

Policy paper



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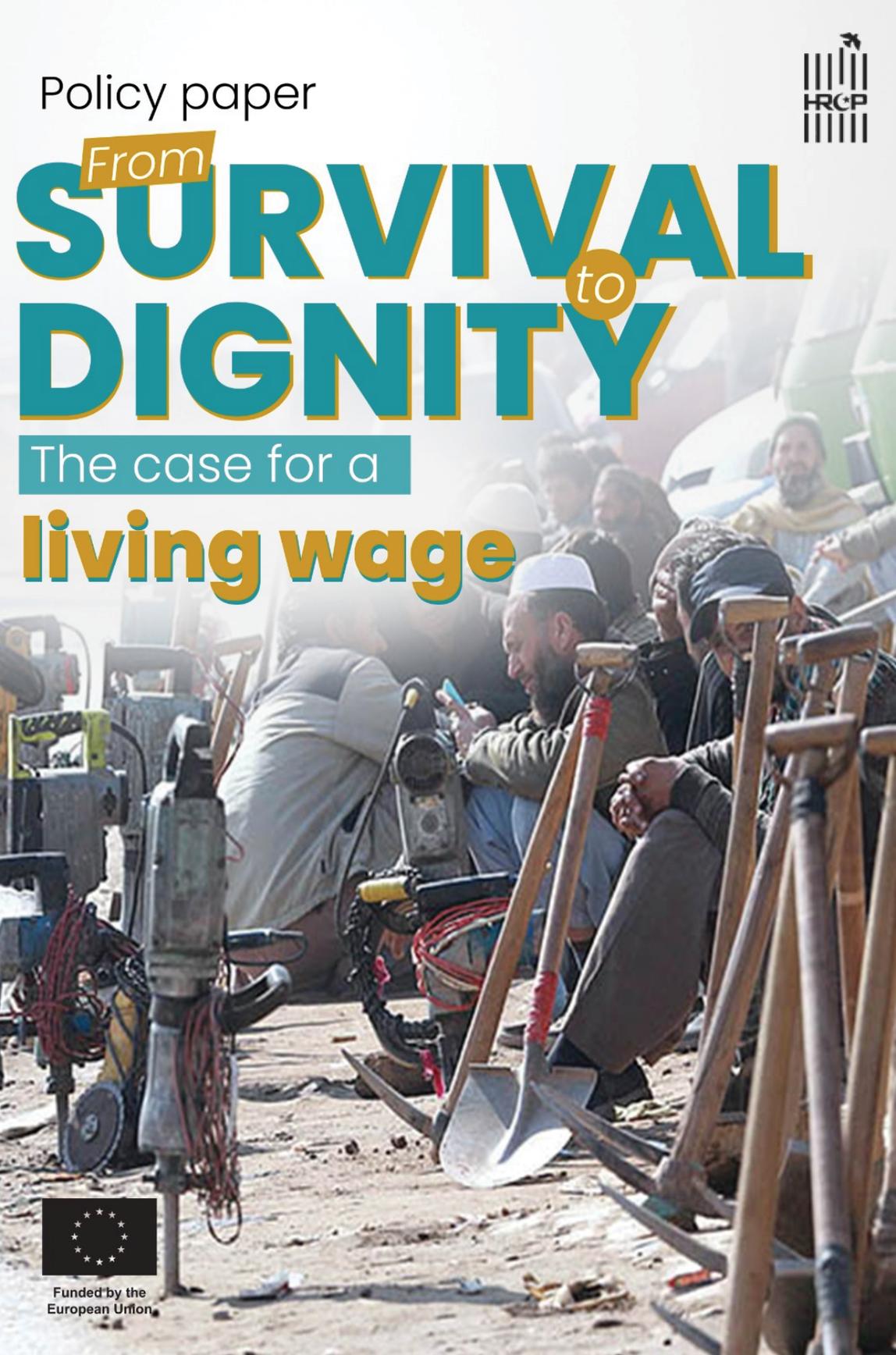
# SURVIVAL

to

# DIGNITY

The case for a

**living wage**



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# From Survival to Dignity

The case for a living wage



Human Rights Commission of Pakistan

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# Introduction

The idea of a living wage is to enable workers and their families to afford a basic yet decent lifestyle, stay above the poverty level, and actively participate in society's social and cultural life in line with its current economic development (see Anker, 2011). The concept raises many ethical and philosophical questions, including issues of human rights and the right to a decent living.

