The IDH Salary Matrix

Version 2.0

June 2020

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1. What is the IDH Salary Matrix?

The Salary Matrix is a tool originally developed by IDH and Rainforest Alliance to address possible gaps between workers' total renumeration packages and living wage recommendations. The first version was published in December 2018 as part of the project 'Next Steps in Sustainability: Measuring Impact and Assessing Living Wages' in Costa Rica and Belize, based on findings from seven pilot farms that volunteered to better understand the value of their salaries, bonuses, and benefits.

In May 2019, IDH held a public consultation to further refine the tool. The valuable feedback from private sector partners, certification bodies, and others laid the foundation for improvements to help all supply chain actors take effective action towards living wage. With support from Fairtrade, Rainforest Alliance, and others, further pilot tests then took place between September 2019 and January 2020 — collecting data from the tea, banana, coffee, pineapple, and flower sector in eight countries.

All feedback was reviewed by the Roadmap on Living Wages, an initiative launched by IDH in 2019 to enable companies to work on the definitions, tools, and approaches to living wages in a uniformed way. In spring 2020, all members agreed on improvements to the Salary Matrix, including its digitalization, which is expected to be finalized in fall 2020.
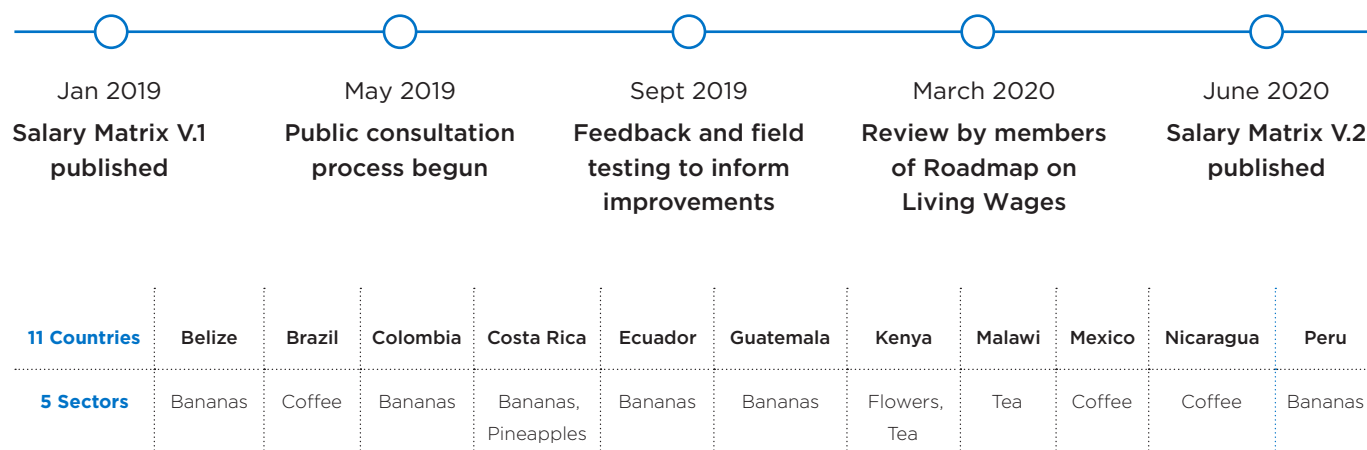
Throughout the process, IDH has been leading supporting partners engaged in the testing of the tool — from organizing consultation meetings to compiling feedback, analyzing recommendations, and identifying practical ways to incorporate them into an improved second version of the Salary Matrix.

This paper accompanies the new Salary Matrix V.2, outlining its main functionality as well as the technical details needed to assess living wage gaps. It includes a section highlighting the changes (Section 3), and a Glossary providing key definitions.

Click here for the Salary Matrix.

Salary Matrix

Jan 2019	May 2019	Sept 2019	March 2020	June 2020
Salary Matrix V.1 published	**Public consultation process begun**	**Feedback and field testing to inform improvements**	**Review by members of Roadmap on Living Wages**	**Salary Matrix V.2 published**

11 Countries	Belize	Brazil	Colombia	Costa Rica	Ecuador	Guatemala	Kenya	Malawi	Mexico	Nicaragua	Peru
5 Sectors	Bananas	Coffee	Bananas	Bananas, Pineapples	Bananas	Bananas	Flowers, Tea	Tea	Coffee	Coffee	Bananas

2. How does the Salary Matrix assess a living wage gap?

In this section, we describe the different variables and detailed requirements for calculating total remuneration so it can be compared with a living wage benchmark to assess the gap. Endnotes indicate improvements to the original Salary Matrix V.1. An overview of all improvements can be found in Section 3.

