

Discussion Paper on Minimum Wage Reforms: Key Considerations for Laos Employers

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Summary:

Setting minimum wages is an important policy area for businesses, who generally seek both a predictable, transparent process and reasonable resulting levels of minimum wages. In Laos, the recent wage setting process has demonstrated that there is room for improvement in the current process for setting minimum wages. Improvements in the predictability and transparency of the process could provide significant benefits for employers. This briefing aims to help Laos employers and LNCCI review key parts of the wage setting process, identify major problems and develop a strategy to help address these problems.

This briefing paper has been prepared for the Laos National Chamber of Commerce and Industry to support effective employer input and impact on the national minimum wage setting process. It is an independent report by Dr. Jared Bissinger, commissioned by the Employers Bureau of the International Labor Organization (ILO ACTEMP). The views expressed in this paper are the authors' own, and do not necessarily represent the official views of the International Labor Organization.

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Introduction

The minimum wage is policy matter of major importance to workers, employers and a country as a whole. The minimum wage has an important effect on the wellbeing of workers and their families, especially those at the lower end of the income distribution. It can also have an effect on the private sector, for example by influencing the viability of a business or incentivizing skills training or investment. Unsurprisingly, the minimum wage can be a contentious issue, with different parties taking different views on the process and level of the minimum wage. These can often lead to unpleasant public arguments and politicking. However, it is possible for countries to improve their minimum wage setting process through a clear, evidence-based process that is predictable and transparent.

This briefing paper outlines steps that Laos employers, and their representative organizations, can take to improve the minimum wage setting process. The paper looks at systems from other countries, ILO Conventions and other ‘best practice’. We find that there are numerous options that LNCCI can consider that can improve the country’s wage setting process. There are four main questions considered:

1. Who sets the minimum wage?
2. What data and evidence can be used in the minimum wage setting process?
3. What design features of the minimum wage could Laos adopt?
4. What timelines should be laid out for the minimum wage process?

The paper also makes strategic recommendations to LNCCI, based on the experience of employers in other countries. However, all of the observations and recommendations in this paper should also be considered in light of the local circumstances in Laos, and no organization knows those circumstances better than LNCCI.

Minimum Wages in Laos: Current Situation

Minimum wages in Laos are mandated in the country’s labor law. The 2014 revision to the Labour Law notes in Chapter 7, Section 40:

The Government or body concerned shall periodically establish minimum salaries or wages for each region. Employers shall not establish a minimum salary or wage level lower than the level periodically fixed by the Government for each region.

The periodic fixation of the minimum salary or wage level in all labour units shall be subject to the Government's supervision and control.

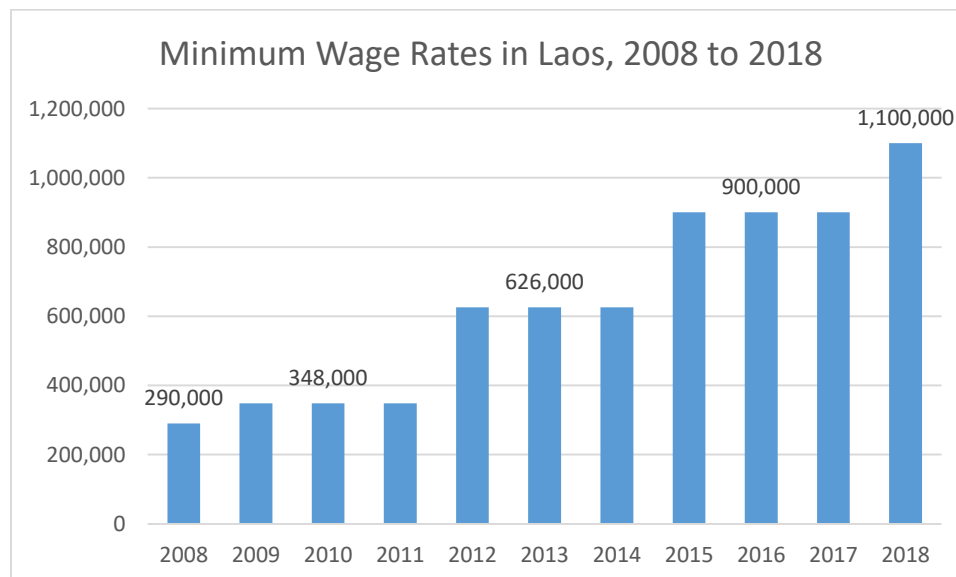
The law notes that the establishment of the minimum wage is the responsibility of the government or “body concerned”, though in practice there seems to be some involvement of tripartite partners in the process. While not specifically mentioned in legislation, the ILO notes that consideration of minimum wage adjustments is done in the Technical Tripartite Committee on Industrial Relations, which was

established in 2010.¹ As of February 2017, this committee has been conducting reviews on a “periodic basis”.²

The law does not lay out any specific criteria that should be considered when minimum wages are fixed. However, the law does lay out criteria that should be considered for the determination of remuneration by the employer at the enterprise. These may be suggestive of current government thinking on the factors relevant for wage setting. They include:

- *the material and spiritual needs of workers;*
- *the cost of living and any periodic changes therein;*
- *social welfare and social security benefits for workers;*
- *the evaluation of the skills and abilities level of the various social groups or the level of the payment of wage or salary in other labour units.*

The current minimum wage in Laos is 1,100,000 Kip per month (US \$128.59). The minimum wage in Laos is a single rate applicable to all employees, and does not differ based on region, skill level, or employer characteristics. The wage rate has increased significantly in the last decade. In 2008, the minimum wage was 290,000 Kip per month, though that was increased in 2009 to 348,000 Kip. In early 2012, the monthly minimum wage was increased from 348,000 Kip to 626,000 Kip, an increase of approximately 80%. In 2015, the wage was increased again, to 900,000 Kip per month. In 2018, the wage was increased again to its current level of 1,100,000 Kip per month.



¹ http://www.la.one.un.org/images/publications/ILO/lao_preview.pdf, pg. 14

² http://www.la.one.un.org/images/publications/ILO/lao_preview.pdf, pg. 83

The Laos Decent Work Country Programme

According to the ILO's recently adopted Decent Work Country Programme (DWCP) for Laos, tripartite partners have identified the minimum wage process as a priority area to address before 2021. The specific target in the DWCP notes the following regarding minimum wage:

- Target 4.1.2 National constituents (i) agree on procedures and criteria for more regular minimum wage reviews; (ii) agree on measures to ensure that gender considerations are addressed in this context and (iii) hold at least two reviews under revised approach by 2021.

There is also an indicator attached to this target, which is:

- Indicator 4.1.2 Number of evidence-based and gender-sensitive tripartite minimum wage reviews.³

Who sets minimum wages?

The question of who has the responsibility to set the minimum wage, and who has the right to provide input into the process, is one of the most important considerations for the wage setting process. The ILO Minimum Wage Fixing Convention (Convention 131) provides some guidance on this, noting the following:

Provision shall be made, in connection with the establishment, operation and modification of such machinery, for full consultation with representative organisations of employers and workers concerned or, where no such organisations exist, representatives of employers and workers concerned.

