

Revision of the recognition criteria for living wage estimate methodologies

Executive Summary



The revision of the recognition criteria for living wage estimate methodologies

The Roadmap on Living Wages embodies a collaborative endeavor among aligned organisations and companies dedicated to developing essential methodologies for assessing and remedying living wage disparities. In response to these imperatives, IDH partnered with other entities in 2019 to inaugurate the Roadmap on Living Wages initiative.

Among others, the initiative aims to equip companies with the necessary tools for evaluating disparities between prevailing compensation levels and recommended living wages. Key requirements include access to living wage estimates for comparative analysis, tools for assessing current compensation structures vis-à-vis living wage estimates, reliable mechanisms for validating claims related to living wages, and practical field projects aimed at bridging living wage gaps, thereby fostering mutual learning. The active involvement of prominent private enterprises, social standards organisations, and other stakeholders is facilitated through the Steering Committee, the Technical Advisory Group, and the Stakeholder Committee, all of which play pivotal roles in advancing dialogue and action on the issue of living wages.

One of the first activities that the Roadmap on Living Wages undertook to support companies in the selection of living wage estimates to work with was the Recognition Process for Living Wage Estimate Methodologies and its nine criteria against which methodologies are assessed to be recognised. Apart from the members of the different Roadmap committees, organisations managing Living Wage Estimate methodologies like the Anker Research Institute, WageIndicator Foundation and Fair Wage Network provided feedback on the first round of criteria. Further guidance was then developed to support the selection of estimates (see step 1 in the Roadmap's webpage).

The illustration below (illustration 1) shows the different steps of the recognition process.



The Living Wage Estimate Methodology Recognition Process





Former criteria for the recognition process

The former process for recognition of living wage estimate methodologies includes a total of nine criteria to assess methodological aspects associated with the calculation of living wage estimates.

The objective of opening a recognition process was to improve the guidance to the global community on the availability of credible living wage estimates. The focus of the criteria is to assess specific methodological aspects of living wage estimate methodologies, not to verify individual estimates or scrutinise calculations. These criteria do not represent a new living wage estimate calculation methodology but provide objective criteria for the minimum elements needed by a living wage estimate methodology to be recognised as robust.

Each criterion can be seen as either relating to the methodology per se (2,3,5 and 6), publication process (1, 7 and 9) or credibility (4 and 8). These criteria help ensure estimate methodologies are following a similar approach in the items of a cost of living and definition of family and working adults. They help ensure methodologies are following a reliable publication process. And finally, they help assure that minimum elements of credibility, such as transparency and no conflicts of interest are met.

The Former Recognition Process Criteria for Living Wage Methodologies



1. Collecting data

Estimate living wage based on data collected and representative of the location of the living wage estimates



2. Cost of living

Measure the cost of living of a typical family in a region (family size is estimated based on regional/national family size/ data or birth-rate data)



3. Items of cost of living

The cost of living based on requirements for good nutrition, housing, education, healthcare, household goods, transportation, personal care, etc.



4. Conflict of interest

No inherent conflicts of interests. Methodologies must have sufficient distance from funding sources to maintain integrity. Additionally, individual estimate results must not be influenced by the funding source



5. Differences in context

City/region-specific or at least account for urban and rural differences



6. Sufficient net income

Account for statutory deductions from gross income, such as taxes, union fee, etc.



7. Working adults

Factor in the expected number of working adults in a family by dividing the total cost of living by 1+the employment rate



8. Transparency

Publish a clear and consistent methodology for data collection and calculation elements



9. Inflation estimation

Update the estimates yearly for inflation. Estimates can be updated for up to 5 years (considering local circumstances) before a new estimate is needed

Objective of the revision of the recognition criteria

IDH acknowledges the need for constant revision of the recognition process, including the criteria, due to the always evolving nature of the living wage topic and the learnings accumulated over time.

The original process was launched in 2020 and, after 4 years of implementation, the Roadmap's committees considered important to undertake a revision. Thus, the objective of this revision is to improve the recognition process and, through the consultation of Roadmap partners, achieve a better understanding on whether these criteria need to be amended or if any new criterion should be added to ensure alignment and quality of the available living wage estimates.

The improved recognition process should aid to increase transparency and provide better clarity on the differences between methodologies, leading to an easier understanding of the living wage methodologies and easier choice-making for companies.



Process for reviewing the recognition criteria

IDH launched an internal consultation with the committees of the Roadmap on Living Wages for revision of the criteria following the request of its committees.

