

# *HOW TO DEFINE 'DECENT REMUNERATION'*

*IN THE BANANA INDUSTRY*

*AND FOR THE **WORLD BANANA FORUM***

Study undertaken by Benjamin Gayrard and Delphine Lefèvre in the framework of a Masters in Corporate Social Responsibility at the Gustave Eiffel Institute of Business Administration (IAE), University of Paris 12

## **A SUMMARY**

**COLLECTIVE PROJECT**

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**NOTE: The term « decent remuneration » is used throughout, although English readers will be more familiar with the term « living wage ». « Decent » refers to the ILO concept of « Decent Work » and is, in Banana Link's view, no more or less precise than « living ». « Remuneration » is more accurate than «wage» in an industry where the vast majority of what workers earn is through a cumulation of piece rates, rather than a salary or a wage in the normal sense of these words.**

## SUMMARY

### Introduction

This study is the result of a «collective project» undertaken by two students of a Masters course on Corporate Social Responsibility in Paris (France). The study was commissioned on the one hand by the Gustave Eiffel Institute of Business Administration (IAE) at the University of Paris 12 and on the other by the NGO Banana Link (member of the Euroban network).

The study, according to the agreement with those who commissioned it, aims to *«propose a diagnostic methodology that would allow banana companies to analyse their risks and the challenges around the concept of decent remuneration, to pilot the necessary management tools and to report back to the World Banana Forum whose aim is to create sustainable banana production and trade»*. It is also designed to contribute some proposals to the Working Groups of the World Banana Forum on how to tackle the problem of defining and calculating a living wage.

The Working Groups to which the proposals contained in the study are specifically directed are:

- the Working Group on Labour Rights and Other Workplace Issues, that includes the issue of living wages;
- the Working Group on the Distribution of Value along the chain, particularly in as much as it focuses on fair prices;
- also possibly the Working Group on Certifications.

In order to tackle the issue of «what is a living wage?» and « what definition for the banana industry? » we organised the work in three stages :

- firstly, we present a snapshot of the social, economic and legal (public and private standards) context of the issues around decent remuneration;
- secondly, we present four methodologies for determining/defining what is a living wage;
- finally, we propose indicators that could be used to monitor the levels of remuneration and wage policies practised in the banana industry with a view to measuring positive progress towards a «fairer» value chain.

## Materials and methods used

In undertaking this study we did a broad literature search, as well as research in specialised internet sites, and a series of semi-directed interviews. The study is based on the Ecuadorian and Costa Rican industries, but the results could be applied to any other countries. We wanted to acquaint ourselves as much as possible with the reality of the industry in order to:

- identify the different production systems,
- identify the main players in these systems and the different types of contractual relationships that exists (or not) between them,
- observe specific wage policies and practices and types of contract.

This was also done with the aim of proposing a methodology that would be as relevant and useable as possible.

Our reasoning led us to research first all the public and private standards initiatives - both binding as well as voluntary from a legal point of view («hard law» and «soft law») - in as far as they refer to the question of decent remuneration and offer a definition or a method of calculation.

In our analysis of the international and national standards, we studied:

- The Universal Declaration of Human Rights
- The UN Global Compact
- International labour law and the ILO
- The OECD Guidelines for Multinational Enterprises
- National legislation (on minimum wages)
- Collective bargaining agreements and framework agreements in the sector

We also did a comparative study of the different private standard initiatives, notably:

- GlobalGap
- SA 8000
- FLO
- Rainforest Alliance
- GSCP (*Global Social Compliance Programme*), an initiative of the retailers
- Global Reporting Initiative (managed by the Coalition for environmentally responsible economies «CERES» and UNEP)
- ISO 26000
- Round Table on Sustainable Palm Oil, principles and criteria for sustainable production
- Better Sugarcane Initiative

The issues we compared were:

- General working conditions
- Health and safety
- Suppliers
- Housing and basic services
- Wages
- Piece rates
- Overtime
- Access to healthcare for the whole family

We then undertook an analysis of practices for determining the minimum wage, as well as wage policies and human resource policies in general.

Finally, so as to respond to the fact that every issue identified plays a part in determining the level of a «living wage», we proposed indicators that would enable the WBF or the companies to measure positive progress towards fulfilling the objectives fixed.

