

Call for consultancy service

Task title: National Level minimum wage study

Duration of the assignment: October 15- 2017 - January 14- 2018

Reporting: International Labour Organization (ILO)

Application deadline: September 29, 2017

BACKGROUND

About ILO

The ILO Country Office for Ethiopia, Djibouti, Somalia, Sudan and South Sudan is implementing a project entitled “Improving Industrial Relations for Decent Work and Sustainable Development of Textile and Garment Industry in Ethiopia”.

The project is determined to support the development of socially sustainable textile and garment industry in Ethiopia. The project takes a multi-pronged approach, assisting the government, social partners and major industry stakeholders at various levels in their efforts to improve productivity, to promote social dialogue within and between the parties, and to improve wages and working conditions through nurturing sound labour relations practices and promoting collective bargaining to address the challenges in a comprehensive manner.

Purpose of the assignment

The minimum wage study in Ethiopia is an exploratory study looking into the various dimensions of a minimum wage policy with a view to better informing and improving the current system of overall wage determination at the low end of the wage distribution. In addition the study should highlight the importance and implications of introducing a minimum wage, including the advantages and disadvantages of a minimum wage. It is important to ensure that institutional arrangements for minimum wage fixing should be investigated along with the level of minimum wages. In the exploration of the impacts, of a minimum wage both the social and economic aspects should be considered in a balanced way.

The outcome of the minimum wage study at national level is to provide scientific evidence to the key stakeholders (i.e. government, development agencies, employers and worker associations). The evidence in the study would be used as a basis for further dialogue and engagement amongst the stakeholders, going forward on the issue of minimum wages.

Duration of the assignment: October 15- 2017 - January 14- 2018

- Starting date of the study: October 15, 2017
- Final report submission: January 14, 2018

Reporting: the consultant will report to the ILO, Improving Industrial Relations for Decent Work and Sustainable Development of Textile and Garment Industry in Ethiopia project team.

Tasks

- Conduct a research on minimum wage by employing qualitative and qualitative study methods
- Conduct a desk review on the history of the minimum wage in the Ethiopian public sector
- Conduct key informant interviews and focus group discussion on minimum wage
- Conduct a comparative analysis of minimum wage systems in other countries (characteristically similar to Ethiopia); within the sub-region in countries such as Kenya and Tanzania and globally, such as for example Cambodia and Vietnam.
- Collect data on minimum wage and analyze the data
- Identify and report on opportunities and key policy challenges on the implementation of minimum wage
- Produce outline of recommendations
- Present the finding of the study to project partners and stakeholders with the main purpose of collecting feedback and inputs
- Revise the study based on the feedback and inputs provided from project stakeholders, technical working group and social partners
- Submit and present the final study to ILO on January 14, 2018

Qualification and competences

ILO is looking for a consultant with extensive experience on national level studies. The consultant needs to demonstrate knowledge and experience undertaking national level studies.

Terms of reference

Terms of reference of the study can be found below

Technical and financial proposals

All proposals should include the following sections and should not exceed 10 pages

- One page Abstract
- Description of how the consultant intend to conduct the task
- Description proposed study design and methods
- Workplan of the study with detail activity description
- Curriculum Vitae of the researcher/s
- Prior researches conducted, send copy with technical and financial proposals

Application process

Interested candidates must submit technical and financial proposals before September 29, 2017 11:30 am through jemaneh@ilo.org or physically on the below address.

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Terms of Reference (TOR)

An exploratory study for a minimum wage system in Ethiopia

Terms of Reference

Background

Minimum wages have been widely introduced to protect the workers against; unduly low pay, achieve various economic and social goals namely: overcome poverty and ensure the satisfaction of the needs of all workers and their families, give wage earners necessary social protection as regards minimum permissible levels of wages, reduce wage inequality, set a wage floor, contribute to establishing rules of game that are equal to all and reinforce social dialogue. Its importance has been recognized in the international labour standards (see Box 1).

The arguments in favour of minimum wages have gained momentum in Ethiopia as an important intervention tool for protecting workers and ensuring a decent standard of living for them and their families, contributing to improved productivity and an increase in employment by stimulating consumption. It drives up the average wage, thereby leading to potential positive impacts on consumption and employment. There is also evidence¹ that a statutory minimum wage may have a positive impact for the wages in the informal economy, as its level can be used as reference point for the wages of the workers in this sector – (“lighthouse effect”).