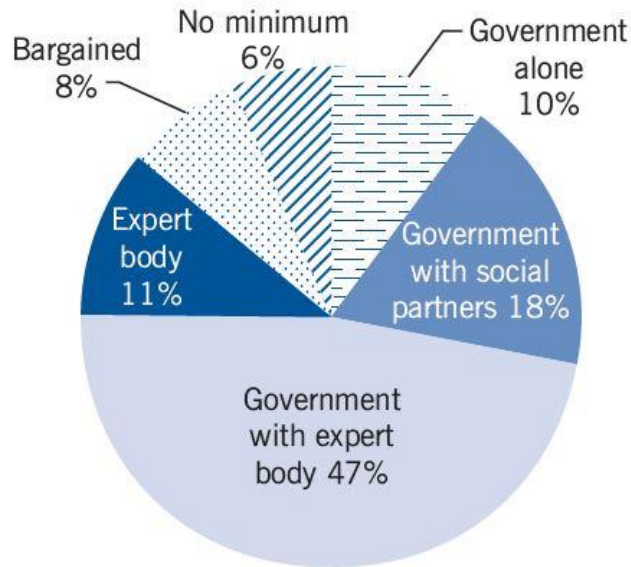
C131 makes clear that the setting of minimum wages should fully include representatives of workers and employers. When looking at the types of wage setting systems around the world, it is notable that employer and worker representation is present in many minimum wage setting systems. As Figure 1 illustrates, in 2015 nearly half (47%) of the wage setting systems consisted were described as “government with expert body”. Notably, the composition and functioning of the ‘expert body’ can vary significantly, with many parties including tripartite constituents in the expert body.⁴

Figure 1. Global Prevalence of Different Minimum Wage Setting Regimes

³ Laos DWCP, pg. 37

⁴ Given this definition, it is unclear how the report's authors differentiate between minimum wage setting through “government with social partners” from minimum wage setting through “government with expert body”.

The global prevalence of different minimum wage setting regimes



Source: Calculations based on data from [1].

IZA
World of Labor

The use of expert bodies in the wage setting process is growing, with many countries now relying on an expert body to advise governments on the appropriate rate.⁵ Nearly 60% of minimum wage systems now involve some type of 'expert body', most of them in conjunction with the government. Examples of countries that involve experts in the wage setting process include:

- Low Pay Commission, United Kingdom. This commission is charged with submitting a report to government each year making recommendations on wage matters. Notably, the UK commission addresses not only minimum wages, but also other topics related to low wages. The commission is also charged with carrying out various types of research and consultation.⁶
- Minimum Wage Council, South Korea. The MWC consists of representatives of workers and employers, as well as public interest delegates, who conduct an initial review of the minimum wages system. These findings are then communicated with the executive branch of government, which sets the minimum wage.⁷
- National Committee for the Minimum Wage, Myanmar. The Myanmar minimum wage committee is comprised of 10 government representatives, 5 labour representatives, 5 employer representatives, and 5 independent experts. The committee is charged with determining the minimum wage, which is then approved by the national government.⁸

⁵ <https://wol.iza.org/uploads/articles/211/pdfs/how-are-minimum-wages-set.pdf>

⁶ <https://www.gov.uk/government/organisations/low-pay-commission/about>

⁷ <https://www.kli.re.kr/downloadEngPblFile.do?atchmfnlNo=19084>

⁸ Union of Myanmar minimum wage law

- National Wages Consultative Council, Malaysia. The Malaysian MW committee includes tripartite representation and experts, and is charged with recommending a minimum wages rate to the government.⁹
- National Wages Council, Singapore. This is a tripartite committee, consisting of representatives of government, workers, and employers. Its mandate is to “formulate wage guidelines to be in line with long-term economic growth, so that Singapore’s economic and social development would not be undermined.”¹⁰ Notably, the Singaporean NWC has a guiding principle that the “real wage increases should be in line with productivity growth over the long term.”¹¹

Minimum wages systems from other countries provide some insights on the composition and mandate that Laos could consider for its own minimum wage committee. Some important characteristics of minimum wages expert committees that could be considered include:

- Participation of workers, employers, and independent experts
- The ability to commission research
- The ability to receive inputs from interested parties
- The ability/mandate to formulate a minimum wages proposal

Another type of wage setting is through collective bargaining, though this is predominantly found in Europe. The ILO has suggested that there is evidence to suggest that “a government legislated minimum wage is lower than a wage floor set within collective agreements.”¹² They noted that this effect is robust and hints at a causal relationship between the wage setting regime and the wage level.¹³ However, it is not clear if this analysis considered wide variety of different non-bargaining wage setting mechanisms. Further, given the lack of history of collective bargaining in Laos, it is unclear how effective this system would be given the local context.

Recommendations

- Consider the establishment of an expert body, comprised of government, workers, employers, and independent experts, to determine or make recommendations on minimum wages.
- Request that the government, or an expert body (if established), be able to commission research and receive outside inputs about the minimum wage.
- Request that the government allocate a small budget to the expert body, though with sufficient funds to fulfil its mandate.

⁹ <https://wageindicator.org/salary/minimum-wage/malaysia/minimum-wage-in-malaysia-frequently-asked-questions>

¹⁰ <https://www.tripartism.sg/page/National-Wages-Council/>

¹¹ <https://www.tripartism.sg/page/National-Wages-Council/>

¹² <http://ftp.iza.org/dp4335.pdf>

¹³ <http://ftp.iza.org/dp4335.pdf>

Evidence and Data in the Minimum Wage Review Process

One of the most important considerations when designing a minimum wage setting system is the criteria and data that are used in the process. These decisions are made at the country level, and often incorporated into national law. ILO Convention 131 provides guidance on factors that could be considered in the minimum wage process. Article 3 of ILO Convention 131 notes:

The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include--

- a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;*
- b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.*

During discussions with LNCCI in February it was noted that the trade union collected cost of living data. It was also noted that the Bank of Lao had inflation statistics, but it was noted that they were only somewhat reliable and anyways not the same as CPI. Data on other important areas mentioned in ILO C131, including productivity and employment, were not available or used in the process.

The needs of workers and their families is a concept that is heavily debated. There is no single and agreed definition of what this is. It can be interpreted as either absolute needs or needs relative to the median household or income. As the ILO notes, the needs of workers and their families cannot be considered in a vacuum; it must be viewed “in relation to a country’s level of economic and social development.”¹⁴ Determining the needs of workers and their families is further complicated by the differing size of families, as well as the differing number of people from each household that are working. As such, the ILO recommends that the best way to address basic living standards is through “the combination of a minimum wage and social security measures.”¹⁵

Cost of Living

One important consideration when determining minimum wages is the cost of living. In fact, in a broad review of national legislation, the ILO found that the language most commonly used in national legislation for the factors to be considered during minimum wage setting was inflation/cost of living.¹⁶ The change in living costs is often tracked through the use of a “consumer price index” (CPI), which shows the change in prices of a commonly purchased group of goods or services. CPI is generally produced by a national statistical agency and can be found publicly on the website of the Laos Statistics Bureau or in the annual IMF Article IV reports, amongst other places.¹⁷ CPI is amongst the most widely used types of data for assessing changes in the cost of living, and it would be beneficial for LNCCI to thoroughly consider this data in all minimum wage discussions. A comparison of changes in the minimum wage and the CPI in Laos over the last decade shows that minimum wages have increased

