

Living Wage Update: March 2019

Non-Metropolitan Urban Kenya

Lake Naivasha



Living wage per month

KSh 26,546 (USD 264)



Cost of decent standard
of living for a family

KSh 39,622 (USD 394)



Photo credit: "2015_07_26_Kisima_Farm_Laikipia_0026" by [makeitkenya](#)

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1. BACKGROUND

This report updates the living wage and living expenses for the fresh flower farm area near Lake Naivasha in Kenya.²

The net living wage and living expenses are updated to the study month of the most recent calendar year—March 2019—to take into account the amount of inflation since the original March 2014 living wage study. Without accounting for inflation, the net living wage estimated in 2014 would not be sufficient for workers to have a basic but decent standard of living in March 2019 because the purchasing power of the living wage would have decreased compared to what it was in 2014. Similarly, living expenses for a reference family are also updated to March 2019 to account for inflation.

The gross living wage is updated to March 2019 by taking into consideration in addition income taxes and mandatory deductions from pay that workers would need to pay on the updated 2019 living wage. This is done using the laws in effect by March 2019.

2. LIVING WAGE AND LIVING EXPENSES FOR REFERENCE SIZE FAMILY IN ORIGINAL COUNTRY REPORT IN MARCH 2014

The original living wage country report estimated the net living wage as KSh 17,276 (US\$ 201) in March 2014. This was the required take-home pay for workers for decency. The gross living wage, which also takes into account income taxes and mandatory deductions from pay for social security, was estimated as KSh 18,542 per month (US\$ 216, using an exchange rate of 86 KSh = 1 US\$) in March 2014. The living expenses for a basic but decent standard of living for a reference family in the original country report was estimated as KSh 29,198 per month (US\$ 340) in March 2014.

¹ Prepared by Koen Voorend with Richard Anker and Martha Anker.

² This is an update to *Living Wage Benchmark Report for Non-Metropolitan Urban Kenya*, March 2014. Richard Anker and Martha Anker. <https://bit.ly/2wqti4J>

3. INFLATION RATE USED FOR UPDATE

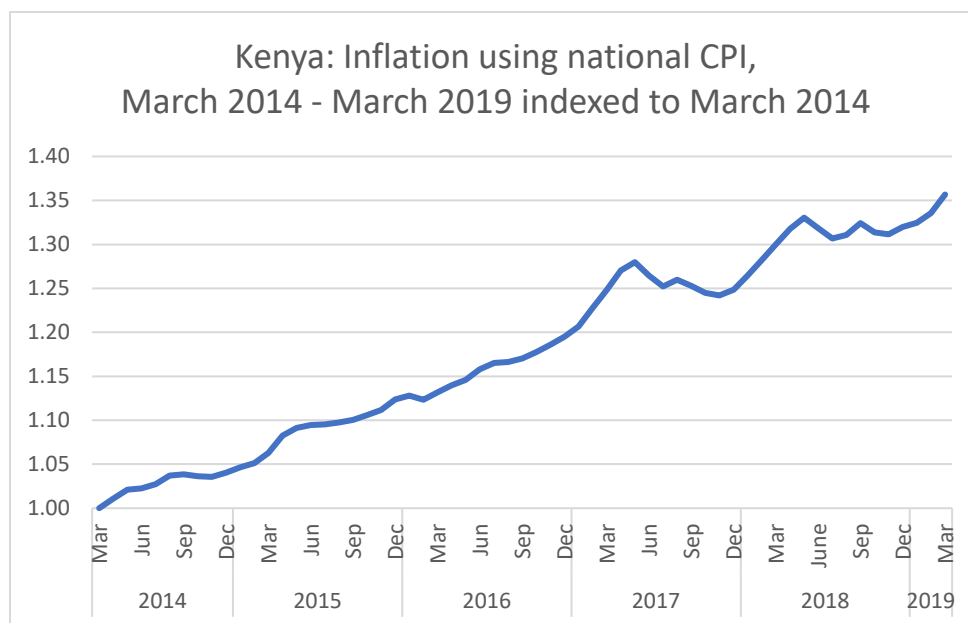
The Kenya National Bureau of Statistics (KNBS)³ is the government body responsible for computing and reporting price indexes in Kenya. It reports one consumer price index (CPI).⁴ It is based on a monthly survey of retail prices of a basket of 234 household consumption goods and services, conducted during the second and third weeks of the month. Prices are obtained from selected retail outlets in 25 data collection zones in Nairobi and in 13 other urban centers. The CPI uses a base year of 2009 = 100.

Although price data are only collected from urban establishments, the KNBS argues that its monthly price survey is relevant for both rural and urban areas. This report uses the national CPI, because another more specific CPI index is not available.

4. RECENT LEVEL OF INFLATION

Between March 2014 and March 2019, national inflation was 35.7%. This is the inflation rate used for this update. Graph 1 summarizes the evolution of the CPI between March 2014 and March 2019.⁵

Graph 1



³ <https://www.knbs.or.ke>

⁴ Expenditure weights are based on the 2005/06 Kenya Integrated Household Budget Survey (KIHBS).

⁵ The 2014 living wage report indicated that food prices vary by season (Anker and Anker, 2014: pg. 14). This living wage update report does not consider seasonality of prices, because it uses year-on-year inflation rates which are implicitly seasonally adjusted.

