



NATIONAL WORKSHOP ON WAGE SYSTEM INDONESIA

MINIMUM WAGES POLICY IN MALAYSIA

**JAKARTA
4 – 5 SEPTEMBER 2018**



**T. Shanmugam
Secretary
National Wages Consultative Council
Malaysia**





Presentation Outline

Part 1 : Summary on Malaysia

Part 2 : Background of Minimum Wages in Malaysia

Part 3 : Justification for a Minimum Wages for Malaysia

Part 4 : Institutional Framework of Minimum Wages in Malaysia

Part 5 : Process of Setting Minimum Wages

Part 6 : Enforcement of Minimum Wages

Part 7 : C131 Ratification

Part 8 : Challenges of Implementation of Minimum Wages in Malaysia

Part 9 : Latest developments

Part 10: Conclusion



Part 1 : Summary on Malaysia (2016)



Population : 31.6 million
Capital : Kuala Lumpur
Admin Capital : Putrajaya
Official Language : Bahasa Malaysia

Political System :
Parliamentary Democracy with
Constitutional Monarchy

Economy :
GDP: RM1,230.1 billion

GDP Growth: 4.2%

Unemployment rate: 3.4%

Labour Force: 14.67 million

Inflation Rate : 2.1%

Per Capita Income : RM38,887

Climate: Tropical, annual monsoon

Area: 330,290 km²

Religion: Islam, Buddhist, Hindu &
Christian

Ethnic Groups: Malay, Chinese,
Indians & Others



Part 2 : Background of Minimum Wages in Malaysia

WAGES COUNCILS ACT 1947 (ACT 195)

The weaknesses of the previous Act-

- i. Coverage of the earlier Wage Orders only for employees in certain sectors, i.e hotel and catering sector, cinema workers, Penang Port workers, shop assistants and security guards.**
- ii. Long time taken, complicated and ad-hoc wages setting mechanisms.**
- iii. Wage rates are also not regularly reviewed-process is tedious.**
- iv. Employers had a heads-up in determining wages for employees.**
- iv. This Act was repealed in 2011 through the NWCC Act 2011 (Act 732).**



Part 2 : Background of Minimum Wages in Malaysia (cont.)

Rationale

- **High Income Economy** - to achieve average growth of 6.5% yearly from 2011-2020
- Minimum wages policy should assist **bottom 40%** household income group with income less than RM1,500 per month.
- Minimum wages policy expected to **enhance efficiency in labour market** towards sustainable wages growth and providing sufficient basic social protection to workers.

Objectives

- Ensuring the basic needs of workers and their families are met;
- Providing sufficient social protection to workers;
- Encouraging industry to move up the value chain by investing in technology and increase labour productivity; and
- Reducing the nation's dependence on unskilled foreign workforce



Part 3 : Justification for a Minimum Wages for Malaysia

National Employment Returns Report (NER)

33.8% of the private sector workers earned below RM700 (US\$187) i.e below the Poverty Line Income (PLI) 2007, RM720 (US\$193) per month.

2009

WORLD BANK REPORT

Labor productivity growth rate (**6.7%**) was higher than the **wage growth** rate (**2.6%**) from 2000 until 2008.

2011

NATIONAL MINIMUM WAGES

Implementation of minimum wages is one of the instrument policy to fulfill the inclusiveness aspect in **NEM** (New Economic Model)

2013



Part 4 : Institutional Framework of Minimum Wages in Malaysia

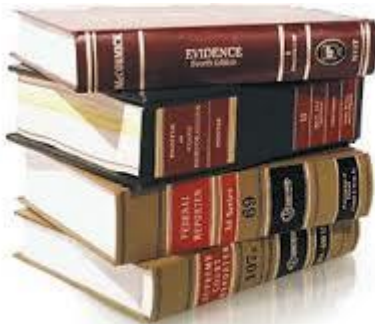
Codified by Legislation of Parliament

National Wages
Consultative
Council Act 2011
(Act 732)

Minimum
Wages Order by
Minister of
Human
Resources

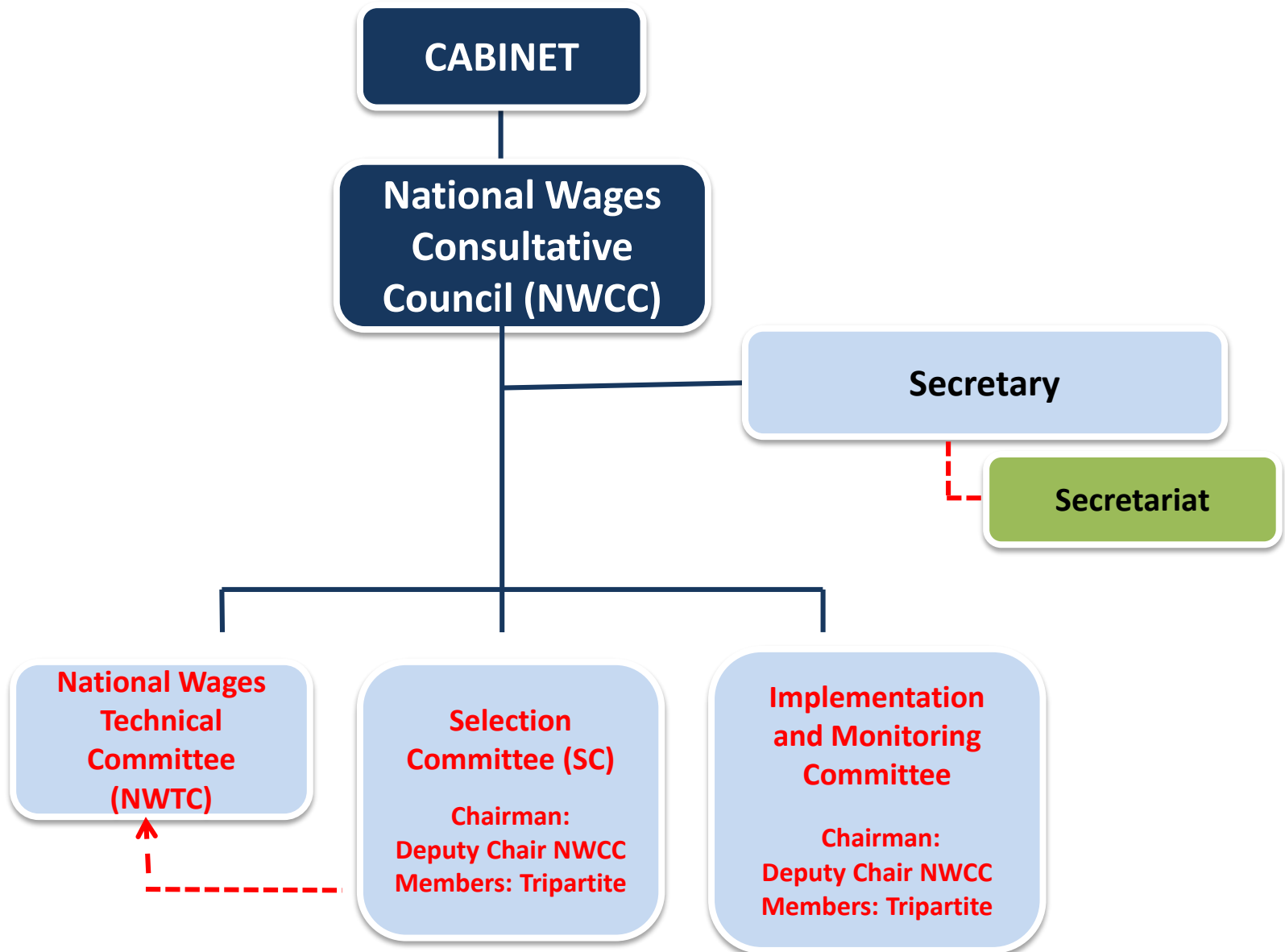
Enforcement of
MWs by Labour
Department

Review of the
Order





Institutional Framework of Minimum Wages in Malaysia (cont..)





