
ANKER LIVING WAGE REFERENCE VALUE



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The Anker Reference Values are endorsed by the Global Living Wage Coalition (Fairtrade International, Rainforest Alliance, Social Accountability International and ISEAL Alliance). Development of the methodology was initiated and supported by Fairtrade International and German Federal Ministry for Economic Cooperation and Development (BMZ). Further support was received from Rainforest Alliance, Social Accountability International and Clif Bar & Company.



Anker Living Wage Reference Value¹

Rural Peru 2020

1. Anker Living Wage Reference Value for Rural Peru in 2020

The Anker Living Wage Reference Value for 2020 for rural Peru is PEN 1,582 per month (USD 465)² with a confidence interval around it from PEN 1,440 to PEN 1,735. This is the wage required for rural workers to be able to afford a basic but decent living standard in a typical rural area of Peru. It is comprised of a net living wage (i.e. take-home pay) of PEN 1,266 (USD 372) per month plus PEN 316 (USD 93) which would need to be paid by law in pension contribution and income tax on this living wage³.

“A living wage is the remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events.”

2. Anker Reference Value Methodology

Anker Living Wage Reference Values utilize a new methodology developed by Richard Anker and Martha Anker. This methodology is based on a statistical analysis of 40 internationally comparable, quality-assured Anker methodology living wage or living income studies spread across low-income and middle-income countries carried out primarily under the auspices of the Global Living Wage Coalition. Anker Reference Values are internationally comparable, consistent with results from existing Anker living wage and income benchmark studies, and easy to update every year, and so are especially valuable for countries where it has not yet been possible to organize and fund a full quality-assured Anker methodology living wage or living income study.

Anker Living Wage Reference Values represent living wages for workers in rural (urban) areas of developing countries. This report is for rural Peru. Since Reference Values are based on statistical analysis, they have a margin of error for typical rural or urban areas of a country which is approximately +/- 10 % using a 95% confidence interval. Since Reference Values are not location-specific within countries and represent the situation in typical rural (urban) locations, the margin of error is likely to be larger for unusual locations with atypical living costs within a country such as large cities with high living costs or poorer (richer) areas with lower (higher) living costs.

¹ Prepared by: Sally Smith, Ian Prates, Martha Anker, and Richard Anker

² Exchange rate used to convert to US dollars is 3.40 from the IMF. This is the average exchange rate for the recent three-month period from November 2019 to January 2020.

³ Employees earning a wage would need to pay a mandatory 13% pension contribution. Peru also has a progressive income tax.

3. Country context: Peru

Geography and demographics

Peru is a large country in South America located just south of the equator that is more than twice the size of France. It has a population of around 33 million, and It has three ecological regions – a semi-arid coastal region with around half of its population (which includes Lima, the capital, with a population of 10.7 million), a mountainous Sierra region with a temperate climate and around one-third of its population, and a large but sparsely populated tropical jungle Selva region. Peru is to a large extent an urban country as 78% of its people live in an urban area. Women in rural Peru are having more than 3 children at present as the rural total fertility rate is around 3.1 births.

Economy

Peru is an upper-middle income country according to the World Bank with a gross national product per capita in 2018 of \$13,710 in internationally comparable dollars⁴ and \$6,410 in USD using the Atlas method. Its economy grew rapidly between 2002-13 with real per capita income increasing by over 5% per year on average with minerals and metals playing a big role. Since 2013, real per capita income growth has slowed to a modest 1-2% per year in part because of weakness in commodity prices. Exports represent 25% of GDP with the main exports being copper and other ores, precious metals such as gold, and oil and gas as these metals and minerals comprise over 60% of the value of exports. The main agricultural products for export include grapes, avocado, mango, coffee, asparagus, quinoa, and bananas.

