

# The Minimum Wage in Uganda: An Urgent Call

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## ***Introduction***

*The minimum wage in Uganda has been frozen since 1984 at 6,000 Ugandan shilling per month. After devaluation and conversion of the shilling, the minimum wage stood at 60 shillings as of 1999. Defined, a minimum wage is the lowest monetary value which may be paid to a worker at a particular point in time. Being the lowest monetary value, a minimum wage provides a basic social protection floor to help safeguard incomes and living conditions of workers and their families who are considered most vulnerable in the labour market. The National Development Plan (NDP) 2009/10-2014/15 identifies instituting a minimum wage as a critical step to increasing access to gainful employment which in turn contributes to the reduction in poverty, tackling inequality and stimulating growth through increasing people's incomes. These benefits notwithstanding, the question of a minimum wage remains a hotly contested debate. A study conducted by DRT indicates that a growing number of officials associate the existence of a minimum wage with the orthodox and neoliberal view that it is an obstacle to growth and, if implemented, enhances unemployment. This brief reviews the evolution of the minimum wage debate in Uganda, the benefits of a minimum wage with an attempt to unlock the commonly held fears about a minimum. It also makes some proposals on actions to strengthen the demand and debate for a minimum wage in Uganda.*

## **Tracing the story of the minimum wage in Uganda**

The existence of a minimum wage in Uganda dates back to the 1930s when the first Minimum Wages Board was established. In 1950, this was followed by the implementation of the first Minimum Wages Order that set the minimum wage at 33 shillings. In 1963, Uganda joined the International Labour Organization (ILO) and ratified in 1967 the Minimum Wage-Fixing Machinery Convention, 1928 (No. 26). Article 1 of this convention states that “each member of the International Labour Organization which ratifies this Convention undertakes to create or maintain machinery whereby minimum rates of wages can be fixed for workers employed in certain of the trades or parts of trades (and in particular, in home working trades) in which no arrangement exists for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low.” The convention was translated into national law through the establishment of the Minimum Wages Advisory Board and Wages Councils Act adopted in 1964. From this time, the minimum wage continued to be routinely adjusted until 1984 when it reached 6,000 Ugandan shilling per month. No

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further adjustments were subsequently made. In 1995, desirous to cause change, the Government of Uganda constituted the Minimum Wages Advisory Council under General Notice No. 176/1995 in accordance with section 3(1) of the Minimum Wages Advisory Boards and Councils Act, Chapter 164 Laws of Uganda, 1964.

The Board was to inquire into the wages of unskilled labour in Uganda and submit recommendations with regard to the existing circumstances, and recommend different wages which should apply between different areas/sectors (PLA 2012). In its recommendations, the Minimum Wages Advisory Board proposed raising the Minimum Wage from 6,000 to 65,000 Ugandan shilling per month (Devereux 2005). In 2012, workers' Member of Parliament Arinaitwe Rwakajara alongside two other legislators including Paul Mwiru (Jinja Municipality) and James Mbahimba (Kasese Municipality) tabled the Minimum Wage Bill in parliament. If passed into law, the bill proposes a minimum wage based on different sectors, which shall be determined by the Minimum Wages Board.

Neither has the bill been passed nor have the recommendations of the 1995 Minimum Wages Council been implemented. According to the Federation of Uganda Employers (FUE) the proposed minimum wage would make Ugandan exports uncompetitive, reduce investments and put jobs at risk (Devereux 2005). This would thus translate into negative growth. Similar criticism has also been made by key government officials including President Museveni and the Minister of State for Labour who have openly expressed the view that such a move would lead to unemployment. Several studies and evidence from countries implementing even much higher minimum wage rates however dispel these arguments. Evidence available on this subject matter indicates that the current vulnerabilities caused by the unpredictability of the economy and the failure of the free market ideology to protect the poor, makes the implementation of a minimum wage inevitable, today, more than ever before. The evidence further indicates that if implemented, a minimum wage protects the most vulnerable workers, is an instrument to combat poverty, helps to tackle inequality, promotes growth and stimulates local economies, and enables the fulfilment of the right to a life with dignity. These arguments are explained below.

### **A minimum wage is protecting workers and an instrument to combat poverty**

First and foremost, a minimum wage is about putting in place a basic social protection floor to guarantee a basic survival standard in a given society. The Constitution of Uganda provides that all Ugandans have a right to a life in dignity and a minimum wage is one of the instruments to ensure the realisation of this right. According to the ILO, in 2005 slightly over 50 percent of waged and salaried workers in Uganda were poor with 30 percent living in extreme poverty (ILO, 2013). Similarly, the 2009/10 labour market survey indicates that of the 24.5 percent of the population (7.5 million persons) living below the poverty line, about 2.7 million (21 percent) are classified as the “*working poor*”. These, according to the survey, earned a median monthly income of 50,000 Ugandan shilling (about USD 19) for casual labours close to their counterparts’ in the agriculture and fisheries sectors, who earned 54,000 Ugandan shilling (about USD 20). In both incidences, this monthly income is lower than the poverty line, which if computed using USD 1 a day amounts to USD 31 per month.

