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MINIMUM REFERRAL WAGES FOR INTERNATIONAL MIGRANT WORKERS FROM INDIA: AN ASSESSMENT



MINIMUM REFERRAL WAGES FOR INTERNATIONAL MIGRANT WORKERS FROM INDIA: AN ASSESSMENT

S K Sasikumar and Seeta Sharma

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EXECUTIVE SUMMARY

In recent years, the Government of India has been fixing minimum referral wages to regulate the wages of Indian migrant workers employed in different occupations in countries falling under the category of “emigration check required” (ECR). The rationale for introducing the concept of minimum referral wages is that it ensures Indian migrant workers are not placed in disadvantageous positions by the unilateral fixing of wages – which might be much lower than the prevailing wages in the host country as well as in India – by foreign employers.

The operation of a referral wage has ramifications for both migration flows and migration outcomes. In India, the implications are particularly significant because a prescribed minimum referral wage is considered a prerequisite for providing clearances for the migration of persons falling into the ECR category. In other words, migration is possible only if the employment contract of an ECR person specifies a wage at least equal to the minimum referral wage in the relevant occupational category. Critics have argued that referral wages are so high that this step is discouraging employers in destination countries from recruiting Indian workers.

This technical report examines the functioning of the minimum referral wage system in the context of migration flows from India to Kuwait, Saudi Arabia and United Arab Emirates, with a focus on eight occupational categories: carpenters, masons, drivers (light duty and heavy duty), fitters (reinforcing and pipe), nurses and domestic workers. The study adopts a comparative approach to assess the operation of the system, comparing the minimum referral wage with the prevailing market wages for the selected occupational categories in the three destination countries.

The information on the prevailing market wages was obtained from three primary sources. The information from all the sources pertained to the last drawn monthly basic wage.

(i) It was collected from associations representing nearly 600 private recruiting agencies operating in India which recruit workers in the selected occupational categories for the targeted destination countries.

(ii) Leading employers in the targeted occupational categories were approached (five employers each in the three countries) to collect this information. Actual contracts from the destination country websites and from employers and migrants working overseas were also accessed.

(iii) 150 migrant workers currently employed in the targeted occupational categories in the selected countries were surveyed (20 workers per occupational category, with a minimum of five workers per country). These workers were interviewed at the Delhi airport when returning for leave from their country of employment.

The referral wage system introduced by India essentially evolved out of the principles of the minimum wage system. It is not that the Indian missions in various countries follow commonly specified criteria to decide the wage rates for different job categories in those nations. Nor have these rates been recommended by any committee with relevant stakeholder participation. India’s referral wages were the highest among the three origin countries studied. The differentials were relatively higher for low-skilled job categories, such as carpenters and masons, and were most pronounced in Saudi Arabia, where the referral wages were 30–40 per cent higher than the prevailing wages.

There exist significant differentials between the domestic minimum wages fixed in India (even the highest rate) and the prevailing wage rates in the three destination countries for low-skilled job categories. Such wage differentials are the primary reason for the initiation and perpetuation of international labour migration in these categories from India. Considering that a significant proportion of such migration originates from relatively poorer states, such as Uttar Pradesh and Bihar, this has positive implications for the livelihood options of vulnerable categories of workers and their households. However, the high referral wages fixed by the government may affect such migration and therefore household earnings.

The major policy parameters evolving from the study include:

- India must continue to have a minimum referral wage system. This is to ensure that standards of wages for Indian workers who are overseas are not undermined by other countries.
- The referral wages currently seem to be highly protection-centred. They should be fixed so as to strike a balance between the protection of Indian migrant workers in destination countries, on the one hand, and not hindering international labour migration from India, on the other hand. Such an approach would also be in sync with the government's balanced approach of neither preventing nor promoting migration.
- The referral wages may be fixed based on certain criteria, such as the prevailing market wages in the destination countries (to be identified through surveys), minimum rates fixed by other origin countries and minimum wage rates in India. However this has proven to be difficult to ascertain.
- The wages could be fixed based on the criteria of being equal to or higher than the highest minimum wage prevailing in India. This would be the simplest, transparent and therefore most preferable way to establish referral wages.
- The referral wages should be fixed according to the recommendations of a committee consisting of relevant stakeholders, such as government officials, major employers, large recruiting agents and returned migrants; and there must be transparency on how these wages are determined.
- The wages should be for broad categories rather than for specific occupations, as followed by other origin countries: low skilled, semi-skilled and highly skilled; and they should be negotiated into bilateral agreements.
- The referral wages should be fixed within a wage band due to the different skill levels of workers, even within the same category.
- There must be recognition that the practice of tying emigration clearance approval to the minimum referral wage rate has resulted in employers in destination countries sending wage demand letters based on the minimum referral wages, thus generating contracts from the eMigrate system that have no locus standi in the destination countries. This leads to contract substitution. It is therefore imperative that demand letters are sent only through a labour ministry (or its equivalent) in destination countries and not sent directly to the eMigrate system.

