International Labour Organization

Setting a minimum wage

A review of options for Pacific employer and business membership organizations

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Introduction

Minimum wage-setting systems have become an important policy issue for employer and business member organizations (EBMOs) in the Pacific. In the past, minimum wages were not a significant issue for employers in the Pacific. In recent years, notable shifts have taken place. A few countries have seen significant minimum wage increases, such as the Solomon Islands, which experienced a doubling of the minimum wage in 2019. Many employers are now concerned that the minimum wage-setting system in their country lacks evidence-based criteria and transparency, can become politicized or can be influenced by outside guidance. And many EBMOs are concerned that the minimum wage processes do not appropriately reflect the economic and cultural realities in the Pacific, including the large informal sector and labour market distortions created by public sector employment in many countries.

Although the COVID-19 pandemic created new challenges for minimum wages, it also presented an opportunity for much-needed structural change. Many governments are aware and receptive to the need to introduce measures that boost business confidence and reduce risk. They also see opportunities to introduce new public–private partnerships and reinvigorate social dialogue on the responses to the pandemic crisis, thus opening doors to focus on core areas for structural change during the recovery phase. For EBMOs, this is a window of opportunity to advocate for reforms of the minimum wage-setting processes across the Pacific countries to ensure that they promote sustainable enterprises, employment growth and decent outcomes for workers. This report proposes principles and approaches that EBMOs can adopt to help meet these goals.

EBMOs' efforts to reform minimum wages should be guided by three principles: to make minimum wages more *purposeful*, *productive* and *predictable*. More purposeful minimum wages have a clearly defined objective and are accompanied by monitoring and evaluation to ensure that they achieve their purpose. Productive minimum wages link wages and productivity because employers regularly argue that productivity growth is needed to pay for wage growth. Predictability is needed both in the minimum wage-setting process as well as the outcomes to help businesses and workers plan for the future and maximize their chances of prosperity.

To integrate these principles into a minimum wage-setting process, EBMOs can advocate for process changes as well as the adoption of any of five formulas or rules. These five approaches provide options that can guide the setting of a minimum wage. They rely on data, such as from consumer price indices and wages, to be technically integrated into the minimum wage-setting process. EBMOs can adopt one or more of the tools but should always customize it to their country context. These principles and approaches should be complemented by increased analytical capacity and advocacy efforts by EBMOs on the issue of minimum wages. National-level efforts should be supplemented by regional collaboration, with the aim of increasing the consistency of the minimum wage principles and transparent processes. This can help contribute to making the Pacific a more attractive investment destination.

Collaboration among EBMOs across the region to share experiences, insights and resources can support this objective. By enhancing capacity, advocating for the adoption of new tools and processes and promoting collaboration between countries, EBMOs can pursue a vital role in making minimum wage systems in the Pacific more purposeful, productive and predictable.

Photo: © ILO

International standards and practices

A minimum wage is a widely used and important labour market tool for instituting minimum standards of pay for employees. 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”.[1] Minimum wages exist in more than 90 per cent of the International Labour Organization (ILO) Member States, although they vary significantly between countries because they are designed at the national level. Variation is evident not just in the wage rates but also in wage-setting structures and processes.

ILO Convention No. 131 cites two areas to consider when setting a minimum wage: the needs of workers and their families and economic factors.

Minimum wages are addressed in the international labour standards, notably in the ILO Minimum Wage Fixing Convention, 1970 (No. 131). The Convention outlines a range of factors for consideration during the minimum wage-setting process. The Convention does not rank the importance of various factors or prescribe rigid requirements. Instead, it notes that these elements should be considered “so far as possible and appropriate in relation to national practice and conditions”. The two main areas for review in minimum wage setting are:

- 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; and

1 ILO, “Minimum Wage Policy Guide”, undated: 3.

- economic factors, including the requirements for economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.[2]

In concept and practice, these factors are very broad. This has the benefit of allowing national actors to tailor them to national circumstances, but it can also create disagreement over the relative importance of factors in the minimum wage-setting process.

Convention No. 131 provides guidance on several other important aspects of minimum wage-setting systems:

- The coverage of minimum wages, which should be applicable to "all groups of wage earners whose terms of employment are such that coverage would be appropriate".
- The role of employers and workers in minimum wage setting. Wages should be set only after agreement or full consultation with the representative organizations of employers and workers.
- The need to update minimum wages, which the Convention notes should be "adjusted from time to time".
- The need to enforce minimum wages through appropriate measures, "such as adequate inspection reinforced by other necessary measures".
- Sanctions for failure to apply minimum wages, which makes the person or persons concerned liable to appropriate penal or other sanctions.[3]

The ILO Minimum Wage Fixing Recommendation, 1970 (No. 135) provides additional insights on the purpose and process of fixing a minimum wage. It provides a clear statement of purpose for minimum wage fixing: to "give wage earners necessary social protection".[4] However, it notes that a minimum wage is "one element in a policy designed to overcome poverty and to ensure the satisfaction of the needs of all workers and their families".[5] This makes clear that labour market policies alone are not the only tool for overcoming poverty. The Recommendation provides for many avenues for fixing wages, including by statute, decision by a competent authority, decision by a wage board or council, decision by a labour court or by giving collective agreements legal force. Recommendation No. 135 also notes the importance of using surveys and data in the minimum wage-setting process and states that financial resources are needed for this purpose.

Other Conventions and proclamations are also relevant to minimum wage setting. The ILO Minimum Wage-Fixing Machinery Convention, 1928 (No. 26) gives States freedom to decide the sectors in which minimum wages apply while also noting the importance of consultation in wage setting and the binding nature of wages.[6] It does not contain reference to factors for consideration in wage setting nor an emphasis on broad coverage. ILO Minimum Wage Fixing Machinery (Agriculture) Convention, 1951 (No. 99) covers similar thematic areas. ILO Domestic Workers Convention, 2011 (No. 189) makes reference to minimum wages, stating that ILO Member States should ensure that domestic workers are covered by minimum wages. ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) emphasizes that countries should work to extend minimum wages to workers in the informal economy. The ILO Centenary Declaration for the Future of Work also refers to minimum wages when it calls upon all Member States to strengthen the institutions of work to ensure adequate protection of all workers, including "an adequate minimum wage, statutory or negotiated".[7]

2 ILO, "C131 – Minimum Wage Fixing Convention, 1970", 1970.
3 Ibid.
4 ILO, "R135 – Minimum Wage Fixing Recommendation, 1970", 1970.
5 Ibid.
6 ILO, "Convention No. 26", 1928.
7 ILO, *ILO Centenary Declaration for the Future of Work*, International Labour Conference, 108th Session, Geneva, 2019.

Through the history of the international standards on minimum wages, employers have placed significant emphasis on economic circumstances. This importance was evident even in the dialogue that resulted in Convention No. 131 more than 50 years ago. In those discussions, one of the most contested issues was whether to include reference to employers' capacity to pay. At the time, workers' representatives argued that "only social and not economic considerations should be taken into account" in minimum wage fixing.[8] They also argued that it was difficult to verify whether employers did in fact have such capacity to pay. Employers, on the other hand, "strongly supported the retention of the economic considerations, arguing that ignoring employers could result in inflation and unemployment and thus weakening the protective role of the minimum wage.[9] Although the final text does not include a specific phrase about employers' capacity to pay, it explicitly includes economic circumstances.

Historically, employers have placed significant emphasis on economic circumstances.

The importance of economic circumstances in the minimum wage-setting process remains vital to employers today.