A survey¹ was created utilizing recommendations, observations and explicit requests received between 2020 and 2023. The survey was first sent to the five organisations that manage recognised methodologies for their initial input. Then, individual interviews were conducted with each organisation between April and May 2023 to gather more detailed feedback. Based on the insights gained from these interviews, the survey was improved to ensure it better addressed the need to update the criteria. The final survey was sent to all members of the Roadmap's committees as well as three other key stakeholders. In total, the survey collected 21 responses. Finally, the report has been reviewed to align on the outcomes of [ILO's Meeting of experts on wage policies, including living wages](#) of February 2024. Based on the recommendations and principles of the ILO meeting, an additional criterion on quality assurance was suggested.

IDH developed this report based on the recommendations gathered in the survey and the interviews. The report has been presented and submitted for feedback to the Stakeholders Committee and the Technical Advisory Group. The report was then shared for approval with the Steering Committee of the Roadmap on Living Wages in August 2024. The report was approved, with no objections to the suggested adjustments. The recognition criteria will be updated as of October 2024 and IDH will collaborate closely with the recognised methodologies to ensure a smooth transition to meeting the revised recognition criteria during the rest of 2024 and early 2025.

1. IDH developed the survey on the revision of the criteria with the support of Heartwood Ltd.

The survey included questions around the following considerations for the revision of the criteria:

- ✓ Inclusion of estimates for single earners in a typical family size.
- ✓ Indication of the location of an estimate based on governmental sub-national delimitation.
- ✓ Explicitly state the data collection date and the period for which the estimate is applicable.
- ✓ Use of field-level research or specialised research conducted by research institutions.
- ✓ Acceptance or not of modelling as a sole form of estimating living wage estimates or in combination with the other methods.
- ✓ Inclusion of care including childcare in the items of the cost of living.
- ✓ Differentiate costs of living based on rural/urban and region for countries above a certain size (large countries).
- ✓ Publication of a step-by-step explanation on data collection and calculations.
- ✓ Prioritise estimates created by, or in direct partnership with, local independent research organisations.
- ✓ Provide a breakdown of the different components of the living wage estimation (food, housing, etc.)

Conclusions

Based on the consultation and following the approval by the Roadmap's Steering Committee, the adjustments below will be implemented.

Existing Criteria	Adjusted Criteria	Explanation of changes
1. Collecting data		
Estimate living wage based on data collected through field level research, online surveys, national statistics and modelling. Collected data should be representative of the location of the living wage estimate.	Estimate living wage: based on data collected through field level research, online surveys (excluding those that are solely based on self-selected respondents) ² , national statistics and/or modelling (modelling not accepted as a sole form).	<p>Modelling³ will not be accepted as a sole form of estimating living wage, unless it is complemented by full transparency of the methodology used and on the ground consultation with local stakeholders to identify potential adjustments that the calculations might need. Modelling will still be accepted in combination with other forms of estimation.</p> <p>However, modelling cannot rely on data collected more than 5 years before and on data collected in another country.</p>
2. Cost of living of a typical family		
Measure the cost of living of a typical family in a region. A typical family in a region means that the size of a family is estimated based on regional (or national) data through family size data or birth-rate data.	Measure the cost of living of a typical family in a region. A typical family in a region means that the size of a family is estimated based on regional (or national) data through family size data or total-fertility data.	Total-fertility rate adjusted by the mortality rate of children under-5 is the correct indicator to determine the number of surviving children per women in fertile ages, and thus the number of children per household on average.

2. Online surveys for measuring living costs are not acceptable if they rely on self-selected populations since they are known to produce biased statistics. Data from surveys conducted by governments or international organisations following best practices and international standards of quality can be useful for living wage estimation.

3. Definition of modelling: Regardless of the sources used in modelling, the methodology should provide clarity on the sampling and clarity on the fine tuning of the estimation based on local consultation.

Existing Criteria	Adjusted Criteria	Explanation of changes
3. Items of cost of living		
<p>Include in the cost of living, the cost of food based on requirements for good nutrition, housing, education, healthcare, household goods, communication, transportation, personal care, and a small margin for unexpected events.</p>	<p>Methodologies are required to transparently itemize the living expenses included in the calculation of the living wage estimates based on requirements listed in the COICOP 2018⁴. Typical expense categories include the following but other items might be added based on local contexts:</p> <ul style="list-style-type: none"> • Nutritious food • Clothing and footwear • Housing (including rental costs, maintenance and furnishing) • Healthcare • Transportation • Information and communication • Recreation, sport and culture • Education services • Restaurants and accommodation services • Insurance and financial services • Personal care and other gender aspects (e.g. sanitary products) • Care (child+elder)* • Other • A small margin for unexpected events <p>Methodologies to provide an explanation on why they do not certain rubrics, for example, childcare.</p>	<p>The list of items of cost of living has been improved to include the broad main items of the broad structure as mentioned in the complete list of household expenditures indicated in the COICOP 2018.</p> <p>Methodologies will need to demonstrate how childcare, and other care related expenses like elderly care, are included in the calculation as an item of the cost of living when culturally appropriate as part of the basic cost of living in a given region/ country.</p> <p>It is important to acknowledge that the inclusion of care in the cost of living will yield higher estimates. However, this will provide greater transparency for users to make an informed selection of estimates, by knowing whether the costs related to care are included in the estimates.</p>

