



Update: Living Wage Report

Sri Lanka

Estate Sector

Context Provided in the Tea Sector

Updated January 2019

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Living wage and gap to a living wage for Sri Lanka estate sector updated to January 2019: Companion report to Sri Lanka estate sector living wage report for December 2015¹

By: Richard Anker and Martha Anker, May 2019²

This report is intended to serve as a companion report and in essence an annex to the living wage report by Manoj Thibbotuwawa, Priyanka Jayawardena, Nisha Arunatilake and Neluka Gunasekera which estimated a living wage for the estate sector of Sri Lanka for December 2015. The first part of this companion report updates to January 2019 the living wage estimated by Thibbotuwawa, Jayawardena, Arunatilake and Gunasekera by taking into consideration inflation since their study. We also take into consideration taxes that would be due on the updated January 2019 living wage. The second part of this companion report estimates prevailing wages for the period of the new 2019-2021 CBA based on this CBA and information collected by Fairtrade International from four Fairtrade certified estates on productivity of workers and common in kind benefits.

¹ Authors of December 2015 report are: Manoj Thibbotuwawa, Priyanka Jayawardena, Nisha Arunatilake and Neluka Gunasekera.

² Parts of this report which deal with updating the December 2015 living wage to January 2019 draw on earlier work done in collaboration with Kabeer Dawani and Asad Sayeed of the Collective for Social Research in Karachi, Pakistan.

PART I: UPDATE OF DECEMBER 2015 LIVING WAGE FOR SRI LANKA TEA ESTATE SECTOR TO JANUARY 2019

1. INTRODUCTION AND WHY A LIVING WAGE NEEDS TO BE UPDATED FOR INFLATION

This report updates to January 2019 the net living wage and the gross living wage estimated for December 2015 for the tea estate sector of Sri Lanka. This is done by taking into consideration inflation in Sri Lanka between December 2015 (study month and year) and January 2019, so that the December 2015 living wage estimated by Thibbotuwawa, Jayawardena, Arunatilake and Gunasekera retains its purchasing power. Unless this is done, the December 2015 living wage would not be sufficient in 2019 for workers on tea estates to be able to afford a basic but decent standard of living, because inflation would have eroded its purchasing power and value.

2. LIVING WAGE IN DECEMBER 2015 (STUDY DATE)

The net (take home pay) living wage estimated for the Sri Lanka estate sector was LKR 19,126 per month in December 2015. The gross living wage (that includes mandatory payroll deductions that reduce take home pay) was LKR 20,753 per month in December 2015.

3. INFLATION RATE USED TO MEASURE INFLATION AND LOSS OF PURCHASING POWER SINCE STUDY DATE

The Department of Census and Statistics (DCS) in the Ministry of National Policies and Economic Affairs has reported each month since November 2015 what it considers a national inflation rate for Sri Lanka.³ This replaced the inflation rate it reported since 2008 for urban areas of Colombo District and the inflation rate it reported from 1953 to April 2008 for metropolitan Colombo. This relatively new national inflation rate series for Sri Lanka is used to update the December 2015 living wage to January 2019. It is worth noting

³ Note that while the expenditure weights in the CPI consumption basket are representative of national expenditure patterns in Sri Lanka, the government measures changes in prices for urban areas only (i.e. district towns). The implicit assumption used by government and in this annex report is that inflation in urban areas of Sri Lanka is representative of inflation for the estate sector in Sri Lanka.

that national inflation rates are estimated based on prices in urban areas and that separate inflation rates are not reported by government for the estate sector or for rural areas.⁴

4. UPDATED LIVING WAGE TO JANUARY 2019

The updated net living wage for January 2019 is LKR 21,508 per month (table 1). The updated gross living wage for January 2019 is LKR 23,785 per month. The net living wage is approximately 12.5% higher than it was in December 2015.^{5,6} Note that the provident fund contribution (EPF) was estimated based on a basic daily wage of LKR 500 for 2016-2018 and LKR 700.