In recent years, some advocacy organizations and unions have advocated for setting minimum wages at a "living wage". The concept of a living wage is cited in numerous declarations, constitutions and statements. The ILO Constitution (1919), for example, cites the Organization's obligation to promote policies, including "a minimum living wage to all employed".[10] The ILO Declaration of Philadelphia (1944) makes a similar reference, while the more recent Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration) states that wages "should be at least adequate to satisfy the basic needs of the workers and their families".[11] Despite these references, there is no clear definition of a living wage. The ILO has argued that a living wage can be defined as a wage sufficient to allow "workers and their families…to live above the poverty line and be able to participate in social and cultural life".[12]

The Global Living Wage Coalition points out that, in their research, they have found more than 60 definitions for the concept.[13] Many definitions are more a statement of principle than an implementable approach to wage setting and often focus on the idea that a living wage should be above the poverty line. Attempts to translate principles into actual wage levels have yielded some unrealistic and unhelpful propositions. In Cambodia, for example, the Asia Floor Wage advocacy group recommended a "living wage" in 2017 of 1.94 million riel per month, which was 225 per cent higher than the country's median wage and 145 per cent higher than the country's average wage – meaning, that even if all wages in the country were divided equally, they could not even pay half of the proposed living wage.

Setting minimum wages to a "living wage" without consideration of economic circumstances would seem to contradict the international standards. Convention No. 131 explicitly notes that economic factors should be considered when setting a minimum wage. Living wage advocates often fail to incorporate this while also failing to address unintended negative outcomes in the labour market, such as decreases in employment and/or growth in informality. EBMOs have noted their scepticism of new interpretations of the living wage and its feasibility and fairness. They noted that minimum wages are only one part of an overall approach to addressing poverty and inequality and argued that government also has an important role in providing support for a society's poorest members through social protection programmes. They also found that some living wage activists are pushing dramatic increases in minimum wages, which the literature shows can contribute to exponential growth in the negative effects of such increases.

8 ILO, *Report of the Committee on Minimum Wages*, International Labour Conference, 53rd Session, Geneva, 1969.
9 Andres Marinakis, *The Role of the ILO in the Development of Minimum Wages*", ILO, undated.
10 ILO, "*Constitution of the International Labour Organization*", 1918.
11 ILO, *ILO Declaration of Philadelphia*", 1944.
12 Richard Anker, 2011. "Estimating a Living Wage: A Methodological Review", ILO, Conditions of Work and Employment Series No. 29, 2011.
13 Global Living Wage Coalition, "What is a Living Wage?", undated.

Minimum wages in the Pacific: Context and challenges

A number of countries in the Pacific have adopted minimum wages. Of those countries, most have adopted a single national minimum wage rate, unsurprising due to the small size and the relative homogeneity of wages and economic conditions (table 1). Per hour minimum wages range from $0.93 in Kiribati to $5.03 in Cook Islands.[14] Fiji and Vanuatu have two of the region's higher minimum wages, at $2.12 and $1.94 an hour, respectively.

▶ Table 1. Per hour minimum wage rates in the Pacific, December 2021

Country	Minimum wage			
	Low (local currency)	High (local currency)	Low (US$)	High (US$)
Cook Islands	NZD 7.60	NZD 7.60	$5.03	$5.03
Fiji	FJD 2.68	FJD 4.51	$1.26	$2.12
Federated States of Micronesia	US$ 1.75	US$ 1.75	$1.75	$1.75
Kiribati	AUD 1.30	AUD 1.30	$0.93	$0.93
Solomon Islands	SBD 8.00	SBD 8.00	$0.99	$0.99
Vanuatu	VUV 220.00	VUV 220.00	$1.94	$1.94
Samoa	WST 3.00	WST 3.00	$1.15	$1.15

Source: Interviews with Pacific EBMO officers and a review of public sources, December 2021.

14 Unless specified, all currencies are US dollars.

The factors for consideration during minimum wage setting are either not stated or closely resemble international standards. Among the countries in the Pacific that clearly outline the factors considered in their minimum wage setting, many include both the needs of workers and their families and the economic circumstances. Vanuatu, for example, adopts the word-for-word criteria for minimum wage setting from Recommendation No. 135.[15] Kiribati's legal framework also closely mirrors the language of Recommendation No. 135, although it contains additional factors:

- the right to equal remuneration for work of equal value;
- any other information, including information submitted to it by employees' and employers' representatives and other interested parties, relating to the reasonableness of any wage, including information of a financial or economic nature either at the national level or in relation to an industry, sector, occupation or geographic area; and
- such other matters as it thinks fit.[16]

The unique economic circumstances of the Pacific

During minimum wage setting, the unique economic circumstances of Pacific nations should be thoroughly considered and reflected. Countries in the Pacific face numerous and different economic realities, none more evident than their geographical isolation. This significantly increases the cost of movement, including trade and travel. The cost of logistics for imports and exports can comprise a significant share of the final cost of goods. Isolation is not without some limited benefits, though. The same distance and costs that makes imports more expensive also protect local businesses that lack the scale or efficiency of competitors in other countries. This may be advantageous for domestic micro, small and medium-sized enterprises, though not necessarily beneficial for consumers or the economy as a whole.

Compounding the challenge of geographical isolation is the small population of Pacific nations. No country has a population of more than 1 million people, and many have populations of only a few hundred thousand, often spread out across multiple islands. This has significant economic implications. It is difficult for businesses to achieve economies of scale, given the limited size of their home markets. It also contributes to less competition among private sector businesses in supporting such industries as finance and telecommunications. In Kiribati, for example, there is only one bank and thus a lack of competition and therefore fewer financial products for businesses. Countries also tend to have a much more concentrated economic structure and trade basket, thus relying heavily on a few exports while depending on a wide range of imported goods.

In many countries in the Pacific, the public sector is a major economic actor. Governments comprise a considerable share of gross domestic product (GDP) across the Pacific. For example, in Kiribati, government spending represents 31 per cent of GDP.[17] One of the largest uses of this money is for the salaries of public servants. In several countries, however, EBMO officers interviewed in the research for this publication remarked that they thought the efficiency of government staff could be improved and that pay rates did not always align with market rates. Some EBMO officers also reported that public servants receive frequent pay increases, sometimes corresponding to election cycles, but that it was unclear how the wage increments and schedule were being determined. Governments are also a major buyer of goods and services from the private sector. And some EBMO officers who were interviewed observed that government contract pricing can present compliance challenges with the existing minimum wage. A government's influence can also be seen in the labour movement, with some of the largest and most well-organized trade unions in the Pacific comprising civil servants. Yet, public sector unions representing private sector workers in tripartite settings raise significant questions about representation.

15 Government of Vanuatu, "Minimum Wage and Minimum Wages Board Act", Chapter 182, Laws of the Republic of Vanuatu, Consolidated edition, 2006.
16 Government of Kiribati, "Employment and Industrial Relations Code 2015", Article 51, 2015.
17 National Statistics Office Kiribati, "Government Finance", undated.

