ESTIMATING A LIVING WAGE BENCHMARK IN SIALKOT, PAKISTAN

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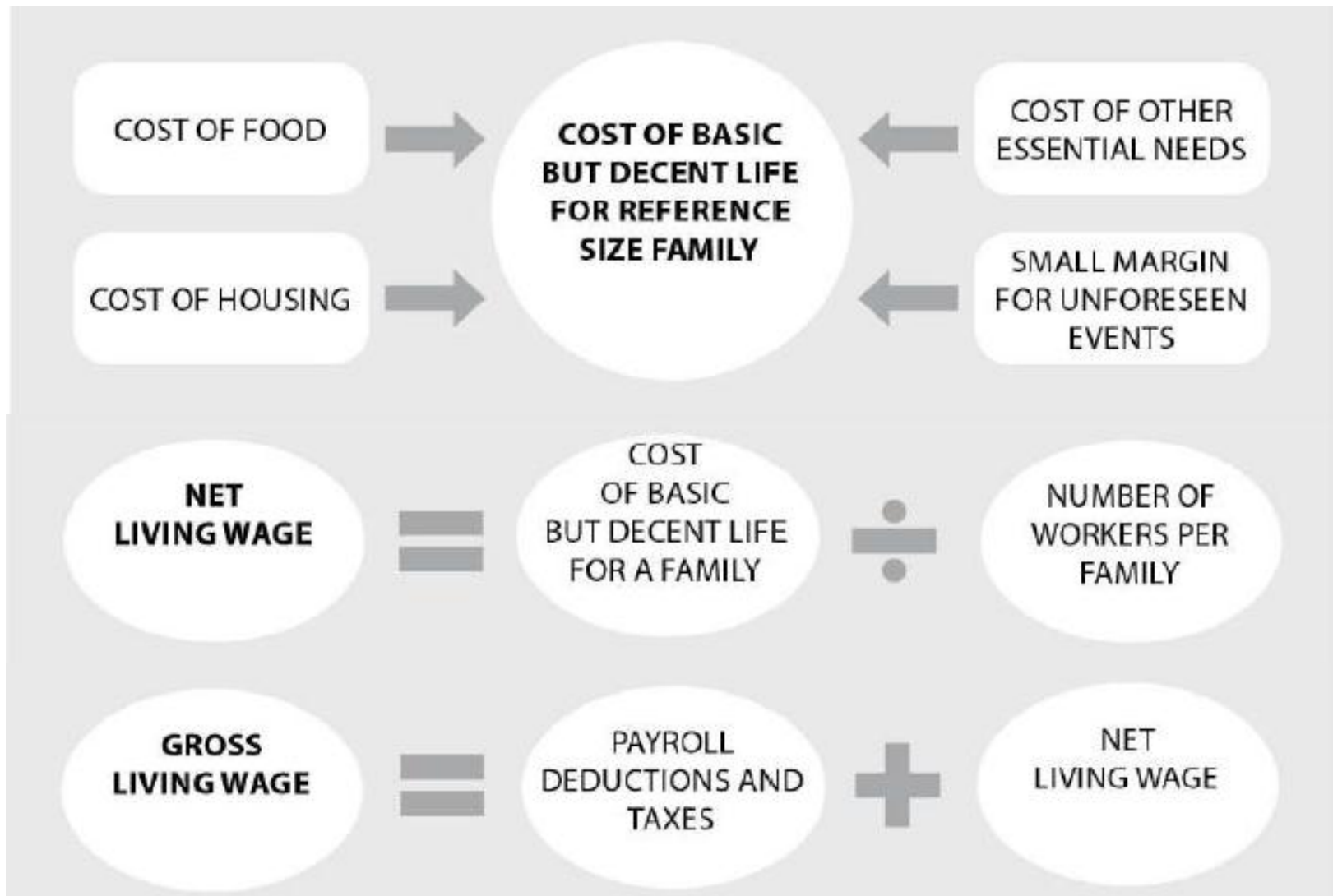COLLECTIVE FOR SOCIAL SCIENCE RESEARCH

GLOBAL LIVING WAGE COALITION

Defining Living Wage

- Living wage is recognized as a **need** by the international community. It is included in the United Nation's Universal Declaration on Human Rights and the ILO's constitution.
- The definition for a living wage used in this report is:
  - "Remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and his or her family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs, including provision for unexpected events."

