

## Living Wage Update Report: Non-Metropolitan Urban Kenya, Lake Naivasha (March 2021)

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 <p>Cost of decent standard of living for a family</p> <p><b>KSh 44,376</b> (USD 404)</p>	 <p>Gross Living Wage per month</p> <p><b>KSh 29,702</b> (USD 270)</p>
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## Living Wage Update Report: Non-Metropolitan Urban Kenya, Lake Naivasha (March 2021)

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### **Abstract:**

This report provides updated estimates of family living expenses and living wages for the fresh flower farm area near Lake Naivasha in Kenya until March 2021, taking into account inflation and changes in payroll deductions since the original Anker living wage study carried out in March 2014 (Anker and Anker, 2014).

**Keywords:** Living costs, living wages, Anker Methodology, Kenya

**JEL classifications:** J30, J50, J80.

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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 (Anker and Anker, 2014). The living wage is updated to the study month of the most recent calendar year – March 2021 – to take into account the amount of inflation since the 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 2021 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 2021 to account for inflation.

The gross living wage is updated to March 2021 by taking into consideration mandatory deductions from pay on the updated living wage. This is done using 2021 laws.

## 2. LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM 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 KSh 86 = 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.

## 3. INFLATION RATE USED FOR UPDATE

The Kenya National Bureau of Statistics (KNBS)<sup>1</sup> is the government body responsible for computing and reporting the Consumer Price Index (CPI) of Kenya.<sup>2</sup> CPI 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 2019 = 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 it is the only CPI available.

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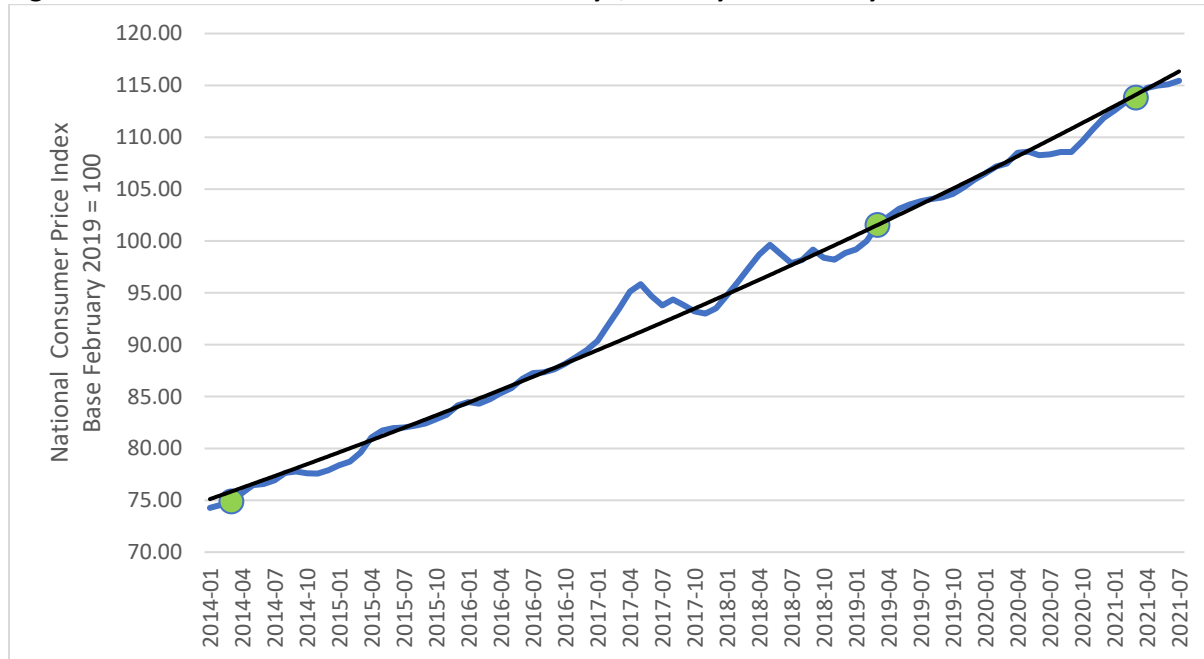
<sup>1</sup> <https://www.knbs.or.ke>

<sup>2</sup> Expenditure weights are based on the 2005/06 Kenya Integrated Household Budget Survey (KIHBS).

#### 4. RECENT LEVEL OF INFLATION

In recent months, inflation in Kenya has been moderate. The year-on-year inflation rate for March 2021 was 5.9%. Only between March and May in 2017, the year-on-year inflation rate was over 10%. Apart from those months the year-on-year inflation rate remained stable in the 5-7% range. Total inflation between March 2014, when the original study was conducted, and March 2021 is 51.98%. This is the inflation rate used in this report.<sup>3</sup>

**Figure 1: National Consumer Price Index for Kenya, January 2014 to July 2021**



**Notes:** Green dots highlight the months of the original study and the updates. Black line is the fitted exponential trendline.

**Source:** Authors' calculations based on CPI data from KNBS.

#### 5. MANDATORY DEDUCTIONS

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*

<sup>3</sup> 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.

