



Minimum Wage Policy Guide

Chapter 6 – How to enforce minimum wages?

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Summary

In some countries more than half of all wage earners who are entitled to the minimum wage are paid wages below the legal floor.

High rates of non-compliance have negative consequences not only for workers and their families, whose rights are violated, but also for compliant employers, as it gives non-compliant enterprises an illegitimate cost advantage.

Compliance can be increased through a number of implementation measures, including:

- information and awareness raising campaigns
- capacity building activities for employers' and workers' representatives
- empowering workers to claim their rights through individual complaints as well as collective action
- measures to formalize the informal economy
- targeted labour inspections
- sanctions that function as a deterrent to non-compliance
- monitoring and responsible purchasing practices within global supply chains
- public employment programmes that pay minimum wages

The extent of non-compliance can also vary depending on the design of minimum wage policies and the number of rates, and also depends on the effectiveness of the entire process of designing and implementing minimum wage policies, from fixing the right level and rate structure in the first place, in full consultation with employers' and workers' organizations.

This is why a comprehensive approach is necessary.

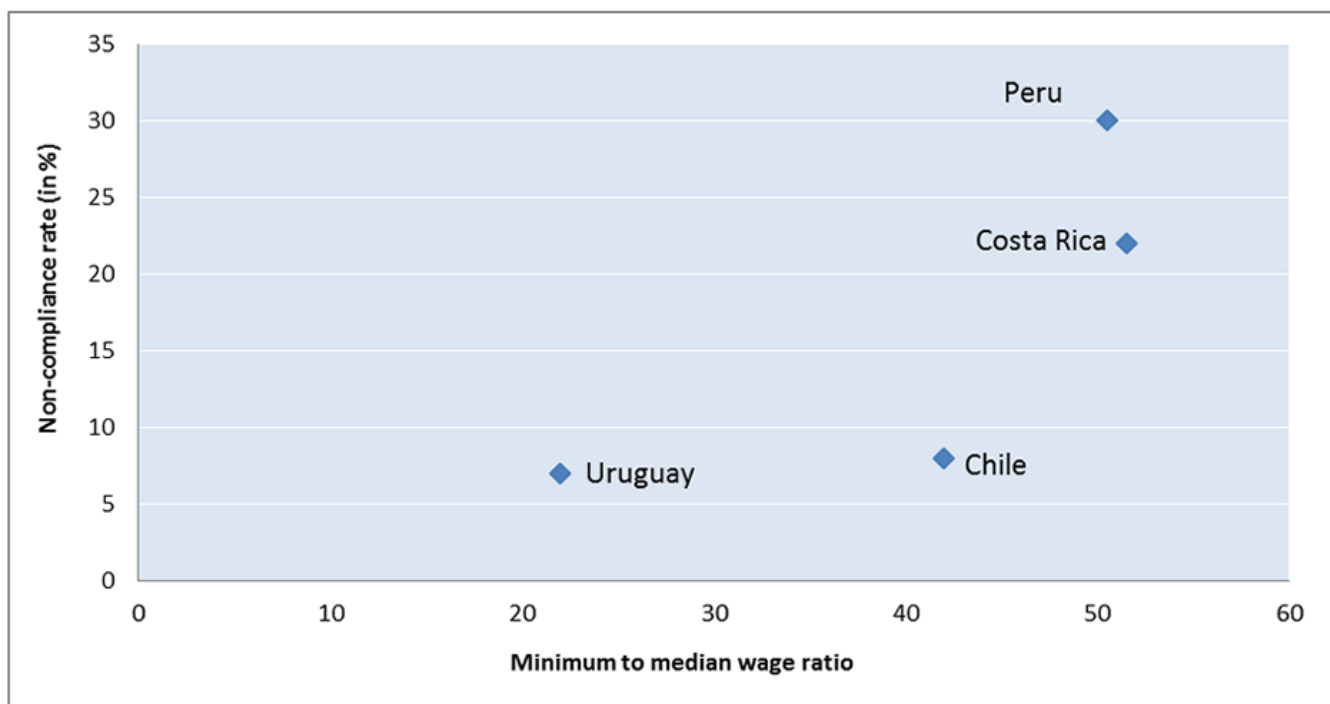
6.1 The need for a comprehensive approach

A comprehensive approach is needed because compliance is affected by the level at which minimum wages are set relative to average wages, as well as by institutional factors.

Figure 1. below shows that non-compliance is higher in Peru and Costa Rica, where minimum wages are higher, than in Uruguay and Chile. However, institutional factors matter too: although the level of minimum wages is similar in Peru and Costa Rica, non-compliance is substantially higher in the former than the latter. Although non-compliance is relatively low in both Uruguay and in Chile, this result is achieved in spite of a substantially higher minimum wage in Chile than in Uruguay.¹

When minimum wages are very low, it is quite natural that only a few workers will be paid less than the minimum. Only when minimum wages truly "bite" does compliance become a challenge.

Figure 1. Minimum wage and non-compliance in Latin America, urban sector, 2011



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

How to strengthen institutional factors?

The [Minimum Wage Fixing Convention, 1970 \(No. 131\)](#), provides that "Appropriate measures, such as adequate inspection reinforced by other necessary measures, shall be taken to ensure the effective application of all provisions relating to minimum wages" (Article 5).

The [Minimum Wage Fixing Recommendation, 1970 \(No. 135\)](#), suggests that measures should include:

¹ [Marinakis, A. 2014. Incumplimiento con el salario mínimo en América Latina. El peso de los factores económicos e institucionales, \(OIT, Santiago\).](#)

- (a) arrangements for giving publicity to minimum wage provisions in languages and dialects understood by workers who need protection, adapted where necessary to the needs of illiterate persons;
- (b) the employment of a sufficient number of adequately trained inspectors equipped with the powers and facilities necessary to carry out their duties;
- (c) adequate penalties for infringement of the provisions relating to minimum wages;
- (d) simplification of legal provisions and procedures, and other appropriate means of enabling workers effectively to exercise their rights under minimum wage provisions;
- (e) the association of employers' and workers' organizations in efforts to protect workers against abuses; and
- (f) adequate protection of workers against victimization.

