

Challenge Fund for Youth Employment's Living Wage Benchmark

Ethiopia - Addis Ababa & Hawassa

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Recap of methodology

Methodology – Living Wage Benchmark Tool

This CFYE tool has been developed together with New Foresight in a pilot in Uganda and has now been used to get an indication of a reasonable living wage in Addis and Hawassa.

A living wage does not look at the average pay in a certain area but rather at what would be needed for a decent live style. 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.

For this research the youth champions have gathered primary data through a survey to get insights on renting prices, transport or costs for education; and gathered prices of food items of a model diet at markets, supermarkets or street vendors. The primary data, combined with secondary data through desk research led to a recommended living wage in both area's that will be referred to as the 'Living Wage Benchmark'.

Living Wage - definition

A **living Wage** is defined as *“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”*

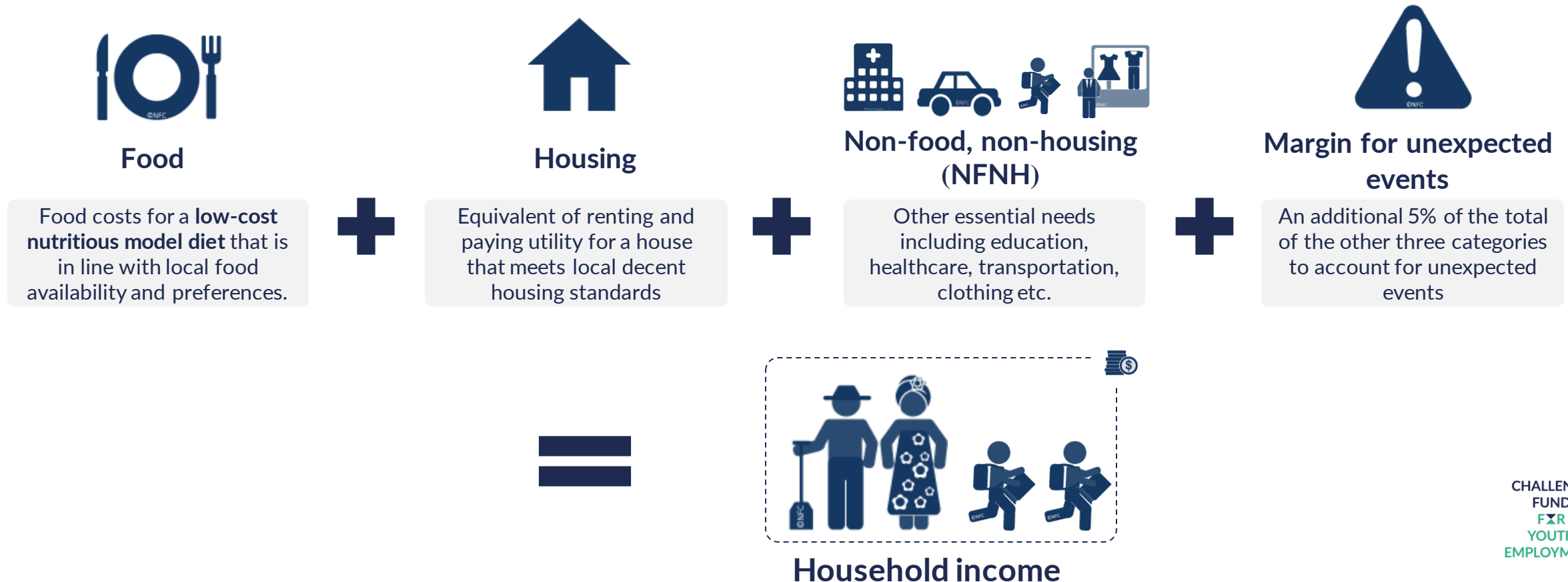
Global Living Wage Coalition, 2018

A **living income** is defined as *“The net annual income required for a household in a particular place to afford a decent standard of living for all members of that household”*

The Living Income Community of Practice, 2019

Methodology – Living Wage Benchmark Tool

The Living Wage benchmark is calculated by considering the minimum amount needed to cover the associated costs of the living income:



Data sources

LEGEND

Primary data

Secondary data

Interview

Assumption



Reference size household

Household size, fertility rate, child mortality, disaggregated by urban vs rural and sub-region [secondary data from the Global Data labs]

Number of workers: LFPR, unemployment rate, part-time employment rate [Secondary data via ILOSTAT database]



Cost of food

Nutritious food items for local model diet [local nutrition expert]

Local Food Price Survey: Local food prices [local consultant at food venues]

Nutritional values of food items: % protein, % fat, % carbohydrates, and percentage of edible part [recommended sources provided in the tool]