Total remuneration

The total value of what employees receive in an average month (counting average working week hours, including gross monthly cash wages, bonuses, and in-kind benefits), for comparison against a living wage benchmark.

DETAILED REQUIREMENTS

- The Salary Matrix V.2 collects data on average total remuneration per job category. When a facility's payroll system allows, total remuneration can be collected per employee.[i]

- A job category consists solely of workers who do the same task, are paid the same way, and receive the same in-kind benefits. No more than 10% of all workers may be included in any one job category.[ii]

Gross monthly cash wages

Wages can be calculated using a number of methods, based on different payment units.

Many employees are paid using a 'piece-rate' system, where they are paid for the number of units they produce. These units may be production units, such as kilograms of coffee, boxes of bananas, or number of garment pieces, but may also be numerical units, such as number of hectares a worker clears, or number of trips on a particular route.

Other employees are paid in time-related units, such as per month, fortnight, day, or hour.

There are also employees who are paid in a combination. For example, many tea workers are paid a daily rate, and an additional amount per kilogram of tea picked.

All wage data is collected in gross (pre-tax) amounts.[iii]

Wages often change depending on the time of the year, in line with production peaks and lows, or cycles within a year. The Salary Matrix V.2 collects data on the length of these different production 'seasons' (up to four seasons) so that salary data can be collected for each season.[iv]

DETAILED REQUIREMENTS

- For each job category, the Salary Matrix V.2. calculates the average total gross monthly wages to compare against a living wage benchmark. Wage data is based on 'units' in order to estimate the typical wage. The unit of work is the output for which a worker is paid.

- If the average total gross monthly wage is known per employee, this can be directly included by using 'month' as the unit by which each employee or job category is paid.

- If the average monthly pay per employee is not known, the Salary Matrix V.2 can support this calculation for a variety of pay structures.

- In a time-based payment structure, the unit would be 'hour', 'day', etc. The Salary Matrix V.2 automatically makes this calculation. For example, if an employee is paid $15 per day and works 26 days per month, the average monthly wage is automatically calculated to $400.[v]

- Salary Matrix V.2 collects wage data based on units in order to estimate the typical wage per day. For example, some workers are paid by the number of shirts they iron, or boxes they pack. The unit would then be "shirt" or "box." This is sometimes called a piece-rate payment. In a case where the units are boxes, the 'amount paid per unit' is $0.10 and the 'typical number of units produced in a day' is 100, the Salary Matrix V.2 would calculate an average daily wage of $10.

Standard work week

To compare wages with a living wage benchmark, only those wages earned in a standard work week are considered. This is because a living wage should not need overtime work to achieve.[1] Companies don't have to calculate standard work week wages, the Salary Matrix V.2 calculates these automatically. Companies only enter the hours actually worked.

DETAILED REQUIREMENTS

- A standard work week is equivalent to the country-defined legal standard work week, for which overtime pay is not required. If there is no country-defined standard work week, the International Labour Organization (ILO) standard work week of 48 hours will apply.[vi]

- For all types of pay structures, the hours worked per day and per week must be collected as they form the basis for calculating the wage that an employee would receive if working a standard work week.

- For workers paid by time units (hour, month, year, etc.), the total wage earned is divided by the days and hours worked to calculate the wage per hour. This amount is then multiplied by the hours in a standard work week. The resulting standard weekly wage serves as the most fundamental unit of calculation and is used to produce comparable monthly (x 4.35) or yearly (x 52.14) units.[2] It is important to understand that these monthly or yearly figures are not indicative of actual time worked, but represent a cumulative value if a standard work week was worked all month or year.

- To calculate this standard work week equivalent wage, the total daily expected wage (value per unit x number of units per day) is divided by the number or hours worked per day. For example, if a worker is paid $100 (piece-rate or otherwise) and works 100 hours a week, the Salary Matrix V.2 will calculate that in a 48-hour standard work week, the worker would earn $48 cash wage. This calculation is done per job category, which is explained below.

Job categories

A job category consists of any group of people who are paid the same base or piece-rate amount, in the same way (as described above), and perform generally the same tasks and receive the same in-kind benefits. For example, if a group of workers all pick bananas and are paid $1 per box, they will be in the same job category. If some workers are paid $1 per box and others are paid $1.10 per box, they will be in two different job categories.

DETAILED REQUIREMENTS

- In the Salary Matrix V.2, a workplace can be divided into as many job categories as needed, and a category can be as small as a single worker.