From a human rights perspective, a living wage becomes a fundamental right to ensure that workers not only meet their basic needs but are also able to live a life of dignity. The Universal Declaration of Human Rights provides the basis for a living wage for every worker in Article 23:

- Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.
- Everyone, without any discrimination, has the right to equal pay for equal work.
- Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
- Everyone has the right to form and to join trade unions for the protection of his interests.

The implementation of a living wage can be justified on many grounds. Most importantly, it allows us to address several Sustainable Development Goals (SDGs) set by the UN. For instance, implementing a living wage will directly contribute to the first two goals—no poverty and zero hunger (SDGs 1 and 2)—and the advancement of decent work (SDG 8). Further, the [UN Global Compact](#), a corporate sustainability initiative in which more than 100 companies from Pakistan participate, ‘encourages companies to promote and provide a living wage as an essential aspect of decent work.’ A living wage is also about the dignity of individuals and their families while outlining employers’ responsibilities to their employees (Werner & Lim, 2016).

Years of neoliberal policies and reforms have made it difficult for governments to pursue policies that favour job creation<sup>1</sup>. Free market reforms in trade and finance have adversely affected domestic industry and agriculture in [developing countries](#). Moreover, people’s purchasing power in Pakistan has decreased significantly because of high inflation and slow economic growth. This, coupled with a high population growth rate and vulnerability to climate change, has left the successive governments in Pakistan ill-prepared to provide jobs to a growing number of young people.

According to the UNDP’s human development index (HDI), Pakistan’s [HDI value is 0.540](#), which makes it a country with a low human development classification. With an HDI rank of 164 out of 193 countries, Pakistan is only better than Afghanistan and Nepal in the region. Both Afghanistan and Nepal saw years of violence, which is not the case for Pakistan. As mentioned earlier, almost 40 percent of the Pakistani population lives below the poverty line. A government policy that closes the minimum and living wage gap will ensure that the poor can pull themselves out of poverty.

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<sup>1</sup> Neoliberal policies are a set of measures based around the Washington Consensus. These policies aim to reduce government expenditure and footprint in the economy. Thus, the government’s role is minimized to regulation, allowing the markets to run the economy.

## Definitions and methods

The concept of a living wage is difficult to define, even in specific contexts. Wage is given for the work performed by the workers, whereas a living wage is determined to provide a decent standard of living for the workers and their families. Wage is determined by the market where the worker appears only as a commodity whose labour power can be bought by the employer for a certain price. On the other hand, the living wage concept recalibrates our attention and requires us to see the worker as a human being and not merely as a commodity that can be bought and sold. When we look at the worker from this perspective, we are forced to look at their social conditions. If they live in poverty, their wages are not high enough to afford them a decent living standard, and they are unable to move out of poverty. In this context, it is useful to consider Sen's (1984) concept of entitlements, which is defined as 'the set of alternative commodity bundles which a person can command.' This again highlights that a living wage allows the earner to purchase commodities and services beyond mere survival.

A living wage must be distinguished from the minimum wage, which, according to the International Labour Organization ([ILO](#)), is 'the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period.' In Pakistan, the statutory minimum wage for the fiscal year 2024/25 is PKR 37,000 per month, as set by federal and provincial governments, with nonbinding recommendations given by respective minimum wage boards.

The ILO has conceptualized the idea of a [living wage](#) as follows:

- The wage level that is necessary to afford a decent standard of living for workers and their families, taking into account the country circumstances and calculated for the work performed during the normal hours of work.
- Calculated in accordance with the ILO's principles of estimating the living wage.
- To be achieved through the wage-setting process in line with ILO principles on wage setting.'

As is evident by the ILO's definition, living wage is a highly context-specific concept. What may be considered decent in a developed country may be regarded as a luxury for the working classes in developing countries. As a result, there are differences in how living wage is articulated and conceptualized in different national contexts. For example, in France and Australia, living wage negotiations are linked with strong minimum wage laws that index wages to inflation. Living wage negotiations are also enabled by high-level bargaining power available to the workers through their unions. In contrast, in the UK and the US, the living wage is articulated mainly by civil society organizations (Werner & Lim, 2016).