Cost of housing

Local standard of decent housing [Local decent housing standard Guideline document]

Optional: Local housing conditions & rent levels [secondary data via available national sources]

Cost of living survey: Cost of decent housing & utilities [local consultant either in person or via phone]



Non-food, non-housing costs

Share of household expenditure [secondary data from International Monetary Fund (IMF) global database. Optional: check national sources for regional adjustments]

Cost of living survey: NFNH questions [local consultant either in person or via phone] for cross-checks



Margin for unexpected events

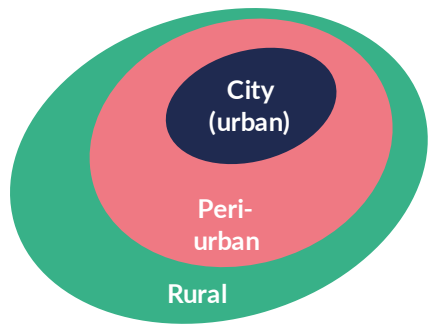
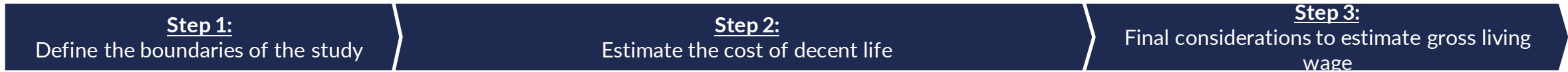
An additional 5% of the total of the other three categories to account for unexpected events



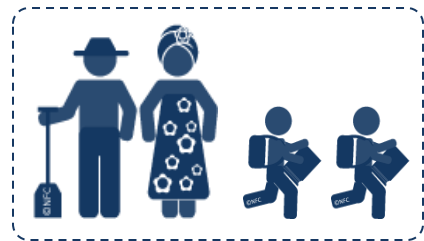
Data collection sources & tools

- Global databases
- *Optional:* National household surveys and census data
- Local nutrition expert Interview Manual & template
- Food price data collection form
- Cost of Living data collection form

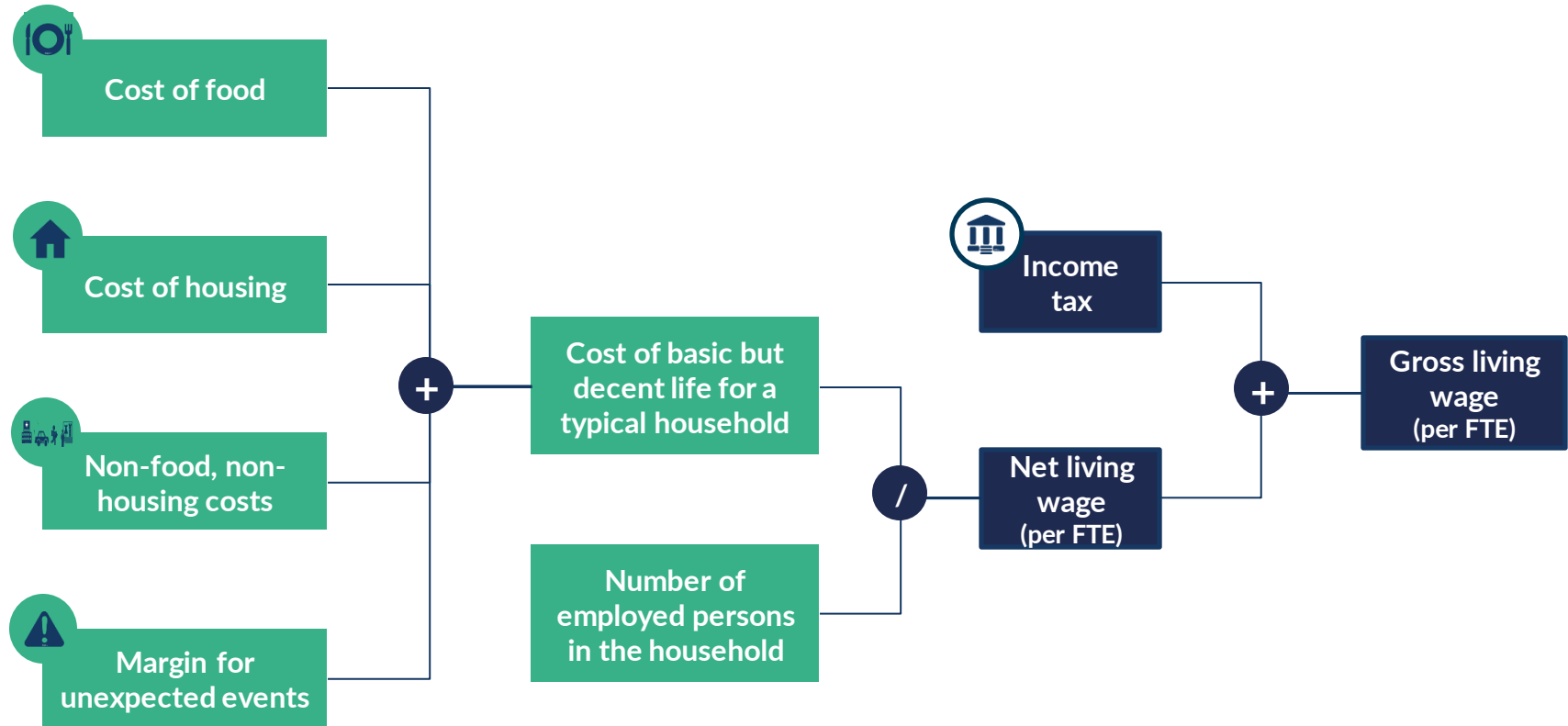
Process of defining household living income (/wage)



