



Evaluation of minimum wage policy compliance with socio-economic development and international obligations of Georgia

Supported by the Friedrich-Ebert-Stiftung

Georgian Trade Union Confederation

Public Defender Office of Georgia

Short Summary

The aim and scope of the project:

Setting the amount of the minimum wage and subsistence minimum and defining their real social and economic value have been among the main topics of the recent years. The minimum wage that was established in Georgia under the president decree years ago is absolutely inconsistent with the international standards and today's Georgian reality. Also, the minimum wage is much lower than the current subsistence minimum and does not ensure its primary goals – prevention of exploitation of workers, providing low-paid workers with minimum living standards, establishment of fair wage structure to a certain degree, elimination of poverty, creation of the middle class.

Over the years, no research or study about the minimum wage and subsistence minimum-related issues has been carried out in Georgia. Despite the fact that substantial amendments were introduced into the Labour Code of Georgia in 2013, the situation pertaining to the minimum wage has not changed, although the issue has become more actively-discussed.

The aim of the project was to analyse the existing situation regarding the minimum wage in Georgia, identify the main deficiencies of the subsistence minimum calculation method, analyse best international practices, elaborate joint recommendations for the Government of Georgia, raise awareness of the population, of the employed on these issues, ignite interest and discussions on the issue in the media.

The study dealt with the following questions: importance of the minimum wage in Georgia; current situation in Georgia regarding the minimum wage and minimum subsistence level; international obligations of Georgia; international standards and approaches (International Labour Organization, United Nations, World Bank); analysis of the European experience – how the EU member states calculate the minimum subsistence level and what kind of principles are used for such calculation; also, how this is done in other countries of the region; deficiencies of the calculation methods of the minimum wage and subsistence minimum in Georgia; the mechanism of the minimum wage amount revision; obligation fulfilment control mechanism regarding the minimum wage; relations between the minimum subsistence level and the minimum wage; need for changes in the regulation of the minimum wage and subsistence minimum; possible outcomes of the changes;

Discussed topics and results - Minimum wage

Minimum wage is defined and fixed on the national level, yet we see disparity between the private and the public sector. There is no mechanism to revise the index and hence, it has never been revised since the introduction. The minimum wage does not reflect economic situation, economic growth and changes of the price level in the country. The option of revision of the minimum wage index is not legally provided at the times of fluctuation of the average wage level in the country, and there is no minimum wage control mechanism that would ensure that minimum wage obligations are fulfilled.

The main normative act about labour relations is the Organic Law of Georgia “the Labour Code of Georgia” while labour relations in the Public sector (state and local government budget institutions) are governed by the Law of Georgia on “public service”.

According to the Constitution of Georgia (art.30, p 4), fair labour remuneration is determined by the organic law. However, the labour legislation does not specify minimum amount of remuneration.

The only normative act that defines remuneration in private sector was issued on June 4, 1999 - decree N 351 by President Eduard Shevardnadze that sets the minimum wage remuneration at 20 GEL.

It shall be noted that paragraph 5 of the decree determined that considering the socio-economic development level in the country, proposals pertaining to the minimum wage increase shall be submitted through mutual agreement of the Ministry of Labour, Health and Social Affairs of Georgia, the Ministry of Finance of Georgia and the Ministry of Economy and Sustainable Development of Georgia. Yet, the minimum wage has not changed since the adoption of the act. The only exception refers to increase of the amount of sanctions, penalties and other dues for violating the minimum wage law up to 40 GEL.

This decree applies to the government budget institutions as well, however on January 24, 2005, the President of Georgia issued decree N43 that defined that minimum wage as 135 GEL in bodies of the Executive branch of the Government.

However, this decree does not cover public sector teachers. Namely, in 2005, the Ministry of Education and Science issued an order where the minimum wage of teachers was defined at 236.43 GEL. Currently, the question of the minimum wage for teachers is regulated by the decree N216 of September 28, 2015, issued by the Ministry of Education and Science of Georgia where the article 9 states that teacher’s minimum wage in case of full time job is 384.75 GEL.

Since determining the minimum wage in 1999, consumer prices have increased significantly. At the same time, against the background of the economic growth and inflation, average salary in the country has increased. In 1999, the average monthly nominal wage of contacted employees was 67.5 GEL. Therefore, 20 GEL minimum wage was just 29.6 % of the average wage. In years 1999 - 2015, the average wage increased by 1080 % to 932 GEL per month. Today, the minimum wage in the private sector is only 2.14 % of the average wage. In addition, in years 2000-2015, inflation was 124% in total. Respectively, one could have got 2.24 times more goods for the same amount of money in 2000 than today.

