

Trends in compliance and enforcement in developing world

Uma Rani, International Labour Organisation, Geneva

Presented at the Invited academic Panel

Minimum wages in developing countries: Impact amidst imperfect enforcement

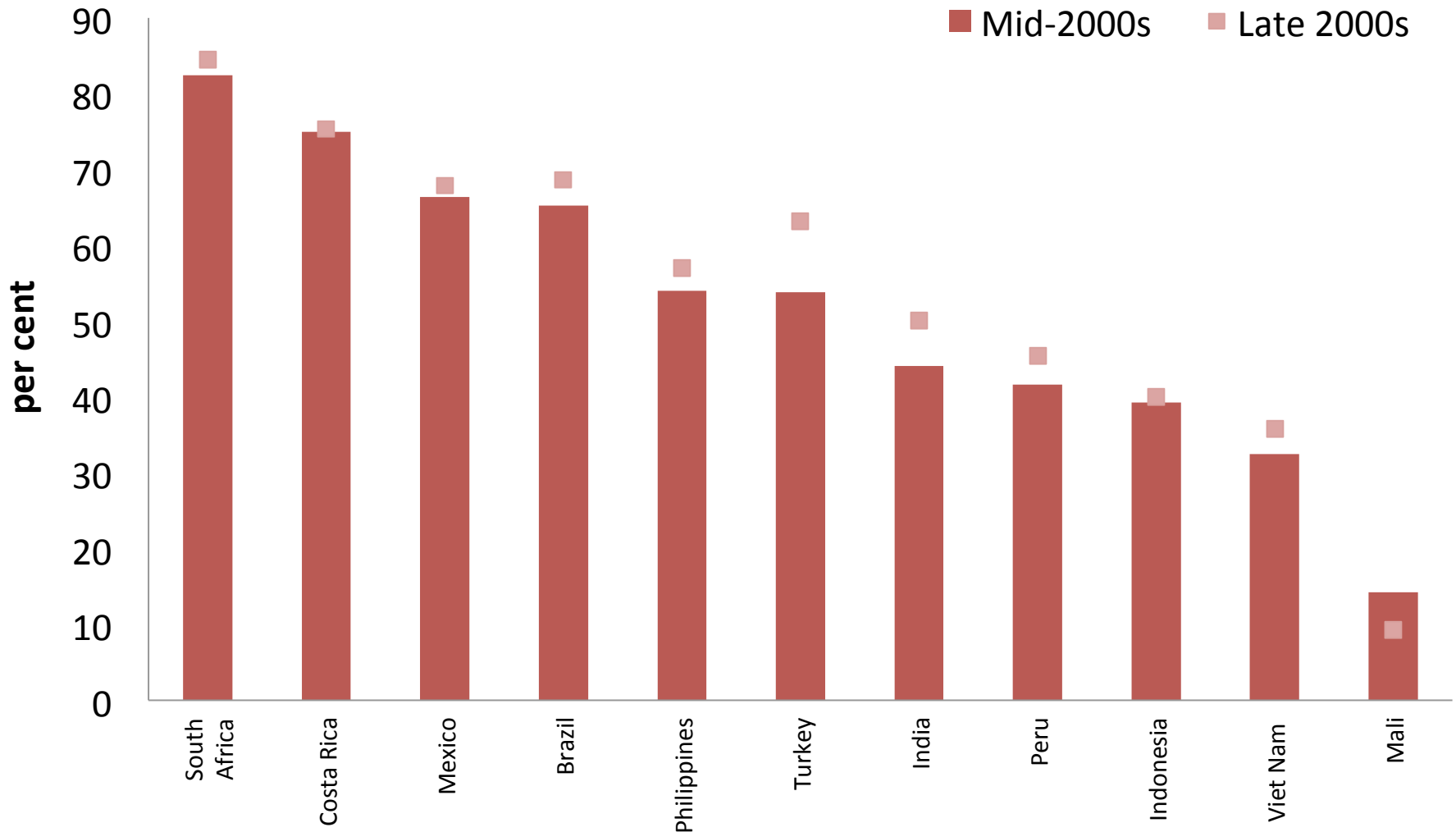
International Economic Association, Mexico June 22nd 2017

Address two questions

- What are the gaps in minimum wage coverage and compliance across a diverse group of developing economies?
- What strategies have succeeded in improving the compliance in developing economies?
 - Analysis based on 11 developing economies in Asia, Africa and Latin America
 - With different institutional settings, systems of minimum wages, levels of development and varying proportion of minimum wage workers

Relevance of minimum wages

Proportion of paid employment in developing countries



Rani, U.; Belser, P.; Oelz, M.; Ranjbar, S. (2013) "Minimum wage coverage and compliance in developing countries" *International Labour review*, Vol. 152, Nos.3-4.

