

SOCIAL METHODOLOGY 1

Adequate Wages

Topic Methodology

(EXPOSURE DRAFT)

The International Foundation for Valuing Impacts, Inc. (IFVI) is a section 501(c)(3) public charity dedicated to building and scaling the practice of impact accounting to promote decision-making based on risk, return, and impact.

The Value Balancing Alliance (VBA) is an independent and not-for-profit member association organized under German law founded with the ambition of changing the way company performance is measured and valued so as to enable decision makers to act consciously.

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This Exposure Draft has been produced by the International Foundation for Valuing Impacts (IFVI) in partnership with the Value Balancing Alliance (VBA) as part of the impact account system (the Methodology). The Methodology is a **globally applicable** and **comprehensive open-source** methodology for valuing organizational social and environmental impact that is designed for incorporation into financial analysis and organizational planning and decision-making.

The Methodology is governed by the Valuation Technical & Practitioner Committee (VTPC), an independent committee comprising 18 members, established by IFVI and authorized by its Terms of Reference to direct, validate, and approve impact accounting research and methodology produced by the cooperation of the IFVI and VBA.

VTPC members are global leaders in the fields of impact, sustainability, accounting, business, and finance. Members provide advice in their individual capacities as experts, with composition and procedures designed to ensure independence, balance, and the avoidance of conflicts of interest. Please refer to the full [Terms of Reference](#) for information regarding membership, voting, and approval processes.

Methodology development aims to follow a rigorous and credible due process balanced with the urgent and dynamic needs of stakeholders in the face of great social and environmental challenges. The development process is outlined in the Due Process Protocol and designed to be impact-focused, stakeholder-informed, collaborative, and transparent. As detailed in the Due Process Protocol, formal methodology statements undergo public exposure prior to final approval by the VTPC.

The IFVI Board of Directors provides oversight to the Due Process Protocol through its Due Process Oversight Committee. More information about the VTPC and Due Process Protocol are available in the VTPC Terms of Reference and Due Process Protocol.

Questions or comments about IFVI governance or methodology can be submitted to the VTPC at VTPCLeadership@ifvi.org, the Chair of the DPOC at DueProcessOversight@ifvi.org, or directly to Technical Staff at research@ifvi.org.

Comments should be sent to the technical staff via e-mail at research@ifvi.org. Please include "Adequate Wages Public Comment" in the subject line.

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Explanatory Note

BACKGROUND

This document, the Exposure Draft for the *Adequate Wages Topic Methodology* (Adequate Wages Exposure Draft), develops an impact pathway that causally links wage payments with outcomes and impacts that affect the well-being of people.

The purpose of the Adequate Wages Methodology is to guide preparers of impact accounts through the process of measuring and valuing adequate wage impacts. This provides users of impact information such as managers of entities, investors, or affected stakeholders with methods to manage the sustainability-related risks, opportunities, and impacts of an entity. The Adequate Wages Methodology aids decision-making regarding an entity's contribution to sustainability. It is one of a series of Topic Methodologies to be developed as part of the impact accounting system for a comprehensive assessment of material value created and destroyed by an entity.

The Adequate Wages Exposure Draft was developed by the technical staff of the International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA) beginning in June 2023. The development process involved a comprehensive literature review of methodologies for valuing wage-related impacts, including methods developed previously by the Impact Weighted Accounts Initiative and VBA. Subsequent research sought alignment with established protocols, frameworks, and disclosure requirements by relevant standard setters. Throughout the process, the technical staff regularly sought expert consultation from various entities to better understand key technical aspects and to build strong relationships with peers in the ecosystem.

The Adequate Wages Methodology is intended to build on the latest global data on well-being, adhere to guidance from leading sources on the measurement and valuation of well-being, and be compatible with related protocols and sustainability standards. The Adequate Wages Methodology seeks alignment with the European Sustainability Reporting Standards (ESRS) S1: Own Workforce, and ESRS S2: Workers in the Value Chain. Ideas and definitions also build on work by the Sustainable Development Solutions Network, Global Living Wage Coalition and the new WageMap consortium, Organisation for Economic Co-operation and Development (OECD), Shift Project, Capitals Coalition, Valuing Impact, and the Impact Management Platform (IMP). The intentional alignment with these leading organizations and initiatives is meant to build consensus on and advance the measurement and valuation of wage impacts.

The development of the Adequate Wages Exposure Draft included engagement with the Valuation Technical and Practitioner Committee (VTPC) members. A small group of VTPC members were convened for two sessions in October and November 2023. The purpose of these meetings was to provide guidance on a variety of issues that were integral in the development of the Adequate Wages Exposure Draft. Following the second small group session, a complete version of the Adequate Wages Exposure Draft was shared with the full VTPC for comment and review in advance of the December 2023 VTPC meeting. Based on discussions at that meeting, the Exposure Draft received contingent approval and a modified draft was shared with the VTPC and prepared for public comment.

DUE PROCESS PROVISIONS APPLICABLE TO THE EXPOSURE DRAFT

The Due Process Protocol of IFVI establishes an independent committee, the Valuation Technical and Practitioner Committee (VTPC), to direct, validate, and approve impact accounting methodology produced by the partnership between IFVI and VBA. The VTPC oversees and is supported by the work of the technical staff of IFVI and VBA.

Public exposure is a vital step in the Due Process Protocol to ensure the development of high-quality methodologies that reflect stakeholder input. When the VTPC has reached general agreement on a methodology statement, the VTPC votes on whether to proceed with releasing a proposed methodology statement. An approval by a simple majority of the VTPC is required to proceed with releasing an exposure draft of a proposed statement.

The Exposure Draft herein reflects feedback provided by members of the VTPC and is a proposal of a statement that has been approved for public exposure.

After the conclusion of the public comment period, the VTPC reviews the received comment letters. To support the VTPC's considerations, the technical staff will prepare a summary of the comment letters. The summary provides an overview of the significant issues raised in the letters and any additional related research and/or consultations. Comments are published on the IFVI website and significant matters are deliberated at a VTPC meeting.

Per the Due Process Protocol, after review and deliberation of the received comments, the VTPC will make a determination to:

- a. Proceed with a vote to approve the methodology as proposed in the Exposure Draft;
- b. Evaluate and proceed with a vote on a revised methodology with limited modifications based on public input and/or piloting; or
- c. Direct technical staff to conduct additional research and consultation on issues raised through public comments and/or piloting.

The VTPC may determine that an additional public comment period may be appropriate if the extent of modifications and evidence considered is fundamentally different compared to the proposed methodology in the Exposure Draft. In some circumstances, the VTPC may consider removing a project from the work plan based on its deliberations.

Upon an affirmative majority vote by the VTPC to issue a methodology statement, the statement will be made available to the public on the IFVI and VBA websites in a timely fashion. The issued statement will be accompanied with a published basis for conclusions containing a rationale for the statement, summary of research and consultation, and other supporting information as determined by the VTPC.

Technical staff may make editorial corrections to issued methodologies to remedy spelling errors, grammatical mistakes, or other drafting errors that do not alter the technical meaning of the statement.

For more information, see the [Due Process Protocol](#).

Exposure Draft Summary

The following is a section-by-section summary of key proposals made in the Adequate Wages Exposure Draft and is not an exhaustive overview of the statement. A summary is included to highlight decisions made during the drafting of the Exposure Draft and the basis for those conclusions.

SECTION 1: INTRODUCTION

This section lays out the purpose of the Adequate Wages Methodology (Section 1.1), provides a high-level description of the topic and its impacts (Section 1.2), introduces key concepts and definitions (Section 1.3), and defines the scope of what is and is not included within the Topic Methodology (Section 1.4).

Section 1.1 states that the purpose of the Adequate Wages Methodology is to provide impact information by measuring and valuing impacts of corporate entities in monetary terms. This section also stresses that the Adequate Wages Methodology should be followed to the fullest extent possible and, by doing so, allows entities to assess whether Adequate Wages are a material impact. Contextual characteristics like industry and geography can affect an entity's Adequate Wage impact performance, and so comparative analysis must be done carefully, considering additional information beyond that which is generated by following the Adequate Wages Methodology. Guidance for conducting comparative impact analysis between entities is outside the scope of the Adequate Wages Methodology itself.

Section 1.2 describes the wide applicability of the Adequate Wages Methodology to all entities with workers, including employees and contract workers. This section also describes both the positive and negative impacts that wage payments have on workers. Wages, of any amount, provide an income to a worker and directly support their well-being. However, earning a wage does not guarantee that that wage is adequate — defined as meeting or exceeding the local living wage. This section recognizes the high global toll on workers of earning below the living wage and briefly highlights ways that regulators, corporations, and the human rights sector are addressing it.

Section 1.3 defines the following terms in the Adequate Wages Methodology: living wage; living wage benchmark; living wage benchmark provider; gross wage; well-being; subjective well-being; and inflection points. Significant alignment with industry best practice and authoritative sources is highlighted in this section. As key examples, the Adequate Wages Methodology is designed to be compatible with the Global Living Wage Coalition's definition of a living wage, the Impact Management Platform's definition of well-being, and the OECD Well-being Framework.

Section 1.4 states that the Adequate Wages Methodology applies not only to workers in an entity's own workforce but also workers in its value chain, consistent with international norms. This section also recognizes that wages are paid to workers in exchange for their labor but clarifies that the scope of the Adequate Wages Methodology covers only the value of wages to workers, not the value of labor to the entity. Also out of scope of the Adequate Wages Methodology are: the impacts of non-wage aspects of work conditions like occupational health and safety; pay equality and pay equity; and the broader societal impacts of wages paid, such as economic development.

Exposure Draft Summary

SECTION 2: IMPACT PATHWAY

As laid out in General Methodology 1, the impact pathway serves as the framework for measuring impacts and defines the causal relationship between an entity's activities and changes in the well-being of people.

Section 2 of the Adequate Wages Exposure Draft lays out the impact pathway in both visual (Figure 2) and descriptive (Section 2.2) form. Both forms are structured to delineate inputs, outputs, outcomes, and impacts as well as the linkages between each.

In the Adequate Wages Methodology, the input is labor utilized by the entity and provided by workers. The entity's activity is the act of paying workers for labor provided, which results in two outputs and their respective impacts. First, *remuneration*, which refers to wages paid to workers, of any amount. This output enhances workers' well-being by allowing them to consume, save, and otherwise fulfill their wants and needs with income. The second output is *living wage deficit*, which is the amount by which wages fall below the local living wage. Wages below the living wage erode workers' well-being through material deprivation as well as psychosocial and behavioral stressors. Per the Exposure Draft, remuneration and living wage deficit impacts are treated separately, not added together, for a more nuanced analysis of impacts.

Divergence exists regarding the inclusion of remuneration impact in existing approaches to valuing wages. Some approaches, such as the Accounting for a Living Wage project, include only an assessment of living wage deficit, not remuneration broadly.¹ Some approaches, including the previous Impact Weighted Accounts Initiative, include both remuneration and living wage deficit.² Others, such as the previous VBA methodology and the WifOR methodology, include a specific living wage methodology while also acknowledging the impact of remuneration as part of an entity's contribution to gross domestic product (GDP), captured in the category of Gross Value Added (GVA).³ As such, wages are conceived of as a societal impact focused on contributions to the economy, not a worker impact that contributes specifically to well-being.

While acknowledging the urgent need to drive behavior change toward closing living wage deficits, remuneration impact is included in the Exposure Draft alongside, but separate from, living wage deficit impact for several reasons:

1. **Alignment with the impact accounting system's emphasis on measuring *absolute* impact.** Per General Methodology 1, absolute impact is the difference between the actual outcomes of an entity and the default reference scenario, wherein the entity's activities and any comparable substitutes are assumed not to exist. The Exposure Draft is not directly intended for *marginal* impact analysis,⁴ which would adjust for the actual counterfactual scenario of workers where needed. Data to inform the counterfactual scenario could include the tightness of labor markets relevant to an entity's workers, as a predictor of their likelihood of alternative employment, and the nature of social safety nets an entity's workers might have access to from sources like public assistance and family support. Such analysis, while important, is data intensive and has the potential for inconsistency and uncertainty. The impact accounting system instead focuses on absolute impact to provide for a comprehensive and foundational set of impact information that can subsequently enable more refined analysis, including the analysis of marginal impact. Additionally, remuneration impact in the Exposure Draft is intended to be relevant to entities irrespective of the degree of access workers have to social safety nets. Where social safety nets exist, remuneration impact is still applicable, but instead of accruing entirely to workers, it may partially accrue to society in the form of cost savings.

1. Shift, & Capitals Coalition. (2023). Accounting for a Living Wage: Using the Living Wage Accounting Model.

2. Fadhel, A. (2022). Practitioner Guide to Calculating Employment Impact-Weighted Accounts.

3. Scholz, R. et al. (2023). Methodological Report: WifOR Impact Valuation.; Value Balancing Alliance. (2022). VBA Methodology Vo. 2 - Topic-Specific Method Paper: Social and Economic.

4. Impact Economy Foundation. (2022). Conceptual Framework for Impact-Weighted Accounts Framework.

2. Alignment with research literature on poverty.

In the Exposure Draft, remuneration impact assumes that some income is always better than no income, all else being equal, and recognizing diminishing marginal utility as incomes rise. This assumption, considered alongside living wage deficit impact, also conceptually aligns with the “S”-shaped well-being curve theorized in the economics and public health literature, wherein well-being gains are positive but small for workers earning very low wages, then increase as workers surpass the living wage, before diminishing at very high wages.⁵

3. Emphasis on stakeholder well-being. The impact accounting system aims to take a stakeholder-centric and well-being focused approach. Therefore, the Exposure Draft emphasizes workers as the primary stakeholders whose well-being is affected by wage payments rather than categorizing wage payments as a contribution to GDP. Carefully distinguishing between the Exposure Draft and GVA methodologies in the impact accounting ecosystem alleviates the risk of double-counting.

