

# Executive summary

## Living Wage for Kenya with Focus on Fresh Flower Farm area near Lake Naivasha

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## BACKGROUND

This report estimates a living wage for Kenya for March 2014 with a focus on fresh cut flower area near Lake Naivasha. It uses a new methodology developed by the authors that has been used to estimate a living wage in 11 countries.<sup>1</sup>

The idea of a living wage is that wages should be sufficient to ensure that a worker and his/her family is able to afford a decent basic life style considered acceptable by society at its current level of economic development. The living wage definition adopted by six standard setting organizations and ISEAL is:

Remuneration received for a standard work week by a worker in a particular place, sufficient to afford a decent standard of living of the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, healthcare, transport, clothing and other essential needs including provision for unexpected events.

## LIVING WAGE ESTIMATE

The estimate of a living wage for Kenya flower farms for March 2014 in Lake Naivasha area is KSh17,276 (\$201) per month before consideration of taxes (net pay) and KSh18,542 (\$216) after consideration of taxes (gross pay). The base pay required for living wage would typically be reduced to around KSh14,168 considering that it is common for flower farm workers to receive around KSh1,900 in common cash allowances and KSh2,400 value of in-kind benefits. Estimates for common cash allowances (housing and leave travel) and common in-kind benefits (lunch, health clinic, transportation to work, school, death allowance, and crèche) are used for expositional purposes. The actual value of cash allowances and in-kind benefits vary somewhat from farm to farm.

## CONTEXT: LAKE NAIVASHA AREA AND FLOWER FARMS

### *III A. Housing conditions for workers*

Most workers live in unplanned makeshift urban areas that lack basic amenities. There are almost no paved roads in townships near flower farms. There are no street lights making it dangerous to walk from the main road to one's house at night. The area lacks sustainable and affordable water supply and sanitation infrastructure. There is no waste collection and litter and plastic bags are all over. There is no sewage system and almost everyone uses shared pit toilets. On a positive note, almost all houses have electricity and all of the shared pit toilets we saw had cement slabs and were clean.

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<sup>1</sup> The present study was commissioned by Fairtrade International, Sustainable Agriculture Network/Rainforest Alliance and UTZ Certified. This is the fourth pilot study for the "Shared Approach to Living Wage" memorandum of understanding Fairtrade International, Sustainable Agriculture Network/Rainforest Alliance and UTZ Certified have with ISEAL and three other certifying or standard setting organizations (Forestry Stewardship Council (FSC), Goodweave, and Social Accountability International (SAI)). This MOU commits these organizations to "adopt a common definition of living wage and apply a common methodology to estimating living wage levels ... with long term goal and shared mission to see improvements in workers' conditions, including wage levels, in the farms, factories and supply chains ... by seeking support from brands, buyers, and retailers to make wage growth possible at the primary production level possible and ... working together with the relevant stakeholders."

Housing in townships in the Lake Naivasha area consists mainly of one room rental units that are roughly 10 foot by 10 foot in size (or around 9.3 square meters). Almost all buildings have zinc iron roofs in various states of repair. Virtually none have indoor piped water, indoor toilet, or separate kitchen with chimney. This means that people cook on small open charcoal stoves in the same room that they live and sleep. Ventilation is usually very poor and there is little or no evacuation of smoke. Because of the poor availability of decent housing in townships near flower farms at affordable rents, many flower farm workers leave their family behind in their home area.

*III B. Collective bargaining agreements for flower farms create better working conditions than typical for agricultural products in the world*

Kenya Plantation and Agricultural Workers' Union and Agricultural Employers' Association negotiate two year collective bargaining agreements for flower farms. There is currently a 2013-2015 CBA that 59 flower farms have signed (Collective Bargaining Agreement between Agricultural Employers' Association and Kenya Plantation and Agricultural Workers' Union 2013-2015) out of around 170 flower farms (Risisgaard and Gibbon, 2014). Also, three very large farms have separate CBAs.

CBAs specify basic wage rates (which are higher than statutory agricultural minimum wage) as well as cash allowances and in-kind benefits. There are numerous other non-wage benefits for workers specified in the CBAs including paid sick leave, paid annual leave, paid maternity leave and time off for breastfeeding, and various protections for workers. It is fair to say that many of these are uncommon for agricultural products around the world. This makes flower farm jobs in Kenya relatively good jobs.