Define geographical scope



Establish Reference Size Household



Results Addis Ababa

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EMPLOYMENT

Overall results – Addis Ababa

Costs of basic but decent life for reference household in urban Addis

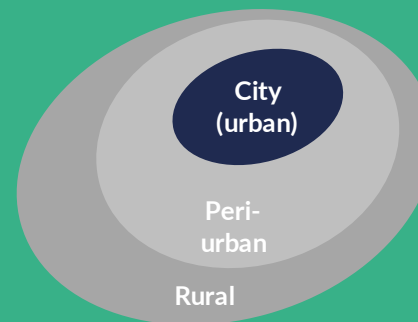
\$ 401 USD/Reference household/month

Reference Household Size



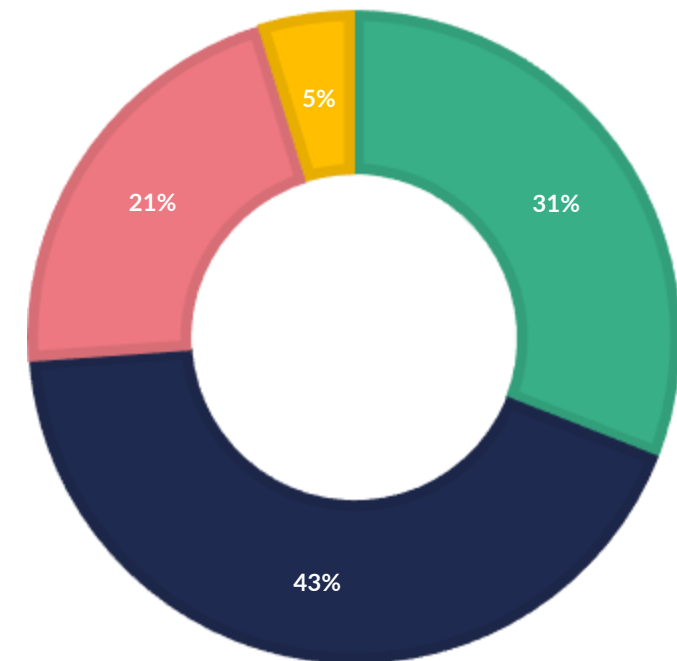
4.4 people
2 adults
2.4 children
1.6 earners

Geographical focus

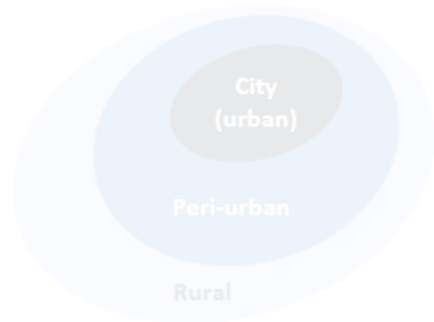
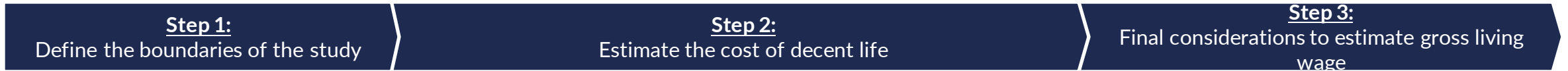


Share of costs

- Housing
- Food
- NFNH
- Margins (unexpected events)



