



The Living Income Community of Practice

Guidance Document on Criteria for Methodologies on Living Income and Living Wage Estimates

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July, 2024

Prepared for: The Living Income Community of Practice

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EXECUTIVE SUMMARY

As Living Income (LI) and Living Wage (LW) become increasingly important, more and more methodologies for the calculation of Living Income and Living Wage estimates are created. Companies, policy maker and interested parties are looking for advice on **having to compare these different methodologies and give advice on the usage of the different estimation values**. Furthermore, recent developments such as the European Directive on corporate sustainability due diligence (CSDDD) include LI and LW making them part of required due diligence regulation, thereby increasing the importance for clear answers and guidance on methodologies. Therefore, the Technical Advisory Committee (TAC) of the Living Income Community of Practice (LICO^P) discussed quality criteria that a methodology should fulfill and created a first version of such criteria based on the review of a selection of living income and living wage methodologies¹. Please note that the criteria are applicable for **both living income and living wage estimations unless clearly stated otherwise**. Due to the TAC's area of expertise the criteria should be seen as foremost applicable to the Global South and the agrifood sector.

This guidance document is the first version of these criteria/ The guidance will be reviewed on a continuous basis and per request. Please be advised that while offering guidance on evaluating the strengths and weaknesses of a methodology on LI/LW estimates, this document does not rank criteria on relevance nor methodologies on quality and/or adherence to the principles. For advice on how to decide between existing living income estimates and methodologies please refer to the [FAQ](#) "Looking for a Living Income Benchmark" which has details on where to look for estimates, how to use them and what to do in absence of available estimates.

The document was prepared from June 2023 to July 2024 undergoing several rounds of revision by all TAC members and a selection of methodologies on LI and LW estimations.

¹ For a list of LI/LW methodologies/documents reviewed, see annex. Please note that there is no claim of completeness and not all available LI/LW methodologies may have been reviewed. If you have a methodology that you would like for us to take into consideration, please contact us directly via nicola.nuecken@giz.de

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ACKNOWLEDGEMENTS

Technical Advisory Committee:

This guidance document was prepared in consultation with members of the Living Income Community of Practice Technical Advisory Committee (TAC). The committee is composed of agricultural economics, income enumeration and livelihoods experts representing different stakeholder groups who actively engage with the Living Income Community. We would like to thank the following TAC members for their review and contributions to this document: Andrea Rusman (Impact Institute), Dr Eberhard Krain (Independent Consultant), Henry Kamande (Rainforest Alliance), Jessica Mullan (COSA), Jildemarie Brower (Akvo), Jonnathan Bolivar (Fairtrade International), Kealy Sloan (Sustainable Food Lab), Marcelo Tyszler (BLONK), Molly Leavens (Sustainable Food Lab), Oumou Diallo (KIT Royal Tropical Institute), Sylvia Calfat (COSA), Vaibhav Panpaliya (IDH), Vincent Fobelets (Dear Impact), and Yuca Waarts (Wageningen University & Research)

In addition to the contribution of the TAC, special thanks to key contributors: Stephanie Daniels (Sustainable Food Lab), Kaitlin Sampson (Sustainable Food Lab) and Aaron Petri (Fairtrade International)

Representatives from Methodologies on Living Income and Wage Estimates:

We would also like to thank the following representatives from Methodologies on Living Income and Wage Estimates for their contributions to and reviews of the document: Richard and Martha Anker from Anker Research Institute, Sally Smith from Anker Research Institute, Antoinette Marie and Ben Wood from Heifer International, Michelle Murray from Living Wage for US, Daniel Rasmussen and Joost Baker from NewForesight, Daniela Ceccon, Fiona Dragstra and Vivian Hartlief from WageIndicator Foundation, Gerrie van de Ven from Wageningen University