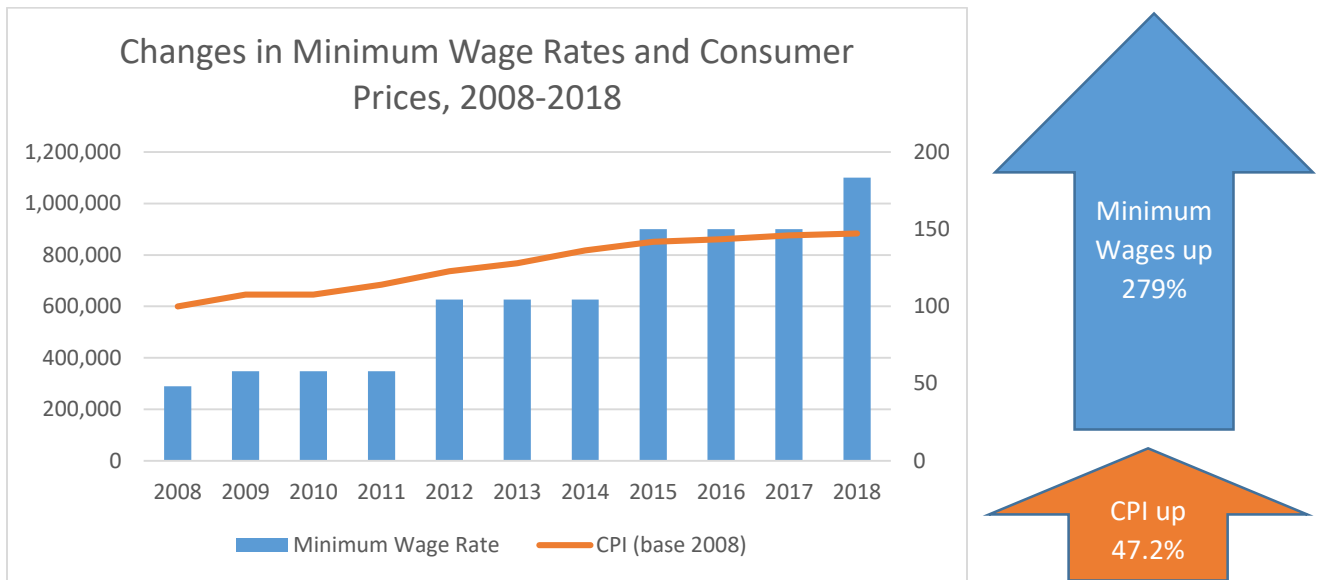
¹⁴ ILO Minimum Wage Guide, Chapter 5, pg. 4.

¹⁵ ILO Minimum Wage Guide, Chapter 5, pg. 4.

¹⁶ ILO 2005 minimum wage book

¹⁷ <https://www.lsb.gov.la/en/>

significantly faster than consumer prices. This could be an important argument that employers could draw out during minimum wage discussions.



While the CPI provides important information about changes over time, it does not help establish whether the current minimum wages level is too low or too high. A more challenging question is the level of needs that a minimum wage should meet. This is a subjective exercise, and one that is often culturally or contextually defined. One proposal is for to use national poverty lines combined with household size and labor force data to determine a wage level needed to lift households out of poverty.¹⁸ A poverty threshold is usually based on a set of basic necessities, including adequate nutrition as well as clothing, shelter, and other necessities.¹⁹

Another proposal is for the minimum wage to be set at the level of a “living wage,” however there is not a universally accepted definition of this concept. The ILO has noted that often living wage can often be sufficient to support a “basic, but decent, lifestyle” that is acceptable by society. It can also be defined as a wage sufficient to allow “workers and their families...to live above the poverty line, and be able to participate in social and cultural life.”²⁰ Notably, this is a broader definition of need, because it includes social aspects. This would lead to a higher level of minimum wages if incorporated into discussion on the minimum wages. Some employer groups oppose the adoption of a ‘living wage’, noting that the government also has an important role to play in providing support for a society’s poorest members, through various social programs. They argue that the entire burden for supporting society’s poorest should not fall on employers, but include both the labour market and government intervention.

¹⁸ ILO Minimum Wage Guide, Chapter 5, Annex 2, pg. 14.

¹⁹ ILO ibid

²⁰ https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

General Level of Wages

Reviewing the general level of wages in a country can help provide additional context to discussions on the minimum wage, and inform discussion about the relative needs of workers and their families. One of the most common ways measures to look at the general level of wages is by comparing the minimum wage and median wage, which can be derived through analyzing data from labor force surveys. If the ratio is too low, it can indicate that there is significant inequality in a country and call into question the fairness of the minimum wage. If a minimum wage is too high in comparison to a median wage, it suggests widespread non-compliance or a significant divide between the formal and informal sectors.

In Laos, the most recent labour force survey in Laos found that the country's median wage was 1,800,000 kip per month.²¹ This survey was conducted in July and August 2017, and at that time the country's minimum wage was 900,000 kip. Using this 2017 data, we find that the country's ratio of minimum to median wages at the time was 0.5, or 50%. To approximate the ratio for the new minimum wage of 1.1 million kip, we adjust the median wage from 2017 for one of inflation, yielding an estimated 2018 median wage of 1,854,000 kip. Based on this estimate, ***we can approximate that the 2018 ratio of minimum to median wages is .59, or 59%***. The ILO estimates that in developed countries, the ratio of minimum to median wages is between 40% and 60%. In neighboring Vietnam, the ratio is .41, or 41%.²² These figures suggest that the current ratio of minimum to median wage rate in Laos is not abnormal at all by international standards. Further analysis may suggest that additional growth in this ratio, driven by minimum wage rate increases, could heighten pressures for non-compliance or for businesses to be informal.

Productivity

For employers, one of the most important considerations in the minimum wage setting process is productivity, because employers often rely on gains in productivity to offset some of the costs of increased wages. While it is important that employers emphasize productivity, it has traditionally been challenging to accurately measure. Beyond measurement challenges, productivity growth can be driven by improvements in labor productivity, capital productivity, total factor productivity, and often all of these at once. In discussions on productivity, labor representatives will often emphasize that workers should enjoy a share of the benefits from gains in productivity. Employers should consider these views, while also emphasizing that some benefits of improved productivity go to employers, who make capital investments for which a financial return is expected.

The Level of Employment

The effect of minimum wage changes on the level of employment is one of the most controversial and studied aspects of minimum wages. In short, there is not a consensus in the policy world about the effect of a minimum wage change on employment levels. Some studies have found that an increase has a negative effect on employment, while others have found it has no significant effect. A few have even

