

# From Living Wage to Living Income

Considerations for the use of the Anker methodology for calculating living wages to inform living income estimates.



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This document has been prepared by Jessica Grillo, partner of the consultancy On-Up and former Senior Livelihoods Advisor of Rainforest Alliance, for ISEAL Alliance and the Living Income Community of Practice. This work has been funded by GIZ.

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This document was produced in parallel to the calculations of cost of decent standard of living in cocoa growing regions of Ghana and Ivory Coast following the Anker methodology. The questions from study management teams (Sustainable Food Lab and GIZ) and lead researchers, as well as considerations from the Technical Committee of the studies have shaped the content of this living document.



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## Introduction

Living income has increasingly been a topic of conversation among standard systems, donors, NGOs and governments alike. Poverty thresholds are becoming less and less acceptable among these groups as a basis for determining success of programs. After all, a family living just above the poverty line does not necessarily live at a standard of decency acceptable by international standards. So how much does a family need to earn to achieve a standard of decency? Several organizations have attempted to answer this question through different methodologies. The Living Income Community of Practice<sup>1</sup> – an alliance of partners dedicated to the vision of thriving, economically stable, rural communities linked to global food and agricultural supply chains – has come together to facilitate learning on measuring costs of living and “living income” for a typical size family in a specific location, and use this information to support activities which help families achieve a decent standard of living.

This document attempts to describe the key components for estimating the cost of a decent standard of living for a reference family size by drawing on the Anker methodology for estimating living wages<sup>2</sup>. In doing so, the document highlights considerations that are unique to smallholder farming families. It provides recommendations on how to proceed with explanation of the logic behind methodological decisions, starting with a set of clear definitions and guiding principles.

It is not the purpose of this document to impose one specific approach. As a Community of Practice, we recognize that other methodologies are being used and tested to estimate living income. Rather, because many organizations, including companies and several ISEAL members, have adopted and found value in the Anker Methodology for estimating living wages, this document provides some additional guidance on its application for living income. Additionally, living wage benchmarks have already been established for dozens of locations around the world, which can serve as a basis of calculating living income. As such there are two cases in which we envision applying this approach – 1. Where living wage estimates, based on the Anker Methodology, already exist, and 2. Where the living wage benchmarks do not yet exist.

This guidance is complemented by the systematization of lessons learned from the calculation of living income benchmarks in Ivory Coast and Ghana using the Anker methodology and GLWC process of research for action.

The Living Income Community of Practice facilitates learning and exchange on the cost of a decent standard of living and actual income as a basis to understand the income gap and drive action towards improving the income of smallholders. It is important to differentiate between the two efforts around measurement.

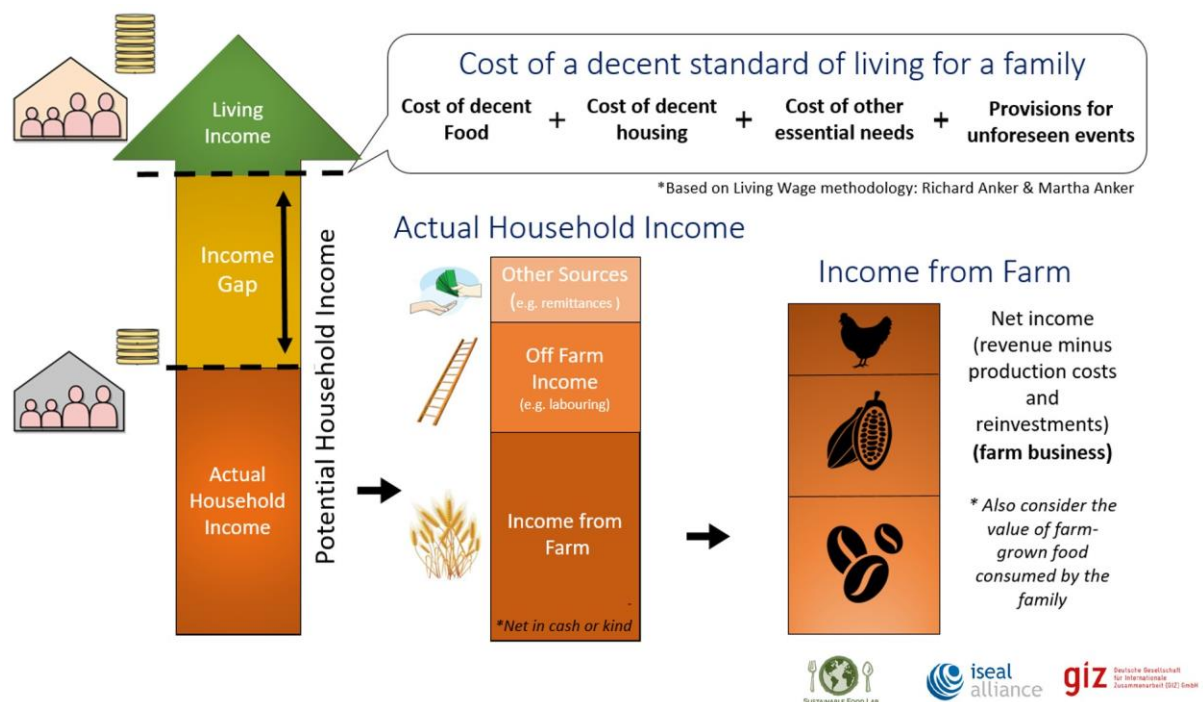
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<sup>1</sup> <https://www.living-income.com/>