## RESULTS

Detailed study of the different private standards in existence offers few answers regarding the definition of what is decent remuneration and how to monitor and evaluate its implementation. This demonstrates the gap that exists in the whole area surrounding a «living wage».

On the issue of wages, the texts of the standards are very evasive and there is not a single precise definition of the concept, nor any clarification of the terms used such as «living» or «fair»; nor are there any indicators that require the measurement of actual wage levels.

As far as the methodology for determining the wage level, the second part of the study examines different methodologies that have been used to define «decent remuneration» or «living wages»:

- The Asia Floor Wage methodology
- The Center for Reflection, Education and Action (CREA) methodology
- The ILO methodology
- The methodology used by the Central American NGO ASEPROLA (Labour Promotion Services Association) that is an application of the CREA methodology
- The evaluation by Chiquita Brands International of the wages it pays, undertaken by Tango International consultants, using the Household Income Security methodology to assess basic needs.

Comparative analysis demonstrates that the CREA methodology appears to be the most pertinent and adapted to the World Banana Forum. We therefore recommend that the WBF Working Groups adopt this CREA methodology as well as the indicator used for defining and calculating a «**sustainable living wage**». The methodology is based on a categorisation of remunerations in which the fourth level is considered as «decent» or «living». This level meets **basic needs** (food, clothing, housing, energy, transport, health and schooling) as well as permitting the participation in **social activities** (celebrations linked to births, marriages and deaths) and making **small savings** (enough to allow for medium-term planning).

The indicator used, the Purchasing Power Index (PPI), measures precisely the intersection between prices, income and inflation. It is a method that can be easily used to compare purchasing power in different regions/countries.

From here on, we will use the term «**WBF Living Wage Programme**» (or Decent Remuneration Programme) whenever we refer to the project of redefining wages and monitoring remuneration practices.

The study emphasises how important it will be for the members of the Working Groups to define a quantitative framework for the different elements of the wage. Specifically, they will have to decide what is the minimum level for the following elements:

- food (number of calories, household food basket?)
- clothing
- housing (minimum square metres/person?)
- energy
- transport (to work, to buy basic needs etc)
- minimum healthcare
- schooling (primary and secondary?)
- social needs
- an amount towards savings

The members of the Working Group will also need to determine:

- the size of the household used as a reference
- the scope of application of the Programme

We consider that it is the responsibility of the WBF, more specifically of the relevant Working Groups, to propose quantitative and qualitative objectives for each indicator used in order that the degree of fulfilment can be measured.

The monitoring and evaluation methodology is intended to be a «best in class» methodology, i.e. not one which establishes a minimum threshold then sanctions the «bad pupils», rather one that makes it possible to identify which companies pay minimum wages that are close to, equal to, or exceed the living wage levels defined by the Forum.

We also wanted to propose a possible scope for the application of our favoured methodology. We based our proposal on the categories of banana farms detailed in the study by Dario Cepeda in Ecuador. We suggest that the proposed methodology should be applied as a priority to medium- and large-scale plantations producing for export.

The methodology includes all types of workers, be they permanent or temporary, including «permanent temporary» workers.

When analysing the political and commercial context in which the banana trade is taking place, we identified several critical issues for both companies and for workers that are relevant to discussions on decent remuneration. We propose indicators on each issue affecting workers. The following are some of the critical issues for the different parties.

For the multinational companies :

- the Geneva Agreement: how can the companies reinvest a portion of what they gain from lower tariffs in improving their employees' incomes?
- the growing reputational risk,
- competition versus confidentiality in greater transparency over international trade,
- the openness of the companies to social dialogue and collective bargaining.

For the workers:

- getting their employers involved in the principle and the practice of implementing measures towards a living wage/decent remuneration
- reducing sub-contracting and/or agency working: how to get the producing companies to take greater responsibility,
- defining the intensity of work: equal sharing of tasks
- improving the equality of incomes in space (between regions), time and between men and women,

Our presentation of a proposed programme is based on the principle of a «taking responsibility for management practices» approach described by O. Maurel<sup>1</sup>. We propose a programme in 11 stages:

- 1) **Map all the stakeholders** and the issues at stake.
- 2) Determine the **terms of reference**.
- 3) Determine the **basic principles**.
- 4) Formulate **criteria** that correspond to the principles.
- 5) Identify **guidelines** : instructions or necessary conditions for defining and implementing the criteria.
- 6) Decide on **quantitative and qualitative objectives** together with a timetable.
- 7) Identify **relevant indicators** in order to monitor the activities in the areas identified (principles and criteria) and to measure the extent to which objectives are met.
- 8) Carry out a **programme of worker information and communication**.
- 9) Carry out **monitoring**.
- 10) Write an annual **report**.
- 11) Explore **mechanisms for complaints and criteria adjustment**.

