

Living Wage Update Report: Estate Sector, Sri Lanka (August 2021)

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 <p>Cost of decent standard of living for a family</p> <p>LKR 43,741 (USD 218)</p>	 <p>Gross Living Wage per month</p> <p>LKR 27,131 (USD 135)</p>
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Living Wage Update Report: Estate Sector, Sri Lanka (August 2021)

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Abstract:

This report provides updated estimates of family living expenses and living wages for the estate sector of Sri Lanka until August 2021, taking into account inflation and changes in payroll deductions since the original living wage study carried out in December 2015 (Thibbotuwawa, Jayawardena, Arunatilake & Gunasekera, 2015).

Keywords: Living costs, living wages, Anker Methodology, Sri Lanka

JEL classifications: J30, J50, J80.

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1. BACKGROUND

This report updates the living wage and living expenses for the estate sector of Sri Lanka for December 2015. (Thibbotuwawa, Jayawardena, Arunatilake, & Gunasekera, 2015). The net living wage and living expenses are updated to August 2021—to take into account the amount of inflation since the original study in December 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. Similarly, living expenses for a reference family are also updated to August 2021 to account for inflation.

The gross living wage is updated to August 2021 by taking into consideration in addition income taxes and mandatory deductions from pay that workers would need to pay on the updated 2021 living wage. This is done using 2021 laws.

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

The net living wage was estimated as LKR 19,126 per month in December 2015 in the original living wage country report. The gross living wage, which also takes into account income taxes and mandatory deductions from pay for social security and union dues, was estimated as LKR 21,115 per month in December 2015. The living expenses for a basic but decent standard of living for a reference family in the original country report was estimated as LKR 33,661 in December 2015.

3. INFLATION RATE USED FOR UPDATE

The Department of Census and Statistics (DCS)¹ 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.² 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 August 2021. It is worth noting 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.³

¹ <http://www.statistics.gov.lk/InflationAndPrices/StaticInformation/MonthlyNCPI>

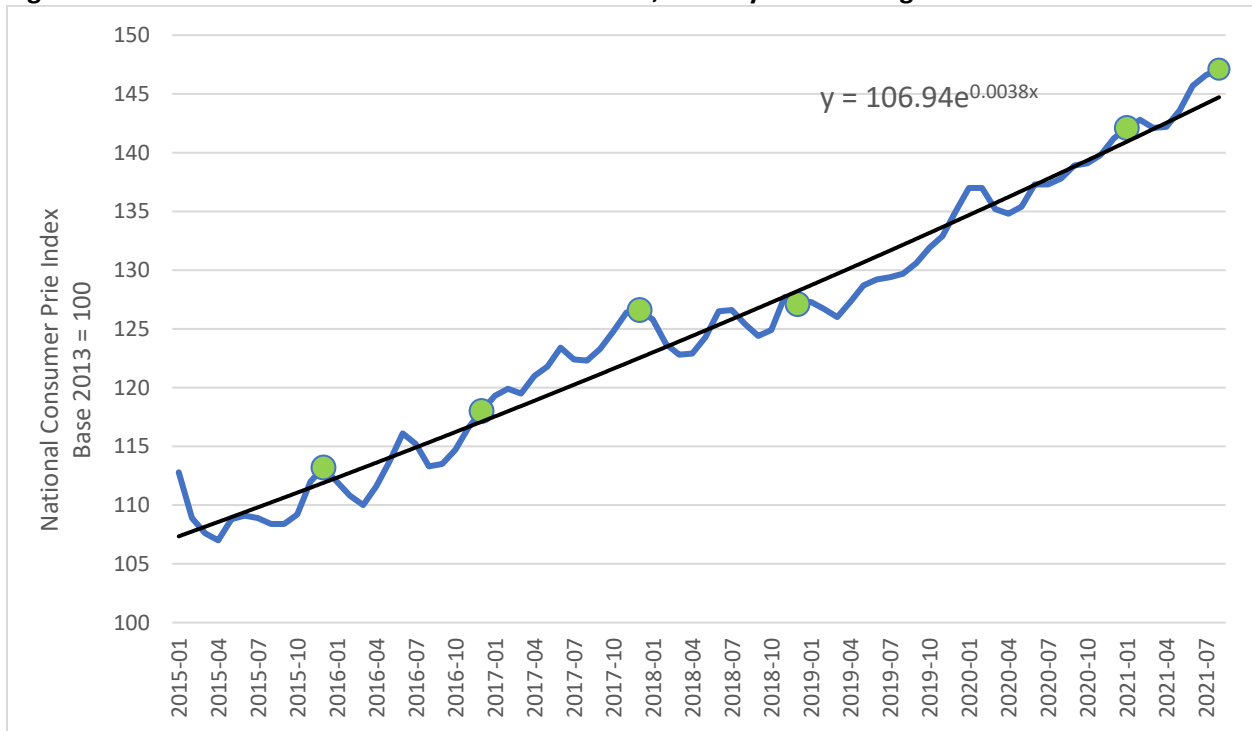
² Note that while the expenditure weights in the CPI consumption basket are representative of national expenditure patterns in Sri Lanka, the government measures changes in prices for urban areas only (i.e., district towns). The implicit assumption used by government and in this update report is that inflation in urban areas of Sri Lanka is representative of inflation for the estate sector in Sri Lanka.