<sup>2</sup> Anker, R., & Anker, M. (2017). *Living Wages Around the World: Manual for Measurement*. Northampton, MA: Edward Elgar.

The first study, which is the subject in this document, estimates the **costs of decent standard of living** which need to be understood to determine the threshold at which a family earns a living income (i.e., the living income benchmark), and below which they do not.

The second study, which is not the subject of this document, is the **actual household income** study which estimates the cash and non-cash income currently received by families along with costs associated with medium to long-term resiliency, or *resiliency costs*. This second study would be compared to first, living income benchmark study, to determine the income gap for future programming. The Living Income Community of Practice is connecting with leading researchers in the space of calculating actual income to provide guidance for CoP stakeholders.



## Definitions

The cost of a decent standard of living refers to the cost for a family in a particular place to access a decent standard of living for all members of that family.

Living income is 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.

Net annual family income is the total amount of income earned by family members over the course of a year - including cash income and non-cash income (for example, food that is produced by family

members for their own consumption, in-kind payment for labour, etc.) – minus the costs associated with the earning of that income.

A family is defined here as it is for living wage in the book, *Living Wages Around the World*<sup>3</sup>. It is defined as the nuclear family. It does not include grandparents or extended family members. However, in cases where cultural norms regarding financial assistance to extended family are very strong, this should be factored in to the overall living income estimate.

The term household does not have a consistent definition in research. The most common definitions include a group of people living under the same roof, or a group of people ‘eating from the same pot’. The Oxford English Dictionary defines it as “a house and its occupants regarded as a unit”.<sup>4</sup>

A particular place refers to the geographical area wherein costs are the same or very similar across all components of a decent standard of living.

A decent standard of living is defined as including: 1) a nutritious low-cost diet, ‘model diet’, underpinned by FAO & WHO nutritional requirements and local food preferences; 2) housing that meets local norms and common international standards of decency as described by the ILO, WHO, UN-Habitat and others; 3) other essential needs including healthcare and education; and 4) and a small but practical margin for unforeseen events (*Aligned with the Anker methodology*).

Resiliency costs refer to the amount of resources (in cash and/or other assets) required for a family to cope with and recover from weather/climatic, economic, or other periodic shocks in order to safeguard their businesses and protect themselves from livelihood erosion over the medium- to long-term. Resiliency costs will vary depending on dominant livelihood strategies. Farming families, for example, are likely to have higher resiliency costs than others in the same geography who make their living in a different way.

The cost of decent standard of living is a **normative estimate based on the best available information and sound logic. Judgment will be required in every case.** As such it is important to establish guiding principles. As a starting point, we recommend the following:

### Guiding Principles for the Calculation of Living Income Benchmarks

The following guiding principles have been developed to both guide and help explain the recommendations within this document. Many of these principles draw on and are aligned with the guiding principles identified in the methodology for calculating living wages using the Anker methodology. The Principles for calculating living income state that **Cost of a decent standard of living** should be:

- A **Normative concept**: The purpose is not to provide the situation of each individual person but to be used as a reference for typical families in a particular place.