GLOSSARY

Anker methodology	A robust and widely accepted methodology for developing Living Wage estimates and assessing the gap with actual wages. The Anker methodology can also be used for developing Living Income estimates, as both Living Wage and Living Income estimates are based on the cost of a basic but decent standard of living for a family.
Basic but decent standard of living	A basic but decent standard of living means being able to afford a low-cost and nutritious diet, basic healthy housing, and other essential expenses, including adequate healthcare and education of children through secondary school, and not being at risk of poverty or unaffordable debt due to occasional or unplanned events (marriages, funerals, illnesses, etc.).
Living income	The net annual income required for a family in a particular place to afford a decent standard of living for all members of that family. Elements of a decent standard of living include: food, water, housing, education, healthcare, transport, clothing, and other essential needs including provision for unexpected events.
Living wage	The remuneration received for a standard workweek 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, transportation, clothing, and other essential needs including provision for unexpected events. (<i>Global Living Wage Coalition</i>)

KEY ABBREVIATIONS

Food & Agricultural Organization	FAO
LI	Living Income
LW	Living Wage
World Health Organization	WHO

Please note that individual criteria should not be seen as stand-alone markers for quality but need to be viewed as interdependent and reliant on each other. A full assessment of the quality and fit of an estimate can only be done when all criteria and the specific context are considered. Furthermore, results of the estimate studies should be compared for consistency over space and time.

The proposed criteria are categorized under the following key areas:

- 1. Elements of a decent standard of living
- 2. Data collection
- 3. Reporting/Comparability

ELEMENTS OF A DECENT STANDARD OF LIVING:

Criterion 1: Estimates are calculated at a family / household level and need to include all members of that family / household. The calculation of the estimate should include at least all elements of a decent standard of living: food, water, housing, education, healthcare, transport, clothing, and other essential needs, including a provision for unexpected events. Additional elements e.g. household goods, communication, personal care items and childcare need to be included based on the specific context.

Why? Missing one of those key elements, as they are defined in Article 25 of the Universal Declaration of Human Rights, will make the estimate non-comparable to other estimates and distort it downwards.

Criterion 2: At least the elements food, housing, education, and health care of a decent standard of living should be measured normatively, based on international and national standards².

Why? By choosing a normative approach, one makes sure that current poverty situations are not replicated.

Criterion 2.1: Food costs should be calculated based on a low-cost nutritious diet that meets the World Health Organization’s (WHO) / Food & Agricultural Organization’s (FAO) recommendations as internationally agreed standards for a healthy nutritious diet. The diet should be consistent with local food preferences as well as consumption patterns and a country’s development level.

Why? By referring to international standards of WHO/FAO as well as local conditions, we make sure that estimates are both locally adapted and internationally comparable.

Criterion 2.2: Housing costs should be estimated using international (OHCHR definition on the right to adequate housing) and national standards for decency, and additionally verified based on, for example, visits to local housing with workers / farmers.

Why? By referring to international standards for adequate housing and national standards for decency, we make sure to keep a normative approach. By including a local verification process, it is ensured that local expertise/knowledge on the costs for those international/national standards is taken into account.

² See Criterion #2.1 and #2.2 for a specification of those standards for food and housing costs.

Criterion 3: In accordance with criterion 7 other costs for the elements of a decent standard of living may be calculated using an extrapolation method based on high quality and reliable secondary household expenditure data, followed by a post-check of the data to avoid replication of poor living conditions³.

***Why?** By extrapolating, a practical and efficient solution is presented. At the same time, a replication of currently poor living conditions is ruled out by basing the extrapolation **on previously calculated food costs and/or housing costs** and post-checking the data. However, other costs of a decent standard of living may be specifically calculated without extrapolation if resources/funds are available. The approach and methodology for extrapolation need to be transparently communicated and the underlying data made available so other researchers can replicate the work. Reliable secondary household data include sources such as national census data.*

Criterion 4: A percentage of costs should always be attributed to the provision for unexpected events. This percentage needs to be determined based on the country context. We recommend using at least a margin of 5-10%⁴. The percentage should be chosen based on the level of social protection provided and risk assessment of the specific region.

