

# STANDARD OPERATING PROCEDURE FOR WAGE FLOORS CALCULATION IN THE HIRED LABOUR ORGANISATIONS

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Approved by: Fairtrade Standards Committee (SC)

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Audience: Fairtrade stakeholders

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## References and templates

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General reference:

- [SOP Development of Fairtrade Standards](#)

General public templates:

- [SOP complaints form](#)

Public explanatory notes

- [Calculating floor wages in the Fairtrade Standard for Flowers and Plants](#)
- [Calculating base wages in the Fairtrade Standard for Fresh Fruits – only banana](#)

### Abbreviations

ARI	Anker Research Institute
FT products	Fairtrade products
FMP	Fairtrade Minimum Price
FP	Fairtrade Premium
GPPP	Global Products, Programs and Policy Unit
NFO	National Fairtrade Organization
PN	Fairtrade Producer Networks
POs	Producer Organizations
PU	Pricing Unit
SC	Standards Committee
SOP	Standard Operating Procedure
S&P	Standards and Pricing
SU	Standards Unit

## Introduction

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The Standards and Pricing Team (S&P) within Fairtrade International is responsible for developing (i.e. preparing, reviewing, amending, adapting) and revising Fairtrade Standards. The term Fairtrade Standards refers to: (a) Producer and Trader Standards; (b) Product Standards; (c) Fairtrade Minimum Prices (FMP) and Fairtrade Premiums (FP) and (d) Fairtrade Wage Floors.

Procedures for developing wage floors are based in the “Standard Operating Procedure (SOP) Development of Fairtrade Standards”. The SOP Development of Fairtrade Standards was designed in compliance with principles laid down in the “ISEAL Code of Good Practice for Setting Social and Environmental Standards”. However, the scope of this code does not apply to the development of Wage Floors, as it doesn’t for the Fairtrade Minimum Price.

Any complaints concerning this procedure shall be addressed to the S&P Team. Complaints can be submitted at any time by sending the appropriately filled in “Complaint Form” to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). The “[Complaint Form](#)” can be downloaded from the Fairtrade International website (<http://www.fairtrade.net>) or requested directly from the S&P Team by writing to [standards-pricing@fairtrade.net](mailto:standards-pricing@fairtrade.net). The complaints received will be evaluated and, if necessary, will lead to a revision of the current version of the SOPs. A regular review is undertaken by S&P at least every 3 years to ensure that the SOP reflects the actual S&P practices. Material changes of the SOP are approved by the Standards Committee, while approval of non-substantive changes (small operational details, edits) is delegated to the Director of Standards & Pricing. The Director of Standards & Pricing consults with the Chair of the SC in case of doubt whether a change is material or not. For more information, see the “[SOP Complaints against Fairtrade Standard Setting](#)”.

The purpose of this document is to describe the procedures by which wage floors (currently the Floor Wage and the Base Wage) are developed, revised, and implemented by Fairtrade and to provide a level of formal accountability for team members, manage compliance obligations, roles and responsibilities for all steps, and timelines; ensure operational efficiency to use standardized processes with space to revise and optimize them; reduce the learning curve of new personnel involved in this SOP; ensure service continuity in the event of staff turnover or unavailability and ensure quality & control by reducing errors or variations.

### Overview of the wage floors methodologies in the Fairtrade Standards

Fairtrade International develops Standards for different categories of producers of Fairtrade products (Fairtrade producers) and a Trader Standard, as well as product Standards. These standards are the collective requirements that producers and traders must meet to become Fairtrade certified.



The Standard Operating Procedure for Wage Floors Calculation in the Hired Labour Organisations (hereafter Wage Floors SOP) defines Fairtrade International's approach to set and revise wages floors defined in the Fairtrade Product Standards. The current Fairtrade wage floors methodologies are defined in the Flowers and Plants Standard and in the Fresh Fruit Standard for Hired labour organisations.

The Floor Wage methodology for flowers and fresh fruit, except banana, is based on the principle that the wage paid to all workers must not fall below the global (extreme) poverty line set by the World Bank corrected for Purchasing Power Parity (PPP).

The Base Wage methodology is based on the principle that the wage paid to banana workers, in cash after taxes and mandatory deductions, cannot be lower than the Fairtrade Base Wage as defined at the level of 70 percent of the net earnings that workers on certified banana plantations need to have after taxes to enjoy a living wage.

Fairtrade floor wages and base wages methodologies are supported by explanatory notes that provides a step-by-step guidance and the methodology for calculating wage floors. References for the explanatory notes for the [Base Wage](#) and the [Floor Wage](#) can be found in the Fairtrade International's website. Although these methodologies may change over time, or new products could be included in the calculation, this SOP is equally applicable and can be amended if deemed necessary.