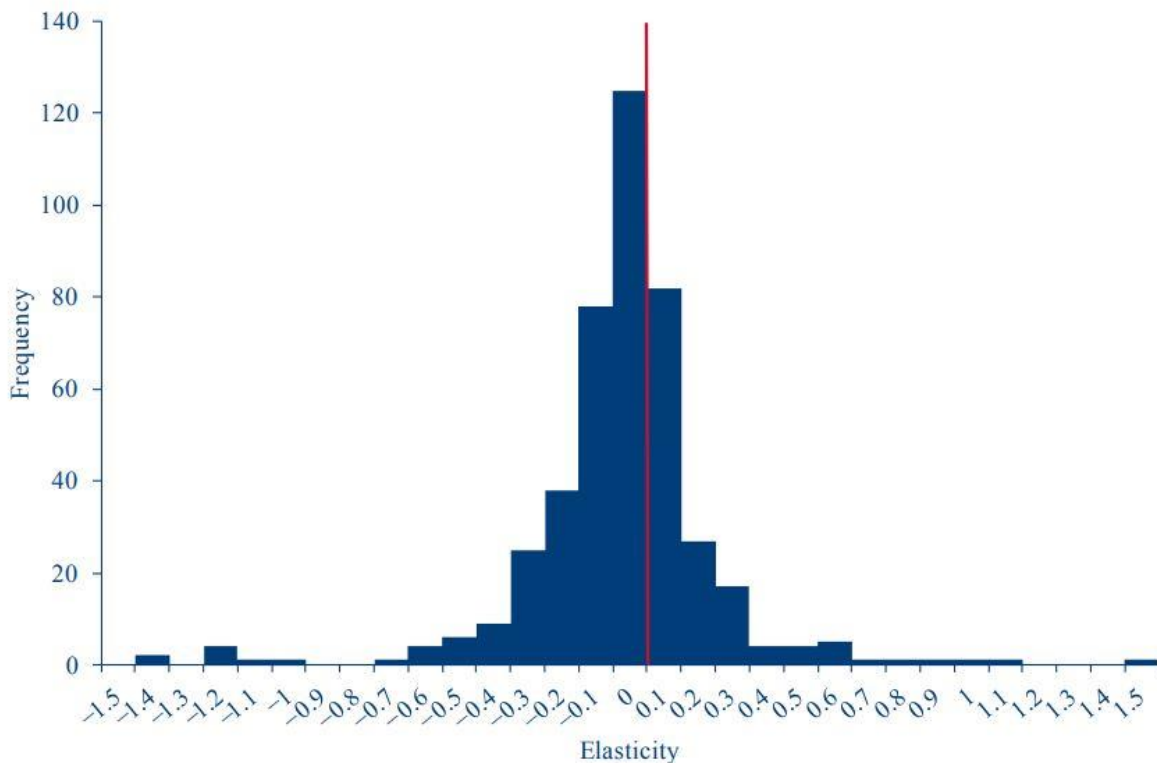
²¹ https://www.lsb.gov.la/wp-content/uploads/2017/05/Labor-force_report-22-june_ENG.pdf, pg. 3

²² ILO Minimum Wages Policy Guide, Ch. 5, pg. 8.

found that it has a positive effect, and argue that higher wages lead to increased spending, spurring domestic job creation.²³ The challenge for studying the effects of a minimum wage change is that researchers must create the counterfactual. They do not know exactly what would have happened if the minimum wage did not change, so must model it based on assumptions and limited data. This is an inherently difficult proposition.

A number of macro studies find that there is “some evidence that increases in the minimum wage result in very small reductions in employment.”²⁴ However, these results are only significant about half the time, and depend significantly on study design and country context. Some authors have found that in the United States, there is not a significant relationship between minimum wage increases and employment reduction.

Figure XX. Distribution of Employment and Hours Elasticities for the Meta-Regression²⁵



In developing countries, the relationship between minimum wage and employment is also mixed and results vary widely. However, the majority of studies suggest a small, negative relationship between

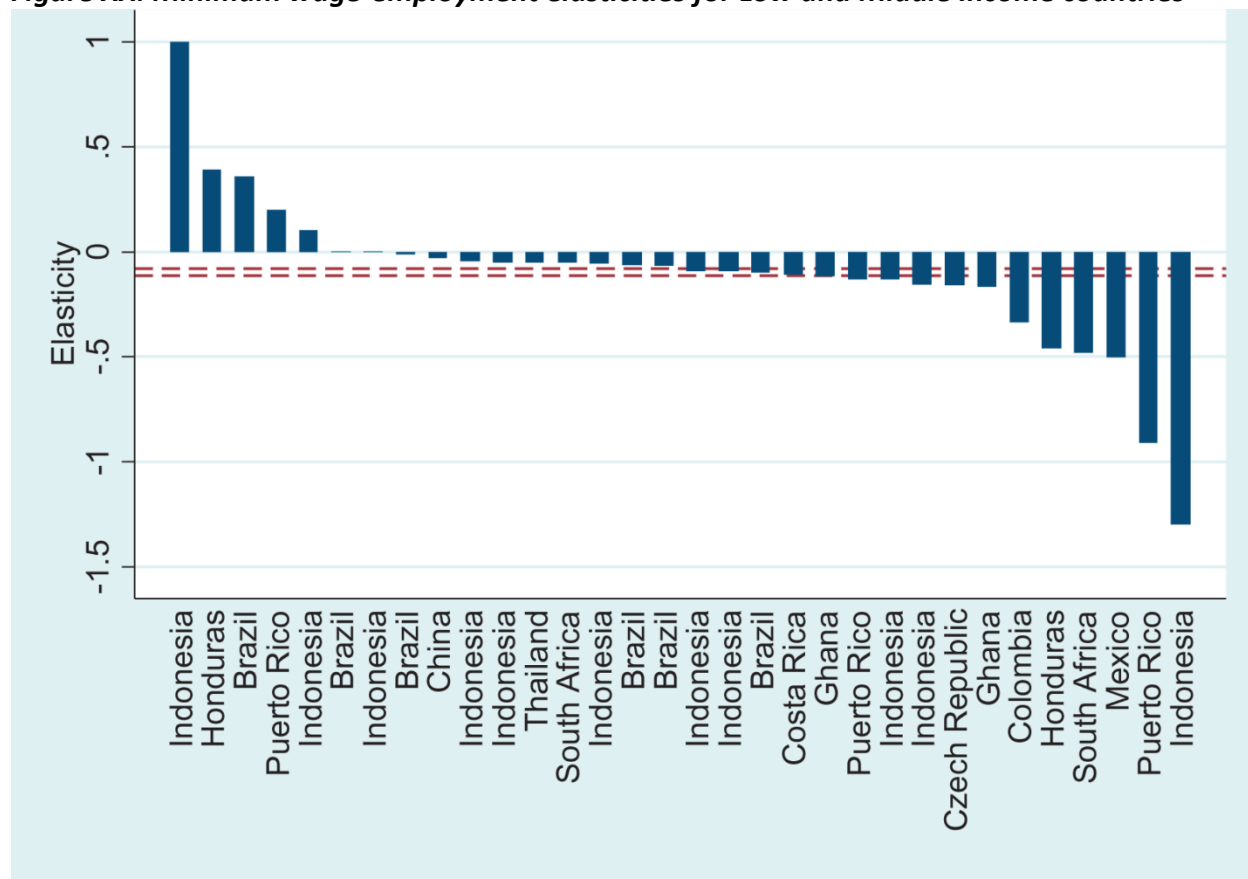
²³ There are numerous studies and reviews of the minimum wage and its effects. See, for example, Belman, Dale and Paul J. Wolfson, *What Does the Minimum Wage Do?*, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2014. For another comprehensive but slightly older review of the literature, see Neumark and Wascher (2007), <http://ftp.iza.org/dp2570.pdf>

²⁴ https://research.upjohn.org/cgi/viewcontent.cgi?article=1220&context=empl_research, pg. 5

²⁵ https://research.upjohn.org/cgi/viewcontent.cgi?article=1220&context=empl_research, pg. 5

minimum wage increases and employment. The following chart shows these findings for only developing countries.