Many households in the Pacific include extended family members. But there is no clarity in the international standards on how this family structure relates to minimum wage setting. Many countries in the Pacific have large average household sizes. In Kiribati, for example, the 2016 census found that the average household size was 6.2 people.[18] How does this cultural characteristic affect the needs of workers and their families and therefore the minimum wage? Antiquated minimum wage practices from the early twentieth century from parts of Australia, Canada and the United States proscribe that the "minimum wage of an adult male worker should cover the requirements of a man with a wife and two children", suggesting it covers only the nuclear family.[19] In the lead-up to the passage of ILO Convention No. 131 and Recommendation No. 135, there was significant debate on whether international standards should include reference to families or only the individual worker. There was no significant discussion on whether this included extended family, however, and, more generally, there is no international precedent for including the needs of extended families in minimum wage setting.[20]

Many households in the Pacific engage in subsistence agriculture, which supplements other income to help meet the needs of workers and their families. Subsistence agriculture and fishing are common among households in the Pacific, especially in rural areas. In Samoa, for example, one study found that 94.6 per cent of the working-age population was engaged in some form of subsistence production.[21] Many households rely on subsistence agriculture to supplement other income streams, such as wages from employment or self-employment earnings. Social partners may need to consider these supplementary sources of basic needs when discussing the needs of workers and their families.

Economic and social factors for minimum wage setting

One of the most important factors in minimum wage setting – change in prices – has been relatively stable in the Pacific in the past decade. The highest levels of price growth were seen in Fiji, although they averaged slightly more than 3 per cent in the most recent decade (figure 1). Micronesia, Samoa, Solomon Islands and Vanuatu all have experienced modest price growth of between 1 per cent and 2 per cent in the past decade. This is low by both historical standards and when compared with other countries. Notably, Kiribati saw a contraction in prices in the past decade, an unusual occurrence, especially over a long period of time.

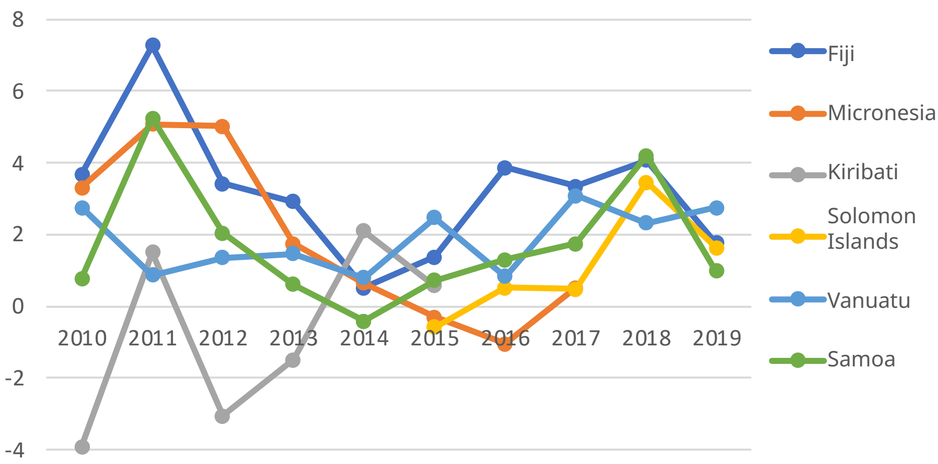
18 National Statistics Office Kiribati, *2015 Population and Housing Census: Volume 1: Management Report and Basic Tables*, 2015.

19 Andres Marinakis, *The Role of the ILO in the Development of Minimum Wages*", ILO, undated: 6.

20 Large household sizes alone may not increase the needs of workers and their families, if greater needs are offset by more income earners per household. One of the challenges associated with determining the needs of workers and their families is that family size varies, both within countries and between them. One approach to deal with this variation, previously demonstrated by the ILO, is to calculate a minimum wage based on household needs divided by the number of income earners (see p. 3 of ILO, How is Cambodia's Minimum Wage Adjusted?). Using this approach, a larger family or household size alone would not affect the needs of workers and their families and therefore the minimum wage. Instead, the needs of the larger household would be offset by a larger number of income earners. However, if larger household sizes are accompanied by lower labour force participation, the ratio of income earners to non-income earners will decrease, putting more pressure on the few income earners to provide for a large family. There is evidence that some Pacific countries have low labour force participation rates. In Samoa, for example, the labour force participation rate is 43.3. per cent (see Samoa Labor Force Survey 2017).

21 Samoa Bureau of Statistics, Samoa Labor Force Survey 2017, 2017: 45.

▶ **Figure 1. Change in consumer prices, from 2010 to 2019**



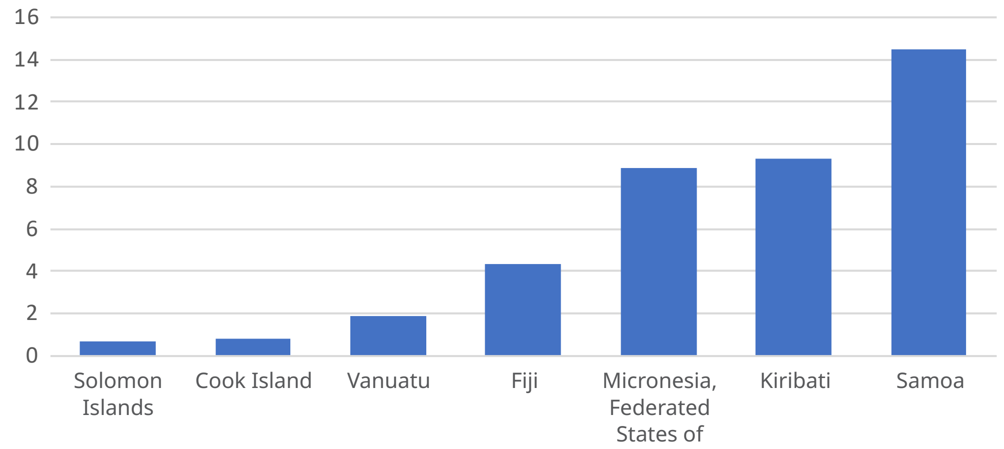
Country	% change
Fiji	3.23
Kiribati	-0.71
Micronesia	1.87
Samoa	1.72
Solomon Islands	1.10
Vanuatu	1.87

Source: ILOSTAT.

Unemployment is a major challenge in some Pacific States, which is compounded by significant underemployment and informality. Unemployment data from the ILO reflect that unemployment rates vary from less than 1 per cent in the Solomon Islands to 14.5 per cent in Samoa. However, some national statistics agency data differ significantly from the ILO data. For example, ILO data shows Kiribati's unemployment rate of 9.3 per cent in 2010, while Kiribati's National Statistics Office lists the rate as 30.6 per cent that same year and 41.3 per cent in 2015 (figure 2).[22] Unemployment rates do not reflect the full measure of the shortage of employment opportunities, which also manifests in underemployment and informality. For example, in Samoa, the unemployment rate was 14.5 per cent but the labour underutilization rate was 23.4 per cent, and the informal employment rate was 37.3 per cent.[23] The Solomon Islands, which has a low official rate of unemployment, similarly suffers from a widespread lack of formal employment. The country's statistics bureau has noted that "much of this labour force was operating in the subsistence economy," as shown by the paid-worker-to-population rate, which was only 24 per cent.[24] This is notable because, in many countries, households led by informal workers were worse off than those headed by employees. In Fiji in 2014, for example, these households had a hardship incidence that was 15–40 per cent higher than the national average.[25]

22 Kiribati National Statistics Office Kiribati. "Labor Market". Available at: https://nso.gov.ki/statistics/social/labor-market/.
23 Labour underutilization includes unemployed, as well as time-related unemployed and the potential labour force. See the definitions of statistical terms at www.ilo.org/ilostat-files/Documents/Statistical%20Glossary.pdf.
24 Solomon Islands National Statistics Office, "*2009 Census Report on Economic Activity and Labour Force*, 2009.
25 World Bank, *Hardship and Vulnerability in the Pacific Island Countries*, 2014.

