

Living Wage Update: July 2019

Ziway, Ethiopia

Non-Metropolitan, Urban Flower-Producing Region



Living wage per month

Birr 4,847 (USD 167)



Cost of decent standard
of living for a family

Birr 6,520 (USD 225)



Photo courtesy of Fairtrade Foundation

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1. BACKGROUND

This report updates the living wage and living expenses for Ziway, the non-metropolitan urban flower-producing region of Ethiopia.²

The net living wage and living expenses are updated to July 2019 to take into account the amount of inflation since the original study report in July 2015. Without accounting for inflation, the net living wage estimated in 2015 would not be sufficient for workers to have a basic but decent standard of living in 2019, because the purchasing power of the living wage would have decreased compared to what it was in 2015. Similarly, living expenses for a reference family are also updated to July 2019 to account for inflation.

The gross living wage is updated to July 2019 by taking into consideration income taxes and mandatory deductions from pay that workers would need to pay on the updated 2019 living wage.

2. LIVING WAGE AND LIVING EXPENSES FOR REFERENCE SIZE FAMILY IN ORIGINAL COUNTRY REPORT IN JULY 2015

The original living wage country report estimated the net living wage as Birr 2,584 in July 2015. This was the required take-home pay for workers for decency in July 2015. The gross living wage, which also takes into account mandatory deductions from pay of Birr 784/month, was estimated as Birr 3,368/month in July 2015. The living expenses for a basic but decent standard of living for the local family size of five (two adults and three children) in the original country report was estimated as Birr 4,272 in July 2015.

3. INFLATION RATE USED FOR UPDATE

The Central Statistics Agency (CSA) is the government body of the Federal Democratic Republic of Ethiopia, responsible for computing and reporting the Consumer Price Index (CPI). The CSA

¹ Prepared by Fairtrade International (Sandra Yanez-Quintero), guided by the Collective for Social Science Research, Karachi, Pakistan (Kabeer Dawani) and with Richard Anker and Martha Anker.

² This is an update to *Living Wage Report: Non-Metropolitan Urban Ethiopia, Ziway Region*, July 2015. Ayelech (Ayu) Tiruwha Melese. <https://bit.ly/2RAdnIN>

estimates the CPI at both regional and country level and it is based on the results of the Household Income, Consumption and Expenditure Survey (HICES) conducted in 2010/2011. Retail prices are collected in purposely selected sample market places located in representative urban centres in each zone *wereda* (third-level [administrative division](#)) of the country. A total of 119 market places were selected for the retail price survey. Available base years of the CPI are 2011 and 2016.

While the CPI is calculated for every region in Ethiopia, including Oromia (region where Ziway is located), the national CPI aggregates the regional indices of the main five regions: Oromia, Amhara, SNNP, Addis Ababa, and Tigray. The year-on-year and month-to-month national inflation rates are currently published on the CSA website in the form of monthly reports in PDF format.

Annual and monthly Oromia inflation rates are higher than Ethiopia inflation rates over some periods. This is due to urban purposely selected markets, whereas the town of interest in Oromia region (Ziway) is urban but non-metropolitan. Therefore, it is suggested to use year-on-year national inflation rates for updating living expenses and living wages in Ziway. CPI series with 2011 and 2016 as base years were employed to adjust values for inflation from July 2015 to July 2018 and then from July 2018 to July 2019, respectively.

4. RECENT LEVEL OF INFLATION

Inflation in Ethiopia has been high since July 2015. Between July 2015 and July 2016, the national inflation rate was almost 6%. Since then, the annual inflation rate has been more than 10% reaching approximately 17% in January 2018 and dropping to around 10% in December 2018. In 2019, the annual national inflation rate increased from about 11% in January to around 20% in December³.

5. MANDATORY PAYROLL DEDUCTIONS AND INCOME TAXES ON A LIVING WAGE

Ethiopian employees have mandatory pension contributions and income tax. There is a 7% pension contribution deducted from basic wage (without considering allowances and overtime). The pension contribution is exempt from taxes. Regarding income tax, there is a progressive income tax system. The income tax system was changed between July 2015 and July 2016. This

³ Because the most recent CPI data available on the CSA website was for April 2019, CPI data for subsequent time periods in 2019 was collected from the Trading Economics website at <https://tradingeconomics.com/ethiopia/consumer-price-index-cpi>.

same progressive income tax system remains in place for 2019⁴. This tax schedule is provided in Table 1 below.

In Ethiopia, mandatory deductions from pay include pension contribution and income tax⁵. Once we updated the net living wage for inflation, we estimated gross living wages by adding mandatory deductions.

Updated net living wage is in the fourth salary slab according to the Ethiopian income tax system (see table 1). Consequently, the applicable marginal tax rate for living wage is 20% for income above Birr 3,200.

Table 1: Income tax rates in Ethiopia for July 2019

Salary Slab	Tax brackets (values in Birr)	% Tax rate	Cumulated tax on lower tax bracket (values in Birr)
1	<=600	0	0
2	601-1,650	10%	60
3	1,651-3,200	15%	142.50
4	3,201-5,250	20%	302.50
5	5,251-7,800	25%	565
6	7,801-10,900	30%	955
7	>10,900	35%	1,500

⁴ Information on pension deduction and the progressive income tax system for Ethiopia, including tax rates and additional deductions according to salary range, was double-checked by consulting with the chief financial officer of Afriflora Sher.

⁵ Global Payroll Association (2018). Ethiopia Payroll & Tax Overview: a guide to doing business in Ethiopia. Retrieved from https://cdn.shopify.com/s/files/1/2358/5863/files/Ethiopia_2018_v2.pdf; ADDISBIZ (2018). Salary Income Tax Calculation in Ethiopia, Pension, Gross Salary and Net Salary Calculator with Examples. Retrieved from <https://addisbiz.com/blog/67-salary-income-tax-calculation-in-ethiopia-pension-gross-salary-and-net-salary-calculator-with-examples/>

6. UPDATED LIVING WAGE AND FAMILY LIVING EXPENSES FOR JULY 2019

Net living wage updated for inflation is estimated as Birr 3,944 for July 2019. The gross living wage, which also takes into account income taxes and mandatory payroll deductions is Birr 4,847. Table 2 provides details of the original and the updated living wage and family living expenses.

Table 2: Living wages and living expenses for non-metropolitan urban Ziway, Ethiopia for July 2015 and July 2019

	July 2015 (original study date)		July 2019 (latest study)	
	Ethiopian Birr	USD	Ethiopian Birr	USD
Living Expenses for Reference Family Per Month	Birr 4,272	US\$207	Birr 6,520	US\$225
Net Living Wage Per Month	Birr 2,584	US\$125	Birr 3,944	US\$136
Income Taxes and Payroll Deductions Per Month on Living Wage	Birr 784	US\$38	Birr 903	US\$31
Gross Living Wage Per Month	Birr 3,368	US\$163	Birr 4,847	USD\$167
Exchange Rate to USD	US \$1 = 20.679 Birr (as of August 2015)		US \$1 = 29.03331 (Average Jun-Jul-Aug 2019)	
Source of Exchange Rate	Original Report		XE ⁶	

⁶ XE. Retrieved from <https://www.xe.com/currencycharts/?from=USD&to=ETB&view=2Y>