In alignment with existing impact valuation approaches — including the Accounting for a Living Wage project (by Shift and Capitals Coalition),⁶ the Health Utility of Income methodology (by Valuing Impact and Novartis),⁷ VBA,⁸ and WifOR⁹ — the Exposure Draft measures the impact of wages, rather than wages themselves, otherwise known as the “utility of income.” The Exposure Draft expands on existing “utility of income” approaches by focusing on the “well-being utility of income.” Subjective well-being serves as a standardized and summative

measure of the multiple interrelated effects of wages on workers’ overall perception of their well-being. While the inherent subjectivity of the measure means that factors like culture, language, and psychological resilience can affect how people experience and report on their lives, extensive evidence over the last two decades supports the validity of subjective well-being measures,¹⁰ especially life satisfaction, resulting in growing adoption by governments and the OECD.¹¹ Additionally, the measurement approach proposed in the Exposure Draft helps overcome some of the challenges encountered with more objective and discrete measures of well-being like health, wealth, and educational attainment. For example, not all the harms of earning under the living wage will manifest as changes in a measure like life expectancy. It is plausible that distress and shame due to the social stigmatization of poverty and feelings of injustice at being undervalued may be detected by a more holistic measure like subjective well-being but undetected by more focused measures like life expectancy. Recognizing the complexity, pros, and cons associated with all measures of human well-being, a “utility of income” factor based on subjective well-being offers a promising addition to the growing body of “utility of income” factors.

SECTION 3: IMPACT DRIVER MEASUREMENTS

This section focuses on the impact driver information needed from an entity to develop Adequate Wages impact accounts. In addition to guiding preparers through data requirements (Section 3.1), the section also delineates how these data align with reporting standards (Section 3.2) and how to address data sources, gaps, and uncertainty (Section 3.3).

5. Carr, S. C. et al. (2018). How can wages sustain a living? By getting ahead of the curve.; (2022). Pandemic or Not, Worker Subjective Wellbeing Pivots About the Living Wage Point: A Replication, Extension, and Policy Challenge in Aotearoa New Zealand.; Ghatak, M. (2015). Theories of Poverty Traps and Anti-Poverty Policies.

6. Shift, & Capitals Coalition. (2023). Accounting for a Living Wage: Using the Living Wage Accounting Model.

7. Vionnet, S. et al. (2021). The Health Utility of Income and Taxes. Part A – Health Utility of Income. Impact Valuation Methodology, Global Assessment, and Application to Businesses.

8. Value Balancing Alliance. (2022). VBA Methodology Vo. 2 – Topic-Specific Method Paper: Social and Economic.

9. Scholz, R. et al. (2023). Methodological Report: WifOR Impact Valuation.

10. OECD. (2013). OECD Guidelines on Measuring Subjective Well-being.; Stiglitz, J. E. et al. (2009). Report by the Commission on the Measurement of Economic Performance and Social Progress.

11. Australian Government. (2023). Measuring What Matters: Australia’s First Wellbeing Framework.; Canada Department of Finance. (2021). Measuring What Matters: Toward a Quality of Life Strategy for Canada.; MacLennan, S. et al. (2021). Wellbeing Guidance for Appraisal: Supplementary Green Book Guidance.; New Zealand Treasury. (2023). A wellbeing approach to cost benefit analysis | The Treasury New Zealand.; OECD. (2013). OECD Guidelines on Measuring Subjective Well-being.

Section 3.1 lays out the data required from the entity as well as data required from other sources to produce Adequate Wages impact accounts. Required entity data consist of, broken down by location, the *number* of the entity's workers earning below the living wage (category A), above the living wage but below inflection point 1 (category B), above inflection point 1 but below inflection point 2 (category C), and above inflection point 2 (category D), and the *average gross wages* of categories A, B, and C workers. The procedure for calculating average gross wage is described in this section, including what types of payment are considered a wage and how to count part-time workers' wages. The procedure builds off the widely accepted Anker Methodology and is designed to be compatible with ESRS S1-10 Adequate Wages.¹²

Data required from sources outside of the entity include living wage benchmarks and inflection points based on the location of an entity's workers. A living wage benchmark is an estimate of the wage needed to afford a decent standard of living for a worker and their family in their location. At the time of writing, there is no global public database of benchmarks with wide expert consensus; rather, multiple independent providers have developed their own databases, each differing in accessibility, data granularity, and methodology. Therefore, section 3.1 provides "required criteria" for what benchmarks are acceptable as well as a non-exhaustive list of accepted benchmarks. Required criteria set a minimum standard of credibility for a living wage benchmark, thus providing a sufficient baseline that guards against "cherry-picking" benchmarks. Section 3.1 also provides optional "preferred criteria," intended to reflect the latest developments in the living wage sector. Preparers using benchmarks that meet "required" but not "preferred" criteria are expected to disclose their reasons for doing so. As more global consensus among benchmark providers is achieved, such as through initiatives like the WageMap consortium, these criteria are expected to be streamlined.

The Adequate Wages Methodology calls for data on geographically specific inflection points, provided in Appendix B based on research by Jebb et al. (2018).¹³ Inflection points serve to incorporate the well-established phenomenon of diminishing marginal utility of income into the estimation of remuneration impact. Past each inflection point, the remuneration impact of each additional \$1 of wage gets smaller.

Section 3.2 highlights the ways in which the Exposure Draft's data requirements are both aligned with the European Sustainability Reporting Standards (ESRS), especially ESRS S1-10 Adequate Wages, but also more granular and prescriptive than those of the ESRS. For example, whereas the ESRS calls for the percentage of workers paid an inadequate wage, the Adequate Wages Methodology calls for both the number and the average wage of workers paid an inadequate wage. The ESRS also accepts a wider range of benchmarks to determine whether a wage is adequate, including 50% of the national average wage in some cases.¹⁴ The Adequate Wages Methodology accepts only data-based living wage benchmarks that meet the criteria laid out in section 3.1. This additional rigor is deemed necessary to produce comparable and decision-useful impact accounts that not only identify the existence of impacts but also measure the magnitude and value the importance of those impacts.

Because some data are likely to be missing or estimated using proxy data, section 3.3 provides general guidance for preparers to address data gaps and uncertainty. Estimation methods like extended input-output modeling are suggested for dealing with limited wage data from other entities in the value chain. Where data on in-kind benefits are lacking, preparers are advised to count monetary payments only, which will result in more conservative estimates of impact.

12. Anker, R., & Anker, M. (2017). *Living Wages Around the World: Manual for Measurement*; European Commission. (2023). Annex 1 to the Commission Delegated Regulation (EU) supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.

13. Jebb, A. T. et al. (2018). *Happiness, income satiation and turning points around the world*.

14. European Commission. (2023). p. 1. Annex 1 to the Commission Delegated Regulation (EU) supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.

SECTION 4: OUTCOMES, IMPACTS, AND VALUATION

This section provides the specific formulas (section 4.1) and explains the value factors (section 4.2) for the Adequate Wages Methodology.

In section 4.1, remuneration impact is first calculated for workers in categories A, B, C, and D, respectively and then summed up across all categories of workers. Workers are disaggregated in this way to incorporate the diminishing marginal utility of income, or the idea that the marginal well-being caused by wages *decreases* as wages *increase*. For category A and B workers, marginal well-being gain is at its highest and is equivalent to the value factor. For category C workers, who earn more, marginal well-being gain is reduced by a diminution multiplier. For category D workers, who earn the most, marginal well-being gain tapers off. The remuneration impact function can therefore be considered a piecewise linear function with two inflection points.

Alternatives to the piecewise linear function were considered but ultimately not chosen, including a more complex nonlinear function and simpler linear function with an “income satiation” point. The nonlinear function would have required entities to use data on *individual* wages because applying *average* wage data to a nonlinear function could have distorting effects in the presence of skewed wage distributions. Nonlinearity would also increase complexity for preparers of impact accounts. Nonetheless, a nonlinear function is the most accurate representation of diminishing marginal utility, so an underlying nonlinear function was developed and the parameters for the piecewise linear function (i.e., inflection points and diminution multiplier) were calibrated to closely approximate it.

The simpler “income satiation” model would have assumed marginal well-being tapers off more suddenly and at lower wages. Given that the overall body of evidence on true satiation is mixed, the Exposure Draft tempers this assumption by tapering marginal well-being off less suddenly and at higher wages. The Exposure Draft is intended to strike a balance between the two alternative models considered, incorporating rigor while maintaining implementation feasibility.

Unlike remuneration impact, living wage deficit impact applies only to category A workers, who earn below the living wage. The size of their living wage deficit is multiplied by the value factor.

Section 4.2 establishes the value factor used to translate wages into well-being, expressed in monetary terms. The value factor differs for each country and is provided in Appendix B for over 130 countries. The value factor is made up of two components: a country’s *well-being utility of income (WUI)* multiplied by a *universal value of a well-being-year (WELLBY)* (explained below).

WUI represents the effect of each \$1 on workers’ well-being. WUIs for each country are based on the 2023 World Happiness Report, produced by the Sustainable Development Solutions Network, which used Gallup World Poll data to estimate the sensitivity of well-being to GDP per capita in 156 countries.¹⁵ This estimate is used as a proxy for the sensitivity of well-being to individual income in the Exposure Draft. Well-being is measured in units of WELLBYs, where 1 WELLBY is a one-point change in life satisfaction on a 0–10 scale, per person, per year.

WELLBYs are then monetized using standard WELLBY values of \$17,663 for 2022 and \$19,524 for 2023, based on the recommendation of the UK Treasury.¹⁶ The same value of a WELLBY is applied universally under the presumption that every person’s well-being should be equally valuable, regardless of their location, race, gender, or other characteristics. This approach is a normative one; a positive approach would have instead used different WELLBY values based on different people’s willingness to pay for well-being. The implication of a positive approach, however, would be that the well-being of people with lower incomes would be presented as less valuable than the well-being of people with higher incomes.

15. Helliwell et al. (2023). World Happiness Report 2023.

16. HM Treasury. n.d. The Green Book: Central Government Guidance on Appraisal and Evaluation.

SECTION 5: FUTURE DEVELOPMENT

The closing section acknowledges that the Exposure Draft is based on the latest global data on subjective well-being and adheres to guidance from leading sources on the measurement and valuation of well-being. At the same time, opportunities are acknowledged for the continued development of the Topic Methodology itself and the ecosystem of data in which it is based.

Three areas are highlighted for future development. First, entities currently face barriers gathering data on wages and in-kind benefits across their value chains. Advancements in estimation methods like extended input-output models may be considered in the future as part of the Adequate Wages Methodology itself or accompanying materials. Second, the systematic collection of high-quality subjective well-being data is expected to grow over time, which presents opportunities to fine-tune components of the Adequate Wages Methodology over time. Third, efforts like the WageMap consortium are expected to improve the global availability, quality, and comparability of living wage benchmarks, thus leading to the possibility of a more consensus-driven streamlined approach to using living wage benchmarks in the Topic Methodology in the future.

Request for Public Comment

INSTRUCTIONS TO COMMENT

The VTTPC invites comment letters on the proposals in the Adequate Wages Exposure Draft, particularly on the questions set out below. Feedback from stakeholders will be incorporated impartially. The VTTPC is requesting comments only on matters addressed in the Adequate Wages Exposure Draft. Comments are most helpful if they:

- a. address the questions as stated;
- b. specify the paragraph(s) to which they relate;
- c. contain a clear rationale;
- d. identify any wording in the proposals that is ambiguous in its interpretation; and
- e. include alternative proposals the VTTPC should consider, if applicable.

Please note that comment letters are a matter of public record and will be published on the IFVI website after the closure of the public comment period. Comments should be sent to the technical staff via e-mail at research@ifvi.org. Please include "Adequate Wages Public Comment" in the subject line.

Questions for Feedback

Question 1 – Inclusion of both remuneration impact and living wage deficit impact within the scope of the Exposure Draft (section 1.4 Scope and Assumptions, paragraph 15; section 2.2 Description and Notes; section 5 Future Development, paragraph 51)

The Exposure Draft has two components in its impact pathway: remuneration impact (the element of positive impact associated with any wage) and living wage deficit impact (an element of negative impact realized when a wage falls below that needed for a decent standard of living for a worker and their family – known as the living wage). While both components are included in the scope of the Exposure Draft, their results are not added together, retaining separation for a more nuanced analysis of impacts. Peer and legacy methodologies differ in their decisions to include or exclude remuneration impact alongside living wage deficit impact. The scope of the Exposure Draft includes remuneration impact for three key reasons.

First, doing so best reflects the goal of the impact accounting system, articulated in General Methodology 1, to provide for a comprehensive and foundational set of impact information on entities' absolute impact that can subsequently enable further analysis. Second, simultaneous analysis of both impacts is conceptually consistent with the research literature on poverty. Third, analyzing wage payments as an impact on workers' well-being rather than as an entity's contribution to GDP best aligns with the impact accounting system's emphasis on stakeholder well-being.

