RSPO
GUIDANCE ON CALCULATING PREVAILING WAGES

11 November 2019

ACKNOWLEDGEMENT

Document Title	:	RSPO Guidance on Calculating Prevailing Wages
Document Code	:	RSPO-GUI-T08-005 V1 ENG
Contact	:	rspo@rspo.org

LIST OF ACRONYMS

RSPO   Roundtable on Sustainable Palm Oil

P&C   Principles and Criteria

DLW   Decent Living Wages

UoC   Unit of Certification

Introduction

The Decent Living Wage (DLW) methodology adopted by RSPO (i.e., Anker Methodology[1]) determines the cost of a basic but decent standard of living for a worker **and his or her family** in a particular place**.** To prepare RSPO members towards meeting the payment of a living wage, members are required to assess what the total value of the Prevailing Wage[1] is in their various Units of Certification (UoC).

A Prevailing Wage represents the remuneration earned by a worker during normal working hours. This Guidance will provide members with methods to determine the Prevailing Wage in their UoC, including the estimation of the cost of in-kind benefits that are provided to the workers as this can be included as partial payment of wages. This document shall supplement the RSPO Guidance for Implementing a Decent Living Wage and should be read together.

Prevailing Wages and Calculating In-Kind Benefits

Prevailing Wage represents the remuneration earned by a worker during normal working hours. Identifying the Prevailing Wage is important for two reasons:

1) To identify the true value of remuneration already being provided to the worker; and
2) To identify the gap between the living wage benchmark (when available) and the total remuneration provided. This will help the UoC to assess the values of the in-kind benefits and develop an implementation plan towards payment of the DLW.

Although most forms of remuneration should be included when calculating the Prevailing Wage, some forms of remuneration may be excluded. To determine a Prevailing Wage, the UoC may include the cost of certain in-kind benefits that are provided to the workers free of charge or at a markedly reduced cost. The following are principles to apply when considering whether to include the types of in-kind benefits into the Prevailing Wage calculation:

- Receipt assured
  Workers need to count on receiving a wage, allowance, bonus or benefit so they can pay for ongoing expenses. Wages, benefits and bonuses that are at the whim or discretion of the employer are too uncertain to ensure that workers can afford to maintain a decent life every month. This criterion means bonuses that are not guaranteed should **not** be counted in comparison to a living wage. This includes bonuses given to workers by employers (at their own discretion) at the end of a profitable year.

- Received within one year
  Workers have limited capacity to smooth out their spending over time without having to borrow and run the considerable risk of getting into perpetual debt. We assume that workers can smooth out expenditures for up to one year. This means that guaranteed cash allowances such as national holidays and a 13th month bonus would qualify for inclusion of wages. On the other hand, deferred payments such as pensions, mandatory payments of provident fund, and severance pay should be excluded because they are received in the future.

---

[1] See p, 14 of RSPO Guidance for Implementing a Decent Living Wage

---

[1] Anker, R., and Anker, M. (2017) Living wages around the world: Manual for measurement. Elgar Publishing. Doi: https://doi.org/10.4337/9781786431462. The manual extensively discusses what constitutes prevailing wages and provides detailed guidance to determine whether specific in-kind benefits can count as partial payment of living wage or not.

- Earned during standard working hours at normal working pace
  The definition of a living wage indicates that it must be earned in standard working hours. This means that overtime pay and pay premiums for holidays, weekends and night work are not appropriate to be included in calculating Prevailing Wage. This also means that incentive pay bonuses that require working overtime should not be included.

- Received in cash
  Remuneration needs to be available for ongoing expenses (i.e. paid in cash) **or reduce such expenses**. This implies that fringe benefits such as unpaid vacations, maternity leave, and employer's contribution to government social security programmes, should not be counted as they do not increase the take home pay over what full-time workers earn.

Samples of In - Kind Benefits to Include/Exclude

Include	Exclude
Basic wage and cost of living adjustment	Overtime
Housing Allowance	Night shift, weekend and holiday pay premiums
Transport Allowance	Cash bonus when profits are good
Non-production bonuses paid once or several times during the year	Responsibility Allowance/ Technical Skill Allowance
Retention Bonus	Medical services related to work injuries and illnesses
Allowance to visit 'home' [2]	Schools or hospitals or clinics on estates that are built and run by the government
Education Allowance	Drinking water at work
Production/incentive bonus *(earned during standard working hours at normal working pace. Exclude if need to work overtime to meet minimum target)*	Educational assistance (e.g. scholarships, etc.)
Housing and utilities such as water or electricity for home	Land to grow vegetables
Meals at work	Visa or work permit
Food rations or food commodities given for free or sold as concession rates	Condolence allowance for funerals or death of family members
Transport to work and from work (and to town on weekends)	Paid time off for sickness or holidays
Fuel	Unpaid time off for sick leave, holidays, maternity leave
Creche/ Child Care	Gratuity or severance pay

---

[2] This are benefits which are provided to migrant workers to travel back to their home country for visits.

RSPO Guidance on Calculating Prevailing Wages
RSPO-GUI-T08-005 V1 ENG

RSPO

School for workers' children	Funeral costs for worker who dies
Medical services not required by law and not related to work injuries and illnesses.	Support for night classes
Private medical insurance	CSR projects
Medical facilities provided by the employer	Occupational Health & Safety Programmes
	Protective clothing, and work-related equipment and supplies

Examples of in-kind benefits that can be included in the calculation of prevailing wage.