Overly complex minimum wage systems can also reduce compliance. Awareness raising and labour inspection are easier in countries with relatively simple minimum wages rather than too complex sectoral or occupational minimum wages, with numerous rates. A multiplicity of rates obviously makes minimum wage rates much more difficult to communicate and inspect.

6.2 Measuring non-compliance

In order to design, put in place and pursue sound strategies and measures for compliance and enforcement it is important to analyse the extent and patterns of non-compliance in a manner as detailed as the available data permit. This is not only relevant for enhancing the effectiveness of interventions but also to make strategic choices in allocating available public resources.

Studies can look at the extent of non-compliance according to urban and rural areas, the formal and informal economies, different economic sectors and occupations, size of the enterprise, and how non-compliance affects women and men. Compliance gap assessments can also look at the situation of groups more vulnerable to workplace discrimination, such as indigenous and tribal peoples, ethnic minorities, migrants or people with disabilities.

Compliance can be estimated in three ways:

- The first method, which is extensively used in empirical studies, is to calculate from statistical data the percentage of workers earning less than the legal minimum wage in different jobs and sectors. This method provides rough estimates and contains measurement error.
- A second measure is based on violations of minimum wage laws detected during workplace inspections. However, an analysis based on labour inspections can be only partial, as it refers exclusively to detected cases.
- A third measure could be the number of complaints made by workers to enforcement bodies and courts. However, it is difficult to obtain the necessary administrative data, and not everyone who is underpaid lodges a complaint.

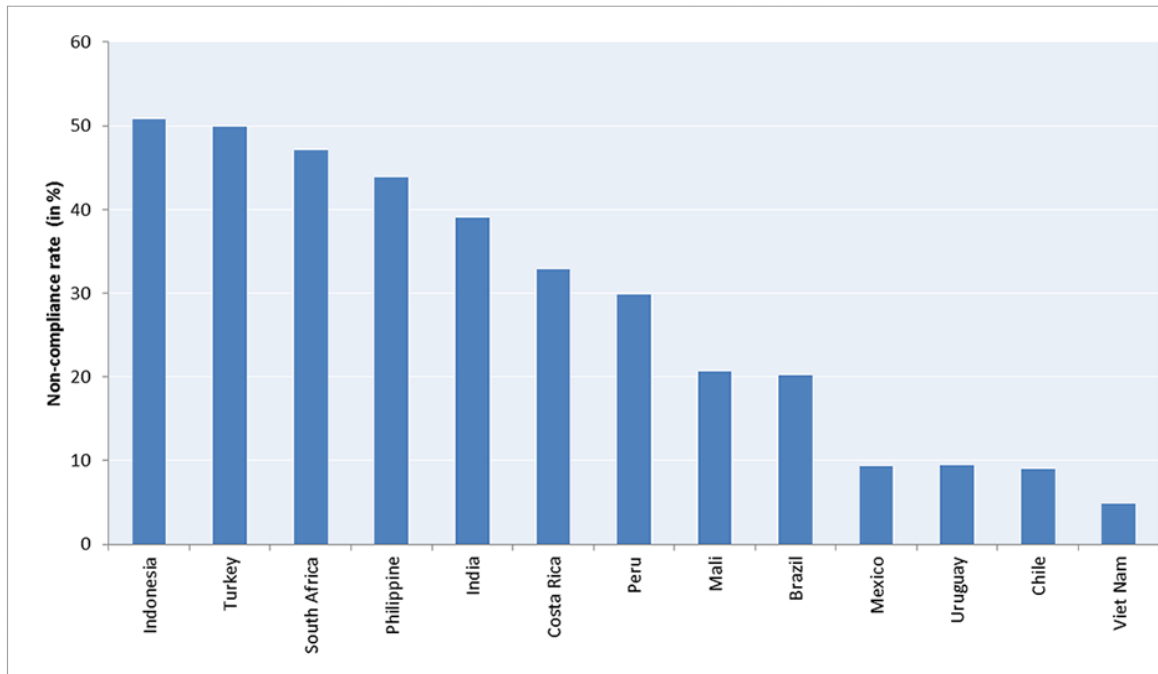
An illustration of the statistical methodology²

The Figures below use the first method and provide an estimate of the proportion of legally covered workers earning less than the legal minimum wage, taking into account imperfect data on their hours of work. Information on wages comes from household or labour force surveys, and wages are compared to the applicable legal minimum wages. Such a method allows comparison across countries and over time. It must be kept in mind, however, that they are only statistical estimates.

² Rani et al., (2013). "Minimum wage coverage and compliance in developing countries". *International Labour Review*, Vol.152, No.3-4, pp.381-410.

Using such a method, compliance rates vary widely from country to country. Figure 2 shows that the share of covered workers earning less than the legal minimum wage varies from less than 10 per cent in Viet Nam, Chile, Uruguay or Mexico, up to about 50 per cent in Turkey or Indonesia.

Figure 2. Non-compliance rate (percentage of employees paid less than minimum wage), latest year for which data are available



Source: [Rani et al., 2013](#) ; [Marinakakis \(2014\)](#) .