The effectiveness of minimum wages depends on many factors, including:

- the extent to which they afford protection to all workers in an employment relationship, including women, and youth and migrant workers, regardless of their contractual arrangements, as well as all industries and occupations in the economy;
- whether they are set at an adequate level that covers the needs of workers and their families, while taking into account economic factors and are regularly adjusted;
- Whether employers comply with minimum wage regulations.

Minimum wage systems should also be designed in a way to supplement and reinforce collective bargaining as well as other social and employment policies.

For these reasons, *Minimum wages policies should base themselves on systematic monitoring and analysis for their success.* This is particularly important, as minimum wages are known to have profound impact not only on the labour market but also the whole economy. In this regard, it is crucial that the minimum wage system should be managed in ways that maximize its benefits while minimizing its potential negative impacts. It is not uncommon, especially in developing and transition countries, that well-intended policy decisions on minimum wages lack solid evidence and

¹ Boeri, Garibaldi, Ribeiro: The lighthouse effect and beyond, 2010

analysis and thus defies their goals. Therefore, good policies for minimum wages need good research.

Based on existing international standards and the diversity of practice, the ILO minimum wage policy guide (see www.ilo.org/minimumwage) provides information on questions of good practice and highlights different choices that can be made depending on national preferences and country circumstances.

Box 1. Minimum Wage Fixing Convention, 1970 (No. 131)

(...)

Article 1

1. Each Member of the International Labour Organization which ratifies this Convention undertakes to establish a system of minimum wages which covers all groups of wage earners whose terms of employment are such that coverage would be appropriate.
2. The competent authority in each country shall, in agreement or after full consultation with the representative organizations of employers and workers concerned, where such exist, determine the groups of wage earners to be covered.

(...)

Article 2

1. Minimum wages shall have the force of law and shall not be subject to abatement, and failure to apply them shall make the person or persons concerned liable to appropriate penal or other sanctions.
2. Subject to the provisions of paragraph 1 of this Article, the freedom of collective bargaining shall be fully respected.

Article 3

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.

Article 4

1. Each Member which ratifies this Convention shall create and/or maintain machinery adapted to national conditions and requirements whereby minimum wages for groups of wage earners covered in pursuance of Article 1 thereof can be fixed and adjusted from time to time.

(...)

Towards statutory minimum wage(s) in Ethiopia for the private sector

Currently, there is no consistent minimum wage mechanism in Ethiopia, however some public sector institutions and enterprises have set their own minimum wages. Further, the ILO “Minimum Wage Fixing Convention” (C131, see Box 1.), has not as yet been ratified by Ethiopia.

In this context, the Confederation of Ethiopian trade Unions (CETU) has requested the ILO to conduct a survey studying the possibility of a minimum wage system in Ethiopia for both the private sector and public sector. A project proposal expressing their views on the content of this survey, as well as a tentative implementation strategy was also shared with the ILO².

The ministry of Labour and Social Affairs has been consulted on the conduct of the study elaborated in these ToRs, and support the project as a an opportunity to explore the issue of wages in Ethiopia and the possible implementation of a wage policy

In keeping with the general development scheme followed by Ethiopia, an exploratory study for a minimum wage system would be appropriately timed. The second Growth and Transformation Plan (GTP II)³ aims for instance at reducing the share of the population below the national poverty line from 23.4% to 16.7% by 2020. Beyond employment creation, other leverages can be

² “Project proposal to ILO from CETU”, 2/12/2017.

³ Growth and Transformation Plan II (GTP II), 2015/16- 2019/20, Volume I, National Planning Commission, May 2016, Addis Ababa.

mobilized to achieve this goal, in particular more equitable labour incomes through a sound wage policy. Besides, according to the first pillar of the strategy set out in the GTP II (“Sustained the rapid, broad based, and equitable economic growth and development witnessed during the last decade”), “the growth acceleration should (...) contribute to the realization of the country’s medium term vision of becoming a lower middle income country where social justice and equity prevail”.