Anker Methodology

- This study uses a new methodology developed by Richard and Martha Anker. This has been used to estimate the living wage in approximately 20 countries.

- The methodology uses a mix of secondary and primary data.

- There are four components of a living wage in the Anker methodology:

  1. Food costs, i.e. Nutritious low cost diet
  2. Housing costs
  3. Non-food non-housing costs (education, health, transport, recreation and culture etc.)
  4. A 5% buffer for emergencies and sustainablity

Household costs to gross living wage

COST OF FOOD → COST OF BASIC BUT DECENT LIFE FOR REFERENCE SIZE FAMILY ← COST OF OTHER ESSENTIAL NEEDS

COST OF HOUSING → COST OF BASIC BUT DECENT LIFE FOR REFERENCE SIZE FAMILY ← SMALL MARGIN FOR UNFORESEEN EVENTS

NET LIVING WAGE = COST OF BASIC BUT DECENT LIFE FOR A FAMILY ÷ NUMBER OF WORKERS PER FAMILY

GROSS LIVING WAGE = PAYROLL DEDUCTIONS AND TAXES + NET LIVING WAGE

Living Wage Estimation in Pakistan

- We estimated the Living Wage for areas where workers in the football manufacturing sector of Sialkot are concentrated.

- Includes Urban and Rural Areas, hence two separate wages.

- This work is only representative of small urban and rural north-east Pakistan.

Local Context

- Pakistan is a major exporter of footballs, with a global market share of 40%.
- Sialkot, in the Punjab province, is a major hub for manufacturing, and especially renowned for its footballs.
- Two types of balls:
  - Machine stitched (urban)
  - Hand stitched (rural)

Primary Field Research

- In-depth interviews and focus group discussions with workers to ascertain household costs and consumption patterns and preferences.

- To estimate food costs, we collected prices from markets where workers shopped.
  - In December and April to adjust for seasonal variation.

- Real estate market survey to estimate cost for houses that met our standard.