- If more than 10% of all workers are in the same job category, they must be divided into evenly sized job categories of no more than 10% of all workers. If average piece-rate differs among workers performing the same task for the same pay, different job categories must be separated and categorized in order of average units per day. For example, in an apparel factory with 100 workers, where 30 workers are all packing garments, they must be divided into separate job categories based on productivity and comprising no more than 10% of the workforce:

Job category	Number of workers	Unit	Value per unit	Average units per day
Packers 1	10	Box	$1	50
Packers 2	10	Box	$1	55
Packers 3	10	Box	$1	60

- Workers who do various tasks can be combined into a single job category provided the previously mentioned requirements are met.

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1. https://www.elgaronline.com/view/9781786431455/chapter02.xhtml
2. The average number of weeks in a year is equal to 52.14. The average number of weeks per month is 4.35.

Bonuses

Monthly or annual bonuses that are not mandatory by law but that employees can expect in advance and are regularly provided can be included in the calculation of remuneration. This may include additional pay given for high productivity, or bonuses that are normally provided during the year.

DETAILED REQUIREMENTS

- Monthly or annual bonuses, such as end-of-year bonuses or holiday bonuses, are included in the Salary Matrix V.2.[vii] Bonuses such as 13th month bonuses, tenure bonuses and holiday bonuses can be also be included, as well as incentive pay or bonuses. Profit sharing is not included.

- A yearly bonus will be divided by the number of months worked, to be compatible with the monthly value.

- A common type of bonus is a 13th or 14th month salary bonus. For this type of bonus, the average total bonus amount for the job category should be included in the bonus category.

- There is no limit on how much wage can be paid in bonuses.

In-kind benefits

In-kind benefits can be considered as remuneration if they are accepted by workers as being valuable, directly reduce the cost of basic living for a worker, are provided during regular working hours, are regularly provided, are expected in advance, and are not mandatory by law. Such in-kind benefits include food, transportation, family housing, healthcare, children's education, and childcare.

The value of in-kind benefits is calculated based on the monthly cost to the employer.[viii] Except in extreme situations, the total value of all in-kind benefits may equal no more than 30% of the total remuneration (wages, bonuses, and in-kind benefits).[3] Similarly, individual benefits may be equal to no more than 10% of the total remuneration that an employee is paid (aside from housing, which may be equal to no more than 15% of remuneration).[ix]

If workers must pay (even partially) for any in-kind benefit, the value of their contribution will be subtracted from the cost to the employer for providing this benefit. If the employer provides cash for any of the of the below-listed benefits directly to the worker, this cash will be considered in the bonus category.

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3. The Anker (2017) methodology advises that the amount of wages that can be paid in in-kind benefits be limited to 30%. This threshold is derived from countries which set legal limits to the amount of wages that can be paid in in-kind benefits, for which the average limit is 30%. Also recommended in this methodology is that individual benefits are limited at 10% (or 15% for housing).

DETAILED REQUIREMENTS

- **Food:** Must be regularly provided, and sporadically given farm produce may not be included. Ideally, meals provided should be balanced and follow local or international nutrition guidance. The value of snacks and water is not included.

- **Transportation:** Must be safe and reliable transport workers to and from work, or to and from town on weekends.

- **Housing:** Must be family housing and meet international standards such as International Covenant on Economic, Social and Cultural Rights (United Nations, 1966), ILO Recommendation No. 115 Concerning Workers' Housing (1961), World Health Organization Principles of Healthy Housing (1989), or UN-Habitat (2009, 2013).

- **Healthcare:** Must be healthcare or clinics for general practice (not only work-related matters) and in addition to what is provided by the country's healthcare system.

- **Children's education:** This may include costs associated with children's education such as donated school supplies, uniforms, other materials, and transportation. If funding is provided directly to a school, the total amount should be divided by the total number of students at the school, and this per-student amount then may be included for every child of a worker who attends such school. Unlike the other in-kind benefits, the yearly contributions to children's education are collected and divided by 12, as these contributions are often for goods or services used all year (e.g. yearly school fees, supplies, or uniforms).

- **Childcare:** No additional requirements.

Living wage benchmark

Calculated wages can be compared against any living wage benchmarks published by an IDH-recognized living wge benchmark methodology. For more information on IDH's process for recognizing living wage benchmark methodologies, please visit our [website](#).

Some living wage benchmarks include reports that provide details beyond the living wage benchmark for a region. For example, an alternative living wage amount for when sector-typical bonuses or in-kind benefits are provided. Because the Salary Matrix V.2 already includes bonuses and in-kind benefits that workers receive, there is no need to use this adjusted benchmark.