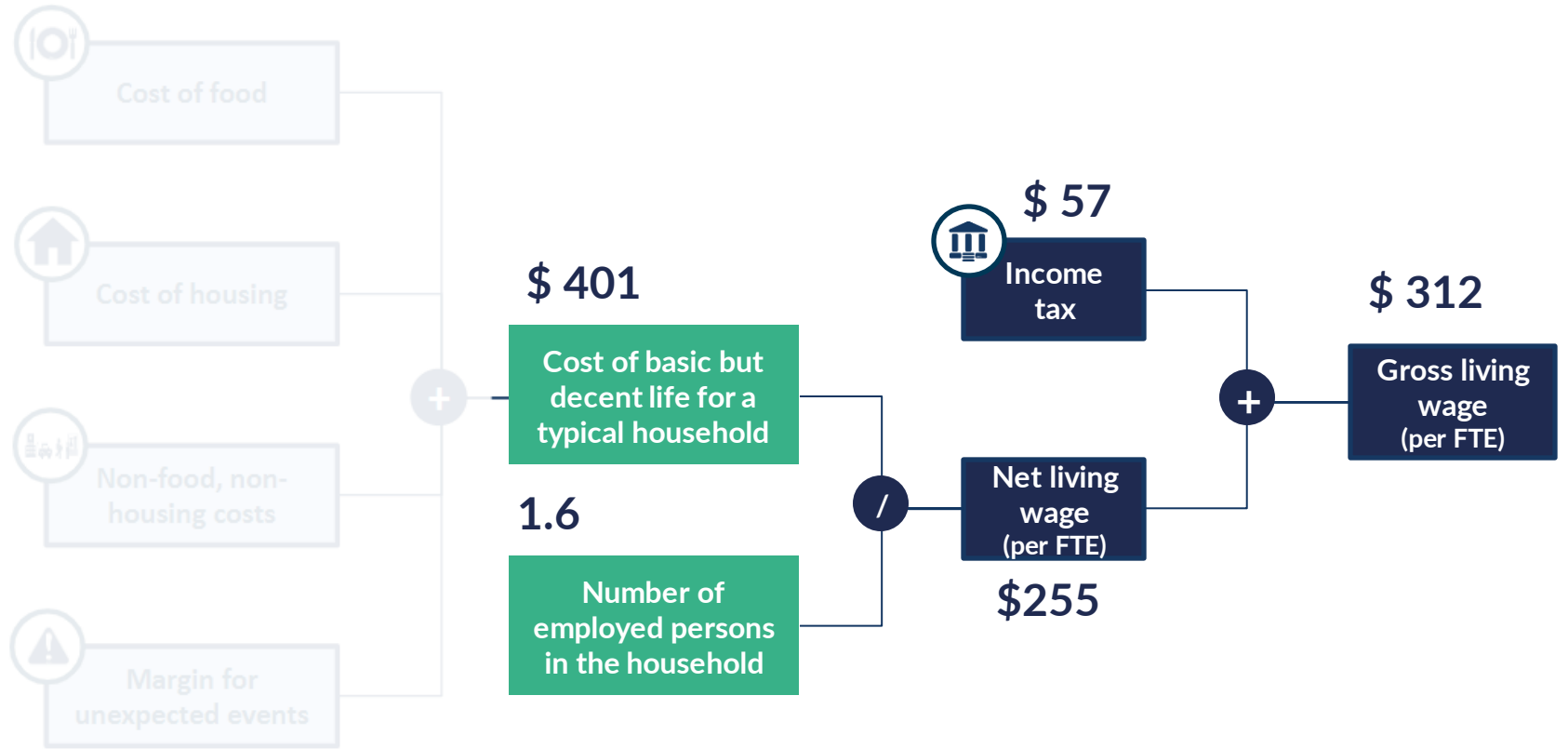
Process of defining household living income (/wage)



Define geographical scope



Establish Reference Size Household



Food costs

Food costs

\$ 172 USD/Reference household/month

Model Diet



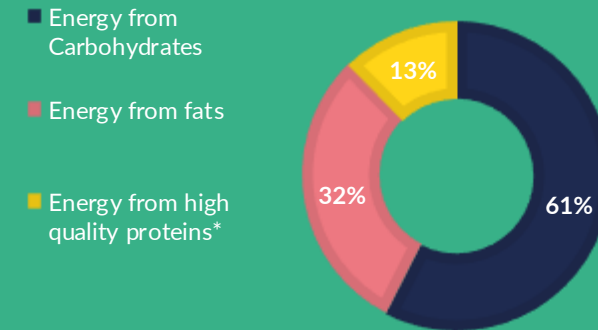
2,426 kcal/day

Sedentary physical activity level

0.82 Adult male equivalent (AME) to female adult

0.75 AME to children

Share of Energy from Model Diet



Model diet in line with recommendations from WHO/FAO:

- It covers all food groups that constitutes a nutritious diet
 - 55%-75% energy from carbohydrates
 - 10-15% energy from high-quality proteins (animal-based proteins, pulses, legumes)
 - 15-30% energy from fats
- It includes cheapest foods in each food groups
- At least 400 grams of vegetables & fruits per day (excluding starchy fruits and tubers)
- At least 56 grams/day for pulses, legumes & beans
- Includes local preferences and takes into account local availability
- Includes 15% additional cost to account for variability

Housing costs

Housing costs

\$ 124 USD/Reference
household/month

Decent Housing Standard

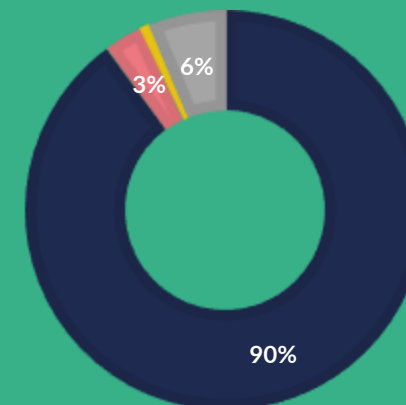


Min 6m² per person

Meets local decent
housing standards

Share of Housing Costs

- Rent
- Electricity
- Water
- Cooking Fuel



Calculations for estimating the housing costs only included survey participants that met the local decent housing standards:

- Mandatory criteria:
 - Living space: 2 or less persons per room excluding kitchen and toilet and bath (or at least 6 m² per person)
 - Durable floors: Permanent floor materials (e.g., mud, earth, and thatch are unacceptable)
 - Durable roof structure: Permanent roof materials (e.g., zinc or iron sheets, cement, tile) without leaks
 - Durable walls: Permanent walls materials (e.g., brick, cement, stone) without holes or damages
- Additional criteria (3 out of 4 must be met):
 - Safe toilet: Safe toilet in or near house. Pit latrine without slab or open pit is unacceptable
 - Access to water: Safe water in or near house (max distance 5 km)
 - Adequate cooking facilities: Adequate ventilation required if kitchen is inside house (minimum of a window in the kitchen)
 - Availability of electricity: Access to fuels (or grid) to use electricity for adequate lighting

Non-Food Non-Housing costs

Non-Food Non-Housing costs

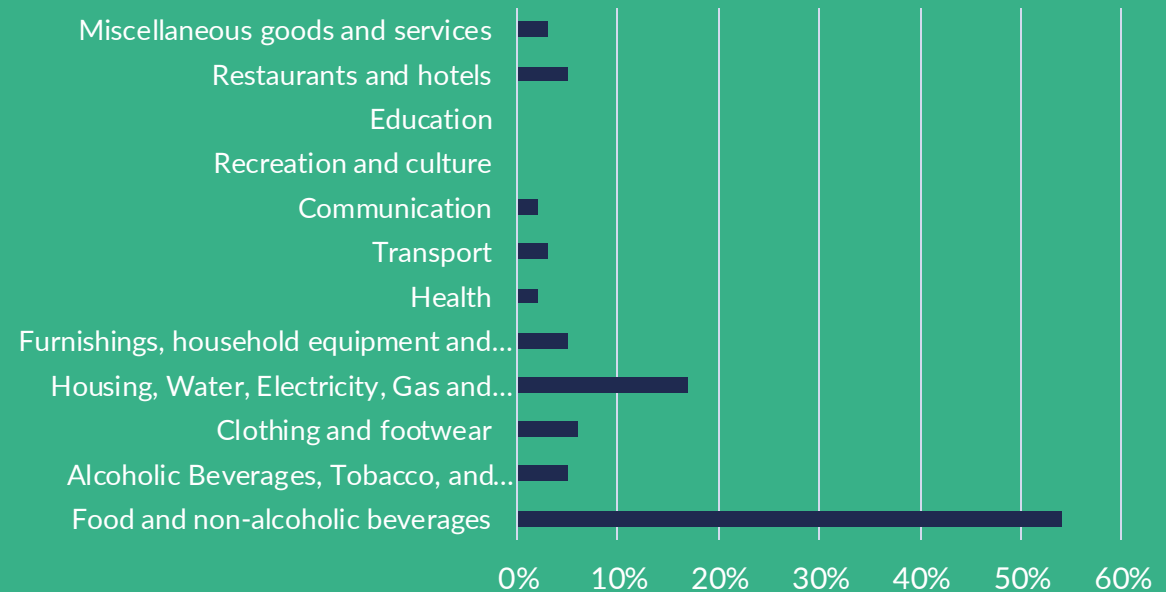
\$ 86 USD/Reference
household/month



0.45 NFNH to Food ratio

Adjusted based on primary data

Share of Non-Food Non-Housing Costs*



Considerations:

- Calculation include 0 -0.25 deviation factor based on post-checks with primary data on education, healthcare and transportation costs

*Source: Consumer Price Index, International Monetary Fund, Retrieved from:
<https://data.imf.org/regular.aspx?key=61015892>

Emergencies and Taxes

Margins for unexpected events

\$ 19 USD/Reference

household/month

→ Additional 5% buffer on top of cost of decent living (Anker Methodology)

Income Tax

\$ 57 USD/Reference

household/month

→ Based on taxable income pay levels

Results Hawassa

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Overall results - Hawassa

Costs of basic but decent life for reference household in Peri-Urban Hawassa

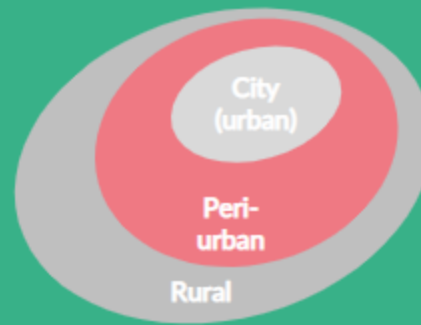
\$ 440 USD/Reference household/month

Reference Household Size



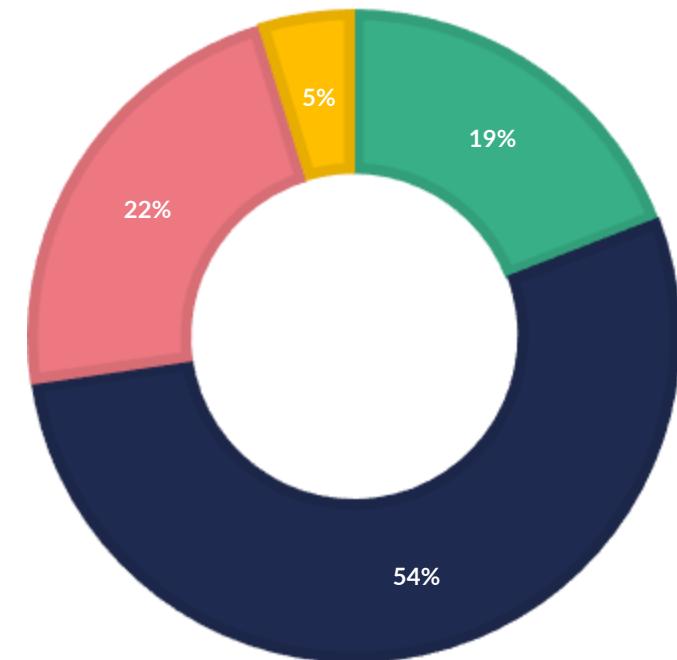
5.9 people
2 adults
3.9 children
1.6 earners

Geographical focus

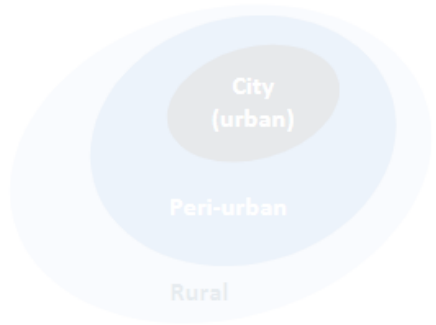
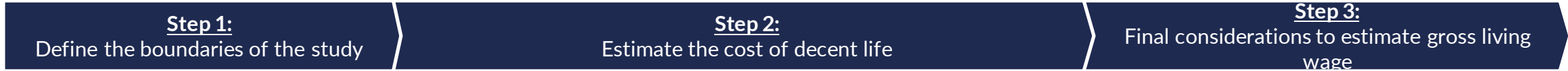


Share of costs

- Housing
- Food
- NFNH
- Margins (unexpected events)