- 1a. Based on the reasons articulated above, do you agree with the inclusion of remuneration impact as an element of positive impact on workers, and why or why not?
- 1b. Is the articulation of remuneration impact and its rationale clear? Is it clear how the default reference scenario drives the existence of remuneration impact for wages below a living wage?
- 1c. Do you agree that both remuneration impact and living wage deficit impact should be included within the scope of the Adequate Wages Methodology, bearing in mind they are not added together, or should they instead be separated in separate methodology statements?

Question 2 – Approach to incorporating diminishing marginal utility in the calculation of remuneration impact (section 4.1 Valuation Formula; Appendix B: Methodological Details)

The Exposure Draft incorporates diminishing marginal utility into the calculation of remuneration impact by adopting a piecewise linear function, whereby the marginal well-being caused by each \$1 of wage is reduced at two successive inflection points. After considering a more complex nonlinear model and a simpler linear model, the present model was chosen to maintain the practicality of the methodology, while also reflecting empirical evidence and general principles as closely as possible.

- 2a. Do you agree with the proposed approach to incorporating diminishing marginal utility of income in a piecewise linear function, and why or why not?
- 2b. Could the rationale for the piecewise linear function, and articulation of the calculation for the sake of preparers, be made clearer?
- 2c. Does the proposed approach strike an appropriate balance between empirical and theoretical accuracy and implementation feasibility? Can entities feasibly meet the data requirements of the proposed approach? Would different alternatives manage the balance between accuracy and feasibility better?

Question 3 – Valuing the impact of wages on subjective well-being and the “well-being utility of income” approach (section 4.2 Value Factor; Appendix B: Methodological Details)

The Exposure Draft takes subjective well-being as an outcome, the measurement of which has been growing in sophistication, application, and acceptance by governments, international organizations, and academia. A now large body of evidence supports the validity of subjective well-being measures, especially life satisfaction – including specific evidence that subjective well-being tracks with more objective measures like health status, education, social contact, and employment status, and is sensitive to life changes, including over time.¹⁷ Additionally, the use of a holistic measure like subjective well-being in a “utility of income” factor can help capture myriad well-being effects that might not be detected by more focused outcomes. At the same time, subjective well-being brings limitations, some inherent and some avoidable, and may be particularly fit for application in some contexts and not others.

More generally, the Exposure Draft takes a “well-being utility of income” (WUI) approach, framing wages as a means to well-being rather than wages as an end in themselves, which builds off of but expands upon other existing wage valuation methodologies more explicitly incorporating well-being. To operationalize WUI, the Exposure Draft uses the World Happiness Report’s analysis of the sensitivity of subjective well-being to income. While the World Happiness Report was the most recent, credible, and globally comprehensive analysis identified, assumptions are required to apply its results, which are at the country level, to the Exposure Draft.

- 3a. Do you agree with the use of subjective well-being in the Exposure Draft, and why or why not?
- 3b. Do you agree with the Exposure Draft’s use of a WUI approach, which focuses on the well-being consequences of wages, and why or why not?
- 3c. Do you agree with the use of the World Happiness Report’s analysis as the basis of WUI factors, and why or why not?

17. OECD. (2013). OECD Guidelines on Measuring Subjective Well-being.; Stiglitz, J. E. et al. (2009). Report by the Commission on the Measurement of Economic Performance and Social Progress.

Question 4 – Application of the Exposure Draft to workers in an entity’s value chain (section 1.4 Scope and Assumptions, paragraph 14; section 3.1 Data Requirements; section 3.3 Data Sources, Gaps, and Uncertainty)

The Adequate Wages Methodology is designed to apply not only to workers in an entity’s own workforce but also to workers throughout its value chain. At the same time, it is recognized that value chain data on wages and benefits is limited, incomplete, and will vary substantially by preparer and across different parts of the value chain.

- 4a. Is the Adequate Wages Methodology, considered in its entirety, appropriate to be applied equally to workers in an entity’s workforce and value chain?
- 4b. Does the Exposure Draft provide sufficient guidance for how entities should handle data incompleteness?
- 4c. What additional guidance would be valuable, either within the Adequate Wages Methodology itself or via a separate mechanism?

Question 5 – Valuation of a well-being–year (WELLBY) (section 4.2 Value Factor; Appendix B: Methodological Details)

The Adequate Wages Methodology applies a universal WELLBY value in order to avoid the implication that different people’s well-being is valued differently based on their country and economic status. The WELLBY value proposed in the Exposure Draft is from the UK Green Book, which is recognized as an advanced and credible source. At the same time, a universal WELLBY value does not reflect the large differences in willingness to pay that can exist across people, whether as a function of variation in income, cost of living, regulatory environment, or “true” variation in how much people care about their well-being. Therefore, a universal WELLBY value deprioritizes local specificity in favor of equitable treatment.

- 5a. Do you agree with the use of a universal WELLBY value, and why or why not?
- 5b. Do you agree with the use of the UK Green Book’s WELLBY value in the Exposure Draft? Are there other alternative credible sources that should be considered for a universal WELLBY value?

Question 6 – Additional feedback

Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

Executive Summary

Executive Summary

This Topic Methodology:

- develops a two-part *impact pathway* (Figure 1) to assess the *adequate wage impacts* of an entity, including its overall remuneration impacts and living wage deficit impacts;
- causally links the *inputs* and *outputs* of an entity providing wages to workers with *outcomes* and *impacts* that affect the well-being of people directly;
- accounts for all workers, including employees and non-employees like contractors, in both the entity's own workforce and in its value chain;
- aligns with reporting requirements in *ESRS S1: Own Workers* and *ESRS S2: Workers in the Value Chain*;
- does not account for other related impacts on workers, such as occupational health and safety, or broader societal effects of wages.

The Adequate Wages Methodology can be used by preparers of impact accounts to measure and value the impact of wages on people. This Topic Methodology can also be applied by users of impact information to manage the sustainability-related risks, opportunities, and impacts of an entity and inform decision-making regarding an entity's contribution to sustainability.

To use this Topic Methodology, preparers should:

- identify a living wage benchmark or benchmarks that can be applied to the geographic scope of their operations;
- collect, and estimate where necessary, a full accounting of wage related data for the entity's workers, and for the workers in its value chain — organized separately by geography and by wages below a living wage and wages above a living wage, where wages above a living wage are further disaggregated for a more detailed analysis incorporating diminishing marginal utility;
- utilize the valuation formulas and *value factor* developed in this Topic Methodology to convert wage data into impact accounts;
- present any related impact information with supplemental notes and qualitative commentary necessary to meet the qualitative characteristics of impact information.¹

The development of this Topic Methodology builds on frameworks and protocols published by leading organizations in the impact management ecosystem and sustainability-related disclosures required by governing jurisdictions and international standard setters, including:

- European Sustainability Reporting Standards (ESRS)
- Sustainable Development Solutions Network
- Global Living Wage Coalition and the WageMap consortium
- Organisation for Economic Co-operation and Development (OECD)
- Shift Project
- Capitals Coalition
- Valuing Impact

1. See General Methodology 1: Conceptual Framework for Impact Accounting.

IMPACT PATHWAY

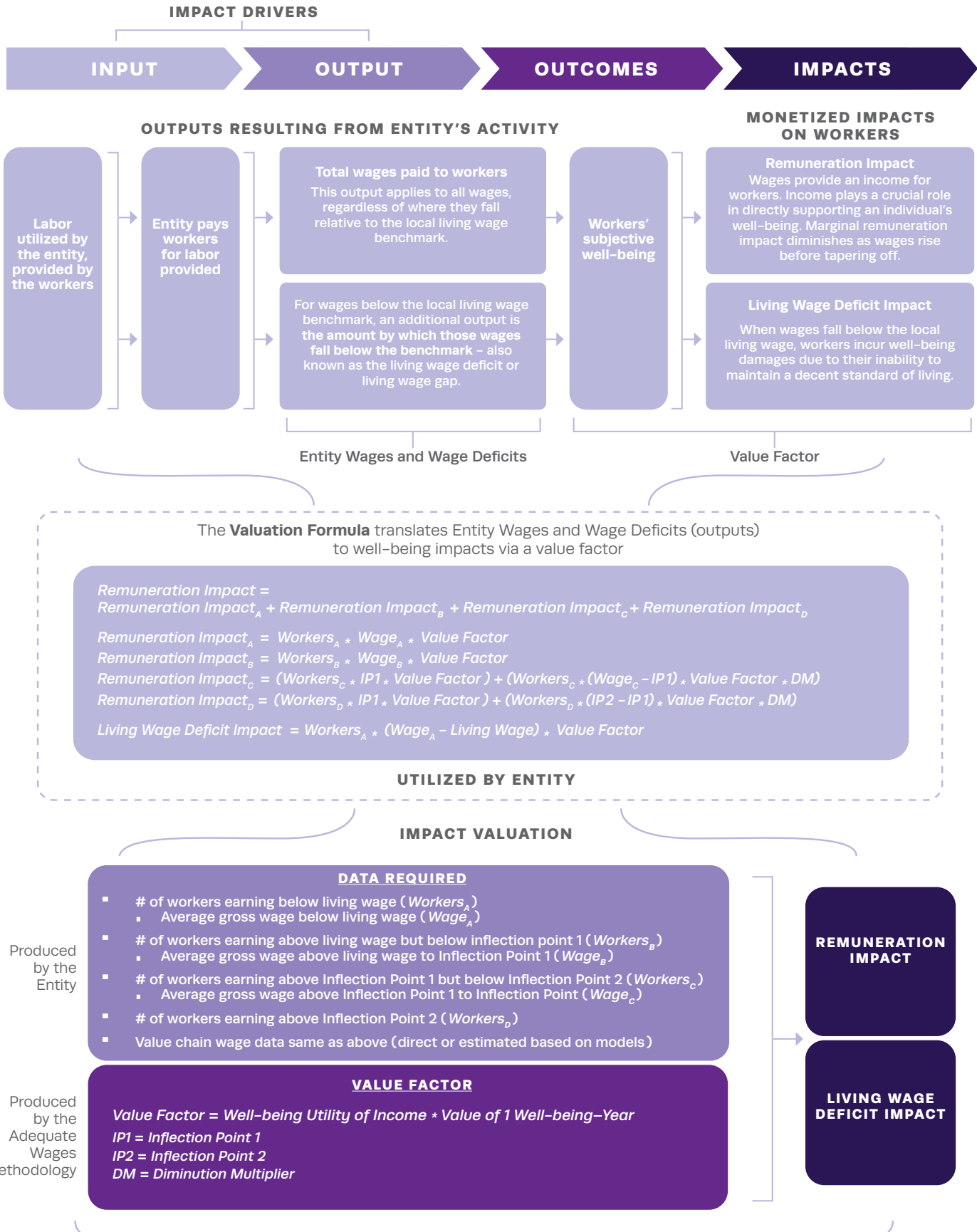


Figure 1: Impact pathway and valuation for Adequate Wages

1. Introduction

1. Introduction

1.1 DOCUMENT PURPOSE

1. The purpose of this document is to outline the Topic Methodology for Adequate Wages (henceforth, Adequate Wages Methodology) as part of the *impact accounting* methodology being developed by the International Foundation for Valuing Impacts and the Value Balancing Alliance.
2. The impact accounting methodology is designed to measure and value the *impacts* of corporate entities (entities or an entity) in monetary terms for the purposes of preparing impact accounts and generating impact information.
3. The Adequate Wages Methodology is further intended to be applied by preparers of impact accounts to determine whether Adequate Wages are a material impact for an entity. Guidance on impact materiality is provided in *General Methodology 1: Conceptual Framework for Impact Accounting*.
4. Preparers of impact accounts should adhere to the entirety of the methodology to the fullest extent possible and should disclose any deviations from it when shared with users of impact information.
5. The content of the Adequate Wages Methodology builds on the General Methodology and is complemented by other Topic and Industry-specific Methodologies.

1.2 TOPIC DESCRIPTION

6. For the purposes of the Adequate Wages Methodology, wages are defined as “remuneration or earnings, however designated or calculated, capable of being expressed in terms of money and fixed by mutual agreement or by national laws or regulations, which are payable in virtue of a written or unwritten contract of employment by an employer to an employed person for work done or to be done or for services rendered or to be rendered.”²
7. Adequate Wages are a universally applicable topic for all entities with workers. When entities pay

wages to workers in exchange for work, they provide workers with a source of income. The amount of income earned contributes to an individual’s level of well-being by supporting their ability to meet their needs, and when inadequate, failing to do so.³

8. The Adequate Wages Methodology includes “remuneration impact” as one of two types of impacts. “Remuneration impact” is the positive impact of wages on workers’ well-being, since wages, of any amount, provide income to a worker. The remuneration impact of each additional \$1 of wage diminishes and tapers off at higher wages, reflecting the diminishing marginal utility of income.⁴

9. The Adequate Wages Methodology also includes “living wage deficit impact” as a second impact. Earning a wage does not guarantee that that wage is adequate for an individual and their family. As of 2020, over one billion working people worldwide earn wages that are inadequate for a decent standard of living.⁵ Therefore, “living wage deficit impact” is the negative impact on workers’ well-being of being paid less than the living wage.

