

Executive summary

Living Wage for rural Malawi with Focus on Tea Growing area of Southern Malawi

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BACKGROUND

This report estimates a living wage for rural Malawi for January 2014 with a focus on tea growing region in Southern Malawi. It uses a new methodology developed by the authors that has been used to estimate a living wage in 10 countries and for urban and rural areas.¹

The idea of a living wage is that wages should be sufficient to ensure that workers and their families are able to afford a decent basic life style considered acceptable by society at its current level of economic development. The living wage definition adopted by six standard setting organizations and ISEAL (see footnote) is:

“Remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living of the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, healthcare, transport, clothing and other essential needs including provision for unexpected events.”

LIVING WAGE ESTIMATE

Our estimate of a living wage for rural Malawi for January 2014 is K1,531 (\$3.6) per day (K35,222 or \$81.9 per month) when no in-kind benefits are provided. When workers receive common in-kind benefits including lunch on workdays, health clinic, school building and crèche, and recreational services, the cash wage required for a living wage is K1,408 (\$3.3) per day.

Malawi context affecting living wage estimate and its interpretation*High poverty rates*

Malawi is one of the poorest countries in the world, and rural areas in Malawi are poorer than urban areas. Fifty-three percent of people in rural Malawi live below the national poverty line, and 62% live below the World Bank's extreme poverty line, and approximately half of children are stunted. This high level of poverty means that the standard of living afforded by a living wage will be low viewed from an international perspective, because a living wage is based on what people in a particular time and place view as decent. This also means that a living wage will be high compared to current wages because there are universal rights and standards in 21st century that include nutritious food, healthy housing, and rights to education for children and health care for families.

¹ The present study was commissioned by Fairtrade International, Rainforest Alliance and UTZ Certified. Oxfam and Ethical Tea Partnership (ETP) also provided support. This was the third pilot study done as part of the “Shared Approach to Living Wage” memorandum of understanding between six standard setting organizations (Fairtrade International, Rainforest Alliance and UTZ Certified, Forestry Stewardship Council (FSC), Goodweave, and Social Accountability International) together with ISEAL. This memorandum commits these organizations to “a common definition of living wage and ... a common methodology to estimating living wage levels ... with long term goal and shared mission to see improvements in workers’ conditions, including wage levels, in the farms, factories and supply chains ... by seeking support from brands, buyers, and retailers to make wage growth possible at the primary production level possible and ... working together with the relevant stakeholders.”

Devaluation and high inflation

Malawi has experienced very high inflation, very large currency devaluation, and erratic currency fluctuation in recent years. Inflation exceeded 20% in both 2012 and 2013, and the kwacha fell from 164 to USD in 2012 to 430 to USD in 2014. Kwacha exchange rate now fluctuates wildly. This greatly affects individuals as well as companies, especially export-oriented companies such as tea estates. Note that although devaluation increases living costs for workers, it reduces labor costs in USD for tea estates.

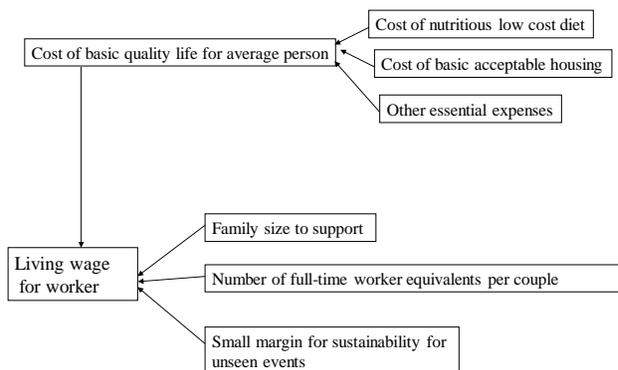
Few job opportunities and importance of tea estate employment

There are few wage or salary jobs available in rural Malawi with most workers are subsistence farmers. Only 6% of workers in rural Malawi are wage or salary workers. Tea estates are a major employer (employing around 50,000 workers) and so important to the rural labor market in Malawi, especially Southern Malawi. In addition, tea estate wages are higher than the statutory minimum wage when one takes into consideration that tea estate workers receive bonuses, overtime, and in-kind benefits. All of this means that survival of tea estates in Malawi is very important for rural families. A thriving tea industry that invests and improves productivity and quality so that higher tea prices are possible is important for workers, since this increases the ability of tea estates to pay higher wages.