The literature on the living wage has focused mainly on the developed world rather than the developing world (Ford & Gillan, 2017). Estimating a living wage is a very different proposition for the latter, as a large proportion of the labour force works in the informal sector with low social welfare provisions. In his survey of living wage concepts and definitions, Anker (2011) has described how a living wage is often determined:

The cost for this basic quality life style is typically estimated by adding up (i) cost of basic necessities such as (i) a nutritious low-cost diet that is appropriate for the country in terms of the types of food items

included; (ii) basic housing in the location with an acceptable standard generally defined in terms of size, number of rooms, structure's materials, and availability of amenities such as indoor toilet and electricity; and (iii) adequate clothing and footwear (sometimes with specific numbers of shirts, pants, shoes, etc., indicated); and (2) cost of other needs, such as transportation, children's education, health care, child care, household furnishings and equipment, recreation and cultural activities, communications, and personal care and services.

The ILO (2021) has developed a multidimensional approach that combines absolute and relative measures to estimate the needs of workers and their families for a decent living (see Box 1).

### **Box 1: Methodology to estimate the needs of workers and their families**

The baseline methodology – which is open to country-specific adaptation – sets out a general framework for assessing the needs of workers and their families through a multidimensional approach that separately estimates the cost of living for the following four dimensions.

**Cost of food:** A low-cost diet that provide sufficient amount of calories, proteins and fats and that is suitable for the target population in terms of composition. This is measured normatively based on the calorie and nutrient standards defined by the World Health Organization (WHO) and the Food and Agriculture Organization of the United Nations (FAO).

**Cost of housing:** A basic but decent dwelling with an acceptable standard. Following United Nations for Human Settlements Programme (UN-Habitat) recommendations, this is measured normatively based on national and international standards on adequate housing characteristics, such as living space, durability, facilities and access to water.

**Cost of health and education:** A basic level of health and education expenditure is considered as a separate group. Unlike food and housing needs, the cost of health and education needs are estimated using a relative approach that draws on the national distribution of expenditure for health and education.

**Cost of other essential goods and services:** We aggregate all other expenditure components (such as clothing and transportation) into one group and, as for health and education needs, the cost of other essential goods and services are estimated using a relative approach that draws on the national distribution of expenditure for other essential goods and services.

Its methodology is based on two crucial assumptions. First, the family size is taken to be the national average family size in a given country. Second, the number of working adults in a family is assumed to be 1.5. This is particularly relevant for Pakistan, where working-class families have more than one adult working member to make ends meet. The ILO calculates the wage for meeting basic needs by the following formula:

$$\frac{(\text{cost of basic need}) \times (\text{number of adult equivalents in the family})}{(\text{number of working adults in the family})} = \text{wage that covers the needs of the family}$$

Sayeed and Dawani (2017) estimated the living wage for football stitchers in urban and rural Sialkot in Pakistan. Their methodology also relied on conducting a consumption expenditure survey in and around Sialkot to estimate food and nonfood expenditures. Their estimated living wages for a five-member urban household and a 5.5-member rural household were PKR 20,144 and PKR 16,993 per month, respectively, in 2015. The [Global Living Wage Coalition](#) updates these numbers every year to account for inflation. For 2024, the living wage for urban and rural workers is PKR 50,232 and PKR 44,096 per month.

The Asia Floor Wage Alliance (AFWA) (2023) has estimated the living wages of female workers working in the garments industry in Bangladesh, Cambodia, India, Indonesia, Myanmar, Pakistan, and Sri Lanka. The AFWA’s methodology differs from the ones described by Anker (2011) and the ILO (2021). A living wage is estimated for an individual working eight hours a day for six days a week (that is, a 48-hour work week). A living wage must provide a decent living standard and cover food and nonfood expenditures, including housing, clothing, education, healthcare, care work, entertainment, and contingency fund or savings. Food expenditures are based on a diet containing 3,000 calories per adult equivalent per day, which is the standard set by the Indonesian government. It must be highlighted that this standard is higher than the 2,350 calories per adult-equivalent per day requirement used by the World Bank (2023) to estimate the food poverty line in Pakistan.