*III C. Declining real wages for flower farm workers*

The real wages of flower farm workers have decreased over the past 10 years and the advantage of flower farm wages over minimum agricultural wage has decreased over the past 10 years. These trends are putting considerable strain on flower farm workers. This is an important context for this report, since part of the gap between current flower farm wages and living wage found by this report is partly due to deterioration in flower farm wages in recent years.

*III D. Increasing cost pressures for flower farms*

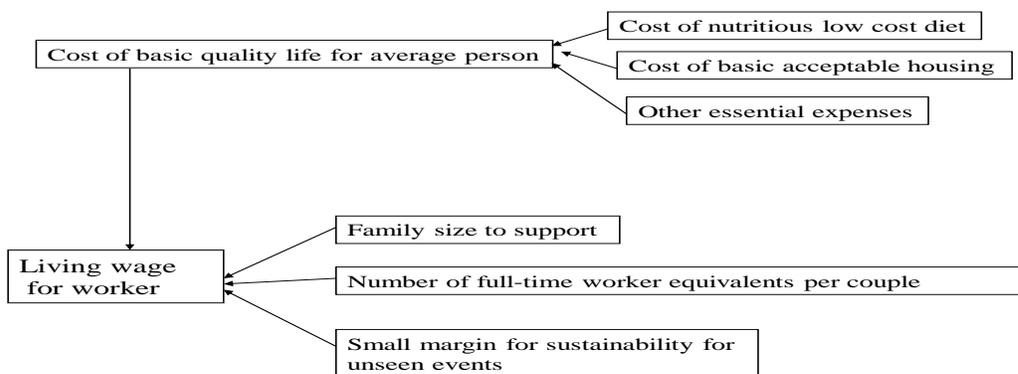
Flower farms are also facing increasing difficulty due to significant increases in labor costs in USD. CBA base wage plus cash allowances expressed in USD probably doubled between 2004 and 2014. Cost in foreign currency is an important metric for flower farms because they are exporters. Non-labor costs of production expressed in USD are likely to also have increased, since prices in Kenya have around doubled in the past 10 years whereas the Kenya shilling has only depreciated against the USD by around 15% in the past 10 years.

## HOW LIVING WAGE FOR KENYA WAS ESTIMATED

The following flow chart indicates how the living wage for the lake Naivasha area was estimated. We started by estimating cost of a basic living standard that would be considered decent for present day non-metropolitan urban Kenya (first left hand box). This was done by summing up separate estimates for cost for a low cost

nutritious diet, basic decent housing, and all other needs at a decent level (first three right hand boxes). Before accepting preliminary estimate of cost for all non-food non-housing items, we made sure that sufficient funds were provided for at least health care and education as these are considered human rights around the world. A small margin above this total cost of a basic but decent life style was then added to help provide for unforeseen events such as illnesses and accidents to help ensure that common unplanned events do not easily throw workers into poverty. This new total cost of a basic but decent quality life, that up to now was mostly expressed in per capita terms, was then scaled up to arrive at cost for a typical family size in the area and defrayed over a typical number of full-time equivalent workers per family in the area.

**Figure 1: Flow chart on how to estimate a living wage**



## COST OF BASIC ACCEPTABLE LIVING STANDARD

### V A. Cost of low cost nutritious diet

The cost of a low cost nutritious diet for a family of 5 (2 adults and 3 children) in the Lake Naivasha area was estimated to be KSh10,954 (USD 127) per month based on local food prices. Local researchers priced food in markets in four townships near fresh cut flower farms in Lake Naivasha area including many small fixed shops such as butcher shops, green grocers, and dairies. They also priced foods sold by itinerate sellers, that sold only one or a few foods (e.g. perhaps only greens, or only mangos, or only a few fruits or vegetables). When fruits and vegetables were sold by the piece, bucket or bunch, local researchers weighed several pieces, bunches and buckets of each food on their own scale in order to determine cost per kilo. Using this information on food prices, the lowest price foods in each food group were selected to include in the model diet.