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

The 2014 original living wage report indicated that:

“Employees must contribute to NHIF and NSSF. This amounts to KSh520 (\$6) per month. Workers in Kenya also have to pay income tax with the rates in the Pay As You Earn (PAYE) system used in Kenya: 10% from KSh 1,016 – 10,164, 15% from KSh 10,165 – 19,740, and 20% from KSh 19,741 – 29,316. But there is a tax relief of KSh 1,162 which means that effectively income taxes are paid only on cash incomes above around KSh 11,000. We estimate that workers would have to pay KSh 746 (\$9) per month in income tax at our living wage.”⁶

In March 2019, the same National Social Security Fund (NSSF) of KSh 200 applies. Although legislation around the National Social Security Fund (NSSF) contributions⁷ has undergone drastic transformation, following the enactment of the NSSF Act 2013 becoming effective in June 2014, the implementation of the new Act awaits conclusion of a pending court case. In the meantime, NSSF contributions are as per the provisions of the old Act (i.e. KSh 200 for employer and KSh 200 for employee). For future updates, it is important to be aware that, if implemented, the NSSF Act 2013 raised NSSF contributions from a maximum of KSh 200 to a new rate of 5%.

Second, employees in Kenya are required to contribute to the National Hospital Insurance Fund (NHIF).⁸ There is no corresponding employer contribution. The latest rates⁹ are shown in Table 1 below:

⁶ Anker and Anker, 2014: 38

⁷ <http://www.nssf.or.ke/>

⁸ <http://www.nhif.or.ke/healthinsurance/>

⁹ Kenya Gazette Supplement No. 12, dated February 6th, 2015 https://apps.wingubox.com/media/590_2549.pdf

Table 1. Monthly NHIF contributions by wage ranges

Employee's Monthly Gross Salary (KSh)	Monthly NHIF Contribution (KSh)
5,999	150
6,000 - 7,999	300
8,000 - 11,999	400
12,000 - 14,999	500
15,000 - 19,999	600
20,000 - 24,999	750
25,000 - 29,999	850
30,000 - 34,999	900
35,000 - 39,999	950
40,000 - 44,999	1000
45,000 - 49,999	1100
50,000 - 59,999	1200
60,000 - 69,999	1300
70,000 - 79,999	1400
80,000 - 89,999	1500
90,000 - 99,999	1600
100,000 and above	1700

Source: https://apps.wingubox.com/media/590_2549.pdf

Given the 2019 updated gross living wage (net living wage plus NFFS KSh 200 and the PAYE income tax) is in the KSh 25,000-29,999 bracket, the NHIF contribution is estimated to be KSh 850.

Finally, income tax is imposed on income derived from business, employment, rent, dividends, interest, and pensions among others. It is collected as a Pay As You Earn (PAYE) system (which means that tax is assessed each month considering that annual income is 12 times that month's income).¹⁰ To determine the exact amount of income tax for our LW update, we used an online tool to calculate the PAYE.¹¹ For this, we assume the standard "old" PAYE contributions are made, and no voluntary pension contributions are made. It is important to note that there is a personal

¹⁰ Bonuses, overtime allowances, and retirement benefits paid to employees earning less than KSh 147,580 per annum (KSh 12,298 per month) is exempt from income tax. The tax-free amount is based on the employment income before the bonus, overtime allowances, and retirement benefits. This does not apply to the Living Wage used for this report.

¹¹ <https://www.kra.go.ke/en/individual/calculate-tax/calculating-tax/payee>

relief amount that is not taxed for PAYE. This amounts KSh 16,896 per year, or KSh 1,408 per month.

As such, the mandatory contributions (NIH and NSSF) and income tax (PAYE and personal relief) breakdown are as follows:

Table 2. Breakdown of mandatory deductions and income tax paid on living wage for 2019

Component	Amount in KSh
Net LW	23,444
NSSF	200
NIH	850
PAYE	3,460
Personal relief	-1,408
Gross LW	26,546

Source: Authors, based on <https://calculator.co.ke/kra-salary-income-tax-paye-calculator>

The PAYE for the update living wage is estimated at KSh 2,052, which is the PAYE amount of KSh 3,460 calculated over the net wage minus a personal relief of KSh 1,408.

6. UPDATED LIVING WAGES AND FAMILY LIVING EXPENSES FOR MARCH 2019

The updated net living wage, or take-home pay, for March 2019 is KSh 23,444 (US\$ 233, using an exchange rate of 100.55 KSh = 1 USD¹²) per month. The gross living wage, which also takes into account income taxes and mandatory payroll deductions, is KSh 26,546 (US\$ 269) per month for March 2019. Table 3 provides details of the original March 2016 and the updated March 2019 living wage and family living expenses in KSh and US\$.

¹² Since exchange rate data are not available from the International Monetary Fund's (IMF) archive of exchange rates, we used data from the Kenyan Central Bank. The average for the 3-month period that brackets March 2019 (so February – April 2019) was 100.55 KSh = 1 USD. Exchange rate fluctuations were small over the selected period.

Table 3: Living wage for Lake Naivasha Region in Kenya (in Kenyan Shilling and US Dollars)

Item	March 2016 Original Study Date		March 2019 Latest Update	
	Kenyan Shillings (KSh)	US Dollars	Kenyan Shillings (KSh)	US Dollars
Living Expenses for a Basic But Decent Standard of Living Per Month	KSh 29,198	\$340	KSh 39,622	\$394
Net Living Wage Per Month	KSh 17,276	\$201	KSh 23,444	\$233
NSSF and NHIF Taxes Deductions per Month on Living Wage	KSh 520	\$6	-	-
NSSF Taxes Deductions per Month on Living Wage	-	-	KSh 200	\$2
NHIF Taxes Deductions per Month on Living Wage	-	-	KSh 850	\$8.50
Income Taxes – PAYE Deductions per Month on Living Wage	KSh 746	\$9	KSh 2,052	\$20.40
Gross Living Wage	KSh 18,542	\$216	KSh 26,546	\$264
Exchange Rate	86		100.55	
Source of Exchange Rate	Original Country Report		Kenya Central Bank ¹³	

¹³ Central Bank of Kenya: <https://www.centralbank.go.ke/rates/forex-exchange-rates/>