Figure XX. Minimum wage-employment elasticities for Low and Middle Income countries²⁶



Unfortunately, there has not been a study on the relationship between a minimum wage increase and employment in Laos. The country has a number of important economic characteristics that will affect the relationship, including significant migration, small size, being landlocked, and concentration in agricultural production. Employers should emphasize the uncertainty of this relationship, and highlight the international evidence that suggests a slight negative effect on employment.

Using Formulas to Set the Minimum Wage

²⁶ From: Minimum Wages in Sub-Saharan Africa: A Primer
 World Bank Res Obs. 2017;32(1):21-74. doi:10.1093/wbro/lkw007
 World Bank Res Obs | © The Author 2017. Published by Oxford University Press on behalf of the International Bank for Reconstruction and Development / THE WORLD BANK. All rights reserved. For Permissions, please e-mail: journals.permissions@oup.com, pg. 6

Some countries have codified their minimum wage setting practice into a specific formula to assist in the process. Some of the formulas are more rigid while others have greater room for flexibility. For example, Costa Rica has a formula for minimum wage setting, which is:²⁷

$$\Delta MW = \text{expected } \Delta \text{CPI (+correction factor)} + (20\%-40\%) * \Delta \text{GDP per capita}$$

In Brazil, a different formula is used which considers past inflation and GDP growth.²⁸ This formula is:

$$\Delta MW_t = \Delta \text{CPI}_{t-1} + \Delta \text{GDP}_{t-2}$$

(change in the minimum wage in the upcoming time period is equal to the change in the consumer price index in the most recent time period plus the change in the gross domestic product two time periods ago).

Formulas have a number of attractive features. They clearly define the data that will be considered in the wage setting exercise. They also create transparency about the setting process because everyone can look at the formula to determine how the new wage level was reached. However, formulas also have significant downsides. For example, they can create expectations of inflation and also fuel inflationary wage-price spirals in certain situations.²⁹ They can be overly rigid, which can lead to problems when countries are facing unusual economic circumstances, such as rapidly rising inflation, rapidly falling employment or stagflation. The use of formulas can also create problems regarding the participation of worker and employer representatives in the process. The ILO recommends that if formulas are used, they should be “consulted with social partners and not be used as a substitute for social dialogue.”³⁰

Recommendations

- Consider proposing an amendment in the law that codifies the factors considered in minimum wage setting.
- Propose that the CPI data from the Laos Statistics Bureau be used for minimum wage discussions, and that any data collected by the Laos Trade Union not be used for official purposes (though the Laos Trade Union can still put forward any data it collects as representing the subjective views of its members).
- Recommend that the law give “equal” consideration to both the needs of workers and their families and economic circumstances.
- Consider including a provision in law that guarantees access to relevant data for an expert commission, social partners, and other interested parties.
- Due to its subjectivity, avoid discussions about a “living wage” and instead focus discussion and advocacy on clear, well-defined concepts with supporting data.

²⁷ http://www.ilo.org/global/topics/wages/minimum-wages/setting-adjusting/WCMS_461283/lang--en/index.htm

²⁸ http://www.ilo.org/global/docs/WCMS_463095/lang--en/index.htm

²⁹ https://www.ilo.org/global/topics/wages/minimum-wages/setting-adjusting/WCMS_439254/lang--en/index.htm

³⁰ https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/genericdocument/wcms_508530.pdf

- Avoid the use of a strict, codified formula for minimum wage setting. If there is strong sentiment towards adopting a formula, consider advocating that the formula only establish a range, and the exact level be fixed through an evidence-based process involving social partners.
- Emphasize in minimum wage discussions that there is international evidence to suggest a slight negative relationship between minimum wage increases and employment.
- Obtain Laos Labour Force Survey data and analyse this.
- Discuss with the Laos Bureau of Statistics to learn about existing productivity data, and then consider steps to improve productivity data.

Minimum Wage Design

Though Laos currently has a single, nationwide minimum wage, it is common for countries to have a number of minimum wages, targeting particular groups or policy outcomes. One important question for employers to address is how many minimum wages there should be. Simple minimum wage systems, with one or a few wages, are easier to operate, communicate and enforce. More complex systems can be better tailored to the circumstances of different sectors or regions, but require more institutional capacity.³¹

The ILO provides some general guidance on minimum wages coverage. Generally, ILO C131 states that the system of minimum wages should cover “all groups of wage earners” employed under appropriate terms and conditions. The Minimum Wage Fixing Recommendation (C170) also notes that the number and groups of wage earners not covered by the minimum wage “should be kept to a minimum”. However, the Convention also leaves room for countries to determine for themselves which workers are covered. Article 1, No. 2 of Convention 131 states that “the competent authority in each country shall, in agreement or after full consultation with the representative organisations of employers and workers concerned, where such exist, determine the groups of wage earners to be covered.” In view of this general guidance, a wide variety of different designs and characteristics for minimum wages systems have been adopted.

Minimum Wages based on Geographical Region

Some countries, including many in ASEAN, use a minimum wages system in which different parts of the country have different minimum wages levels. The primary reason that a country would adopt this type of system is due to significant differences in the cost of living within the country. Areas with higher costs of living would have a higher minimum wage, while less expensive areas would have a lower rate. A system of regional minimum wages should be based on very clear evidence showing the different costs of living.

A system of regional minimum wages is common across ASEAN, being found in Malaysia, Thailand, Indonesia, Philippines, and Vietnam. However, in each country the system differs, being relatively simple in some cases and more complicated in other cases. Malaysia currently has the simplest system with two minimum wages: RM 1,000 per month for the more developed Peninsular Malaysia, and RM 920 for the less developed Sarawak and Sabah. However, from January 1, 2019 Malaysia is moving to a single

³¹ <https://www.groundup.org.za/media/uploads/documents/NMWReportFinal.pdf>, pg. 22.

national minimum wage of RM 1,100 per month.³² Vietnam has a four tiered minimum wages system, with rates ranging from VND 2.76 million for the least developed Region IV provinces, to VND 3.98 million for the most developed Region I provinces.³³ Indonesia's minimum wages system is more complicated, with each of the country's 34 provinces having its own minimum wage rate.³⁴

A regional minimum wage system can be designed in any way that local stakeholders view as reasonable. It does not have to set a different wage for each province, as the Malaysia case demonstrates. It could also be designed so that the large city (or cities) have a higher rate, while rural areas have a lower rate. These designs are all possible, and must be determined based on local circumstances. Note that a minimum wage system with regional variation has a number of implications, both positive and negative. On the positive side, it can better tailor wages to local circumstances. On the negative side, it can be politically manipulated. It can also serve to change patterns of business and investment, which can be both positive and negative. For example it can promote creation of employment in certain regions, and disincentivize it in others. It can induce enterprises to move. These incentives should be considered during the wage setting process, to optimize the overall outcomes.

