

## Calculating floor wages in the Fairtrade Standard for Fresh Fruit, applicable to other fresh fruits only

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

**The change in Fairtrade’s floor wage requirement is applicable as of April 2023 with a transition time of 3 months, to be implemented by 1 July 2023.**

This document seeks to give clarity on how to calculate them and how this translates to 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 in January each year, Fairtrade has been using the PPP rate provided by the World Bank of the previous year. For farms to get closer to the Living Wage (LW), steady wage increases above inflation in line with section 3.5.4 of the Fairtrade Standard for Hired Labour are important.

On occasion the PPP rate has gone down compared to the previous year, Fairtrade freezes the floor wage value based on that PPP until the PPP 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 including inflation effects. The calculation to update the PPP values, is as follows: Multiply the latest available PPP by 1 plus the average inflation rate<sup>2</sup> in the country of interest in the given year, divided by 1 plus US inflation rate in the given year<sup>3</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.

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

To calculate the \$ 2.15/day PPP, the following formula is used: [PPP rate private consumption for the given year x 2.15 x 30 .4 (days/month) x typical number of family members] / workers per family. Formula to update the ppp by for 2022:  $ppp_{2021} * (1 + \text{average inflation rate in country of interest in a given year}) / (1 + \text{inflation rate in USA})$ .

The table below presents the calculation for a selected number of countries:

Country PPP private	PPP private consumption (updated 2022)	Updated ppp for 2022(with IMF October inflation numbers)	WB poverty line per day	Days/ Months**	No. of family members*	No. of Breadwinners*	Wage required
Cameroon	232.5	225.0377596	2.15	30.4	5	1.67	44037.32924 CFA
Ethiopia	15.47	19.13319383	2.15	30.4	5	1.65	3789.531966 Birr
Ghana	2.21	2.601145374	2.15	30.4	4.5	1.78	429.8027402 Ghanaian Cedis
Tanzania	782.88	753.2318217	2.15	30.4	5	1.76	139861.4542 Tsh
Uganda	1231.19	1212.799404	2.15	30.4	5	1.76	225194.7985 Ush
Zambia	6.33	6.592158498	2.15	30.4	5	1.62	1329.825554 Kwacha

Countries not included in this table have their Floor Wages lower than the minimum wage, hence the conditions in the 3.1.1 requirement of the Fresh Fruit Standard apply

\* Source : Living Wage benchmarks (<https://www.isealalliance.org/our-work/improving-effectiveness/global-living-wage-coalition>)

\*\* (365 /12)

### Change history

Date of publication	Changes
27.05.2021	First version. Explanatory document on how to calculate wages for the Fresh Fruit Standard (Floor wages and the Fairtrade Base Wage).
04.08.2021	Simplification of information contained in table 1 and on the steps for running the wage comparison.
31.12.2021	Second version. Updated the PPP private consumption.
28.04.2023	Updated the PPP private consumption.