

Living Wage Update Report: Non-metropolitan urban Ethiopia, Ziway, 2022

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Cost of decent standard
of living for a family

ETB 12,995
(USD 238)



Living Wage
per month

ETB 10,607
(USD 194)



Photo courtesy of Fairtrade.

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Abstract:

This report provides updated estimates of family living expenses and living wages for the non-metropolitan urban flower-producing region in Ziway, Ethiopia. The update for 2022 takes into account inflation and changes in payroll deductions since the original Anker living wage study carried out in July 2015 (Melese, 2015).

Keywords: Living costs, living wages, Anker Methodology, Ethiopia

JEL classifications: J30, J50, J80.

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1. BACKGROUND

This report updates the living wage and living expenses to 2022 for Ziway, the non-metropolitan urban flower-producing region of Ethiopia. The update takes into account the amount of inflation since the original study in July 2015. This is done by updating the July 2015 net living wage and family living income expenses to December 2021 by inflation and then adding expected inflation for 2022, according to the International Monetary Fund (IMF). 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 2022, because the purchasing power of the living wage would have decreased compared to what it was in 2015. The gross living wage (aka living wage) is updated to 2022 by also taking into account income taxes and mandatory deductions from pay that workers would need to pay on the updated 2022 living wage.

2. LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM JULY 2015

The original living wage country report estimated the net living wage as ETB 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 ETB 784 per month, was estimated as ETB 3,368 per 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 ETB 4,272 per month in July 2015 (Melese, 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 estimates the CPI at both regional and country level and expenditure weights are derived from the Household Income, Consumption and Expenditure Survey (HICES) conducted in 2015/2016.

According to the previous update (Andersen et al., 2021), the CPI was calculated for every region in Ethiopia, including Oromia (where Ziway is located). However, since the CSA's website was not responding¹ at the time when we wrote this report, we decided to use the national CPI,² which aggregates the regional indices of the main five regions: Oromia, Amhara, SNNP, Addis Ababa, and Tigray. This should have very little effect on results in this update, since only slight differences were observed between the national CPI and the CPI for Oromia in the previous update, and thus the national CPI was used (Andersen et al., 2021).

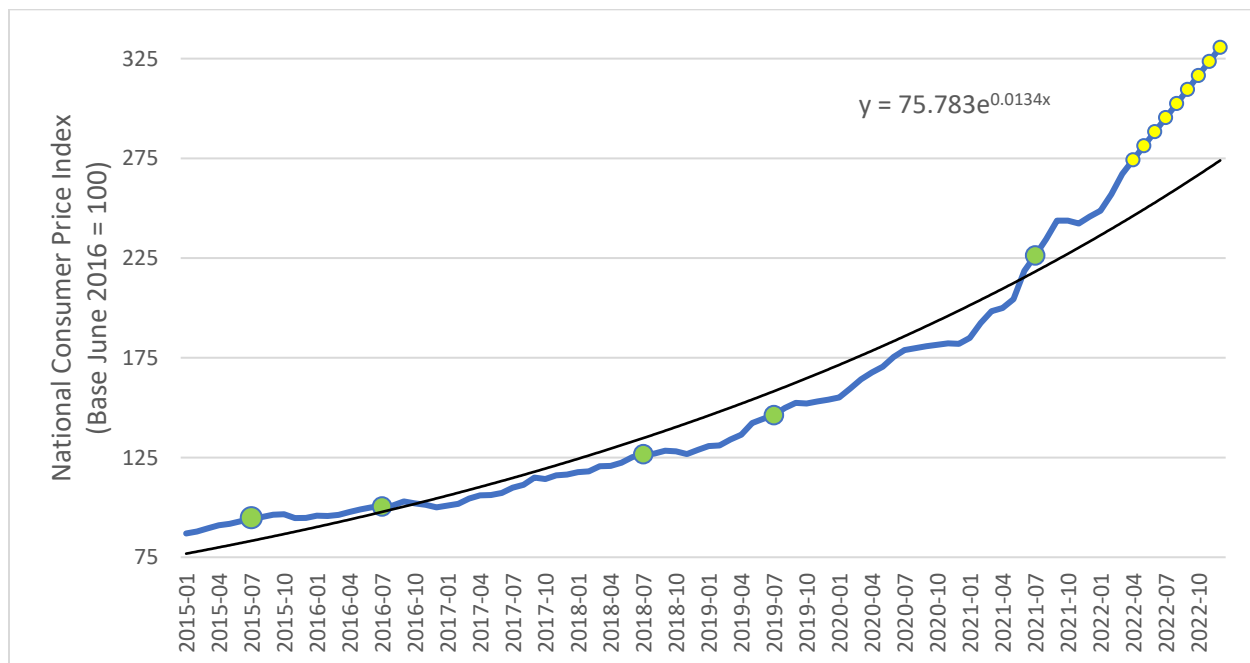
¹ See <https://www.statsethiopia.gov.et/>. Information accessed: 23 April 2022.