Different population groups

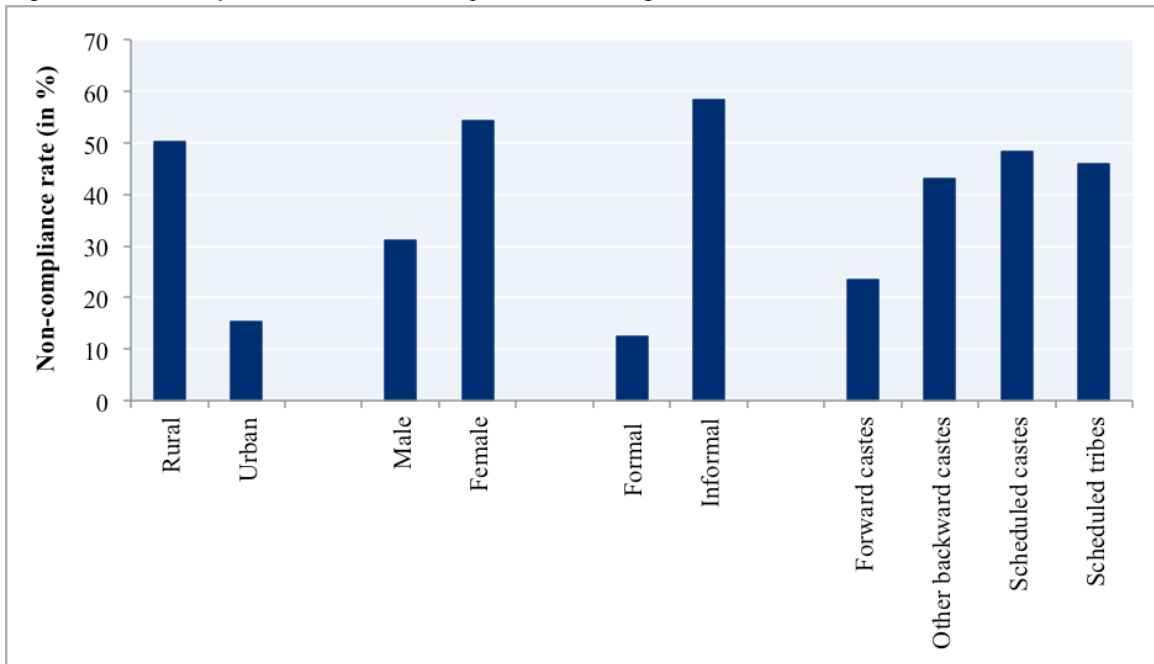
Within countries, there are significant differences in non-compliance rates across different groups of the population.

The case of India illustrates a situation that is common across countries: non-compliance is more widespread in rural than in urban areas, and in the informal than in the formal economy. Women are also frequently more likely to be underpaid than men, as are disadvantaged ethnic or social groups such as so-called scheduled castes and scheduled tribes in India (Figure 3).

Similarly, if we look at non-compliance across different industries, the case of South Africa shows non-compliance to be particularly high in construction and agriculture (Figure 4).

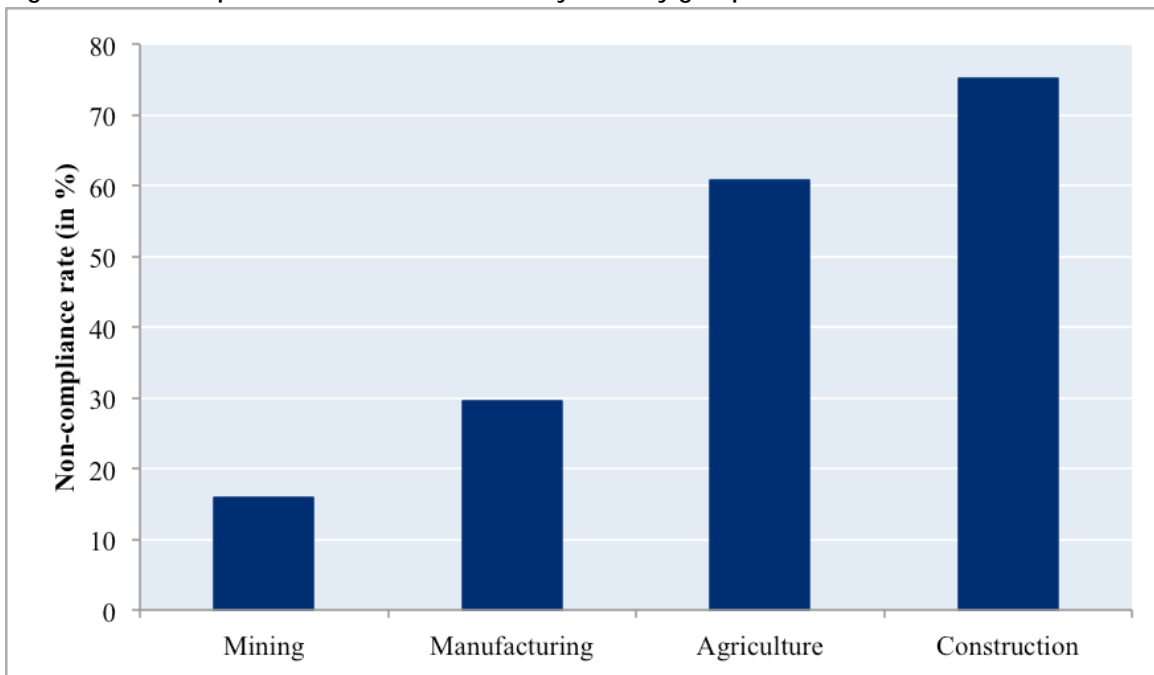
Looking at the non-compliance rate by size of the enterprise, then the case of Costa Rica shows that non-compliance tends to be higher in smaller than in large enterprises (Figure 5).