## Procedure for developing Fairtrade Wage Floors Calculations

### **The common steps in wage setting**

Regardless of the specific wage floor methodology to be established, the Pricing Unit and the designated Project Leader systematically follows a five-step process consisting of:

1. Research
2. Validation
3. Approval
4. Implementation
5. Impact assessment

The five-step process outlined in the Wage Floors SOP is universally applicable for any wage setting identified in the Fairtrade Standards. Annex 1 provides a detailed, step-by-step guide, noting that slight variations within the five steps may occur depending on the methodology and product. Annex 2 delineates key roles and responsibilities for the team members at different steps of the wage floors calculation procedure. Annex 3 shows a chart flow that indicates the steps and timeline for the entire process. It's important to note that the wage floors calculation cycle described in the Wage Floors SOP is intended for annual application.

## 1. Research

The Head of Pricing Unit designates a Project Leader to lead the whole process. For the research step, the Project Leader is supported by the Producer Networks (PNs) and the Senior Advisor for Workers' Rights and Trade Union Relations from the Global Products, Programs and Policy Unit (GPPP) (hereafter Senior Advisor). Additionally, and if deemed necessary, an external consultant may be required to support the team conducting the research.

The research phase is subdivided in two steps:

### 1.1 Data collection

This process involves the aggregation of key indicators or parameters essential for executing the calculation of wage floors. The designated Project Leader liaises with the Producer Networks (PNs) and the Senior Advisor to gather the necessary information for the wage floor calculation. The designated Project Leader is granted the autonomy to source information from producers and various internal and external resources, thereby facilitating the wage calculation. For each methodology, a comprehensive, step-by-step guide is provided in Annex 1.

### 1.2 Executing the calculation and drafting the explanatory note

Upon the collection of necessary data, the Project Leader executes the calculations and leads the preparation of an explanatory note. The Project Leader can involve the technical staff appointed by the PN to participate in the calculations and in the drafting of the announcement note. This step consists of:

- **Announcement note:** Consist of a concise explanation of the formula used, the poverty lines updates if applicable, the assumptions and/or implications in the announced values, and the announcement update in the "change in history". All assumptions and decisions made regarding the source of information, updates to the methodology or any of the components of the formulas, as well as the implications these decisions will have on impacted stakeholders should be briefly and clearly described in the announcement note. The purpose of this announcement note is to publish the new values to the interested stakeholders in the most user-friendly format. Wage floors methodologies are explained in different explanatory documents that are available in the FI website, that have the purpose to guide technical teams involved in executing the calculations.
- **Table 1:** Living Wage Benchmark - This table houses updated benchmarks for each country in the intended year of publication. It may display values at both gross and net levels, as well as basic benchmark wages per country comparable with wages set and paid under local jurisdiction provided such information is available and relevant.

- **Table 2:** Fairtrade wage floors and the Applicable Wage - This table presents the Fairtrade Wage Floor for the applicable methodology, the National Minimum Wage, and the final Applicable Wage calculated at a basic wage level (level comparable with the actual wage level paid in different origins).

## 2. Validation

Upon completion of the calculations and the plotting of new values in Tables 1 and 2, the announcement note is prepared. If not done before, the Project Leader shares the announcement note and tables with the technical staff delegated from each Producer Network (PN) for feedback on the calculations and values. While consultation with all stakeholders is not mandatory, the technical staff from PNs, where available, can provide valuable input through technical questions and observations. The Project Leader then adjusts the explanatory note and/or tables based on a consensus-driven recommendation.

If no feedback is received within ten working days stipulated in this SOP, the Project Leader will interpret this as an unspoken approval to publish the values (Annex 3 shows the timeline and the iterations in the process, if applicable). Once the PNs validate the values, or alternatively, express no objections to their publication, the explanatory note containing tables 1 and 2 are deemed ready for submission and approval.

## 3. Approval

The Project Leader is tasked with delivering tables 1 and 2, along with their respective Excel memos (formulas and the compiled research data) and the announcement note of the calculations to the Head of Pricing and the Senior Advisor for review and comments. The Head of Pricing may choose to share the tables and announcement note with team members whom he or she deems relevant for the analysis and further recommendation of the values to be published. Following the submission of the tables and announcement note, the Project Leader is required to present a brief overview of the new values to the team involved in the consultation (Annex 2 details the roles and responsibilities of different team members). Should the Head of Pricing deem it necessary, a consultation involving National Fairtrade Organisations (NFO) and PNs on the wage floor calculation may be requested, with coordination occurring on a case-by-case basis.