The AFWA (2023) conducted household consumption expenditure surveys to estimate food and nonfood expenditures in each country. It assumed a ratio of 45:55 between food and nonfood expenditures, which was validated by their household surveys. Each adult was considered as one consumption unit, whereas the children were assigned half the weight of an adult. In the AFWA household consumption expenditure survey conducted in Pakistan, the average household size was five, with three adults and two children. This translates into four consumption units. These consumption units were then used to estimate the food expenditure for a living wage. The AFWA estimated the living wage for an individual in a five-member Pakistani household to be PKR 67,200 per month in 2022.

## Methodology

The estimation of a living wage should ideally involve a cost-of-living survey conducted in representative urban and rural settings. However, this was not carried out due to resource constraints. We then used the second-best method to estimate the living wage using the following method.

In order to calculate the living wage, we follow the ILO (2021) formula mentioned in the previous section. We first need to estimate food and nonfood expenditures made by our representative households. Our household size is determined by the average household size as measured by the Population Census 2023. The [census](#) reports an average rural household size of 6.3 and an average urban household size of 6.2. We round it off to 6 for both urban and rural households in Pakistan. We call the total expenditure the living income required by a household of six members. The living wage is obtained by dividing the living income by the number of working adults in the family. A detailed description of the calculation is given below.

### Estimation of food expenditure

We use the AFWA's (2023) methodology to estimate food expenditure. Their food expenditure estimate is based on an adult male's requirement of 3,000 calories per day to function properly. They assign weights to women and child members of the family to convert them to food consumption units. The following equations are used to estimate food expenditure:

$$\text{Expenditure per calorie} = \frac{\text{Per capita daily food expenditure}}{\text{Per capita daily calorie intake}}$$

$$\text{Food expenditure} = \text{Expenditure per calorie} * 3000 * 30 * \text{number of food consumption units}$$

Instead of AFWA’s (2023) recommended 3,000 kcal/day, we use the ILO’s (2021) recommendation of 2,950 calories per day needed for a male adult equivalent. We assign a weight of 0.81 units of adult equivalent to adult female household members and 0.5 for children. These weights allow us to convert person members to food consumption units to estimate food expenditure. To estimate expenditure per calorie, we use the March 2024 cost of the minimum food basket (per capita per month) and divide it by 30 to give us the cost of the daily food basket. According to the [Pakistan Economic Survey](#) for 2023/24, the cost of the minimum basket of food was PKR 6,384 per capita in March 2024. We assume that the food basket provides minimum calorie requirements to be on the poverty line. As mentioned earlier, the World Bank has defined the food poverty cutoff line at 2,350 calories consumed by an adult equivalent each day. We use these numbers to calculate expenditure per calorie as shown below:

$$\text{Expenditure per calorie} = \frac{6384 / 30}{2350} = 0.091$$

As discussed earlier, a household of six members (two adult male, one adult female and three children) has 4.31 consumption units. We then estimate our food expenditure as follows:

$$\text{Food expenditure} = 0.091 * 2950 * 30 * 4.31 = 34711$$

This gives us an estimate for monthly food expenditure at PKR 34,711 for a 6-member household in fiscal year 2023/24 prices. We compare this number with monthly food expenditure incurred by families living in a two-room house as reported by the

[Household Integrated Economic Survey](#) (HIES) for 2018/19. The data has been inflated to reflect prices in 2023/24 using the official consumer price index. Table 1 below shows the monthly food expenditure made by households of various sizes by quintiles.

*Table 1: Total monthly food expenditure (in PKR) incurred by a family living in a two-room house*

No of family members	Lowest (1–20)	Lower-middle (21–40)	Middle (41–60)	Higher-middle (61–80)	Highest (81–100)
1–2	13,700.4	21,655.2	26,000.1	32,879.7	40,399.8
3–6	15,451.8	21,802.2	27,075.3	33,595.8	48,300.0
7–14	16,172.1	21,854.7	27,268.5	33,690.3	48,699.0
15+	-	-	-	-	53,648.7

The data clearly shows that only the top quintile, with up to six members in a family living in a two-room house, can afford to spend on food to meet the nutritional requirements of household members.

## Estimation of nonfood expenditure

For this study, nonfood expenditures have been estimated in two ways. Following the AFWA (2023), we assume a ratio of 45:55 between food and nonfood expenditures. Dividing the food expenditure by 0.45 gives us a living income of PKR 77,136 and nonfood expenditure of PKR 42,425 per month.

