ANKER LIVING WAGE REFERENCE VALUE

RURAL HONDURAS 2020

LIVING WAGE

HNL 6,852
PER MONTH
(US$277)

Anker Research Network | GLOBAL LIVING WAGE COALITION

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Anker Living Wage Reference Value[1]

Rural Honduras 2020

1. Anker Living Wage Reference Value for Rural Honduras in 2020

The Anker Living Wage Reference Value for 2020 for rural Honduras is HNL 6,852 (USD 277)[2] per month with a 95% confidence around it from HNL 6,346 to HNL 7,399. This is the wage required for rural workers to be able to afford a basic but decent living standard in a typical rural area of Honduras. The Reference Value is comprised of a net living wage (i.e. take-home pay) of HNL 6,304 (USD 255) per month and plus an estimated HNL 548 (USD 22) which would need to be paid by law as contribution to State Welfare Fund and in private pension on the living wage.[3]

> "A living wage is the remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events." (Global Living Wage Coalition).

2. Anker Reference Value Methodology

Anker Living Wage Reference Values are based on a new methodology developed by Richard Anker, Martha Anker and Ian Prates. This methodology is based on a rigorous statistical analysis of 40 internationally comparable, quality-assured Anker methodology studies spread across low-income and middle-income countries carried out primarily under the auspices of the Global Living Wage Coalition. Anker Reference Values are internationally comparable, consistent with results from existing Anker living wage and living income benchmark studies and easy to update every year, and so are especially valuable for countries where it has not yet been possible to organize and fund a full quality-assured Anker methodology living wage or living income study.

Anker Living Wage Reference Values represent a living wage for typical families in rural (urban) areas of low-income and middle-income countries. Since they are based on a statistical analysis, they have a margin of error for typical rural (urban) areas of a country, which is generally around +/- 10% using a 95% confidence interval. Since Reference Values are not location-specific within countries and represent the situation in typical rural (urban) locations, the margin of error is likely to be larger for unusual locations with atypical living costs within a country such as large cities with high living costs, or poorer (richer) areas with relatively low (high) living costs and norms.

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[1] Prepared by Azfar Khan, Ian Prates, Martha Anker, and Richard Anker.
[2] Exchange rate used to convert to US dollars is HNL 24.73. This is the average exchange rate for the three-month period from November 2019 through January 2020 according to the IMF.
[3] In Honduras, employees earning a wage need to pay mandatory contributions to social security at a rate of 6.5% of gross salary to state welfare and 1.5% to private pension. Employees are exempt from income tax if earning less than HNL 165,482 annual income.

3. Country context Honduras
Geography and demographics

Honduras is the second largest country in Central America. It adjoins Guatemala and El Salvador in the west and Nicaragua in the south. It also has a small coastline on the Pacific Ocean in the south-west and a much larger one on the Caribbean Sea in the north.

Its population is estimated to be around 9.9 million and the population structure is indicative of a young population with a median age of around 24 years with 75% of the population being under the age of 40 years. The total fertility rate (TFR) of 2.5 live births per woman is slightly over replacement-level fertility. Almost 58% of the population lives in an urban area[4] and much of the population growth in recent years has taken place in urban areas because of development policies that have highlighted a weakening of the terms of trade for the rural areas and a concentration of capital and economic opportunities in the urban centers thereby encouraging migration.

Economy

The World Bank classifies Honduras as a heavily indebted lower middle-income country with a gross national income (GNI) per capita in 2018 of $5,350 in international dollars (PPP) and $2,506 in USD. It has the third lowest per capita income in Latin America and the Caribbean region (LAC) and is among the poorest countries in the Western Hemisphere.[5] Structurally, Honduras suffers the failings of many other developing and low-income countries in that it has an economic base which is characterized essentially by production of primary agricultural commodities and downstream (*maquiladora*) manufacture of goods emanating from such.[6] Commensurately, its economic structure emphasizes the country's exports.