Role of Minister of Human Resources

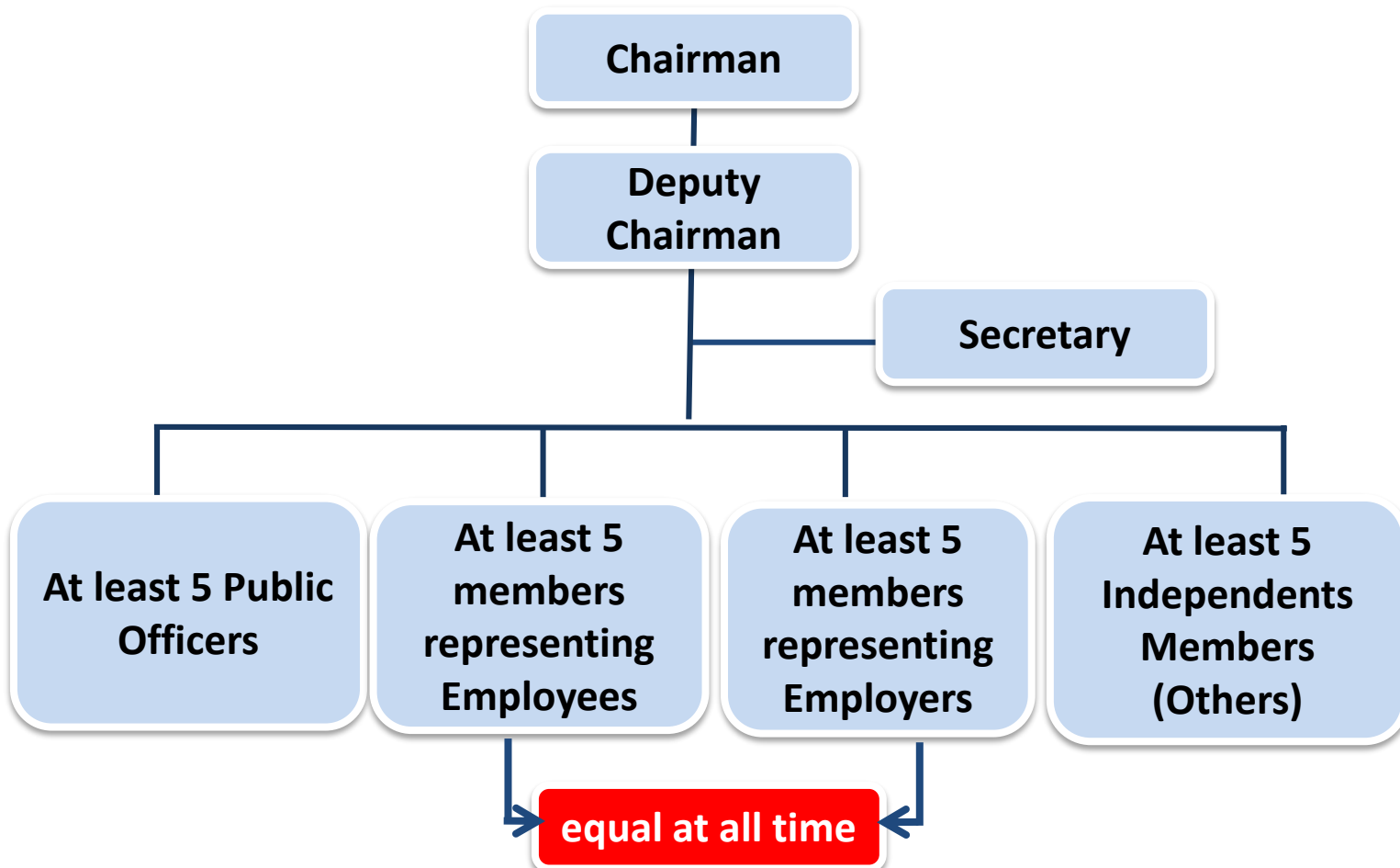


**Honourable Minister of Human
Resources
(M. Kulasegaran V. Murugeson)**

- 1. Appointment date of enforcement of Act 732;**
- 2. Appointment of NWCC members;**
- 3. Revoke appointment of NWCC members;**
- 4. Makes the MW Order; and**
- 5. Make Regulations.**



Composition of NWCC



Total number of members shall not exceed 29 persons at any one time



Key Features of NWCC Act

1. All members are appointed by Minister of Human Resources;
2. Chairman, Deputy Chairman are **not public officers, employers or trade union member**;
3. Chairman, Deputy Chairman - have **knowledge, experience and expertise in labour and industrial relations**;
4. Secretary-shall be a public officer;





Key Features of NWCC Act (cont..)

- 5. NWCC term- not exceeding 3 years and may be reappointed;
- 6. Provision for allowances for members;
- 7. Revocation of membership by Minister;
- 8. Members may resign with 30 days notice to Minister;





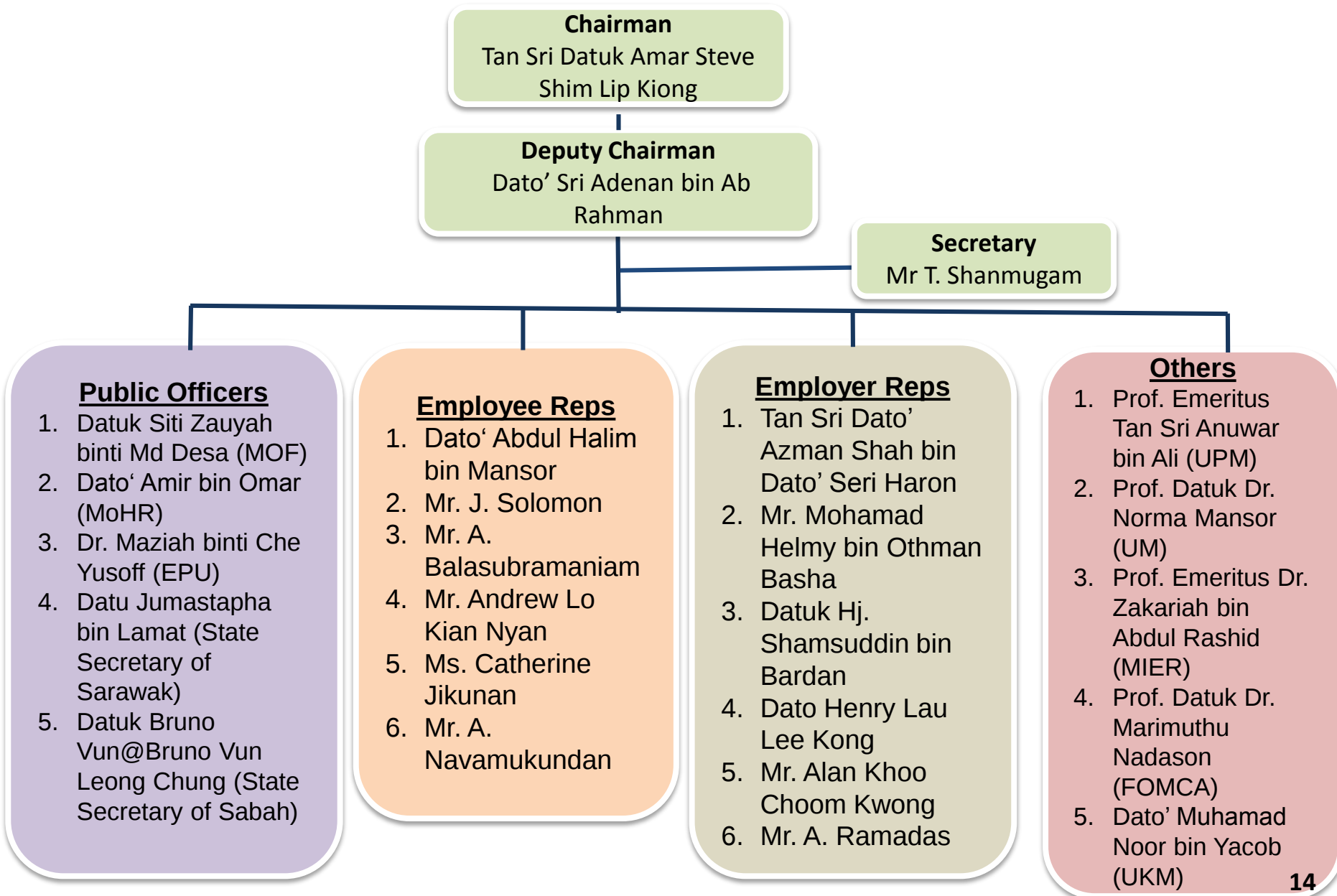
Key Features of NWCC Act (cont..)