Figure 3. Non-compliance rate in India, by different categories of workers, 2009–10



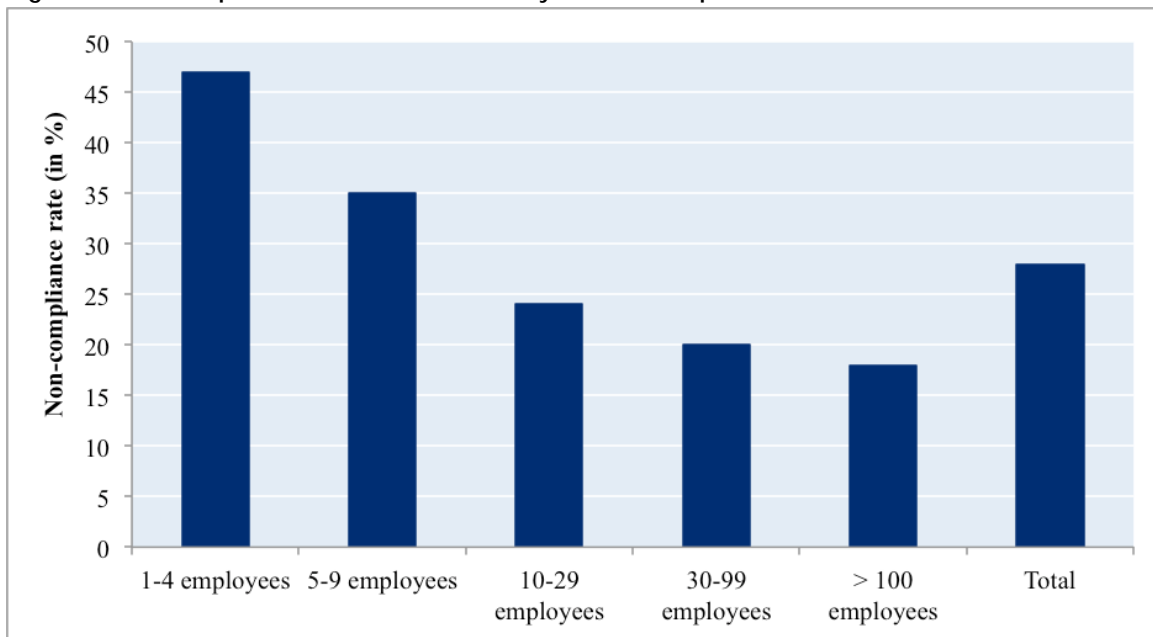
Source: [Rani et al., 2013](#)

Figure 4. Non-compliance rate in South Africa, by industry groups, 2011



Source: [Rani et al., 2013](#) .

Figure 5. Non-compliance rate in Costa Rica, by size of enterprise



Source: ILO based on labour force surveys.

6.3 Information and awareness raising

On the importance of awareness

A key measure is making information on applicable minimum wages available to both employers and workers – and the public more generally. Along with information on applicable rates, awareness should be raised about the sanctions in case of non-compliance. In addition, persuasive arguments and a supportive public discourse can be part of the construction of a “culture of compliance”.³

For example, in the United Republic of Tanzania it was found that workers who knew their rights and legal entitlements were also more likely to be paid accordingly.⁴ An evaluation study on the implementation of India’s Minimum Wages Act, 1948 in the stone-breaking and stone-crushing industry in Karnataka in 2007–08 found that, among employers, only 30 per cent said they were aware of the Minimum Wages Act. Among workers, only 8.4 per cent were aware of the Minimum Wages Act and 18.5 per cent knew of any inspection authority.⁵

How to publicize minimum wages?

Awareness-raising activities and information dissemination strategies undertaken by governments and social partners can rely on a range of different channels including the Internet, television and radio broadcasts. Providing information and advice to workers and employers is also one of the principal functions of labour inspectorates.

In the United Kingdom, for example, when the national minimum wage was introduced, it was widely believed that the policy would be successful only if it was largely “self-enforced” – that is, so widely known about and accepted that there would be widespread compliance. To this end, much attention was devoted to information campaigns, by the authorities as well as social partners.

³ [Benassi, C. 2011, “The Implementation of Minimum Wage: Challenges and Creative Solutions”, Working Paper No.12, ILO GLU, March](#)

⁴ Lee, S. and D. McCann (2011b). “The impact of labour regulations: Measuring the effectiveness of legal norms in a developing country”, in Sangheon Lee and Deirdre McCann (eds): *Regulating for decent work*. Geneva, ILO, pp. 291–312

⁵ Government of India (GoI) (2009). *Evaluation Study on the Implementation of Minimum Wages Act, 1948 in Stone Breaking and Stone Crushing Industry in Karnataka 2007-8*, Government of India, Ministry of Labour and Employment, Labour Bureau, Chandigarh.

➤ [Publicizing the minimum wage in the United Kingdom](#)

In the United Kingdom, in the months before and after the introduction of the national minimum wage (NMW) (March and April 1999) about £4.5 million was spent on a national publicity campaign, including television advertisements.

Separate campaigns subsequently targeted ethnic minority communities and young people. Over the span of 2 months (late January to late March) the NMW Helpline dealt with 50,000 enquiries.

More than a million copies of short “information” pamphlets were sent to organizations and individuals in the first few months. Separately tailored booklets on “best practice” aimed at businesses in the six sectors most affected (hospitality, retail, social care, cleaning and security, hairdressing, clothing) were produced.

These contained case studies showing how good pay could lead to better performance and were prepared in cooperation with trade associations and training bodies, which also distributed them.

In 2000, by which time the NMW had already been introduced, awareness campaigns were run using the national press, local radio, youth magazines, Internet advertisements, beer mats and postcards. A further campaign targeted television advertising and women’s press. An independent market research agency was used to check awareness and the results were generally very positive. An interactive website – www.gov.uk/browse/working/tax-minimum-wage – was set up to provide users with a decision tree to help them assess their entitlement.

