
ANKER LIVING WAGE REFERENCE VALUE



**RURAL
PANAMA
2020**

LIVING WAGE

**USD 569
PER MONTH**

Anker 
Research
Network

GLOBAL 
LIVING WAGE
COALITION

The Anker Reference Values are endorsed by the Global Living Wage Coalition (Fairtrade International, Rainforest Alliance, Social Accountability International and ISEAL Alliance). Development of the methodology was initiated and supported by Fairtrade International and German Federal Ministry for Economic Cooperation and Development (BMZ). Further support was received from Rainforest Alliance, Social Accountability International and Clif Bar & Company.



Anker Living Wage Reference Value¹

Rural Panama 2020

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

The Anker Living Wage Reference Value for 2020 for rural Panama is USD 569, including tax, per month with a 95% confidence interval around it from USD 505 to USD 640. This is the wage required for workers to be able to afford a basic but decent living standard in a typical rural area of Panama. The Reference Value is comprised of a net living wage (i.e. take-home pay) of USD 513 per month plus USD 56 per month which would be deducted by law from pay per month for social security². Workers earning a living wage would not have to pay income tax, since workers who earn an annual amount of USD 11,000 or less are not required to pay personal income tax.

“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 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 or 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 + or - 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 than this 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.

¹ Prepared by: Mamkoottam Kuriakose, Ian Prates, Martha Anker, and Richard Anker]

² 9.75% of an employee's gross remuneration is deducted from pay by the employer for social security.

3. Country context

Geography and demographics

Panama is a central American country linking North and South America. Embracing more than 1,600 islands, Panama is well-known for the Panama Canal, which links the Atlantic and Pacific Oceans. The canal offers a shortcut for shipping, making Panama one of the most strategic transportation hubs of the world.

Panama has a population of 4,176,873 spread across 75,517 square kms. It is divided into 10 provinces and 5 “comarcas” (local administrative divisions) populated by a variety of indigenous groups. Majority (67.7%) of its population lives in urban areas (with around 35% living in the metropolitan area around Panama City).

Panama has a reasonably young population with 27% aged 14 years and younger. Panama has a total fertility rate of 2.5 births per woman and a low child mortality rate of 15 per 1,000 births in 2018. Life expectancy at birth is 79 (82.2 for females and 76.1 years for males).³ Panama is said to have a steadily declining fertility rate, mortality rate, and population growth rate.

In 2018, Panama had a literacy rate of 95.4% for the population age 15 and above (96% for males and 94.9% for females). While Spanish is the official language spoken by the majority, several languages, including 7 indigenous languages, are used.

Panama is a founding member of the United Nations and international organizations such as G77, WHO and NAM.

Economy

According to a World Bank study⁴, Panama has been one of the fastest growing economies of Latin America. *Balboa* is the official currency of Panama, and its exchange rate is tied to the USD (one balboa equals one USD). Panama has been recently classified as a high-income country by the World Bank. It has one of the highest GDP per capita in Latin America, at US\$15,731 in 2019, and a low inflation rate of -0.4% in 2019. It had an average annual GDP growth rate of 7.5 percent between 2007 and 2015 compared to 2.7 percent in the Latin American and Caribbean region. Although growth has declined in recent years, reaching 3.1 percent in 2019, it is still above the regional average.

The major economic activities of Panama include mining, agriculture, and timber. It has one of the largest (9th) copper ore reserve in the world. Panama also has large reserves of gold, manganese, and iron. Hydropower is a major natural resource in Panama as it supplies 63% of all electricity in the country.

³ <https://international.groupecreditagricole.com/en>

⁴ World Bank Group (2015) Panama: Locking in Success.

Panama is primarily a services economy, with the services sector accounting for 65.2% of GDP and employing 67.2% of the labour force. Transport is the most important service sector because of the Panama Canal. Offshore banking services is also important as Panama is known as a tax haven. Industry contributes 29.2% of the GDP, employing 18.6% of the labour force. Although 30% of the country's land is devoted to farming, agriculture accounts for only 2.2% of GDP and employs 14.2% of the labour force. Major agricultural products include bananas and different varieties of vegetables, maize, sugarcane, rice, coffee, watermelons, cocoa beans, pineapples, potatoes, coconuts, soybeans, timber, livestock, and shrimp.

Poverty

Panama has extremes of wealth and poverty and a continuing high level of income inequality, although economic growth along with social spending has substantially reduced poverty in Panama in recent years. According to ECLAC⁵, the poverty rate in rural areas in 2016 (37.9%) is much higher than in urban areas (7.3%) despite a substantially higher urban poverty line (\$120.46 per person per month) than rural poverty line (\$93.30).