9. Minimum 4 meetings in a year;
10. 14 days' notice of NWCC meetings;
11. Quorum of Council – **2/3** members;
12. Every member entitled to **one vote**;
13. Minutes of NWCC meetings **admissible in court**; and
14. Government shall provide sufficient funds to NWCC.





Current Members of NWCC



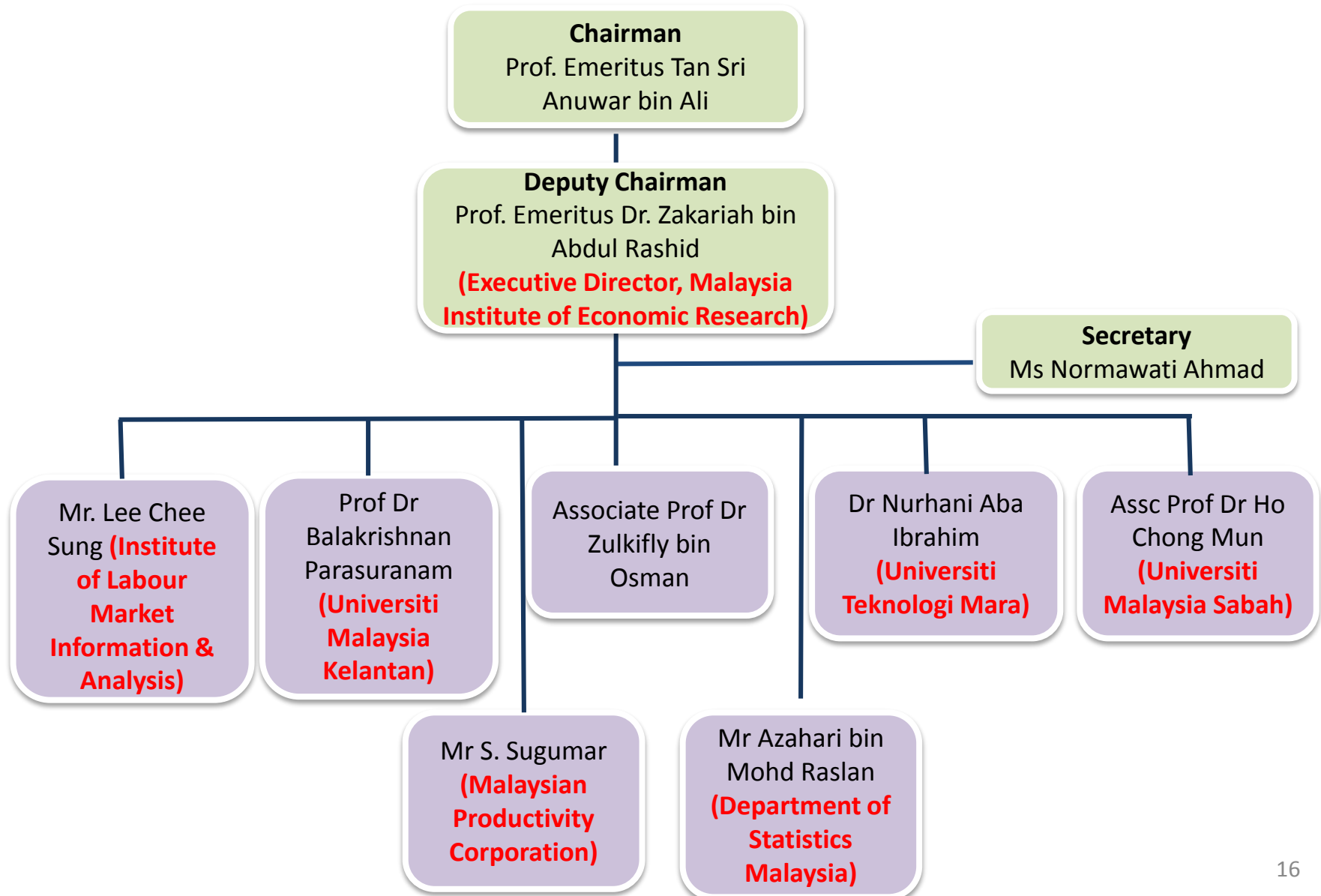


Functions and Powers of NWCC

- a) To **advise the Government** on all matters relating to minimum wages, including its development at the international level;
- b) To **make recommendations to the Government** on the minimum wages rates and coverage according to sectors, types of employment and regional areas, and other matters relating to minimum wages and wages;
- c) To **consult the public** on the minimum wages rates and coverage;
- d) To collect and **analyse data and information** and to conduct research on wages and the socioeconomic indicators;
- e) To coordinate and supervise, and **to evaluate the impact** of, the implementation of minimum wages;
- f) To **review the minimum wages order**;
- g) To deliberate on all matters relating to minimum wages;
- h) To disseminate information and analysis on wages; and
- i) To carry out any other functions as it deems fit to enable it to perform its functions effectively or which are incidental to the performance of its functions



Members of National Wages Technical Committee (NWTTC)



- a) To **advise NWCC** on all matters relating to minimum wages, including its development at the international level;
- b) To **make recommendations to NWCC** on the minimum wages rates and coverage according to sectors, types of employment and regional areas, and other matters relating to minimum wages and wages;
- c) To **consult the public** on the minimum wages rates and coverage;
- d) To **collect and analyse data and information** and to conduct research on wages and the socioeconomic indicators;
- e) To **coordinate and supervise, and to evaluate the impact** of, the implementation of minimum wages;
- f) To **review** the minimum wages order;
- g) To **deliberate** on all matters relating to minimum wages; and
- h) To carry out any **other functions** as it deems fit to enable it to perform its functions effectively or which are incidental to the performance of its functions



Selection Committee (SC)

- ❖ To scrutinize CV and recommend appointment of MW Technical Committee Members to NWCC