Sectoral Minimum Wages

Some countries set minimum wages based on the economic sector. This type of minimum wage setting system can help to address certain policy concerns, for example by helping less profitable but employment intensive sectors. Sectoral minimum wages are sometimes set by a government or expert committee. However in other countries, the system of sectoral minimum wages is linked to a system of wage setting through collective bargaining. This is used in Europe, where Austria, Cyprus, Denmark, Finland, Italy and Sweden set sectoral minimum wages through collective agreements.³⁵ Historically, South Africa has also used a system of sectoral collective bargaining to set their sectoral minimum wages, a system they refer to as "sectoral determination." However coverage is not comprehensive, with approximately 22% of workers not covered by any sectoral minimum wage.³⁶ There is significant variation in the minimum wages that result from sectoral determination, which range from the lowest rate of 1,813 Rand/month for domestic workers to 2844 Rand/month for contract cleaners.³⁷

Sectoral minimum wages are also used in Southeast Asia. Cambodia's minimum wage is technically a sectoral wage that applies only to the garment sector. The Philippines has a more complicated system of sectoral wages that include specific wages for workers in agriculture, non-agriculture, retail/service, and manufacturing. In some geographical areas, the Philippines system also contains minimum wages for domestic workers, fishing industry workers, cottage/handicraft workers, and sugar industry workers.³⁸

³² <https://www.malaymail.com/s/1689342/minimum-wage-raised-to-rm1100-in-2019>

³³ <https://www.vietnam-briefing.com/news/vietnam-to-hike-minimum-wages-by-5-3-percent-in-2019.html/>

³⁴ <https://www.expatriate.org/indonesian-minimum-wage/>

³⁵ <https://www.cesifo-group.de/DocDL/dice-report-2015-2-rumscheidt-minimum-wage-june.pdf>, pg. 1.

³⁶ South Africa Minimum Wage Review, pg. 56

³⁷ These values represent only the lowest minimum wage rate in each of the sectors, most of which also have higher minimum wage rates for other types of employees. The highest minimum wage rate in any sector is 6506 Rand per month for certain types of wholesale and retail employees.

³⁸ <https://psa.gov.ph/sites/default/files/attachments/cls/Tab%202021.pdf>

There are both benefits and challenges of sectoral minimum wages. One challenge is that the system may be complicated, which could make it more difficult to workers and employers to understand and implement. Another challenge is that a sectoral system may not cover workers in all sectors, or there may be confusion about the applicable sectoral wage. There are avenues to address this shortcoming, however, such as a national minimum wage covering all workers, overlaid by a system of sectoral minimum wages. Another challenge for the use of sectoral minimum wages is that it can result in a system with numerous wages, which may not provide equal remuneration for work of equal value. However, supporters of a sectorally-determined wage may argue that because different sectors produce different levels of economic value, a sectoral minimum wage may be best suited reflect the value created in that sector.

Qualification-based Minimum Wages

In some countries, minimum wages are linked to various qualifications. Sometimes these qualification-based wages are used as a proxy for productivity, as it is assumed that workers with higher qualifications should be more productive at work. Qualification-based systems can work in different ways. One approach is for workers to receive a skills-based premium, based on a particular certification or qualification. Another is for the minimum wage system to set different minimum wage levels based on the job description. Bangladesh, for example, does the latter, through a grading system for garment workers that classifies all positions according to a seven-tier scale.

A qualification-based minimum wage can provide some benefits. For example, it can facilitate the entry of unskilled or low-skilled workers into the labour force, at a wage level that encourages businesses to hire these workers. However, it can also present challenges. One challenge, for qualification-based pay, is that qualifications may not accurately reflect skills and that these may not translate into improved productivity. Another challenge, for systems such as Bangladesh, is that the differences between pay grades can be subjective, and there is a risk that workers and employees will disagree over pay grade classification. Given these challenges, and the fact that they serve as only a proxy for productivity, employer groups often do not desire to have qualification-based components in the minimum wages system.

Wage Reductions for Young Workers, Apprentices, Training Periods, or New Entrants

In some countries, minimum wages are set at a reduced level for workers who are younger, undergoing training, or new to a particular field. Generally, these types of systems are designed to incentivize businesses to hire individuals with less experience or skills, by helping them to offsetting lower productivity through a reduced wage bill. These reductions take various forms, and there is some debate on the most effective of these mechanisms.

One type of reduction is age-based, with lower levels of minimum wages set for younger workers. The purpose of this reduction is to facilitate young workers to enter the labor force. This type of system exists in the UK, which has four age groups: 16-17 year old; 18-20 year old; 21-24 year old; and 25+.³⁹ France has different minimum wages for each of three age groups, however these reductions only apply

³⁹ <https://minimumwage.blog.gov.uk/category/ukminimumwagerates/>

to workers with less than six months of experience in the sector.⁴⁰ Some countries have also been moving away from age-based pay, including Slovenia, Czech Republic, Spain and Belgium.⁴¹

Another type of wage reduction is for apprentices or workers who are undergoing training. The rationale for these lower minimum wage rates is partly due to the lower productivity levels of apprentices, who are developing but may not yet possess the necessary skill set for a job. They also reflect the human capital development that apprentices should benefit from during the course of their training. Apprentice pay systems are fairly common, though specific arrangements are country-specific. In the United Kingdom, for example, apprentices are entitled to a minimum wage of £3.70. In other countries the apprentice wages are expressed as a percentage of the minimum wage rate. This is the case in Myanmar (50%), Paraguay (60%), Philippines (75%) and Bulgaria (90%).⁴²

A third type of wage reduction is for workers who are either new to a company or to a sector. The rationale for these reductions is that new workers who are less familiar with a business or sector will not be as productive as experienced employees.⁴³ These types of systems exist both in developed and developing countries. Myanmar allows for a minimum wage rate of 75% of the normal rate for the first three months of a worker's tenure at a business. Poland allows a lower rate for workers with less than one year of experience, while Ireland allows the same for workers with less than two years of experience.

Each of these types of reductions is designed to meet a particular policy goal, such as facilitating youth entry into the labor force or encouraging skills training at work. Employers should approach these tools as a way to address certain policy objectives, not as a way to generally reduce wages. Employers should work to identify key policy problems first, through consultation with members, and then determine if any of these options could help address the problem.

Exclusions/Modifications for Certain Types of Workers

Some minimum wage systems have exclusions or modifications for certain types of workers due to the nature of their working arrangements. One common category of worker that is sometimes excluded from minimum wages is domestic workers. Countries may choose to do this because of the different working nature of the job, and the provision of food and accommodation. However, such changes can leave workers vulnerable, so it is suggested that a separate but equivalent regime govern these workers. Singapore, for example, has a monthly minimum pay rate for foreign domestic workers, as well as some provisions governing working arrangements such as one day of off time per week.⁴⁴ Note that this type of exclusion can sometimes be for workers in a certain sector, meaning this type of exclusion may look similar to a system of sectoral minimum wages.

Some minimum wage systems do not require that certain family members receive a minimum wage when working at a family business. In some cases, these family members are not considered employees

⁴⁰ <https://www.groundup.org.za/media/uploads/documents/NMWReportFinal.pdf>, pg. 23

⁴¹ <https://www.groundup.org.za/media/uploads/documents/NMWReportFinal.pdf>, pg. 23

⁴² ILO Minimum Wages Guide, pg. 22.

⁴³ <https://www.groundup.org.za/media/uploads/documents/NMWReportFinal.pdf>, pg. 23.

⁴⁴ For more information, see: https://www.ilo.org/global/topics/wages/minimum-wages/domestic-workers/WCMS_438291/lang--en/index.htm

of the business. These exclusions mean that a business is exempt from paying immediate family members a minimum wage. For example, in Myanmar the minimum wage law notes that a family members of a business owner, such as a spouse or child, are not entitled to minimum wage. It is worth re-emphasizing that exclusions should be thoroughly considered, and minimized where possible, so as to comply with the letter and spirit of international standards.