Over the last two decades, economic development in Honduras has been marred by a political and social climate that has given vent to one of the highest crime rates in the world with gang violence, drug wars and extortion being commonplace with the country acquiring notoriety for having the world's highest murder rate per capita. Over the last five years, considerable improvement in the law and order situation has provided favorable options for the country to pursue. Over the last 15 years, these developments have shaped the challenges faced by Honduras and have continued to impact the country's growth prospects.[7, 8]

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[4] https://www.worldometers.info/world-population/honduras-population/
[5] Marco Antonio Hernandez Ore, Liliana D. Sousa, and J. Humberto Lopez (2016) "Honduras Unlocking Economic Potential for Greater Opportunities." Systematic Country Diagnostic, International Bank for Reconstruction and Development, The World Bank.
[6] A *Maquiladora* industry is essentially a concern that relies on labor-intensity of production. It takes raw materials and assembles, manufactures, or processes them and exports the finished product.
[7] Ibid. p3.
[8] The outlook for the near future appears bleak. A sharp contraction in United States GDP (the country's main trading partner and source of remittance) owing to covid19 will severely affect remittance inflow and therefore, private consumption which are the main drivers of growth in Honduras. It is suggested that structural poverty and inadequate healthcare will worsen the local spread of the virus. Fiscal measures

Another stark feature, which deserves a mention, is the existence of high degree of social and economic inequality.[9] This is most glaringly seen in the rural areas where there is a stark unequal land ownership structure. In 1993, 44% of the rural population was either landless or owned less than a hectare of land.

Social Conditions

<u>Poverty</u>

As mentioned above, Honduras is one of the poorest countries in the region; more than half of the population lives in poverty and per capita income is one of the lowest in the region. Poverty is endemic and a high degree of social and economic inequality is pervasive, however, there are differing estimates about its extent. The World Bank, for example, estimates that 48.3% of people live in poverty in the country (2018, with updated official poverty lines) with the percentage of people living in poverty in rural areas (60.1%) higher than in urban areas (38.4%) (https://www.worldbank.org/en/country/honduras/overview). They further estimate that 20% of the rural population lives in 'extreme' poverty, i.e. on less than USD 1.90 a day purchasing power. On the other hand, the World Food Program (WFP) estimates that 36% of the population lives in 'extreme' poverty. In rural areas, this rises to 50%. Indigenous populations are even more likely to be poor, with 71% living below the poverty line. Chronic malnutrition reaches 48.5% in rural areas, with a stunting rate of 34%.[10]

Poverty is fed in the main by a poor job market. A high proportion of Honduran jobs across all sectors (including both wage and non-wage jobs) remain informal, exhibiting low productivity and poor job quality. Such a state of affairs makes it very difficult for many to sustain decent livelihoods.

A large segment of the population is vulnerable and exposed to regular shocks - natural and economic - that have exacerbated poverty by destroying or slowing asset accumulation. For example, in 1998, the damage caused by Hurricane Mitch was estimated at around 81% of GDP and at various times external terms of trade shocks have disrupted periods of economic expansion. In 2016, low rainfall contributed to poor harvests, limited employment opportunities, and the exhaustion of food reserves in the country. Honduras has one of the highest rates of food insecurity in Latin America and the Caribbean (just behind Haiti and Nicaragua). It is suggested that 1.5 million Hondurans are food insecure, in particular those living in the southern and western regions that, in recent years, have suffered from disastrous environmental events and are home to a high concentration of smallholder farmers.

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countering this trend are foreseen but the financial commitment will be limited owing to an already large fiscal deficit and public debt burden.