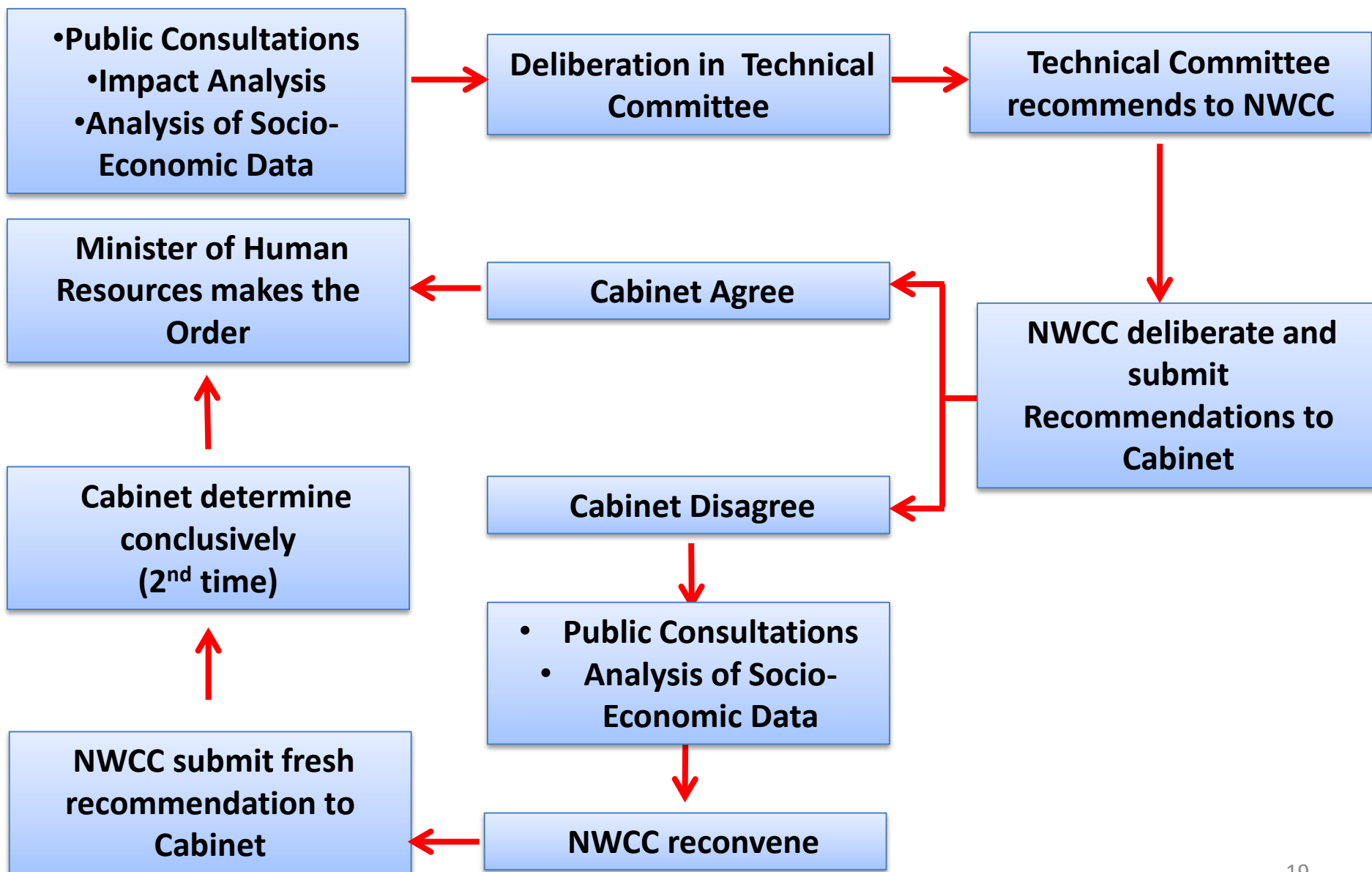
- ❖ SC comprise of: -

1. Chairman – NWCC Deputy Chairman
2. Deputy Chairman – MW Technical Committee Chairman
3. Members:
 - i. 2 Government Group of NWCC members;
 - ii. 2 Workers' Group of NWCC members;
 - iii. 2 Employers' Group of NWCC members;
 - iv. 2 Independent (Others') Group of NWCC members; and
 - v. Secretary from NWCC Secretariat.





Part 5 : Process of Setting Minimum Wages Order in Malaysia





Review of Minimum Wages

Section 25 (1) of Act 732 :

The Council shall, at least once in every two years, review the MW order

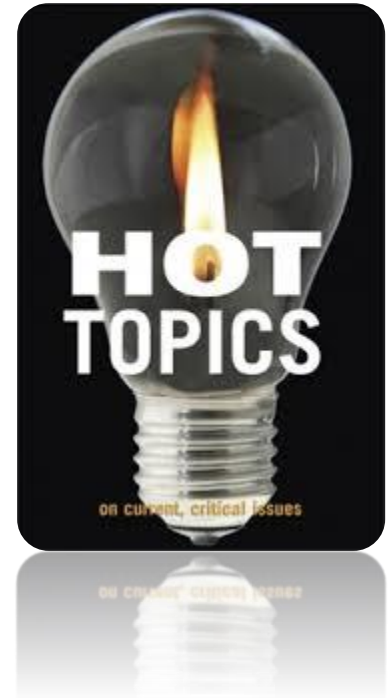
Methodology:

1. **Study on Impact** of Minimum Wages Order to economy, employers and workers
2. **Public consultations** through Focus Group Discussion (FGD)
 - Conducted throughout the country
 - Attended by employers, employers association, workers, trade unions and other associations
3. **Analysis of secondary data** on socio-economic indicators such as employment and income.
4. **Inputs from public** through portal, memorandums by NGOs and Ministry's program
5. Inputs from **research findings, studies** by various parties.
6. Inputs from **Labour Department and Industrial Relations Department**
7. Views from **other agencies/bodies**, i.e ILO



NWCC Meetings

1. Discussions are **intense**;
2. Workers and Employers generally form **opposite views/ positions**;
3. Secretary General of MoHR, Director General of Labour, Director General of Industrial Relations, Legal Head Officer of MoHR sits as **observer and may offer their opinions**; and
4. **Government representatives** often play the **'moderating'** role between the employers and workers stance.





Indicators Used in MW Setting

CRITERIAS		JUSTIFICATION
BASE CRITERIA	Poverty Line Income	To determine basic needs of the workers and their families
	Median Wage	Refers to employers capacity to pay wages
ADJUSTMENT CRITERIA	Changes in Consumer Price Index	An indicator to show changes in cost of living
	Labour Productivity Growth	To indicate that wages growth to be consistent with productivity growth
	Unemployment Rate	To ensure that increase of wages does not effect employment and employment creation



Minimum Wages Formula

$$MW_i = \text{Avg} \left[\frac{\text{PLI}_i}{\text{Avg workers per household}} + \text{Median wage}_i \right] \times \left[1 + (P_i/100) + (CPI_i/100) - (UE_i/100) \right]$$

MW	=	Minimum Wages (RM)
PLI	=	Poverty Line Income (RM)
P	=	Labour Productivity Growth (%)
CPI	=	Consumer Price Index (%)
UE	=	Unemployment Rate (% change – actual unemployment rate minus natural unemployment rate (4%))
<i>i</i>	=	Region (Peninsular; Sabah, Sarawak and Labuan)



Poverty Line Income (PLI)

1. The model of PLI measurement used in Malaysia has been approved in 2005 by the Economic Planning Unit (EPU), Prime Minister's Department and DOSM in collaboration with the United Nations Development Programme (UNDP).
2. The Cost of Basic Needs method takes into consideration three basic components: **food, non-food** and the **characteristics of households**.
3. These PLI data obtained from **Household Income and Basic Amenities Survey Report (HIS), DOSM**.
4. This report is conducted **twice every five years** (latest report published in 2016).
5. For the minimum wages setting, the formula used is the **PLI per average worker per household**.
6. This is for the purpose of adjusting the value of PLI per person since the value of PLI obtained is at the household level, not at the individual level.



Median Wage

1. Median wage is obtained by compiling all wages of workers in the private sector in ascending order, and then the value placed in **the middle position** of the arrangement is selected as the Median wage.
2. Salaries & wages information collected are based on the **principal occupation of the public and private employees during the reference month**.
3. These data obtained from **Salaries & Wages Survey Report, DOSM**.
4. This report is conducted **annually** (latest report published in 2017). Upon request to DOSM, median wage for private sector workers is also made available by region.
5. **Median wages** for the purpose of determining the minimum wages in Malaysia for **private workers is requested separately from DOSM** (since the Minimum Wages policy is applicable to private sector workers only).