***Why?** Choosing 5% - 10% for provision for unexpected events makes this part of the cost calculation comparable across countries and regions. It is in line with the human declaration of human rights (Article 25), which defines the “right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond one’s control”. This is of utmost importance as a lack of social security systems and high risks due to e.g. environmental disasters often make it impossible for people to prepare adequately for unexpected events.*

DATA COLLECTION:

Criterion 5: The choices made for the data collection and calculation of the estimates should be made together with a strong local network⁵, including specialized data collectors, thereby adapting the estimate to cultural norms and conditions and making use of local expertise. It is vital to ensure independence and non-bias in the collection of price data when selecting the local network.

***Why?** By including local people and organizations as well as specialized data collectors that are locally embedded, the accuracy and credibility of the methodology is increased, including, above all, its acceptance by local stakeholders, specifically by the persons of interest⁶.*

³ The post-check ensures that sufficient funds are included for all other elements of a decent standard of living. This guards against the extrapolation method replicating poor living conditions as it is based on currently observed expenditure according to available household expenditure data.

⁴ Together with the publishers of the different LW and LI estimates a clear process to setting a suitable percentage for unexpected events based on country/regional contexts will be set out. This is considered important as the range of 5-10 % is relatively large and further specifications are needed.

⁵ The network should be made up of a selection of the following groups: farmers/workers (to be involved in the form of focus group discussions/key informant interviews), local field staff or technicians, producer organizations and other types of organizations that are familiar with farmers and the local context. The network should have a relatively large presence of independent parties without a conflict of interest in establishing the estimate as well as parties integral for the acceptance by local stakeholders i.e. policy makers, CSOs, companies.

⁶ At the same time, it is important for the research team to maintain its independence from special interests.

Criterion 6: The data collected/used for the calculation of the estimate should be region- and time-specific.

Why? Living Income and Living Wage estimates should at least be calculated separately for rural and urban areas. Differentiations might also be needed within different regions/cities within larger countries. As living wages and living incomes change with economic development and other external variables such as inflation, estimates are time-specific and should be renewed on a regular basis. At least once a year, an inflation-update should be conducted⁷.

Criterion 7: A judicious combination of new local data collection, where high-quality existing data is unavailable or questionable, and available secondary data⁸ should be used to make the methodology both practical and credible.

Why? This approach is both practical and has modest cost while remaining sufficiently rigorous. Methods based exclusively on published data do not yield credible estimates for lower and middle income countries. Some relevant secondary data on living costs of workers/smallholder farmers in lower and middle income countries are not available.

REPORTING/COMPARABILITY:

Criterion 8: The methodology including data sources used for the estimate calculation should be made transparent via publicly available guidance material.⁹

Why? In all cases, clear, transparent reporting is critical so that others can see exactly how living income and wage estimates were calculated. The approach and data sources should be detailed in such a way that another researcher would be able to replicate the process.

Criterion 9: The calculated estimates (incl. reference period, regional applicability, and family size and respective reports) and data sources should be publicly available.

Why? We consider making estimates available for the public as crucial in order to be able to move on to the next step of implementing activities to close the gap. In this, all stakeholders involved in LI and LW estimates calculations should work together and make their values public. Public statements or claims by companies or organizations should only be considered carefully when estimates are not publicly available or transparent.

⁷ In countries with very high inflation or other drivers leading to volatile cost of living the updating may need to happen more frequently and reflect changes in costs of individual components of a decent standard of living. We recommend using internationally accepted sources such as the International Monetary Fund (IMF) to calculate the inflation update. Moreover, we acknowledge that only correcting for inflation does not mitigate the risk of irregular data collection and stress the importance of contextualizing as official inflation metrics do not necessarily reflect consumption patterns of low income households.