Data sources, countries and time period

Country	Data source	Years
Brazil	Pesquisa Nacional por Amostra de Domicílios (PNAD), IBGE	2005 and 2009
Costa Rica	Encuesta de Hogares de Propósitos Múltiples, INEC for 2005; Encuesta Nacional de Hogares (ENAHO), INEC for 2010	2005 and 2011
India	Employment–Unemployment Survey, NSSO, Government of India	2004–05 and 2009–10
Indonesia	National Labour Force Survey (Survei Angkatan Kerja Nasional) (SAKERNAS), BPS-Statistics	2005 and 2009
Mali	Enquête Permanente Emploi Auprès des Ménages (EPAM)	2004 and 2010
Mexico	Encuesta Nacional de Ocupación Y Empleo (ENOE), INEGI	2005 and 2010
Peru	Encuesta Nacional de Hogares, INEI	2005 and 2010
Philippines	Labour Force Survey, National Statistics Office	2003 and 2009
South Africa	Labour Force Survey, Statistics South Africa for 2007, Labour Market Dynamics (LMD) Survey for 2011	2007 and 2011
Turkey	Household Labour Force Survey, Turkish Statistical Institute	2005 and 2011
Viet Nam	Labour and Employment Survey, General Statistics Office, Ministry of Planning and Investment	2007 and 2011

Methodology

- Scoping: Recent labour legislations, labour codes, wage decrees, sectoral wage determinations, etc.
 - Broad national wage systems (with possible exceptions)
 - Complex (and partial) system for certain selected industries, occupations or sectors
- To identify workers who are covered:
 - the categories of workers covered by minimum wage legislation are matched with employment data from labour force or household surveys
 - Ex.: If minimum wages applies to all workers except domestic workers, then
 - Coverage = Ratio of non-domestic to total employment
(using LF or HH Surveys)

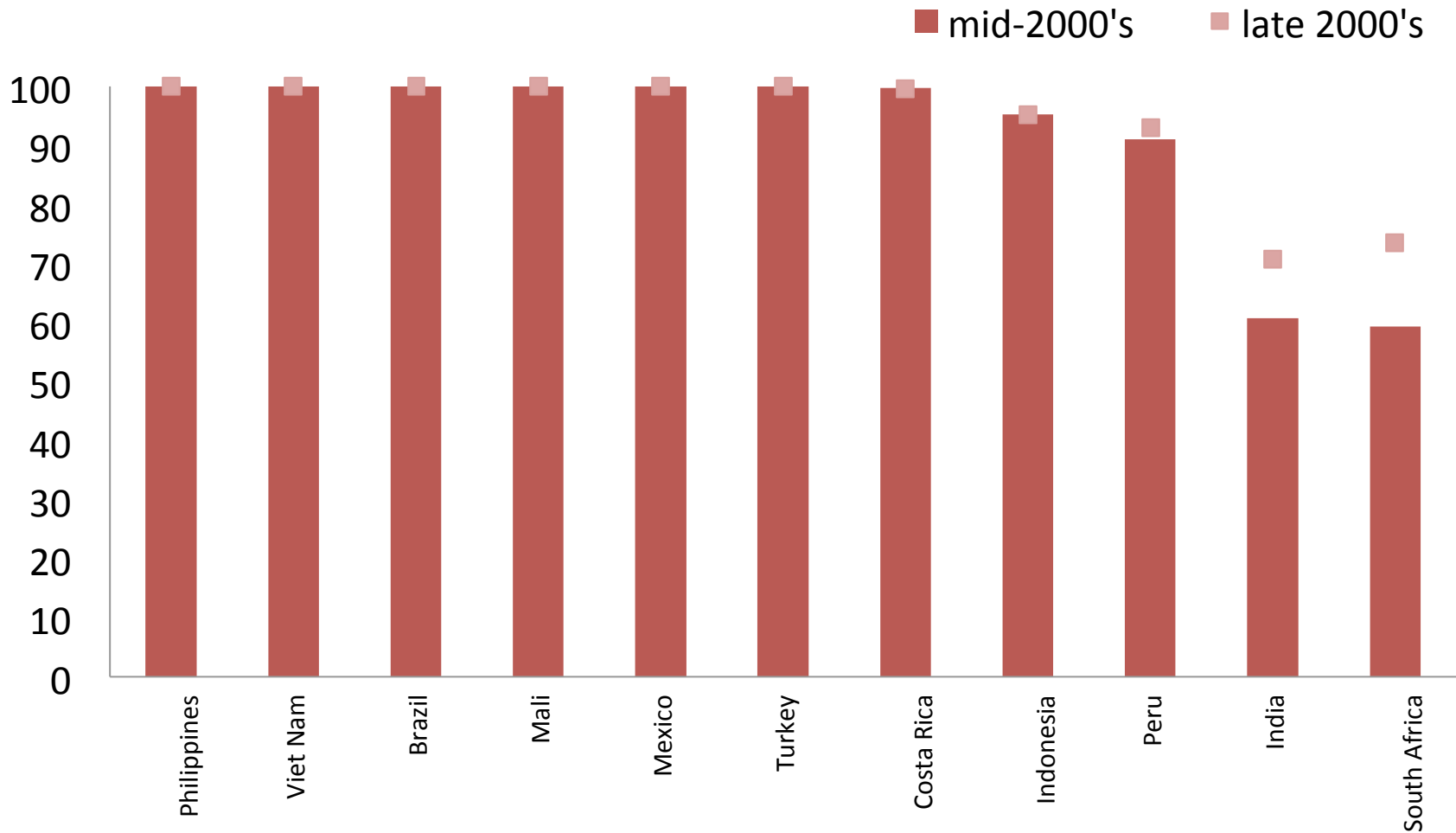
Minimum wage systems

Multiple vs. single national minimum wage

- Simple national minimum wages (Brazil, Mali, Turkey, Viet Nam)
- Complex and partial system of minima that apply only to selected industries or occupations (India, South Africa)
- Universal with exceptions (Indonesia, the Philippines)
- Hybrid systems - Universal minimum wages with complex structures (Costa Rica, Mexico, Peru)