These studies point us to the fact that there is a high number of Ugandans who are working, but their earnings are insufficient to lift them out of poverty. Coupled with the current economic context, a minimum wage acts as an “anchor” to not only providing a

basic minimum, but an income that can lift them out of poverty and earn them a decent life. Evidence by Lang (2007) suggests that a \$ 1 increase in real minimum wage is associated with a reduction of 0.3% of poverty.

It is important however to note that a minimum wage cannot work alone as it is restricted to only those in formal employment when the informal sector forms a big majority, where people often work for no remuneration such as in family businesses . This thus means that it must be complemented by other social protection instruments that target those outside of formal employment.

### **A minimum wage provides an affirmative action for women**

Women workers not only constitute the majority in the informal sector but even in formal employment, when compared to men, they are often concentrated in low ranks that attract low pay. Available evidence indicates that 50 percent of employed women work in the three lowest paying sectors of agriculture, household, and mining and quarrying compared to only 33 percent of men (UBOS 2011). These sectors are also the main providers of low paying jobs, which do not always have additional social protection covers such as medical care, or pensions among others. As women shoulder the function of providing for their families, this means that many families are relying on low-wage jobs to earn a living and thus are increasing their vulnerability to poverty. A minimum wage thus fosters income equality between men and women, considering that women carry out low-paid tasks which have an impact on narrowing the gender pay gap (Dale, 2006; Rubery, 2003).

### **Linkage to human rights**

Article 23 of the Universal Declaration of Human Rights, affirms that “everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.” It further states that “everyone, without any discrimination, has the right to equal pay for equal work”. Inequality and low wages impose hardships for households at the lower end of the wage distribution and deny the workers a decent standard of living. A minimum wage therefore does not only make economic sense but is a demonstration of respect for human rights and social justice by providing the necessary conditions for the enjoyment of human rights as stipulated in the Universal Declaration of Human Rights

### **Promotes growth and stimulates local economies**

Perhaps this is the most controversial and most contested argument of the minimum wage debate. According to believers in the free market economy, a minimum wage hurts growth by lowering investment and making exports expensive. To the contrary, evidence by the ILO and studies from countries implementing much higher levels of minimum wages indicates that rather than stifle growth, a minimum wage stimulates consumption by guaranteeing and increasing incomes of low-income earners which stimulates local economies leading to positive impacts on growth. Consumer spending is key for stabilizing the economy and allowing local businesses to expand and create jobs. Low and moderate income workers often spend their incomes on necessities at local businesses and an increase in their wage boosts spending rather than curtails it, as money is re-injected back into the local economy.

Related to the above is the argument that a minimum wage discourages local investments. Several factors attract investors, the absence or lack of a minimum wage not being the main factor. Across the region for example, Uganda is the only country without a minimum wage but has not outdone its neighbors in bringing in more investors if indeed cost was the driving force. To the contrary, paying a minimum wage facilitates access to social services such as health and education through providing low-income earners a basic floor to meet the barriers to social services such as transport costs to health facilities, or purchase of non-tuition items for education among others. A minimum wage alone however will not guarantee the availability of services unless it is backed up by investments to put in place the necessary infrastructure such as health and educational facilities. A minimum wage thus supports the realization of wider social policy objectives whose outcome translates into the creation of an enabling environment which would then attract investments.

### **Different types of minimum wages**

Implementation of a minimum wage can take various forms. These can include:

- a) A national minimum wage which is set at the national level and is binding to all formal occupations across the country,
- b) A sector based minimum wage which is only applicable to specific agreed sectors based on an identified criteria, or
- c) Minimum wages can be implemented based on the number of workers employed and can be different for urban and rural areas.

A section of these types have been tried in Uganda with varying levels of success. For example, in 1965, the government advised that undertakings in cotton ginning, mining, sawmills, oil and jaggery mills, which employed over 50 persons, should pay a minimum blanket wage of at least 75 Ugandan shilling. Similarly, the Minimum Wages Advisory Board, appointed in 1970, recommended a minimum wage of at least 185 Ugandan shilling for urban areas and tea and sugar estates; and at least 125 Ugandan shilling for trading centres; and at least 104 Ugandan shilling for all categories of employers that had ten or more workers. This approach considered a minimum wage based on the number of workers and variations for urban and rural areas.

