

MINIMUM WAGES PROPOSAL
OF THE
TRIPARTITE
LABOUR ADVISORY
COUNCIL

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FOR PUBLIC CONSULTATION

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1. BACKGROUND

In Vanuatu minimum wages tend to have been reviewed irregularly. In July 2012 the Tripartite Labour Advisory Council (TLAC) resolved that the minimum wage be reviewed annually or at least every two years, with wage proposals being based on economic, not political, factors. Despite this resolution TLAC has not released a minimum wage proposal since 2012.

As stipulated in the Minimum Wages Act [CAP 182] the primary role of the TLAC is to make necessary investigations as it thinks fit before submitting any wage proposal to the Minister as per section 7(3). This section requires the TLAC to consider:

- (a) the needs of workers and their families;
- (b) the general level of wages in Vanuatu;
- (c) the cost of living and changes therein;
- (d) social security benefits;
- (e) the relative living standards of other social groups;
- (f) Economic factors, including the requirements of economic development, level of productivity and the desirability of attaining and maintaining a high level of employment.

In August 2012, taking into account all of these factors, the TLAC proposed an increase in the minimum wage to 170 vatu per hour, which worked out to be 29,920 vatu per month (based on 22 days' work per month and 8 hours work per day). This was a 15.4% increase, which was higher than the change in the CPI over the period since the previous review. The CPI only increased by 10.35%.

The increase in real wages was proposed in order to meet the request of the then Minister of Internal Affairs. It also set the minimum wage considerably higher than the individual basic needs poverty line in all areas of the country.

2. CONSIDERATIONS

In accordance with section 7(3) of the Minimum Wages Act [CAP 182] the TLAC must consider:

- (a) the needs of workers and their families

The August 2012 proposal set a level of minimum wage that, based on 2006 poverty line data, with estimated changes, reflected the needs of workers and their families. Since then new poverty line estimations, based on data gathered in 2010, have been released.

Using 2010 data, the basic needs poverty line per adult was estimated to be 7,631 vatu per month per adult (VNSO and UNDP, *Vanuatu Hardship and Poverty Report* (2012), p 34, table 12). From the 2nd quarter 2010 to the June 2017 the national average CPI has increased by 10.96%, with Port Vila and Luganville CPIs increasing by 12.09% and 5.9% respectively. (VNSO *Quarterly*

CPI Updates). Adjusting the basic needs poverty line (in vatu per month) by the change in CPI, the amounts become:

	2010	June 2017 (Est. Increased by change in CPI; rural increased by change in national average CPI)
Vanuatu average	7,631	8,467
Rural	6,777	7,520
Luganville	8,948	9,476
Port Vila	12,419	13,920

The current minimum wage is well above the individual basic needs poverty line.

It should, however, be remembered that workers are likely to be supporting dependent family members so the individual basic needs poverty line should not be used as the benchmark for minimum wage setting. The 2012 Minimum Wage Proposal took into account the needs of workers' families also.

(b) the general level of wages in Vanuatu

The Kaitz index has been used to relate the minimum wage to the general level of wages. The Kaitz index states the minimum wage as a percentage of either the median wage or the average wage. In Vanuatu the median wage, or the middle wage being paid, is the preferred figure to use because wages are not distributed evenly, but are skewed by a small handful of very high wages.

Since the last minimum wage order, information on the general level of wages in Vanuatu has not changed. There is no current data on the current median wage, making it very difficult to discuss the general level of wages in Vanuatu.

In 2000 the median wage of all formal sector employees was 38,000 vatu (*VNSO Quarterly CPI Updates*). Since then the minimum wage increased by 46.6%. Assuming that the median wage also increased by this amount, the median wage becomes 55,708 vatu per month. The current minimum wage is 54% of this assumed median wage.

The Kaitz index estimation suggests that there is no particular need for the minimum wage to increase to address large gaps between the minimum wage and the median wage. It should be emphasized that these Kaitz index calculations are based on assumptions which may not be correct, rather than accurate data.

(c) the cost of living and changes therein;

In June 2012 it was resolved that TLAC should continue to use the CPI as the basic economic indicator of the cost of living since it is number driven and also reliable as it is a measure of the rise in prices of general goods and provides exact calculations of the figure of increase. In order to ensure consistency, the Vanuatu National Statistics Office CPI data would always be used in the TLAC's considerations.

As the CPI changes, adjustments to the minimum wage must be considered, in order to ensure that the value of the minimum wage is not eroded.

In August 2012, when the minimum wage was last increased, the CPI from March 2012 was used. At this time the CPI was 138.6. The most recently available CPI figures are from June 2017. In June 2017 the CPI was 150.8 (*VNSO Quarterly CPI Updates*). There has been an 8.8% increase in the CPI since the last minimum wage review.

An 8.8% increase in the minimum wage would see the hourly wage increase from 170 vatu per hour to 185 vatu per hour.

(d) social security benefits;

There was a 100% increase in the severance allowance in 2009. There was also a 32% increase in the maternity leave allowance in 2009. Annual leave was also increased, with the amount of the increase depending on the length of time of employment.

These changes increased employer costs and the indirect benefits to workers. A survey conducted for the Vanuatu chamber of Commerce and Industry also indicated that they also led to reduction in direct wages for some people. If more cash in the pocket, or a higher minimum wage, is wanted, then perhaps the government needs to consider a trade-off with lower social security benefit levels.