### V B. Cost of basic acceptable housing

We estimated KSh5,000 (\$58.1) as rent per month for acceptable housing for a family of 5 in areas surrounding Lake Naivasha flower farms. Utility costs per month were estimated to be KSh900 (\$10.5) for water, KSh600 (\$7.0) for electricity, and KSh1,200 (\$14.0) for coking fuel. Rents were found through visits to houses of 19 workers plus information for 59 houses listed as being for rent by the workers' welfare committee of a large

flower farm. While KSh5,000 for rent is more than what most workers currently pay, it is realistic for acceptable housing for a family of 5 in the area. Workers currently pay much lower rent in part because they generally live in substandard housing and in part because they generally live alone without family.

*V C. Non-food and non-housing costs*

All non-food non-housing costs for decency for our living wage were estimated at KSh10,130 (\$118) per month for our family of 5 persons. This covers clothing and footwear; household furniture, contents and appliances; health care; education; transportation; communications; recreation and culture; eating away from home; and miscellaneous goods and services such as insurance, bank services, funerals, and personal care.

*V D. Margin above cost of a basic quality life to help enable sustainability*

Since large unforeseen expenses can quickly throw workers living at a basic life style into poverty and debt from which they may not be able to recover, a small margin above the cost of a basic quality life is added to allow for unexpected events. A 2.5% margin for emergencies and discretionary spending worked out to be KSh712 (\$8) per month.

**FAMILY SIZE NEEDING TO BE SUPPORTED BY LIVING WAGE AND NUMBER OF FULL-TIME WORKERS PER COUPLE PROVING SUPPORT**

Living wage is a family concept. We use a family size of 5 persons (two adults and 3 children) to estimate our living wage for the Lake Naivasha area. This family size is consistent with: (i) number of children women in Kenya typically have and (ii) average household size in urban areas.

As living wage is a family concept, it is appropriate to expect more than one adult in a family to provide support through work in typical families that include two adults. We use 1.69 full-time equivalent workers per couple to estimate our living wage for flower farms in the Lake Naivasha area of Kenya. This is consistent with both high unemployment rates as well as the high labor force participation rates in Kenya.

**IN-KIND BENEFITS AND CASH ALLOWANCES AS PARTIAL PAYMENT OF LIVING WAGE**

Flower farms provide a wide range of cash allowances and in-kind benefits. This includes cash allowances for housing and leave travel and in-kind benefits that reduce workers' need for cash income for: meals, transportation, school, crèche, health clinic and death benefit. Since flower farms differ in the amounts and types of cash allowances and in-kind benefits they provide, future audits of living wage for flower farms in Kenya will need to be done on a farm by farm basis. For expositional purposes, we used the general flower farm CBA to indicate approximate values for typical cash allowances and typical in-kind benefits. We estimate typical cash allowances to be around KSh1,915 per month in total (consisting of KSh1,700 for housing, KSh207 for leave travel), and fair and reasonable values for typical in-kind benefits to be around KSh2,432 per month in total.

**MANDATORY DEDUCTIONS FROM PAY AND NEED FOR SUFFICIENT TAKE HOME PAY**

Employees in Kenya have mandatory tax deductions from pay. Employees must contribute to NHIF and NSSF and pay income tax. We estimate that workers would have to pay a total of KSh1,266 (\$15) per month in mandatory

deductions from pay. This amount needs to be taken into consideration in gross pay, so that workers have sufficient take home pay to afford a decent standard of living for themselves and their family.

#### PREVAILING WAGE ESTIMATES

It is difficult to talk about a single prevailing wage for flower farm workers, since different workers make different wages. For expositional purposes, we cut through this variation by using basic wage in CBA for most workers plus common cash allowances and common in-kind benefits included in general CBA for workers with 0, 5, 10 and 17 years of continuous service. Current wages are estimated to be KSh14,592 for a typical worker who started in 1997, KSh12,117 for a worker who started in 2004, KSh11,393 for a worker who started in 2009, and KSh9,741 for a worker who started in 2014.

#### *IX A. Change over past 10 years in flower farm wages*

Flower farm wages have fallen relative to inflation in the past 10 years, especially for new hires. Real wage (base pay plus common cash allowances) for flower farm workers who joined in 2004 have fallen by around 20% and real wage of new hires have fallen by around 40%. At the same time, wages expressed in USDs have steadily increased over the past 10 years. The extent of this increase is greater for workers with more seniority. For workers who began in 1997 or 2004, monthly wages in USD more than doubled. This large continuous increase in wages in USD clearly has put pressure on flower farms, since they are exporters.