It has an impact of the effectiveness of the system and improve compliance

Legal coverage of minimum wage legislation in developing countries

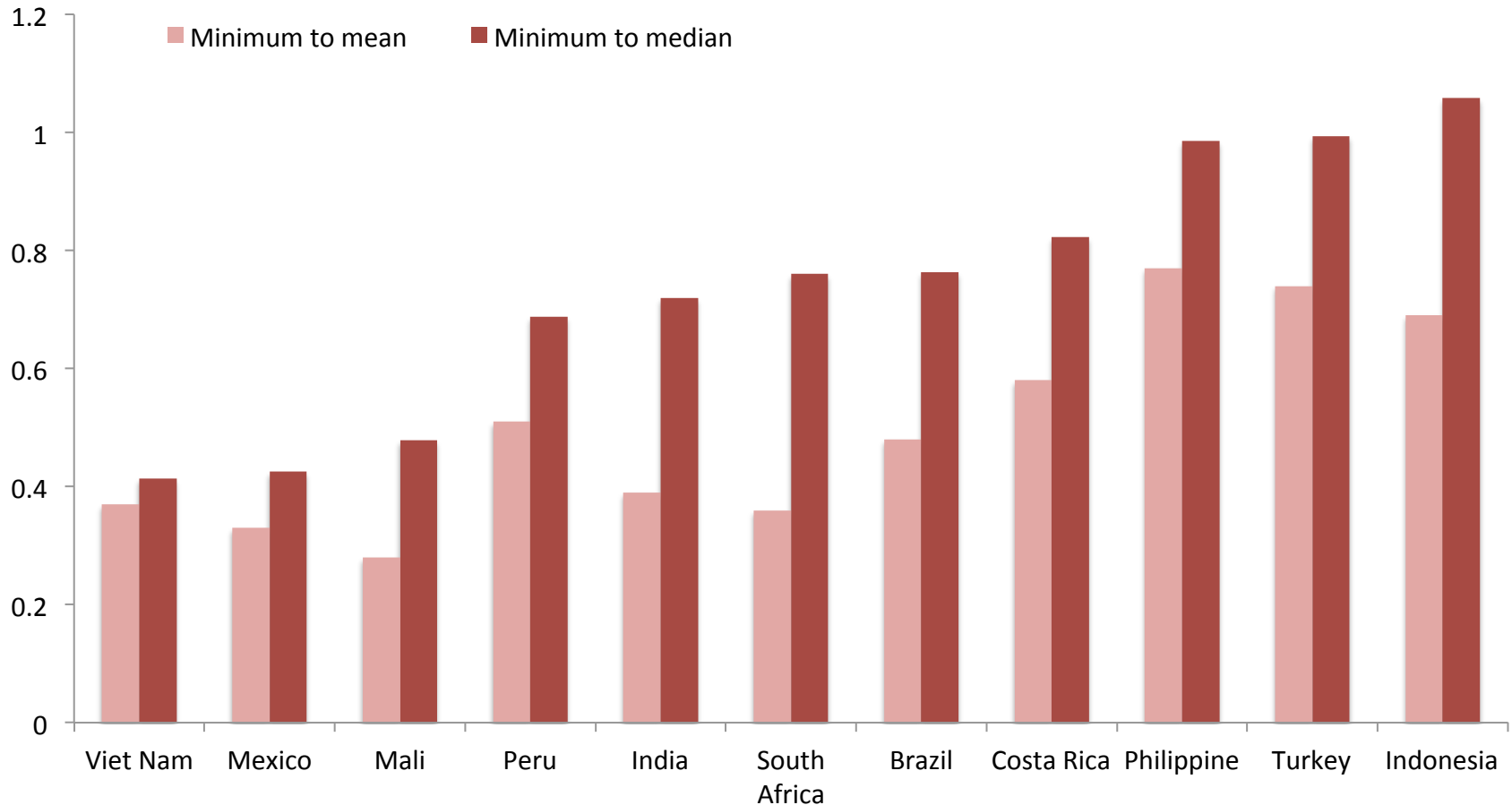


Rani, U.; Belser, P.; Oelz, M.; Ranjbar, S. (2013) "Minimum wage coverage and compliance in developing countries" *International Labour review*, Vol. 152, Nos.3-4.