The draft bill proposes that the minimum wage be put at 250,000 Ugandan shilling. It also proposes a Minimum Wage Board that shall have representatives from different sectors including employers, workers, the Ministry of Finance, Planning and Economic Development (MoFPED), the Ministry of Gender, Labour and Social Development (MGLSD), specialized government institutions like the National Planning Authority, and that every two years, the board should sit and review the minimum wage depending on the market forces of demand and supply. For defaulting organizations, the bill imposes a fine of 10 million Ugandan shilling to employers who fail to comply and hefty compensation fees to the affected workers.

The current Minimum Wage Bill before parliament recommends for the adoption of a minimum wage for specific sectors to be determined by the Minimum Wages Board. It is important to note that the different types each have their advantages and disadvantages. For example, statutory minimum wages are seen as discriminatory, especially against women (as they set different minimum standards for different sectors and those where a majority of women work tend to pay less than those where men work). They are seen as increasing inequality and creating sectoral imbalances. They are affected by weaknesses of the negotiating trade unions and do not universally guarantee rights because it does not protect workers in

sectors without agreements.

Proponents of the universal minimum wage argue that it provides a social protection floor to all because the basic needs of people are the same irrespective of the sectors they work in, thus cut across unlike sector based wages. On the other hand, universal statutory minimum wages are sometimes seen to further weaken trade unions as collective bargaining might become obsolete. There is also a fear that governments should be entirely kept out of wage negotiations and that there might be a risk that universal minimum wages getting politicized around election time.

The main message is that there are various types/options for developing a minimum wage. The advantages and disadvantages of each notwithstanding, it is better to start from somewhere. Having a minimum wage is better than not having any minimum standards at all. On which approach Uganda can adopt, there is need for further consultations, debates and research.

To have an effect on poverty and vulnerability, a minimum wage needs to be set above the poverty line and should be indexed to inflation to guard against loss of value. If set too high above the poverty line, though, this can have a negative effect on investment and distort prices.

### **Actions to secure a minimum wage**

Minimum wages can be secured either through an Act of Parliament or tripartite agreements from dialogue between workers representatives, employers and the government as in South Africa and Argentina (ILO, 2009). It can also be achieved through collective bilateral agreements arising out of negotiations between workers and employers as was the case in Greece and Belgium.

These approaches can be used in isolation or concurrently. Given the role of trade unions emphasis needs to be put on adopting an approach that strengthens rather than weakens the collective bargaining power of trade unions. Similarly, it should reaffirm the responsibility of governments to ensure adequate working conditions for all workers across all sectors.

An opportunity however exists to create a critical mass and citizenry demand for a minimum wage as a basic income. The following actions can be undertaken to support the establishment of a minimum wage.

#### ***Actions by trade unions and civil society***

- Organise a national dialogue and debate on tackling vulnerabilities associated with low-paying jobs as a means of building a citizen mass to demand for a minimum wage in employment.
- Engage key stakeholders to appreciate the importance of having a minimum wage.
- Ensure that many workers join unions for increased collective bargaining strength.
- Organise campaigns to support the call for a minimum wage in Uganda.
- Engage and support the media to raise awareness and the profile of minimum wage issues.
- Research the social and economic cost of not having a minimum wage in Uganda, as well as conduct national studies on the impact of minimum wages on employment levels and other labour market indicators.

- Strengthen existing collective bargaining mechanisms, such as continuous negotiations between trade unions and employers.
- Create awareness through education and sensitization amongst workers as well as amongst the opponents of the minimum wage policy promotion in Uganda. The awareness should focus on the need for and benefits of a minimum wage in Uganda.
- Identify and work with champions of a minimum wage, who should be identified across all the political spheres.

#### *Actions by citizens*

- Engage local leaders, such as Members of Parliament, to support the Minimum Wage Bill, currently before parliament.
- Demand a minimum wage as a basic social protection right.
- Mobilize and create citizen movements for minimum wages.

#### **Conclusion**

From the foregoing discussion, a significant number of the chronically poor are in employment. Particularly important is that women constitute the majority of workers earning incomes that cannot enable them come out of poverty. To these, labour is their main asset and income source. To reduce chronic poverty among these people thus requires deliberate policy interventions to increase returns on labour and offer a social protection floor to enable them to live a life in dignity. A minimum wage is one of the instruments that can be used to guarantee a basic income to vulnerable workers. To achieve this, the wage should be set above the poverty line (at least USD 31 a month). Given that the majority of low income workers are also the less skilled and normally with low levels of education, the introduction of a minimum wage should adopt a sectoral approach, initially starting with the agricultural sector, construction, where the majority of the casual labourers are employed, and the security sector yet progressively building it to include other sectors.

Given that minimum wages only apply to those in formal employment, there is need to complement efforts through the establishment of other social protection programs to cover people in informal employment.

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