[9] Inequality (GINI equal to 50.5 in 2017) is among the highest in the region and the world and has also led to the presence of one of the smallest middle classes in Latin America and the Caribbean (11% in 2015, compared with 35% regional average). https://www.worldbank.org/en/country/honduras/overview
[10] https://www.wfp.org/countries/honduras

Health

In Honduras, health care provisions are in the domain of both the public and private sector. The Ministry of Health (MoH) and the Honduras Social Security Institute (IHSS) control public sector provisioning. Although the MoH serves the entire population, it is estimated that only 50%-60% of Hondurans regularly use these services. The Honduras Social Security Institute (IHSS) covers 40% of employed economically active individuals and their dependents, using its own and contracted facilities. In the private sector, the quality of and access to health care is directly tied to income levels with private health facilities serving some 10%-15% of the population, i.e. those who can afford to pay or are covered by private insurance.

Average life expectancy at birth is 73 years for men and 78 years for women. Child mortality rate (under 5 years) is 18 per 1,000 live births.[11] There is chronic malnutrition (23% of children under 5 years) which is particularly rife among children of mothers with low educational attainment and poorer households.[12]

Education

The general educational profile of Honduras underlines major disparities. Despite spending a high percentage of its national budget on education for Latin America, the outcomes belie the allocations.[13] According to the World Bank indicators, Honduras has the third highest illiteracy rate in Central America, after Guatemala and El Salvador. It is discerned that 12% of the adult population (15 years and older) cannot read or write, compared to 7% in the Latin America and Caribbean region as a whole.[14] Illiteracy levels in the rural areas are double the national average.

Attendance in secondary school is low overall, with a net secondary school enrollment rate of only 52% in 2017 according to UNESCO.[15] Performance in primary and secondary school is problematic. 27% of Honduran youth neither study nor work, and 39% only work but do not study. Finally, it should be pointed out that though gender differences tend to be minimal, there are equity gaps; students from higher income groups and urban areas perform better and go to school longer than those coming from rural areas and lower income groups.[16] The disparity reflected in education is indicative of the economic inequality in Honduras.[17]

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[11] https://www.wfp.org/countries/honduras
[12] https://www.wfp.org/countries/honduras
[13] A recent study indicates that Honduras ranked first in Latin America and the Caribbean in 2010 as far as public sector allocations as percentage of GDP, are concerned with 7.2%. But this allocations had fallen to 5% of GDP in 2015 but still Honduras' financial commitments to education were the third highest in the LAC region. See Figure III.11 in United Nations Economic Commission for Latin America and the Caribbean (ECLAC) (2018) *Fiscal Panorama of Latin America and the Caribbean: Public policy challenges in the framework of the 2030 Agenda,* Santiago. p 90.
[14] http://datatopics.worldbank.org/education/
[15] http://uis.unesco.org/country/HN
[16] Manuel Orozco and Marcela Valdivia (2017) "Educational Challenges in Honduras and Consequences for Human Capital and Development" https://www.thedialogue.org/wp-content/uploads/2017/03/Educational-Challenges-in-Honduras-FINAL.pdf
[17] School attendance in the highest income group (Q5) is twice that in the lowest income group. ibid.

Labor Market

According to World Bank statistics, 50% of the labor force was employed in agriculture and manufacturing sectors, while the other 50% was concomitant with services.[18] Agriculture employs 39% of the labor force, with 28% of the country's land being farmed. Subsistence farmers make up 70% of the agricultural community, farming low-profit crops such as bananas, plantains, rice, maize, and beans. These small-scale farmers depend largely on remittances and off-farm employment; 31% of the rural households allocate labor across multiple income streams.

A high proportion of employment across all sectors (including both wage and non-wage jobs) remain informal, exhibiting low productivity and poor job quality. Honduras has one of the highest levels of informal employment in the LAC region. In 2017, the percentage of informal employment in Honduras stood at 79.3% of the total employed population.[19]

It is an oft-mentioned refrain that the educational backdrop forms the basis for the quality of the country's labor force. Because of its poor-quality education system, many of those entering the labor force do so with limited knowledge and skills and this skill handicap impedes procurement of good, and financially rewarding, jobs that could reverse the trend towards poverty. Moreover, this renders the labor force less competitive in the global economy.