Exclusions/Modifications for Micro and Small Business

Some countries are concerned about the effect of minimum wage increases on small businesses, and make adjustments to the minimum wage that are favorable for small businesses. Myanmar, for example, excludes businesses with fewer than 10 employees from paying minimum wages. The Philippines, which also utilizes a system of regional wages, has reduced minimum wages for small businesses in a range of sectors and locations.⁴⁵ The U.S. city of Seattle, which has a minimum wage ordinance, allows small employers (with less than 500 workers) to pay workers \$14 per hour, while large employers must pay a minimum wage of \$15 per hour. The Seattle law also allows small businesses to meet part of the minimum wage level by including costs that small employers pay for employee health care.⁴⁶ Laos could consider similar types of modifications for its minimum wage, in order to favor small businesses.

Recommendations

- Dialogue with the Laos Statistics Bureau to determine whether provincial cost of living and other data is available for use in minimum wage setting.
 - If so, review this data to determine if there are significant cost of living differences and whether they merit proposing different minimum wage levels for different regions.
 - If so, consider a simplified regional minimum wage, potentially with one rate for Vientiane and another rate for the rest of the country (or similar structure as LNCCI deems most appropriate).
- After internal consideration, oppose any initiative to link minimum wages levels to skills certifications or other proxies for productivity. Note that workers should enjoy benefits of higher productivity through minimum wage adjustments driven by increased labour productivity.

Timelines for Minimum Wage Review

Establishing clear timelines for the minimum wage review is a vital part of improving the wage setting process in Laos. For employers, there are a number of benefits to having a clear and mutually agreed timeline regarding minimum wage setting. Most importantly, it provides employers with predictability – they know when the minimum wage review will happen, allowing them to set aside the administrative time needed for changes and also make necessary changes to adjust to a new wage rate. There are a number of areas where clear timelines are beneficial, and they are reviewed in this section.

⁴⁵ <https://psa.gov.ph/sites/default/files/attachments/cls/Tab%202021.pdf>

⁴⁶ <https://www.seattle.gov/laborstandards/ordinances/minimum-wage>

Establish a frequency at which the minimum wage is reviewed

Setting a clear timeline about when the minimum wage will be reviewed and adjusted is both common and useful. ILO C131 does not provide specific guidance on when minimum wages should be reviewed, noting only that they should be adjusted from time to time. Fixed intervals for review can help to separate minimum wage setting from politics.⁴⁷ For example, it would mean that the government could not unilaterally adjust the minimum wage before an important event, or in the midst of a crisis. Another benefit of consistent time periods between the minimum wage review – ease of comparison. The setting of minimum wage at consistent intervals facilitates the consistent use of various macroeconomic variables in the wage setting process.⁴⁸ Increases that are handled on an ad hoc basis (as they are in Laos) can result in an irregular pattern of increases and freezes.⁴⁹ According to the ILO, this “not only weakens the relevance of the minimum wage, but also makes it more challenging for enterprises to absorb the cost increases.”⁵⁰

It is important that employers carefully consider their local circumstances, and recommend a frequency of adjustment that suits their needs and the local context. Frequent adjustments are generally favored by minimum wage earners, though tend to result in smaller increases in the minimum wage.⁵¹ Less frequent adjustment are administratively simpler for employers, but tend to result in larger increases in the wage. Because of this, employer views on how often to adjust the wage can be mixed: they like the lower administrative costs of infrequent revisions, but prefer the lower adjustments that tend to accompany frequent changes.

The frequency at which minimum wages are adjusted varies from country to country, however the most common period of review is once per year. Some countries (the Netherlands, for example) review their minimum wage two times per year. Other countries, such as Myanmar, review their wage every two years. Some countries do not have a required frequency for wage reviews. In the 2017 Laos DWCP, the ILO proposed that the Technical Tripartite Committee on Industrial Relations meet at least once a quarter “to consider industrial relations matters, including minimum wage adjustments.”⁵² This is a very frequent review on minimum wages given the global context.

How often should the minimum wage in Laos be reviewed? This depends on local circumstances, but considering the following questions may help provide insights on the optimal frequency of revisions:

- **Is the economic environment experiencing significant changes in cost of living or other factors relevant to minimum wage setting?** In an environment with rapid changes, more frequent meetings may be needed.
- **What capacity do policymakers and tripartite constituents have to frequently review the minimum wages?** Policymakers and constituents often have a wide range of responsibilities,

⁴⁷ <https://www.groundup.org.za/media/uploads/documents/NMWReportFinal.pdf>, pg. 84.

⁴⁸ <https://www.groundup.org.za/media/uploads/documents/NMWReportFinal.pdf>

⁴⁹ https://www.ilo.org/global/topics/wages/minimum-wages/setting-adjusting/WCMS_439254/lang--en/index.htm

⁵⁰ https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/genericdocument/wcms_508530.pdf, pg. 4

⁵¹ https://www.labour.gov.on.ca/english/es/pubs/mwap/section_04.php

⁵² http://www.la.one.un.org/images/publications/ILO/lao_preview.pdf, pg. 42

and have limited time to devote to reviewing minimum wages. If the frequency of reviews is too high, it may decrease the quality of outcomes.

- **Is relevant data released in a timely fashion and of sufficient detail?** If data is not released in a timely fashion, there may be less demand for regular discussions.

Establish a convenient timing for the minimum wage adjustment

Minimum wage adjustments should be timed so that they minimize administrative burdens and disruptions for businesses and workers. Minimum wage adjustments should generally not be planned around times of major holidays. They should not take place during the middle of the peak “season” for industries that have significant numbers of affected workers. For example, if the harvest season for key crops is from November to February, a minimum wage change coming on January 1 could be a challenge. This is because businesses are busiest during this time, and the minimum wage adjustment creates an extra administrative burden. For ease of future analysis, it can be beneficial if minimum wage adjustments align with fiscal years or time periods for which data is published. For example, the Laos fiscal year runs from October 1 to September 30, so employers should consider whether October 1 is a favorable date for implementation of the wage change. When considering timing, special emphasis should be given to industries with large numbers of affected workers.

Establish a notice period

For employers, it is helpful to have a period of time between the announcement of a new minimum wage level and the implementation of that new wage. We refer to this as a ‘notice period’. A notice period gives employers time to make necessary adjustments, for example by increasing the prices of their products slightly to offset the increased costs from higher wages. This happens in the garment sector dominated country of Cambodia. Minimum wage changes are generally announced about 3 months in advance, whereas garment factory orders are generally placed 3 to 6 months in advance. Elsewhere, notice periods differ significantly. In Canada most provinces review minimum wages one time per year, and provide notice periods of 2 to 6 months. In the United States, some states have announced a schedule of minimum wage increases for many years. In California, for example, the state government announced in 2016 a schedule of increases for a six year period, all the way until 2022.

	Minimum Wage Rate ⁵³
January 1, 2017	\$10.50
January 1, 2018	\$11.00
January 1, 2019	\$12.00
January 1, 2020	\$13.00
January 1, 2021	\$14.00
January 1, 2022	\$15.00

⁵³ <https://www.calpublicagencylaboremploymentblog.com/wage-and-hour-2/californias-new-schedule-for-minimum-wage-increases-what-it-means-for-public-vs-private-employers/>

When making a recommendation for a notice period, it is important that the period not be too long or too short. If the notice period is too long, planned increases may become disconnected from economic realities. If the notice period is not long enough, then businesses will not have sufficient time to adjust, and may go through a difficult period of a few months immediately after the wage change.