10. The importance of adequate wages is enshrined in Article 23 of the Universal Declaration of Human Rights, adopted by the United Nations (UN) in 1948, which states: “Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.”⁶

11. Regulatory requirements and guidelines increasingly promote wage-related disclosure and corporate commitments. This includes, among others, the International Labour Organization,⁷ the EU’s Corporate Sustainability Reporting Directive,⁸ the OECD’s Business For Inclusive Growth,⁹ the UN Global Compact,¹⁰ and the World Business Council for Sustainable Development’s (WBCSD) Business Commission to Tackle Inequality.¹¹

2. See definition in Article 1 of the International Labour Organization’s Protection of Wages Convention, 1949 (No. 95).

3. See Thomson et al. (2022): How Do Income Changes Impact on Mental Health and Wellbeing for Working-Age Adults? A Systematic Review and Meta-analysis, Benzeval et al. (2014): How Does Money Influence Health?, Carr et al. (2022): Pandemic or Not, Worker Subjective Wellbeing Pivots About the Living Wage Point: A Replication, Extension, and Policy Challenge in Aotearoa New Zealand, and Ridley et al. (2020): Poverty, Depression, and Anxiety: Causal Evidence and Mechanisms.

4. See Menger (2007): Principles of Economics.

5. See Business Commission to Tackle Inequality (2023): Tackling inequality: An agenda for business action.

6. See United Nations (1948): Declaration of Human Rights.

7. See International Labor Organization (2021): A Methodology to Estimate the Needs of Workers and Their Families.

8. See European Commission (2023): Annex 1 to the Commission Delegated Regulation (EU) supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.

9. See Business for Inclusive Growth (2021): The B4IG Coalition Pushes Forward Living Wage as a Corporate Priority.

10. See United Nations Global Compact (2021): Improving Wages to Advance Decent Work in Supply Chains.

11. See Business Commission to Tackle Inequality (2023): Tackling inequality: An agenda for business action.

1. Introduction

1.3 KEY CONCEPTS AND DEFINITIONS

12. The following key concepts and definitions apply to the Adequate Wages Methodology:

- a. **Living wage:** 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.”¹² A living wage is conceptually distinct from a legal minimum wage. For the purposes of the Adequate Wages Methodology, an adequate wage is a wage at or above the living wage.
- b. **Living wage benchmark:** A living wage benchmark is a quantitative estimate of a living wage in a specific location.
- c. **Living wage benchmark provider:** A benchmark provider is an organization or department of an organization that calculates living wage benchmarks for one or more locations. Multiple providers develop and maintain benchmarks that vary in scope and calculation methodology. Section 3 describes the specific criteria that benchmarks should meet to be used with the Adequate Wages Methodology.
- d. **Gross wage:** For the purposes of the Adequate Wages Methodology, a worker’s gross wage is the quantity that is compared to the local living wage benchmark to determine whether the worker is earning below, at, or above the living wage. Gross wage includes base wage, select cash benefits and bonuses, and select in-kind benefits. Gross wage does not subtract any statutory deductions; rather, it is the amount that would need to be paid to the worker such that, once income taxes and other statutory deductions are subtracted from pay, the worker has sufficient take-home pay to afford a decent standard of living.
- e. **Well-being:** Well-being is the state of being or doing well in life.¹³ According to the OECD Well-being Framework, one’s current well-being encompasses 11 key dimensions: income and wealth; work and job quality; housing; health; knowledge and skills; environment quality; subjective well-being; safety; work-life balance; social connections; and civic engagement.¹⁴
- f. **Subjective well-being:** Subjective well-being refers to “good mental states, including all of the various evaluations, positive and negative, that people make of their lives, and the affective reactions of people to their experiences.”^{15,16} Subjective well-being can capture in a single measure the combined effect of myriad changes in an individual’s life circumstances on their overall perception of their well-being.
- g. **Inflection point:** For the purposes of the Adequate Wages Methodology, inflection points serve to incorporate diminishing marginal utility into the estimation of remuneration impact.¹⁷ Past each inflection point, the remuneration impact of each additional \$1 of wage gets smaller.

12. See definition in Global Living Wage Coalition (2023): What is a Living Wage?

13. See definition provided by Impact Management Platform in the Key Terms and Concepts.

14. See Organisation for Economic Co-operation and Development (2023): OECD How’s Life? Well-Being Database: Definitions and Metadata.

15. See Organisation for Economic Co-operation and Development (2013): OECD Guidelines on Measuring Subjective Well-Being. Also see Diener (2006): Guidelines for National Indicators of Subjective Well-Being and Ill-Being.

16. Extensive evidence reviewed by the OECD supports the accuracy of subjective well-being, with multilateral and governmental organizations increasingly adopting the measure to monitor the well-being of their populations.

17. See Menger (2007): Principles of Economics.

1. Introduction

1.4 SCOPE AND ASSUMPTIONS

13. The Adequate Wages Methodology includes:

- a. Remuneration impact: The positive impact of all wages, acknowledging diminishing marginal utility at higher wages.
- b. Living wage deficit impact: The negative impact of wages that are below the local living wage.

The two types of impacts should be calculated separately and not added together.

14. The Adequate Wages Methodology applies not only to workers in the entity's own workforce but also workers in its value chain.

- a. Workers in the entity's own workforce include both direct employees and non-employee workers like contractors and workers provided through employment agencies.¹⁸
- b. The consideration of value chain workers is consistent with international norms established by civil society, intergovernmental organizations, and reporting standards.^{19,20,21} Nonetheless, it is acknowledged that obtaining wage data from other entities in the value chain can be challenging. Models and estimates may be used where data are unavailable. Guidance is included in Section 3.3.

15. The Adequate Wages Methodology estimates an entity's absolute impact by taking the default reference scenario described in *General Methodology 1: Conceptual Framework for Impact Accounting*.

The default reference scenario assumes no alternative activities would exist in the absence of the entity's activities. Specifically, workers are assumed to have no alternative employment opportunity or additional financial support provided by government or other social infrastructure. This assumption recognizes the important role entities play in providing sources of income to individuals, independent of government or support structures.

16. The Adequate Wages Methodology estimates the value of wages paid by the entity to workers but does not estimate the value that is provided by workers to the entity in exchange.

17. The following topics are outside the scope of the Adequate Wages Methodology but may be subject to future development under distinct Topic Methodologies:

- a. Non-wage aspects of work conditions, including but not limited to job security, working hours, and occupational health and safety, or the existence of forced or child labor.
- b. Pay equality and pay equity. Pay equality refers to the extent to which workers are paid equally, regardless of the economic value of their labor. Pay equity refers to the extent to which workers receive equal pay for work of equal economic value, regardless of their identity group.²²
- c. Broader societal impacts of wages paid, such as economic development, lower crime, and greater civic participation.²³

18. See European Commission (2023): Annex 1 to the Commission Delegated Regulation (EU) supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.

19. Ibid.

20. See United Nations Global Compact (2021): Improving Wages to Advance Decent Work in Supply Chains.

21. See IDH, The Sustainable Trade Initiative (2023): Roadmap on Living Wages: A Platform to Secure Living Wages in Supply Chains.

22. See Oelz et al. (2013): Equal Pay: An Introductory Guide. Also see Business Commission to Tackle Inequality (2023): Tackling inequality: An agenda for business action.

23. See Doshi et al. (2023): Creating a Good-Jobs Economy in the UK, Rodrik (2022): An Industrial Policy for Good Jobs, and Rodrik & Sabel (2019): Building a Good Jobs Economy.

2. Impact Pathway

2. Impact Pathway

2.1 SUMMARY

18. The impact pathway is the series of consecutive, causal relationships, ultimately starting at an input for an entity's activities and linking its actions with related changes in people's well-being. It serves as the foundation of the impact accounting methodology.

19. Detailed components of the impact pathway are outlined in subsequent sections, leading to the calculation formula to determine the value of an entity's wage impacts in Section 4.1.

20. The impact pathway for Adequate Wages is as follows:

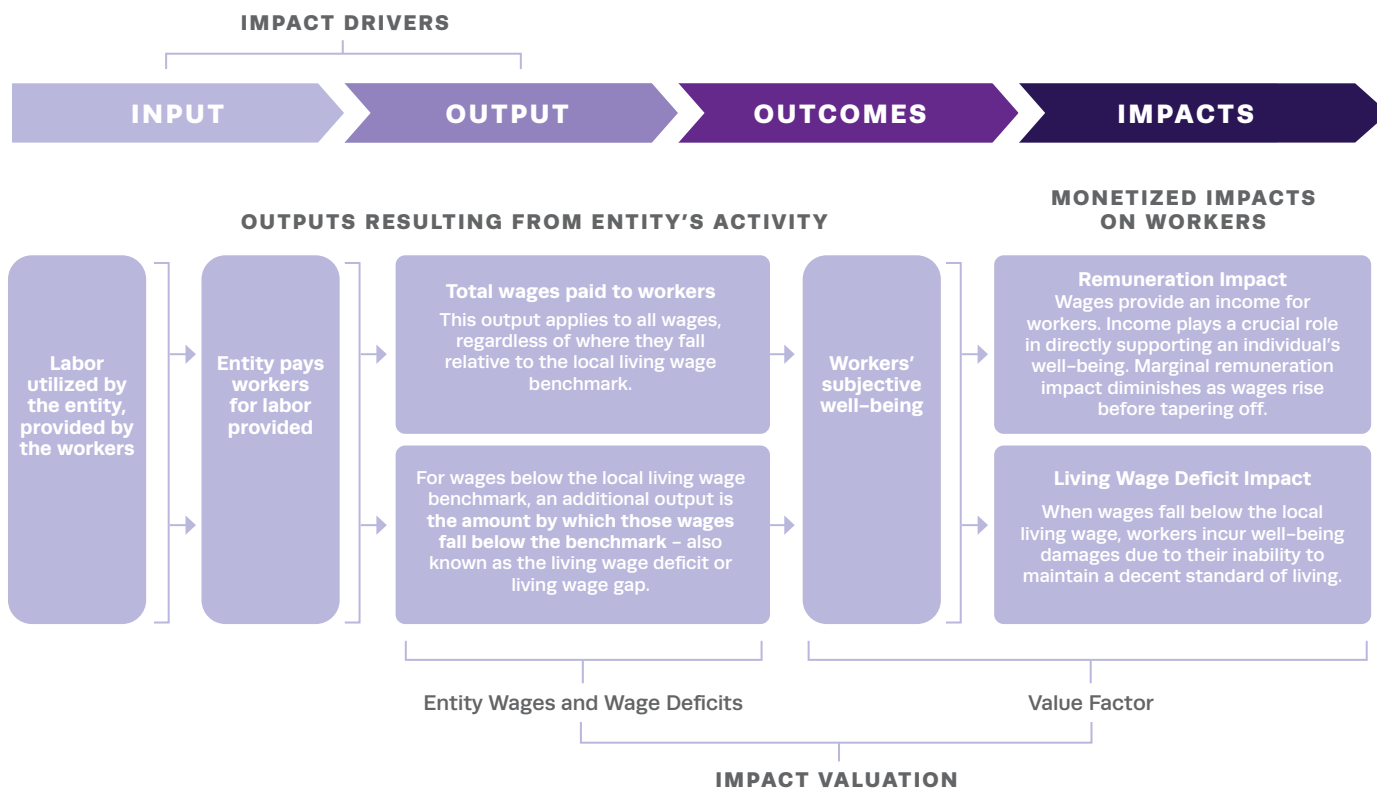


Figure 2: Adequate Wages Impact Pathway

2. Impact Pathway

2.2 DESCRIPTION AND NOTES

21. The *input* to the Adequate Wages *impact pathway* is labor utilized by the entity, provided by workers.

22. The entity's *activity* is the act of paying workers for labor provided.

23. Two *outputs* result from the entity's activity, depending on the impacts to which they correspond:

- a. Remuneration: the output is total wages paid to workers (expressed quantitatively in monetary terms). This output applies to all wages, regardless of where they fall relative to the local living wage benchmark.
- b. Living wage deficit: for wages below the local living wage, an additional output is the amount by which those wages fall below the benchmark (expressed quantitatively in monetary terms), also known as living wage deficit or living wage gap.²⁴ This output only applies to wages below the living wage.

24. Whether through remuneration impacts or living wage deficit impacts, the *outcome* of the impact pathway is the same: workers' subjective well-being. Subjective well-being serves as a standardized and summative measure of the multiple interrelated effects of wages on workers' overall perception of their well-being.²⁵

25. The *impacts* of wages on workers' subjective well-being are twofold:

- a. Remuneration impact: First, wages provide an income for workers, directly supporting their well-being. Multiple causal mechanisms underlie the link between income and well-being. Income enables workers to meet their material needs like food, housing, and healthcare. Beyond material needs, income also supports workers' well-being through myriad psychosocial and behavioral mechanisms, like the ability to participate with dignity in social life and manage financial stress.²⁶ Marginal remuneration impact diminishes as wages rise, before tapering off.
- b. Living wage deficit impact: Second, when wages fall below the local living wage, workers incur well-being damages. This is supported empirically and reinforced by the conceptual consideration of a living wage as a human right.²⁷ In other words, while all wages confer some well-being benefit relative to no wage at all ("remuneration impact"), wages below the living wage additionally impose some well-being cost on workers who are now unable to maintain a decent standard of living.

24. See Shift & Capitals Coalition (2023): Accounting for a Living Wage: Using the Living Wage Accounting Model. Also see IDH, The Sustainable Trade Initiative (2023): Step 2: Measure Living Wage Gaps.

25. See Organisation for Economic Co-operation and Development (2023): OECD How's Life? Well-Being Database: Definitions and Metadata.