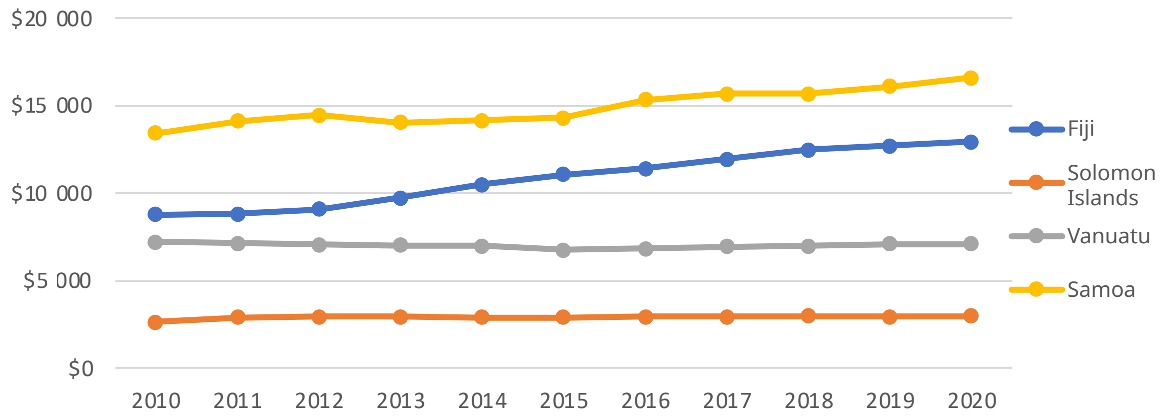
▶ Figure 2. Unemployment rate, by country, most recent year available



Source: ILOSTAT.

Levels of output per capita vary between countries in the Pacific, and they have been modest. Samoa and Fiji are among the countries with higher levels of output per capita, with Samoa estimated to have exceeded $16,000 in 2020 (figure 3). The Solomon Islands and Vanuatu have lower per capita levels. Fiji has led the way in output growth per capita in recent years, experiencing 48 per cent growth from 2011 to 2019. Growth in output per capita in the Solomon Islands and Vanuatu was notably poor in the past decade: While the Solomons saw growth of 13 per cent over the ten-year period, Vanuatu saw output per worker decrease marginally. Even though output per capita is often used as a proxy for productivity, employers should be reluctant to use this as an approximation of labour productivity. Output per capita represents the return on all factors of production, including labour, capital, materials and other factors of productivity, such as enhanced management techniques. It should not be equated with "the productivity of the individuals in the labour force".[26]

▶ Figure 3. Output per capita, 2010–20



Source: ILOSTAT. Note that some data are estimated.

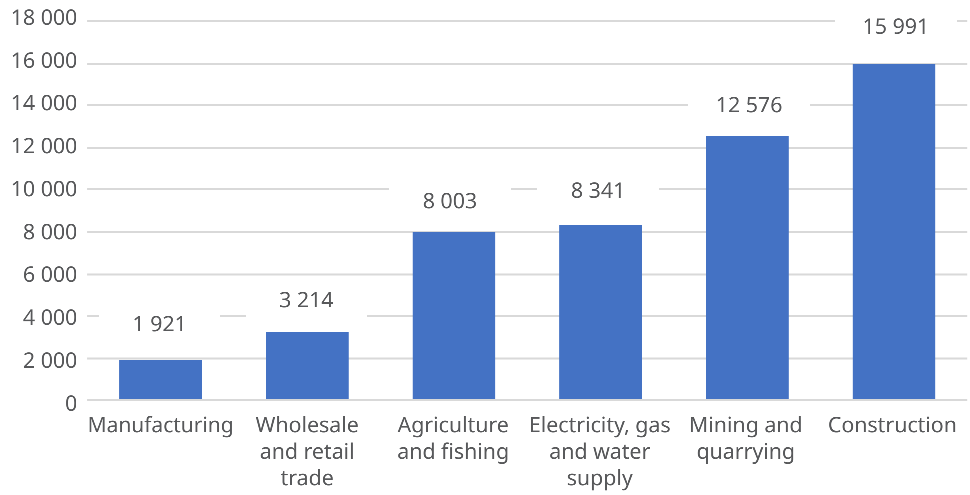
26 OECD, *Measuring Productivity: Measurement of Aggregate and Industry-Level Productivity Growth*", 2002: 14.

Output per capita varies considerably between the different countries in the Pacific and can also vary between different sectors within a country. Kiribati's national accounts illustrates how output per worker can vary dramatically from one sector to another (figure 4). In manufacturing, for example, it is less than $2,000 per year, whereas in the construction industry it is more than eight times higher – at about $16,000 per year. Much of Kiribati's workforce is concentrated in low-productivity sectors. The agriculture and fishing sector accounts for about 24 per cent of employment, with output per worker at $8,003 per year, although this figure includes some revenue from government fishing. Median incomes in the sector may be far lower. Two of the sectors with the lowest productivity – manufacturing and wholesale and retail trade – are the second and third largest sectors of employment. And then several sectors with high output per worker have few workers. Output per worker in the Kiribati mining sector is $12,576 per year, for instance, but it only employs 0.2 per cent of the country's employees.

Data availability and quality

Evidence-based minimum wage processes require data that are timely and of high quality, but this presents a challenge for some countries in the Pacific. The importance of data is recognized in Recommendation No. 135, which calls for "periodical surveys of national economic conditions, including trends in income per head, in productivity and in employment, unemployment and underemployment", to support the minimum wage-setting process.[27] It also recognizes the cost of data collection, noting that data collection may be constrained by resource limitations. This is especially challenging in the small countries of the Pacific, which face financial constraints and higher per capita data collection costs. There are some existing support systems to improve the quality and quantity of data, notably the Statistics for Development Division of the Pacific Community. This technical support programme works with statistical agencies across the Pacific in many areas, including key data for minimum wage setting, such as the consumer price index.

▶ **Figure 4. Output per worker in Kiribati, by sector, 2018 (select sectors only)**



Source: 2018 provisional data from "Nominal National Accounts at Current Prices"; data on population from 2015 census: 103.

Despite these efforts, data in the Pacific are often limited to a small number of metrics and available at infrequent intervals.

27 ILO, "R135 – Minimum Wage Fixing Recommendation, 1970", 1970.

Consumer price data, which are vital to minimum wage setting, are generally available across the Pacific. Consumer price data are captured and published in a consumer price index, which shows the change over time in a weighted basket of goods that reflects average consumer spending (table 2). Many national statistics agencies have updated data. In the Solomon Islands, consumer price index data lag by four months whereas in Samoa it lags by less than one month.[28] Although it is not possible to independently verify the quality of data collection, the consumer price index data quality may be acceptable, given the technical support programme and its importance as a core responsibility of national statistics agencies.