A different way to estimate nonfood expenditure would be to use HIES data, which covers all dimensions mentioned in the methodologies given by Anker (2011) and the ILO (2021). Following Anker, we use nonfood expenditures for households of up to six members that live in a two-bedroom house. The house has brick walls, a separate toilet, a kitchen, and access to electricity and piped water. Table 2 below shows the total monthly nonfood expenditure (in 2023/24 prices) made by households of various sizes by quintiles:

*Table 2: Total monthly nonfood expenditure (in PKR) incurred by a family living in a two-room house*

No of family members	Lowest (1–20)	Lower-middle (21–40)	Middle (41–60)	Higher-middle (61–80)	Highest (81–100)
1–2	18,246.9	31,458.0	40,582.5	52,825.5	86,018.1
3–6	21,949.2	32,155.2	40,926.9	52,187.1	92,624.7
7–14	23,538.9	32,350.5	40,660.2	52,546.2	82,876.5
15+	24,929.1	-	40,922.7	47,922.0	86,822.4

We take the nonfood expenditure for the middle quintile (41–60 percent) with three to six family members as the representative for a decent living style for workers and their families living in a two-room house. This is done as the World Bank (2023) estimated that poverty in Pakistan was expected to reach around 40 percent in 2023. The monthly nonfood expenditure stands at PKR 40,927. Adding this to the monthly food expenditure of PKR 34,711 gives us a monthly living income of PKR 75,368 for our six-member household.

## Living wage calculation

We have obtained two measures of household living income for a family of six members living in a two-room house. Following the ILO, we assume that there are 1.5 working adults in our representative family. We divide our estimates of household living income by 1.5 to obtain a living wage. The calculation of living wages using two different methods are shown in Table 3.

*Table 3: Monthly living income and living wage calculations*

Nonfood expenditure method	Monthly living income (in PKR)	Monthly living wage (in PKR)
AFWA 45:55	77,136	51,424
HIES 2018/19	75,368	50,245

## Comparison of the living wage with HIES data

We can now compare our living income and wage estimates with the data collected on household income and expenditures in the HIES. We have already looked at food and nonfood expenditures. In this section, we will disaggregate the nonfood expenditure for a family living in a two-room house with the amenities mentioned earlier. We will see how much a family of six living in a two-room house spends on education, utilities, health, recreation, transport, and rent. Table 4 below shows the monthly expenditure incurred by a family of up to six members living in a two-room household as reported by the HIES. We can see that our estimated monthly living income is above the monthly living expenditure of HIES households. The numbers reported under various categories seem quite low, possibly due to the underreported data.

*Table 4: Monthly expenditures made by a family with up to six members living in a two-room house belonging to the middle-income (41–60) quintile*

Category	Expenditure (in PKR)	Share in total expenditure
Education	1,171.8	1.7%
Utilities	4,195.8	6.0%
Health	1,348.2	2.0%
Recreation	852.6	1.2%
Transport	1,167.6	1.7%
Rent	11,335.8	16.4%
Total expenditure	68,896.8	

To get another perspective, we can now compare our estimate of monthly living wage with the average expenditure incurred by a household in Pakistan. Table 5 below shows the total wage and nonwage earnings of households of various sizes by quintiles.

We can see that our estimate of living income falls somewhere between the higher-middle and highest-income groups. This could be because income data is underreported in the HIES survey. This argument is strengthened when we look at the total expenditure data for similar households and income brackets (see Table 6).

*Table 5: Total monthly wage and nonwage earnings (in PKR) of households in Pakistan*

No of family members	Lowest (1–20)	Lower-middle (21–40)	Middle (41–60)	Higher-middle (61–80)	Highest (81–100)
1–2	8,374.8	29,775.9	44,223.9	64,010.1	146,101.2
3–6	9,884.7	30,235.8	44,488.5	65,081.1	143,898.3
7–14	10,760.4	30,893.1	44,868.6	65,007.6	140,298.9
15+	7,992.6	31,006.5	45,620.4	66,775.8	161,040.6

When we compare data in Tables 5 and 6, we can see that households spend more than they earn. This could be because each household takes on debt or the income data is underreported. It is unlikely that, on average, every household in Pakistan is in debt, so income being underreported is the more likely scenario here.