Table 1. Updating December 2015 net living wage and gross living wage per month to December 2016, December 2017, December 2018, and January 2019 (in LKR)

	December 2015 (study date)	December 2016	December 2017	December 2018	January 2019
Inflation since December 2015		4.24%	11.84%	12.28%	12.46%
Net Living Wage	19,126	19,937	21,390	21,475	21,508
EPF, Kovil Fund, Union dues	1,989	1,775	1,775	1,775	2,277
Gross Living Wage	21,115	21,712	23,165	23,250	23,785

Notes: EPF (provident fund contribution) was calculated as 10% of gross wage in 2015. The 2016-2018 CBA indicated that only basic wage and overkilo payments were subject to provident fund contribution. For simplicity in this table, we assumed that workers plucked one overkilo on average. Kovil Fund is assumed to be LKR150 per month throughout. Union dues are assumed to be LKR150 per month throughout. The EPF contribution for the 2019 -2021 CBA is paid only on the LKR 700 daily wage, and not on overkilo payments as in the previous agreement. Note that the new 2019-2021 CBA increases the EPF contribution for workers who are not pluckers and pluckers who do not have large overkilo payments. EPF contributions for the most productive pluckers decreases, because they no longer pay EPF contributions on their overkilo payments.

⁴ Note that compared to the living wage consumption basket, the consumption basket used to estimate the national inflation rate for Sri Lanka has lower expenditure weights for food and housing and a higher expenditure weight for NFNH.

⁵ Kovil Fund and union dues deductions from pay were the assumed to be the same in LKR for the period from December 2015 to January 2019 and so not affected by inflation.

⁶ It is important to note that the updated December 2016, 2017, and 2018 net living wage estimates do not need to consider any seasonal adjustment, because year-on-year inflation rates are implicitly seasonally adjusted as pointed out in the ILO 2004 Consumer Price Manual.

PART II: PREVAILING WAGES FOR SRI LANKA TEA ESTATES, JANUARY 2019

5. CHANGES TO COLLECTIVE BARGAINING AGREEMENTS

Table 2 summarizes the collectively bargained wages according to collective bargaining agreements for the tea sector which were in place for: (i) 2013-2016 when the living wage study took place, and (ii) 2016-2018 which went into effect shortly after the living wage study was completed, and (iii) 2019-2021 which is currently in effect.

Table 2. Collectively bargained wages for tea plantation workers, 2013-present

	2013-2016	2016-2018	2019-2021
Basic wage	450	500	700
Price share supplement	30	30	50
Attendance incentive	140	60	0
Productivity incentive	0	140	0
Over Kilo rate (per kg)	20	25	40

Note: Provident fund contribution was paid on basic wage + overkilo payment for 2013-2018, but only on basic wage beginning 2019.

6. THE 2019-2021 PLANTATION WORKERS WAGE COLLECTIVE AGREEMENT BETWEEN EMPLOYERS' FEDERATION OF CEYLON, THE CEYLON WORKERS' CONGRESS, THE LANKA JATHIKA ESTATE WORKERS UNION, AND JOINT PLANTATIONS TRADE UNION CENTRE IN COLOMBO

On January 28, 2019, a new two-year CBA came into effect. This note describes below this agreement as well as sheds some light on how this CBA affects prevailing wages based in part on information collected by Fairtrade from four Fairtrade certified farms in July 2018.

Wages for tea estate workers increased effective January 28, 2019 following the signing of a new two-year collective bargaining agreement. The following was agreed for the January 2019 to January 2021 period. The daily wage (LKR 750) is comprised of the following when the daily minimum kilos of tea target needing to be plucked set by the estate is achieved:

- Basic daily wage of LKR 700 per day (subject to provident fund contribution), plus
- Price share supplement of LKR 50 per day

In addition, workers can receive additional pay for the following:

- Tea pluckers earn LKR 40 extra for every kilo they pluck over the minimum target set each day by the estate as stated in the 2019-2021 CBA.
- Allowances for skilled tasks.
- In kind benefits provided by the estate.
- Additional pay for overtime (which is important for factory workers) and when work is done on a Sunday and/or public holiday. This type of additional pay, however, is not relevant for comparison to a living wage, because a living wage needs to be earned in normal working time according to its definition.