Consumer Price Index (CPI)

1. **CPI is published monthly by DOSM.** To obtain CPI changes annually, the changes are reflected between the current month and the same month of the previous year (year on year).
2. Annual CPI change information can be obtained from the CPI Publication in January each year. (latest CPI data annually published in January 2017).
3. CPI measures the **percentage change** through time in the cost of purchasing a constant **“basket” of goods and services**. This “basket” classified according to the United Nations “Classification of Individual Consumption According to Purpose (**COICOP**)” in the following **twelve groups**:
 - 1) Food and Non-alcoholic Beverages
 - 2) Alcoholic Beverages and Tobacco
 - 3) Clothing and Footwear
 - 4) Housing, Water, Electricity, Gas and Other Fuels
 - 5) Furnishings, Household Equipment & Routine Household Maintenance
 - 6) Health
 - 7) Transport
 - 8) Communication
 - 9) Recreation Services & Culture
 - 10) Education
 - 11) Restaurants & Hotels
 - 12) Miscellaneous Goods & Services



Labour Productivity Growth (P)

1. The labour productivity is calculated as follows:

$$\text{Labour Productivity, RM} = \left(\frac{\text{Added value (RM)}}{\text{Number of Employees}} \right)$$

2. These data is obtained from **Malaysian Productivity Report** which is published annually by the MPC. (latest report published in **2017**).
3. Productivity growth in the Minimum Wages setting formula is calculated based on **Compound Annual Growth Rate (CAGR)**.
4. CAGR is the average annual growth rate over a certain period longer than one year. CAGR is used as to be fair to workers when we include productivity for the years review of Minimum Wages is not done. The CAGR formula is as follows:

$$\text{P. Growth (CAGR), \%} = \left(\left(\frac{\text{productivity, final year}}{\text{productivity, initial year}} \right)^{\left(\frac{1}{\text{no.of periods}} \right)} - 1 \right) \times 100$$



Unemployment Rate (UE)

1. **UE** is computed by using the formula below:

$$\text{UE Rate, \%} = \left(\frac{\text{Number of unemployed persons}}{\text{Number of persons in the labour force}} \times 100 \right)$$

2. These UE data obtained from **Labour Force Survey Report** which is published annually by the DOSM. (latest report published in **2017**).
3. For the minimum wage setting formula, adjusted UE is computed by using the formula below:

$$\text{UE (adjusted), \%} = (\text{UE, current} - 4.0)$$

4. This suggests that the economy is still sustained in full employment, as the UE below 4.0 per cent. The Organization for Economic Co-operation and Development (**OECD**) defines **full employment** as UE below 4.0 per cent.



Example of Minimum Wages Calculation

Minimum Wages Calculation for Sarawak (MW Order 2016):

$$MW_i = \text{Avg} \left[\frac{PLI_i}{\text{Avg workers per household}} + \text{Median wage}_i \right] \times \left[1 + (P_i/100) + (CPI_i/100) - (UE_i/100) \right]$$

$$\begin{aligned} & \frac{1}{2} \left(\frac{954}{1.2} + 1,000 \right) \times \left(1 + (0.8/100) + (1.9/100) - (-0.2/100) \right) \\ &= \frac{1}{2} \left(795 + 1,000 \right) \times \left(1 + (0.008) + (0.019) - (-0.002) \right) \\ &= \frac{1}{2} \left(1,795 \right) \times \left(1.029 \right) \\ &= \left(897.5 \right) \times \left(1.029 \right) \\ &= \text{RM}923.53 \end{aligned}$$



Attachment : Example of Minimum Wages Calculation (cont..)

$$MW_i = \text{Avg} \left[\frac{\text{PLI}_i}{\text{Avg workers per household}} + \text{Median wage}_i \right] \times \left[1 + (P_i/100) + (CPI_i/100) - (UE_i/100) \right]$$

Where:

Poverty Line Income, PLI (RM)	= 954.00
Avg Workers per Household (B40%)	= 1.2
Median Wage (RM)	= 1,000.00
Labour Productivity Growth, P(%)	= 0.8
Consumer Price Index, CPI (%)	= 1.9
Adjusted Unemployment Rate, UE (%)	= -0.2



Considerations in Minimum Wages Setting

- Formula of minimum wages serves **as a strong guide** to initiate discussions in NWCC.
- In discussing minimum wages rate, the **bargaining process** at NWCC makes the difference.
- **Balanced approach** is taken to ensure the minimum wages rate is reasonable, and will not give negative effect to country's economic performance and competitiveness in attracting investments.
- Deliberations to reduce the minimum wages gap between regions is among the way forward.
- Views from authorities and bodies i.e ILO and World Bank are also considered in minimum wages issues in Malaysia.



Component of Minimum Wages

Minimum Wages is **BASIC WAGES**, excluding any allowances and other payments.





Coverage of Minimum Wages

Coverage



All private sector workers

Non-Coverage



Domestic workers, apprentices and Government workers





Minimum Wages Order 2012

1 Commencement Date:
1 January 2013 –
(for employers with 6
employees & above and
professional bodies eg. Legal
and Accountancy firms)

2 Commencement Date:
1 July 2013 –
5 employees & below
(for micro employers)

3

Application for Deferment

4

Non-application to
Domestic Servant

5

Region	Monthly	Hourly
Peninsular Malaysia	RM900 (US\$220)	RM4.33 (US\$1.06)
Sabah, Sarawak & Labuan	RM800 (US\$195)	RM3.85 (US\$0.94)

6

Reduced rate for
Probationers

7

Negotiation for restructuring
of wages before
commencement date

8

Revocation of Orders made
under Wages Council Act
1947 (Act 195)

9

Wages Council Orders
under Act 195 continue to
apply until the Order under
Act 732 comes into operation
(eg. For Security Guards)

* Repealed on 1 July 2016 with the enforcement of Minimum Wages Order 2016



Minimum Wages Order 2016

1

Commencement Date:
1 July 2016 to all employers

2

MW Rate:

Region	Monthly	Hourly
Peninsular Malaysia	RM1,000 (US\$244)	RM4.81 (US\$1.17)
Sabah, Sarawak & Labuan	RM920 (US\$220)	RM4.42 (US\$1.10)

3

Daily MW Rate

Peninsular Malaysia	6 days	RM38.46
	5 days	RM46.15
	4 days	RM57.69
Sabah, Sarawak & Labuan	6 days	RM35.38
	5 days	RM42.46
	4 days	RM53.08

4

Rate of monthly wages for employee who paid based solely on **piece-rate, tonnage, task, trip or commission** shall not be less than RM1,000/RM920

5

Non-application to domestic servants

6

Revocation of clauses:

- Negotiation for restructuring of wages
- Minimum wages rate for probationers
- Application of deferment

Part 6 : Enforcement of Minimum Wages





Penalties under Act 732

First Offence

- An employer who fails to pay the basic wages as specified in the minimum wages order to his employees commits an offence and shall, on conviction, be liable to a fine of not more than RM10,000 for each employee
- The court may order the employer to pay the difference between the minimum and the basic wages paid by the employer and other accrued payments

General Penalty

- Any person who commits an offence under this Act for which penalty is not provided shall, on conviction, be liable to a fine not exceeding RM10,000.

Continuing Offence

- Any person convicted in the case of continuing offence, be liable, in addition to any other penalty to which he is liable under this Act in respect of such offence, to a daily fine not exceeding RM1,000 for each day the conviction continues after conviction.