The indigenous population accounts for a large share of Panama's poor and the extreme poor. Rural to urban labour migration has helped to mitigate poverty among the non-indigenous rural poor.

Standard of living

Although Panama is considered a high-income country by the World Bank, the population does not have equal access to wealth and resources. According to a World Bank study,⁶ despite being an emerging high-income country, there are sharp discrepancies in access to basic services such as water supply, sanitation, and hygiene (WASH). More than 60% of the indigenous communities covered in the World Bank study did not have access to adequate water and sanitation systems compared with only 19% of non-indigenous communities. Unsatisfactory access to sanitation contributes to a high incidence of diarrhea in children and has been one of the main causes for high levels of malnutrition of children, especially among the indigenous communities.

The public healthcare system in Panama is partly supported by the fund generated through the Social Security (CSS), which is collected through payroll deductions from employers and employees. The CSS provides 70% of public health spending while the remaining 30% is met by the Ministry of Health.⁷

⁵ ECLAC (2017) Medición de la pobreza por ingresos Actualización metodológica y resultados. <https://www.cepal.org/es/publicaciones/44314-medicion-la-pobreza-ingresos-actualizacion-metodologica-resultados>

⁶ World Bank Group (2018) The Connections between Poverty and Water Supply, Sanitation and Hygiene (WASH) in Panama

⁷ World Health Organization (2017), Health in the Americas: Panama. <https://www.paho.org/salud-en-las-americas-2017/?p=4289>

Labour market

More than 40% of the labour force in Panama works in the informal sector, according to an OECD study. This is a problem as it denies many workers critical benefits such as Social Security.⁸

Around 65% of rural women aged 25-59 are in the labour force according to the 2019 labour force survey. The rural unemployment rate was low at 1.8% for men aged 25-59 and 3.3% for women aged 25-59 according to this survey. However, because of the large size of the informal economy, the rural time-related underemployment rate (less than 35 hours per week) is high at around 22% for men and women aged 25-59.⁹

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

Figure 1 below provides a wage ladder for rural Panama and indicates the gap to a living wage. It compares the Anker Living Wage Reference Value for rural Panama with four other wage indicators. The Anker Living Wage Reference Value is much higher than all four of these comparators. It is 2.5 times higher than the World Bank \$5.50 poverty line wage for upper-middle income countries¹⁰; 2.53 times higher than the national rural poverty line wage, 51.7% higher than the minimum wage in the banana sector (which has a higher minimum wage than for other agriculture at \$376 compared to \$356). The Anker rural living wage Reference Value is around 40% higher than the median agricultural wage but only 4.5% higher than the average agricultural wage.

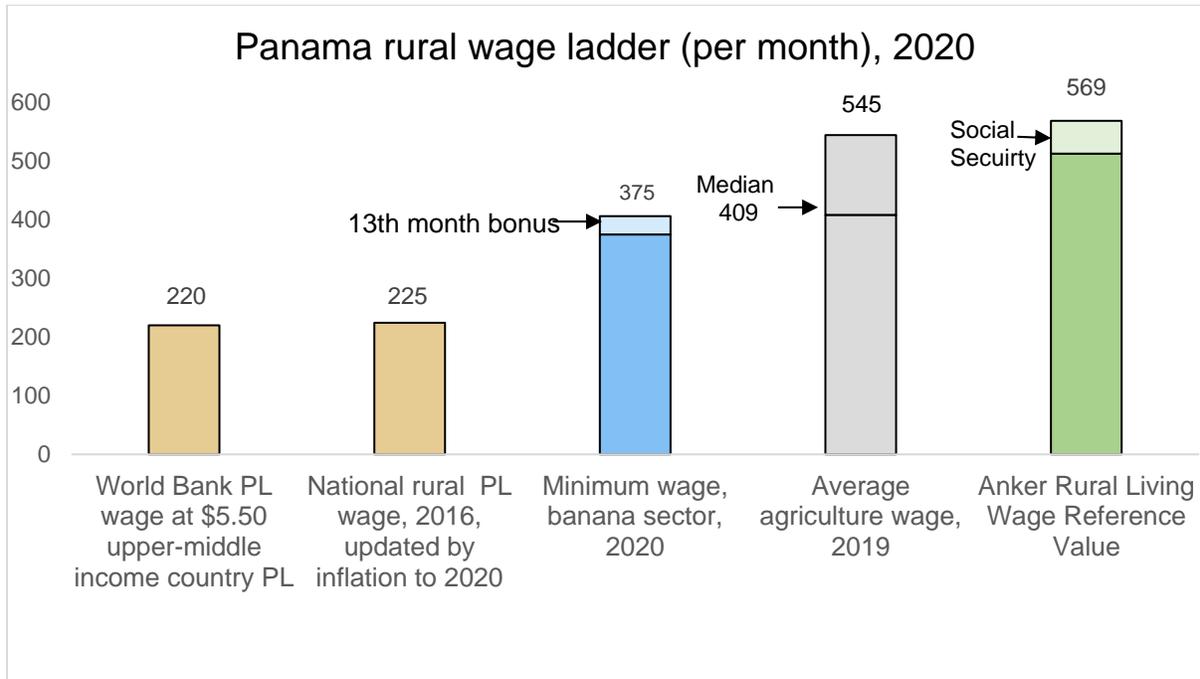
Since there might be differences in living costs between different rural areas in Panama, to better understand and measure region-specific and sector-specific living wage gaps within Panama, further analysis and quality-assured Anker methodology studies are required – although in the meantime it would be appropriate to use the Anker Reference Value indicated in this report.