The lack of income earning opportunities for a large proportion of the population has also driven significant emigration for work from the country mainly to the USA and Mexico. At present, there are well over half a million Hondurans (mainly workers) in the USA and about half that number in Mexico, which for all intent and purposes is used for 'step migration'.[20] This would suggest that almost 10% of the Honduran population is living and working abroad and the proportion is higher for the working age population. The remittances sent by the migrants constituted, in 2019, 19% of the country's GDP.

4. Wage ladder and gaps to a living wage, rural Honduras

Figure 1 below provides a wage ladder for rural Honduras and so context on gaps to a living wage. It compares the Anker Living Wage Reference Value for rural Honduras with five other wage indicators. The Anker Living Wage Reference Value is approximately twice the World Bank poverty line wage for lower-middle-income countries like Honduras and 65% higher than the national poverty line wage. It is also 59% more than the average wage for the agriculture sector.

The anomaly here is that the minimum wage for agriculture employers with 150+ workers is higher (by 17%) than the Anker Rural Living Wage Reference Value - although the minimum wage for agriculture employers with 1-10 workers is 1% below the Anker Rural Reference Value. It could

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[18] https://www.statista.com/statistics/510041/employment-by-economic-sector-in-honduras/

[19] Veronica Michel and Ian Walker, "Jobs Diagnostic: Honduras", International Bank for Reconstruction and Development / The World Bank, Washington, 2019.

[20] https://www.migrationpolicy.org/article/central-american-immigrants-united-states

therefore be surmised that the minimum wage offers decent wages for rural workers. Nevertheless, an explanation may be tendered explaining this unusual situation.

A 2019 World Bank study on employment in the country, which discusses the minimum wage, believes that the increase in the minimum wage in 2008 hindered formal job growth in the country and international competitiveness. An unusual aspect of the minimum wage in Honduras is how high it is compared to other countries in the region especially considering its GDP per capita [21] The minimum wage in Honduras for large farms presently is almost 3 times higher than in Nicaragua; it is roughly the same as in Panama despite Panama having a GDP per capita around 6 times higher; it is only 14% lower than in Guatemala which has a GDP per capita almost twice as high; and it is only around 27% lower than in Costa Rica which has a GDP per capita almost 5 times higher.
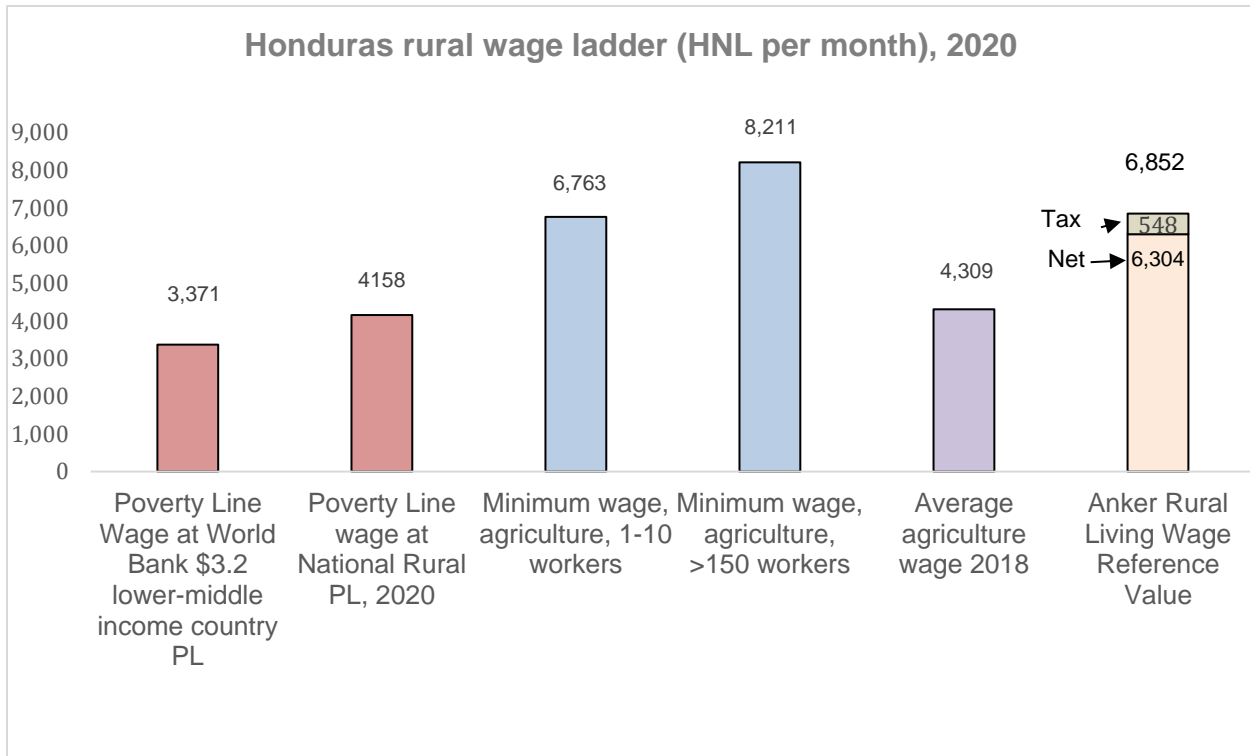
In addition, 79% of employment relations in Honduras are informal and the minimum wage in Honduras is not paid for informal employment.[22] While formal firms are believed to usually pay the minimum wage to workers with a formal contract, it is believed that many small businesses do not. Furthermore, many formal firms use a great deal of informal labor partly to circumvent the labor code and payment of the minimum wage.[23]