Level at which the minimum wages is set

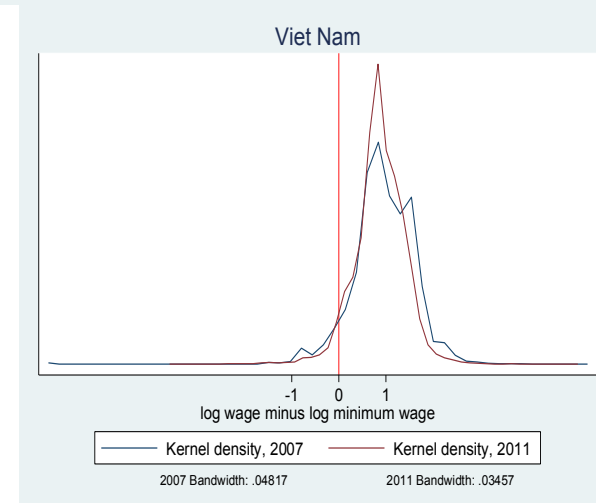
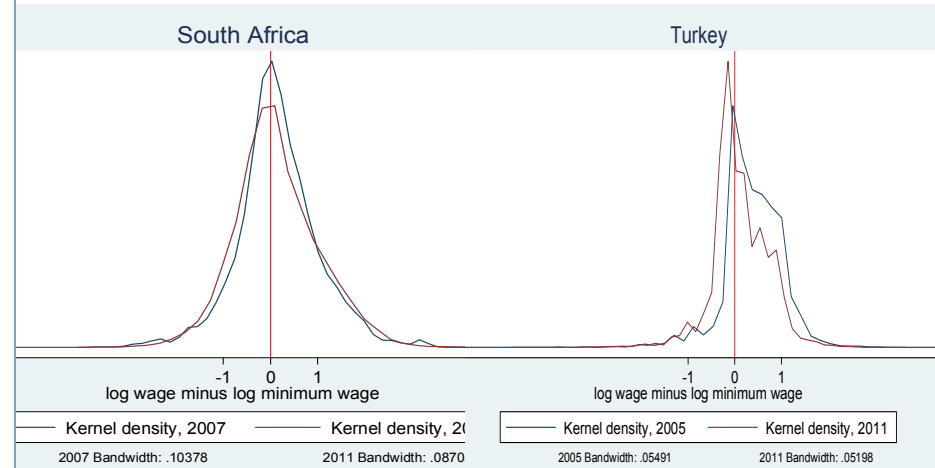
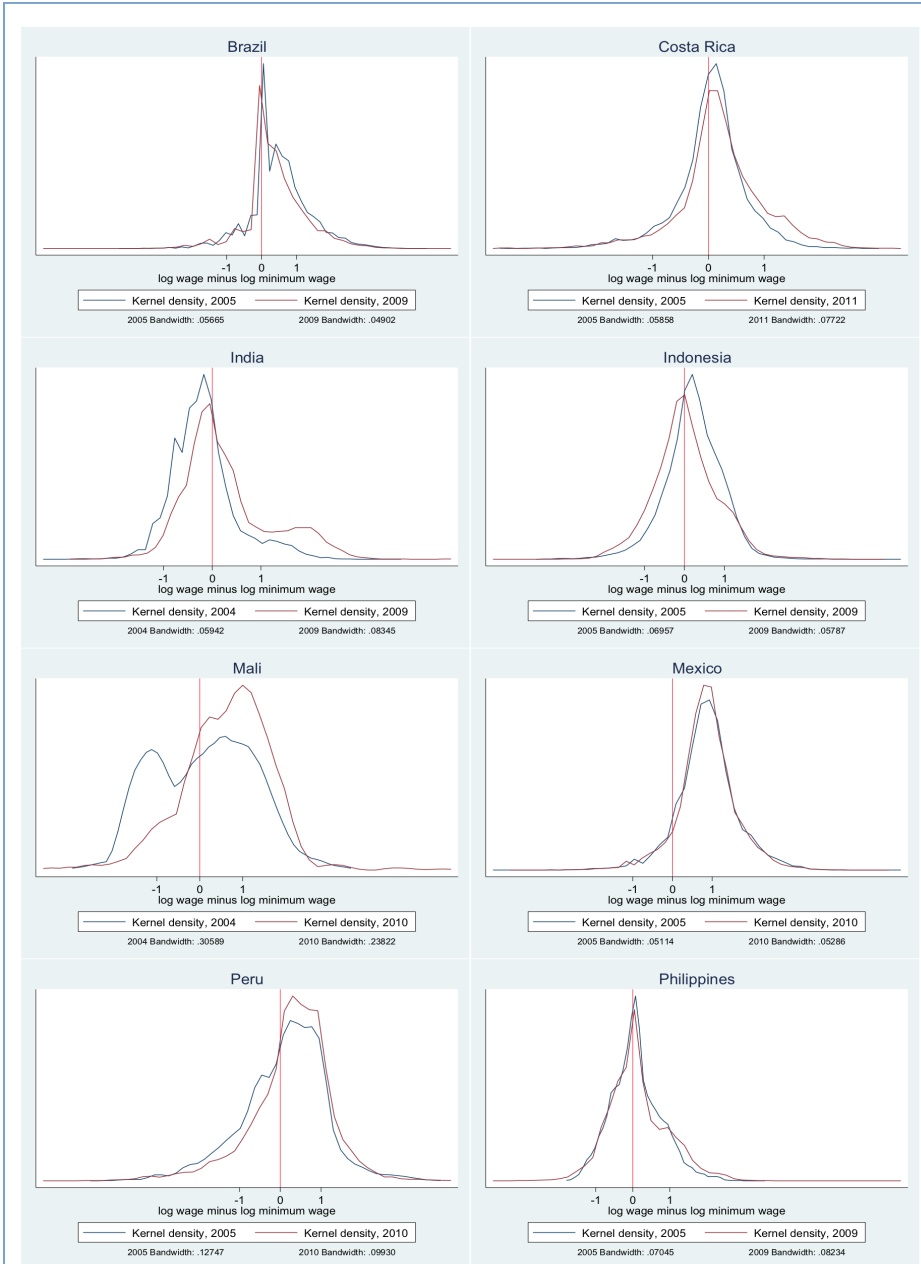
- If the minimum wage is set at too low a level, it may be ineffective in ensuring a minimum living income to workers and their families
 - If the minimum wage is set too high or raised unexpectedly, then it can trigger price inflation, hurt employment and/or lead to widespread non-compliance
- **Challenge:** set a minimum wage which offers real benefits to low-paid workers, while avoiding unnecessary risks to enterprises and jobs