Secondary Data Use

- Using data from the Household Integrated Economic Survey, the Labour Force Survey and the Demographic and Health Survey, we determined the following:
  - Using average household size data, fertility rates and mortality rates, we arrived at the typical family size:
    - Urban = 5
    - Rural = 5.5
  - Using labour force participation rates, unemployment rates and part-time employment rates we arrived at the number of full-time workers per family:
    - Urban = 1.53
    - Rural = 1.65
  - Local housing conditions and norms
  - Proportions of household expenditure by category
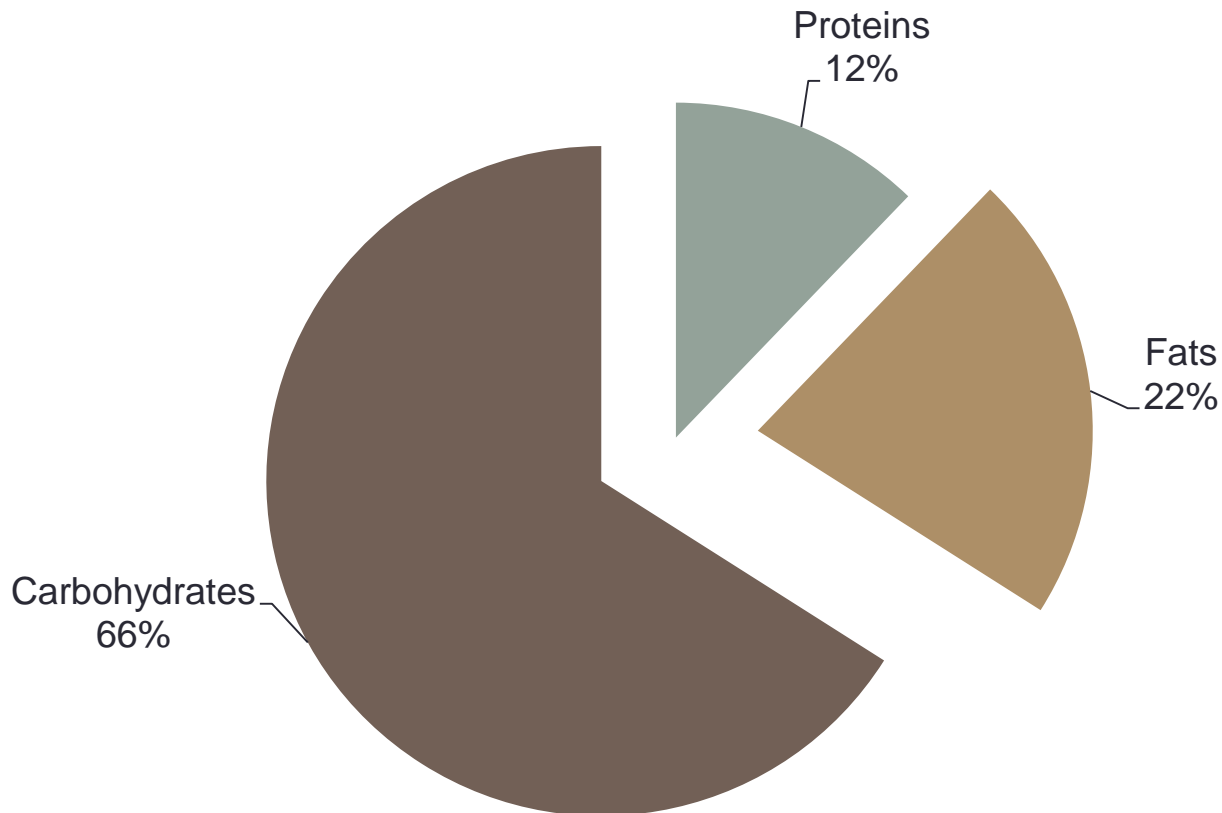
Food Costs

- Model diet based on secondary data of food consumption
  - Purchased grams vs. Edible grams
  - Edible grams into calories based on USDA nutritional data
  - WHO/FAO minimum standards of carbohydrates, proteins and fats to be met
- Primary data from local food market surveys used to calculate cost for the model diet
- Model diet adjusted based on three principles
  1. Nutritious: as per international standards, intake of carbohydrates, proteins and fats was balanced in appropriate proportions
  2. Relatively low cost: items chosen were kept as low cost as possible while accounting for nutrition requirements.
  3. Consistent with local preferences: based on interviews.

Determining the Model diet

1. Number of calories for an average person in our reference family
   - Urban: 2187 calories
   - Rural: 2161 calories
2. Types of foods for each food group based on interviews
3. Quantities of food from HIES
4. These were then adjusted for:
   - Nutritional balance
   - Distribution of costs similar to expenditure distribution in HIES

Distribution of Macronutrients

- Diet same for both rural and urban, hence nutritional content same also – within the WHO/FAO standards.

Proteins 12%

Fats 22%

Carbohydrates 66%

Model diet

- Our urban and rural model diets are almost the same. We felt that for decency and fairness that urban and rural people should have similar nutrition. The only difference in our urban and rural model diets is that there are slightly different quantities of because our rural reference family size is slightly larger than our urban reference size family.

- Wheat is central to our diets and to local consumption. It is cheaper than rice and accounts for almost 20% of the cost. We include rice once a week because local consumption was minimal.

- Our diet includes two chicken meals a week, which we think is decent and necessary to meet protein requirements. This is also the main source of animal protein in our diet.

- A considerable amount of pulses and beans (45g) are included in our diets because they are a relatively inexpensive protein and were frequently consumed.

- We include potatoes as the root and tuber component of our diet. It is consumed widely in Sialkot.

Model diet (contd.)