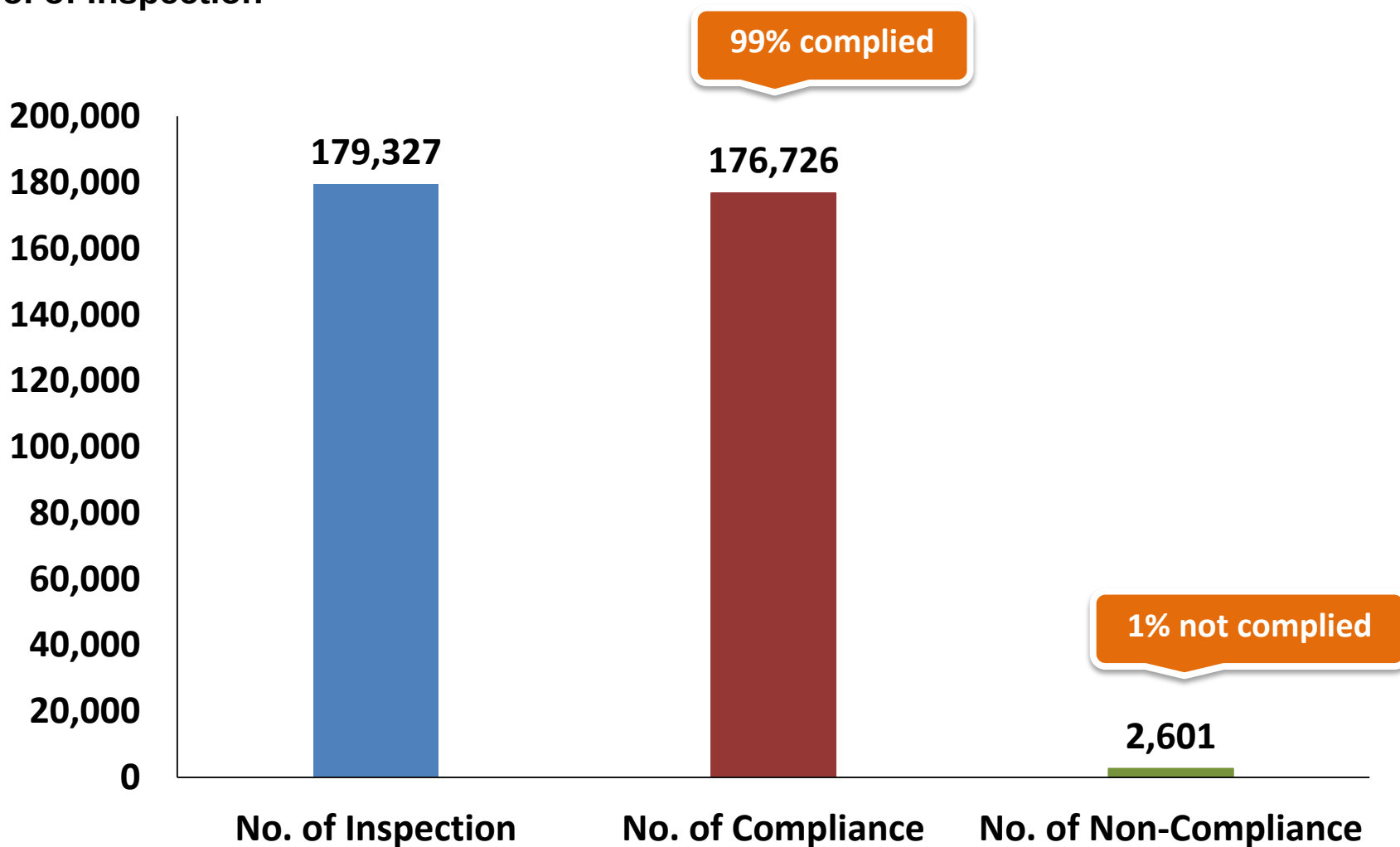
Repeated Offence

- Any person convicted in the case of repeated offence, be liable to a fine not exceeding RM20,000 or to imprisonment for a term not exceeding 5 years.



(i) Minimum Wages Statutory Inspection (2014 till June 2018)

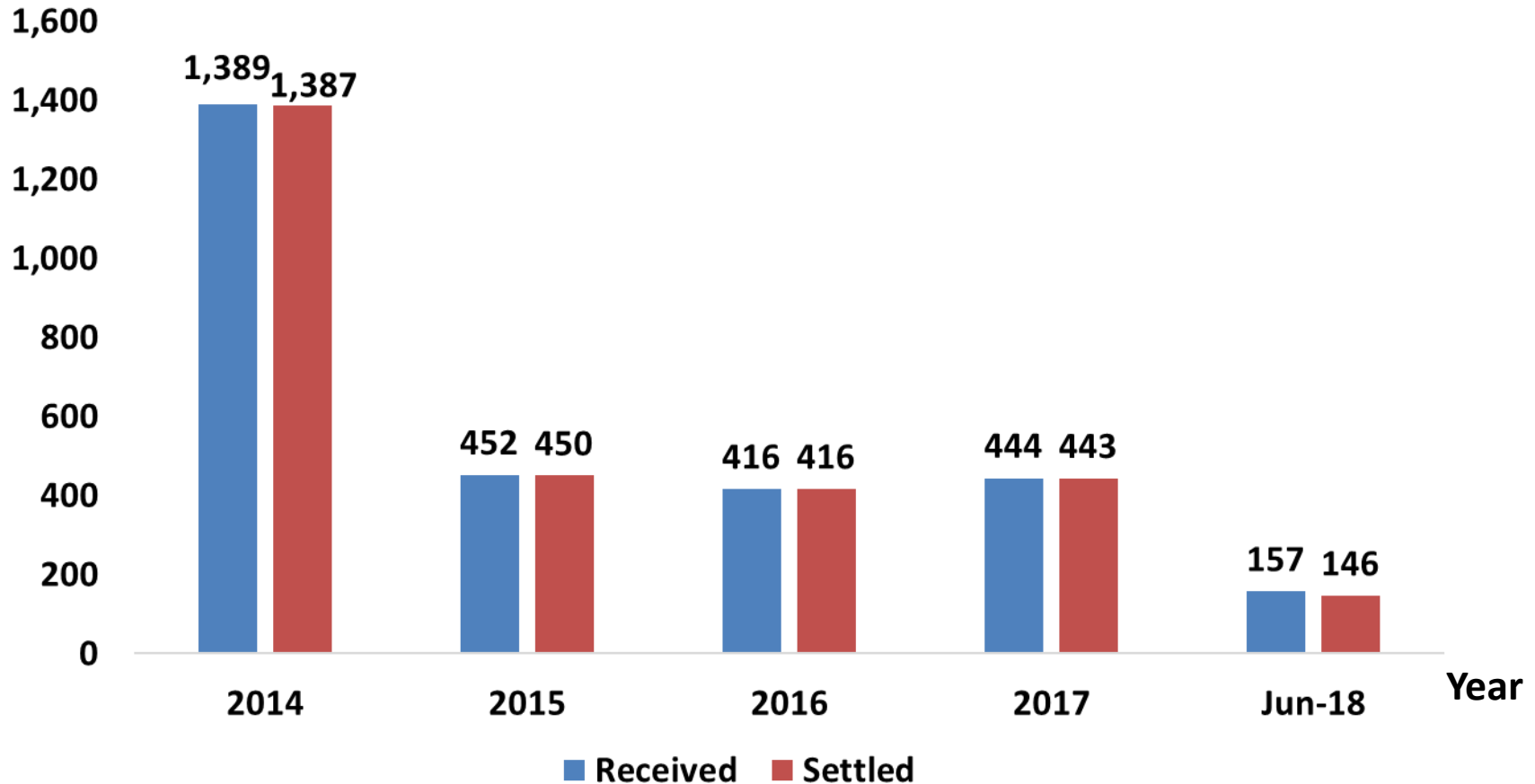
No. of Inspection





(ii) Complaints Relating to Minimum Wages (2014 till June 2018)