⁸ <https://www.oecd.org/dev/making-panamas-economic-growth-more-inclusive-oecd-development-centre-provides-action-plan.htm>

⁹ <https://international.groupecreditagricole.com/en>

¹⁰ In figure 1 for expositional purposes, we treat Panama as an upper-middle income country (and so with a World Bank \$5.50 PPP poverty line) even though the World Bank classifies Panama as a high-income country (which has a World Bank \$21.70 PPP poverty line). Readers are referred to note ^b to the wage ladder figure for an explanation of why this was done.

Figure 1



Notes: ^a Rural poverty line for Panama, which is per person, was set in 2016. We updated this by inflation to 2020, because Panama has a practice of regularly updating its rural and urban poverty lines. ^b The World Bank poverty line for Panama was estimated using the World Bank poverty line for upper-middle income countries (\$5.50 PPP) even though the World Bank now considers Panama to be a high-income country, because Panama is a tax haven which increases its GNI per capita relative to the typical income and consumption of households; in addition, Panama's GNI per capita Atlas method (\$14,950 in 2019) is just above the upper limit for upper-middle income countries (\$12,375) and so the World Bank high-income country poverty line of \$21.70 PPP would not be appropriate for Panama. Some readers might want to use a \$6.96 PPP poverty line reported in a World Bank paper by Joliffe and Pyrdz (2016) that helped determine the World Bank's four international poverty lines (\$1.90 PPP for low-income countries; \$3.20 PPP for lower-middle income countries; \$5.50 PPP for upper-middle income countries, and \$21.70 PPP for high-income countries). A \$6.96 PPP poverty line for Panama is much closer to the World Bank's \$5.50 PPP poverty line for upper-middle income countries than to the World Bank's \$21.70 PPP poverty line for high-income countries. ^c Family size of 4 (2 adults and 2 children) was used for expositional purposes to estimate the national rural poverty line wage and the World Bank poverty line wage. This family size is in between: (i) average household size for rural areas of 3.85 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 (ii) the rural total fertility rate adjusted for rural child mortality of 2.46 for 2018 which implies a family size of 4.46. ^d Number of full-time equivalent workers per family of 1.68 is used for expositional purposes to estimate poverty line wages. It was estimated using micro data from 2019 labour force survey on labour force participation rates, unemployment rates, and part-time employment rates for rural males and rural females ages 25-59. This value is similar to the 1.65 estimated using ILOSTAT data for males and females ages 25+. ^e Payroll taxes are 9.75% for social security. Income tax would not be assessed on a living wage, because income tax is not paid on income below \$11,000 per year (\$917 per month). ^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 rural reference family size falls from 6 to 4 with development in Anker living wage benchmark studies). ^g Minimum wage was last increased in 2018. There has been slight (about 1%) deflation since then to 2020. Minimum wage differs by sector, region, and size of establishment. For comparison, minimum wage per month for agriculture sector establishments with 11+

employees (at \$356 per month) used in the wage ladder is slightly less than for banana sector (at \$376 per month). Minimum wages for manufacturing establishments with 16+ employees are much higher (at \$543 for region 1 and \$448 for region 2). Minimum wage is set per hour, and minimum wage per month is determined by multiplying the stipulated per hour rate by 44 hours per week and 4.33 weeks per month. This implicitly assumes that minimum wage workers have paid sick leave, paid public holidays, and paid annual leave. ^h Value of 13th month was added on a prorated value per month to the minimum per hour translated to a monthly minimum wage. ⁱ For expositional purposes, median agricultural wage was estimated as .75 of the average (mean) agricultural wage reported by ILOSTAT. ^j Panama is a dollarized country and so all costs and values are in USD.