*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.”<sup>4</sup>*

In March 2021, the National Social Security Fund (NSSF) contribution on a living wage amounts to KSh 1,080. Legislation around the National Social Security Fund (NSSF) contributions has undergone drastic transformations, following the enactment of the NSSF Act 2013 becoming effective in June 2014.<sup>5</sup> In March 2014, NSSF contributions were as per the provisions of the old Act (i.e. KSh 200 for employee and KSh 200 for employer). Since July 2020, a new NSSF Act was implemented which raised NSSF contributions to a new rate of 5%, or a maximum of KSh 1,080.<sup>6</sup>

Second, employees in Kenya are required to contribute to the National Hospital Insurance Fund (NHIF).<sup>7</sup> There is no corresponding employer contribution. The latest rates<sup>8</sup> are shown in Table 1 below:

**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	1,000
45,000 - 49,999	1,100
50,000 - 59,999	1,200
60,000 - 69,999	1,300
70,000 - 79,999	1,400
80,000 - 89,999	1,500
90,000 - 99,999	1,600
100,000 and above	1,700

Source: [https://apps.wingubox.com/media/590\\_2549.pdf](https://apps.wingubox.com/media/590_2549.pdf)

<sup>4</sup> Anker and Anker (2014: 38).

<sup>5</sup> <https://www.nssf.or.ke/>

<sup>6</sup> NSSF seems to be fixed to KSh 1,080 using the tools provided in previous updates to calculate the income tax,

<sup>7</sup> <http://www.nhif.or.ke/healthinsurance/>

<sup>8</sup> Kenya Gazette Supplement No. 12, dated February 6th, 2015 [https://apps.wingubox.com/media/590\\_2549.pdf](https://apps.wingubox.com/media/590_2549.pdf)

Given the 2021 updated gross living wage (net living wage plus NSSF of KSh 1,080 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 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).<sup>9</sup> To determine the amount of income tax for our living wage update, we used an online tax calculation tool to calculate the PAYE.<sup>10</sup> For this, we assume the standard "old" PAYE contributions are made, and no voluntary pension contributions are made. It is important to note that this takes into consideration a personal tax relief for PAYE of KSh 2,400 per month.

As such, the mandatory payroll contributions (NHIF and NSSF) and income tax (PAYE and personal relief) breakdown is as follows:

**Table 2: Breakdown of mandatory payroll deductions and income tax paid on living wage for 2021**

Component	Amount in KSh
Net Living Wage	26,257
NSSF	1,080
NHIF	850
PAYE	3,915
Personal income tax relief	-2,400
<b>Gross Living Wage</b>	<b>29,702</b>

Source: Authors' calculations, based on PAYE calculator.<sup>11</sup>

## 6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR MARCH 2021

The updated net living wage, or take-home pay, for March 2021 is KSh 26,257 (US\$ 239, using an exchange rate of 109.83 KSh = 1 USD<sup>12</sup>) per month. The gross living wage, which also takes into account income taxes and mandatory payroll deductions, is KSh 29,702 (US\$ 270) per month for March 2021. Table 3 provides details of the original March 2014 and the updated March 2019 and March 2021 living wages and family living expenses in KSh and US\$.

<sup>9</sup> 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.

<sup>10</sup> <https://www.kra.go.ke/en/individual/calculate-tax/calculating-tax/payee>

<sup>11</sup> <https://calculator.co.ke/kra-salary-income-tax-payee-calculator>

<sup>12</sup> 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.

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

Item	March 2014 Original Study Date		March 2019 Previous Update		March 2021 Latest Update	
	<i>Kenyan Shillings (KSh)</i>	<i>US Dollars</i>	<i>Kenyan Shillings (KSh)</i>	<i>US Dollars</i>	<i>Kenyan Shillings (KSh)</i>	<i>US Dollars</i>
<b>Living Expenses for a basic but decent standard of living, per month</b>	29,198	340	39,591	394	44,376	404
<b>Net Living Wage per month</b>	17,276	201	23,426	233	26,257	239
<b>NSSF and NHIF tax deductions per month on living wage</b>	520	6	-	-	-	-
<b>NSSF tax deductions per month on Living Wage</b>	-	-	200	2	1,080	10
<b>NHIF Tax deductions per month on Living Wage</b>	-	-	850	8	850	8
<b>PAYE income Tax deductions per month on Living Wage</b>	746	9	2,108	21	1,515	14
<b>Gross Living Wage</b>	18,542	216	26,826	267	29,702	270
<b>Exchange Rate</b>	86		100.46		109.83	
<b>Source of Exchange Rate</b>	Original Country Report		Kenya Central Bank <sup>13</sup>		Kenya Central Bank	

Source: Authors' calculations.

## 7. REFERENCES

Anker, R. and Anker, M. (2014) *Living Wage Report: Living Wage for Kenya with Focus on Fresh Flower Farm area near Lake Naivasha*. Available online: <https://bit.ly/3FM PGVp>

<sup>13</sup> <https://www.centralbank.go.ke/rates/forex-exchange-rates/>