² See <https://tradingeconomics.com/ethiopia/consumer-price-index-cpi>

4. RECENT LEVEL OF INFLATION

Inflation in Ethiopia has been high since the original study in July 2015. The civil war, in which the country has been embroiled, has complicated the situation even more. As a result, between July 2015 and December 2021 inflation amounted to 159% in Ethiopia. The IMF projects that the inflation rate in Ethiopia for 2022 will be 34.5%,³ and this projection was added to the National Consumer Price Index numbers shown in Figure 1, while taking into account observed inflation for January, February, and March 2022 to arrive at an average inflation rate for 2022.

Figure 1: National Consumer Price Index for Ethiopia, January 2015 to December 2022



Notes: Green circles indicate the months of the original study and earlier updates. Yellow circles show the forecasts for 2022. The black line is the fitted exponential trendline.

Source: Authors' calculations based on CPI data from CSA.

5. MANDATORY DEDUCTIONS

In Ethiopia, employment income is subject to taxation, already from very low levels of income, at progressive rates ranging from 10% to 35%. Workers earning a living wage fall into the range which is subject to a 30% marginal tax rate.⁴ Additionally, there is a 7% social security contribution, which is exempt from income taxes.⁵

³ See <https://www.imf.org/external/datamapper/PCPIPCH@WEO/ETH> Information accessed: 20 April 2022.

⁴ See <https://www2.deloitte.com/content/dam/Deloitte/za/Documents/tax/za-Deloitte-Guide-to-fiscal-information-2021.pdf> (page 85).

⁵ See <https://www2.deloitte.com/content/dam/Deloitte/za/Documents/tax/za-Deloitte-Guide-to-fiscal-information-2021.pdf> (page 88).

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2022

The updated net living wage, or take-home pay, for 2022 is ETB 7,860 (USD 144) per month. The gross living wage (aka living wage), which also takes into account income taxes and mandatory payroll deductions, is ETB 10,607 (USD 194).

Table 1 provides details of the original and the updated living wages and family living expenses.

Table 1: Living wages and living expenses for non-metropolitan urban Ziway, Ethiopia, per month

Item	July 2015 Original Study Date		July 2021 Update Report		2022 Update Report	
	ETB	USD	ETB	USD	ETB	USD
Living Expenses for Reference Family Per Month	4,272	207	10,199	231	12,995	238
Net Living Wage Per Month	2,584	125	6,169	140	7,860	144
Income Taxes and Payroll Deductions Per Month on Living Wage	784	38	1,824	41	2,747	50
Gross Living Wage Per Month	3,368	163	7,993	181	10,607	194
Exchange Rate to USD	20.68		44.17		54.70*	
Source of Exchange Rate	Original Report		XE		XE	

Note: *The exchange rate for mid-2022 was forecast by adding the six months change between 1/7/2021 and 1/1/2022 to the exchange rate on 1/1/2022 (49.2).

Source: Authors' calculations.

7. REFERENCES

- Andersen, L. E., Gonzales, A., Anker, R. & Anker, M. (2021) *Living Wage Report: Non-metropolitan urban Ethiopia, Ziway (July 2021)*. Available online: https://globallivingwage.org/wp-content/uploads/2018/05/Updatereport_Ethiopia_July2021_23Jan2022_vf.pdf
- Melese, A. T. (2015) *Living Wage Report: Non-Metropolitan Urban Ethiopia, Ziway Region*. Available online: <https://bit.ly/2RAdnIN>