Ratio of minimum to mean and median wages, latest year

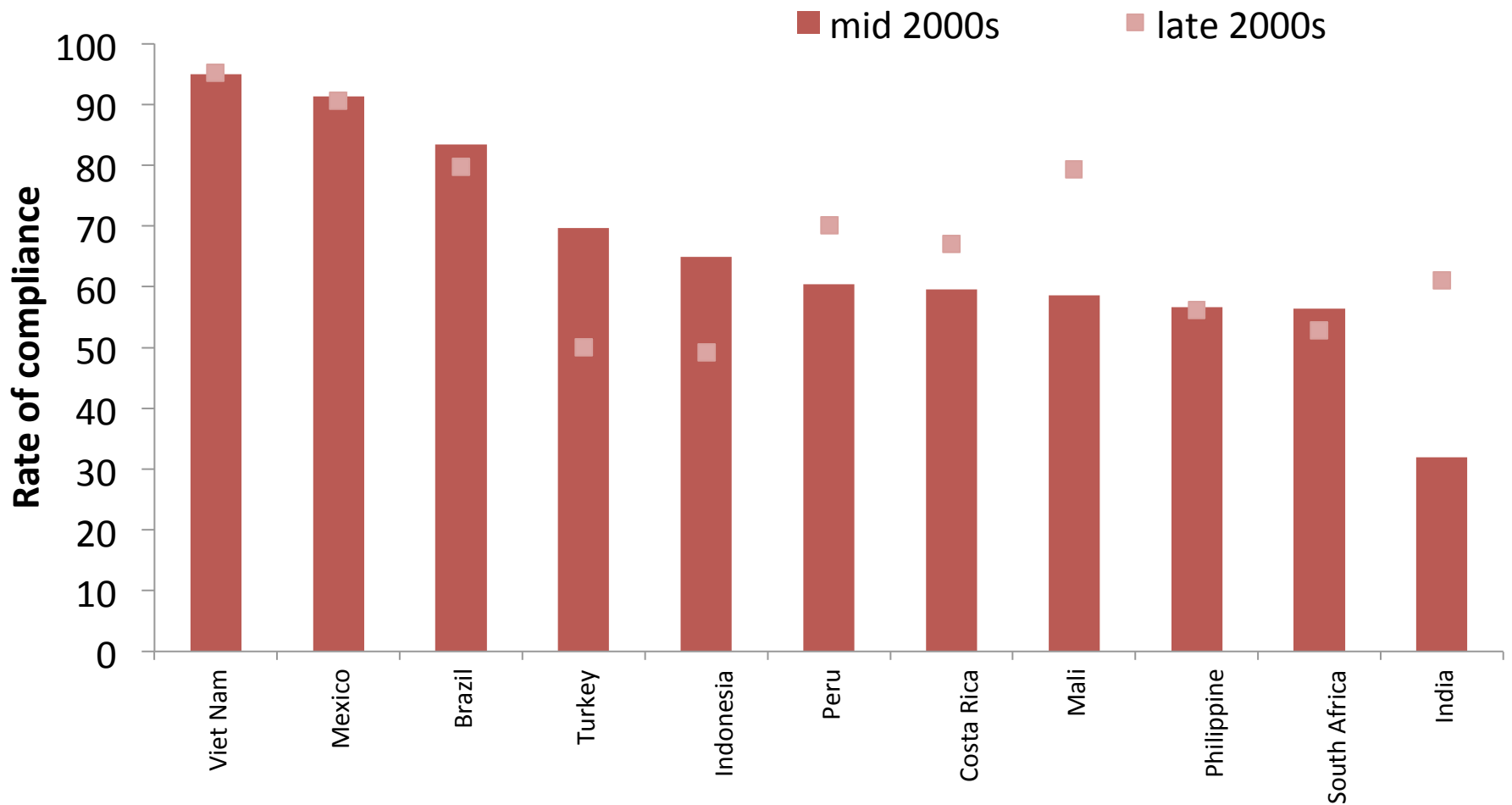


Rani, U.; Belser, P.; Oelz, M.; Ranjbar, S. (2013) "Minimum wage coverage and compliance in developing countries" *International Labour review*, Vol. 152, Nos.3-4.

