

Living Wage Update Report: Rural Kericho, Kenya, 2023

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Abstract:

This report provides updated estimates of family living expenses and living wages for Kericho, one of the main tea growing regions in Kenya. The update for 2023 takes into account inflation and changes in payroll deductions since the original Anker living wage study carried out in June 2022 (Blackmore, Anker, Anker, and Khan, 2022).

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

JEL classifications: J30, J50, J80.

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1. BACKGROUND

This report updates the Anker living wage and family living expenses to 2023 for rural Kericho, one of the main tea growing regions in Kenya. This update takes into account the amount of inflation since the original study in June 2022. This is done by updating the June 2022 net living wage and family living income expenses to June 2023 by inflation. This provides average living wage and living income expenses estimates for 2023. Without accounting for inflation, the net living wage estimated in 2022 would not be sufficient for workers to have a basic but decent standard of living in 2023 because the purchasing power of the living wage would have decreased compared to what it was in 2022. The gross living wage (aka living wage) is updated to 2023 by also taking into account income taxes and mandatory deductions from pay that workers would need to pay on the updated 2023 living wage. This is done using laws in force in June 2023.

2. LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM JUNE 2022

The original living wage country report estimated the net living wage as KES 25,327 (USD 211) in June 2022. 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 KES 26,932 per month (USD 224) in June 2022. The living expenses for a basic but decent standard of living for a reference family in the original country report was estimated as KES 44,068 per month (USD 367) in June 2022 (Blackmore, Anker, Anker, and Khan, 2022).

3. INFLATION RATE USED FOR UPDATE

The Kenya National Bureau of Statistics (KNBS)¹ is the government body responsible for computing and reporting the Consumer Price Index (CPI) of Kenya.² 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 most relevant.