Poverty

Peru's poverty rate is roughly 21% (2018) at the official government national poverty line and 26% (2017) at the World Bank poverty line for upper-middle income countries. Poverty is much higher in rural areas according to government statistics, as the poverty rate is 46% in rural areas compared to around 15% in urban areas. Official government poverty lines differ across Peru. The rural poverty line (253 PEN for 2018) varied from 242 PEN in rural Selva region, to 253 PEN in rural Sierra region, and to 275 PEN in rural Coastal region. Rural household expenditure per capita (rural poverty rate) varied from 370 PEN (38.3%) in Selva region, to 411 PEN (46.1%) in Sierra region, and to 537 PEN (25.1%) in Coastal region. These values imply that the living wage for the rural Sierra region is likely to be similar to the rural Reference Value for Peru while the living wage for the rural Coastal region is likely to be higher than the rural Reference Value.

⁴ "Purchasing power parity conversion factor is the number of units in a country's currency required to buy the same amount of goods and services in the domestic market as U.S. dollar would buy in the United States." <https://datacatalog.worldbank.org/2005-ppp-conversion-factor-gdp-lcu-international-1>

Living conditions

Rural housing conditions are relatively poor for an upper-middle income country - providing further evidence of relatively high levels of poverty in rural areas. Only 56% of people in rural areas use at least basic sanitary services and only 76% use at least basic drinking water services.

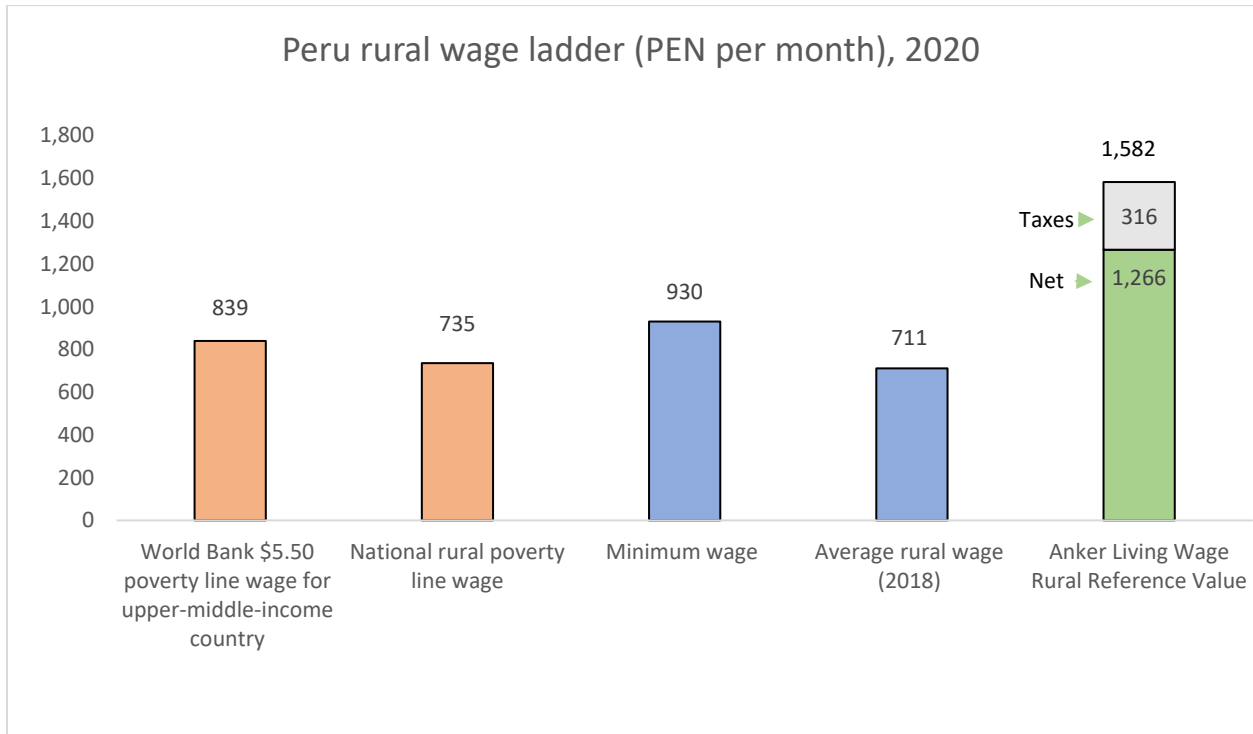
4. Wage ladder and gaps to a living wage, rural Peru

Figure 1 below provides a wage ladder where the Anker Living Wage Reference Value for 2020 for rural Peru is compared to other wage indicators for rural Peru. Comparator measures in figure 1 are: (i) the World Bank poverty line wage, (ii) the national rural poverty line wage, (iii) the minimum wage, and (iv) the average rural wage.