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[21] Ibid p.8

[22] Minimum wage also differs with respect to sector of enterprise and number of workers.

[23] Andrés Ham (2015) "Minimum wage violations in Honduras", *IZA Journal of Labour and Development,* 4:22. https://www.econstor.eu/bitstream/10419/152418/1/848083415.pdf

Figure 1

Honduras rural wage ladder (HNL per month), 2020

Notes:

[a] Honduras's national poverty line value for 2018, which is per person, was updated by inflation to 2020 since Honduras has a practice of updating its rural and urban poverty lines every year.

[b] The World Bank lower-middle-income country $3.20 (PPP 2011) poverty line for 2020 was estimated using a formula suggested by the World Bank which uses the latest available PPP from the World Bank (2018) and inflation rates since 2018 according to the IMF for Honduras and the United States.

[c] Family size used for expositional purposes to estimate the national poverty line wage and the World Bank poverty line wage was 4.5 (2 adults and 2.5 children). This family size is between: (i) rural average household size of 4.2 when single-person households (that do not have children) and very large households (that are likely to be extended families with more than 2 adult workers) are excluded - and considering that this average is biased downward by a relatively high percentage of female-headed households that are generally smaller in size (28% of households are female-headed according to World Bank); and (ii) family size of around 5 implied by the rural total fertility rate adjusted for rural child mortality for 2018 of 3.20.

[d] Number of full-time equivalent workers per family of 1.65 is used for expositional purposes to estimate poverty line wages. It was estimated using micro data from 2017 household survey on labor force participation rates, unemployment rates, and part-time employment rates for rural males and rural females ages 25-59. This 1.65 value is almost the same as the 1.64 estimated using ILOSTAT data for males and females ages 25+.

[e] Payroll taxes due on a living wage include 6.5% for state welfare and 1.5% for pension. Income tax would not be assessed on a living wage.

[f] The Anker Living Wage Reference Value is estimated directly based on statistical analysis and therefore does not have an explicit number of full-time workers per family or reference family size (although note that rural reference family size falls from 6 to 4 with development in Anker living wage benchmark studies).

[g] Average wage for agriculture workers reported by ILOSTAT is for 2018 rather than for 2019, because the lower wage reported for 2019 compared to 2018 does not appear to be reliable. [h] Minimum wage was last set in 2020. There are many different minimum wages. For example, the minimum wage for manufacturing establishments with 151+ workers is HNL 12,000.