NMW increases continue to be publicized through many means including the regular information bulletins that the tax authorities send to 1.5 million employers. The Trades Union Congress has from the start produced regularly updated guidance, made available to all through their websites and other networks (www.tuc.org.uk/extras/nmwenforcement.pdf). There are other groups, which publicize and advise on NMW, for example, the National Group on Homeworking (www.gn.apc.org/network/national-group-homeworking).

Source: William Brown, Darwin College, Cambridge, 2013.

Similarly, in Costa Rica, a National Minimum Wage Campaign was undertaken in 2010, which combined awareness raising, facilitating and encouraging complaints. A central feature of the campaign was information on a new telephone hotline allowing workers to report wage violations in a simple and anonymous manner. This hotline received tens of thousands of calls. During the campaign important personalities, including the country’s President, made public statements calling for respect for minimum wages.⁶

Information dissemination can potentially improve compliance even in the informal economy, where a widely known wage standard (like a minimum wage) can play a guiding role for wage fixing and alter workers’ and employers’ expectations and behaviour – the so-called “lighthouse” effect.

➤ [Minimum wage “lighthouse effect” in Brazil](#)

In the late 1970s Souza and Baltar (1979) wrote an article arguing that in the case of Brazil, the minimum wage had a “lighthouse effect” over wage determination that went well beyond the natural scope for this policy. According to this argument, the minimum wage guided wage fixing for workers in small enterprises, which were rarely inspected, as well as in the informal sector. Even self-employed workers used the minimum wage as a reference to determine the price to be paid for their products or services.

Many studies discussed this concept, developing empirical evaluations. Neri et al. (2001) estimated the percentage of workers receiving exactly the minimum wage in September 1996, adjusting the working time to a week of 40

⁶ Trejos, J. D. (2013). La aplicación de los salarios mínimos en Costa Rica con énfasis en el sector rural. Unpublished mimeo. San José, Research Institute in Economic Sciences, University of Costa Rica.

hours. They wanted to assess the relevance of minimum wages in the formal economy (both public and private), as well as for the informal economy and the self-employed. Formal workers were defined as workers “con carteira” (with identity cards), while informal workers are those “sem carteira” (without identity cards).

Neri et al. found that although non-compliance among informal workers was high (27 per cent), no less than 14 per cent of informal workers earned exactly the minimum wage, showing the relevance of this instrument in this segment of the labour market. Among the self-employed, the figures reveal a weaker link with the minimum wage than the other segments.

See: Souza, P. R. and P.E. Baltar (1979). “Salário mínimo e taxa de salários no Brasil”. Pesquisa e Planejamento Econômico, Vol.9, No.3, pp.629-60

Neri, M.; Gonzaga G.; and J.M. Camargo (2001). Salario Mínimo, Efeito-Farol e Pobreza. Revista de Economía Política 21(2): 78-90.

6.4 The role of employers’ and workers’ organizations

Why consultation and involvement of social partners is necessary to raise compliance

Compliance with minimum wages depends on the effectiveness of the entire process of designing, implementing and enforcing minimum wage policies. This process starts from determining the right level and rate structure, in consultation with employers’ and workers’ organizations, and extends to considering measures to facilitate and encourage compliance when needed.

As highlighted in Chapter 3 the principle of full consultation and participation, on a basis of equality, of the social partners in the establishment and operation of minimum wage systems is one of the pillars of [Convention No.131](#) and [Recommendation No.135](#)⁷.

A participative process of minimum wage fixing - which allows the minimum wage to be set at a level agreed to by workers and employers’ representatives - tends to give the minimum rate more legitimacy with social partners thereby also facilitating compliance.

Furthermore, a tripartite decision-making process could facilitate the common interpretation of minimum wage law, thus avoiding misunderstandings and confusion among workers and employers⁸.

As well as involvement in designing rates, workers’ and employers’ organizations can disseminate information on minimum wages to their members and provide related advice and support. Training activities for employers’ and workers’ representatives can help to ensure that non-compliance is not due to lack of awareness or misunderstanding.

Empowering workers to claim their rights through individual complaints as well as collective action is also key

In some countries aspects of this role are laid down in law. In the Philippines, legislation provides that union representatives or workers representing workers’ interests should always accompany labour inspectors during inspections.

In Norway, contracting enterprises and their trade union representatives have a particular role in the enforcement of extended agreements. A contracting enterprise must ensure that its sub-contractors also abide by the agreements. Sub-contractors’ employees can hold the contractors liable for missing wage payments in areas that fall under the extended collective agreement.

⁷ ILO [General Survey on Minimum Wage System \(2014\)](#), p.101.

⁸ [Benassi, C. 2011, “The Implementation of Minimum Wage: Challenges and Creative Solutions”, Working Paper No.12, ILO GLU, March](#)

Norway and Iceland also have rules ensuring that trade unions have the right to inspect the wages and labour conditions of workers. In Norway, this applies to the employees of sub-contractors in areas covered by the extended agreements, whereas in Iceland this applies in general. Furthermore, in Norway, contractors are joint and severally liable for sub-contractors' wage obligations.⁹

In Finland, the legislation establishes that employers' associations and employers bound by a collective agreement shall respect its provisions and that employers' organizations shall monitor the agreement's application by its members.

In countries such as India or Israel, workers' organizations can bring claims for unpaid wages to court on behalf of the worker concerned.

6.5 Labour inspection

The number and duties of labour inspectors

The enforcement of minimum wages falls within the scope and responsibilities of labour inspectorates.¹⁰ There are a number of indicators to assess the capacity of labour inspection systems, including: the number of inspectors, the number of inspections undertaken, and the number and amount of penalties imposed in practice. The effectiveness of labour inspection will also depend on whether inspectors are properly trained.

