

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<sup>1</sup> More information about the adjustment can be found [here](#).

<sup>2</sup> IMF inflation rate for average consumer prices (annual percent change) published in [October 2023](#).

## Effects on actual wages after introducing WB poverty line \$2.15 as floor wages

To calculate the floor wage, the following formula is used:

*[PPP for private consumption from the previous year x 2.15 x 30.4 x typical number of family members] / number of breadwinners per family*

Certified organisations **must adhere to requirement 3.5.4 of the Fairtrade Standard for Hired Labour** to ensure that workers receive a steady wage increase above the annual average inflation of the previous year.

The table below presents the provisional calculation for a selected number of countries applicable from February 2024.

Country	PPP for private consumption*		WB poverty line (\$ per day)		Days/month <sup>y</sup>		No. of Family members**		No. of Breadwinners**	Wage required
Ethiopia	23.79	x	2.15	x	30.4	x	5.0	/	1.65	<b>4,712 Birr</b>
Kenya	50.25	x	2.15	x	30.4	x	5.0 <sup>‡</sup>	/	1.69 <sup>‡</sup>	<b>10,564 Ksh</b>
Sri Lanka	94.30	x	2.15	x	30.4	x	4.5	/	1.76	<b>15,759 Rupee</b>
Tanzania	843.16	x	2.15	x	30.4	x	5.0	/	1.69 <sup>‡</sup>	<b>163,044 Tsh</b>
Uganda	1,267.21	x	2.15	x	30.4	x	5.0	/	1.78 <sup>‡</sup>	<b>235,298 Ush</b>
Zambia	6.91	x	2.15	x	30.4	x	6.0 <sup>‡</sup>	/	1.76 <sup>‡</sup>	<b>1,541 Kwacha</b>

\* 2022 PPP rates were updated using IMF inflation rates (as described above), except for Sri Lanka as no data was available. Therefore, the [annual average consumer price inflation rate](#) published by the Sri Lankan Department of Census and Statistics was used.

<sup>y</sup> Number of days per month (365 / 12)

\*\* Values available in living wage country reports and reference values published by the [Global Living Wage Coalition](#)

<sup>‡</sup> Number of family members and/or breadwinners was updated. Due to the changes, the floor wage in Uganda and Kenya would have dropped. Fairtrade froze the floor wage in both countries to ensure that workers do not receive a lower wage.

## Change history

Date of publication	Changes
07.06.2017	<b>First version</b> Explanatory document on how to calculate floor wages for selected countries introduced.
26.02.2018	<b>Second version</b> Updated the PPP private consumption data.
20.12.2018	<b>Third version</b> Updated the PPP private consumption data. Included the Fresh Fruit Standard. Additional countries included (Cameroon, Egypt, Ghana, India, Ivory Coast and Zimbabwe).

08.01.2020	<p><b>Fourth version</b></p> <p>Updated the PPP private consumption data and deletion of references to 2018 and 2019.</p>
15.01.2021	<p><b>Fifth version</b></p> <p>Updated the PPP private consumption data. Included Zambia in the list of countries.</p>
31.12.2021	<p><b>Sixth version</b></p> <p>Updated the PPP private consumption data.</p>
02.12.2022	<p><b>Seventh version</b></p> <p>Adjusted the global poverty line to \$2.15/day in line with the WB update.</p> <p>Additional information on how to calculate wages in case there is a delay in updating the PPP.</p>
14.02.2024	<p><b>Eighth version</b></p> <p>Updated the PPP private consumption rates. Updated the number of family members and breadwinners for several countries. Included Sri Lanka in the list of countries. Wording improved for clarity.</p>