Setting CFW wage rates

The process of determining CFW wage rates is basically the same as the one followed to set the value of any other cash transfer, but consideration has to be given to CFW specificities regarding not only the rates, but also the payment frequency and timing, and whether rates will be measured per unit, per timeframe or per day.

## Wage rates

* Can vary according to the skill level of the work, the length of the workday and the time period of the project.
* The rates should be consistent with those paid for other CFW in the same area, as differences in wage levels may create disputes between communities.
* Wages should be set at just below the usual market rate. A general target is 10% to 20% lower than the regular market rate so that the most vulnerable people will self-select for the jobs while the others will not leave local businesses, and labourers will return to their longer-term livelihoods options.
* CFW wages will hardly ever cover more than the cost of a household’s basic needs. If wages are too high, CFW projects may entice people away from their regular livelihood activities. Consider, though that in the immediate aftermath of a large-scale disaster, employment activities may be interrupted. In this case, it may be appropriate to adopt wage rates comparable or even superior to those previously in existence to rapidly reintroduce economic activity.
* Surveys of the local economy, including an overview of market prices and the availability of employment, should be performed on a regular basis throughout the project to ensure that CFW wages stay at appropriate levels. In instances where local businesses continue to have difficulties hiring sufficient laborers because of competition with CFW programmes, aid agencies should either restrict the number of participants, decrease the number of days worked or reduce wages.

## Payment frequency and timing

* As with other forms of cash transfers, the programme objectives should determine the frequency of payments. If the objective is to help people meet their basic needs, more frequent payments will be used; if the programme is intended to facilitate livelihood recovery, less frequent payments will be more cost-efficient, assuming that households can meet their basic needs in the interim.
* Generally, CFW payments are given once work has been undertaken. If people have little or no income, or if they are not confident that the agency will compensate them for their efforts, wages should be paid more frequently (e.g. weekly), with the agency moving towards less frequent payments (e.g. bi-weekly) as the project progresses. If the situation is so dire that workers must be paid daily, then it is probably too early to pursue CFW. In this case, other forms of assistance, such as food aid or cash grants, should be considered instead.
* It is important to consider that very frequent small payments add an administrative burden. In all cases, a balance must be found between what the community requires and what, realistically, the agency has the capacity to perform.
* Where payments are intended not only to help people meet ongoing consumption needs but also to enable them to invest, agencies may decide to pay a portion of the wages each week, while retaining the rest so that people receive a significant sum – enough to buy livestock or contribute towards building a house, for instance – as a final payment. This would depend upon agreement with workers and their communities. This final, large payment can be made through an account at a local savings and credit organization. This reduces the risks involved in making the larger payments in cash and it helps people to establish a relationship with a reputable financial services organization.

## Payment per unit, per time frame or per day

In addition to setting the wage rates and establishing the payment frequency and timing, you will have to decide whether to pay per output or per working time. The table below explains the rationale and potential advantages and disadvantages of each type of payment.

|  |  |  |  |
| --- | --- | --- | --- |
| **Payment type** | **Rationale** | **Potential advantages** | **Potential disadvantages** |
| Per output | Payment is based on a pre-determined labour output (e.g., number of acres cleared, houses built or kilometres cleaned). | Often presents a familiar standard for local labour contracts.Incentivizes productive work. | Requires supervisory staff to ensure that individual workers are compensated based on their efforts. If pay is tied to group performance, participants may resent the more vulnerable participants, such as the elderly or handicapped, if they limit overall productivity. Without technical oversight, workers have an incentive to produce inferior work. With large-scale or more technical projects, it may be difficult to divide work progress into easily measured and exact units. |
| Per time frame | The amount of time it should take to complete a certain job is estimated and payment is provided for that number of days, regardless of whether the workers take longer. | Sets a clear timeframe for each activity and lessens the risks of labourers deliberately prolonging the project. | Good supervision and management are needed to ensure that the programme remains on schedule. Without enhanced monitoring mechanisms, disputes may arise if some beneficiaries perceive themselves to be more productive than others. This can be magnified in divided or post-conflict societies. |
| Per day | The community agrees on the number of hours that will be worked per day. | Allows for flexibility and is often used with projects of undefined duration.Can be implemented without the technical knowledge of project construction. | Because it is not output oriented or tied to deadlines, this form of payment can stretch out for a considerable amount of time and does not necessarily achieve infrastructure aims. |