26. See Thomson et al. (2022): How Do Income Changes Impact on Mental Health and Wellbeing for Working-Age Adults? A Systematic Review and Meta-analysis, Benzeval et al. (2014): How Does Money Influence Health?, Carr et al. (2022): Pandemic or Not, Worker Subjective Wellbeing Pivots About the Living Wage Point: A Replication, Extension, and Policy Challenge in Aotearoa New Zealand, and Ridley et al. (2020): Poverty, Depression, and Anxiety: Causal Evidence and Mechanisms.

27. See Carr et al. (2018): How Can Wages Sustain a Living? By Getting Ahead of the Curve, Carr et al. (2022): Pandemic or Not, Worker Subjective Wellbeing Pivots About the Living Wage Point: A Replication, Extension, and Policy Challenge in Aotearoa New Zealand, and Carr et al. (2021): Research Update: How Decent Wages Transform Qualities of Living – By Affording Escape from Working Poverty Trap.

3. Impact Driver Measurements

3. Impact Driver Measurements

3.1 DATA REQUIREMENTS

26. The Adequate Wages Methodology requires the following data from the entity and from other sources.

- a. Data required from the entity include the number of the entity’s workers earning below the living wage (category A workers), at or above the living wage but below inflection point 1 (IP1) (category B workers), at or above IP1 but below inflection point 2 (IP2) (category C workers), and at or above IP2 (category D workers), and the average gross wages of category A, B, and C workers, respectively. Data should be calculated separately by country at least, or by subnational geographic

unit where possible, because living wage and inflection points vary geographically. Data should also be calculated separately for workers in the entity’s own workforce and workers in its value chain.

- b. Data required from other sources include:
 - The living wage benchmark for each country or subnational geographic unit. Entities should use living wage benchmarks from an independent provider that meets the criteria in paragraph 28.
 - IP1 and IP2 for each country. Preparers should use inflection points provided in Appendix B.

OWN WORKFORCE

Data Required	Country 1	Country 2	Country 3
Data from the entity			
Workers _A , the total number of the entity’s workers earning below the living wage (category A workers)			
Workers _B , the total number of the entity’s workers earning at or above the living wage but below IP1 (category B workers)			
Workers _C , the total number of the entity’s workers earning at or above IP1 but below IP2 (category C workers)			
Workers _D , the total number of the entity’s workers earning at or above IP2 (category D workers)			
Wage _A , the average gross wage of category A workers			
Wage _B , the average gross wage of category B workers			
Wage _C , the average gross wage of category C workers			
Data from other sources			
Living wage benchmark			
Inflection point 1			
Inflection point 2			

Table 1. Data required from the entity and from other sources, disaggregated by country, for workers in the entity’s own workforce.

WORKERS IN THE VALUE CHAIN

Data Required	Country 1	Country 2	Country 3
Data from the entity			
Workers _A , the total number of category A value chain workers			
Workers _B , the total number of category B value chain workers			
Workers _C , the total number of category C value chain workers			
Workers _D , the total number of category D value chain workers			
Wage _A , the average gross wage of category A value chain workers			
Wage _B , the average gross wage of category B value chain workers			
Wage _C , the average gross wage of category C value chain workers			
Data from other sources			
Living wage benchmark			
Inflection point 1			
Inflection point 2			

Table 2. Data required from the entity and from other sources, disaggregated by country, for workers in the entity's value chain.

27. Preparers should calculate average gross wage as follows:²⁸

- a. Add the base wage, select cash benefits and bonuses, and select in-kind benefits that reduce the amount that a worker would need to pay out of pocket in order to reach a decent standard of living.²⁹
 - The accepted cash components of a wage are: basic wage and cost of living adjustment, housing allowance, transport allowance, non-production bonuses paid once or several times during the year (examples include 13th month, birthday bonuses, bonuses for holidays, etc.), retention bonus, allowance to visit 'home', attendance allowance, child allowance, production/incentive bonus, and cash bonus when profits are good.
 - The accepted non-cash components of a wage are: housing and utilities such as water or electricity for home, meals, food rations or food commodities given for free or sold at concession rates, transport to work and from work (and to town on weekends from agricultural estates), childcare/crèche, school for workers' children, meals in crèche or school, medical services not

required by law and not related to work injuries and illnesses, private medical insurance, medical expenses paid for treatment in other clinics and hospitals, transport to hospital/other health services, educational assistance for children, scholarships, paid time off for sickness or holidays, and funeral costs for a worker who dies.

- b. Do not subtract any statutory deductions like income and payroll taxes.
- c. Standardize into wages for full-time equivalent (FTE) workers. For example, for part-time workers paid on an hourly basis, average wage can be calculated by multiplying hourly pay by the number of annual working hours an FTE worker would have worked. In accordance with the European Sustainability Reporting Standards (ESRS) Disclosure Requirement S1-10, average gross wage should not include wages earned by apprentices and interns.³⁰
- d. Divide by the total number of workers.
- e. Average gross wage data should be converted into U.S. Dollars. This conversion is necessary to ensure that the entity's data is denominated in the same unit as the value factor described in Section 4.

28. Gross wage is sometimes referred to as "prevailing wage" by living wage benchmark providers.

29. This definition of wages is based on the Anker Methodology. See Appendix C for more details on guidelines for including each of these wage components in the wage calculation.

30. See European Commission (2023): Annex 1 to the Commission Delegated Regulation (EU) supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.

3. Impact Driver Measurements

28. Preparers should use a living wage benchmark or benchmarks that meet the below criteria.³¹ “Required criteria” must be met; “preferred” criteria are optional. Where preparers have chosen benchmarks that meet “required” but not “preferred” criteria, preparers should disclose their reasons for doing so.

- a. Data sources: Living wage benchmarks are based on data from field-level research, online surveys, national statistics, or modeling based on these sources. Data are representative of the location of the living wage benchmark. The methodology used for data collection are clearly defined and transparent.
 - Living wage benchmarks that rely on other data sources besides online cost-of-living surveys are preferred.
- b. Family size: Benchmarks are calculated based on a family-oriented definition of a living wage, rather than an individual. Family size is estimated based on actual fertility rates or average family size data specific to the location.
- c. FTEs per family: Living wage benchmarks *either* assume one worker per family *or* estimate the number of workers per family based on location-specific employment rates, adjusted into FTEs. The standard workweek for an FTE should align with the regular working hours in the respective country, as defined in collective bargaining agreements or minimum wage regulations. A maximum of 48 working hours per week is considered, in accordance with the ILO Conventions and Recommendations.
 - Living wage benchmarks that assume one worker per family are preferred.
- d. Cost of living items: Living wage benchmarks account for the following cost categories: food, housing, healthcare, education, household goods, communication, transportation, personal care, and a modest provision for unforeseen circumstances.
 - Living wage benchmarks that additionally account for childcare costs are preferred.
- e. Gross living wage adjustments: Location-specific statutory deductions from wages are considered to determine the gross living wage. Statutory deductions include income tax (though if the minimum threshold for paying income tax happens to fall above a living wage, then it is not always necessary to adjust for income tax), social security/social insurance, pension/provident funds, disability insurance, unemployment insurance, government medical insurance, and union dues.³² A living wage does not need to be adjusted for person-specific statutory deductions (such as repayment of loans, child support, and alimony) and voluntary deductions from pay (such as voluntary health insurance or pension fund contributions).³³
- f. Geographic specificity: Living wage benchmarks are defined at least on a country level. Living wages consider the country level statistical information for defining family structure, FTEs per family, and gross living wage adjustments.
 - Living wage benchmarks defined using greater geographic specificity are preferred, particularly in regions where local living wages significantly deviate from the national average.
- g. Conflict of interest: Living wage benchmarks have no inherent conflicts of interests. Methodologies have sufficient distance from funding sources to maintain integrity. In addition, individual benchmark results are not influenced by the funding source.
- h. For transparency, entities should disclose the name of the benchmark provider, geographic and temporal scope of the benchmarks used, and how the benchmark provider’s methodology fulfills the criteria listed in paragraph 28, subsections a) through g).
- i. Updates: Living wage benchmarks are updated yearly for inflation. Benchmarks can be updated for up to 5 years before a new benchmark is needed.

31. These criteria have been adapted from IDH’s recognition process, the Accounting for a Living Wage criteria by Shift and Capitals Coalition, and the Anker and Anker methodology, among other sources.

32. See Anker & Anker (2017): Living Wages Around the World: Manual for Measurement

33. Ibid.

3. Impact Driver Measurements

29. A non-exhaustive list of benchmarks that meet the criteria at the time of publication is provided in Box 1.

Benchmark Meets Required Criteria	Benchmark Additionally Meets Preferred Criteria
Valuing Impact Typical Family Methodology	No
Valuing Impact Single Working Parent Typical Family Methodology	Yes, because: <ul style="list-style-type: none"> Includes approach for one wage earner
Anker Full Methodology	Yes, because: <ul style="list-style-type: none"> Relies on data sources besides online cost-of-living surveys Sub-national geographic specificity
Anker Reference Values	Yes, because: <ul style="list-style-type: none"> Relies on data sources besides online cost-of-living surveys Sub-national geographic specificity
Wage Indicator Foundation Typical Family Methodology	Yes, because: <ul style="list-style-type: none"> Relies on data sources besides online cost-of-living surveys Sub-national geographic specificity
Fair Wage Network Typical Family Methodology	Yes, because: <ul style="list-style-type: none"> Includes childcare costs Sub-national geographic specificity

Box 1. Example Living Wage Benchmarks Accepted by the Adequate Wages Methodology

30. Preparers should use inflection points provided in Appendix B.

- a. Inflection points serve to incorporate diminishing marginal utility into the estimation of remuneration impact. Past each inflection point, the remuneration impact of each additional \$1 of wage gets smaller. Inflection points acknowledge the principle of diminishing marginal utility while preserving ease of application of the Topic Methodology and its compatibility with available data from entities. See Appendix D for methodological details.
- b. The region-specific inflection points provided in Appendix B are based on Jebb et al.’s analysis of the relationship between subjective well-being and household income data from 164 countries in the Gallup World Poll, over the 2005–2016 period.^{34,35,36} Per the Gallup World Poll, countries within a region share common features – for

example, their history, economic development, language root, and religion – and are assumed in this Topic Methodology to share the same inflection points.³⁷

3.2 ALIGNMENT WITH REPORTING STANDARDS

31. The data requirements of the Adequate Wages Methodology are aligned with and expand upon the disclosure requirements in ESRS S1: *Own Workforce* and S2: *Workers in the Value Chain*. The Global Reporting Initiative (GRI) standards also include labor disclosures, but no disclosures have been identified as directly fulfilling the data requirements of the Adequate Wages Methodology at this time. The International Sustainability Standards Board has not yet developed standards related to wages.

34. See Jebb et al. (2018): Happiness, Income Satiation and Turning Points around the World.

35. Jebb et al. identified satiation levels when the relationship between subjective well-being and the natural logarithm of income converged to zero.

36. Two regions, Central Asia and South Asia, lacked sufficient data to produce region-specific income satiation levels, but were included in Jebb et al.’s estimate of a global income satiation level. Per Appendix B, entities should use the global quantity for countries in Central Asia and South Asia.

37. Ibid.

3. Impact Driver Measurements

32. ESRS S1: Own Workforce

- a. Disclosure Requirement S1-10 paragraph 66 states “The undertaking shall disclose whether or not all workers in its own workforce are paid an adequate wage, in line with applicable benchmarks; and if not, which type of workers do not receive an adequate wage and what percentage of its own workforce is paid below the adequate wage.”
 - This aligns with the data requirements in paragraph 26 of the Adequate Wages Methodology. Specifically, “what percentage of its own workforce is paid below the adequate wage” can be multiplied by the size of the entity’s workforce to determine the number of workers paid below the living wage, as required in paragraph 26.
- b. Disclosure Requirement S1-6 paragraph 49 states “The undertaking shall describe key characteristics of employees in its own workforce.”
 - Key characteristics in S1-6 include the size of the entity’s workforce and geographic breakdown of that information. Both data points can be used to calculate the country-specific number of an entity’s workers paid below the living wage, as required in paragraph 26.
- c. Application Requirement S1-10 paragraph AR 73 specifies what benchmarks may be used by entities within the European Economic Area (EEA) and those outside the EEA, with reference to the Directive (EU) 2022/2041.³⁸
 - The Directive’s interpretation of adequacy is conceptually aligned with this Topic Methodology in that both emphasize a decent standard of living for workers based on a full-time employment relationship. However, AR 73 permits entities to use a wider range of benchmarks than is accepted by this Topic Methodology.

33. ESRS S2: Workers in the Value Chain

- a. The following disclosure requirements provide qualitative information that could be useful in understanding and contextualizing topics related to value chain workers in the Adequate Wages Methodology. As these disclosures are focused on reporting policies and process information, they do not provide quantitative metrics that would fulfill the Topic Methodology’s data requirements.
 - S2-1: Policies related to value chain workers
 - S2-3: Processes to remediate negative impacts and channels for value chain workers to raise concerns
 - S2-4: Taking action on material impacts on value chain workers, and approaches to mitigating material risks and pursuing material opportunities related to value chain workers, and effectiveness of those actions
 - S2-5: Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

3.3 DATA SOURCES, GAPS, AND UNCERTAINTY

34. Preparers should strive to measure wages and wage deficits in a manner that is complete, neutral, and free from error. This includes faithfully representing wages and wage deficits from all parts of the value chain.
35. Obtaining data from suppliers or downstream activities can be particularly challenging, especially in specific regions or within the informal sector. To address this challenge, estimation using methods like the input-output model can be used when necessary to capture the full scope of wage impacts across the value chain.³⁹
36. Challenges may also arise when collecting detailed data on in-kind benefits to be included in gross wages, such as employer contributions to health insurance. If data on in-kind benefits are not available, preparers should use base wages and cash bonuses, which will result in more conservative estimates of impact.