A precondition for effective enforcement through labour inspection is the provision of sufficient human and other resources. Though there is no internally agreed formula for determining the appropriate number of labour inspectors, ILO standards stipulate that the number of inspectors should be sufficient to secure the effective discharge of the duties of the inspectorate.

The scope of these duties can be gauged by the following criteria: number of inspectors, size and situation of the workplace, number of workers per enterprise to be inspected, and the number and complexity of the legal provisions to be enforced.¹¹

Labour inspectors must be able to access enterprises subject to inspection, to inspect wage records and other documents, and conduct interviews with workers and management. Labour inspectors should be able to issue warnings or open administrative procedures so that they can impose penalties in cases of non-compliance.

The need for pro-active strategies

Labour inspectors generally intervene either when complaints are received or when programmed inspections are due. Complaints procedures to ensure the effective application of minimum wage provisions should be as simple and accessible as possible. In the context of wages, there is a tendency for inspections to be triggered by complaints rather than proactive identification of inspection targets in the context of labour inspection programmes and strategies.

To avoid an entirely reactive complaints-based strategy, proactive strategies could include awareness-raising campaigns and could analyse the levels of compliance based on labour statistics. Data could be obtained from fiscal and social security institutions in order to identify sectors or enterprises where there is a higher probability of non-compliance. This would facilitate targeted interventions. For these reasons, cooperation between labour inspectorates and fiscal and social security institutions is very important – particularly on sharing information regarding amounts declared for tax and social security purposes.

Technology has enabled labour inspectors to monitor wages payments in new ways (see Box 1 below). This could also be a mechanism for monitoring and improving compliance, where minimum wages exist.

⁹ Eldring, L. and K. Alsos, (2012). European Minimum Wage: A Nordic Outlook Fafo Report, Norway, p.73

¹⁰ In some countries, other institutions enforce minimum wages. For instance, in Germany and the United Kingdom, enforcement of minimum wages is the responsibility of the customs authorities.

¹¹ [ILO General Survey on Labour Inspection \(2006\)](#)

Box 1

Relying on new technologies to monitor payment of wages

In the United Arab Emirates, since 2009, all enterprises have been legally required to pay wages for both national and migrant workers through banks and other financial services providers. This system allows the Ministry of Labour to have a comprehensive wage database and an electronic wage payment monitoring mechanism for enterprises within the country. This system also allows the timely detection of delays in payment of salaries and enables it to subject non-complying companies to sanctions.

Source: [Labour Inspection in Arab States: Progress and Challenges, ILO working paper 2014](#)

Fast-track administrative procedures

In Israel, under the 2011 Act to increase the enforcement of labour laws, Israeli labour administration agencies were empowered to fine employers for minimum wage violations through fast-track administrative proceedings. Prior to this act, criminal prosecution was the only means of recourse.

These reforms introduced financial sanctions, in addition to the possibility of penal sanctions, thereby improving the procedure through which fines were imposed. These measures were accompanied by the recruitment of 120 additional labour inspection staff.

The legislation also provided for employer self-assessment through a scheme involving government-certified private “wage inspectors” and for the joint liability of private employment agencies offering security, cleaning and catering services and service recipients.

This process creates stakes for both the employment agency and the user. As a result this increases the chances for workers to be able to claim their rights, it encourages compliance, and it also gives an advantage to workers in cases of litigation. Data collected by the authorities in Israel showed a considerable increase in enforcement action and an increased use of financial sanctions.

Table 1. Key measures to enforce Israel’s labour laws

Year	Files opened	Files closed	Warnings of criminal procedure	Indictments	Criminal fines	Administrative warnings	Financial sanctions
2011	1118	1651	789	283	614	-	-
2014	3430	3479	130	72	193	7771	532 Sanctions totalling NIS 31,197,960

Source: State of Israel/Ministry of economy, Second Progress Report on the Implementation of OECD Recommendations- Labour Market and Social policies, August 2015.

6.6 Dissuasive sanctions regimes

Sanctions should be dissuasive and rapid

Compliance is encouraged when employers perceive a likely probability of being inspected and exposed to penalties. In order to be dissuasive, a sanction regime needs to include penalties that are sufficiently high to act as a deterrent.

Sanctions do not necessarily have to be of a penal nature in order to be effective and dissuasive. Creating an economic cost for non-compliance creates an incentive for compliance. In cases where the “penalty schemes” do not impose high monetary fines, these should be complemented with additional fixed costs, which may indirectly cause losses, like losing government subsidies, for example.¹²

The length of the proceedings required to impose sanctions also influences the extent to which penalties act as a deterrent. Immediate sanctions are a greater deterrent than longer proceedings, particularly if their outcomes are uncertain.

For example, when sanctions are imposed through judicial proceedings, courts often do not have sufficient resources to handle labour cases efficiently. This may encourage non-compliance among employers’ as they are aware of this situation and perceive that there is no liable threat of sanctions.

Workers, meanwhile, are likely to be discouraged from taking claims of violations to court, as the outcome is uncertain.

Authorization to impose fines?

Costa Rica is one of several countries where labour inspectorates are not authorized to impose fines for labour law violations, including in regard to wages. As a rule, inspections in Costa Rica can only lead to an imposition of a fine once a follow-up inspection has found that the violation persists.