Moreover, the National Employment Policy and Strategy, drafted in April 2016 sets a framework favourable to the implementation of wage policies, the foreword pointing to the fact that “it is recognized that poverty is less an outcome of open unemployment than of low labour productivity and inadequate levels of income”. Indeed, employment policy n°2 (“creating favourable conditions for the promotion of employment opportunities by improving the functioning of labour market information and employment services”) is developed through 7 strategies, one of them aiming at the establishment of a system to determine minimum wages taking into account the country’s stage of development, competitiveness and the capacity to pay.

The present terms of reference aim at specifying the content of an exploratory study for a minimum wage system in Ethiopia.

Structure of the study

The study should aim at exploring the various dimensions of a minimum wage policy with a view to better informing and improving the current system of overall wage determination at the low end of the wage distribution. In addition the study should also, highlight the importance and implications of introducing a minimum wage. It is important to ensure that institutional arrangements for minimum wage fixing should be investigated along with the level of minimum wages. In the exploration of the impacts, of a minimum wage both the social and economic aspects should be considered in a balanced way. For this reason, a multidisciplinary approach is highly recommended (see “Basic references” in the final section of this document).

The following structure for the research report is proposed, to ensure that the key elements are highlighted to provide both policy makers and stakeholders, with a current overall exploration of minimum wages and its overall implications on the economy. The structure defines 7 sections that would be essential for a complete report.

1. Introduction

This section introduces the issues of minimum wages in both general and country-specific terms. This section will address the following issues:

- The policy context in which the study is commissioned (including requirements for economic development, levels of productivity and desirability of attaining and maintaining a high level of employment). General introduction to minimum wages
- Importance of minimum wages for the country in question
- Key issues related to minimum wages which will be highlighted in the report

- A brief review of the research methodology
- A brief summary of the research findings
- Structure of the report

2. The context

This section will provide an overview of the economic and labour market developments that are key for the support of a minimum wage policy. Further, an overview the institutional context and policy issues and prospects should also be provided for in this section. The key indicators which are relevant to minimum wages should be reviewed, whenever possible, with a focus on changes over the last ten years.

2.1. Macroeconomic developments

While the exact list of the macroeconomic indicators to be reviewed is subject to their relevance and data availability, these may include, but not limited to:

- Economic growth and national income,
- Inflation,
- Poverty rate and degree of income inequalities (Gini coefficient),
- Globalization-related indicators (e.g., trade and foreign direct investment), and
- Any other relevant variables

2.2. Labour market developments

While the exact list of labour market indicators to be reviewed is subject to their relevance and data availability, these may include: (whenever possible, disaggregated by gender)

- Employment and unemployment,
- Status in employment (especially, size of salary – and wage – earners),
- Employment by sector (including domestic workers),
- Employment by age,
- Informal employment,
- Underemployment,
- Magnitude of precarious work (temporary contracts, etc.),
- Labour productivity by sector (ratio of the value added to quantity of work : workers or number of hours),
- Wages by sectors and occupational categories (ISCO 88, 10 occupational categories), and
- Any other relevant variables

2.3. Institutional context (e.g., collective bargaining)

This section shall provide for a description of any other relevant institutional arrangements, such as the role of collective bargaining and tripartite and bipartite institutions in the wage formation, as well as the social security system. This section is the opportunity to precise the level(s) of the

wage setting mechanism: at the enterprise level, the sectorial level, or national? By whom? With or without the intervention of the government?

2.4. Issues and prospects

A brief review of policy issues and prospects in the area of labour market developments will be provided for in this section. The focus should be on those issues which may have important implication for minimum wages, such as:

- Trends in disadvantageous and vulnerable groups of workers such as workers in the informal economy, agricultural sector workers, youth, domestic workers, migrant workers, etc.
- Trends in unemployment for the population, by gender, youth versus senior workers and regional trends,
- Demographic trends: fraction of new entrants into the labour market by educational categories, dependency ratios, etc.,
- Poverty rates (headcounts) and fraction of households with wage employees but whose per capita income implies living in poverty, and
- Cost of living: the cost of the basic basket of goods for an average size family (in real terms)

3. Minimum wage

This section will provide an overview of the history of minimum in the public sector in Ethiopia and how minimum wage(s) should be defined. It would also include a section that outlines the advantages and disadvantages of minimum wages. Finally, it would provide for a comparative analysis, of minimum wages, both sub-regionally and globally.