It is expected that team members contribute with technical questions and observations, including considerations on potential impact and negative consequences, and addresses the implications of such announcement. The final announcement should be the result of a collective decision-making process involving all team members participating in the presentation. After the technical recommendation is presented by the Project Leader, the process should continuously be guided by technical reasoning and

transparency. Consequently, the Project Leader is tasked with refining the announcement, providing a clear explanation for the decision. Annex 3 shows the process that allows several iterations within ten working days until the tables and announcement note are approved. After deliberation the final wage floor values must be submitted to either the Head of Pricing (via delegation by the Director of S&P) or to the Standard Committee (SC). The Head of Pricing determines whether the proposal requires review by the SC through an e-mail voting process. The final wage floors must receive formal approval prior to implementation.

#### **4. Implementation**

Upon approval of the announcement note containing the new wage floors tables, it is communicated to FLOCERT and impacted stakeholders, and made publicly available on the Fairtrade International website. FLOCERT has a calendar which specify deadlines for auditors' communications, which is provided to S&P Unit every year. The announcement of wage floors must meet, in a strictly manner, the FLOCERT's deadline calendar set for the fourth quarter (Q4) for each year, at least.

The Project Leader, assisted by the Senior Advisor if deemed necessary, shall lead training sessions with FLOCERT personnel before the dates of implementation of the announcement.

The tables, announcement notes generated during the project, and other pertinent documents are securely stored in the Fairtrade server. Following their publication, a transition period may be determined before the wage floors take effect. This interval is crucial to afford stakeholders and FLOCERT ample time to prepare for the implementation of the new values.

It's important to note that all data reported within this SOP, information processed in the Data Excel Sheet, and reports from the Anker Research Institute are strictly confidential. Access is granted solely to employees with roles specified in this SOP, who are legally bound by a non-disclosure agreement to safeguard data confidentiality and privacy.

#### **5. Impact assessment**

To measure the effectiveness of implementing wage floors through Fairtrade Standards and the methodologies used to achieve Fairtrade's living wage strategy's objectives the team and designated contributors must meet during the second quarter (Q2) of each year to evaluate the impact reached and identify implementation measures and assurance. Such assessment will require data gathering regarding the compliance of the respective requirements in the Fairtrade Standards related to wage floors (i.e. base wage for banana or floor wage for flowers or other fresh fruits). The Product Project Manager at the Standard Unit is responsible to gather the data required and present it during the impact assessment meeting. The outcome of this analysis could propose improvements in the process of this SOP and/or the Explanatory Notes that contains the details of the methodologies for calculations.



## Annex 1 Work instruction for the research step

### 1. Data collection

Only if available or relevant for the methodology, the Project Leader with support a close collaboration with PN, where possible, collects information related to:

- Country specific regulations with regards to mandatory contributions, deductions and benefits, and legal ratios.
- Related countries' national minimum wage updates.
- Specific information from the respective country/sectors (i.e., sectoral prevailing wages and any sectoral Collective Bargaining Agreement).

The Senior Advisor on Workers' Rights and Trade Union Relations is the focal point of contact with the Anker Research Institute (ARI) and is responsible for keeping the Pricing Unit informed of relevant news and providing annually the new benchmark values in a timely manner.

- Updated values of Living Wage Benchmarks for the corresponding banana producing countries where wage floors are applicable through Fairtrade Standards.
- The timeline to submit this information is agreed between Fairtrade International and ARI and is applicable for each calendar year to be valid the next year. The submission should not exceed the third quarter of the year (Q3). Exceptions to this calendar are applicable in critical situations of lack of official sources of information and must be communicated to the Pricing Unit.

Only applicable to the floor wage methodology: the Project Leader is responsible for the acquisition of:

- Most recent Purchasing Parity Power (PPP) rates when available.
- New poverty lines if updated by the World Bank or if countries graduate from their respective level of poverty.
- Percent change inflation rates per country related to annual average consumer prices.
- Adjusted number of breadwinners and family members per country – if possible corresponding to the values used by the ARI in calculating Living Wage benchmarks.
- Other economic indicators relevant to the methodology.

### 2. Executing the calculation and drafting the announcement note

**Table 1: Living Wage Benchmark:** contains updated benchmarks per country provided by the ARI. Only if available or relevant benchmarks are displayed at gross and net levels or values of the previous year to show the change as well as basic benchmark wages per country comparable with wages set and paid under local jurisdiction provided such information is available and relevant.

**Table 2: Fairtrade Wage Floor and the Applicable Wage:** contains the Fairtrade Wage Floor calculation for the applicable methodology, the National Minimum Wage, and the final Applicable Wage.

Depending on the methodology to calculate wage floors, the table can show other values relevant for the industry (i.e. basic wage for banana which is comparable with the actual wage level paid in different origins).