In such cases, the labour inspectorate must then submit the case to court, which will determine the fine imposed. Similarly, workers are required to claim outstanding wage payments in court. However, judicial proceedings are lengthy and only a small proportion of cases result in fines and back-payment of underpaid wages. This raises questions about whether further gains in minimum wage compliance could be made by strengthening the sanctions regime.¹³

Labour inspection strategies and dissuasive sanction regimes to address violations are the necessary backbone of any credible compliance system. This is particularly the case where workers lack collective representation or are otherwise vulnerable – such as informal workers, domestic workers, low-skilled migrant workers and undocumented migrants.¹⁴

6.7 Recovery of wages due and protection against victimization

Simplify administrative procedures

Enabling workers to exercise their rights to back wages and wages due to underpayment is part and parcel of minimum wage enforcement. In a large number of countries, workers can exercise this right in the courts or with administrative authorities. However, requiring workers to lodge court cases to recover unpaid amounts is often burdensome and can involve lengthy and costly processes.

This is why a number of countries provide for simpler administrative proceedings. Some countries have empowered labour inspectors to directly order the payment of wage arrears, such as Canada, South Africa, Thailand, Turkey and the United States.

The ILO Committee of Experts noted in the General Survey 2015 that among the range of measures to be taken regarding minimum wage compliance, it was important to:

¹² Chang, Y-M. and I.Ehrlich (1985). “On the economics of compliance with the minimum wage law”, *Journal of Political Economy*, Vol.93, pp.84-91.

¹³ Vega, M. L. and R. Robert (2013). *Labour inspection sanctions: Law and practice of national labour inspections*. Labour Administration and Inspection Programme Working Document No. 26. Geneva, ILO; Trejos, J. D. (2013). *La aplicación de los salarios mínimos en Costa Rica con énfasis en el sector rural*. Unpublished mimeo. San José, Research Institute in Economic Sciences, University of Costa Rica.

¹⁴ For more information on how different countries have designed sanctions for minimum wage violations see ILO, [Minimum Wage Systems, General Survey 2014](#) , pp. 153-157.

...ensure accessible and effective legal remedies for employees whose minimum wage rights have not been respected, so that they can recover unpaid amounts owed to them. In the absence of such measures, regardless of the administrative or penal sanctions applied to offenders, the situation resulting from non-compliance would not be rectified, as the wages would remain unpaid. Finally, the effective use of these remedies by the workers concerned can only be ensured if they are protected against the risk of victimization to which they may be exposed for initiating proceedings against their employer; this risk is particularly acute in periods of economic crisis, which are marked by high levels of unemployment. (para. 327)

6.8 Formalization

A new ILO Recommendation

A high incidence of informality is a major challenge for the rights of workers and has a negative impact on the development of sustainable enterprises. It also poses a major challenge for the enforcement of minimum wages.

A new ILO Recommendation 204 concerning the Transition from the Informal to the Formal Economy has been adopted in 2015, and provides guidance to facilitate the transition of workers and economic units to the formal economy, while ensuring the preservation and improvement of existing livelihoods during the transition.

Article 18 considers that:

“Through the transition to the formal economy, Members should progressively extend, in law and practice, to all workers in the informal economy, social security, maternity protection, decent working conditions and a minimum wage”

The Recommendation also calls for a combination of incentives, compliance and enforcement measures, including for example improving access to business services or finance as a result of transition, reducing compliance costs for micro- and small economic units through simplified tax and contribution regimes, as well as more extensive coverage of labour inspection in the informal economy.

An example in Peru

In Peru, formalization of employment has provided an entry point for extending the reach of the government authorities responsible for compliance. Under an electronic worker registration system (planilla electronica) introduced in 2007, enterprises with three or more workers are required to make monthly social security declarations online. As workers have to register in the system, there is more visibility and enterprises became more aware that they could be subject to inspections. As a result, minimum wage compliance is higher among enterprises that have made online declarations compared to others.

The current focus of the labour inspectorate on enterprises that have not made the declarations can be expected to have a positive effect on compliance. This system provides the labour inspectorate with better data on workplaces and on the workers they employ, while enterprises are apparently more aware that they could be subject to inspections. Labour inspection action has resulted in some 10,000 workers annually being newly registered over recent years, which is substantial considering the human resource constraints facing the inspectorate.

More work on this topic is currently under way at the ILO.

- [See also the ILO webpage on Informal Economy](#)
- [See R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 \(No. 204\)](#)

6.9 Public employment programmes

Renewed interest in public employment programmes (PEPs)

In recent years, many developing countries have shown renewed interest in and commitment to developing public employment programmes (PEPs), including public works programmes (PWP) and/or employment guarantee schemes (EGSs). Their main purpose is to combine the generation of short-term employment, the reduction of poverty, and the creation or development of infrastructure and other assets (such as public buildings) or environmental protection projects.

Examples include the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA) in India, the Expanded Public Works Programmes (EPWP) in South Africa, or the Productive Safety Net Programme (PSNP) in Ethiopia.

Wage rates are an important aspect of the design of public employment programmes, since they affect the number of people who volunteer to take part in them (the labour supply response), the amount of transfer benefits that participants receive, and ultimately the cost of these programmes. In addition, the wage rate set in public employment programmes determines the extent to which these programmes attract poorer sections of the population and has implications for other economic activities.

If the wage rate is set too high fewer jobs can be created for a given budget, the programmes are generally less effective at targeting the poor, and they can have disruptive effects on other sectors. If wages are set too low, the welfare impact on participants' households will be insufficient, and the result is likely to be low morale, high turnover, and low productivity.

➤ [Learn more on wages in public employment programmes](#)

Why minimum wages in PEPs contribute to better compliance in general

A positive effect of public employment programmes which comply with statutory minimum wages is to promote compliance also in the private sector. This happens because private employers who pay less than the minimum wage risk losing their employees, who will prefer to work in public works programmes or employment guarantee schemes. This improves workers' wage negotiation capacity. In addition, public employment programmes can create awareness among workers about their basic entitlements.

