

Living Wage Update Report: Non-metropolitan urban Ethiopia, Ziway (July 2021)

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Cost of decent standard
of living for a family

Birr 10,199
(USD 231)



Gross Living Wage
per month

Birr 7,993
(USD 181)



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 for July 2021, taking 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 for Ziway, the non-metropolitan urban flower-producing region of Ethiopia. The net living wage and living expenses are updated to July 2021 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 2021, 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 2021 to account for inflation. The gross living wage is updated to July 2021 by taking into consideration income taxes and mandatory deductions from pay that workers would need to pay on the updated 2021 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 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 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. Retail prices were collected in purposefully selected sample marketplaces located in representative urban centers in each zone of the country. A total of 119 marketplaces were selected for the retail price survey.

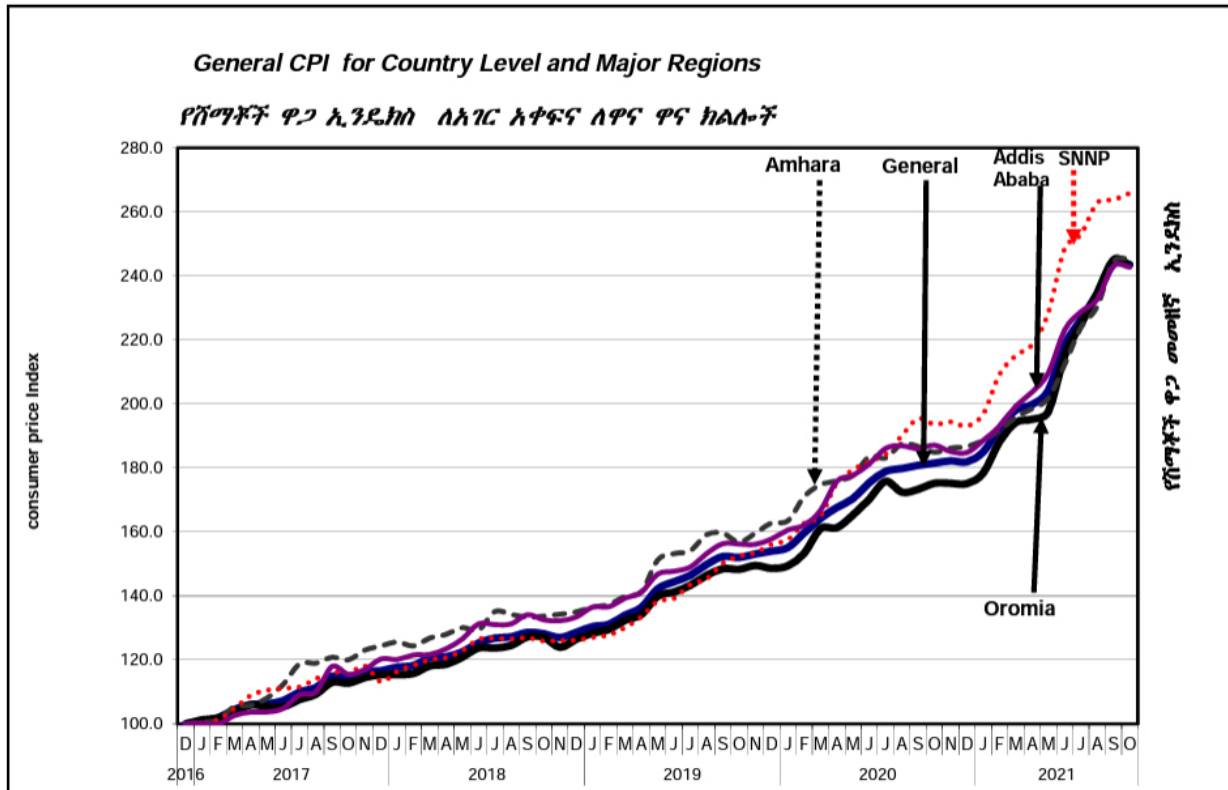
While the CPI is calculated for every region in Ethiopia, including Oromia (where Ziway is located), the national CPI aggregates the regional indices of the main five regions: Oromia, Amhara, SNNP, Addis Ababa, and Tigray. The year-on-year and month-to-month national inflation rates are currently published on the CSA website in the form of monthly reports in PDF format.¹

Annual and monthly inflation rates in Oromia differ slightly from the national level inflation rates for some months, but in the end, they tended to coincide (see Figure 1). Since the national CPI is more robust than

¹ <https://www.statsethiopia.gov.et/our-survey-reports/>

the regional ones, we use the National CPI series with base year 2016 to estimate inflation from July 2015 to July 2021.