- For vegetables we include radish and carrots in the winter and pumpkin and eggplant in the summer. Spinach is included as a green leafy vegetable. These are relatively cheaper and popularly consumed, while also being nutritious.
- In addition to these vegetables, we also include onions and tomatoes because these form the base for almost all meals cooked in Pakistan.
- Banana (winter) and watermelon (summer) are included to represent fruits as these are inexpensive and widely consumed fruits.
- Quantity of milk is 1 cup per day for children and 10 ml per cup of tea for adults and children.
- Tea is widely consumed in Pakistan; therefore, we include 3 cups of tea for adults per day and 1 cup of tea for children per day.
- Finally, to the total cost of the model diet, we add an additional 18% as miscellaneous costs. This includes 10% for variety, 5% for wastage and spoilage and 3% for salt, spices and condiments.

Costs of model diet

- Urban
  - Rs.69.7 per person
  - With 18% miscellaneous expenses: Rs.82.2 ($0.79) per person
  - For the household: Rs.411 ($3.94)

- Rural
  - Rs.68.6 per person
  - With 18% miscellaneous expenses: Rs.81 ($0.78) per person
  - For the household: Rs.445.5 ($4.27)

Housing

- Existing housing was unsuitable in many instances. For example:
  - 4-5 people living in one room
  - Houses made of non-durable materials
  - Kitchen and bathroom sharing the same space
- Setting a normative housing standard
  - Minimum 50 sq. meters
  - Materials used for constructions should permanent
  - At least 3 rooms (2 bedrooms and a kitchen)
  - Kitchen should have adequate ventilation and food storage area
  - Windows in rooms for ventilation and light
  - Electricity
  - Potable water
  - Toilets should have connection to sewage or a septic tank

Housing Costs

- Rental values for house that meets minimum standard
- Construction and maintenance cost determined for rural areas, as there was no rental market
- Utilities included in housing costs – based on interviews

	Rental Value	User Cost Value	Utilities	Total
Urban	6000	0	2475	**8475 ($81.3)**
Rural	0	2424	2186	**4610 ($44.2)**

Example of unfit housing

Housing that meets our minimum standard

Non-food Non-Housing (NFNH)

- NFNH Includes following categories:
  - Communication
  - Education
  - Health
  - Transport
  - Recreation and Culture
  - Clothing and footwear
  - Furniture and housing equipment
  - Miscellaneous
- Determined using the NFNH/Food ratio, which is calculated from secondary data

Calculating NFNH Costs

1. Determine the ratio of food to NFNH expenditures from HIES, and use that to give a ballpark figure for NFNH.

2. Remove unnecessary expenses, such as on tobacco and private vehicles. The resulting ratios are below.

3. Carry out rapid post-check adjustments for education, health and transport.

	NFNH	Food	**Ratio**
Urban	27.68	44.44	0.623
Rural	29.61	50.82	0.583

Post-check adjustments

- Within NFNH, costs of health, education and transport are calculated using their shares of NFNH
- Rapid post-checks are done – i.e. we do an estimate of these costs based on our field research
  - This is done so as to ensure that our living wage doesn't underestimate costs for essentials based on current expenditure
- If post-check costs are higher than that in secondary data, NFNH is increased by commensurate amount
- In our case only costs for education were higher

Buffer for Emergencies

- Workers living a basic life can be thrown into poverty from shocks, such as illnesses or a death in the family.
- We include a 5 percent margin to the food, housing and NFNH costs.
- This works out to:
  - Urban: Rs. 1471 ($14)
  - Rural: Rs. 1333 ($13)

Summary of Urban Household Costs

FAMILY EXPENSES	Pakistan Rupees	US $
Food cost per month for reference family (1)	12,501	120
Food cost per person per day	82.2	
Housing costs per month (2)	8,475	81
Rent per month for acceptable housing [a]	6,000	
Utilities and minor repairs per month	2,475	
Non-food non-housing costs per month taking into consideration post checks (3)	8,453	81
Preliminary estimate of non-food non-housing costs	7,788	75
Health care post check adjustment	0	
Education post check adjustment	664	
Transport post check adjustment	0	
Additional 5% for sustainability and emergencies (4)	1,471	14
Total household costs per month for basic but decent living standard for reference family (5) [5=1+2+3+4]	**30,900**	**296**