7. PAY FOR TEA WORKERS ON FOUR FAIRTRADE CERTIFIED ESTATES ACCORDING TO INFORMATION PROVIDED TO FAIRTRADE BY THESE FOUR ESTATES

To understand how much tea workers typically earn, Fairtrade collected information on wages for July 2018 from four Fairtrade certified tea estates. In addition, we spoke by Skype to a union leader about the pay of tea workers.

It is important to emphasize at the outset of the following discussion and analysis of wages of tea workers is that it is based on information provided by only four Fairtrade certified tea estates and one union official. This means that this information may not be fully representative of the situation for all tea estates in Sri Lanka. Furthermore, this information has not been independently verified for its veracity.

7.1 BASIC PAY

Basic pay was the same in the four Fairtrade estates. Since workers are paid the same daily wage excluding possible overkilo bonuses, the number of days that work is offered each month is an important determinant of wages per month. Therefore, it is important to note in this regard that the median number of workdays offered per year by the four Fairtrade estates was fairly similar ranging only from 273 to 292 days, with a median of 283 days of work offered per year.

To determine the number of workdays that would be reasonable to consider as a full-time work per year, we did the following calculation:

$$52 \text{ weeks} \times 6 \text{ workdays per week} - 17 \text{ paid vacation days}^7 - 7 \text{ unpaid sick days}^8 - 16 \text{ paid public holidays} = 272.$$

⁷ Men receive 17 paid vacation days when they work 288+ days in a year and women receive 17 paid vacation days when they work 264+ days in a year according to the CBA. Note that paid vacation days are included in workdays for this calculation.

Therefore, we consider 272 workdays a year to be full-time work. When paid vacation days and paid public holidays are included, full-time workers are paid for 305 days per year in total.

This means that the minimum cash wage that workers would earn per month on average if they work 272 days per year, get 17 days of paid vacation, and 16 public holidays would be LKR 20,731 per month (LKR 750 x 305/12). Tea pluckers can earn more if they pluck over the daily target that changes each week or so. Workers who have skill allowances also earn more – but we do not have information on this from the new CBA. In addition, workers who work overtime or on Sundays can earn more, but this is not considered here for comparison to the living wage, because a living wage should be earned during normal working hours and so excluding overtime.

7.2 PAY FOR TEA PLUCKERS WHO PLUCK OVER THE DAILY TARGET THRESHOLD

We are particularly interested in the wages of tea pluckers, because they constitute the majority of tea workers (between one-half to two-thirds of tea workers on the four Fairtrade estates). There are systematic differences by estate in the daily kilo threshold target required to be met. The four Fairtrade estates reported targets which went from 12 kg to 20 kg per day, although three of these estates reported more similar daily targets between 16-20 kg. These targets change weekly and are higher in peak season than in slack season.

The number of overkilos plucked varied with the season. Not surprisingly, workers on the four Fairtrade estates plucked more than twice as many overkilos of tea in the peak season than in the slack season, and so average overkilo bonuses were more than twice as high during peak months than in slack season months. Of course, individual workers vary considerably in the number of kilos they pluck and consequently in the amount of overkilo bonus payments they receive.

The four estates indicated that average overkilo bonuses per workday for pluckers on their estates were close to 9 kilos over the daily target when averaged over the year, whereas the 2015 report by Thibbotuwawa et al. assumed an average of 3 kilo over the target per worker per day for 9 months per year (which works out to be an average of 2.25 kilos over the target per worker per day over the full year). Table 3 presents monthly wages of tea

⁸ Tea estate workers are not entitled to sick leave in the new CBA except when they are hospitalized as inpatients. However, it is reasonable to assume that workers are sometimes unable to work due to illness or accident. To be conservative, we use the number of days stipulated in the Sri Lanka Shop and Office Act which provides for 7 sick days per year for office workers – known as casual leave. Casual leave does not include serious illness or injury.

pluckers according to the average number of kilos over the target plucked per day assuming they are paid according to the 2019-2021 CBA.