ABBREVIATIONS

AED	UAE dinar
ECR	Emigration Check Required
GOI	Government of India
ILO	International Labour Organization
INR	Indian rupees
KWD	Kuwaiti dinar
SAR	Saudi Riyal



1. INTRODUCTION

In recent years, the Government of India has been fixing minimum referral wages to regulate the wages of Indian migrant workers employed in different occupations in countries falling under the category of “emigration check required” (ECR). The ECR system is unique to India, whereby different categories of passports are made for those who have different educational qualifications. ECR passport holders need to obtain an Emigration Clearance Certificate from the Protector of Emigrants of the Ministry of External Affairs to travel for the purpose of work to one of 18 designated countries for which the ECR is required.

This technical report examines the rationale and operation of the minimum referral wage system in the context of migration flows from India to Kuwait, Saudi Arabia and United Arab Emirates, with a focus on eight occupational categories: carpenters, masons, drivers (light duty and heavy duty), fitters (reinforcing and pipe), nurses and domestic workers.

Ever since the seminal writings of Lewis in 1954, Ranis and Fei in 1961 and Harris and Todaro in 1970, it is widely accepted that the international migration of workers is prompted by differences in wage rates between countries. According to this theoretical formulation (often referred to as the “neoclassical macro theory of migration”), international migration, like its internal counterpart, is triggered by differences in the supply of and demand for labour. Countries with a large endowment of labour relative to capital have a low equilibrium market wage, while countries with a limited endowment of labour relative to capital are characterized by a high market wage. The resulting wage differentials motivate workers from the low-wage country to move to the high-wage country. This theoretical proposition has strongly shaped public thinking and has formed the basis for many of the policies related to contemporary international labour migration.

The policy framework related to the regulation of wages of international migrant workers in the origin and destination countries has taken different forms:

- The minimum wages fixed by the destination countries in their labour markets through national legislation have been used as a guidepost by origin countries to regulate the wages of their workers migrating to those countries.
- Bilateral agreements signed between the origin and the destination countries determine the broad contours of wages to be paid to migrant workers in destination countries.
- The origin country fixes a minimum wage for migrant workers in terms of different occupational categories and also for different countries.

The referral wage system adopted by the Government of India falls within this third category of policy options for the regulation of wages of international migrant workers. Such a minimum referral wage rate is expected to serve as a reference to the major constituents of the international labour migration process: the recruiting agencies in the origin countries, employers in the destination countries and prospective migrants.