3. Improvements in the Salary Matrix V.2?

This section describes the improvements made since the first IDH Salary Matrix. All updates were made following the public consultation process and agreed upon with the members of the Roadmap on Living Wages in March 2020.

i. In Salary Matrix V.1, there was no option to collect data per employee. By allowing data to be entered per employee, Salary Matrix V.2 reduces time spent grouping individuals into job categories when the payroll system presents data per employee.

ii. In Salary Matrix V.1, there was no limit to the number of workers who could be in a single job category. However, the more employees included in a single job category, the less likely the average wage is representative of any single employee's wage. In Salary Matrix V.2, the size of all job categories has been limited to 10% of the total number of employees to prevent the calculated average wage diverging too greatly from the actual wage of any one employee.

iii. Salary Matrix V.1 was co-created with Rainforest Alliance and tested in Rainforest Alliance-certified farms. As part of their certification requirements, these farms ensured payment of the legally required minimum wages, and Salary Matrix V.1 was designed to automatically adjust wages to reflect that no wages would be below minimum wage. This automatic adjustment has been removed from Salary Matrix V.2 so that facilities that are not Rainforest Alliance certified or do not have a payroll system that adjusts wages to the minimum wage may use the tool.

iv. Salary Matrix V.1 allowed for users to select up to two seasons (usually 'high' and 'low'). Salary Matrix V.2 has increased the maximum number of seasons to four to extend usability of the tool in other sectors.

v. In Salary Matrix V.1, entering the number of units completed in a typical day was challenging when workers were paid per month or per day. Salary Matrix V.2 now automatically calculates the number of units in a typical day in those cases.

vi. In Salary Matrix V.1, the standard work week was set at 48 hours. Salary Matrix V.2 now uses the locally determined work week when below 48 hours.

vii. In Salary Matrix V.1, guidance on and examples of the types of bonuses that could be included was limited. In Salary Matrix V.2, this has been expanded to improve clarity, based on recommendations from the Anker Methodology (2017).

viii. In the Salary Matrix V.1, the value of in-kind benefits was based on the value of typical in-kind benefits of a sector and region derived from various Living Wage Benchmark Reports. When no estimate was available, this resulted in many challenges. To increase accuracy and reflect the value of in-kind benefits actually received in a facility, further guidance has been included to clarify which in-kind benefits may be included and how to calculate their value. This guidance was developed based on recommendations from the Anker Methodology (2017).

ix. IDH is aware that in some unique circumstances, workers representatives have agreed that workers may receive in-kind benefits which have a value that surpasses the 30% limit (most often family housing). In these unique cases, the Salary Matrix will also display the living wage gap for each job category without limiting the value of in-kind benefits in the calculation of remuneration. These cases should be thoroughly reviewed and agreed upon with local unions and worker representatives.

4. Glossary

This section includes definitions for words commonly used in relation to measuring wages and using the Salary Matrix V.2. Details of how these various elements are used are explained in Section 2.

Gross wage: Wages measured before taxes are removed. In many cases, this refers to the gross amount of wages paid by the employer.

Incentive pay/bonus: The payment of additional wages based on performance and/or productivity. This could be a piece-rate incentive such as paying 1.00 USD per box. This may or may not be paid in addition to base pay (payment per day, week, month, etc.)

In-kind benefits: Non-monetary benefits that are provided to workers by their employer, such as meals at work, housing, transportation, childcare, children's education, and medical care.

Job category: The classification of a group of workers by skill, type of tasks performed, and pay.

Living wage: Remuneration or compensation received per month to afford a decent standard of living for the worker and his or her family. The elements of a decent standard of living include food, housing, education, medical care, transportation, children's education and other essential needs, including the provision for unexpected events.

Payment unit: The unit per which an employee is paid. For example, if a banana picker is paid 0.25 USD per bunch, the payment unit is 'bunch.' Payment units may also be in the form of year, month, day, hour, hectare, box, kilo, etc.

Piece-rate payments: Payments made to workers that are valued at a 'per unit' rate (per kilo, box, hectare, etc.), rather than a time rate (per two-weeks, month, etc.). Piece-rate payments may serve as base-pay or bonus payment that supplements base-pay.

Remuneration (or compensation): Total financial value of salary, bonuses, and in-kind benefits granted to a worker in a specific period.

Standard work week: Hours worked per week (or month) that are standard to the country or industry and are not paid at overtime rates. The ILO (International Labour Organization) standard work week is 48 hours.

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