Note that the amount of overkilo pay for plucking over the daily target reported for these four Fairtrade tea estates is considerably greater than amounts indicated in the living wage report by Thibbotuwawa et al. for December 2015. There are several notable differences between what these four Fairtrade certified estates reported and what Thibbotuwawa et al. found. First, at the time of the December 2015 living wage report, payment for each overkilo plucked was LKR 20 whereas it is now LKR 40. Second, the Thibbotuwawa et al. living wage report assumed that workers pluck 2.25 extra kilo per day on average over the year over the 18 kilo per day threshold target included in the CBA at the time. Note that the 2019-2021 CBA does not mention a specific threshold target, so daily targets vary by estate and by time of year, as in the previous 2016-2018 CBA. It is also important to note that according to the union official we spoke to, many tea estate workers average considerably less than the amounts of overkilo bonuses reported by the four Fairtrade certified estates.

7.3 OVERTIME PAY

For work performed on Sundays and holidays, workers are entitled to 1.5 times the basic wage and the price share supplement (which would amount to an additional LKR 375 per workday). Workers earn overtime pay especially during peak season. However, as indicated above, we do not consider overtime pay when comparing workers' wages to the living wage, because a living wage needs to be earned during normal working hours according to its definition.

7.4 IN KIND BENEFITS

The four Fairtrade certified tea estates indicated that they provide the following in kind benefits: health clinic, creche for children of workers, housing, and tea rations – although not all four of these tea estates provided all of these in kind benefits.

7.4.1 HOUSING

All four Fairtrade tea estates have housing on their estate for their workers – although one estate indicated that not all tea workers live on the estate. Also, a significant proportion of estate houses have more than one tea worker living in them - which is not surprising as both husband and wife often work on a tea estate.

We asked the four Fairtrade tea estates about the costs they had to maintain houses on the estate including for example pay for maintenance workers, cost of providing water and electricity, cost of repairs, and other expenses associated with estate housing. We received information on this from only two of the four Fairtrade tea estates. One estate did not provide water or electricity and the other estate did not provide information on costs of maintenance, and provision of water and electricity to their housing units. Costs per tea estate housing unit and costs per tea estate worker for the two larger Fairtrade estates that provided information on housing costs were similar to each other. This was LKR 689 per tea worker per month on average.⁹

A very controversial issue remained about how to value free housing on tea estates in Sri Lanka as an in kind benefit as partial payment of a living wage – and in particular, whether and how to consider what the rental value of free estate housing would be. This issue is controversial, because who owns tea estate housing is uncertain - whether it is tea workers (who are able to pass on the use of their house to their children but not able to sell their house) or government (who has taken over responsibility for tea estate housing in large part). What is clear, however, is that the tea estates do not own tea estate housing - even though they are responsible for maintaining estate housing and providing water and electricity. Therefore, we considered the stated cost to tea estates of maintaining tea estate housing and providing electricity and water as the in kind benefit value of estate housing to workers, and not the rental value of estate housing.

7.4.2. MEDICAL CLINIC

All four Fairtrade tea estates had medical clinics that workers and their family can use when required, and all four estates provided detailed information about the cost of the medical clinic. Costs varied from estate to estate. Excluding the one estate that provided incomplete information about their costs (and so this was probably a large underestimate), the average cost of medical clinics per worker per month indicated was LKR 314.

⁹ We calculated the cost of maintaining housing per worker rather than per housing unit, because often more than one worker lives in the same housing unit – such as when both husband and wife work on the estate.

7.4.3 CRÈCHE

All four Fairtrade tea estates had a crèche for children of their workers. According to the information provided by the four estates, the average cost per worker per month for the creche was LKR 465.

7.4.4 PROVISION OF FREE TEA

All four Fairtrade tea estates provided free tea rations to workers and their families (usually around ½ kilo of tea per month per family). We estimated the cost of this to tea estates to be around LKR 200 per worker month based on tea auction prices.

7.4.5 SUMMARY FOR VALUE OF IN KIND BENEFITS

Adding up the stated costs to the four Fairtrade tea estates of housing maintenance, provision of water, medical clinic, creche, and provision of tea for families, we estimate that the total value of in kind benefits received per worker as LKR 1,668 per month which is around US\$ 9.5 and 7% of the living wage.