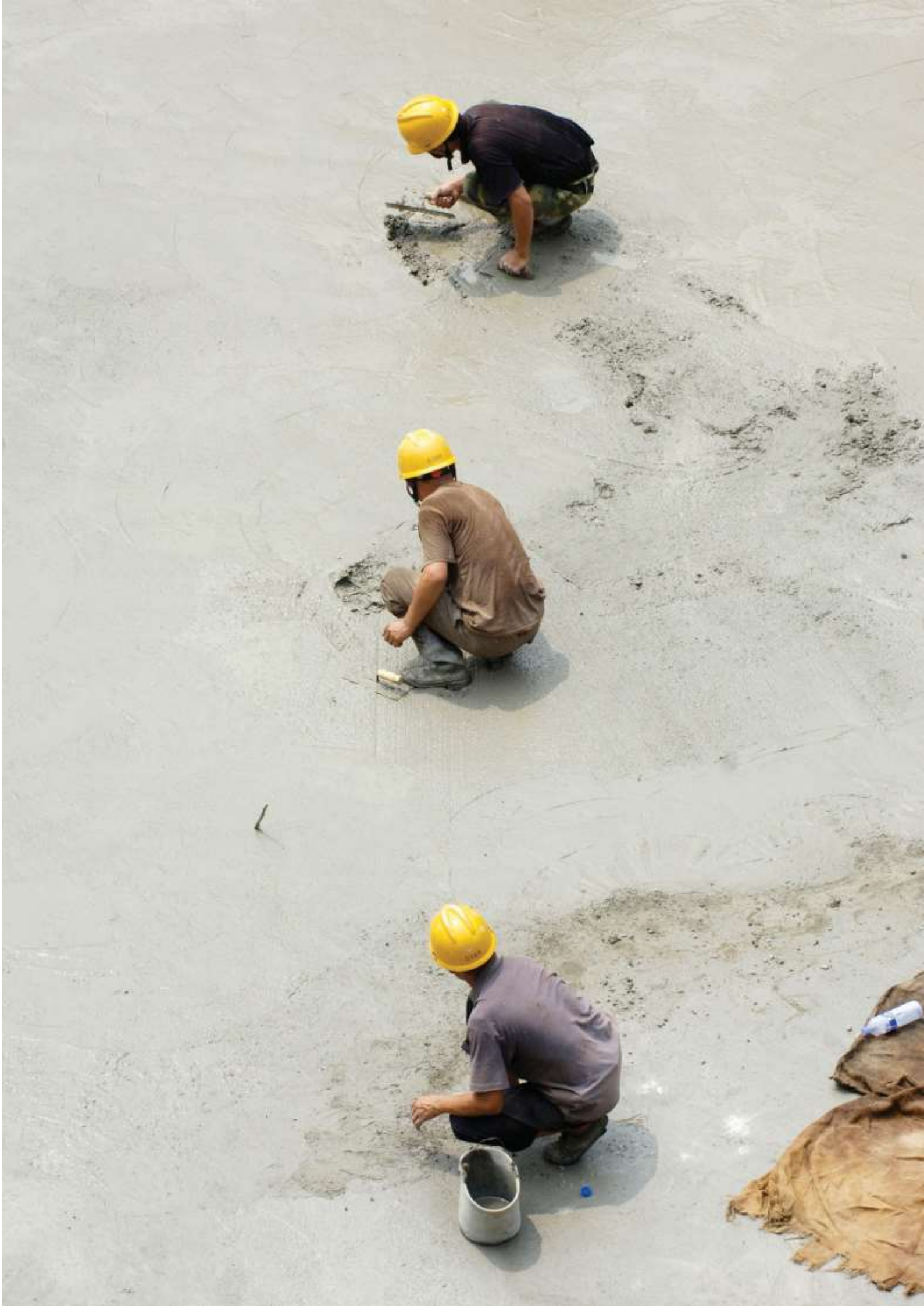
The major rationale for putting the concept of minimum referral wages, as stated by the Ministry of External Affairs, is “to ensure that an Indian [migrant] worker is not put to a disadvantageous position by the [foreign employer] by unilaterally fixing wages, which might be much less than the prevailing wages in the host country as well as in India”. As Y S Kataria, a spokesperson for the Ministry of External Affairs told Reuters: “We want the Indian workforce to be paid higher salaries. Inflation, the value of the Indian currency and a rise in the cost of living in the Gulf were the factors that led to the decision” (Nair, Menon and Rashad, 2014).

The minimum wage rates attempt to enforce better labour standards and thus can be linked to the objectives of the International Standards of the International Labour Organization pertaining to minimum wages settings and also to national legislation on minimum wages adopted by different countries.

Of the three countries of destination covered in this study, Kuwait has established minimum wages of 60 Kuwaiti dinar (KWD, equivalent to US\$208) for private sector workers only. Saudi Arabia has minimum wages only for nationals in the public sector, while the United Arab Emirates has no minimum wages. The absence of minimum wages in those countries may have prompted India to establish referral wages.

The operation of a referral wage has important implications both for migration flows and migration outcomes. In India, the implications are much more pronounced because a prescribed minimum referral wage is considered a prerequisite for providing clearances in the context of migration of persons falling into the ECR category. In other words, migration is possible only if the employment contract of ECR persons specify monthly wages at least equal to the minimum referral wage in the relevant occupational category. Critics have argued that referral wages are fixed so high that this step is deterring employers in destination countries from recruiting Indian workers. It also acts as a deterrent for prospective migrants to choose migration as a livelihood option.

It is in this broad context that this study looked at the operation of the referral wage system, particularly in relation with the prevailing market wages for the selected occupational categories in the selected destination countries.



2. METHODOLOGY

A comparative approach was taken to assess the operation of the minimum referral wage rate system. The study compares the minimum referral wage with the prevailing market wages for occupational categories in the three selected destination countries (Kuwait, Saudi Arabia and United Arab Emirates).