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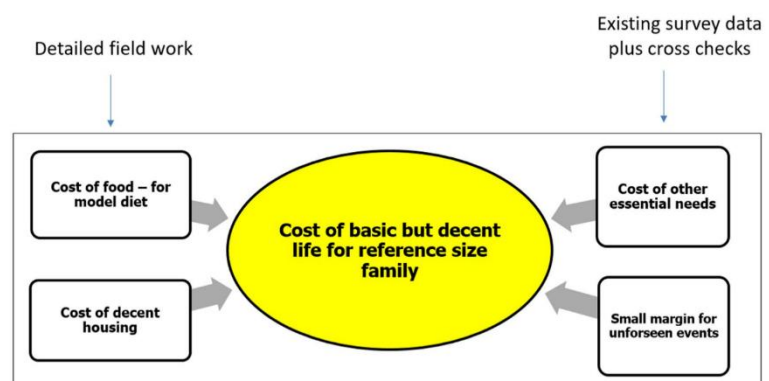
<sup>3</sup> Anker, R., & Anker, M. (2017). Local food prices. In *Living Wages Around the World: Manual for Measurement* (pp. 231). Northampton, MA: Edward Elgar.

<sup>4</sup> <https://en.oxforddictionaries.com/definition/household>

- **Globally applicable:** International minimum standards guide the estimation of cost of living components.
- **Income-source agnostic:** The cost of a decent standard of living for a family of a certain size is the same for all families of that size in that particular place irrespective of what their livelihood activities look like<sup>5</sup>.
- **Reflective of annual needs:** The cost of a decent standard of living should reflect the family's needs during an average year, not for an annualized estimate of the family's total costs over a lifetime (e.g. inclusive of old age, etc). The one exception to this would be to account for some degree of savings to absorb variations in costs that are common to all types of families and that normally occur only once every few years (e.g. marriages, funerals).
- **Based on market prices:** Costs are estimated based on obtaining goods and services in the market, even if in practice families may obtain some goods from their own farms or businesses.
- **Recognizable:** The decisions made to establish a cost of living estimate should be transparent and understandable by those conducting research or using the benchmark.
- **Locally adapted:** In making choices about the acceptable application of the methodology those affected by the benchmark should be at the centre. This means that considerations should be locally adapted to cultural norms and conditions while meeting international basic decency standards.
- **Replicable and practical:** The approach and judgments taken to estimate costs of living should be replicable and practical.
- **Aligning with the Anker Methodology on Living Wage:** To the extent possible, the living income methodology will align with the Anker Methodology on living wage as outlined in *Living Wages Around the World: Manual for Measurement*.

### Considerations

In the following paragraphs we identify key components for estimating the cost of a decent standard of living for a reference family size by drawing on the Anker and



from: Anker, M & Anker, R. (2017) Living wages around the world: manual for measurement. Edward Elgar Publishing, Cheltenham, UK

<sup>5</sup> It is true that the number of calories one needs will vary depending on livelihood activity. However, for the simplicity sake we use one benchmark for a geographic area, and base estimates on level of effort required for the dominant job type (e.g. agriculture labour, assembly line, etc.)

Anker approach for estimating living wages<sup>6</sup> while highlighting considerations that are unique to smallholder farming families.

### Consideration: using family size instead of household size

**Recommendation#1:** *Maintain consistency with the Anker methodology on living wage, using family as the unit of reference. If it is necessary to also calculate household size, calculate and report costs based on a typically-sized family first, before making any adjustments*

Within the Community of Practice there has been much discussion about whether family size or household size is more appropriate for determining costs of living and living income, with sound arguments made for both cases. While the terms family and household are often used interchangeably, there are important differences which have consequences for determining the size of the unit for which costs of living are calculated as follows:

- 1) The size and composition of the family will have implications for the **composition and cost of the model diet**. Sedentary workers have different nutritional needs than those working in agriculture fields, for example; children have different needs than adults.
- 2) The model diet is also used to calculate the **preliminary estimate of the non-food non-housing (NFNH) costs**, as described in the NFNH section below. A difference in the unit size (i.e., family or household) could significantly change these calculations.
- 3) The type and size of housing that a family needs, and therefore the cost to rent or maintain housing, can vary depending on family size and composition