By acting as the "employer of last resort", the government can thus encourage compliance in the private sector. Such an effect has been observed, [for example, in India](#):

Minimum wages and NREGS in India

India's National Rural Employment Guarantee Scheme (NREGS), introduced in 200 districts in 2005–06, was extended to the entire country covering 619 districts in 2009–10. The programme seeks to provide a guarantee of up to 100 days of employment per household in the rural areas. All rural households willing to supply labour are required to register with their village council (gram panchayats) and are issued a job card.

The programme provides legal entitlement not only to work on demand but also to be paid minimum wages. Wages under NREGS were initially linked to statutory state-level minimum wages for agricultural labourers, and later to the national minimum wage floor. Men and women are paid similar wages – a significant policy change from earlier employment guarantee schemes. Data show that in 2009–10 about 52 million households in 619 districts were provided with employment, with an average of 65 days per household.¹⁵

¹⁵ www.nrega.nic.in

As the employment guarantee scheme was introduced and expanded, the rate of compliance with minimum wages increased. In rural areas, estimated compliance almost doubled, from 26.4 per cent in 2004–05 to 49.8 per cent in 2009–10.¹⁶ The gap in rural wages between formal salaried workers and casual workers decreased, and the gender wage gaps in rural India also declined.

While there are competing explanations for these trends, it seems plausible that the employment guarantee scheme played an important role in them. One study of 249 districts across 19 Indian States over the period 2000-2011 found that on average NREG increased the real daily agricultural wage rate by 5.3 per cent.¹⁷ Another study also found that NREGA had a significant positive impact on the wage of female casual workers, which increased 8% more in NREGA districts compared to non-NREGA districts.¹⁸ Since then, several other studies have confirmed the direction of the results.¹⁹

6.10 Global supply chains

While wages and working conditions for the numerous workers engaged in global supply chains are sometimes better than those provided in enterprises which supply the domestic market (particularly in the informal economy), the existence of low wages and long hours remain a source of concern.²⁰ In many enterprises, women are paid at the lowest end of the scale²¹.

Excessively long hours with extensive overtime work is a prominent issue — often exceeding the ILO limit of 48 hours per week established in Conventions Nos. 1 and 30. For example, one recent study of working hours in Chinese and Thai supply chain factories producing football products found that 48 per cent of the workers in these factories were working more than 60 hours per week.²² In addition, the lack of adequate rest periods and paid annual leave is also a common issue. For example, the same study found that 25 per cent of workers in the factories studied did not receive at least one day off work in every seven-day period.

In response to workers' demands for higher wages and better working conditions in supply chains, some brands and retailers have adopted corporate social responsibility (CSR) practices and have included "living wages" or "fair wages" in their codes of conduct, requiring their members to implement minimum conditions in their supply chains. However, different studies suggest that such initiatives have had only modest effects.²³

Falling prices paid to suppliers have contributed to stagnating or in some instances falling wages, and have made it difficult for suppliers to pay higher wages and sometimes even to comply with minimum wages²⁴ Suppliers, and at the end of the chain, the workers, continue to receive a small share of the retail price. Compliance with minimum wages thus also require responsible purchasing practices.

¹⁶ See Rani, U. and P. Belser (2012). The effectiveness of minimum wages in developing countries: The case of India", in *International Journal of Labour Research*, Vol. 4, Issue 1, pp. 45–66; and Rani et al., (2013). "Minimum wage coverage and compliance in developing countries". *International Labour Review*, Vol.152, No.3-4, pp.381-410

¹⁷ Berg E., Bhattacharyya S., Durgam R., and M. Ramachandra, "Can Rural Public Works Affect Agricultural Wages? Evidence from India", CSAE Working paper WPS/2012-05, University of Oxford

¹⁸ M. Azam, "The Impact of Indian Job Guarantee Scheme on labour Market Outcomes: Evidence from a natural experiment", IZA Discussion Paper DP No.6548, IZA

¹⁹ See for example Rani, U. and R. Sen (forthcoming). "Economic growth and the role of labour market institutions in India" in Hayter, S. and Lee C H (eds.) *Industrial Relations in Emerging Economies*. ILO, Geneva.

²⁰ Miller, D, and Hohenegger, K. (2016) (forthcoming), 'Valuing labor, buying practices and the low wage question in apparel supply chains', preliminary version, ILO-INWORK

²¹ JETI (Joint Ethical Trading Initiatives),2015. "Living wages in global supply chains: A new agenda for business".

²² Smyth, R.; Qian, X.; Neilsen, N; and Kaempfer, I. (2013), "Working hours in supply chain Chinese and Thai factories: Evidence from the Fair Labor Association's 'Soccer Project'", *British Journal of Industrial Relations*, Vol. 51:2, June 2013, pp. 382-408.

²³ Locke (2013), *The Promise and Limits of Private Power: Promoting Labour Standards in a Global Economy*, New York, Cambridge University Press.

²⁴ Starmanns, M., "How is value shared within global supply chains? Purchasing practices and low wages in global supply chains", ILO Working Paper, INWORK Series, forthcoming

The box below highlights the work of the ILO-IFC Better Work Programme in monitoring and furthering compliance.

Better Work Programme

The Better Work Programme is a partnership between the International Labour Organization (ILO) and the International Finance Corporation (IFC). The programme assists enterprises to improve practices based on core ILO labour standards and national labour law, including minimum wage legislation.

It does this with a strong emphasis on improving worker–management cooperation, working conditions and social dialogue. Enhancing respect for labour standards helps enterprises meet the social compliance demands of global buyers, improve conditions for their workers, and helps firms become more competitive by increasing productivity and quality.

Better Work focuses on labour-intensive industries with large numbers of vulnerable workers in developing countries, such as agribusiness, apparel, construction and light manufacturing. The programme is developing both global tools and country-level projects.

Source: [Better Work Programme](#) .