7.5 SUMMARY FOR PREVAILING WAGES CONSIDERING ALL FORMS OF REMUNERATION

Table 3 brings together information on all forms of remuneration: (i) basic cash monthly wages, (ii) fair and reasonable value of common in kind benefits, and (iii) overkilo payments for pluckers (who are the largest occupational group). Wages for tea pluckers depend on how many kilos over the daily target that they pluck. We calculated how pay would change ranging from no overkilos to an average of 9 overkilos per workday over the year. Table 3 shows the range of wages that full-time tea pluckers would earn depending on the number of kilos on average they pluck over the daily target. The zero extra kilos plucked example represents the situation for typical tea workers who are not pluckers. They would earn 85% of a living wage if they work 272 days during the year. Pluckers with 1 additional kilo per day would earn 10% less than a living wage in January 2019. Pluckers

who pluck on average 3 kilos over the daily target would earn 1% less than a living wage, while those who pluck 4 kilos on average over the daily target would earn 2% more than a living wage. Finally, pluckers who pluck on average 9 kilos per day over the daily threshold over the year (as self-reported by four Fairtrade certified estates) would receive an average monthly wage of LKR 28,891 which is 21% greater than a living wage in January 2019. In this regard, it is important to be aware that the union official we spoke to felt that typical tea pluckers pluck much less than the 9 additional kilos reported by the four Fairtrade certified estates. It is possible that these four estates overreported overkilos, or that they are unusually productive estates, or that the union official is not correct.

Table 3. Average monthly wages of year around tea pluckers and gap to a living wage depending on average number of kilos plucked over the target per day in January 2019

Average number of kilos over the daily target plucked on average	Implied monthly wage of tea pluckers in LKR (including LKR 1,668 of in kind benefits)	Implied gap to living wage of LKR 23,785 per month	Percent increase in wages required to reach a living wage
0 (also situation for non-pluckers)	20,731	3,054	15%
1	21,637	2,148	10%
2	22,544	1,241	6%
3	23,450	334	1%
4	24,357	(572)	Living wage reached
5	25,264	(1,479)	Living wage reached
6	26,171	(2,386)	Living wage reached
7	27,077	(3,292)	Living wage reached
8	27,984	(4,199)	Living wage reached
9	28,891	(5,106)	Living wage reached

8. CONCLUSIONS

This companion paper to the full living wage report by Thibbotuwawa, Jayawardena, Arunatilake, and Gunasekera has: (i) updated their living wage to 2019; (ii) looked at CBAs that were agreed to and came into effect after their study; and (iii) looked at the gap to a living wage in 2019 in light of inflation since their report and these new CBAs.

Tea workers who work year around who are not pluckers as well as pluckers who do not earn extra pay for plucking over the daily target would need around a 15% wage increase in order to earn a living wage if they are paid according to the 2019-2021 CBA. This estimate assumes that all tea workers receive five common in kind benefits (medical clinic, maintenance of estate housing, provision of water to their estate house, creche, and tea rations) worth LKR 1,668 per month.

Pluckers who pluck 1 overkilo per day on average over the year over the daily target set by their estate would earn somewhere around 10% less than a living wage for early 2019.

Pluckers who pluck 3 to 4 overkilos per day on average above the daily target set by their estate would earn the January 2019 living wage according to calculations in this companion report.

Pluckers who pluck 9 overkilos per day on average over the year over the minimum daily threshold – as indicated to Fairtrade by four Fairtrade certified tea estates – would earn 21% more than the January 2019 living wage. However, it is important to keep in mind that this 9 overkilos per day is a self-reported figure. These four Fairtrade certified estates might be unusual, and according to a union official we spoke to typical pluckers are not able to pluck anywhere near 9 overkilos per day on average over the year.

The existence of large differences in earnings between tea estates is consistent with the view of the trade union official we spoke to, and implies that earnings of tea workers are to some extent beyond the control of workers and partly dependent on estate specific differences such as terrain and productivity of tea bushes.