

Update: Living Wage Report

Northern Dominican Republic

Rural

Banana Growing Industry
Updated to May 2017

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INDEX

INDEX	2
INTRODUCTION	3
1. Background and why it is necessary to update a living wage for inflation	3
2. Living wage in October 2013 (study date)	3
3. Which inflation rate to use to measure inflation and loss of purchasing power	3
4. Updated living wages for May 2017	4
Annex 1. Some technical issues on how inflation and updated living wage were estimated	5

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INTRODUCTION

1. BACKGROUND AND WHY IT IS NECESSARY TO UPDATE A LIVING WAGE FOR INFLATION

This report updates to May 2017 the living wages we estimated for northern rural Dominican Republic for October 2013. This is done by taking into consideration the amount of inflation in the Dominican Republic since October 2013 (study month) so that the living wage retains its purchasing power. Unless this is done, inflation would erode the purchasing power and value of the living wage and workers who earned the May 2013 living wage would no longer be able to afford to maintain a basic but decent standard of living.

2. LIVING WAGE IN OCTOBER 2013 (STUDY DATE)

The net (take home pay) living wage estimated for rural northern Dominican Republic was RD\$14,121 per month in October 2013. The gross living wage (including payroll tax deductions that reduce take home pay) was RD\$14,956 per month in October 2013. Taking into consideration the monthly value of common in kind benefits and the prorated monthly value of the 13th month bonus, the monthly cash gross living wage in October 2013 was RD\$12,883 per month.

3. WHICH INFLATION RATE TO USE TO MEASURE INFLATION AND LOSS OF PURCHASING POWER

ONE (Oficina Nacional de Estadística) reports inflation rates for all-Dominican Republic as well as separately for 4 regions, 5 income groups, and many different expenditure groups. Table 1 indicates the total amount of inflation between the October 2013 (study month) and February 2017 (latest month with reported inflation data) for the Dominican Republic and by region, income level, and type of expenditure.

Table 1. Inflation between living wage study month (October 2013) and latest month with inflation reported by Dominican Republic Statistical Office, ONE (February 2017)

National	<u>7.3%</u>
Region	
North and Cibao	7.4%
South	9.4%

East	6.4%
Ozama	7.6%
Expenditure quintile (poorest to richest)	
0-20%	9.9%
20-40%	9.2%
40-60%	8.4% (8.8% for 40th percentile)
60-80%	7.5%
80-100%	5.4%
Expenditure group	
Food and non-alcoholic beverages (25.1% of basket)	14.4%
Housing (11.6% of basket)	3.9%
Transport (18.0% of basket)	-2.3%
Health (5.2% of basket)	11.4%
Education (3.7% of basket)	16.5%
Restaurants (8.5% of basket)	9.0%

There has not been very much inflation in the Dominican Republic in recent years. Inflation was only 7.3% between October 2013 and February 2017 for the Dominican Republic.

North and Cibao region, where the living wage study was done, has almost the same amount of inflation (7.4%) as did the Dominican Republic as a whole (7.4%) - and so there is no compelling reason to use region-specific inflation data for this update.

Inflation was higher for lower income households compared to higher income households falling from 9.9% for the lowest quintile to 5.4% for highest income quintile. It was 8.8% for the income quintile (40th percentile) for which we estimated non-food and non-housing goods and services costs in our living wage study. The reason why inflation was lower for higher income households and higher for lower income households is because inflation for food was relatively high (which is more important for the poor than the rich) while inflation was negative for transport (which is more important for the rich than the poor) because of a drop in the price of oil over this time period.

We decided to use inflation for households at the 40th percentile of the household expenditure distribution for two reasons. First, we felt that this group best represents the type of workers who earn a living wage. Second, we used this group to estimate non-food and non-housing costs for our 2013 living wage estimate.

Prices increased by 9.3% between the October 2013 study date and May 2017 for households at the 40th percentile of the household expenditure distribution according to ONE data on CPI indexes. For this reason, we increased our October 2013 net and gross living wage by 9.3% (table 2).

4. UPDATED LIVING WAGES FOR MAY 2017

The updated net living wage for May 2017 is RD\$15,429 per month. The updated gross living wage for May 2017 is RD\$16,341, and the cash gross living wage per month taking into consideration in kind benefits and the prorated monthly value of the 13th month bonus is RD\$14,076 per month. It is worth noting, however, that the gross cash living wage per month will differ by farm depending on the type and quality of in kind benefits provided.

Table 2. Updating October 2013 living wage to May 2017

	October 2013 (study month)	May 2017
Inflation October 13-May 17		9.26%
Net LW pm	14,121	15,429
Social security tax pm	835	912
Gross LW pm	14,956	16,341
13 th month pm	1,246	1,362
Breakfast and lunch pm	827 ¹	903
Cash Gross LW pm (with 13th month bonus and in kind benefits)	12,883	14,076

ANNEX 1. SOME TECHNICAL ISSUES ON HOW INFLATION AND UPDATED LIVING WAGE WERE ESTIMATED

Several decisions were required to estimate the amount of inflation between the living wage study in October 2013 and May 2017. These are indicated in this annex.

1. In kind benefits. It was assumed that the value of in kind benefits for October 2103 increased with inflation at the same rate as inflation and the living wage (i.e. by 9.26% for October 2103-May 2017). We assumed that the value of in kind benefits was RD\$827 per month in October 2013. This is half of our estimate of the value of free breakfast and lunch provided every workday, because some farms have a co-pay and some farms do not provide meals every day; value of transport was assumed to be zero, because most of the transport we observed was not safe. Note, however, that the value of in kind benefits vary by farm.
2. Payroll taxes. Payroll taxes were 5.91% of pay in 2017 (as in 2013). We assumed that the value of in kind benefits is not taxable but that the 13th month bonus is taxed (as in 2017).

¹ The value of in kind benefits across banana plantations. We indicated in our 2013 report the maximum possible value for in kind benefits that we found for farms providing free breakfast and lunch each workday and safe transportation. However as indicated in our 2013 report, not all banana plantations provide these or for free when provided. For this reason, we used a conservative estimate for in kind benefits (half of the cost of meals) for the present report when we calculated taxes and the gross cash living wage per month.

3. Income tax. We assumed that income tax would not be paid on a living wage in 2013 or in 2017, because the living wage is much lower than the income exclusion for income tax (RD\$399,923 per year or RD\$33,327 per month in 2017).
4. Inflation. We started by calculating inflation between October 2013 (study date) and February 2017 (latest month with information available on inflation from ONE). This was felt to be a reasonable approach, because inflation in the Dominican Republic does not vary much by season, although inflation does sometimes vary in months with externally determined changes in the price of oil and food.
5. We then extrapolated inflation to May 2017 from February 2017 using an inflation rate for March-May 2017 (months for which inflation rates are not yet reported by ONE at the writing of this report) based on the average of year on year inflation rates for the last 3 months reported by ONE (i.e. average for December 2016-February 2017) that we prorated to an inflation rate for the “missing” three months (i.e. for March-May 2017).