Converting Household Costs to a Living Wage - Urban

LIVING WAGE PER MONTH	Pakistan Rupees	US $
Living wage per month, net take home pay (6) [6=5/#workers]	20,144	193
Mandatory deductions from pay (7) (list these in notes to table, e.g. taxes)	80	
Gross wage required per month for Living Wage (8) [8=6+7]	**20,224**	**195**
LIVING WAGE IN INDUSTRY CONSIDERING VALUE OF TYPICAL IN KIND BENEFITS		
Value per month of common in kind benefits in industry (9A)	184	1.76
Value per month of common cash allowances in industry (9B)	0	0
Living Wage take home pay in industry, when workers receive typical in kind benefits and cash allowances in industry (10) [10= 6-9A-9B]	**19,960**	**191**
Living Wage gross pay in industry if worker receives typical in kind benefits and cash allowance in industry (11) [11= 8-9A-9B]	**20,040**	**192**

Summary of Rural Household Costs

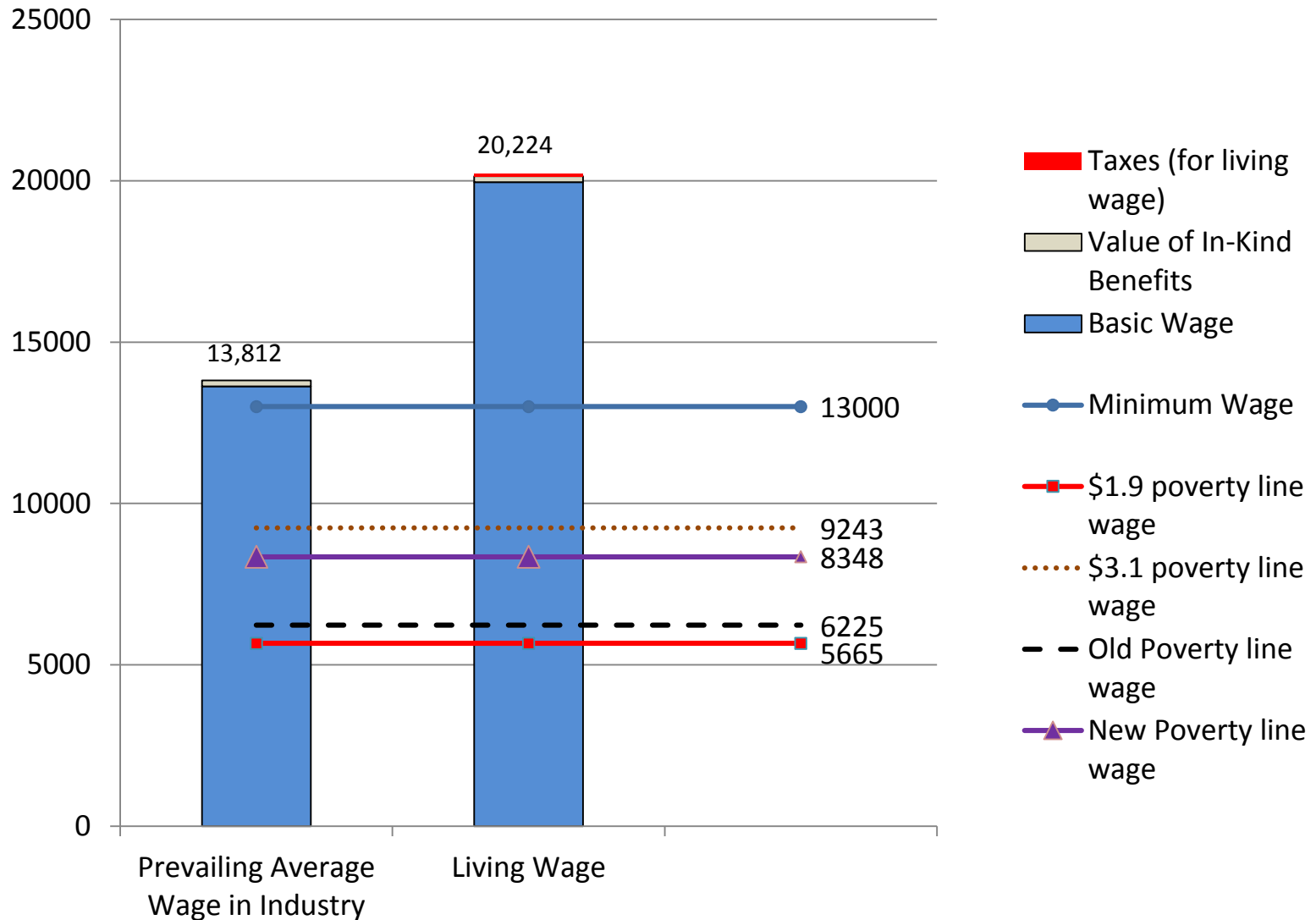| FAMILY EXPENSES	Pakistan Rupees	US $
Food cost per month for reference family (1)	13,544	130
Food cost per person per day	80.96	
Housing costs per month (2)	4,610	44
Rent per month for acceptable housing [a]	2,424	
Utilities and minor repairs per month	2,186	
Non-food non-housing costs per month taking into consideration post checks (3)	8,501	82
Preliminary estimate of non-food non-housing costs	7,896	76
Health care post check adjustment	0	
Education post check adjustment	604	
Transport post check adjustment	0	
Additional 5% for sustainability and emergencies (4)	1,333	13
Total household costs per month for basic but decent living standard for reference family (5) [5=1+2+3+4]	**27,987**	**268**