3.1. What is the history of the minimum wage in the public sector?

This subsection should cover briefly the history of minimum wages implemented in the public sector in Ethiopia, focusing on important changes in recent years. The key issues to be covered are; (i) when was minimum wages adopted, (ii) how long has the system been in place, (iii) what have been some of the main changes recently, and (iv) how was the minimum wage adjusted?

3.2. How the minimum wage(s) should be defined?

According to the ILO minimum wage has been defined as: “*the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract,*” (General Survey, 2014). This definitions clearly refers to its binding nature and the fact that minimum wage must have the force of law. In the Protection of Wages Convention, 1949 (No. 95) the word “*wage*” can be understood as “*remuneration or earnings, however designated or calculated, capable of being expressed in terms of money and fixed by mutual agreement, which are payable in virtue of a written or unwritten contract of employment by an employer to an employed person for work*

done or to be done or for services rendered or to be rendered". However, the components of minimum wages - i.e. what counts towards compliance with the minimum wage - are not defined in ILO Conventions or Recommendations. In this regards there are different practices across countries. In some countries, the minimum wage applies only to the basic wage and other payments must be additional; in other countries the minimum wage applies to total remuneration (with some possible exceptions). However, in general overtime pay is excluded (people should not have to work overtime to earn the minimum wage).

From the above in Ethiopia, what kind of compensation elements do workers receive? That is are wages partly covered by tips and bonus? Are in-kind payments considered as part of a wage package and if so, what is the fraction these represent and in what economic sectors is the practice more common? In the public sector institution which have a minimum wage, what kind of compensation elements are taken into account in order to determine if a worker is paid at the minimum wage level?

3.3. Advantages and disadvantages of minimum wage

This subsection should cover briefly the advantages and disadvantages of a minimum wage system for Ethiopia.

3.4. Comparative analysis

In this section of the report there should be a comparative analysis of minimum wage systems in other countries; firstly in the sub-region in countries such as Kenya and Tanzania and secondly globally in countries that are similar to Ethiopia, such as for example in Cambodia and Vietnam.

4. Analysis of the wage distribution

The objective of this section of the study is to depict the wage distribution in Ethiopia (especially the low wage population), and, where feasible, to have a first-hand assessment, of the possible impact of a minimum wage policy on relevant outcomes (e.g., wage bill, employment, informality, poverty, etc.). Included in this section would be a presentation of the data collected and an analysis of the data.

4.1. Data collection

A description of the data collected and source (most likely household surveys), its frequency, its key variables (particularly the wage variables), etc. would be presented.

4.2 Data analysis

This part should be mainly an 'analytical' section where the data collected is analyzed to describe individuals and households that make up the population of labour market participants – and how they fair in the labour market with regards to wages, hours worked and other labour market conditions.

(a) Describing statistics: participants in the labour market

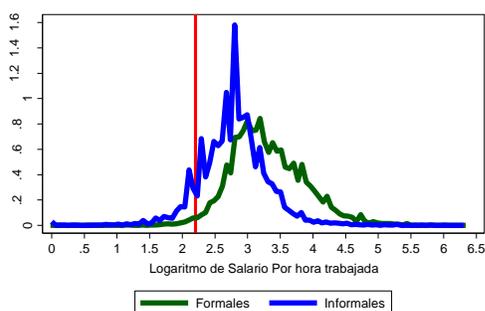
The following list of variables are useful at describing participants in the labour market – and often these are variables easily found in labour force surveys or household surveys with labour market components:

- Employment status (out of the labour force, wage employees, self-employed or employer, unemployed). It is useful to show how prime age individuals are distributed according to employment status for all and by gender and educational status.
- Informality: estimate the distribution of workers (wage employees, self-employed and employers) between formality and informality
- Small and micro enterprises: estimate the distribution of workers (wage employees, self-employed and employers) in small and micro enterprises
- Distribution of workers according to industrial sectors (using 10 groups according to the first level of NACE Rev 2, if possible)
- Distribution of workers by occupational skills (ISCO 88, 10 occupational categories)
- Distribution of workers according to the size for the enterprise for which they work.
- Summary statistics of wage employees (versus self-employed and employers) that allows to compare: age, gender, educational attainment, number of dependent in the household, union membership, years of experience in the labour market, average wages, medium wages, and similar socio-economic variables found in the available data
- If enterprise surveys exists: estimate the distribution of enterprises by industrial sector, size and type of contractual agreement with their employees.