The information on the prevailing monthly market wages was obtained through three primary sources. First, relevant information on prevailing monthly wages was collected from associations representing nearly 600 private recruiting agencies operating in India. These agencies are engaged in recruiting workers in selected occupational categories for the targeted destination countries. Second, leading employers were approached (five employers each in the three countries) in the targeted occupational categories to collect information on the prevailing market wages. Actual contracts from the destination country websites and from employers and migrants working overseas were also accessed. Third, 150 migrant workers who are currently employed in the targeted occupational categories in the selected countries were surveyed (20 workers per occupational categories, with a minimum of five workers per country). These workers were located at the Delhi airport when returning for leave from their country of employment. The information collected from all the sources pertained to the last drawn monthly basic wage (excluding all allowances) in the destination country in local currency

The study used a comparative approach:

- a. The first comparison was of the referral wages with the prevailing market wages. This helped us to assess how far the referral wages align with the actual market wages. The convergence or divergence between the two wage rates allowed us to determine the policy contours to be recommended.
- b. The second major comparison was between the prevailing national minimum wage rates in India and the prevailing market wage rates in the destination countries for the selected occupational categories. This comparison was significant because the international migration of workers from India is a response to declining livelihood opportunities and low minimum wages within India, particularly in the poorer regions of the country. The importance of this is reflected in the rather large proportion of emigration clearances granted in 2014 – at nearly 40 per cent – for persons from Uttar Pradesh and Bihar, two of the relatively poorer states in India. This also suggests that referral wages should be fixed in such a way that they do not affect the propensity of poor persons to migrate in search of better-paying livelihoods. With the plethora of minimum wage rates fixed in India (based on national or state level, occupational category, skill category, etc.), the minimum wage rate fixed for semi-skilled workers in Delhi was used—which is the highest among all states in India—to compare the prevailing market wages in the destination countries. This provided insights into the degree of wage differentials that exist between the labour markets in India and labour markets in the destination countries.
- c. The third comparison was between the minimum referral wage rate fixed by the Government of India and similar minimum wage rates prescribed by governments of other origin countries. Comparisons were drawn between India, Nepal and the Philippines. This analysis helped us to situate India's minimum referral wage rates in a comparative and competitive international perspective.

Based on the analysis of these three levels of comparison, conclusions were drawn regarding the operation of the minimum referral wage system and on which to base the policy recommendations offered in this paper.



3. MINIMUM REFERRAL WAGES SET UP BY THE GOVERNMENT OF INDIA: AN OVERVIEW

It is useful to examine the minimum referral wage rates in India for Indian workers in overseas labour markets within the parameters governing the minimum wage system in general. Setting minimum wages is one of the most powerful instruments for regulating wages in a labour market. Almost all countries have enacted a minimum wage law that stipulates that certain notified minimum wage rates must be paid while engaging different categories of workers. In India's case, for instance, the 1948 Minimum Wages Act provides for the fixing and revising of minimum wages in certain employment categories.

The appropriate government (both central and state) is empowered to fix different minimum rates of wages for different scheduled employment; different classes of work within the same scheduled employment; or different localities. Such minimum wages could be fixed by the hour, by the day or by longer periods. The central and state governments have set up Minimum Wages Advisory Committees to make recommendations on the fixation and revision of the minimum wages. It is on the basis of these recommendations that the government notifies the minimum wage rates.

Several national and international studies have looked at the level at which the minimum wage rates should be fixed in an economy (Karan and Sakthivel, 2008; Institute for Human Development, 2014; Saget, 2006). It is generally agreed that too low a level reduces the relevance of the minimum wages and too high a level leads to considerable compliance violations (ILO, 2013). In responding to this issue, the Second National Commission on Labour in India (2002) noted the need to strike a balance between a reasonable wage that will meet the basic needs of workers and the capacity of the industry or employers to pay this wage.

Studies on minimum wage systems have found that the effectiveness of minimum wages depends primarily on three factors: (i) legal coverage of the minimum wages, broadly indicating whether they cover the entire range of wage workers or part of it; (ii) the levels at which the minimum wages are set; and (iii) a government's ability to ensure compliance with the legal minimum wage provisions.

This discussion highlights that minimum wages can be a powerful tool for supporting decent work conditions for workers. It becomes most effective when it has sufficient legal backing. It should also be fixed based on the fundamental proposition that a balance must be maintained between the needs of workers on one hand and the capacity of employers to employ and pay, on the other hand.