4. [United Nations COICOP \(2018\)](#)

Existing Criteria	Adjusted Criteria	Explanation of changes
4. Working adults		
Factor in the expected number of working adults in a family by dividing the total cost of living by 1+the probability of full-time work.	<p>Factor in the expected number of working adults in a family by dividing the total cost of living by 1 + probability of full-time work.</p> <p>Additionally, a living wage that factors in for a single earner by dividing the total cost of living by 1 to represent the single earner in a typical size family is also accepted.</p>	<p>Inclusion of recognition of estimates for single earners in a typical sized family.</p> <p>This means that the recognition process is now open also for methodologies that provide living wage estimates for single earners in a typical sized family.</p> <p>Working adults should always refer to full-time equivalent workers. For single earner estimations, it should be clarified that this applies typical size families and not to lone-parent families.</p>
5. Sufficient net income		
Provide the gross living wage estimate, which is the gross pay required to ensure sufficient net take home pay to cover for the cost of living. This is necessary because 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.	n/a	n/a

Existing Criteria	Adjusted Criteria	Explanation of changes
6. Differences in context		
Are city/region-specific or at least account for urban and rural differences.	<p>Estimates are city/region-specific or at least account for urban and rural differences.</p> <p>For large countries (e.g. Australia, Argentina, Brazil, Canada, China, India, Russia, USA):</p> <p>Methodologies need to indicate whether subnational estimates are provided or not and if the location for which the subnational estimates apply are based on governmental/sub-governmental delimitation (e.g. when the estimate applies to a specific sub-national province).</p> <p>Methodologies need to provide guidance on how to proceed when there are not subnational estimates or there is no estimate available for a given region (e.g. suggest that they use the national estimate, or a neighbouring region estimate).</p>	<p>Methodologies to provide urban/rural or sub-national level delineation with clear geographical borders for countries above a certain size (large countries). Specifying this geographical delineation might not be required for smaller countries, but the distinction urban/rural should still apply.</p> <p>Adding the indication of whether the estimates fit the governmental or sub-governmental delimitation would increase the understanding of applicability of estimates.</p>
7. Conflict of interest		
Must have no inherent conflicts of interests. Methodologies must have sufficient distance from funding sources to maintain integrity. In addition, individual estimate results must not be influenced by the funding source.	<p>Must have no inherent conflicts of interests. Methodologies must have sufficient distance from funding sources to maintain integrity. In addition, individual estimate results must not be influenced by the funding source.</p> <p>Organisations who have other activities that can be perceived as a conflict of interest such as auditing and certifying companies that use these estimates, the organisation needs to publicly disclose what are the systems that have been implemented to avoid such conflicts.</p>	

Existing Criteria	Adjusted Criteria	Explanation of changes
8. Transparency		
Publish a clear and consistent methodology for data collection and calculation elements	Publish a clear and consistent step-by-step methodology for data collection, the data sources used and calculation elements, including a description of each step of the data collection, the calculation formulas used and a breakdown of the different components of the living wage estimation (see criterion 3).	<p>Methodologies to provide a step-by-step detailed explanation of the data collection and calculations instead of a summary.</p> <p>Having the breakdown of the different components of the living wage estimation would provide more transparency and better understanding of the differences between the methodologies for users.</p>
9. Inflation estimation		
Update the estimates yearly for inflation. Estimates can be updated for up to 5 years (considering local circumstances) before a new estimate is needed.	<p>Update of estimates</p> <p>If there is no on the ground data collection research every year, the estimate should at least be adjusted according to inflation every year. Further adjustments beyond inflation, through a full on the ground study, should take place as frequent as possible. Methodologies are encouraged to do so as much as their resources allow and no longer than every 5 to 10 years (considering local circumstances).</p> <p>Methodologies to provide justification on the frequency of their full studies and why they are not conducted within the ideal timeframe (e.g. financial or capacity limitations).</p>	Complementary to criterion 1 on modelling, inflation adjustment cannot be used as a sole form of update of estimates.