#### *IX B. Gap between prevailing wage on flower farms and living wage*

There is a large gap between prevailing wage for most flower farm workers and our living wage. Finding a large gap between a living wage and prevailing flower farm wages for most workers is not surprising given poor living conditions for flower farm workers in the Lake Naivasha area at present. A large part of the gap between our living wage and current prevailing wages for flower farm workers can be traced to the large decline in real wages of flower farm workers in the past 10 years as indicated above. Wages on flower farms in the Lake Naivasha area were closer to a living wage 10 years ago.

#### *IX C. Gap between living wage and other wage indicators*

Our living wage is several times higher than the statutory minimum wage for agriculture and the World Bank extreme poverty line. Our living wage is around 50% higher than World Bank's poverty line implied wage and around 40% higher than the government's urban poverty line implied wage. These latter differences, are not surprising given that the poverty rate in Kenya is 47% at government poverty line.

Our living wage is slightly below urban formal sector wage, income of a low income employee according to Kenya income tax law, and living wage according to a trade union official. Our living wage is much lower than wages of urban public sector workers. These comparisons indicate, in our opinion, that our living wage is reasonable.

#### CONCLUSIONS

Our living wage estimates for Kenya flower farms for March 2014 in Lake Naivasha area is KSh17,276 (\$201) per month before consideration of taxes and KSh18,542 (\$216) after consideration of taxes.

As indicated throughout this report, conservative assumptions were used to estimate our living wage. For example our model diet includes only one egg and 175 grams (6 ounces) of meat per week. Only less expensive food items are included in our model diet (e.g. maize meal rather than rice; brown sugar packed in plastic bags by local shopkeeper rather than prepackaged white sugar; less expensive cooking oil sold in solid blocks rather than liquid cooking oil sold in prepackaged bottles; and least expensive vegetables and fruits available in local markets). Our housing standard is basic, as it only includes around 30 square meters of living space for 5 persons, it does not include indoor water or indoor toilet, ventilation is poor, and housing is in locations that could be described as slum townships since these are the only locations near to flower farms.

At the same time, living standard afforded by our living wage is much better than current living of most flower farm workers. Flower farm workers have to struggle on their current pay. Most flower farm workers currently live in substandard housing a family. Most live in a 10 feet by 10 feet room that is without water or toilet (although it usually has electricity). The vast majority of houses of flower farm workers live in unplanned urban townships that are slums by almost any metric. Despite these poor housing conditions, housing is expensive for workers relative to their current pay.

In some way, it is a little surprising that there is a large gap between prevailing wages on Lake Naivasha flower farms and our living wage, partly because wages are set in collective bargaining agreements with a strong trade union and partly because production of fresh flowers requires a skilled and stable workforce year round which puts workers in a better bargaining position than is typical for farm products. One reason for this gap is that flower farm workers in the Lake Naivasha area live in urban areas and not in rural areas as one would expect for a farm industry. This greatly increases living costs, because living costs are much higher in urban areas than they are in rural areas. A second reason for the gap is that the real value of flower farm wages have fallen over the past 10 years. A third reason is that flower farm workers have to pay taxes (income tax and two social security taxes) despite their low wages.

How quickly wages can be increased by flower farms in future needs to be carefully considered. On the one hand, it would be inadvisable to threaten the viability of the flower farm industry and the jobs it provides in a country like Kenya with a very high unemployment rate. On the other hand, fresh cut flowers are often thought of as a luxury good and are in any case bought by consumers in high income countries who expect workers to be able to live decently. But given that flower farms in Kenya have been facing growing cost pressure because of an increasingly overvalued Kenya shilling, it is clear that substantial increases in wages of flower farm workers will require involvement of actors up the value chain such as buyers, distributors and retailers. It is hoped that this report will contribute to worker and management dialogue as well as contribute to dialogue between standard setting/certification organizations and the value chain to find ways to increase wages while maintaining a vibrant flower farm industry in Kenya.