(b) Wage distribution

Using smooth distribution functions, estimate the wage distribution (for the economy, by industrial sector, by geographical regions): the example below is based on data from Mexico where a comparison is provided of the wage distribution of formal and informal wage employees using non-parametric kernels (but a histogram is more than sufficient to provide similar evidences). Wages can be hourly, daily and/or monthly, depending on data availability and relevant minimum wage unit. If possible, the analysis of the wage distribution should be disintegrated by type of employment: formal/informal.

Example of a wage distribution: the case of Mexico (2013)



Key indicators of the wage distribution should also be provided (for the economy, by industrial sector, by geographical regions, for the formal and informal economy), mainly the median and quartiles.

This analysis of the wage distribution should be the first step to finding out more about how many workers fall below possible minimum wages and what are the key characteristics of this group of people. In this section, the study should also depict the population of wage workers who fall below various thresholds in terms of wages⁴: in terms of demographic indicators (shares of workers by gender, age, and family status) but also labour market characteristics (education, sector, size of enterprise, status regarding formal employment (formal/informal)).

(c) Impact on the wage bill

This section focuses on the impact of the introduction of a minimum wage on the total wage bill for the whole economy and by economic sectors. The various thresholds used in the previous section might be used for the simulation, as potential minimum wages.

(d) International comparison

Insights on the minimum wages system implemented in countries similar to Ethiopia, for instance in terms of size, structure of the economy, income per capita might be useful. The research could point here to useful indicators from these countries, in particular the Kaitz index (wage to median wage ratio).

(e) Employment effects of the minimum wage

⁴ These thresholds can be determined using the Kaitz index: in developing economies the Kaitz index is usually between

This section is a brief review of the literature of the employment effects of minimum wages, both in the formal and in the informal economies. Attention can be drawn on results from countries similar to Ethiopia (see (d) above).

5. Minimum wages and the needs of workers and their families

In many countries, the concept of the minimum wage has been intimately linked to the concept of a living wage. The preamble of the ILO Constitution called for “the provision of an adequate living wage”. Later, this notion of an “adequate living wage” was transformed into the concept of a “minimum living wage”. Both the 1944 *Declaration of Philadelphia* and the 2008 *ILO Declaration on Social Justice for a Fair Globalization* called for “a minimum living wage to all employed and in need of such protection”. Therefore, according to the 1992 ILO General Survey, the “concept of a minimum wage level that cannot be abated implies the concept of a minimum living wage” (p.10).

The difficulty lies with the definition and measurement of a minimum living wage. While it is generally accepted that a minimum living wage should provide workers and families with a decent standard of living (as stated in the United Nations’ International Covenant on Economic, Social and Cultural Rights), views diverge on the quantities of specified goods and services that are necessary to achieve this objective. One lower benchmark for living standards is provided by national poverty lines.

Do minimum wages allow workers and their families to live above the poverty line? As discussed in Anker (2011)⁵, a minimum wage will allow a typical household to escape poverty when the poverty line is multiplied by the household size and divided by the number of household members who work full time. In this case, the definition of a typical household may also wish to be defined using the particular characteristics of households with low incomes (hence those households most likely to benefit from the minimum wage). Household size may be defined in terms of “adult equivalent”, which takes into account economies of scale (the fact that it costs less to feed and house a couple than to feed and house two single individuals) as well as the different needs of different individuals (particularly the lower consumption needs of children). Using the standard “OECD scale” the first adult counts as one adult, the second adult counts as 0.7 adults and children are given a weight of 0.5. Thus, the formula becomes:

$$\textit{Minimum living wage} = \frac{(\textit{poverty line} * \textit{adult equivalents in the household})}{\textit{household members who work full – time}}$$

Box 2: An illustration for Egypt in 2008/09

⁵ http://www.ilo.int/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf

To estimate a “minimum living wage” one will need at the very least some reliable data on national poverty lines, on household size, and on working time. As an illustration we take the case of Egypt, where data on household size and working time was provided mostly by the Central Agency for Public Mobilization and Statistics (CAPMAS), which is the country’s national statistical office, while poverty lines are published in UNDP’s Egypt Human Development Report. According to the latter source, the national poverty lines defined the “poor” as people living on less than £2’223 in 2008/09 and the “extreme poor” as people living on less than £1’648 per year. Dividing these figures by 12 months, we obtain monthly poverty lines of £185 and £137, respectively. For the sake of illustration, we use the higher figure for our minimum living wage estimation.