Even though the concept of fixing minimum referral wage rates for Indian migrant workers in overseas labour markets essentially stems from the minimum wage system in general, the specific principles adopted for fixing the overseas minimal referral wage rates are at variance with established norms and practices. For instance, the referral wage rates for Indian migrant workers are fixed through executive orders rather than based on any legal or statutory backing. Such wage rates are generally fixed by the Indian missions in the destination country.

The research found no uniform criteria for the fixing of referral wage rates for the different occupational categories in different countries. This is surprising, given that a large number of minimum referral wages are being fixed in 12 countries² with considerable variations in the range of wages being notified (Table 1).

Table 1. Minimum referral wages fixed for Indian migrant workers in destination countries, 2016

Serial no.	Country	No. of occupational categories	Minimum referral wages notified	US\$ equivalent
1	Afghanistan	17	US\$500 - \$800	500 - 800
2	Bahrain	74	100 - 300 Bahraini dinar	380 - 1 140
3	Indonesia	2	2 715 565 Indonesian rupiah	203
4	Iraq	41	US\$345 - \$600	345 - 600
5	Jordan	52	150–250 Jordanian dinar	211 - 352
6	Kuwait	64	100–350 Kuwaiti dinar	300 - 1 050
7	Lebanon	4	675 000 Lebanese pound	447
8	Malaysia	6	900 –1 400 Malaysian ringgit	231 - 358
9	Oman	57	75–500 Omani rial	197 - 1 316
10	Qatar	39	1 400–3 900 Qatari riyal	385 - 1 071
11	Saudi Arabia	38	1 500–2 100 Saudi riyal	400 - 560
12	United Arab Emirates	101	800–3 000 United Arab Emirates dirham	218 - 817

Note: US\$ equivalent as per exchange rate as notified by the World Bank and prevailing on 26 April, 2016

Source: eMigrate, <http://emigrate.gov.in> (accessed 26 Apr. 2016).

In certain cases, Indian missions in destination countries consider aspects like the prevailing cost of living in the country and the wage rates prescribed by the relevant ministries in their respective country (typically the labour ministry) to fix the minimal referral wage rates. These wage rates are recommended by the mission and not by any committee that includes stakeholders.

² Data for the remaining six ECR countries were not available on eMigrate at the time of writing.



4. RELATIONSHIP BETWEEN MINIMUM REFERRAL WAGES AND PREVAILING MARKET WAGES

The research also examine how far the prevailing market wages in the destination countries correspond to the prescribed minimum referral wage rates. As detailed in the methodology section, the actual wage rates were obtained from three informant groups: private recruiting agencies in India engaged in the recruitment of the targeted categories of workers to the three selected countries; major employers in those three countries; and current migrant workers.

KUWAIT

Table 2 presents data pertaining to the referral wages and prevailing monthly market wages in the targeted job categories in Kuwait.

Table 2. Referral wages and prevailing market wages for selected occupational categories in Kuwait, 2016 (in Kuwaiti dinar, KWD1 = US\$3)

Occupational categories	Minimum referral wages notified by GOI	Prevailing market wages (monthly) reported by		
		Private recruiting agents	Employers in Kuwait	Current migrants
Carpenter	100	90 - 100	90 - 100	95 - 100
Mason	100	90 - 100	90 - 100	95 - 105
Driver – light duty	100	90 - 110	90 - 110	100 - 110

Occupational categories	Minimum referral wages notified by GOI	Prevailing market wages (monthly) reported by		
		Private recruiting agents	Employers in Kuwait	Current migrants
Driver – heavy duty	115	110 - 130	120 - 140	120 - 140
Reinforcing fitter	105	100 - 110	100 - 110	100 - 110
Pipe fitter	95	100 - 110	100 - 110	100 - 110
Nurse – bachelor of science degree	350	300 - 350	325 - 350	325 - 350
Domestic worker	115	100 - 120	n.a.	110 - 130

The prevailing market wages that were reported were similar across the different sources of information. They were also reported within a wage band, which is not unexpected because wage rates always tend to vary with the level of experience and skills. Several studies on labour migration to the Gulf region indicate that workers, even those belonging to the low-skilled category, earn higher wages if they have relevant experience in the domestic labour market. If all the categories are taken together, the prevailing market wages are fairly close to the referral wages. The lower range of the prevailing market wage band, however, was around 10 per cent lower than the prescribed referral wage rate in all the occupational categories except heavy-duty drivers, which is regarded as a fairly skilled category of work.

SAUDI ARABIA

There was a substantial divergence between the minimal referral wage and the prevailing market wage for all the occupational categories except nurses in Saudi Arabia (Table 3).