▶ Table 2. Sources of economic and labour market data, by country and year

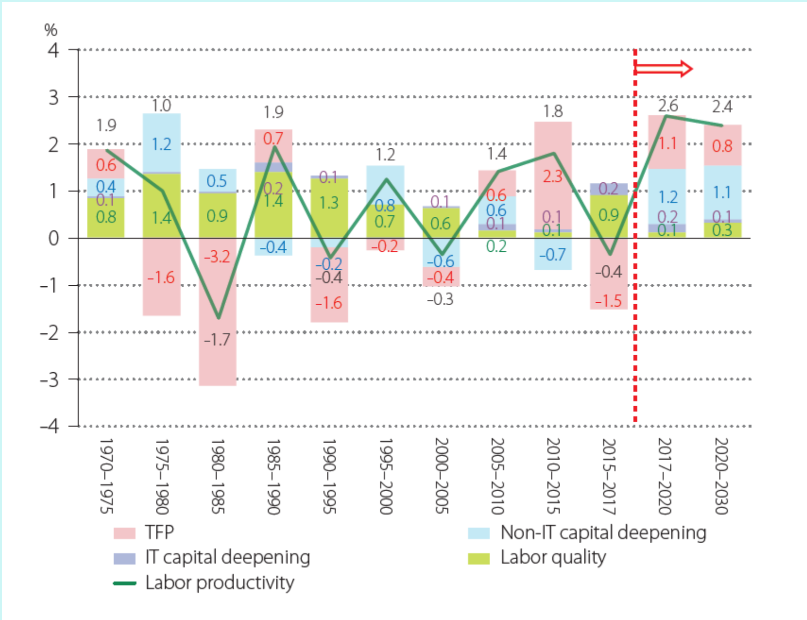
Fiji	Kiribati	Samoa	Solomon Islands	Vanuatu
CPI (2019)	CPI (Dec. 2019)	CPI (Sep. 2020)	CPI (Oct. 2016)	CPI (Mar. 2020)
Census (2017)	Census (2015)	Census (2016)	Census (2019)	Census (2020)
HIES (2013)	HIES (2019)	LFS (2017)	HIES (2013)	HIES (2010)
EUS (2015)	Census (2020)	LMS (2019)		
EUS (2021)	LFS (2021)	Quarterly Employment Statistics (2020)		
		Census (2021)		

Note: CPI = consumer price index; HIES = Household Income and Expenditure Survey; LMS = Labour Market Survey; LFS = Labour Force Survey; and EUS = Employment and Unemployment Survey.

▶ Box 1. Multifactor productivity and the decomposition of productivity growth in Fiji

While there are many ways to measure productivity, many useful measures for minimum wage setting are not available in most Pacific countries. Productivity can be measured using either single-factor or multifactor measures. The most common single-factor measure is single-factor labour productivity. This is calculated by dividing total economic output (GDP) by the number of workers. While it is easy to calculate, its biggest shortcoming is that it does not include the other factors that drive productivity. Multifactor productivity includes the many factors that shape productivity. There are different approaches to this, with the most traditional measuring labour, capital and total factor productivity. More recent theory includes elaboration about the role of technological progress in driving productivity. Another approach, called KLEMS multifactor productivity, measures more factors, including capital, labour, energy, materials and services. Unfortunately, multifactor productivity measurements with this level of detail are not available in most countries in the Pacific.

28 See for example, Samoa Bureau of Statistics, "CPI Summary Table", 2020; Fiji Bureau of Statistics, "Consumer Price Index", 2020; Solomon Islands National Statistics Office, Solomon Islands.



Fiji is one of the few countries that has multifactor productivity measures, and the factor breakdown shows how different components of productivity have changed over time. Although the data show some volatility, Fiji has nonetheless experienced negative growth in output per worker since 2015 (see the figure). This trend was driven in large part by the negative change in total factor productivity. However, from 2010 to 2015, total factor productivity growth was strong, at a robust 2.3 per cent. Labour quality, on the other hand, grew by 0.1 per cent and non-information technology capital deepening was negative. This type of detailed data gives employers useful insights about the drivers of productivity and can help inform minimum wages, but their absence from many countries in the Pacific reduces the evidence-based nature of minimum wage setting.

Source: Asian Productivity Organization, APO Productivity Databook 2019, 2019: 103.

Data on employment and wages, which are important for minimum wage setting, are not as readily available. The most detailed data on employment and wages comes from Labour Force Surveys. Samoa is the only country to have conducted large and dedicated labour studies recently, including a Labour Market Survey in 2019 and a Labour Force Survey in 2017.[29] Kiribati had a Labour Force Survey planned for 2021. Most of the other countries have not completed a Labour Force Survey in a decade. Instead, they include questions on employment and wages in the census or Household Income and Expenditure Surveys, which are conducted more regularly. For example, Fiji conducted a census in 2017 and regularly conducts an employment and unemployment survey that contains questions on labour force and employment, though the findings do not have disaggregated wage data.[30] Despite much data being available, employers have noted that data are often not well-integrated into the minimum wage-setting process.

Data on productivity, another important factor in minimum wage setting, are difficult to collect and integrate into minimum wage setting but remain vital to the process. National-level measures, such as output per worker, are broad gauges for overall economic trends but are not clear enough to provide useful information for minimum wage setting. Data from national accounts are available and disaggregated in Fiji (box 1), but availability is not clear in other countries. Microdata on productivity, often collected through a survey of private sector enterprises, are much richer. Yet, many businesses are reluctant to provide microdata, given that they often contain sensitive competitive information. Business surveys, notably the World Bank Enterprise Survey, sometimes provide more detailed enterprise-level productivity data, but they are conducted infrequently.

29 Disaggregated data, which are held by Samoa Statistics, contains greater details about the wage distribution. See the summary report.
30 A list of questionnaires is available online and shows the disaggregated data that should be available from the Fiji Bureau of Statistics. See the Fiji Bureau of Statistics.

An employers' agenda for minimum wages

Minimum wage principles

EBMOs have identified a range of aspirations in minimum wage setting that generally fit into the three principles for minimum wages: purposeful, productive and predictable (figure 5). The first theme, purposeful, can be framed by two questions: What is the purpose of minimum wages? Is the minimum wage system effective at achieving that purpose? As a policy, minimum wages should have a clearly defined rationale and an evaluation should be done to see if a minimum wage would help to achieve the stated goal. The second theme is productive: Minimum wages should help an economy be more productive and have a direct link with productivity, ensuring that the benefits of growth are enjoyed by workers and employers. The final theme, predictability, includes both the process of minimum wage setting as well as the outcome of that process.

▶ **Figure 5. Three employer principles for minimum wages**

Purposeful: with a clearly defined objective and regular monitoring to ensure they are effective in achieving that goal

Productive: linked with and driving productivity, ensuring both workers and employers share in the benefits of economic growth

Predictable: both in process and in outcome

The first principle for EBMOs is to ensure that their country has an objective for minimum wages that is clear, appropriate and achievable. This purpose most commonly refers to meeting the needs of a worker or a worker and their family. ILO Convention No. 131 provides some insights on the purpose of a minimum wage, which is to help protect "disadvantaged groups of wage earners" against unduly low wages.[31] The specific language differs from place to place and includes such phrases as providing workers with a "decent standard of living" or with "reasonable living costs" or an income to meet their "essential needs". Countries also have different approaches in minimum wage application, with some outlining their purpose as protecting only some workers (employees, formal employees or in select sectors), while others view them more broadly. EBMOs could advocate that the purpose of minimum wages include the following characteristics:

- Consider the outcomes for all workers, including informal sector workers, and not only wage workers or employees.
- Include reference to the need for productivity and the continued competitveness of businesses.
- Make reference to the minimum wage being a minimum standard, not a median wage or an arbitrarily defined living wage.
- Contribute to an overall policy framework of formalization.