The Global Living Wage Coalition (GLWC)<sup>7</sup> and the Anker methodology use **a typically-sized nuclear family rather than a household** as the unit of reference for calculating costs of living for living wage benchmarks. It does this for several reasons, the first of which is that it is not uncommon for a worker (often male heads of household) to migrate for work, taking primary residence in a location away from the nuclear family. This can have the effect of distorting household size, where the migrating worker could be counted as a household of one, and the rest of the family counted separately, even though they are the same economic unit relying on the same income sources to meet their living costs. Also, the concept of living wage holds that families should have the means to live together.

Perhaps the most compelling argument for maintaining the use of *family* in the living income definition is consistency with the Anker methodology on living wage, which is one of the guiding principles. Smallholder producers and other business owners reside alongside waged workers. Indeed, it is not uncommon for smallholder farmers or small business owners to also work part of their time as employees elsewhere. **We are thus likely to see living income and living wage benchmarks for the same geographies. Consistency in terminology and units of measure will make it easier to implement and**

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<sup>6</sup> Anker, R., & Anker, M. (2017). *Living Wages Around the World: Manual for Measurement*. Northampton, MA: Edward Elgar.

<sup>7</sup> Coalition of Standard systems, ISEAL, and Richard and Martha Anker which developed living wage benchmarks globally: [www.globallivingwage.org](http://www.globallivingwage.org)



**understand. It will also reduce challenges associated with discussions over which benchmark is most accurate, when the real purpose of the benchmarks it is to drive action as opposed to having in-depth discussion on one approach vs another.**

There are of course strong arguments for using *household* instead of family, not least of which is that most income data and other demographic data use household as the unit of measure for estimating actual income. There is also some concern that by using *family* instead of *household*, we may miss important economic relationships between extended family. On the other hand, one argument against the use of the *household* concept is that households can include extended family and others that do not pool all their resources, which can potentially inflate the size of the economic unit.

While we recommend maintaining consistency with the Anker methodology on living wage by using family as the unit of reference, **it is important to also consider the following in the final cost of living calculation and adjust when necessary:**

- An additional amount may need to be added to the living income in locations where the cultural norm is to have grandparents or extended family living with or fully dependent on the nuclear family. There are recommendations for how to do this in the Anker Methodology<sup>8</sup>.
- An additional amount may need to be added to the living income in locations where there is a high rate of orphaning due to disease or disaster, and where orphans are typically taken in by extended family members, and which may not already be captured in census data.
- Adjustments may need to be made for locations where it is the cultural norm for families to live in harems and where the male head of household is the sole or primary income earner.

Should the researcher need to adjust the family size for these or other compelling reasons, we strongly suggest **first** calculating and sharing the family size and costs based on the family size, following the Anker methodology. The Anker Methodology for estimating family size relies on secondary data, starting with household size data, and then adjusting for outliers, birth rates, child mortality rates, average birth intervals, and rural-urban differences<sup>9</sup>.

Once family size is calculated, the research can adjust by adding to this list the key factors affecting the composition that are not already captured. It is important to be very transparent about these calculations and to aptly justify why they were needed. Please note that if an adjusted family size is calculated, it will have implications for other calculations as noted above. It may require additional field-level data collection to capture the cost of housing. The cost of the model diet and the non-food-non-housing costs will also need to be updated from the existing data.

### **Consideration: elements of a decent standard of living**

The elements of a decent standard of living include food, water, housing, education, healthcare, transport, clothing, and other essential needs including provision for unexpected events. The Anker

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<sup>8</sup> Anker, R., & Anker, M. (2017). Family size for a living wage. In *Living Wages Around the World: Manual for Measurement* (pp. 238). Northampton, MA: Edward Elgar.

<sup>9</sup> Anker, R., & Anker, M. (2017). Family size for a living wage. In *Living Wages Around the World: Manual for Measurement* (pp. 231-242). Northampton, MA: Edward Elgar.

methodology provides detailed guidance and tools to establish standards and collect data on each one of these elements. **For the most part, the guidance and tools would apply regardless of whether one is estimating the cost of living to inform wages or incomes.** However, there are a few important considerations.