Figure 1: National and regional CPI indices for Ethiopia, December 2016 to October 2021

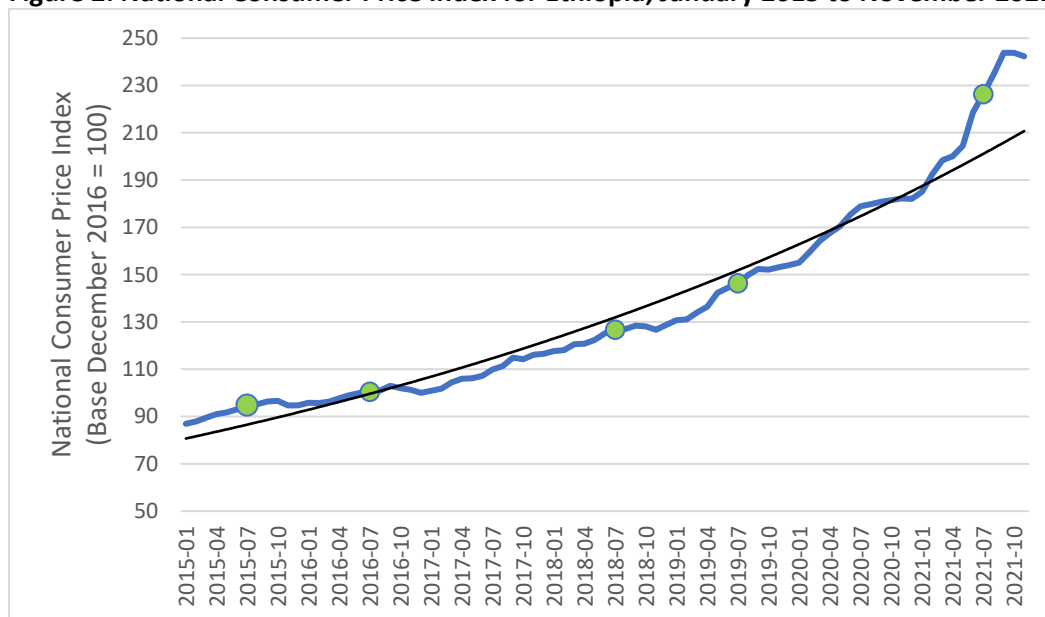


Source: October 2021 issue of the CPI report of CSA. <https://www.statsethiopia.gov.et/our-survey-reports/>

4. RECENT LEVEL OF INFLATION

Inflation in Ethiopia has been high since the original study in July 2015. The annual inflation rate between July 2020 and July 2021 was 26.5%. Total inflation between the original study, July 2015, and July 2021 was 138.75%. This is the inflation rate used in this report.

Figure 2: National Consumer Price Index for Ethiopia, January 2015 to November 2021



Notes: Green dots highlight the months of the original study and the updates. The black line is the fitted exponential trend.

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

5. MANDATORY DEDUCTIONS

Ethiopian employees pay mandatory pension contributions and income tax. There is a 7% pension contribution deducted from the basic wage (without considering allowances and overtime). The pension contribution is exempt from income taxes. Regarding income tax, there is a progressive income tax system. The income tax system was changed between July 2015 and July 2016. This same progressive income tax system remains in place for 2021.

The 2021 tax schedule is provided in Table 1 below. Once we updated the net living wage for inflation, we estimated the gross living wage by adding mandatory deductions. The updated gross living wage is in the sixths salary slab according to the Ethiopian income tax system but pension contribution is tax deductible, and consequently the marginal tax rate of 25% applies (see Table 1).

Table 1: Income tax rates in Ethiopia for July 2021

Salary Slab	Tax brackets (values in Birr)	% Tax rate	Deduction (values in Birr)
1	<=600	0	0
2	601 - 1,650	10%	60
3	1,651 - 3,200	15%	142.5
4	3,201 - 5,250	20%	302.5
5	5,251 - 7,800	25%	565
6	7,801 - 10,900	30%	955
7	> 10,900	35%	1,500

Source: Global Payroll Association (2018)²

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR JULY 2021

The updated family living expenses for a family of five for July 2021 is Birr 10,119 per month. The corresponding net living wage, considering an average of 1.653 full-time worker equivalents is Birr 6,169 for July 2021. The gross living wage, which also takes into account income taxes and mandatory payroll deductions, is Birr 7,993. 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 per month for July 2015 and July 2021

Item	July 2015 (Original Study Date)		July 2021 (Latest Update Report)	
	Birr	USD	Birr	USD
Living Expenses for Reference Family Per Month	4,272	207	10,199	231
Net Living Wage Per Month	2,584	125	6,169	140
Income Taxes and Payroll Deductions Per Month on Living Wage	784	38	1,824	41
Gross Living Wage Per Month	3,368	163	7,993	181
Exchange Rate to USD	20.68		44.17	
Source of Exchange Rate	Original Report		XE (Average of June-Aug 2021)	

Source: Authors' calculations.

² 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/>

7. REFERENCES

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