Distribution of wages around minimum wages

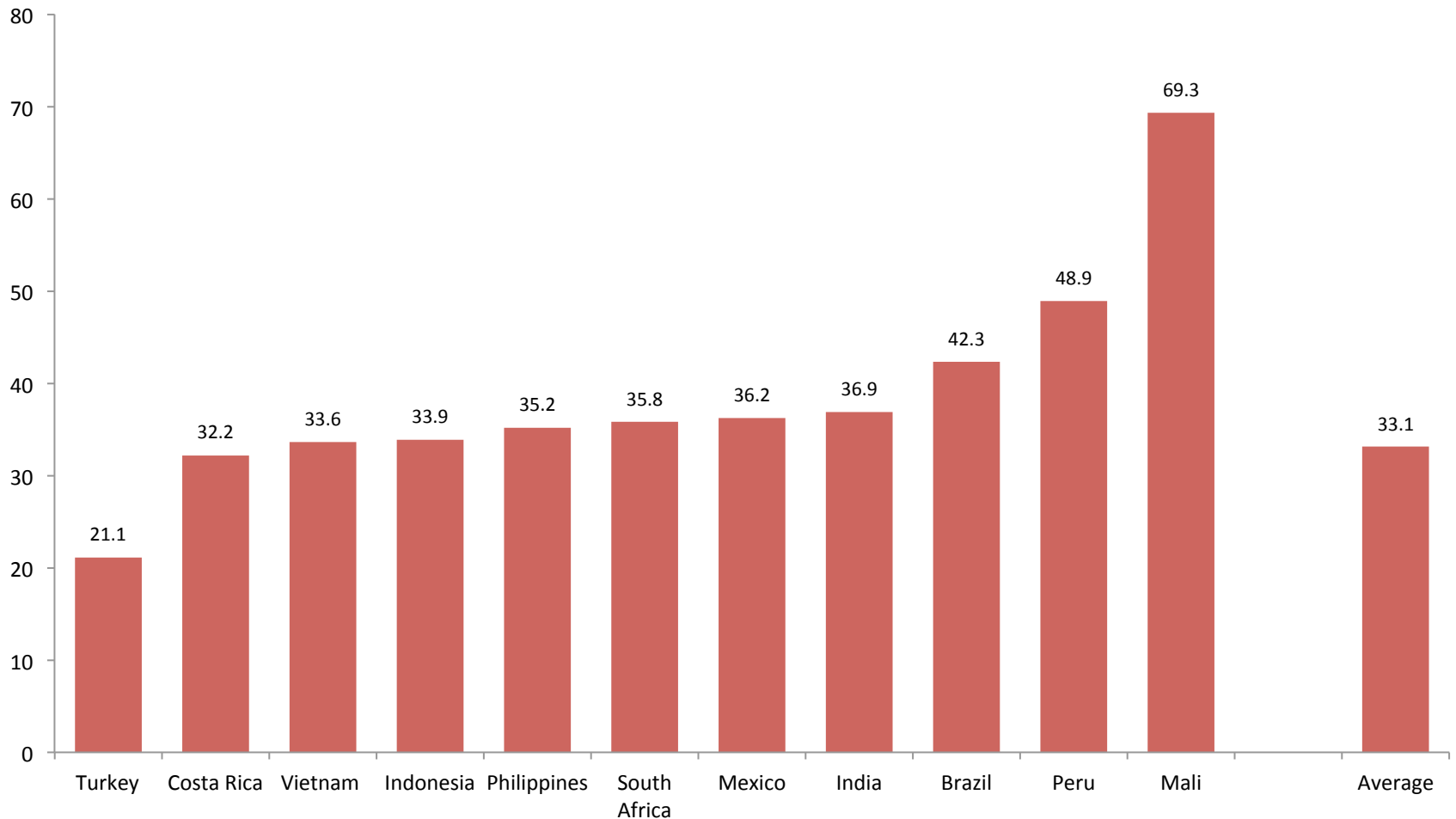


Estimated rate of compliance with minimum wage legislation



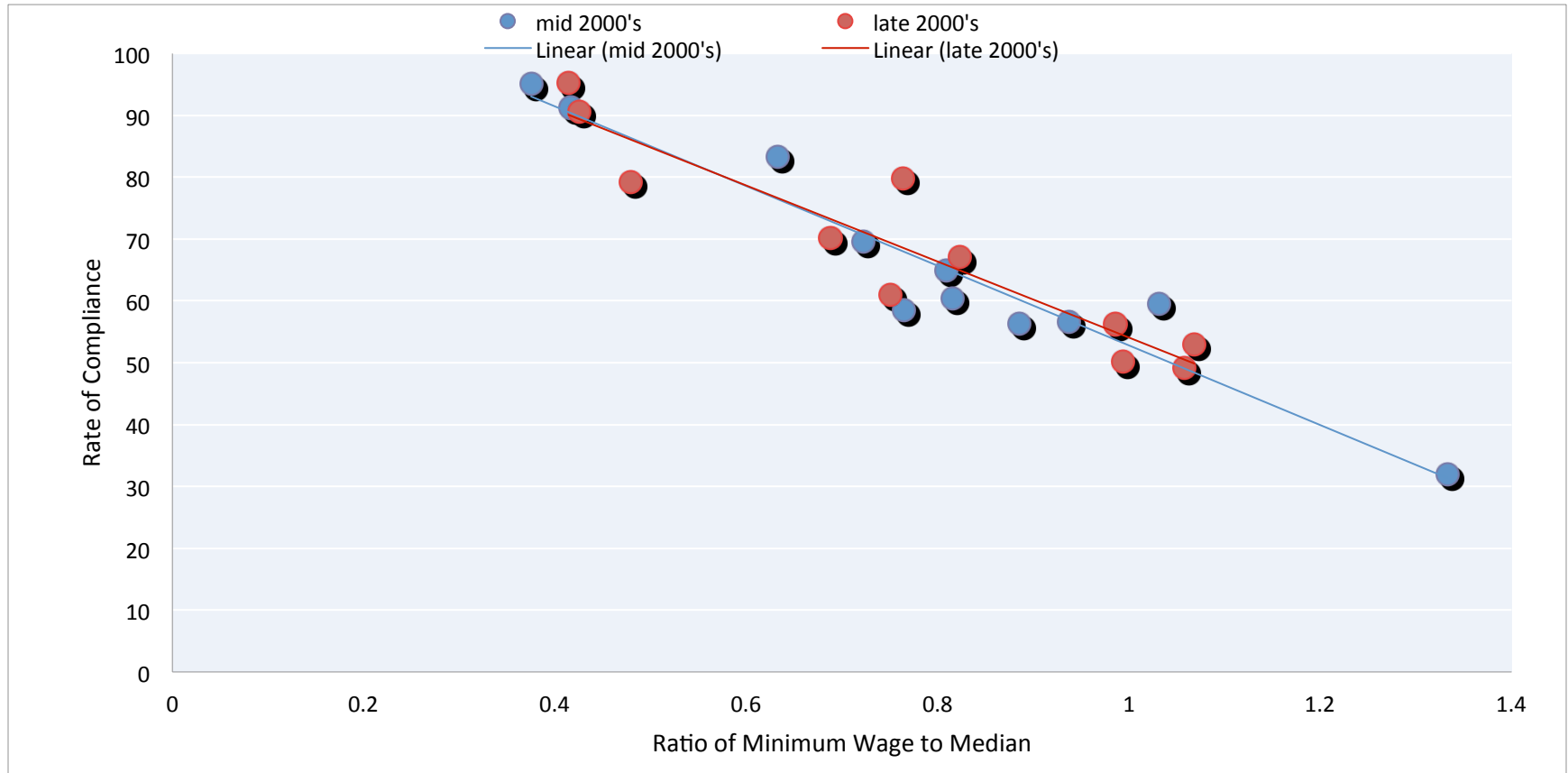
Rani, U.; Belser, P.; Oelz, M.; Ranjbar, S. (2013) "Minimum wage coverage and compliance in developing countries" *International Labour review*, Vol. 152, Nos.3-4.

Average underpayment of workers who are paid below the minimum wage in select developing countries