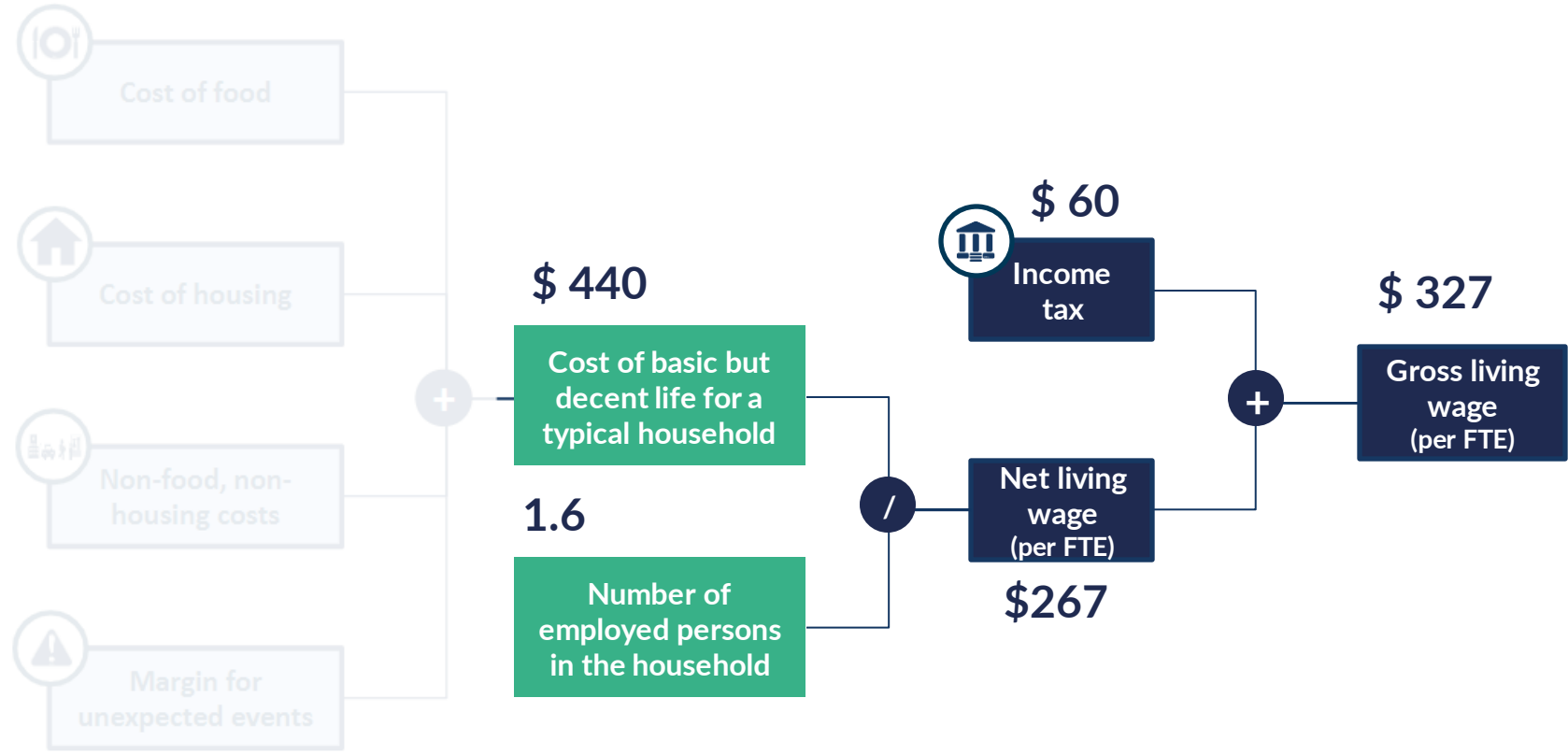
Process of defining household living income (/wage)



Define geographical scope



Establish Reference Size Household



Food costs

Food costs

\$ 236 USD/Reference household/month

Model Diet



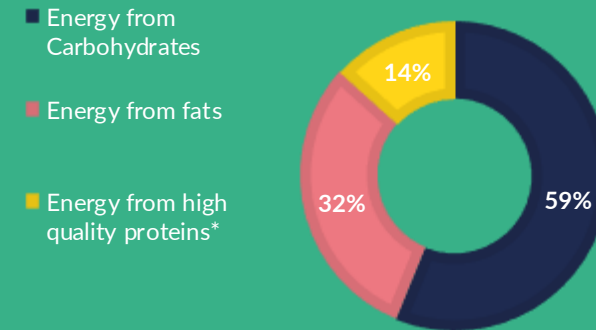
2,426 kcal/day

Sedentary physical activity level

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- At least 56 grams/day for pulses, legumes & beans
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Housing costs

Housing costs

\$ 84 USD/Reference
household/month



Local Housing Standard

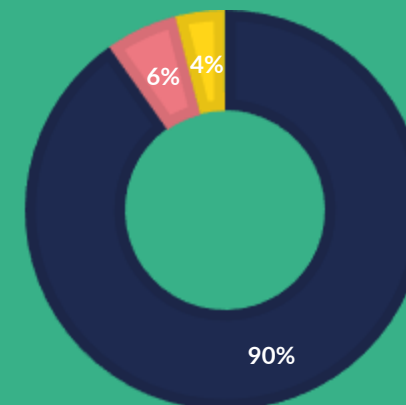
2 persons per room (max)