38. See Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union.

39. Scholz et al. (2022): Impact Measurement Using the Value Balancing Alliance (VBA) Method.

4. Outcomes, Impacts, and Valuation

4. Outcomes, Impacts, and Valuation

37. In the Adequate Wages Methodology, the outcome of interest is the subjective well-being of workers and the impact is both the change in subjective well-being caused by total wages paid to workers (remuneration impact) and the change in subjective well-being caused by wages paid below the living

wage (living wage deficit impact). The measurement and valuation of impact are done using the value factor described in Section 4.2. The valuation formula in Section 4.1 shows how entities should apply the value factor to their wage data (outputs) to determine monetized impact.

4.1 VALUATION FORMULA

38. The Adequate Wages Methodology requires six equations to measure and value the well-being impacts of wages:

$$\text{Remuneration Impact}_A = \text{Workers}_A * \text{Wage}_A * \text{Value Factor} \quad (\text{Eq.1})$$

$$\text{Remuneration Impact}_B = \text{Workers}_B * \text{Wage}_B * \text{Value Factor} \quad (\text{Eq.2})$$

$$\text{Remuneration Impact}_C = (\text{Workers}_C * \text{IP1} * \text{Value Factor}) + (\text{Workers}_C * (\text{Wage}_C - \text{IP1}) * \text{Value Factor} * \text{DM}) \quad (\text{Eq.3})$$

$$\text{Remuneration Impact}_D = (\text{Workers}_D * \text{IP1} * \text{Value Factor}) + (\text{Workers}_D * (\text{IP2} - \text{IP1}) * \text{Value Factor} * \text{DM}) \quad (\text{Eq.4})$$

$$\text{Remuneration Impact} = \text{Remuneration Impact}_A + \text{Remuneration Impact}_B + \text{Remuneration Impact}_C + \text{Remuneration Impact}_D \quad (\text{Eq.5})$$

$$\text{Living Wage Deficit Impact} = \text{Workers}_A * (\text{Wage}_A - \text{Living Wage}) * \text{Value Factor} \quad (\text{Eq.6})$$

39. The variables in equations 1–6 are specified as follows:

- a. Workers_A , Workers_B , Workers_C , Workers_D , Wage_A , Wage_B , and Wage_C are defined in Section 3.
- b. *Value Factor* is used to translate wages (eq. 1–4) or wage deficits (eq. 6) into well-being, expressed in monetary terms. *Value Factor* is the product of the Well-being Utility of Income (WUI) factor and the value of a well-being-year (WELLBY), explained in Section 4.2. Value factors are provided in Appendix B. Equations 1–4 and equation 6 all use the same set of value factors.
- c. *Living Wage* is the local living wage benchmark that meets at least the required criteria in Section 3 for benchmarks that are usable with this Topic Methodology.
- d. *IP1* is inflection point 1, provided in Appendix B and explained in Appendix D.
- e. *IP2* is inflection point 2, provided in Appendix B and explained in Appendix D.
- f. *DM* is the diminution multiplier, provided in Appendix B and explained in Appendix D. *DM* serves as a reduction factor that is applied to the value factor at higher wages to incorporate a simplified notion of diminishing marginal utility into the calculation of remuneration impact.

- b. Eq. 3: For category C workers, whose wages are higher than IP1 but lower than IP2, remuneration impact is composed of IP1 wages multiplied by the value factor *plus* wages in excess of IP1 multiplied by both the value factor and DM.
- c. Eq. 4: For category D workers, whose wages are higher than IP2, remuneration impact is composed of IP1 wages multiplied by the value factor *plus* IP2 wages multiplied by both the value factor and DM.
- d. Equations 1, 2, 3, and 4 can be aggregated into equation 5, which represents the entity's remuneration impact across all workers.

41. Living wage deficit impact (eq. 6) is calculated as follows:

- a. For category A workers, whose wages are below the living wage, the wage deficit is translated into well-being by multiplying by the value factor. The wage deficit is calculated by subtracting the living wage from average gross wage. This quantity is always negative for category A workers and the resulting living wage deficit impact is also always a negative number.
- b. Living wage deficit impact is not calculated for workers in categories B, C, or D because such workers do not experience a living wage deficit.

40. Remuneration impact (eq. 1–5) is calculated as follows:

- a. Eq. 1 and 2: For category A and category B workers, wages are translated into well-being by multiplying by the value factor.

4. Outcomes, Impacts, and Valuation

42. If an entity's workers are in more than one country, equations 1–6 should be calculated separately for each country because the *Value Factor*, *IP1*, *IP2*, and *Living Wage* variables vary geographically. After calculating equation 5 for each country, entities may then sum remuneration impact across countries. Likewise, after calculating equation 6 for each country, entities may then sum living wage deficit impact across countries. Equations 5 and 6 should be considered distinct from one another and not aggregated.

4.2 VALUE FACTOR

43. In the Adequate Wages Methodology, the value factor serves to translate wages (eq. 1–4) or wage deficits (eq. 6) into well-being, expressed in monetary terms. This approach extends beyond taking the money amount of wages transacted at face value; instead, it captures the subjective well-being consequences of those wages.⁴⁰

44. Subjective well-being is a summative outcome measure, capturing the “combined effect of all different changes in life circumstances on an individual’s perception of their well-being in a single measure.”⁴¹ Subjective well-being is used for its ability to capture the numerous and interconnected effects of wages on multiple dimensions of well-being, such as income and wealth, health, housing, and knowledge and skills.^{42,43}

45. The value factor for a given country is calculated

as the product of that country's WUI factor and the value of a WELLBY.

46. The WUI factors are based on the 2023 World Happiness Report, which analyzed Gallup World Poll data on subjective well-being across 156 countries from 2005 to 2022.⁴⁴ WUI represents the effect of each US\$1 on workers' subjective well-being, in units of WELLBYs. A WELLBY is a one-point change in life satisfaction on a 0–10 scale, per person per year.⁴⁵ Each WUI factor is calculated as the ratio between the well-being gap and the income gap for a given country.⁴⁶ The well-being gap is the difference in well-being explained by GDP per capita between a given country and a reference country. The reference country is the country with the lowest GDP per capita in the World Happiness Report dataset.⁴⁷ The income gap is expressed as the difference between the GDP per capita of a given country and the GDP per capita of the reference country. See Appendix D for details.

47. The value of a WELLBY is \$17,663 for 2022 and \$19,524 for 2023 based on the recommendation of the UK Treasury.^{48,49,50} The Adequate Wages Methodology values each person's well-being equally, irrespective of their race, color, sex, national or social origin, birth or other status, following a human rights approach.⁵¹ Therefore, the same value of a WELLBY should be applied uniformly across all countries, as in Appendix B. See Appendix D for details about the value of a WELLBY.

Box 2. Value of a WELLBY	
<p>\$17,663</p> <p>per WELLBY for 2022 wages and wage deficits</p>	<p>\$19,524</p> <p>per WELLBY for 2023 wages and wage deficits</p>

40. The “utility of income” approach in this Topic Methodology is similar in concept to, and expands upon, the “utility of income” approach advanced by Valuing Impact.

41. See Organisation for Economic Co-operation and Development (2013): OECD Guidelines on Measuring Subjective Well-Being.

42. World Bank (2013): World Development Report 2013: Jobs.

43. See Carr et al. (2022): Pandemic or Not, Worker Subjective Wellbeing Pivots About the Living Wage Point: A Replication, Extension, and Policy Challenge in Aotearoa New Zealand.

44. See Helliwell et al. (2023): World Happiness Report 2023.

45. See Organisation for Economic Co-operation and Development (2013): OECD Guidelines on Measuring Subjective Well-Being.

46. See Vionnet et al. (2021): The Health Utility of Income and Taxes. Part A – Health Utility of Income. Impact Valuation Methodology, Global Assessment, and Application to Businesses. Also see Shift & Capitals Coalition (2022): Accounting for a Living Wage – Interim Discussion Paper.

47. See Helliwell et al. (2023): World Happiness Report 2023.

48. The UK Treasury recommends a central estimate for a WELLBY at 13,000 GBP in 2019 values. The figure has been converted to USD 2022 and 2023 values using the OECD's UK inflation rate (for 2023, predicted inflation rate) and using the GBP–USD exchange rates for December 2022 and November 2023, respectively, from the Bank of England.

49. MacLennan & Stead (2021): Wellbeing Discussion Paper: Monetisation of Life Satisfaction Effect Sizes.

50. See OECD: Inflation Forecast. Also see Bank of England: GBP Exchange Rates.

51. See United Nations (1948): Declaration of Human Rights.

5. Future Development

5. Future Development

48. The Adequate Wages Methodology is based on the latest global data on subjective well-being and adheres to guidance from leading sources on the measurement and valuation of well-being. Nonetheless, opportunities for future improvement exist, including addressing data limitations and updating assumptions as the quality of underlying data continues to improve.

49. Entities may face barriers gathering data on wages and in-kind benefits across their value chains. Advancements in estimation methods like input-output modeling may be considered in the future as part of the Adequate Wages Methodology itself or accompanying materials.

50. The systematic collection of high-quality subjective well-being data is expected to grow significantly as multilateral and governmental organizations increasingly embrace a well-being approach. This growth in data presents opportunities to fine-tune components of the Adequate Wages Methodology over time.

51. Efforts like the WageMap consortium are expected to improve the global availability, quality, and comparability of living wage benchmarks, thus leading to the possibility of a more consensus-driven streamlined approach to using living wage benchmarks in the Topic Methodology in the future.

52. In keeping with principles laid out in General Methodology 1: Conceptual Framework for Impact Accounting, the Adequate Wages Methodology measures an entity's absolute impact using the default reference scenario. The default reference scenario assumes workers would have had no alternative employment or financial support from government or charity in the absence of the entity's activities. While this Topic Methodology does not estimate an entity's marginal impact, which would require a reference scenario in which alternatives may exist in the absence of the entity, the Topic Methodology provides a foundational set of impact information that can enable other types of analysis in the future, including analysis of marginal impact.⁵²

52. See Impact Economy Foundation (2022): Conceptual Framework for Impact-Weighted Accounts.

Appendix A: Glossary

Appendix A: Glossary

TERM	DEFINITION	SOURCE ⁵³
Activities	Everything that an entity does, including operations, the procurement of inputs, the sale and provision of products and/or services, as well as any supporting activities. Activities span a large number of different actions that altogether contribute to outputs and ultimately, outcomes and impact.	Impact Management Platform
Adequate wages	Adequate wages are defined as wages that meet or exceed the living wage for a worker's location. Wages below the living wage in a worker's location are considered inadequate.	N/A
Diminishing marginal utility	According to the law of diminishing marginal utility, the more of something one has, the less additional utility one derives from additional units of that thing.	N/A
Gross living wage adjustments	Gross living wage adjustments refer to location-specific statutory deductions from wages that are considered to determine the gross living wage.	N/A
Gross wage	Gross wage refers to the quantity that is compared to the local living wage benchmark to determine whether a worker is earning below, at, or above the living wage. Gross wage includes base wage, select cash benefits and bonuses, and select in-kind benefits. Gross wage does not subtract any statutory deductions.	N/A
Human rights	Rights inherent to all human beings, which include, at a minimum, the rights set out in the United Nations (UN) International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work	Global Reporting Initiative (GRI)
Impact	A change in one or more dimensions of people's well-being directly or through a change in the condition of the natural environment.	N/A
Impact accounting	A system for measuring and valuing the impacts of corporate entities and generating impact information to inform decisions related to an entity's effects on sustainability.	N/A
Impact drivers	Refer to the sequence of an entity's inputs and outputs that may have positive and/or negative impacts on people's well-being.	Impact Management Platform

53. Some definitions are adapted from the original source.

Appendix A: Glossary

TERM	DEFINITION	SOURCE
Impact information	Impact information is derived from impact accounts and informs decision-making related to an entity's effects on sustainability. Impact information includes, but is not limited to, impacts that have been classified and aggregated for the purpose of presentation, supplemental notes that describe the assumptions, data, or methods used to measure and value impacts, and qualitative commentary that contextualizes impacts.	N/A
Impact pathway	The series of consecutive, causal relationships, ultimately starting at an input for an entity's activities and linking its actions with related changes in people's well-being.	ISO 14008:2019
Income gap	The income gap is used to calculate well-being utility of income (WUI) factors and is expressed as the difference between the GDP per capita of a given country and the GDP per capita of the reference country.	N/A
Indirect impact	An impact directly linked to the entity's own operations, products, or services through its business relationships in the upstream and/or downstream value chain.	N/A
Inflection point	For the purposes of the Adequate Wages Methodology, an inflection point is the wage level at which marginal remuneration impact changes. Inflection points serve to incorporate a simplified notion of diminishing marginal utility into the estimation of remuneration impact. Past each inflection point, the remuneration impact of each additional \$1 of wage gets smaller.	N/A
Input	The resources and business relationships that the entity draws upon for its activities.	Impact Management Platform
Life satisfaction	Life satisfaction is an aspect of subjective well-being. It is the result of a reflective assessment of one's satisfaction with one's life or some specific aspect of it.	OECD Guidelines on Measuring Subjective Well-Being
Living wage	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.	Global Living Wage Coalition
Living wage benchmark	A living wage benchmark is a quantitative estimate of a living wage in a specific location.	N/A