	New Criteria	Explanation
10. Collection date and applicability		
	<p>Methodologies to explicitly mention the date of the data collection for each category separately.</p> <p>Methodologies to explicitly mention the period for which the estimate is applicable.</p>	This criterion would provide better understanding of the applicability of the estimates for users.
11. Local stakeholder⁵ participation		
	Specify when estimates were developed by, or in direct partnership with, local independent research institutions and labour representatives and were subject to local stakeholders' consultation. Methodologies to describe how they consult local stakeholders.	This indication would provide a better overview of estimates that have been developed with local institutions and/or labour representatives.
12. Quality assurance		
	Methodologies to be verified by an independent party with no conflict of interest (based on the ILO principle, chapter 3 of the report from March 2024). Methodologies to describe its quality assurance process during the recognition process.	<p>Quality assurance should include both meeting principles of an acceptable methodology as well as demonstrated quality control of how such an acceptable methodology is applied in practice.</p> <p>An advisory council or expert panel would qualify as examples of independent parties.</p>

5. Stakeholders are individuals and groups who have an interest in the issue. This will include beneficiaries, their families, and communities; actors in the local economy; government and community organizations and officials. This group also includes all potential partners (International Labour Organisation, 2014). More information [here](#) and [here](#).

The following section illustrates the adjustments to the recognition criteria for living wage methodologies. The methodologies will be assessed against this updated set of criteria following the recognition process.



1. Collecting Data

Estimate living wage: based on data collected through field level research, online surveys (excluding those that are solely based on self-selected respondents), national statistics and modelling (modelling not accepted as a sole form).



2. Cost of living

Measure the cost of living of a typical family in a region. A typical family in a region means that the size of a family is estimated based on regional (or national) data through family size data or total-fertility data.



3. Items of cost of living

Methodologies are required to transparently itemize the living expenses included in the calculation of the living wage estimates based on requirements listed in the COICOP 2018. Typical expense categories include the following but other items might be added based on local contexts:

- Nutritious food
- Clothing and footwear
- Housing (including rental costs, maintenance and furnishing)
- Healthcare
- Transportation
- Information and communication
- Recreation, sport and culture
- Education services
- Restaurants and accommodation services
- Insurance and financial services
- Personal care and other gender aspects (e.g. sanitary products)
- Care (child+elder)*
- Other
- A small margin for unexpected events

Methodologies to provide an explanation on why they do not contain certain rubrics, for example, childcare.



4. Working adults

Factor in the expected number of working adults in a family by dividing the total cost of living by 1+the employment rate.

Additionally, a living wage that factors in for a single earner by dividing the total cost of living by 1 to represent the single earner is also accepted.



5. Sufficient net income

Provide the gross living wage estimate, which is the gross pay required to ensure sufficient net take home pay to cover for the cost of living. This is necessary because 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.



6. Differences in context

Estimates are city/region-specific or at least account for urban and rural differences.

For large countries (e.g. Australia, Argentina, Brazil, Canada, China, India, Russia, USA):

Methodologies need to indicate whether subnational estimates are provided or not and if the location for which the subnational estimates apply are based on governmental/sub-governmental delimitation (e.g. when the estimate applies to a specific sub-national province).

Methodologies need to provide guidance on how to proceed when there are not subnational estimates or there is no estimate available for a given region (e.g. suggest that they use the national estimate, or a neighbouring region estimate).



7. Conflict of interest

Must have no inherent conflicts of interests. Methodologies must have sufficient distance from funding sources to maintain integrity. In addition, individual estimate results must not be influenced by the funding source.

Organisations who have other activities that can be perceived as a conflict of interest such as auditing and certifying companies that use these estimates, the organisation needs to publicly disclose what are the systems that have been implemented to avoid such conflicts.



8. Transparency

Publish a clear and consistent step-by-step methodology for data collection, the data sources used and calculation elements, including a description of each step of the data collection, the calculation formulas used and a breakdown of the different components of the living wage estimation (see criterion 3).



9. Update of estimates

If there is no on the ground research every year, the estimate should at least be adjusted according to inflation every year.

Further adjustments beyond inflation, through a full on the ground study, should take place ideally within 5 years and no longer than 10 years (considering local circumstances).

Methodologies to provide justification on why full studies are not done within the ideal timeframe of 5 years (e.g. financial limitations).



10. Collection date and applicability

Methodologies to explicitly mention the date of the data collection for each category separately.

Methodologies to explicitly mention the period for which the estimate is applicable.



11. Local stakeholder participation

Specify when estimates were developed by, or in direct partnership with, local independent research institutions and labour representatives and were subject to local stakeholders' consultation. Methodologies to describe how they consult local stakeholders.



12. Quality assurance

Methodologies to be verified by an independent recognised third party (based on the ILO principle, chapter 3 of the report from March 2024). Methodologies to describe the process during the recognition process.



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