According to the World Bank data for 2016 and purchasing power parity, Georgia is on the 4th place from the bottom among the states that have fixed national minimum wage, and is just ahead of Uganda, Burundi and Kyrgyzstan.

During the research (survey), representatives of employers and the state have repeatedly stated that employees do not really have the minimum wage that is defined by the law. For this purpose, we decided to request information from the Revenue Service on incomes acquired as wages. The requested data as of March 2016, showed that 25 001 people have a wage that is less than 100 GEL while 62 681 have a wage less than the

minimum subsistence minimum of working age male, 130 282 have less than a family's existence minimum.

As it was mentioned above, the study analyzed approaches and recommendations not just of the developed countries but also those of the international organizations (ILO, World Bank, UN and others). When determining the minimum wage, the country's economic situation, in the form of gross domestic product and average wages, should be taken into consideration. In European countries, the average minimum wage is 39 % in relation to GDP per capita, and ratio between the minimum wage and average wages is 38 %. These indicators are a good indicator to determine how much the minimum wage should be in Georgia. Taking into account the above practice of setting the minimum wage at the amount equal to 39% of the GDP per capita, the minimum wage in Georgia should be 279 GEL. The same rate can be achieved if we take 30% of the average wage. According to the World Bank criteria, minimum wage is considered to be 20% less than the average wage, and the high level is 50% and more. 30% is an average index and should be acceptable for a developing country like Georgia, where there is a high level of unemployment.

The study concluded that 30% of the average wage, in this case 279 GEL, is the optimal threshold, which will not result in significant increase of unemployment, and the final effect will be positive in terms of the country's socio-economic conditions. As to per hour minimum wage, it should be 1.60 GEL. 279 GEL is slightly higher than the official subsistence level of the family, but today in Georgia, 130 thousand people have lower wages and salary of the absolute majority of them will increase. In addition, experience shows that establishment of a minimum wage standard in practice leads to increase of wages for those who had more than the minimum wage. Therefore, determining such a standard is an important step towards improvement of the country's social conditions. It is possible that this may lead to certain actions from employers aimed at salary reduction. However, in the frame of democratic environment, this interaction between labour and capital may not be dramatic and a fair rate of pay might be determined.

The survey also considered exceptions, for example, which may be set for the army and youth. Georgia has the highest proportion of unemployed young people. Youth under the age of 25 amounts to 8,77% (177,4 thousand) of the total workforce. While their share in those employed amounts to 6.9% (122,8 thousand). This means that employment for those under age of 25 is 21.4% lower than for those of the older age category.

The study focused on issues such as methods of revision of the minimum wage. Having analyzed the practice of the developed countries, it was determined that existing economic situation should be taken into account during the revision process. In this regard, the worldwide accepted practice is to increase minimum wage in accordance with various indicators, such as inflation, average wage growth rate and the GDP growth rate. The most commonly used practice is automatic increase of the minimum wage, taking into account the average wage growth and the average inflation rate (ratio of 1: 1). The minimum wage shall be revised based on recommendations of employers' and workers' representatives. In the case of Georgia, since Tripartite Social Commission is in place, it should develop recommendations for the above-mentioned issue. Minimum wage

revision should take place at least once a year. As for the monitoring of minimum wage regulations in relation to their implementation, this role should be undertaken by the labour inspection. However, to assume these obligations, the state labour inspection shall be established at least in accordance with the ILO minimum standards, to be effective and have specific sanction mechanisms. Currently, the Department of Labor Inspection is completely ineffective, and can not undertake the above-mentioned functions.

As for the possible effect of the minimum wage changes, the survey received the following results. If the Minimum wage increases to 279 GEL, the increase will affect around 130 000 employees who have lower wages. The average wage of those 130 000 employed is around 147 GEL. In the process of the collective bargaining, as a rule, employers are willing to increase the wage fund by 5-10 %. In general, if salaries increase more than 10% there is a risk that the number of jobs will be reduced. The average wage growth rate has been 6-11% in recent years. Calculations show that increasing wage fund by 10 % by small and medium-sized companies (because the minimum wage issue mainly directly affects them) will be sufficient to increase the minimum wage up to 279 GEL and do this completely painless. In order to avoid the minimum wage increase causing unemployment, the minimum wage should be increased step by step over several years so that it reaches the family existence minimum. It should be noted that without the risk of increasing unemployment, 2 years are enough for increasing the minimum wage to the mentioned rate.

Overall, salary increment for low-income workers will be 206 million GEL annually, while losses due to job loss will be negligible. Therefore, establishment of the minimum wage on the national level will have positive effect for the country.