- *Composition of the model diet*

**Recommendation #2** Follow the Anker Methodology guidelines on establishing the model diet. When determining the activity level to use, choose an activity level for family members that appropriately represents the dominant livelihood activities in the geography.

One important factor in the composition of the model diet is the activity levels of family members. Kilocalorie requirements, especially, will vary with age, gender, and activity level. The Anker methodology provides guidelines for establishing activity levels so as not to be overly complicated. Still, this part of the calculation can be tricky, particularly in geographies with varied livelihood patterns. In these instances, it is important to document why certain activity levels were chosen as the bases for kilocalorie requirements in the model diet. In most cases, it will make sense to choose activity levels that are representative of the dominant livelihood system in the geography as well as typical family composition, keeping in mind that activities will often differ between family members.

- *Costing the food for a model diet*

**Recommendation #3** Continue to use market price instead of farm gate price to determine the cost of the model diet, in line with the Anker Methodology.

In some cases, researchers working in agricultural communities may be tempted to use farm-gate prices for the model diet because it would more accurately represent opportunity costs for farmers. While this is true, and important for the calculating of actual income, the model diet should represent what a farming family would need to spend if they needed to purchase food in the market. Therefore, market prices should be used to determine the cost of the model diet for family living income, just as it is used to determine the cost of a model diet for waged workers. There are two important reasons for this. First, subsistence farmers typically sell a portion of their food crops when prices are low to meet immediate cash needs following the lean season, and because good post-harvest storage options are often unavailable. They then need to buy food in the market later in the year when prices are higher. Second, subsistence farmers that depend on rainfed agriculture are highly vulnerable to periods of erratic rainfall and other climatic shock, which happen periodically and are increasing due to climate change. In years of lower production, they become more dependent on market purchases for their food. In these times, the prices again tend to be higher. If we were to use farm gate prices for farmers that grow their own food, we would decrease the living income estimate and risk perpetuating the cycle of vulnerability and livelihoods erosion; we would also end up with a different living cost for farmers and wage labourers.

- **Cost of Decent Housing<sup>10</sup>**

**Recommendation #4** Housing should be measured normatively – so as not to replicate the poverty found in many developing countries. This is a major tenant of the Anker Methodology and a guiding principle of this living income benchmark guidance. As such, it should be established based on principles of minimum standards for housing from international housing conventions, international organizations, and standard setting organizations; housing standards set by governments; and housing conditions in a location.

The Anker methodology for setting housing standards and calculating costs of housing are equally applicable regardless of whether the information is being used for estimating wages or incomes. The methodology stipulates that cost be calculated either based on rental prices or user costs. User costs are the preferred method in areas where the vast majority of homes are owner occupied. Most importantly, housing should be measured normatively. It should be based on minimum international and local standards of decency. This would include, be limited to, standards for structure and location such as:

- Durable structure
- Sufficient living space
- Access to safe water
- Access to sanitary toilet and washing facility
- Adequate lighting, ventilation, food storage
- Protection from cold, damp, rain, heat, wind or other threats to health structural hazards and disease vectors
- Separation from animal quarters
- Cannot be located in unsafe areas, or areas without drainage

For example, in most cases, mud walls and floors would not meet international standards of decency, except in rare cases where mud walls are used in high-quality construction (often in combination with wood or metal framing) such as adobe-style houses found in New Mexico, US.

- **Non-food, non-housing (NFNH) costs<sup>11</sup>**

**Recommendation #5** Follow the Anker methodology to estimate non-food, non-housing (NFNH) costs.

The Anker methodology estimates NFNH costs in four steps. First, it calculates the expenditure ratio of NFNH to food expenditures using data from recent household expenditure surveys. It then adjusts the

<sup>10</sup> Anker, R., & Anker, M. (2017). Local cost of decent housing for a living wage. In *Living Wages Around the World: Manual for Measurement* (pp. 148-168). Northampton, MA: Edward Elgar.

