

MINIMUM WAGE: POLICY BRIEF

Background

The government of Uganda ratified the ILO Convention 26 of 1928 on minimum wages and Uganda operationalised it through the Minimum Wages Advisory Board Act, which can be traced back in the 1930s. Since the 1990s however, due to the outdated minimum wage, efforts have been made to review it. The Minimum Wage Advisory Board was constituted by the Ministry of Gender, Labour and Social Development early this year. The Private Sector is represented by the Federation of Uganda Employers on this board. Because this is an important matter, concerning employment in the country, views have been sought from employers on what their suggestions would be¹, for setting a reasonable and sustainable minimum wage. Consultations are still ongoing.

Private Sector Concerns

Minimum wage fixing as an effective instrument of social protection and a strategy for economic and social development, would enhance private sector competitiveness through, among others, promoting efficient labour markets, and social insurance programs to cushion the risks associated with unemployment, ill health, disability, work-related injury and old age. However, as has been noted in some countries, incomplete minimum wage coverage could lead to labour movements from the formal to informal sector² and in the extreme minimum wage legislation could lead to unemployment.

Recommendations

We recommend that the Ministry commissions a study to assess the potential impact of the minimum wage on competitiveness of Ugandan businesses vis-à-vis other enterprises in the region. We further recommend that the minimum wage be introduced on sectoral basis, given that different sectors face different challenges, productivity and ability to remunerate employees. In addition, the Government should address the drivers of high operational costs of businesses mainly taxation and utilities and improve infrastructure so as to offset the likely effects of a minimum wage. The process of determining the minimum wage for each sector should be through negotiations between employers in each sector and the labour unions. The Ministry of Labour, Gender and Social Development should spearhead the exercise.

The way forward

The level of the minimum wage should be determined through research based policy decisions. Indeed before it is determined, it should be set at a level that would not harm the economy, but improve the competitiveness of the private sector through improved labour market efficiency and social protection.

¹ Survey was carried out by Federation of Uganda Employers

² Patricia Jones (1997): The Impact of Minimum Wage Legislation in Developing Countries where Coverage is Incomplete