HOW LIVING WAGE WAS ESTIMATED

Our estimate of a living wage is based on cost for a family of a nutritious diet, basic decent housing, and all other essential needs at a decent level. A small margin above this total cost of a basic but decent life style is then added to help ensure that unforeseen events such as illnesses and accidents do not easily throw workers into poverty they cannot get out of. This total cost which is mostly per person at this point is scaled up for a typical family size and then defrayed over number of full time workers in a typical family (see figure 1).

Figure 1: Flow chart on how to estimate a living wage



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Considerable thought and effort was put into making our living wage estimate. This included visits of the research team to workers' houses and markets where workers shop for food; focus group discussions with tea estate workers; in-depth discussions with tea estate managers; group meetings and discussions with TAML; discussions with government officials concerned with poverty and labor issues; discussions with various key informants including NGOs, trade union officials, university professors, architects and others. This also included many papers, reports and statistics from researchers, government agencies, and international organizations.

COST OF BASIC BUT DECENT LIVING STANDARD

Food cost

Cost for a nutritious diet in rural Malawi was estimated to be K1,055 (\$2.5) per day for a family of 5 persons (2 adults and 3 children). This was estimated using a model diet and local food prices. This model diet meets World Health Organization minimum standards for nutritional needs such as for calories, proteins, fats, carbohydrates as well as being consistent with food preferences and habits in rural Malawi. To estimate cost of our model diet, local researchers collected food prices from places where workers typically shop which is mainly in large weekly or biweekly open air markets. They visited six large open air markets, two smaller markets, and several tuck shops on the side of the road. In this way, we are able to estimate the cost our model diet using food prices that workers actually pay. To keep food costs down, we included only low cost nutritious foods in our model diet (e.g. sun dried small fish that are eaten whole including head and bones, least expensive fruits and vegetables per kilo, locally available cooking oil, and inexpensive varieties of beans).

Housing cost

Housing costs were estimated by summing the cost of: (i) rental equivalent value of a basic acceptable dwelling; (ii) utility costs (water, lighting, and cooking fuel); and (iii) routine repairs and maintenance. The usual way to obtain the cost of a decent house is by first defining what a decent house is in the local area, and then finding out what it costs to rent such a house. We used locally adapted Rainforest Alliance standard for housing agreed to by TAML as our standard of adequacy. This was a small house in reasonable condition with cement floor, brick walls, zinc roof without leaks, sufficient number of windows and adequate ventilation and lighting, potable water not far from house, pit latrine in good condition near house, and 3 rooms with total of approximately 30 square meters of living space. As very few tea estate workers rent, we were not able to obtain rental costs. Instead, we obtained information on cost of building a basic acceptable house that met our standard from HABITAT for Humanity as well as from tea estates that had recently built new houses to meet the locally adapted Rainforest Alliance standard agreed to by TAML. We estimated cost of basic decent housing for rural Malawi as K6,500 (\$15.1) per month – K4,500 (\$10.5) for rental equivalent value of housing, K1,200 (\$2.8) for firewood for cooking, K600 (\$1.4) for lighting, and K200 (\$0.50) for minor repairs.

Other essential expenses

Total cost for all non-food and non-housing needs for a living wage was estimated at K13,365 (\$31.1) per month for a family of five. This covers clothing and footwear; household furniture, contents and appliances; health care; education; transportation; communications; recreation and culture; eating away from home; and miscellaneous goods and services such as insurance, funeral burials and personal care. It is worth noting that to estimate other essential expenses we deviated from the typical extrapolation methodology based on Engel's law. After using



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Engel's law to make a preliminary estimate of the cost of other essential needs, we looked more carefully at cost for acceptable health care and children's education to make sure that sufficient funds are available for these because they are considered rights throughout the world. Based on this in-depth analysis, we increased funds for other essential needs in our living wage.