Countries should also strive to ensure that minimum wages achieve their stated purpose through such steps as improving compliance and monitoring. Compliance is vital for minimum wage effectiveness because it is impossible for a policy to be effective if it is not implemented. Steps to promote compliance should start with education to ensure that workers and employers are fully aware of their legal rights and obligations and then be closely followed by improved enforcement. These steps should be complemented with evidence-based studies and monitoring to ensure that the minimum wages benefit the targeted groups of workers. These studies should address questions about a minimum wage, such as: Who benefits from the minimum wage? Does it provide protection for those at the bottom of the income distribution or does it help other groups more?

Special efforts should be made to ensure that minimum wages help lower-income households. In many developing countries, minimum wage workers are not among society's poorest. These low-income workers are often own-account workers toiling in the informal sector without the benefits of a minimum wage or other protections. To study this further, countries in the Pacific could conduct a decile test, which divides all households in the country into ten groups, from the lowest-income households (decile 1) to the highest (decile 10). It then looks at where among these income deciles the minimum wage earners are concentrated. If many lower-income households (deciles 1–3) have a minimum wage earner, then it is likely that the minimum wage is benefitting the country's poorer households. However, if few lower-income households have a minimum wage earner and they are instead concentrated in the middle- or upper-middle income households (deciles 4–8), then it indicates that the minimum wage is not as effective at protecting the lowest-income households.

A second principle for EBMOs is to ensure that productivity is incorporated in minimum wage setting. Productivity is often the most important consideration for employers. When wages increase, businesses need higher productivity to help generate additional revenue and in turn pay the higher wages. There are several drivers of productivity. It can result from increases in human capital, such as increased education or skills of workers, or investments in capital that help workers be more productive. It can result from technological innovation or management practices that improve business efficiency. There is a strong theoretical underpinning for linking minimum wages to productivity. And it is included in Convention No. 131, and can be an important consideration when determing the degree to which workers should benefit from economic progress.

31 ILO, "C131 – Minimum Wage Fixing Convention, 1970", 1970.

A third principle for employers is to ensure that minimum wages are predictable, both in process and outcome. One of the most important ways to promote predictability is to ensure that the minimum wage process is transparent. There should be written guidance that is publicly available on all aspects of the process, including but not limited to the steps it will entail and the criteria used for decision-making. Another key element of predictability is ensuring that stakeholders, especially the country's most representative employers' and workers organizations, are fully aware of and involved in all aspects of the minimum wage-setting process. As tripartite partners, these organizations have an integral role in voicing the views of their members, which is a vital input needed to ensure that the final results align with the reasonable expectations of stakeholders.

One common step that can be taken to enhance predictability is to establish a frequency and clear timeline for wage reviews. Reviewing minimum wages at a set frequency does not mean that the wages must be changed – only that an evidence-based review is conducted. Having a set frequency lets employers know when to expect a possible change, and it reduces the chances that minimum wage setting is used for political purposes. For example, it will limit the chances of an increase in wages just before an election, in hopes of gaining votes. There is no required frequency for minimum wage reviews. Some countries review them two times per year, while others review them once every three years. In small countries with less government and social partner human capital or countries with stable prices, infrequent reviews may be suitable. Larger countries that have more government human capital or countries with high inflation may choose to review their minimum wages more often. EBMOs should make recommendations on how often minimum wages are reviewed based on the local context, though should aim for one review once every one to three years.

Establishing a timeline for each minimum wage review that is realistic, mutually agreed, clear and encoded in regulations can also help improve predictability. Each review should start with the collection and sharing of key data, such as the consumer price index, unemployment and productivity. After data are reviewed and shared, tripartite partners should present initial views, which could be followed by public consultation and further reviews by the tripartite partners. After agreement or full consultation, the government should aim to finalize and publicly announce the wage far in advance of the effective date. This will give employers a chance to price minimum wage changes into future orders, prepare human resources management for the transition and ensure that they have the funds available to pay the new wage rates. Far-advance notice reduces disruptions for businesses while also helping to increase compliance. A clear timeline can help workers' and employers' organizations prepare for their participation in the wage-setting process and also ensure that negotiations do not drag on or become dated due to inaction.

Setting clear criteria to determine the minimum wage rate also can improve predictability. The criteria should broadly mirror ILO Convention No. 131, including both the needs of workers and their families as well as the economic circumstances. They should align with the purpose of minimum wages that is outlined in the national context. Identifying specific and measurable criteria instead of general areas can help prevent disagreements and focus the discussions. For some areas, such as consumer prices, it can be very easy to select the specific criteria. Another step to improve predictability is to agree on the specific data sources that will be used to examine those criteria. For example, social partners in Fiji agreed that the measure of the change in cost of living that they would use in the minimum wage-setting process is the consumer price index data from the Fiji Bureau of Statistics. Whenever possible, social partners should encourage the use of data from a professional and impartial source. Data should be equally available to all members of the tripartite discussions and, ideally, to the general public as well.

Minimum wage tools

To help ensure that minimum wage setting reflects the three principles, EBMOs can advocate for tools to guide the process. Five tools are outlined in this section, with details of how EBMOs can operationalize these principles using sound technical approaches. The five tools use formulas and rules to build an evidence-based framework to guide wage setting. They range from fairly loose rules that allow significant room for negotiation to rigid formulas that closely link results to data. One approach may fit better in one national context while a different approach could be more appealing in another context. The five approaches are not mutually exclusive – more than one can be used together. And these are not the only approaches available to employers. They are also designed to be used in conjunction with the process improvements noted in the previous section.

Three of the five approaches involve the use of formulas to guide minimum wage setting, which can provide notable benefits but they can also have drawbacks. Formulas are appealing to EBMOs for their predictability and use of evidence. Their use makes clear to all parties which factors affect minimum wage rates. They can help reduce conflict, which is common in minimum wage-setting processes, especially those that have little procedural guidance. But there is also a range of challenges associated with formulas: Poorly crafted formulas can lead to significant long-run issues. Overly rigid formulas can limit flexibility in crises, a point that the COVID-19 pandemic brings to the fore. Formulas generally struggle to capture the many complex real-world factors and require data that are timely and of high quality. Because of these drawbacks, *they are often used as a complement to and not a substitute for social dialogue*.[32] Among the five approaches cited here, approaches 1–3 can be adopted as either binding or to establish a baseline for further dialogue. Approaches 4 and 5 function best if they are binding, but they both only establish parameters for dialogue instead of proscribing a specific wage rate.

Although the predictibility of using a formula in minimum wage setting is appealing, some EBMOs may find the approach too rigid. This is a common and valid critique of formulas. Some EBMO officers interviewed in this research acknowledged that a formula does not leave enough room for negotiation, while others found that they do not capture the wide range of factors affecting minimum wage setting. Certainly, there is a role for formulas in the minimum wage-setting process, even without allowing them to be the sole and binding guide of minimum wage levels.

Approach 1: Establish rules to guide the level of minimum wages

A clear set of rules can help provide a flexible framework for minimum wage levels. This approach is the most basic, providing only a limited structure to the minimum wage-setting process. It is likely that many countries already meet these criteria, even if they have not formally adopted them for minimum wage setting. Rules provide explicit limitations on the minimum wage levels, adjustment intervals and other factors. Within the bounds of these rules, tripartite partners still have flexibility to negotiate. But they provide all parties a level of predictability by placing some limits on outcomes. Although rules should always be adapted to the national level, example rules that countries may want to consider include:

- Minimum wages should not be set lower than the national poverty line.
- Minimum wages should not be set higher than the country's median wage.
- Minimum wages should not increase by more than a certain amount in a single adjustment.
- Minimum wages should not grow more quickly than the sum of the change in the consumer price index and the change in labour productivity.