Converting Household Costs to a Living Wage - Rural

LIVING WAGE PER MONTH	Pakistan Rupees	US $
Living wage per month, net take home pay (6) [6=5/#workers]	16,993	163
Mandatory deductions from pay (7) (list these in notes to table, e.g. taxes)	0	
Gross wage required per month for Living Wage (8) [8=6+7]	**16,993**	**163**

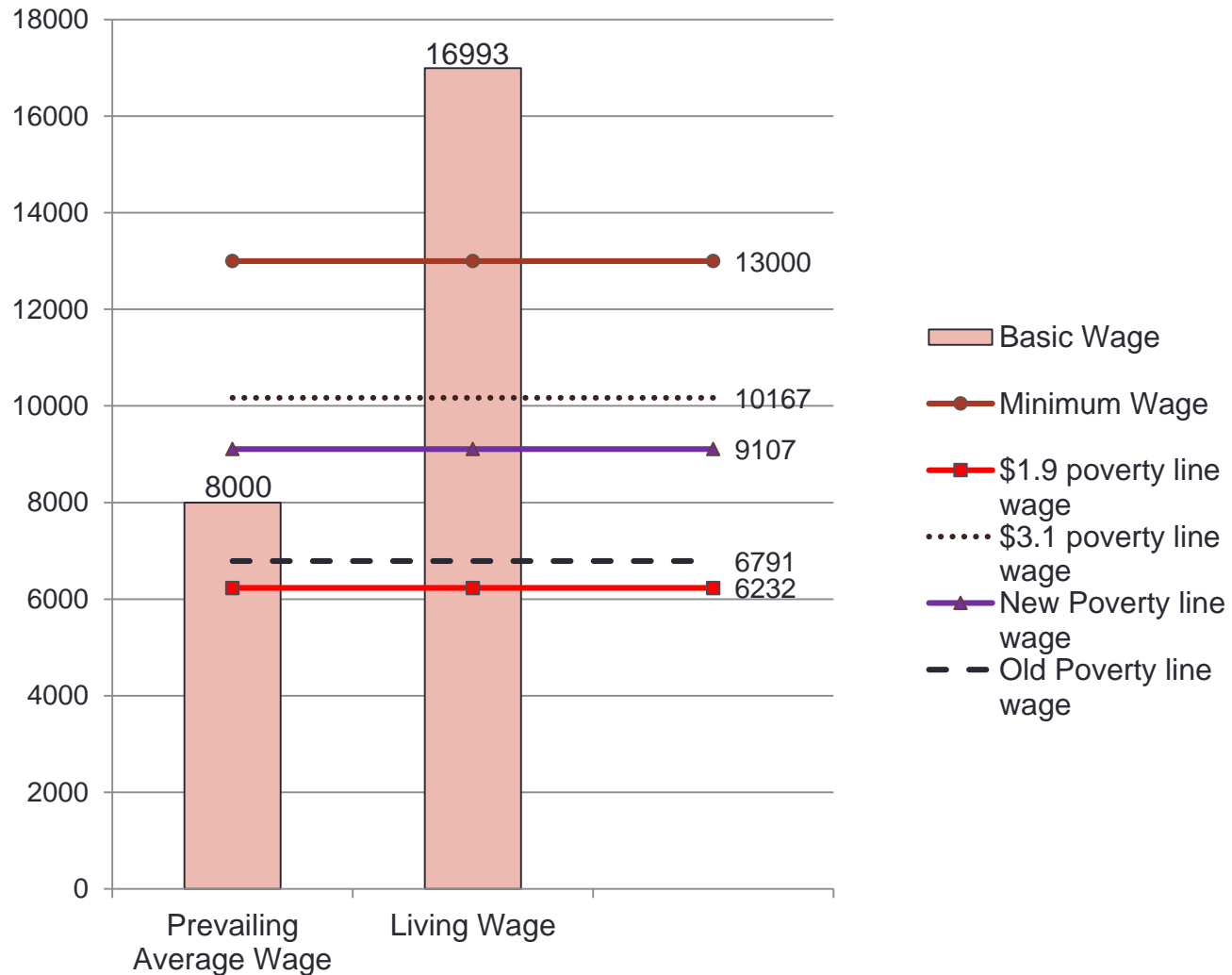- No in kind benefits or mandatory deductions