⁸In some countries such as the US and UK, there are specialized research institutions and independent organizations that collect data regularly on certain living wage and income elements of a 'decent standard of living'. This data should be preferred to new data collection. In country contexts where no such data is available or the quality of the data is unclear due to e.g. sample sizes, partisanship or methodology new data should be collected. All data sources should be made transparent.

⁹ Living income estimates and living income studies may be done for private parties under non-disclosure without publishing. However, in this case, they run the risk of not meeting certain quality criteria and study results cannot be verified and/or validated. Efforts should be undertaken to make novel approaches transparent when possible.

Criterion 10: Estimates¹⁰ should be discussed in the context of a public stakeholder consultation¹¹. Wage setting and negotiations based on these estimates should ensure engagement of social partners and other stakeholders' e.g. unions, workers representatives, employers and governments.

Why? *Not only is it important to involve local stakeholders during data collection. It is also crucial to give local and international stakeholder the opportunity to review the estimate report and make suggestions for its improvement. This ensures broad stakeholder buy-in and a corresponding broad use of the estimate.*

Criterion 11: The methodology for the estimate calculation should be aligned with international standards¹², therefore making different estimates internationally comparable.

Why? *By relying on international standards, we make sure that the estimated values are widely accepted by an international community. However, overarching principle #3 should always go hand-in-hand with overarching principle #2 – thereby combining international standards with local conditions and expertise.*

Criterion 12: In the case of Living Wage estimates, the estimated total cost of a decent standard of living for a typical family/household should be reported as well as the per worker living wage estimate. To obtain the per worker estimate the estimated total cost of a decent standard of living is divided by the number of full-time equivalent workers per family/household for that location.

Why? *Dividing by the number of full-time equivalent workers per family/household is necessary in order to obtain a per person living wage estimate, which will make it comparable to actual wage data usually also defined per person. This is in contrast to living income estimates and actual income data usually defined per family/per household.*

Criterion 13: In the case of Living Wage estimates, statutory deductions should be considered in order to obtain values for gross Living Wage estimates.

Why? *Net living wage would not account for statutory deductions from pay (such as income taxes, social security taxes, and union fees) which will reduce the take home pay and money available for day-to-day expenses.*

¹⁰ The report (form and extensiveness may differ) should include the results (estimated value) and the methodology applied, including reporting on the reference period, regional applicability, family size and other relevant aspects.

¹¹ For an overview of stakeholders to include in such a consultation process please refer to criterion 5. It is up to the provider to strike a balance between verifiability and effort.

¹² Examples include aligning with recommendations by the World Health Organization (WHO)/Food & Agricultural Organization (FAO) to estimate food costs and UN-HABITAT for estimating housing costs.

ANNEX

METHODOLOGIES ON LI AND LW ESTIMATES TAKEN INTO CONSIDERATION:

Note that the criteria as well as the explanations, are (partly word-in-word) taken from the following documents:

1. [The Anker Methodology for Estimating a Living Wage - Global Living Wage Coalition](#),
2. [Living Wages Around the World – Manual for Measurement | Elgar Online: The online content platform for Edward Elgar Publishing](#)
3. [From Living Wage to Living Income – Considerations for the use of the Anker methodology for calculating living wages to inform living income estimates](#)
4. Using the Anker Methodology for Living Income – [Part 1](#) and [Part 2](#)
5. [WageIndicator methodology](#)
6. [WageIndicator: Living Wages and Living Income Worldwide](#)
7. [Living Wage for U.S. Methodology](#)
8. [NewForesight Living Income and Living Wage Benchmarking Methodology](#)
9. [Asia Floor Wage Methodology](#)
10. [Valuing Nature Methodology](#)
11. [Heifer Methodology](#)
12. [Wageningen Methodology](#)
13. [ILO Adopted Conclusions from the Meeting of experts on wage policies, including living wages](#)

FURTHER SOURCES OF RELEVANCE:

1. [IDH Recognition Process for Living Wage Methodologies](#)
2. [WageMap Consortium](#)
3. [Shift Guide Books](#)