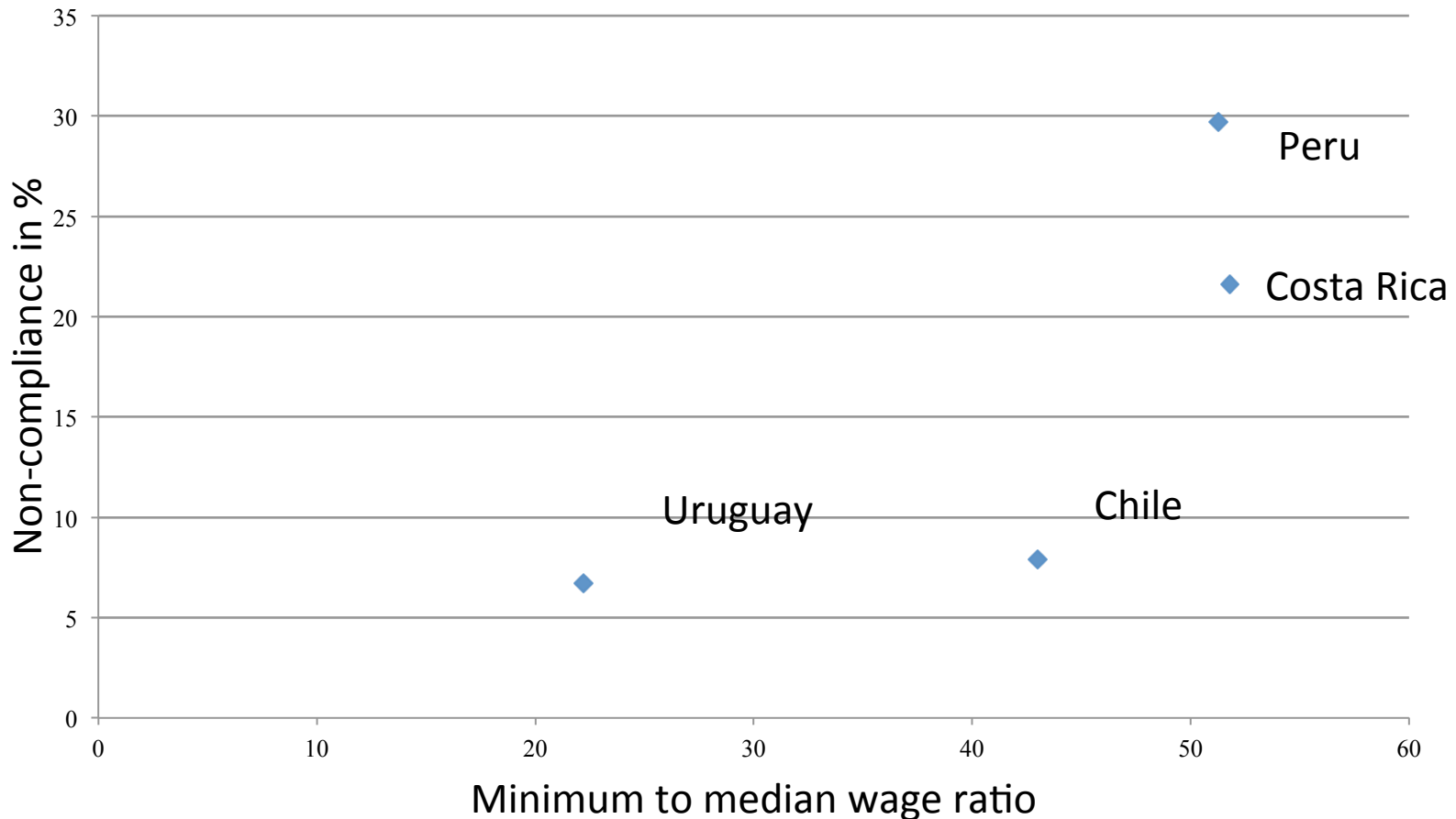
Source: Adapted from Rani et al., 2013

Degree of compliance depends on the level at which minimum wages are set



Rani, U.; Belser, P.; Oelz, M.; Ranjbar, S. (2013) "Minimum wage coverage and compliance in developing countries" International Labour review, Vol. 152, Nos.3-4.

Degree of compliance depends on the level at which minimum wages are set and also enforcement mechanism



Source: [Marinakis \(2014\)](#).

Effectiveness of a minimum wage policy depends not only upon

- the coverage of workers by legal provisions
 - the design (system of minimum wage)
 - the level of minimum wage
 - but ***most importantly*** also on the enforcement mechanism
-
- As argued by Murgai and Ravallion (2005) “simply legislating a minimum wage will not make it happen” (p.2)
 - Strategies to improve enforcement mechanism is the cornerstone for minimum wages to be effective and to have the ability to reduce inequality and poverty or to have spill-over effects in other sectors

Strategies adopted to ensure compliance:

Information and awareness raising activities

- Costa Rica
 - National campaign for minimum wages (Campana Nacional de Salarios Minimos) August 2010
 - Call centres for redressals, hot lines
 - Campaigned with important personalities, including the country's President, who made public statements calling for respect of minimum wages
- India, NREGA where State acts as a employer of the last resort
 - National Rural Employment Guarantee Act (NREGA), apart from legal entitlement to minimum wages it also legislated the right to information and social audits
 - It provided an opportunity for civil society to ensure that the implementation of the program is effective.
 - The Act helped in raising awareness about minimum wages among workers in the rural areas, and also created a space for workers to organise and demand minimum wage
- Philippines, has as part of its Domestic Workers Act in 2013
 - has imposed an obligation on the Department of Labour to develop and implement a continuous information dissemination programme

Reinforcing labour inspections

- In developing countries, the regulatory structures, including labour inspection services, are often under-resourced and under-staffed, and penalties are frequently too weak to induce compliance (Ghosheh, 2013).
- Investments in its enforcement machinery (Brazil)
- Increase in the number of labour inspectors, leading to an increase in wage inspections and joint inspections with the social security administration (Costa Rica)
- Electronic worker registration system (*Planilla Electronica*) introduced in 2007 and required enterprises with three or more workers to make monthly social security declarations online (Peru)

Role of workers and employers' organisation

- Consultation with employers' and workers' organizations in the process of designing, setting and implementing minimum wages is important
- Trade unions in Brazil have indeed actively engaged in the processes of minimum wage setting and implementation
- The Philippines provides that union representatives or workers representing workers' interests should always accompany labour inspectors during inspections

Sanctions and penalties

- An issue that has been extensively studied in the literature is how a dissuasive sanctions regime could be designed and operated to help improve compliance
- If these sanctions rely primarily on criminal liability and court proceedings, then they will rarely be imposed in practice, because such proceedings are costly and lengthy (ILO, 2016)
- If the violation persists, then the labour inspectorate must submit the case to the court for a fine to be imposed. Workers are required to claim outstanding wage payments in court (Costa Rica).