Subsistence minimum

As it was already mentioned above, the study also focused on issues related to the subsistence minimum calculation methodology. As a result of the study, it was determined that the subsistence minimum calculation methodology contains huge deficiencies, that the methodology is not in compliance with the international standards and overall, the currently defined amount of subsistence minimum in fact is not a real subsistence minimum.

In Georgia, subsistence minimum for the working age male as of June 2016 is estimated at 157,1 GEL and subsistence minimum for the average family amounts to 263,5 GEL. Subsistence minimum in Georgia reflects only that minimum needs that are necessary for a person's physiological existence and not for life in dignity. Even in these conditions, minimum wage in the private sector is only 12,7% of the amount of subsistence minimum for working age male, and 7,59% of the amount of subsistence minimum for the average family. The same indicators for those employed in the executive state bodies are 8,59% and 51,2 % respectively.

According to the Georgian legislation, subsistence minimum is the reflection of cost of consumption goods per capita, that ensures that person's physiological and social needs are met in accordance with the socio-economic development of the country.

Subsistence minimum is defined on the basis of a food basket. The cost of the food basket is calculated by the National Statistics Office of Georgia (GeoStat). The subsistence minimum is defined by the total cost of minimum food and non-food basket (goods and services).

The share of cost of food products in the subsistence minimum equals to 70% that is quite a large share. In addition, after the calculation of the share of food products, the above number is multiplied by the price bargaining coefficient (0.865), and later the remaining 30% is calculated based on that 70%. It turns out that the price bargaining coefficient is considered in the above mentioned non-food 30%. It means that possibility of bargaining is considered possible in such expenses as for transport, education, communal taxes, and medications. In today's reality such approach is incorrect. It should be noted that for the purpose of the calculation of the minimum subsistence, food basket includes products with high-calories, but low cost and less useful for health. It is also noteworthy that defined number of calories in Georgia is at variance with the recommended number of minimum daily calorie intake by the World Health Organization.

The 30% that is meant for other expenses equals 47,13 GEL as of June 2016. This amount is very low to be enough for clothes, communal taxes, transport, and medications. It is literally impossible to save anything for education and cultural expenses.

As a result of the study, it was defined that when calculating the subsistence minimum, the share of expenses for food and non-food basket must be set into 50- 50 % parts. This will be the step forward for ensuring persons living in dignity, as there will be money left for cultural activities, for education and personal development.

At the moment, the subsistence minimum for working age male in Georgia equals 157, 1 GEL and the share of food basket in it is 110 GEL. In case of increasing the share of non-food basket to 50%, the sum of the subsistence minimum for working age male should increase to 220 GEL respectively. Also, the amount of subsistence minimum for average consumer should increase by the same proportion: from 139 GEL to 194, 5 GEL. As for the family living wage, it must be defined according to the number of members in the family and share of those employed among them.

In case of current 30% non-food expenses living wage for the family should be 290 GEL, but in case of increasing non-food expenses to 50%, this number will be 406 GEL.

Living wage is the minimum amount that is vital for the development of a human being. Living wage is the indicator that must be taken into consideration by the state when planning the social policy: when defining the minimum wage, pension, allowances or other social benefits. However, the subsistent minimum is only taken into account when determining the rate of pension in Georgia.

The joint recommendations were elaborated by the Georgian Trade Union Confederation and the Georgian Public Defender's Office that were represented in the final conference held in the framework of the project.

Elaborated recommendations:

1. The Georgian Parliament should ratify ILO Convention: C131 - Minimum Wage Fixing Convention, 1970 (No. 131)
2. Amendments should be introduced into the Organic Law of Georgia “the Labour Code of Georgia” and definition of the minimum wage to be added there.
3. The fair amount of the minimum wage should be determined on the basis of the proper research. The GTUC believes that when defining the amount of minimum wage, the ratio of the average wage in the country should be taken into consideration and the minimum wage must be defined at no less than the 30% of the average wage.
4. Both hourly minimum wage as well as monthly minimum wage should be defined to avoid cut of the part time jobs.
5. A mechanism of annual revision of minimum wage amount should be defined in the Organic Law of Georgia - “the Labour Code of Georgia”. The obligation to revise the amount of the minimum wage annually to be undertaken by the tripartite social commission that will elaborate recommendations to submit to the Prime Minister. The Prime Minister of Georgia should be obliged to define the amount of the minimum wage annually taking into consideration the above mentioned recommendations of the tripartite social commission.
6. The control on remuneration of the minimum wage should be provided by the state labour inspection. The labour inspection should have leverage to disclose violations and in case of violation, carry out specific sanctions against the offender.