According to official data, the average household size in Egypt is estimated at roughly 2 adults and 2.5 children. To calculate the number of “adult equivalents” we then use the following OECD formula:

$$\text{Adult equivalents} = 1 \text{ adult} + 0.7 * 1 \text{ adult} + 0.5 * 2.5 \text{ children} = 2.9$$

In terms of the labour market, Egypt is characterized by a very low participation of women in the labour force and also a high rate of female unemployment. As a result the actual employment-to-population ratio among to working age population stands at only about 50 per cent, meaning that in most cases only one adult (the men) can realistically be expected to draw a wage from the labour market. As in many developing countries, the normal hours of work limit is set at 48 hours per week, typically spread over six days per week. Thus, to obtain the number of hours worked per month we multiply 48 by 52 weeks and divide it by 12 month to obtain 208 hours per month. With this information, we can now calculate a poverty-based “minimum living wage” for Egypt with the following formula:

$$\begin{aligned} \text{Minimum living wage (monthly)} &= \frac{\text{£185 per month} * 2.9 \text{ “adult equivalents”}}{1 \text{ fulltime equivalent worker}} \\ &= \text{£537/month} \end{aligned}$$

OR

$$\begin{aligned} \text{Minimum living wage (hourly)} &= \frac{\text{£185 per month} * 2.9 \text{ “adult equivalents”}}{208 \text{ hours worked per household}} \\ &= \text{£2.6/hour} \end{aligned}$$

We find that in order to lift a “typical” Egyptian household out of poverty in 2008/09, the minimum wage should have been set at £537 per month (or £2.6 per hour) – substantially higher than the prevailing level of £35 per month where it had been set in 1984.

It may be that national stakeholders consider that the minimum wage should provide for more than just relief from poverty, and also cover additional health or education expenses. It is of course up to them to define the minimum living wage in their national circumstances. The present section merely offers a formula which can also be used with a higher level “poverty line”. Also, while the minimum living wage calculation is unaffected by the industry in which workers are employed or by the workers’ occupation (the things a salary can buy does not depend on whether one is a cook, a nurse, or a bus driver), regional differences in price levels can have a large effect on the costs of basic needs. Such regional differences will show up in regional poverty lines. For countries which have regional minimum wages, regional rather than national minimum living wages should be calculated.

6. Policy challenges

This section highlights the key policy challenges that need to be addressed in implementing a minimum wages policy in Ethiopia. The discussion needs to be based on:

- Findings from the previous sections, and
- Interviews with the government, social partners and other stakeholders

Concerns and suggestions which emerge from the interviews should be reflected in this section.

As minimum, it is suggested that the following questions be addressed:

- Do workers and employers have sufficient level of understanding of minimum wages?
- Should the minimum wage system be sectorial or cross sectorial (national minimum wage)? Which sector/groups of workers should be excluded from its enforcement?
- What are the main concerns about minimum wages?
- What are the policy alternatives which have been proposed?
- Is the labour market of the country is permissible for setting minimum wage?
- Employment and investment vs minimum wage

7. Conclusions and recommendations

This final section of the study should include the following three subsections: (i) summary and conclusions, (ii) recommendations, and (iii) prospects for future research.

7.1. Summary and conclusions

Here a summary of the key findings are provided together with highlights of the major points for further discussions, especially for tripartite dialogue.

7.2. Recommendation

It provides a tentative design of the minimum wage system. The following items can be considered : population covered (exemptions?), number of rates (for instance sectorial or cross-sectorial

(national) minimum wage), estimated range of possibility for the initial minimum wage(s) rate(s), compensations elements that should be taken into account in the definition of a wage, relevant indicators to be taken into account for its evolution...

7.3 Prospects for future research

In this section, the knowledge gaps uncovered by the study should be addressed as an agenda for future research. For instance, given the high rate of informality in Ethiopia, particular attention could be paid to the impact of minimum wage on workers in the informal economy. In this regard, an analysis of the total income earned by employees at different levels of the wage ladder, both in the formal and informal economy could be appraised.