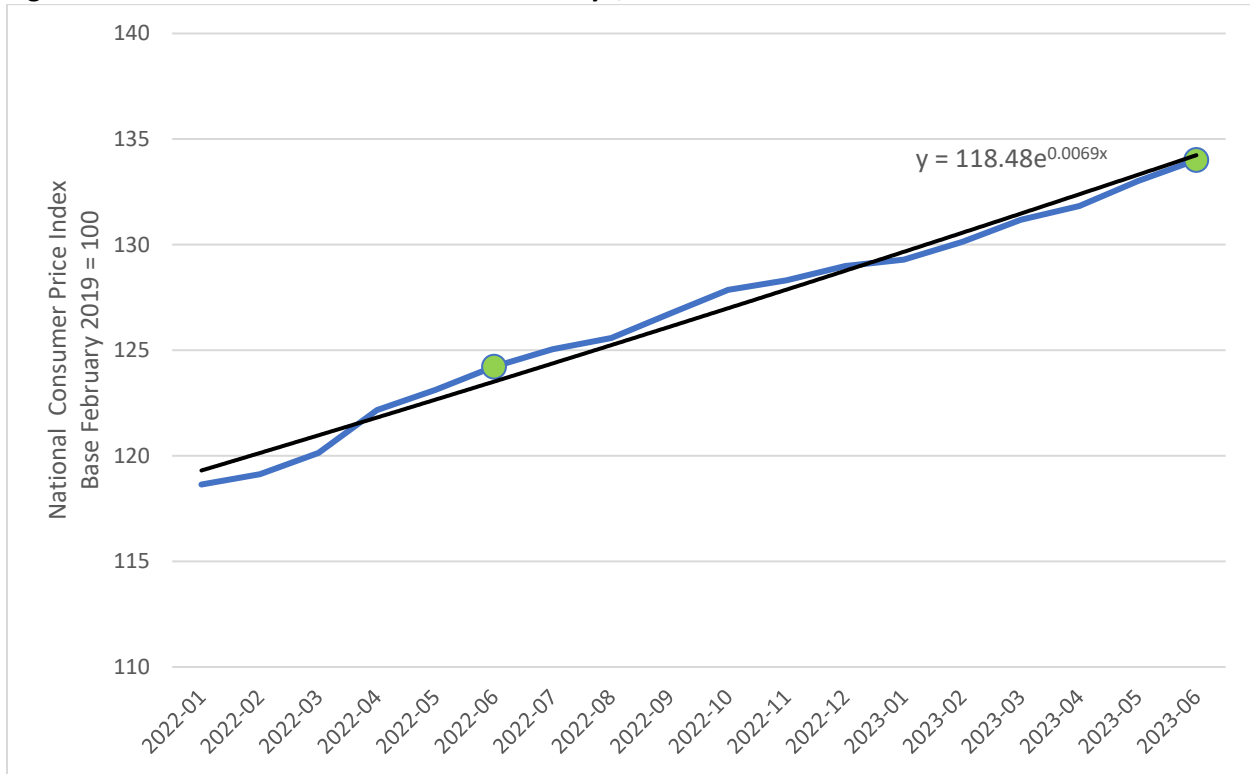
4. RECENT LEVEL OF INFLATION

Between June 2022 and June 2023, inflation amounted to 7.9% in Kenya (see Figure 1). This is the inflation used in this report.

¹ See <https://www.knbs.or.ke>

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

Figure 1: National Consumer Price Index for Kenya, June 2022 to June 2023



Notes: Green dots highlight the months of the original study and updates. Black line is the fitted exponential trendline.
Source: Authors' calculations based on CPI data from KNBS.

5. MANDATORY DEDUCTIONS

In Kenya, workers must contribute to the National Social Security Fund (NSSF) and the National Hospital Insurance Fund (NHIF). Legislation around the (NSSF) contributions has undergone transformation following the enactment of the NSSF Act 2013. The new Act has been implemented in February 2023, and requires a total contribution of KES 1,080 per month during the first year and a contribution of 6% of their wage during the following years.³ This is different from the original study, which still required a contribution of KES 200 per month, following the old NSSF rates.

Regarding the contribution to the (NHIF), in 2023 workers earning a living wage fall into the range from KES 30,000 to KES 34,999, which is subject to a deduction of KES 900.⁴ This is different from the original

³ See <https://www.bdo-ea.com/en-gb/insights/featured-insights/new-nssf-contribution-rates-in-kenya>

⁴ See <https://nasonga.com/new-nhif-rates/>

study, when workers on a living wage fell into a different range and were subject to a deduction of KES 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). Just like in the original study, to determine the amount of income tax due on our updated living wage, we used an online tax calculation tool to calculate the PAYE.⁵ It is important to note that this calculation also takes into consideration a personal tax relief credit for PAYE of KES 2,400 per month, which is granted to resident individuals. It also benefits from a NHIF relief of KES 135. As such, the breakdown of mandatory payroll contributions (NHIF and NSSF) and income tax (PAYE and personal relief) is as follows:

Table 1: Breakdown of mandatory payroll deductions and income tax paid on living wage for 2023

Component	Amount in KES
Net Living Wage	27,323
NSSF	1,080
NHIF	900
PAYE	1,228
Gross Living Wage	30,531

Source: Authors' calculations, based on PAYE calculator.

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2023

The updated family living income expenses for 2023 are KES 47,541 (USD 340) per month. The gross living wage (aka living wage), which takes into account income taxes and mandatory payroll deductions, is KES 30,531 (USD 218) per month for 2023. These are average estimates for the year 2023.

Table 2 provides details of the original and updated living wages and family living expenses.

⁵ See <https://apps.wingubox.com/best-pay-tax-calculator-for-kenya>

Table 2: Living wage for rural Kericho in Kenya (in Kenyan Shilling and US Dollars)

Item	June 2022 Original Study Date		2023 Update Report	
	KES	USD ^a	KES	USD ^a
Family Living Expenses	44,068	367	47,541	340
Net Living Wage	25,327	211	27,323	195
NSSF and NHIF Taxes Deductions on Living Wage	1,050	9	1,980	14
Income Taxes - PAYE Deductions on Living Wage	556	5	1,228	9
Gross Living Wage	26,932	224	30,531	218
Exchange Rate	120		139.83 ^b	
Source of Exchange Rate	Original Country Report		Kenya Central Bank	

Note: ^aUSD exchange rates and values are only indicative because exchange rates are volatile. ^bExchange rate is the average rate for June 2023. Source: Central Bank of Kenya. <https://www.centralbank.go.ke/rates/forex-exchange-rates/>

Source: Authors' calculations.

7. REFERENCES

Blackmore, E., Anker, R., Anker, M., and Khan, A. (2022) Living Wage Report, Rural Kenya, June 2022. Living. Global Living Wage Coalition and Anker Research Institute. Available online: <https://www.globallivingwage.org/living-wage-benchmarks/living-wage-for-rural-kericho-kenya/>