Determining Fair and Reasonable Value for In-Kind Benefits

1. The following guidelines should be practiced when estimating the value of the acceptable in-kind benefits as partial payment for a living wage:-
   - **Value of in-kind benefit should not exceed its cost to employer**
   - **Value of in-kind benefit should not exceed its replacement cost to worker if they purchase it on the market**
   - **Value of in-kind benefit cannot be lower than an alternative cash allowance option offered to workers when such option is available**
   - **Where an in-kind benefit is not free, the cost to the workers needs to be subtracted**

2. When calculating the acceptable in-kind benefits as partial payment, the partial payment of wage **should not bring the cash wage below minimum wage** when this restriction is stipulated by law.

3. In determining the value of the in-kind benefits that are provided, if the UoC has budgeted a specific amount for the particular in-kind benefit, the same can be averaged out to the cost per worker. Examples of in-kind benefits that can be averaged out include:-
   - Education
   - Health
   - Meals
   - Food rations or food commodities
   - Transport
   - Child care/Creche

> **Note:**
>
> Where the UoC provides a school bus in the UoC to go to school, the cost of the school bus can be averaged out to all the workers to determine the average value of the expenses **per worker.** Another example would be the provision of clinic facilities to the worker and his/her family. The total cost of the facility can be divided and averaged out to each worker. It does not matter if the worker lives with his/her family or not.

4. Bonuses:
   Fixed bonuses, such as Retention Bonus, 13th month salary, and Eid Bonuses, which are not tied to the worker's performance can be calculated as partial payment and part of the Prevailing Wage. The value of the bonus should be divided by 12 to average out the value of the benefit to the worker on a monthly average.

5. Housing:

As workers are provided housing and basic utilities, such as electricity and potable water in most UoCs, this benefit can also be considered when calculating the Prevailing Wage.

The housing cost should be divided into total cost per house and can include the following elements:-

- Building cost
- Service life of the house[3]
- Annual maintenance costs (if borne by the employer)
- Electricity consumption
- Water consumption
- Annual taxes, fees or levies per house

Formula to Calculate Housing Cost:

$$\left\{ \frac{Building\ Cost}{Service\ Life\ of\ a\ House} + \text{Annual Maintenance + Electricity Consumption + Water Consumption + Annual Taxes Fees Levies} \right\} \div 12$$

OR:

$$\left\{ \frac{Building\ Cost}{Service\ Life\ of\ a\ House} + \text{Annual Maintenance + Annual Taxes Fees Levies} \right\} \div 12$$

Water and Electricity charges can also be divided by:

(Total Cost of Utilities per annum ÷ Number of houses) ÷ 12

---

[3] Depending on the structure and the quality of the house, the service life of the house can be set at 30, 40 or 50 years depending on how well the quality of the house is.

RSPO Guidance on Calculating Prevailing Wages
RSPO-GUI-T08-005 V1 ENG

RSPO

Sample Calculation -
Prevailing Wage Calculation of an RSPO Certified Estate In Sabah

Based on the suggested method(s) above, an assessment of the Prevailing Wage was conducted in an RSPO Certified Unit in Sabah and the Prevailing Wage was found to be as follows:-

Prevailing Wage

In-kind Benefits	Local Worker	Foreign Worker
Housing *(Cost of building ÷ 30 years⁴) + (annual maintenance ÷ number of houses) ÷ 12 months*	RM 272.13	RM 272.13
Electricity & Water *(Annual cost of water & electricity ÷ number of houses) ÷ 12 months*	RM 549.29	RM 549.29
Education *[(total costs not including teacher and non-teacher labour costs + school transport + school building maintenance + food for children) ÷ number of workers] ÷ 12*	RM 162.71	RM 9.25
Creche Facilities *(building maintenance + food for children + supplies + caretaker costs) ÷ number of workers*	RM 14.35	RM 14.35
Healthcare *(maintenance of clinic, medicines & medical materials, ambulance transport costs + cost of healthcare workers) ÷ number of workers*	RM 5.88	RM 5.88
Transport	RM 55.81	RM 55.81
Clothing	RM 0.74	RM 0.74
Food	RM 1.26	RM 1.26
Sports and Recreation facilities	RM 7.98	RM 7.98
Total cost of in-kind benefits	*RM 1070.15*	*RM 916.69*
Average monthly take home salary per worker	*RM 901.86*	*RM 1,171.52*
Total Value of Prevailing Wage	**RM 1972.01**	**RM 2088.21**

From an assessment above, you will see what the Prevailing Wage provides members with the total remuneration value provided to the worker. This is in line with the RSPO's requirement that the Prevailing Wage is assessed pending the development of RSPO Endorsed Benchmarks in countries where RSPO members operate.

---

⁴ This UoC has chosen to use 30 years as the service life for the house. This is subjective and can be changed depending on the service life of the housing in the specific UoC.

Roundtable on Sustainable Palm Oil
Unit A-37-1, Level 37, Tower A
Menara UOA Bangsar
No.5 Jalan Bangsar Utama 1
59000 Kuala Lumpur, Malaysia
T +603 2302 1500
F +603 2302 1543

Other Offices:
Jakarta, Indonesia
London, United Kingdom
Beijing, China
Bogota, Colombia
New York, USA
Zoetermeer, Netherlands

rspo@rspo.org