32 ILO, *Minimum Wage Policy Guide*, undated.

Approach 2: Adopt a consumer price index and productivity formula to guide minimum wage increases

A formula incorporating two factors – change in cost of living and output growth – can provide predictability and many other benefits for employers. This approach is appealing for numerous reasons, including its focus on changes in the cost of living, which in practice is one of the most important considerations in the wage-setting process. Increasing the minimum wage by the same amount that the cost of living has changed only keeps workers on an even plane – their real wages are no more or less than they were the last time the minimum wage was set. It is unlikely that minimum wage setting will be viewed as legitimate if this factor is not included. Second, it includes an approximation of productivity (represented here as output per worker), which employers repeatedly cite as the most important factor. Third, because it focuses on just two factors it is simple. A more complex formula may, if perfectly implemented, better mirror the real world. However, complex formulas require more data, are more difficult to use and are more open to political interference. A simple formula is beneficial partly because it improves predictibility and transparency.

▶ Box 2. The consumer price index and productivity formula

The core formula for setting minimum wages using the consumer price index and productivity is:

$$MW_{t+1} = MW_t + \Delta CPI_{t-1} + (a)*\Delta OPW_{t-1}$$

Where MW = minimum wage, CPI = consumer price index, OPW = output per worker and t = the time period (so t+1 is the year after, while t-1 is the year before).

This formula is most suitable where employers believe that the current minimum wage level is reasonable and the primary goal is to ensure reasonable future changes to the minimum wage rate.

While productivity growth is an important factor for employers, they should also consider potential shortcomings of its use in the context of the Pacific. There are many measures of productivity, both at the micro and macro levels. The minimum wage-setting process should use a measurable and nationally relevant metric. The most common is output per worker, an approach adopted here, although it is stressed that output per hour worked is a preferable measure when available. Employers have regularly noted in a variety of forums that there is a close relationship between the capacity to pay and productivity. Incorporating productivity into the formula allows workers to share in the benefits of growth while also balancing with employers' ability to pay. Notably, the formula should ensure that minimum wages increase by a portion of average productivity growth – but that portion may not equal 100 per cent. There are many reasons for this, but one reason is that some important sectors with many employees, such as agriculture and wholesale and retail traide, often have slower productivity growth than the overall economy. Another reason is that, in the Pacific, few countries have signficant income sources that are disconnected from local labour market. Kiribati, for example, earns considerable revenue from fishing licenses. But the influence of these earnings on output per worker could distort formula-based minimum wage setting and lead to inappropriate results.

Approach 3: Establish a relationship between minimum wages to other wage levels

A second formula-based approach to minimum wages is to fix them to median wages. *This approach is most suitable where employers believe that a current minimum wage is not aligned with the overall wage distribution.* This approach is directly supported by ILO Convention No. 131, which explicitly mentions the general level of wages as an area for consideration. This relative wage approach has been adopted by many countries, including the United Kingdom, which set a target for minimum wages (for workers aged 25 and older) at 60 per cent of median wages. It has notable advantages, including:

1. *It provides a direct link to productivity.* Wages and productivity are highly correlated, so much so that economists use wages as a way to measure productivity. A formula linking minimum wages to median wages therefore also creates a clear link to productivity through its close connection to wages generally.
2. *It eliminates the need to try to define difficult concepts, such as "needs" or a "living wage".* Discussions about these terms can be highly subjective, leading to signficant disagreement.
3. *It ensures that minimum wages are always aligned with the overall distribution of wages.* This gives employers room to ensure that higher-skilled workers receive the appropriate wage premium.

Using median wages instead of mean wages is the preferred approach to relative minimum wage setting. Median wages record the salary at the midpoint of the income distribution. This is preferable to using average wages, which are skewed higher because a few very large incomes can often significantly affect the overall average income and potentially suggest minimum wage levels that are not reasonable. The formula for fixing minimum wages to median wages is simple:

$$MW_{t+1} = (a)*medW_t$$

In this formula, MW is the minimum wage, medW is the median wage, and a is a coefficient that defines the percentage of median wages where the minimum wage is fixed. So, if the country chooses to set a minimum wage at 55 per cent of the median wage, the coefficient would be 0.55. This approach to minimum wage fixing may require a phased-in period because large single changes to minimum wages are not advisable.

Even though fixing minimum wages to median wages is a strong approach in many circumstances, it may be difficult in some countries in the Pacific. The implementation of this approach depends on having data on median wages that are available and recent. This is the case in some countries in the Pacific, notably Samoa, which conducted a Labour Force Survey in 2017 (though it has not made the median wage data public).

Approach 4: Use multiple formulas as the basis for minimum wage setting

Approach 4 is a system of two formulas that produce a range within which the minimum wage could fall, thus not a single figure. Using this approach, formulas could produce an upper bound and a lower bound minimum wage rate. For example, the proposed formula that uses a consumer price index and productivity in approach 2 could be modified into a formula system such as:

$$UMW_{t+1} = MW_t + \Delta CPI_{t-1} + (0.3)*\Delta OPW_{t-1}$$

$$LMW_{t+1} = MW_t + \Delta CPI_{t-1} + (0.6)*\Delta OPW_{t-1}$$

This suggested system would establish an upper-bound minimum wage equal to the change in the consumer price index plus 60 per cent of the change in output per worker. The lower-bound minimum wage would equal the change in the consumer price index plus 30 per cent of the change in output per worker. These upper-bound and lower-bound rates form the boundaries, and tripartite negotiation would take place to determine the final wage rate. *This approach, like approach 2, is most suitable where employers believe that the current minimum wage level is reasonable and the primary goal is to ensure reasonable future changes to the minimum wage rate.*

Approach 5: Use triggers to incorporate exceptional circumstances into formulas

While the formulas in approaches 2 and 3 are fairly rigid, they could be complemented by "triggers", which allow other economic factors to be included only when certain criteria are met. A trigger is an agreed rule that initiates the consideration of another factor only when a certain level is reached. This approach allows other factors to influence the minimum wage in serious situations but keeps them out of the minimum wage-setting process most of the time to promote simplicity and reduce politicization. This also reduces unpredictability for employers. Yet, it could also influence minimum wage adjustments during crises, such as the COVID-19 pandemic. The significant economic changes from the pandemic, such as increasing unemployment and decreasing productivity, would have met many triggers and that would have allowed the dramatic changes to be incorporated into the minimum wage-setting process.

Triggers should be designed with due consideration to national circumstances and could resemble the following examples:

- **Unemployment** – Adjustments to the minimum wage should be made when unemployment increases or decreases 0.5 per cent or more in the previous period, or 0.8 per cent in the past two periods.
- **Informal employment** – Adjustments to the minimum wage should be made when informal employment decreases or increases 1 per cent or more in the previous period.
- **Business exits** – Negative adjustments to the minimum wage should be made when business exits increase 25 per cent or more above their rolling three- or five-year average.[33]
- **Informal sector wage discount** – If the discount rate for informal sector median wages is below a certain percentage of formal sector median wages, minimum wages should be decreased.
- **Social protection changes** – Modifications to social security benefits that increase benefits for working families by a certain percentage should result in a negative adjustment to minimum wages.
- **Competitiveness** – Significant falls in exchange rates (plus or minus 15 per cent) or Doing Business Indicators (increase or decrease of 10 spots or more in rankings) should trigger minimum wage adjustments.
- **Changes in capital available to the private sector** – Businesses require financial capital to invest in productivity-enhancing capital. Significant changes in capital available to the private sector should trigger an adjustment to the minimum wages.