Establish a period for advance review of data

For employers to fully participate in an evidence-based process, it is important that they are familiar with the relevant evidence before consultation happens. In order to ensure that this happens, employers should receive relevant data and have a period of time to analyze that data before substantive discussions. This period to review data should be incorporated into the overall timeline.

Recommendations

- Given the current and projected relative stability of prices and high demand on the time of tripartite partners, consider reviewing the minimum wage at a frequency of one time every two years.
- Consider proposing a threshold for special minimum wages reviews. For example, if the change in CPI rose above a set level, then a special minimum wage review could be held outside of the normal two year schedule.
- Allow discussions on minimum wages at any time in the Technical Tripartite Committee on Industrial relations, but oppose any push to review and set minimum wages at a frequency of four times per year.
- Consult with major affected industries to determine peak seasons, with special consideration to a recommendation to adjust wages on October 1.
- Consult with major affected industries to determine their lead times, with special consideration to a lead time of between 3 and 6 months.
- Propose that employers, workers, and other interested parties be provided with relevant data at least two weeks before substantive meetings, so that they have time to analyse data and form evidence-based positions.

Gender Sensitivity in Minimum Wage Reviews

While the ILO Minimum Wage Convention and Recommendation do not make specific mention of gender, there are important gender-related considerations in minimum wage setting. These are supported by other, gender-related ILO conventions. Among the most important of these is ILO Convention 100, the Equal Remuneration Convention. This convention calls on all member countries to “ensure the application to all workers of the principle of equal remuneration for men and women workers for work of equal value.”⁵⁴

⁵⁴ https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C100

Despite the fact that C.100 has been ratified by 173 countries, there remains a gap in pay between men and women that is an “almost universal feature of labour markets around the world.”⁵⁵ Gender pay gaps exist across sectors, and exist in both low paying and high paying lines of work. Minimum wages can be one tool to help address gender pay gaps in low-paying jobs, though of course are only a part of a broader policy toolkit in addressing bigger gender pay gaps. If women are over-represented in low-paying jobs, then minimum wages can have make a disproportionately large contribution towards reducing gender pay gaps.⁵⁶

The importance of considering gender is explicitly mentioned in the sections of the Laos Decent Work Country Programme that mention minimum wage. Specifically, the Laos DWCP’s indicator on minimum wage mentions “gender-sensitive tripartite minimum wage reviews,” and lays out a specific target for implementation by 2021:

Target 4.1.2, part (ii) from the Laos Decent Work Country Programme agree on measures to ensure that gender considerations are addressed in this context.

It is not clear whether gender was a major consideration in previous minimum wage setting exercises. At present, there is no mention made in law requiring or suggesting inclusion of gender considerations in this process. Given this lack of previous study, an important first step would be to analyze relevant data from labour force studies to understand the gender pay gap in Laos.

Full List of Recommendations

- **Minimum Wage Setting Authorities**
 - Consider the establishment of an expert body, comprised of government, workers, employers, and independent experts, to determine or make recommendations on minimum wages.
 - Request that the government, or an expert body (if established), be able to commission research and receive outside inputs about the minimum wage.
 - Request that the government allocate a small budget to the expert body, though with sufficient funds to fulfil its mandate.
- **Minimum Wage Setting Data and Evidence**
 - Consider proposing an amendment in the law that codifies the factors considered in minimum wage setting.
 - Propose that the CPI data from the Laos Statistics Bureau be used for minimum wage discussions, and that any data collected by the Laos Trade Union not be used for official purposes (though the Laos Trade Union can still put forward any data it collects as representing the subjective views of its members).
 - Recommend that the law give “equal” consideration to both the needs of workers and their families and economic circumstances.

⁵⁵ https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/genericdocument/wcms_508566.pdf, pg. 71

⁵⁶ https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/genericdocument/wcms_508566.pdf, pg. 71

- Consider including a provision in law that guarantees access to relevant data for an expert commission, social partners, and other interested parties.
- Due to its subjectivity, avoid discussions about a “living wage” and instead focus discussion and advocacy on clear, well-defined concepts with supporting data.
- Avoid the use of a strict, codified formula for minimum wage setting. If there is strong sentiment towards adopting a formula, consider advocating that the formula only establish a range, and the exact level be fixed through an evidence-based process involving social partners.
- Emphasize in minimum wage discussions that there is international evidence to suggest a slight negative relationship between minimum wage increases and employment.
- Obtain Laos Labour Force Survey data and analyse this, to determine
- Laos employers should emphasize that there is not a clear relationship between
- Discuss with the Laos Bureau of Statistics to learn about existing productivity data, and then consider steps to improve productivity data.
- **Minimum Wage Design**
 - Dialogue with the Laos Statistics Bureau to determine whether provincial cost of living and other data is available for use in minimum wage setting.
 - If so, review this data to determine if there are significant cost of living differences and whether they merit proposing different minimum wage levels for different regions.
 - If so, consider a simplified regional minimum wage, potentially with one rate for Vientiane and another rate for the rest of the country (or similar structure as LNCCI deems most appropriate).
 - After internal consideration, oppose any initiative to link minimum wages levels to skills certifications or other proxies for productivity. Note that workers should enjoy benefits of higher productivity through minimum wage adjustments driven by increased labour productivity.
- **Minimum Wage Timelines**
 - Given the current and projected relative stability of prices and high demand on the time of tripartite partners, consider reviewing the minimum wage at a frequency of one time every two years.
 - Consider proposing a threshold for special minimum wages reviews. For example, if the change in CPI rose above a set level, then a special minimum wage review could be held outside of the normal two year schedule.
 - Allow discussions on minimum wages at any time in the Technical Tripartite Committee on Industrial relations, but oppose any push to review and set minimum wages at a frequency of four times per year.
 - Consult with major affected industries to determine peak seasons, with special consideration to a recommendation to adjust wages on October 1.
 - Consult with major affected industries to determine their lead times, with special consideration to a lead time of between 3 and 6 months.

- Propose that employers, workers, and other interested parties be provided with relevant data at least two weeks before substantive meetings, so that they have time to analyse data and form evidence-based positions.
- **Gender Sensitivity**
 - To better understand gender and wage issues, recommend that tripartite partners conduct a study on gender pay gap in Laos.
 - Review all policy proposals in light of their gender impacts, and reconsider any proposals that may have a negative impact on gender pay gaps in Laos.
 - Consider avenues to increase women's inclusion in minimum wage setting discussions.
- **Other Recommendations**
 - After three minimum wage revisions, hold a special meeting to reassess whether the current frequency works well, or should be adjusted.
 - Conduct a review of the minimum wage process after a number of years to determine how well the updated system is working.
 - Expert committees should be required to keep full minutes of all meetings?
 - Some kind of regular MW related exercise?

Other Readings on Minimum Wages

<https://www.economist.com/finance-and-economics/2012/11/24/the-argument-in-the-floor>

https://www.princeton.edu/~tleonard/papers/minimum_wage.pdf

https://www.labour.gov.on.ca/english/es/pubs/mwap/section_04.php