*Table 6: Total expenditure by households in Pakistan*

No of family members	Lowest (1–20)	Lower-middle (21–40)	Middle (41–60)	Higher-middle (61–80)	Highest (81–100)
1–2	27,048.0	46,750.2	63,239.4	82,971	17,8791.9
3–6	32,497.5	47,770.8	62,340.6	83,157.9	15,9845.7
7–14	34,421.1	48,140.4	62,960.1	83,733.3	15,4688.1
15+	-	50,725.5	63,506.1	87,231.9	17,4556.2

Table 7 shows the average food expenditure incurred by households of various sizes and income brackets in Pakistan. For our living income estimate, we calculated that our representative household of six members would need to spend PKR 34,711 monthly on food items. We can see in Table 7 that only families falling under the higher-middle income bracket spend this much to afford meals that meet the nutrition requirement.

*Table 7: Food expenditure incurred by households in Pakistan*

No of family members	Lowest (1–20)	Lower-middle (21–40)	Middle (41–60)	Higher-middle (61–80)	Highest (81–100)
1–2	12,188.4	20,571.6	26,294.1	35,410.2	52,023.3
3–6	14,519.4	21,073.5	27,209.7	35,214.9	53,995.2
7–14	15,537.9	21,438.9	27,455.4	35,821.8	56,769.3
15+	-	21,014.7	28,230.3	36,584.1	72,647.4

To calculate our living income, we assumed a ratio of 45:55 between food and nonfood expenditure. Our calculations showed that the nonfood expenditure stands at PKR 42,425. We can compare this number with the total nonfood expenditure incurred by households in Pakistan. As shown in Table 8, families falling under higher-middle income brackets spend enough to afford a decent living standard for nonfood expenditure.

*Table 8: Total nonfood expenditure incurred by households in Pakistan*

<b>No of family members</b>	<b>Lowest (1–20)</b>	<b>Lower-middle (21–40)</b>	<b>Middle (41–60)</b>	<b>Higher-middle (61–80)</b>	<b>Highest (81–100)</b>
1–2	12,744.9	23,931.6	33,595.8	47,945.1	122,495.1
3–6	15,023.4	24,395.7	33,921.3	47,588.1	107,736.3
7–14	15,813.0	24,756.9	34,288.8	48,081.6	104,735.4
15+	19,565.7	26,061.0	34,656.3	49,154.7	112,242.9

## Conclusion

Instead of a consumption expenditure survey to ascertain the cost of living in the country, we blended two methodologies developed by the ILO and AFWA to calculate our estimate for a living wage in the country. Our estimate relied on the secondary data collected on food prices and other variables. Despite this constraint, our living wage estimate falls within a reasonable ballpark. We estimated individual living wage for a 6-member household consisting of three adults and three children, where 1.5 adult members work. We used two methods to estimate the living wage for workers so that their family members could enjoy a decent lifestyle. Our two estimations are quite close, so, for clarity, we picked the higher estimate of PKR 51,424 per month.

## **Policy recommendations**

Living wage implementation requires intervention in the government's labour policy. We recommend policy recommendations in four key areas for the government to implement a living wage.

### **Raise the minimum wage**

The government should periodically revise the minimum wage by adjusting the cost of living. It must also ensure that regional price variations are taken into consideration when setting minimum wages.

### **Strengthen collective bargaining**

Article 23 of the Declaration of Human Rights promises workers the right to unionize. The government should take the necessary steps to allow workers to form unions and engage with their employers in a meaningful collective bargaining process, including determining living wage. The majority of the workforce in Pakistan is not unionized, as they work in the informal sector. The government should encourage union formation in the informal sector by registering workers.

### **Ensure fair labour practices**

Pakistan suffers from poor and lax implementation of labour laws. The government must ensure that the current labour laws are effectively implemented. It must particularly ensure that all

workers are paid at least the current legislated minimum wage in the country. This would require the federal government to work closely with the provincial government as the implementation of labour laws falls under the latter's jurisdiction. An important step would be to make labour courts more effective in matters related to labour laws. The government should pay particular attention to ensuring that businesses are penalized for violating the labour code.

## **Addressing the cost of living**

Whereas the cost of living relates to the overall state of the economy, the government should focus on providing welfare to low-income workers to ease the burden of the rising cost of living. This could be done by providing quality healthcare, education, and public transport services effectively and efficiently.

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