The Floor Wage methodology for flowers also shows in table 2 the formula variables such as the purchasing parity power, poverty line, family members, family breadwinners, and average numbers of days per month. Only if available or relevant the lowest sectoral CBA could be added in the table. Both tables should establish the transitional and total period of application of the new values, which follows FLOCERT communication's calendar with auditors and is defined before presenting to the SC (*example: applicable as of xx, 202x with a transition period xx months, to be implemented by xx of 202x*).

### 3. Team composition

The composition of the team may vary depending on the need, but the following list shows the most relevant ones:

- Head of Pricing Unit
- Project Leader appointed by the Head of Pricing Unit.
- Senior Advisor on Workers' Rights and Trade Union Relations.
- Producer Networks (PN):
  - One appointee for Latin America and the Caribbean region (CLAC).
  - One appointee for Africa region (FTA).
  - One appointee for the Asia-Pacific region (NAPP)
- The respective Product Project Manager at Standards Unit as contributing observer during the explanatory note presentation.
- The respective Global Product Manager(s) as contributing observer during the explanatory note presentation.
- The Head of Pricing Unit can call in an external expert to assist in the research phase and/or peer review the calculations.

## Annex 2 Definitions of key roles and responsibilities

Role	Level of responsibility	Summary of activities
Project Leader	Responsible	<ul style="list-style-type: none"> <li>• Sends letters to Producers Networks (PNs) to acquire the information needed for the calculation.</li> <li>• Leads calculations in all applicable countries where values updates or reviews are needed in close collaboration with the technical lead of the PNs where applicable.</li> <li>• Prepares two tables with all countries' values updates.</li> <li>• Prepares explanatory note.</li> <li>• Incorporates feedback from PNs.</li> <li>• Delivers tables 1 and 2 and its Excel sheet memo and explanatory note to the Head of Pricing and Senior Advisor.</li> <li>• Leads a brief presentation of updated values and explanatory note to the team and contributing observers.</li> <li>• Is responsible for all adjustments in the explanatory note after submission and presentation to the team.</li> <li>• Coordinates with the Pricing Unit Technical Assistance to prepare email announcements to FLOCERT and all stakeholders involved in accordance with the timelines set in this SOP.</li> <li>• Lead training sessions to FLOCERT.</li> <li>• Only applicable to the floor wage methodology the Project Leader is responsible for the acquisition of update values of the variables in the floor wage formula.</li> </ul>
Head of Pricing Unit Project Owner	Accountable	<ul style="list-style-type: none"> <li>• Designates the Project Leader in accordance with the annual workplan.</li> <li>• Reviews and comments on the explanatory note and values presented by the Project Leader.</li> <li>• Leads communications with appointed external experts.</li> <li>• Signs off final explanatory note and tables with the corresponding countries' values updates.</li> <li>• Determines whether the proposal requires review by the SC.</li> </ul>
PN staff designations <ul style="list-style-type: none"> <li>○ CLAC.</li> <li>○ FTA.</li> <li>○ NAPP</li> </ul>	Support and consulted	<ul style="list-style-type: none"> <li>• Only if available or relevant for the methodology, PNs collect, validate and send information related to: <ul style="list-style-type: none"> <li>○ Local labour legislation updates, legal ratios.</li> <li>○ Respective countries' national minimum wage updates.</li> <li>○ Specific information from the respective country/sectors (i.e., sectoral prevailing wages and any sectoral Collective Bargaining Agreement).</li> </ul> </li> <li>• Validates their respective regional tables with the updated values.</li> <li>• Where applicable participate in the calculations with the Project Leader.</li> </ul>
Senior Advisor for Workers' Rights and Trade Union Relations.	Consulted	<ul style="list-style-type: none"> <li>• Leads communications with ARI.</li> <li>• Sends updated values of benchmarks of the applicable banana producer countries.</li> <li>• Reviews and comments on the explanatory note and values presented by the Project Leader considering potential impact and adverse consequences.</li> <li>• May recommend peer review partners to the process.</li> <li>• May suggest improvements to the process at any time.</li> </ul>
GPM	Informed	<ul style="list-style-type: none"> <li>• May comment and give feedback during the presentation led by the Project Leader.</li> </ul>
Product Project manager at SU	Informed	<ul style="list-style-type: none"> <li>• May comment and give feedback during the presentation led by the Project Leader.</li> <li>• Gathers and presents the data for the impact assessment meeting.</li> </ul>



FI S&P Unit Technical Coordinator	Support	<ul style="list-style-type: none"><li>• Upload tables and explanatory note in Fairtrade International webpage in accordance with timeline set in this SOP.</li><li>• Prepares email announcements to all stakeholders involved in accordance with timelines set in this SOP.</li></ul>
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## Annex 3 Process and timeline