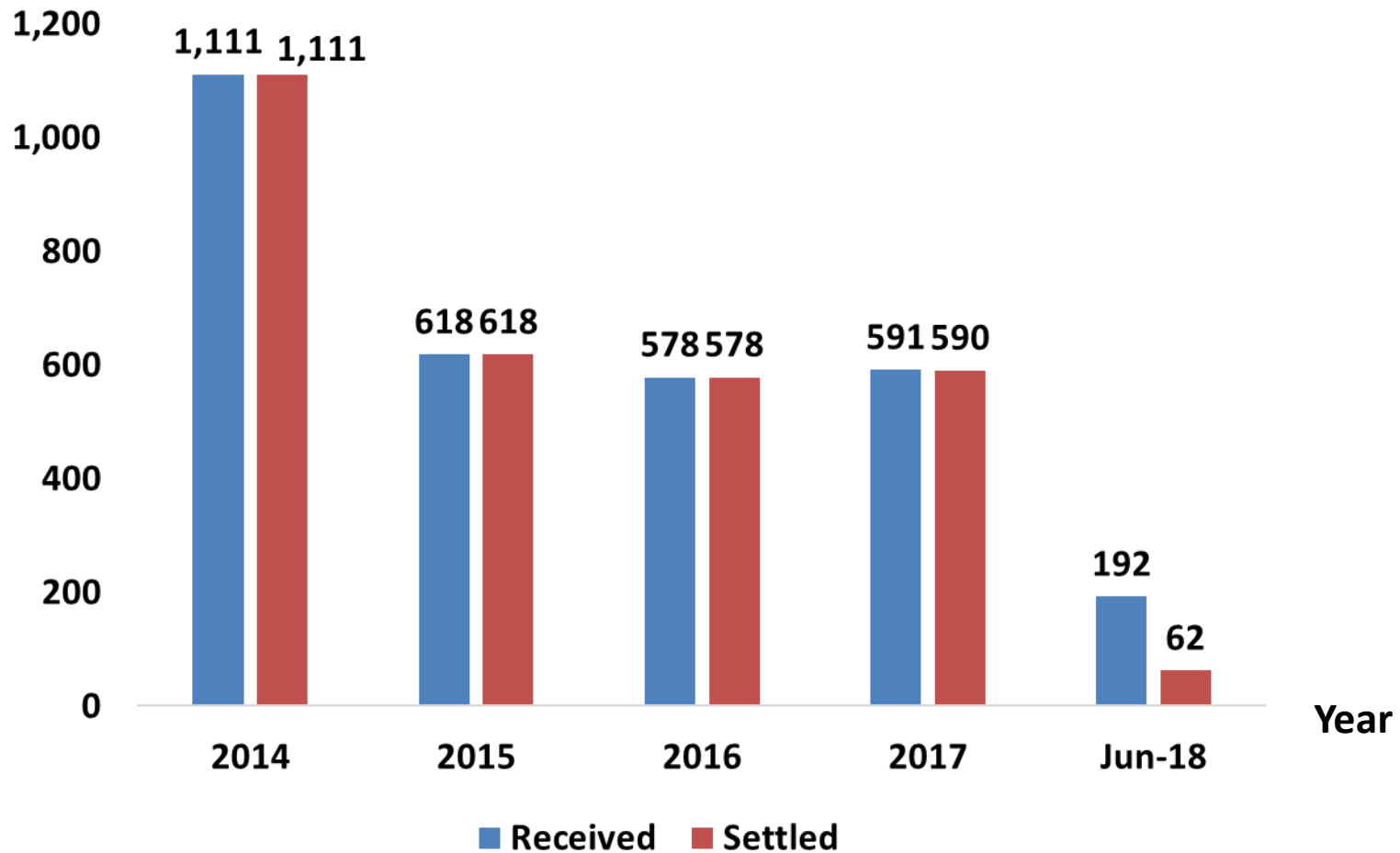
No. of Complaints





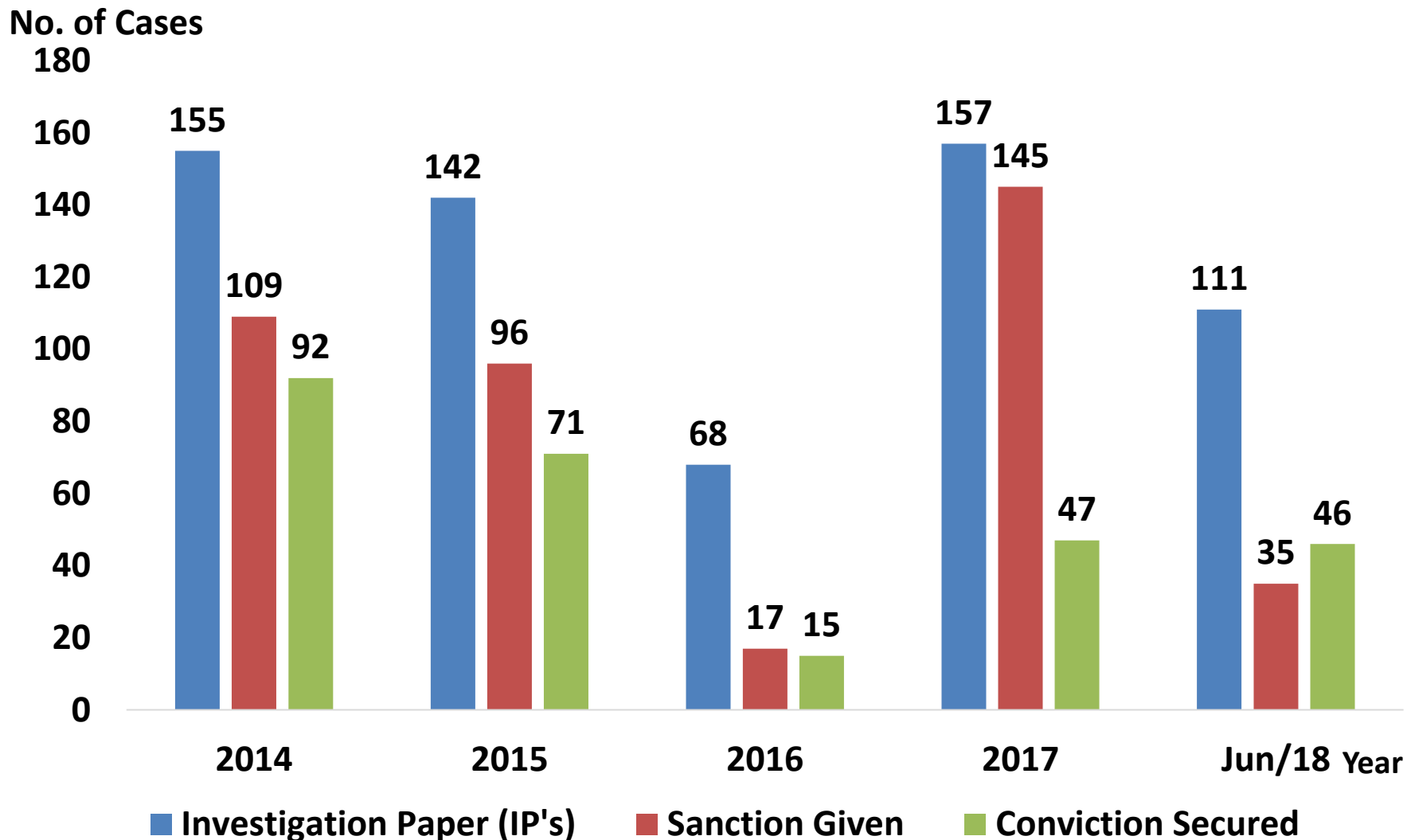
(iii) Claims Relating to Minimum Wages at Labour Court (2014 till June 2018)

No. of Claims





(iv) Prosecutions Relating to Minimum Wages (2014 till June 2018)