³ Note that compared to the living wage consumption basket for the estate sector, 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.

4. RECENT LEVEL OF INFLATION

The year-on-year inflation rates are low and stable in Sri Lanka. The highest inflation rate in the study period was from December 2016 to December 2017 that reached levels of 7.29%. In August 2021, the year-on-year inflation rate was about 6.75%. Between December 2015 and August 2021, the total inflation amounted to 29.95%. This is the inflation rate used for this update.

Figure 1: National Consumer Price Index for Sri Lanka, January 2015 to August 2021



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

Source: Authors' elaboration based on CPI data from DCS.

5. MANDATORY DEDUCTIONS

There are three types of mandatory deductions from the tea workers' gross wage. The most important is the contribution to the Employees' Provident Fund (EPF), which was 8% of the gross wage in the original living wage report from 2015. However, in the 2019-2021 Collective Bargaining Agreement (CBA), which covers the current update, the EPF contributions are paid only on the LKR 700 daily wage, and not on overkilo payments as in the previous CBA. The monthly contribution to the EPF is calculated at LKR 1,977, identical to the previous update (Anker and Anker, 2019).

The other two deductions are a LKR 150 contribution to the Kovil Fund (religious activities) and a LKR 150 contribution to the Labor Union.

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6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR AUGUST 2021

The updated net living wage, or take-home pay, for August 2021 is LKR 24,854 (US\$ 124) per month. This net living wage is 29.95% higher than it was in December 2015. The gross living wage, which also takes into account income taxes and mandatory payroll deductions, is LKR 27,131 (US\$ 135) per month for August 2021. Table 1 provides details of the original and the updated living wages and family living expenses.

Table 1: Living wages and living expenses for the estate sector of Sri Lanka (in Sri Lankan Rupee and US Dollars)

Item	December 2015 Original Study Date		August 2021 Latest Update Report	
	LKR	USD	LKR	USD
Living Expenses for Reference Family Per Month	33,661	235	43,741	218
Net Living Wage Per Month	19,126	133	24,854	124
Income Taxes and Payroll Deductions Per Month on Living Wage	1,989	14	2,277	11
Gross Living Wage Per Month	21,115	147	27,131	135
Exchange Rate to USD	143.45		200.50	
Source of Exchange Rate	Original Report		Central Bank of Sri Lanka	

Source: Authors' calculations.

7. REFERENCES

- Anker, R. & Anker, M. (2019). *Living Wage Update Report: Sri Lanka, Estate Sector (January 2019)*. Available online: <https://www.globallivingwage.org/wp-content/uploads/2019/07/Sri-Lanka-Living-Wage-Study-Companion-Paper-2019.pdf>
- Thibbotuwawa, M., Jayawardena, P., Arunatilake, N., & Gunasekera, N. (2015). *Living Wage Report: Sri Lanka, Estate Sector, Context Provided in the Tea Sector*. Available online: <https://www.globallivingwage.org/wp-content/uploads/2019/07/Sri-Lanka-Living-Wage-report.pdf>