The Anker Living Wage Reference Value for rural Peru is 89% higher than World Bank poverty line wage for upper-middle income countries such as Peru, and 115% higher than the national rural poverty line wage. The Anker Living wage Reference Value for rural Peru is 70% higher than the minimum wage. The Anker Living Wage Reference Value for rural Peru is 123% higher than the average rural wage. Part of the reason for these large differences is that workers earning a living wage would have to pay 8% of their wage in income tax as well as have 13% of their wage deducted for pension contribution.

Since incomes, poverty rates and poverty lines differ across Peru (see discussion above in poverty section), living wages and so gaps to living wage will also vary across Peru. To better understand and measure location-specific living wage gaps within Peru, new quality-assured Anker methodology living wage studies are needed. As a first approximation, since we would expect the living wage to be higher for the rural Coastal region (where bananas are grown) than our rural Reference Value, we suggest using the Reference Value upper confidence limit of PEN 1,735 as the living wage target since average household consumption and the poverty line are higher and the poverty rate is lower in rural Coastal region compared to rural Peru as a whole. The rural Reference Value for the Sierra region (where coffee is grown) should not need to be adjusted from PEN 1,582, since average household consumption per capita and the poverty line are almost identical for rural Sierra as for rural Peru as a whole.

Figure 1



Notes: ^a Latest poverty lines (national, rural, urban and regional) for Peru are for 2018. There has been around 4% inflation since then. ^b The World Bank poverty line wage for Peru for 2020 was estimated using the World Bank poverty line for upper-middle income countries (5.50 PPP) using a formula suggested by the World Bank which uses the latest available PPP from the World Bank (2018) and inflation rates since 2018 according to the IMF for Peru and the United States. ^c Family size of 5 (2 adults and 3 children) was used for expositional purposes to estimate the national rural poverty line wage and the World Bank poverty line wage. This family size is in between: (i) rural average household size of 4.7 when single-person households (that do not have children) and very large households (that are likely to be extended families with more than 2 adult workers) are excluded considering that this 4.7 average is biased downward by a relatively high percentage of female-headed households that are generally smaller in size (25.7% of households are female-headed according to World Bank); and (ii) family size of around 5 implied by the 2018 rural total fertility rate adjusted for rural child mortality rate of 3.04 based on 2018 Demographic and Health Survey data. ^d Number of full-time equivalent workers per family of 1.72 is used for expositional purposes to calculate poverty line wages. It was estimated using micro data from the 2017 household survey on labor force participation rates, unemployment rates, and part-time employment rates for rural males and rural females ages 25-59. Rural Peru has high male and female labor force participation rates along with low unemployment rates and high part-time employment rates. ^e Minimum wage was last increased in 2018. There has been around 4% inflation since then. ^f Average rural wage estimate is for 2018. There has been around 4% inflation since then. ^g Payroll deductions include 13% for pension. As well, 8% would be paid in income tax on living wage considering that pension contribution is deductible. ^h The Anker Living Wage Reference Value is estimated directly based on statistical analysis and therefore does not have an explicit number of full-time workers per family or reference family size (although note that rural reference family size falls from 6 to 4 with development in Anker living wage studies).

Sources: Instituto Nacional de Estadística (2018) for average rural wage. wageIndicator.org and ILOSTAT for minimum wage. World Bank World Development Indicator database for purchasing power parity (PPP) and IMF for inflation rates. National poverty line from Instituto Nacional de Estadística e Informática publication at

https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1646/libro.pdf.