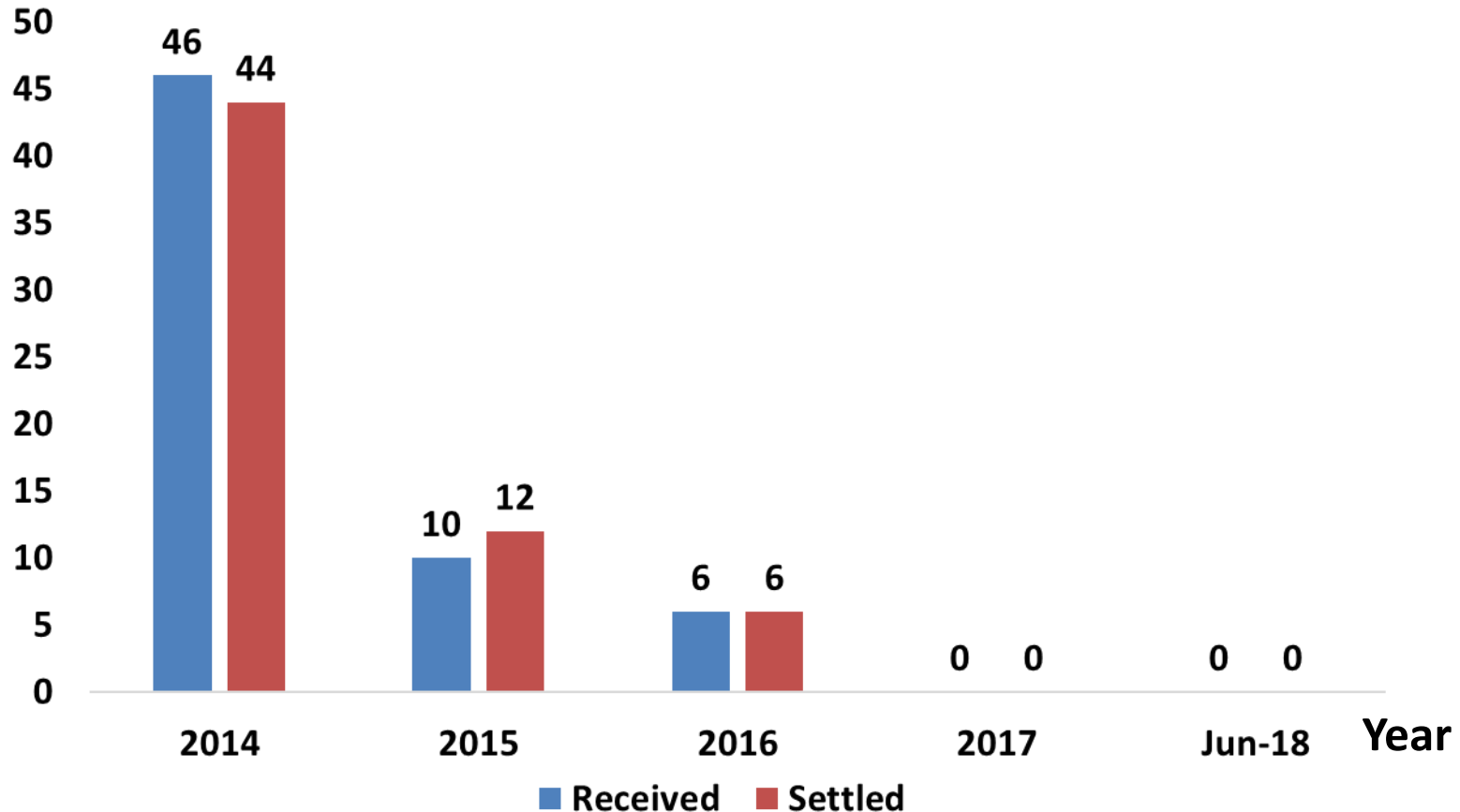


TOTAL : IP's = 633 Sanction Given = 402 (64%) Conviction Secured = 271 (67%)



(v) Trade Dispute Cases Relating to Minimum Wages (2014 till June 2018)

No. of Cases



TOTAL : Received = 62

Settled = 62 (100%)



(v) Education and Awareness Program on MWs (2014 till June 2018)



Talks : 1,996



TV: 30



Radio : 177

Keratan akhbar Utusan Malaysia pada 11 Mei 2011 berkenaan kenyataan Ketua Pengarah Jabatan Tenaga Kerja Semenanjung Malaysia mengenai pelaksanaan gaji minimum pengawal keselamatan.

Segera bayar tunggakan gaji minimum pengawal

KUALA LUMPUR 10 Mei - Majlis yang mengaji pengawal keselamatan swasta di Semenanjung Malaysia pada 10 Mei, menegaskan bahawa syarikat-syarikat yang gagal membayar gaji minimum kepada pengawal keselamatan mereka sudah mahu bertukar kepada perantaraan itu 15 Februari lepas.

Ketua Pengarah Jabatan Tenaga Kerja Semenanjung Malaysia, Datuk Abdul Rahim bin Hassan, berkata, ia adalah dengan persetujuan di bawah Majlis Pengawal Gaji Pengawal Keselamatan (MPPGK).

Minimalkan Bekas Bagi Pengawal Keselamatan Swasta Di Semenanjung Malaysia 2011.

Dalam satu kenyataan hari ini, beliau berkata, jabatan itu menegaskan bahawa syarikat-syarikat yang gagal membayar gaji minimum kepada pengawal keselamatan mereka sudah mahu bertukar kepada perantaraan itu 15 Februari lepas.

Ketua Pengarah Jabatan Tenaga Kerja Semenanjung Malaysia, Datuk Abdul Rahim bin Hassan, berkata, ia adalah dengan persetujuan di bawah Majlis Pengawal Gaji Pengawal Keselamatan (MPPGK).

"Jika disabit dan disabit dengan di bawah Akta Majlis Pengawal Gaji 1947, majlis boleh dikenakan denda tidak melebihi RM500 bagi setiap kesalahan," katanya.

Pada 15 Februari lepas, kerajaan mengumumkan peraturan baru bagi minimum bagi pengawal keselamatan Semenanjung Malaysia antara RM500 dan RM700 dan akan gaji baru itu dibagikan kepada tiga zon iaitu Zon A dengan gaji pokok RM550, Zon B dan RM500



Newspaper : 138

Exhibition : 839



Part 7 : C131 Ratification

1. Malaysia ratified C131 on 7 June 2016 during the ILO Conference in Geneva, Switzerland.
2. The enforcement of C131 ratification started from 7 June 2017.
3. In line with the implementation of minimum wages policy, Malaysia decided to ratify C131 as one of the instrument to increase protection to workers in terms of wages.
4. It also shows the Government commitment in improving labour standard in the country.
5. Malaysia is the first among ASEAN countries and the fifth among Asia countries to ratify this Convention.





Part 8 : Challenges of Implementation of Minimum Wages in Malaysia

1. MWs for micro employers.
2. MWs for disabled workers; those working in Non-Profit Entities (NPEs), Welfare Homes and Senior Citizens.
3. MWs for hotel workers @ service charge components.
4. MWs increases cost of doing business for employers.
5. Non-coverage of MWs to Domestic Workers!
6. Shortage of enforcement officers.
7. 'Knock-on Effects/ Spill-over effects of MWs.
8. Application of MWs for foreign workers.
9. MWs contributes to increase of price of goods and services!
10. Minimum wages tied to skills level attained of employees!



Part 9 : Latest Developments

1. Review of MWO 2016 is in final stage.
2. On 11 July 2018, NWCC recommendations to Cabinet was rejected.
3. NWCC met again on 24 July 2018.
4. A new recommendation had been submitted to Cabinet and a decision will be made soon.



Part 10 : Conclusion

1. MWs is a policy intervention to transform the Malaysian labour market.
2. Challenges & hiccups are not new – addressed in best manner through tripartite spirit.
3. Government of Malaysia is committed to ensure success of the MWs policy- taking stock of existing tripartite arrangements in Malaysia.
4. SMEs (including micro employers) need to revisit their business model/ wage structure.
5. No significant negative effect of 2012 and 2016 MWs Order.

Thank you

**Secretariat
National Wages Consultative Council
Ministry of Human Resources
Level 7, Block D3, Complex D,
Federal Government Administrative Center
62530 Putrajaya
Malaysia**

Tel: 03-8886 5156

Fax: 03-8881 0668

Email: shan@mohr.gov.my

www.minimumwages.mohr.gov.my