Developing capacity for minimum wage setting

Although process reforms, rules and formulas can help improve aspects of minimum wage setting, EBMOs may also benefit from developing their analytical capacity and advocacy agenda. One step is for EBMOs to develop and implement new data collection tools to improve their labour market insights. Typically, important data that most EBMOs collect and generate are fragmented across business functions, underutilized and poorly managed. Few EBMOs have explicit policies recognizing data as an asset, and many lack systems and procedures to ensure appropriate stewardship of data. More effective use of data can lead to better business intelligence, better analysis-based decision-making and better real-time information about operations and labour markets. This can enable EBMOs to improve their strategic and tactical decisions, provide meaningful insights and intelligence to members and ultimately to have more influence over policy outcomes. EBMOs can achieve this through new data collection, improved management and use of existing data.

33 This data may not be available for all countries. An example of this type of data is provided by the OECD.

EBMOs should thoroughly assess the most effective option to obtain data: using official figures or collecting their own information. Employment and wage data are vital not only in minimum wage setting but also to EBMO members. As a first step, EBMOs could reach out to the national statistics agency to learn more about available data, data quality and data release timelines. These meetings should help EBMOs determine which government data can be used and what areas they need to collect their own information. Many EBMOs already have data on member employment levels, and some collect wage data through surveys or membership tools. Existing administrative data can be complemented by member surveys, although surveys are often viewed by other social partners in the minimum wage process as opinionated. Data from both of these sources could supplement government data to help EBMOs gain a more complete picture of the wage and employment situation.

EBMOs should increase their capacity to conduct analysis of employment and wage data. This can include either enhancing in-house resources or developing a strategic partnership with an independent research institute or university. EBMOs should strive to thoroughly analyse data sets, including the consumer price index, employment, wage, productivity and macroeconomic data. They should have a thorough understanding of how this data are obtained, especially a clear grasp of how the consumer price index is calculated. They should also be able to produce basic metrics, such as a Kaitz Index. They should be able to identify specific needs and implement studies that can further build their understanding of minimum wages, such as a review of compliance rate and drivers of noncompliance. They should also seek to be able to provide detailed technical responses to analysis from government and external consultants (box 3).

▶ Box 3. The benefits of local ownership of the minimum wage-setting process

Local ownership of the minimum wage-setting process by all of the tripartite stakeholders is vital to its success. Outside technical inputs can provide a useful addition to the process, but they should be contextual and rigorous. And they should be subjected to review by the tripartite stakeholders. The case of Samoa's recent minimum wage review provides a useful example of why local ownership is so important to the process.

To assist in the minimum wage process, Samoa brought in an external consultant who conducted some technical analysis and proposed a minimum hourly wage of 3.70 Samoan tālā), a significant increase of 61 per cent from the 2019 minimum of 2.30 tālā per hour. In the course of the analysis, additional decisions without clear technical justification were made but not highlighted for consideration by national stakeholders.

The consultant directly compared wage and GDP growth – creating the implicit assumption that wages were too low because they had not grown as fast as GDP. This comparison was flawed because it neglected the importance of labour force growth in overall GDP growth. The consultant also took an unusual approach to determining the "needs of workers and their families": The food spending of the third income decile households was used to determine the "hourly wage rate for an individual to meet the expenses of the particular decile." This approach put food costs almost three times higher than the national food poverty line – at 101.5 tālā per week compared with 34.9 tālā per week. This decision had a significant impact on the final recommendation for the 61 per cent increase in the minimum wage.

After further review, the Government of Samoa increased the minimum wage to 3 tālā per hour, at half the recommended increase by the external consultant. The dramatic difference between the final rate and the rate proposed in the external analysis clearly illustrates the importance of local control. It also raises questions about the usefulness of overly prescriptive technical assistance, given that its recommendation diverged significantly from the final result. Employers should closely scrutinize such reports to make sure that important political and social decisions are not masked as technical ones. They may also propose that future technical assistance is both more technical and more collaborative. The technical analysis should be confined to truly technical questions, and a new collaborative approach should be implemented – perhaps a structure in which external technical experts work with tripartite stakeholders to examine data and reach their own evidence-based views.

Source: Vlassis Missos, Review of Policy and Practice Regarding Minimum Wage Levels, Samoa Government Support Program, 2019.

Employers should develop new advocacy goals, including for programmes that help reduce the negative effects of minimum wage increases for at-risk workers and businesses. Micro, small and informal businesses are often more affected by a minimum wage than medium, large and formal businesses. To help these micro, small and informal businesses adjust to higher minimum wage levels, the government could offer programmes designed to reduce its effect, such as:

- Access to a capital programme, potentially delivered through multinational financial institutes, that specifically funds micro, small and informal businesses to invest in new, productivity-enhancing technology.
- An incentive programme for micro and small employers to retain low-paid or low-skilled workers, who are often at higher risk of losing their jobs from a minimum wage increase.
- Phased implementation of the new minimum wage for micro and small businesses.

To maximize their effect, transition programmes should vary in size and be based on needs and the size of the minimum wage increase. Proposed large increases should be accompanied by additional efforts to help micro, small and informal businesses through the transition.

EBMOs should review other tools to match wages to employers' capacity to pay, including promoting collective bargaining or wage segregation by business type. Employers are generally reluctant to engage in collective bargaining, but its low penetration rate in the Pacific is not unrelated to the pressure workers place on their government for higher minimum wages. Efforts to engage in bargaining, often met with failure, have been replaced by efforts to achieve similar outcomes through minimum wage legislation. Employers may want to reconsider whether the revitalization of bargaining could give them more control of the trajectory of wage increases. EBMOs could also consider ways to segregate wages between local employers and those in global value chains.

Key messages	
Through the history of international standards on minimum wages, employers have placed significant emphasis on economic circumstances.	p. 3
There is no clear definition of a living wage, and setting a minimum wage to a living wage without consideration of economic circumstances would seem to contradict international standards.	p. 4
Evidence-based minimum wage processes require data that are timely and of high quality, but this presents a challenge for some countries in the Pacific.	p. 10
Data on productivity, another integral factor in minimum wage setting, are difficult to collect and to integrate into the minimum wage-setting process, yet they remain vital to the process.	p. 12
Setting clear criteria to determine the minimum wage rate can improve predictability.	p. 14
Forumulas for calculating a minimum wage are often used as a complement to, and not a substitute for, social dialogue.	p. 15
Complex wage-setting formulas require more data, are more difficult to use and are more open to political interference.	p. 16
Incorporating productivity into a wage-setting formula allows workers to share in the benefits of growth while also balancing with employers' ability to pay.	p. 16
Employers should increase their capacity to collect data and conduct analysis of the consumer price index, employment, wage, productvity and macroeconomic data.	p. 18
Micro, small and informal businesses are often more affected by a minimum wage than medium, large and formal businesses.	p. 19
Employers may want to reconsider whether the revitalization of collective bargaining could give them more control of the trajectory of wage increases.	p. 20

Photo: © ILO

Minimum wage-setting systems have become an important policy issue for employer and business member organizations (EBMOs) in the Pacific. In recent years, notable shifts have taken place. A few countries have seen significant minimum wage increases and many Pacific employers are concerned that the minimum wage-setting system in their country lacks evidence-based criteria and transparency, can become politicized, or can be influenced by outside guidance. This guide has been developed to support Pacific EBMO in benchmarking minimum wage setting in their country to the wider sub-region and to develop a deeper understanding of standards relating to wage setting, mechanisms that can be applied, and factors of concern to business and employers.

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