Meets local decent

housing standards

Share of Housing Costs

- Rent
- Electricity
- Water
- Cooking Fuel



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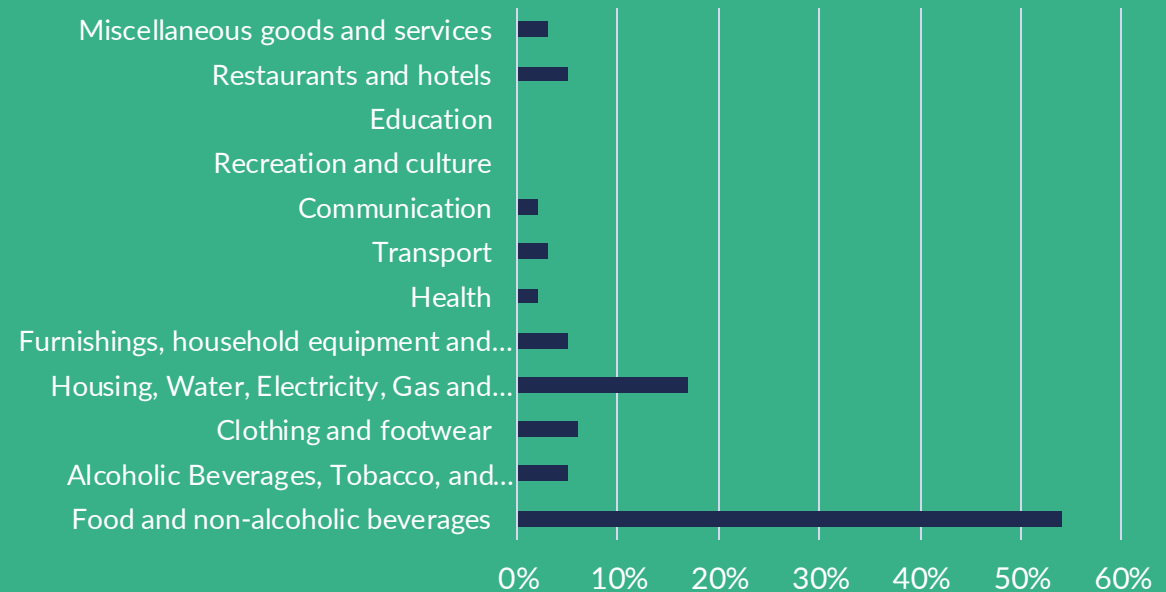
\$ 99 USD/Reference
household/month



0.45 NFNH to Food ratio

Adjusted based on primary data

Share of Non-Food Non-Housing Costs*



Considerations:

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*Source: Consumer Price Index, International Monetary Fund, Retrieved from:
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Emergencies and Taxes

Margins for unexpected events

\$ 21 USD/Reference

household/month

→ Additional 5% buffer on top of cost of decent living (Anker Methodology)

Income Tax

\$ 60 USD/Reference

household/month

→ Based on taxable income pay levels

Key conclusions

- ✘ LIB for a typical family in peri-urban Hawassa (2 adults + 3.9 children) was estimated at \$440 USD/month, which gives a gross living wage of \$327 USD/month for a family with 1.6 earners
- ✘ LIB for a typical family in urban Addis (2 adults + 2.4 children) was estimated at \$401 USD/month, which gives a gross living wage of \$312 USD/month for a family with 1.6 earners
- ✘ Housing is more expensive in Addis, more urban setting with smaller accommodations
- ✘ Food Costs in Hawassa seem to be more expensive
 - ✘ prices were 5% higher in Hawassa , this was also confirmed in additional research (spot-checks and interviews)
 - ✘ Household size is bigger in Hawassa, leading to a higher price for the family

Limitations

- ✘ For the rent prices in Addis the data collected were mainly from higher middle-income houses which are not affordable for the youth that the challenge fund is targeting, therefore we looked for additional data from housing agents for smaller and more affordable accommodations (service quarters and condominium flats).
- ✘ As price per m² is usually cheaper with bigger houses the overall costs were lower with the big houses (\$74 compared to \$124)
- ✘ For Addis the decent housing criteria of min. 6 m² per household member was used, while in Hawassa the criterion of max 2 members per room was used
- ✘ Generally, the food costs seem relatively high compared to other research, this can partly be explained by high inflation rates in recent years (which hit 42% recently)¹
- ✘ Overall living wage is close to results from the living wage indicator suggesting an income between \$303-395, but significantly higher than a similar research done in the Ziway region in 2019 (\$225 per household); inflation rate in 2019 has been 15% and 20% in 2020², therefore explaining an increase of 35% (\$77)