Margin above cost of a basic quality life to help enable sustainability

Since large unforeseen events such as illnesses, HIV/AIDS, accidents, and funerals can throw workers living at a basic life style into poverty and debt from which they may not be able to recover, it is usual when estimating a living wage to add a small margin above cost of a basic quality life for unexpected events and discretionary spending. For this reason, we added a 5 percent margin. This worked out to be K2,595 (\$6.0) per month.

Family size needing to be supported

We use a family size of 5 persons (two adults and 3 children) to estimate our living wage for rural Malawi. This family size is a conservative assumption that is consistent with: (i) number of children rural women typically have and (ii) average household size in rural areas. Note that we include K1,500 (\$3.5) per month (equal to around 1 workday at a living wage) to allow workers to help less fortunate relatives. This was felt to be necessary, because of the admirable African tradition of sharing resources, as workers with wage income in Malawi (especially those earning a living wage) have little choice but to help relatives and these funds enable them to do this without impoverishing themselves. Including this small additional fund helps to justify our decision to use a family size of 5 persons rather than a larger family size of 5.5 or 6.

NUMBER OF FULL-TIME WORKERS PER COUPLE PROVIDING SUPPORT

As living wage is a family concept, it is appropriate to expect more than one adult in the family to work to provide support through work. However, it is not appropriate to expect two full time workers per couple in every family in rural Malawi. Many adults in rural Malawi cannot find work around the year, particularly in non-peak seasons; many adults with small rain-fed farms typically work only part of the day most of the year; and some adults are full-time care givers for children or parents. Based on available data on (i) age and sex specific labor force participation rates, (ii) unemployment rates, and (iii) typical number of hours of work, we estimated that 1.59 full-time equivalent workers per couple is appropriate to estimate a living wage for rural Malawi.

IN-KIND BENEFITS

Workers receive various in-kind benefits that reduce their need for cash income. To be considered as partial payment of our living wage, in-kind benefits needed to be: (i) regular so that worker can count on receiving the benefit; (ii) considered to be of benefit and value to workers for their personal use or their family's use; (iii) customary in that a reasonable number and percentage of estates provide the benefit; (iv) meet minimum acceptable standard because of the decency concept of a living wage; and (v) received within 12 month period because current disposable income is required to support a decent life style. Tea estates in Malawi provide in-kind benefits that meet criteria indicated above. These include free meals at work, free housing on estate property, health clinic, recreational services, crèche, and school facilities.

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To estimate a fair and reasonable value for each in-kind benefit as partial payment of our living wage, we set rules that balance the interests of workers and estates. For example, value of in-kind benefit could not exceed its cost to tea estate to prevent estate from profiting on in-kind benefits; and value of in-kind benefit should not exceed its replacement cost to workers if benefit had to be purchased. We estimated that free meals provided by tea estates were worth on average around K75 per day as partial payment of living wage. Although free housing is potentially of considerable value to workers, most tea estate workers live off farm and for those who live on-farm tea estate managers indicated that only a small proportion of their housing meets the locally adapted Rainforest Alliance/TAML standard at present although there are on-going plans to improve estate housing. This means that free tea estate housing is not an important in-kind benefit from a living wage perspective at present. For the relatively few workers who receive free decent housing, we used a value of K4,500 as this was the replacement cost of acceptable housing that we estimated. Health care provided by estates is of great value to workers and their families. We estimated this cost tea estates around K700 per month (\$1.6) per month per worker based on information on costs of tea estate clinics provided to us by tea estates and TAML. Other in-kind benefits provided by tea estates that we considered as partial payment of our living wage included burial expenses that we valued at K2,200 (\$5) per worker per year; support for tea estate football team that we valued at K4,200 (\$9.8) per worker per year; and school maintenance and provision of a crèche for young children that we valued at K2,000 (\$4.6) per year. In addition for tea estates that purchase maize at harvest time when its price is low and sell this maize to workers at cost when price of maize is high before a new harvest, we valued this service at K5,300 (\$12.3) per worker per year.