Appendix A: Glossary

TERM	DEFINITION	SOURCE
Living wage benchmark provider	A benchmark provider is an organization or department of an organization that calculates information about living wages for one or more locations. There are multiple organizations or departments of organizations develop and maintain benchmarks which vary in scope and methodology for calculation.	N/A
Living wage deficit impact	Living wage deficit impact is the negative impact on workers' well-being of being paid less than the living wage.	N/A
Minimum wage	Minimum wages is the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract.	International Labour Organization (ILO)
Outcome	The level of well-being experienced by people or condition of the natural environment that results from the actions of the entity, as well as from external factors. Outcomes are used to describe the one or more dimensions of people's well-being that are affected by an input, activity, and/or output.	Impact Management Platform
Output	The direct result of an entity's activities, including an entity's products, services, and any by-products.	Impact Management Platform
Own workforce	"Own workforce" includes workers who are in an employment relationship with the undertaking ("employees") and non-employee workers who are either individual contractors supplying labour to the undertaking ("self-employed workers") or workers provided by undertakings primarily engaged in "employment activities" (NACE Code N78).	European Sustainability Reporting Standards
Pay equality	Pay equality refers to the extent to which workers are paid equally, regardless of the economic value of their labor.	N/A
Pay equity	Pay equity refers to the extent to which workers receive equal pay for work of equal economic value, regardless of their identity group.	N/A
Reference scenario	The set of activities and related outcomes that is assumed to happen in the absence of the entity's activities.	Impact Economy Foundation
Remuneration impact	Remuneration impact is the positive impact of wages on workers' well-being, since wages, of any amount, provide income to a worker.	N/A

Appendix A: Glossary

TERM	DEFINITION	SOURCE
Subjective well-being	Subjective well-being is sub-component of well-being, referring to "good mental states, including all of the various evaluations, positive and negative, that people make of their lives, and the affective reactions of people to their experiences.	Organisation for Economic Co-operation and Development (OECD)
Value chain	The value chain of an entity is the full range of activities and business relationships related to the entity's business model(s) and the external environment in which it operates. A value chain encompasses the activities and business relationships the entity uses and relies on to create its products or services from conception to delivery, consumption, and end-of-life.	European Sustainability Reporting Standards
Wages	Wages refers to remuneration or earnings, however designated or calculated, capable of being expressed in terms of money and fixed by mutual agreement or by national laws or regulations, which are payable in virtue of a written or unwritten contract of employment by an employer to an employed person for work done or to be done or for services rendered or to be rendered.	Protection of Wages Convention, 1949 Anker Methodology, Global Living Wage Coalition, Living Wage for US, and B Lab
Well-being	Well-being is the state of being or doing well in life. According to the OECD Well-being Framework, one's current well-being encompasses 11 key dimensions: income and wealth; work and job quality; housing; health; knowledge and skills; environment quality; subjective well-being; safety; work-life balance; social connections; and civic engagement.	Impact Management Platform Organisation for Economic Co-operation and Development (OECD)
Well-being gap	The well-being gap is used to calculate well-being utility of income (WUI) factors and is the difference in well-being explained by GDP per capita between a given country and a reference country.	World Happiness Report 2023
Well-being utility of income (WUI)	The WUI factor is calculated as the ratio between the well-being gap and the income gap for a given country.	The Health Utility of Income and Taxes. Part A – Health Utility of Income. Impact Valuation Methodology, Global Assessment, and Application to Businesses. Accounting for a Living Wage – Interim Discussion Paper.
Well-being-year (WELLBY)	A WELLBY is a one-point change in life satisfaction on a 0-10 scale, per person per year.	Organisation for Economic Co-operation and Development (OECD)
Workers	Workers refers to an entity's own workforce include both direct employees and non-employee workers like contractors and workers provided through employment agencies.	European Commission

Appendix B: Adequate Wage Value Factors, Inflection Points, and Diminution Multiplier

Appendix B. Adequate Wage Value Factors, Inflection Points, and Diminution Multiplier

[Spreadsheet available here.](#)

Appendix B provides country-specific value factors, which should be used to convert wages and wage deficits into monetized impacts on well-being; region-specific inflection points; and the diminution multiplier. Appendix B also contains all supporting calculations in the development of these value factors, inflection points, and diminution multiplier, including data from the 2023 World Happiness Report, UK Treasury Supplementary Green Book Guidance, Jebb et al. (2018), and standardization calculations that adjust for inflation and currency exchange.

Appendix C: Cash and Non-cash Components of a Wage

Appendix C. Cash and Non-cash Components of a Wage

The following table includes a list of the accepted cash and non-cash components of a wage, as well as guidance around including each of these components in the wage calculation. This guidance is to be used by

entities to inform the calculation of the average gross wage, a data requirement for the Adequate Wages Methodology. This list, along with the guidance around inclusion, comes from the Anker Methodology.

CASH COMPONENTS OF A WAGE

Component to be included	Conditions of inclusion
Basic wage and cost of living adjustment	
Housing allowance	
Transport allowance	
Non-production bonuses paid once or several times during the year	Pro-rate to get monthly amount.
Retention bonus	For industry use average amount per worker.
Allowance to visit 'home'	For industry use average cost or value per worker when amount varies with distance and/or family size.
Attendance allowance	For industry use average amount per worker; or adjust for % receiving.
Child allowance	For industry use average amount per worker.
Production/incentive bonus	Include when earned during standard working hours at normal working pace; exclude if need to work overtime to meet minimum target.
Cash bonus when profits are good	Include only if assured in advance, such as when based on last year's business results and given to most workers.

IN-KIND BENEFITS (NON-CASH COMPONENTS OF A WAGE)

Component to be included	Conditions of inclusion
Housing and utilities such as water or electricity for home	Include when decent; deduct co-pay; maximum 15% of wages; exclude housing for seasonal workers as they still need year around housing.
Meals	Deduct co-pay.
Food rations or food commodities given for free or sold at concession rates	Deduct co-pay.
Transport to work and from work (and to town on weekends from agricultural estates)	Include when safe.
Childcare/crèche	For industry use average value over all workers.
School for workers' children	For industry use average value over all workers.
Meals in crèche or school	Include if paid for by employer; for industry use average over all workers.
Medical services not required by law and not related to work injuries and illnesses	Determine cost per worker to employer.
Private medical insurance	Deduct co-pay.
Medical expenses paid for treatment in other clinics and hospitals	Determine cost per worker to employer.
Transport to hospital/other health services	Include when for other than work-related problems; determine cost per worker to employer.
Educational assistance for children, scholarships, etc.	Include only if many workers' children receive this.
Paid time off for sickness or holidays	Include if employed on daily basis.
Funeral costs for worker who dies	Can be included if considered as an insurance.

Appendix D: Methodological Details

Appendix D. Methodological Details

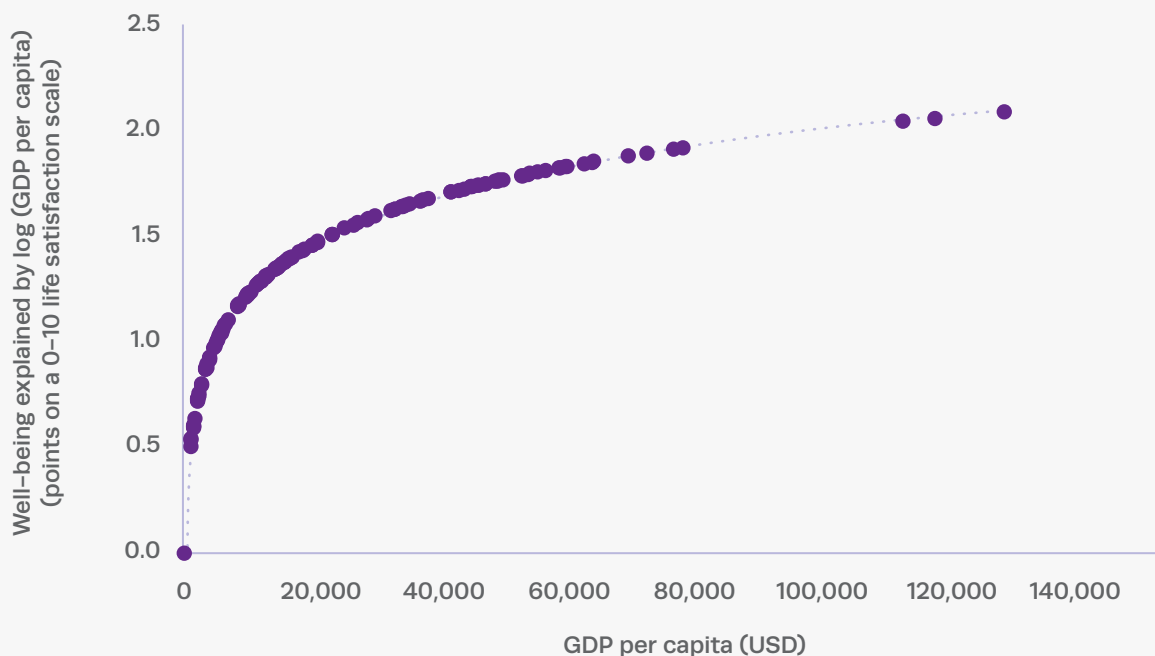
WELL-BEING UTILITY OF INCOME

D1. The Well-being Utility of Income (WUI) approach taken in the Adequate Wages Methodology is an extension of the Health Utility of Income approach developed by Valuing Impact.⁵⁴ Whereas the Health Utility of Income takes life expectancy as an outcome, the WUI takes subjective well-being as an outcome with the intent of capturing a more comprehensive conceptualization of well-being.

D2. The WUI factors in Appendix B are based on the 2023 World Happiness Report, which analyzed Gallup World Poll's repeated cross-sectional surveys on

subjective well-being in 156 countries from the period 2005 to 2022. The World Happiness Report authors developed a regression model to identify the influence of six factors on subjective well-being: freedom to make life choices, perception of corruption, healthy life expectancy, generosity, social support, and GDP per capita. The Adequate Wages Methodology takes GDP per capita as an indirect proxy for income per capita in a country, per World Bank convention.⁵⁵ Collectively, these six factors account for over 75 percent of the variation in subjective well-being across countries.

GRAPH A1: PREDICTED RELATIONSHIP BETWEEN GDP PER CAPITA AND WELL-BEING BASED ON WORLD HAPPINESS REPORT 2023



54. See Vionnet et al. (2021): The Health Utility of Income and Taxes. Part A – Health Utility of Income. Impact Valuation Methodology, Global Assessment, and Application to Businesses.

55. See World Bank's Databank Metadata Glossary.

Appendix D: Methodological Details

D3. The WUI approach focuses on the logarithmic relationship reported between GDP per capita and subjective well-being in a country.⁵⁶ The association is statistically significant at the 1 percent level, controlling for the five other factors listed above. The World Happiness Report authors then extrapolated the association found between GDP per capita and subjective well-being to each of the countries in the dataset, producing country-specific estimates of

the amount by which subjective well-being is higher because the GDP per capita of that country is higher than that of the reference country. The reference country is the country with the lowest GDP per capita in the dataset.

D4. Using these country-specific estimates from the World Happiness Report, the WUI factors in Appendix B are constructed for each country as follows:

$$WUI = \frac{\text{Well-being gap}}{\text{Income gap}} = \frac{\text{Well-being explained by } \log GDPpc_{\text{country } i} - \text{Well-being explained by } \log GDPpc_{\text{reference}}}{GDPpc_{\text{country } i} - GDPpc_{\text{reference}}}$$

where *well-being explained by logGDPpc* is the number of points on a 0–10 scale of life satisfaction explained by the natural logarithm of a country's GDP per capita, and *GDPpc* is the country's GDP per capita.

D5. The WUI is interpreted as the effect of a change in income of \$1 on subjective well-being. Mathematically, the WUI factors can be interpreted as an approximation of the first derivative of the relationship between GDP per capita and subjective well-being — that is, each WUI factor roughly reflects the sensitivity of well-being to income at each point on the curve, where each point represents a different country. In countries with lower GDP per capita, WUI factors are higher, reflecting higher sensitivity of well-being to income changes. In countries with higher GDP per capita, WUI factors are lower, reflecting lower sensitivity of well-being to income changes.

D6. The WUI approach taken in this Topic Methodology has two main limitations. First, the World Happiness Report analysis is performed at the country level but used in the Topic Methodology at the individual level to estimate the sensitivity of well-being to income. Second, the World Happiness Report's regression model could be subject to causal identification issues. The World Happiness Report authors acknowledge that "unmeasured factors" besides the six variables — one of which is GDP per capita — included in their regression model could be driving the observed differences in well-being, resulting in a misattribution of the effect to the six variables.⁵⁷ The authors also acknowledge the possibility of correlation between the six variables as well as reverse causality. However, both the existence of a relationship between income and well-being and the direction of causality are supported by a large body of empirical evidence outside of the World Happiness Report, which partially ameliorates these limitations.⁵⁸

56. See World Happiness Report 2023, table 2.1, which reports the results of the authors' pooled OLS regression. This Topic Methodology focuses on the coefficient $\beta=0.359$ for $\log(\text{GDP per capita})$.