These different elements constitute a «panel of instruments» for implementing a Decent Remuneration Programme in the framework of the World Banana Forum. In this last section we present several indicators that could be used to monitor improvements in wage practices:

#### The extent to which the programme is implemented

- IS1<sup>2</sup>**: The number of companies that adopt the «WBF Decent Remuneration Programme» methodology by country or geographical region (South America, Central America, West Africa etc).
- IS2** : The percentage of plantations per company where the methodology is applied.
- IS3** : The percentage of workers in medium-scale plantations whose wages are being – or will be - redefined according to the method approved by the WBF.
- IS4** : The percentage of workers in medium- and large-scale plantations whose wages are being – or will be - redefined according to the method approved by the WBF.
- IS5** : The percentage of workers in supplier plantations covered by the methodology (as a proportion of the total number of workers employed in supplier companies).
- IS6** : The cost of permanently employed labour as a proportion of the total cost of all labour.

#### A fair definition (neither over-estimated or under-estimated) of the intensity of work

We suggest the possibility of objectively re/evaluating the time needed to complete each job. The «WBF Decent Remuneration Programme» methodology would therefore systematise the typical jobs in the industry as well as have a work intensity evaluation component. The variations in labour intensity could be taken into consideration with the help of the following indicators:

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<sup>1</sup> O. Maurel, Paris, 2010, "La responsabilité des entreprises en matière de droits de l'homme" p.148

<sup>2</sup> IS = Indicator on Scope of implementation

- IL1**<sup>3</sup> : The presence of a fixed 'wage' element in the total remuneration or not.
- IL2** : The percentage of the fixed element in the total remuneration.
- IL3** : The number of hours worked per job or average unit time per indivisible task.
- IL4** : The number of employees per hectare.
- IL5** : The number of litres of agrochemical / number of workers.

### Limiting the flexibilisation of working time

The flexibility of working time is one of the elements that the companies have utilised with a view to reducing their social responsibility.

Three indicators could be relevant:

- IF1**<sup>4</sup> : The average (by category: permanent, temporary, permanent temporary) length of labour contract.
- IF2** : The average difference between the minimum and maximum number of hours worked and remunerated per worker.
- IF3** : The number of sub-contracted workers compared to the number of waged employees with direct contracts in a company.

### Equality of remuneration

Indicators to measure the inequalities in male and female remuneration could include :

- IE1**<sup>5</sup> : The average and the typical difference between the hours worked by women and men employees.
- IE2** : The average and the typical difference between the amount of remuneration received by men and women.

Indicators to measure the inequalities of remuneration between migrant and non-migrant workers :

- IE3** : The average and the typical difference between the hours worked by national employees and migrants.
- IE4** : The average and the typical difference between the amount of remuneration received by national employees and migrants.

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<sup>3</sup> IL = Indicator of Labour intensity

<sup>4</sup> IF = Indicato of labour Flexibility

<sup>5</sup> IE = Indicator of Equality of remuneration

## CONCLUSION

It is clear that each stakeholder has a rôle to play in the implementation of a new policy of «decent» remuneration. Remuneration by piece-rates and according to productivity, labour flexibility in the sector and sub-contracting have favoured the emergence of a series of failures to comply with basic plantation workers' rights, particularly his/her right to a decent minimum wage.

We have seen that there are already existing initiatives in other sectors that propose methodologies for determining a minimum decent wage. These methodologies depend on securing agreement between the different parties in order to determine and evaluate (quantitatively and qualitatively) basic needs, determine what other needs should be included in a decent wage, as well as determining the size of the household that the wage needs to satisfy. In our opinion, deciding on a level of remuneration that is enough to live on, means determining the number of working hours needed to obtain it, but also depends on its stability over time and on the equality of access to it for equal work.

The reflections of the WBF and its Working Groups need to succeed in reconciling a diversity of perspectives, as well as in finding a definition that it is recognised and understood by all and in fixing clear and realistic objectives such that all the actions undertaken in this vital area of remuneration contribute to the coming about of a socially responsible banana chain.