COMPARING OUR LIVING WAGE TO MINIMUM WAGE, PREVAILING WAGE IN TEA SECTOR AND OTHER WAGE INDICATORS: WAGE LADDER

Prevailing wages on tea estates

Despite the fact that there is a TAML (Tea Association of Malawi) basic minimum daily wage of K560 per day for all tea workers, income of tea estate workers is quite variable. It depends on amount of work available and possibilities for bonuses or overtime. Income of workers varies by: (i) season, (ii) year, (iii) tea company, (iv) estate within company, (v) type of worker (plucker, factory worker, field worker), and (vi) whether worker is a seasonal or permanent worker. Not only does amount earned per day by workers vary with the season, but in addition, number of days of work per week is also seasonal. Most permanent workers do not have 6 days of work each week during the seven month long low season. For this report, we considered that workers work 23 days per month on average throughout the year (6 days per week in high season and less than 5 days per week in low season).

With this complexity for earnings in mind, we made rough estimates of wages for permanent workers. We estimated an average wage of K841 per day worked or K19,343 per month for permanent tea pluckers and an average wage of K715 per day worked or K16,445 per month for permanent tea field workers. This implied K839 and K965 per day worked respectively after including fair and reasonable values for in-kind benefits commonly provided by tea estates.

Tea estate wages have increased recently

It is important to note that tea estate wages in Malawi have increased over the past 10 years. Real wages in kwacha (i.e. wages adjusted for reported inflation) have increased significantly in the past 10 years - small

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increase from 2004 to 2012 and big increase since then. This means that although there is still far to go before workers on tea estates receive a living wage, tea estates have made significant progress in recent years to improve wages of workers. Wages have also increased steadily in USDs over the past 10 years and have more than doubled in USD (the important metric for tea estates because tea is exported and priced in USD).

Wage ladder

Our living wage (K1,531) is much higher than minimum agricultural wage (K551), TAML basic wage (K560) and TAML prevailing wages for permanent workers including fair and reasonable value for common in-kind benefits (around K839-K965). Our living wage is also much higher than wages implied by the national poverty line and the World Bank's extreme poverty line (K728 and K776 respectively). Pay of government worker with lowest grade (K1,171), and World Bank's poverty line (K1,241) are not that much lower than our living wage. Our living wage is lower than the amount the United Nations Special Rapporteur on Right to Food indicated as necessary to be able to afford only nutritious food (K1,772) and the Center for Social Concern's basic needs basket for Blantyre (K2,934). It is not surprising that our living wage is so much higher than poverty lines and prevailing wages, since Malawi is a poor country with strikingly poor health and living conditions.

CONCLUSIONS AND POSSIBILITIES FOR IMPROVING WAGES OF TEA ESTATE WORKERS

As demonstrated in this report, tea estate wages in Malawi are too low at present to support a decent life style. This is despite large recent increases in wages and the conservative assumptions we used to estimate our living wage.

This situation needs to be viewed in context. Malawi is the 8th poorest country in the world. And, tea estate jobs are relatively good jobs for rural Malawi. Not only are they among the few jobs available, they also pay more than statutory agricultural minimum wage.

How quickly wages can be increased by tea estates in future needs to be carefully considered. One would not want wages to increase so rapidly that they threaten the viability of the tea industry. On the other hand, tea is an internationally traded good bought by people in high income countries who expect minimum standards such as those in codes of practice of standard setting/certification organizations -- which means that wages on tea estates need to increase. This could be done with a plan of action that increases wages at a sustainable pace. Involving the entire value chain in this is essential, because tea estates do not have the ability to raise wages to a living wage all on their own.