57. See Helliwell et al. (2023): World Happiness Report 2023.

58. See Thomson et al. (2022): How Do Income Changes Impact on Mental Health and Wellbeing for Working-Age Adults? A Systematic Review and Meta-Analysis. Also see McGuire et al. (2022): A Systematic Review and Meta-Analysis of the Impact of Cash Transfers on Subjective Well-Being and Mental Health in Low- and Middle-Income Countries.

Appendix D: Methodological Details

SUBJECTIVE WELL-BEING

D7. The Adequate Wages Methodology takes subjective well-being as a summative measure that captures the combined effects of wage changes on multiple dimensions of an individual's life experience and perception of their well-being. Subjective well-being is also well supported by multiple governments and the OECD for use in investment appraisal.⁵⁹ Extensive evidence over the last two decades supports the validity of subjective well-being measures, especially life satisfaction.⁶⁰

D8. Nonetheless, preparers should consider two limitations when using subjective well-being data. Subjective well-being data can contain random error due to survey respondents' momentary moods or one-off circumstances at the time of the survey that do not reflect their well-being as a whole. Using large enough data samples and consistent survey design can sufficiently resolve this issue.⁶¹ Additionally, the inherent subjectivity of the measure means that factors like culture, language, and psychological resilience in the face of adversity affect how people experience and report on their lives. As a result, it is recommended that subjective well-being be considered alongside objective measures of well-being, like income and health, to paint a full picture of how well a person's life is going.⁶²

THE VALUE OF A WELLBY

D9. The unit for subjective well-being used in the Adequate Wages Methodology is a WELLBY, defined as a one-point change on a 0–10 scale of life satisfaction, for one person, for one year. The value of a WELLBY in

the Adequate Wages Methodology is drawn from the UK Treasury's supplementary Green Book guidance, which recommends a central value of £13,000 per WELLBY.⁶³ This value is the median of a lower bound (£10,000) and upper bound estimate (£16,000). The lower bound is derived from the Green Book's value of a quality-adjusted life-year, which was in turn based on a stated preferences study.⁶⁴ The upper bound is from Fujiwara and Dass's discrete choice experiment, also a stated preference study.⁶⁵

D10. The Adequate Wages Methodology makes some key assumptions in applying the value of a WELLBY. Per the UK Treasury's recommendation, the value of a WELLBY is applied linearly. For example, reducing life satisfaction by 0.4 points for 1 person would have the same value as reducing life satisfaction by 0.1 points for four people. While experts agree on the diminishing marginal utility of income on well-being, theory does not support the opposite – that smaller (or larger) changes in well-being should be associated with smaller (or larger) than proportional changes in monetary value.⁶⁶ Lacking evidence of a non-linear relationship, an assumption of linearity is reasonable and simple. Relatedly, people are assumed to answer life satisfaction questions using an evenly calibrated scale, where the difference between a 3 and 4 is the same as the difference between 7 and 8 on a 0–10 scale.⁶⁷

59. See Organisation for Economic Co-operation and Development (2013): OECD Guidelines on Measuring Subjective Well-Being, MacLennan et al. (2021): Wellbeing Guidance for Appraisal: Supplementary Green Book Guidance, Canada's Department of Finance (2021): Measuring What Matters, New Zealand Treasury (2023): A Wellbeing Approach to Cost Benefit Analysis, and Australian Government (2023): Measuring What Matters: Australia's First Wellbeing Framework.

60. See Stiglitz et al. (2009): Report by the Commission on the Measurement of Economic Performance and Social Progress. Also see Organisation for Economic Co-operation and Development (2013): OECD Guidelines on Measuring Subjective Well-Being.

61. See Organisation for Economic Co-operation and Development (2013): OECD Guidelines on Measuring Subjective Well-Being.

62. Ibid.

63. See MacLennan et al. (2021): Wellbeing Guidance for Appraisal: Supplementary Green Book Guidance.

64. See Chilton et al. (2020): A scoping study on the valuation of risks to life and health: the monetary value of a life year (VOLY).

65. See Fujiwara & Dass (2021): Incorporating Life Satisfaction in Discrete Choice Experiments to Estimate Wellbeing Values for Non-Market Goods.

66. MacLennan & Stead (2021): Wellbeing Discussion Paper: Monetisation of Life Satisfaction Effect Sizes.

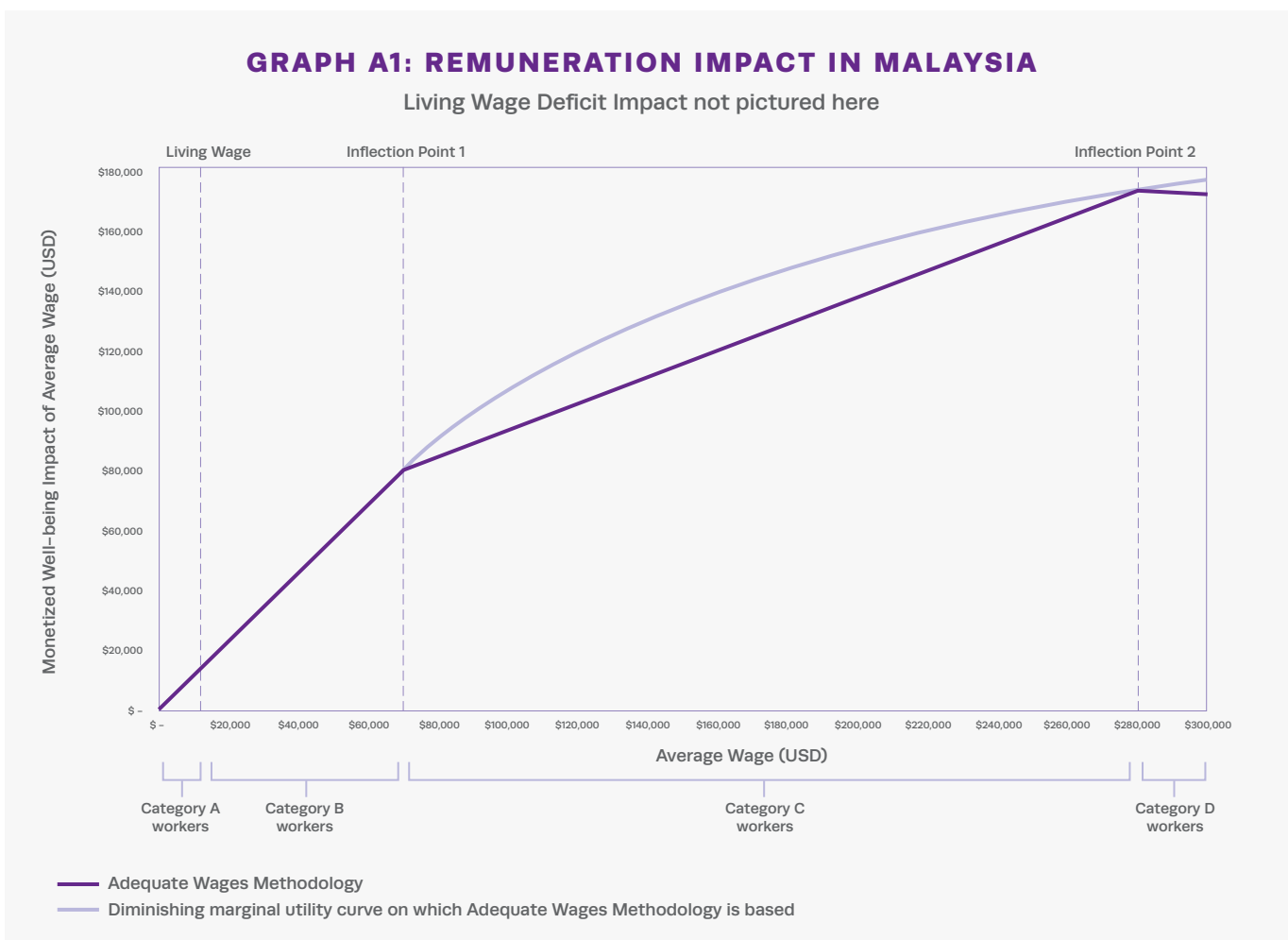
67. See World Happiness Report (2021): Chapter 8 – Living Long and Living Well: The WELLBY Approach.

Appendix D: Methodological Details

REMUNERATION IMPACT: INFLECTION POINTS AND DIMINUTION MULTIPLIER

D11. To estimate remuneration impact, the Topic Methodology incorporates a straightforward interpretation of the diminishing marginal utility of income, or the idea that the marginal well-being caused by wages *decreases* as wages *increase*. While a gradually sloped curve would most accurately capture diminishing marginal utility, the Topic Methodology instead approximates the curve with a piecewise linear function for two key reasons. First, a curved function would require entities to use data on individual wages, rather than average wages by category.⁶⁸ Second, a linear equation increases ease of application for preparers of impact accounts. Nonetheless, a curved function serves as the basis for the piecewise linear function and is described in detail below.

D12. The piecewise linear function is composed of segments over three distinct domains. For the first segment, whose domain is wages between 0 and inflection point 1 (IP1), wages are simply multiplied by the value factors given in the Appendix. This applies to category A and B workers. For the second segment, whose domain is wages between IP1 and inflection point 2 (IP2), remuneration impact is composed of IP1 wages multiplied by the value factor *plus* the amount of wages in excess of IP1 multiplied by both the value factor and a diminution multiplier (DM). This applies to category C workers. For the third segment, whose domain is wages above IP2, remuneration impact is composed of IP1 wages multiplied by the value factor *plus* IP2 wages multiplied by both the value factor and DM. This applies to category D workers. The piecewise linear function is illustrated below for Malaysia as an example. Geographically specific values for IP1 and IP2, and the value for DM, are provided in the Appendix.



68. Because the distributive property assumption no longer holds when applying average wage data to a nonlinear function, estimates of remuneration impact could be distorted in the presence of skewed wage distributions.

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D13. IP1 and IP2 are based on Jebb et al.’s recent analysis relating subjective well-being data and income data from the Gallup World Poll.⁶⁹ The authors found that increases in income cease to contribute to well-being beyond region-specific “satiation points.” For example, in Sub-Saharan Africa, well-being no longer grows after income reaches \$40,000; in East Asia, that figure is \$110,000. However, the overall body of evidence on satiation since the 1970s is mixed.⁷⁰ Therefore, the Topic Methodology uses Jebb et al.’s satiation points as estimates of IP1 instead. Beyond IP1, increases in income continue to contribute to well-being, but at a rate diminished by DM. The next inflection point, IP2, is set at four times the magnitude of IP1. IP2 was calibrated to closely approximate the curved function consistently for different countries and for the wage ranges most practically relevant to entities.

D14. The segment between IP1 and IP2 is simply the secant line that passes through the curved function at the points IP1 and IP2. From this secant line, the DM is derived. DM is a reduction factor that is applied to the value factor to give the slope of the secant line.

The curved function on which the piecewise linear function is based is:

Curved Function for Remuneration Impact above IP1

$$= \left(Wage^{-\epsilon+1} * Value Factor * \frac{IP1^\epsilon}{-\epsilon + 1} \right) + \left(Value Factor * \frac{IP1 * \epsilon}{\epsilon - 1} \right)$$

D15. The curve was derived by integrating the equation for its slope. Following Layard et al. and Fadhel, the slope is a negative power function, $Wage^{-\epsilon}$, where ϵ is the decay rate or the elasticity of marginal utility of income (EMUI).⁷¹ Scaling $Wage^{-\epsilon}$ so it is equal to each given country’s value factor at the point where $Wage = IP1$ ensures the function for the slope is continuous between $Wages < IP1$ and $Wages \geq IP1$. Thus, the slope is given by:

$$\begin{aligned} & \text{Marginal Well-being Gain above IP1} \\ & = Wage^{-\epsilon} * Value Factor * IP1^\epsilon \end{aligned}$$

D16. The economics literature offers many empirical estimates of EMUI, with some convergence of estimates in the 1–2 range. See, for example, Acland and Greenberg,⁷² Groom and Maddison,⁷³ Layard et al.,⁷⁴ Gandelman and Hernández-Murillo (2013),⁷⁵ and Gandelman and Hernández-Murillo (2015).⁷⁶ The curve takes an EMUI of 1.26 based on Layard et al.’s study, which combined data from six major surveys across over 50 countries to estimate EMUI. This study is more globally representative than reviews such as Acland and Greenberg’s (2023) and Groom and Maddison’s (2019) and pools a sizable set of data across several major surveys, reducing overreliance on any one survey.

69. See Jebb et al. (2018): Happiness, Income Satiation and Turning Points around the World.
 70. See Diener et al. (2018): Handbook of Well-Being. Also see Stevenson & Wolfers (2013): Subjective Well-Being and Income: Is There Any Evidence of Satiation?
 71. See Layard et al. (2008): The Marginal Utility of Income. Also see Fadhel (2022): Practitioner Guide to Calculating Employment Impact-Weighted Accounts.
 72. See Acland & Greenberg (2023): The Elasticity of Marginal Utility of Income for Distributional Weighting and Social Discounting.
 73. See Groom & Maddison Pr. (2019): New Estimates of the Elasticity of Marginal Utility for the UK.
 74. See Layard et al. (2008): The Marginal Utility of Income.
 75. See Gandelman & Hernández-Murillo (2013): What Do Happiness and Health Satisfaction Data Tell Us about Relative Risk Aversion?
 76. See Gandelman & Hernández-Murillo (2015): Risk Aversion at the Country Level.

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