<sup>11</sup> Anker, R., & Anker, M. (2017). Non-food and non-housing costs. In *Living Wages Around the World: Manual for Measurement* (pp. 169-196). Northampton, MA: Edward Elgar.

data to conform with the Anker methodology. The cost of the model diet is then multiplied by the adjusted NFNH to food ratio. Finally, post-checks are done through primary data collection to ensure that the calculation is normatively based and that there are adequate resources for decent healthcare and education. This approach is suitable regardless of whether the information is used to estimate living wages or incomes.

- **Provision for unexpected events and sustainability**

**Recommendation #6** For the living income benchmark, use 5%, as recommended by the Anker Methodology, following the same procedure<sup>1</sup>.

The Anker methodology recommends a conservative 5% above the cost of other elements of a decent standard of living, to provide for unexpected events that could lead to debt and poverty. The examples given in the Anker methodology for ‘unexpected events’ include illness, accidents, and death/funerals, though it mentions that there are numerous others. **This amount may be increased up to 10% in situations where dependency and family obligations are significant in the context (for example, heavy dependency from, and caring for, elderly parents or adult children).** A question that has come up several times is if we should include an additional amount for farming families given the increased risk inherent in agriculture such as erratic rainfall and other weather-related shocks, climate change, periodic infestation, and global market price fluctuations. Given that the living income is applicable to any family in a geographic area regardless of livelihood system, provision for unexpected events and sustainability should be for those situations which are common across families regardless of how they earn their income. Additional risk to agricultural families must be accounted for, but this should be addressed in the actual income studies – as resiliency costs specific to agricultural livelihoods<sup>12</sup>.

## Conclusion

The Living Income Community of Practice recognizes that there are several different approaches for estimating living income, which have been tested and are in use by its members and external groups. At the same time, and after careful consideration, the CoP highly recommends basing living income benchmarks on the Anker Methodology for calculating living wages for several reasons. First, the Anker Methodology has gained global recognition as a leading methodology on living wage calculations. Second, the intention of both living wage and living income initiatives are similar – to ensure a decent standard of living for working families. Moreover, cost of living calculations is the central element of calculations of a living wage or a living income. Third, workers live side by side with primary producers, such as smallholder farmers, and other business owners. In many cases families earn income through a combination of self-owned businesses and waged employment. In this context, using different approaches to estimate the cost of living for farmers and for workers living in the same place would

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<sup>12</sup> When the time comes to estimate income gaps, it will be important to note if actual income studies do in fact take into consideration the additional amount of income that farming families need to rebuild after periodic events, such as climate or economic shocks. If not, this amount will need to be additionally factored into the income gap analysis.

create confusion and detract from the ultimate goal of focusing attention on how to reduce wage and income gaps.

**In all cases, clear, transparent reporting is critical so that others can see exactly how living income benchmarks were calculated.** The approach and data sources should be detailed in such a way that another researcher would be able to replicate the process. **The reference family size, family composition and all elements of decent standard of living for that reference family should be documented and shared.**

We have recommended using family size (aligned with the Anker methodology). If for any reason it becomes necessary to adjust this to another household size, we recommend to first calculate and estimate costs for the family and then make those same calculations for the adjusted household size. This will help create more transparency around how household size affects the estimate and why results of a living income benchmark may differ from living wage estimates for the same location. It is also important to document how the household size and composition differ from the family, and why those adjustments were needed.

To accurately estimate an income gap, it is important to ensure consistency on key elements of how family income and the cost of living for a family are calculated (for example, family size). How important it is to exactly align approaches depends on whether stakeholders need exact calculations of the gap. In some cases, a general understanding of the magnitude of the gap may be all that is needed. Another consideration is how much flexibility there is to adapt actual income calculations: will existing data on actual income be used or is research to estimate actual income still in research design phase? These considerations will help determine whether adjustments are needed and whether those adjustments should be made on the side of the benchmark (cost of a decent standard of living) or the actual income side.

Calculating living income benchmarks is a first step toward ensuring a decent standard of living for smallholder families and other business owners. It sets the overall target. With this guidance document we hope to help the Living Income Community of Practice do this in a consistent and transparent way, so that different actors can then further examine what their own contributions to achieving that target could be.

This document is intended to be the first in what could be a series of methodological notes related to living income and income gap calculations. Further guidance is needed on how to structure actual income assessment to more easily align and compare with living income benchmarks.