Prevailing Wages

- Urban wages, i.e. in factories, complied with minimum wage laws. At the time this was Rs.13000.

- Payment in rural areas was on a piece rate. The average we found was Rs.8000.

- In kind benefits are considered a partial payment for wages.

- Only in urban areas did we find factories providing transport for workers as a benefit.

  - Estimated this by using the difference of expenditure on transport from HIES data and our post-check estimate of costs of transport for all commutes except for work.

  - Providing company transport ensures a steady supply of labour.

Urban Wage Ladder

Rural Wage Ladder

Updated LW to December 2018

	Urban			
	Dec-15	**Dec-16**	**Dec-17**	**Dec-18**
Net LW per month	19,960	20,699	21,651	22,993
Taxes/Mandatory deductions per month	80	130	130	130
Gross LW per month	20,040	20,829	21,781	23,123

Updated LW to December 2018

	Rural			
	Dec-15	**Dec-16**	**Dec-17**	**Dec-18**
Net LW per month	16,993	17,622	18,432	19,575
Taxes/Mandatory deductions per month	0	0	0	0
Gross LW per month	16,993	17,622	18,432	19,575

Conclusion

- Estimation of the living wage was done on the least cost options for a basic but decent living standard.

- Data shows that the prevailing urban wage is one third less of the Living Wage

- Data also shows that the prevailing rural wage is one half of the living wage

Conclusion: How to Reduce the Wage Gap?

- Specific to the Football Industry and Generalizable to Other Exporters, the Onus in reducing the wage gap should be with the entire value chain

- Will be Unfair to Put the Entire Onus on Employers

- For Urban Areas: Government Should Benchmark the Minimum Wage with the Living Wage.

- Once that is Done then the Gap Can be reduced Over time

Conclusion: How to Reduce the Wage Gap?

- <u>Rural</u>
- Much more complex in the Rural Areas because of the lack of Formal Employment Opportunities
- In our Context 2 things Can be Done
- i) Institute and enforce a lower minimum wage (and similarly benchmark it with the living wage). Should be lower than the urban because otherwise it will lead to unemployment
- ii) Universalize health benefits to all citizens

Conclusion: How to Reduce the Wage Gap?

- In an environment where enforcement of the minimum wage is Difficult, it is important to address the issue of the Reservation Wage

- The Reservation Wage in turn can be raised through social protection instruments

- Pakistan has a substantial cash transfer program – Benazir Income Support Program (BISP).

- Either BISP should be expanded or a new social protection instrument instituted for this purpose

THANK YOU