(e) the relative living standards of other social groups;

A standard measure of relative living standards is the Gini coefficient, which reflects the distribution of income throughout a population. A score of 0 would reflect a perfectly equal distribution and a score of 1 would reflect a perfectly unequal distribution. In 2010 Vanuatu's Gini coefficient for households was estimated to be 0.31, which indicates a fairly equal income distribution. In urban areas the Gini coefficient is even lower (0.25 for Port Vila and 0.28 for Luganville), indicating a generally high level of income equality. In other words, there are few very rich households and very poor households, but many households have similar amounts of income. It can also be noted that the Gini coefficient has fallen since 2006, indicating that Vanuatu has been reducing income inequality.

The low Gini coefficient suggests that there is no particular need for the minimum wage to increase to address problems of income inequality.

(f) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

There is a trade-off that needs to be considered: higher minimum wages mean that workers have more money to spend. This in turn boosts the local economy. As demand for local products increase, so too does local employment. On the other hand, higher minimum wages means some minimum wage workers may lose jobs, and fewer entry level jobs may be created. The impact of any change in minimum wages depends, largely, on the economic climate.

Vanuatu is has recently faced a particularly tough environment in which to live and to do business. A number of factors are important to note:

- Cyclone Pam in 2015 had severe impacts on businesses, with tourism and hospitality related ventures being particularly affected.
- In early 2016 three airlines ceased flying into Vanuatu due to deteriorating runway conditions at Bauerfield Airport. This contributed to a further downturn in tourism. There have also been flow-on effects to other sectors, such as retail and agriculture. Whilst two airlines have recommenced flights to Vanuatu tourism numbers are still at pre-Cyclone Pam levels.
- Vanuatu's agriculture sector has recently been affected by el Nino weather events, with 2015 being the start of a particularly severe drought.
- Uncertainty about tax policy continues. Value added tax will be increasing, which increases costs for all consumers and may decrease consumption. Personal and corporate income tax policies are also expected to change.
- Vanuatu has experienced a slowdown in foreign investment. From 2007 to 2013 the number of new applications from foreign investors decreased. Between 2014 and 2016 numbers of new applications have again been increasing (*VIPA FDI Annual Report 2016*), so this trend may be reversing. It can, however, be noted that that there is a lack of data on the number of, and trends in, renewals of foreign investment certificates.
- The need for increased employment opportunities is pressing. In 2013 it was estimated that around 3500 school leavers enter the labour force annually. However it was estimated that only 700 new jobs are created annually.
- Low productivity of workers is considered to be a factor holding down wage levels, as ultimately, wage increases have to be justified by increases in worker productivity.

As noted in the TLAC report of August 2012 minimum wages may have the negative effect of:

- Raising employment barriers for people with little or no work experience or formal education; if a worker's labour (or productivity) is not worth the minimum wage, he/she may not find employment at all.
- Curbing economic growth due to higher labour costs.
- Making labour more expensive, which may discourage inward investment and encourage local business to relocate their operations elsewhere.

These negative effects are more likely to be experienced at a time when the economy as a whole is in a downturn.

3. PROPOSAL, WITH REASONS

The TLAC proposes that the Minimum Wage should be increased to 185 vatu per hour.

- i) The Minimum Wage (MW) should be reviewed at a minimum of once every two years in order to ensure that MW increase incrementally, rather than suddenly, as happens after a long period between reviews. The last MW review was in 2012, making this review well overdue.
- ii) The rise in CPI from 31.3.12 to 30.6.17 is 8.8%. The MW should be adjusted in line with changes in CPI in order to ensure that the real MW does not decline.
- iii) The MW must balance *fairness, value for work and opportunities to work*. In times of strong economic growth, increasing the MW above changes to the cost of living are justifiable. However, given the economic climate a cautious cost of living adjustment is appropriate.
- iv) It is believed that VT185 per hour is a fair rate that accurately reflects changes in the cost of living since the last wage increase.

4. ADDITIONAL QUESTIONS FOR CONSULTATION

The TLAC functions under section 7 of the Minimum Wages Board and Minimum Wages Act [Cap 182] are to:

consider and submit wage proposals to the Minister concerning the fixing of the minimum wage for workers in any occupation or class or grade of occupation, whether generally or in any area, island or region of Vanuatu, in any case in which the Board is of the opinion that the existing wage being paid to workers in any such occupation is unreasonably low. (Section 7(2)(a))

It is therefore able to make recommendations in respect of sectoral wages. In a report to the Minister of Internal Affairs in May 2013 the TLAC undertook to open public consultations on the issue of sectoral wages.

In late 2011 and early 2012 a series of workshops around sectoral wages were conducted in Vanuatu. Five particular options are listed below.

1. Maintaining the national minimum wage and doing nothing further (maintaining the status quo)
2. Maintaining the national minimum wage and providing non-binding wage information/data or advisory wage guidelines.
3. Having different rural and urban minimum wages (which could be accompanied by wages information or guidelines)
4. Setting a single mandatory minimum wage for particular industries or sectors
5. Having a number of mandatory occupational wages within industries or sectors

Whilst this Minimum Wage Proposal is not making any recommendations in respect of sectoral wages, submissions on this topic are invited for future consideration.

5. HOW TO MAKE SUBMISSIONS

The TLAC invites submissions from individuals and organizations on the proposed minimum wage and options for sectoral wages.

Written submissions from individuals and organizations can be made to vanuatuminimumwage@gmail.com.

You are also able to consult through the Vanuatu National Workers Union or the Vanuatu Chamber of Commerce and Industry.

All submissions must be made by **Friday 15 December 2017**.



John TASSO
Chairperson, Tripartite Labour Advisory Council