Table 3. Referral wages and prevailing market wages for selected occupational categories in Saudi Arabia, 2016 (in Saudi riyal, SAR1 = US\$0.26)

Occupational categories	Minimum referral wages notified by GOI	Prevailing market wages(monthly) reported by		
		Private recruiting agents	Employers in Saudi Arabia	Current migrants
Carpenter	1 700	1 000 - 1 200	1 200 - 1 300	1 100 - 1 300
Mason	1 700	1 000 - 1 200	1 200 - 1 300	1 000 - 1 200
Driver – light duty	1 700	1 200 - 1 400	1 300 - 1 500	1 300 - 1 400
Driver – heavy duty	1 900	1 400 - 1 600	1 400 - 1 600	1 500 - 1 600
Reinforcing fitter	1 700	1 100 - 1 300	1 200 - 1 400	1 200 - 1 300
Pipe fitter	1 700	1 100 - 1 300	1 200 - 1 400	1 200 - 1 300
Nurse – bachelor of science degree	2 100	2 500 - 3 000	2 700 - 3 500	2 600 - 2 900
Domestic worker	1 500	1 100 - 1 200	n.a.	1 200 - 1 300

The fixed minimum referral wages were 30–40 per cent higher than the prevailing market wages in occupational categories like carpenters, masons, drivers (light duty) and fitters. Such variations in wages were reported by migrant workers for all three of the targeted destination countries. In the case of Saudi Arabia, the variations can also be attributed to the sudden drop in actual wages due to the oil crisis. In the case of nurses, the most skilled category among the occupations targeted in this study, the reported prevailing market wages were higher than the minimum referral wages.

UNITED ARAB EMIRATES

In the case of the United Arab Emirates, we found less deviation between the referral wages and the prevailing market wages than in Saudi Arabia (Table 4). However, here again, the referral wages in certain occupational categories, like carpenters and masons, were significantly higher (at 25 per cent) than the prevailing market wage. In other low-skilled categories, such as drivers (light duty), reinforcing fitters and pipe fitters, the degree of variation between the referral wages and the prevalent market wages were relatively smaller (at 10 per cent).

Table 4. Referral wages and prevailing market wages for selected occupational categories in United Arab Emirates, 2016 (in UAE dirham, with AED1 = US\$0.27)

Category of workers	Prevailing market wages reported by			
	Minimum referral wages notified by GOI	Private recruiting agents	Employers in United Arab Emirates	Current migrants
Carpenter	1 200	900 - 1 100	1 000 - 1 100	1 000 - 1 100
Mason	1 200	900 - 1 200	1 000 - 1 200	1 100 - 1 200
Driver – light duty	1 100	1 000 - 1 200	1 100 - 1 200	1 100 - 1 200
Driver – heavy duty	1 400	1 400 - 1 700	1 400 - 1 800	1 400 - 1 600
Reinforcing fitter	1 200	1 000 - 1 200	1 000 - 1 300	1 100 - 1 200
Pipe fitter	1 200	1 000 - 1 200	1 100 - 1 200	1 100 - 1 200
Nurse – bachelor of science degree	3 000	3 000 - 3 500	2 700 - 3 500	3 000 - 3 500
Domestic worker	1 100	1 000 - 1 200	n.a	1 100 - 1 200

Analysis of the differentials between the referral wages fixed by the Indian missions and the prevailing market wages in the three countries for the different occupational categories highlight the following revelations.

First, variations between the referral wages and the prevailing market wages were found in all three countries.

Second, the degree of variations differed, with the extent of variation most pronounced in Saudi Arabia (with referral wages 30–40 per cent higher than the prevailing market wages), relatively less distinct in the United Arab Emirates (with referral wages 20–25 per cent higher than the market wages in certain categories) and least in Kuwait (with referral wages around 10 per cent higher than the actual market wages).

Third, there was considerable variation within the differentials between referral wages and the actual wages across occupational categories. The variations were most significant in relatively low-skilled job categories, such as carpenter, mason, driver (light duty) and fitter. This implies that employers in the destination countries consider the referral wages fixed for such job categories as much higher than their capacity and willingness to pay. However, variations in the relatively more skill-based occupational categories, such as driver (heavy duty) and nurses, were much lower in the sense that there was convergence between the fixed referral wages and the actual market wages. In certain instances, the market wages of such job categories were even higher than the referral wages.

The variations in referral wages across skill categories can be largely explained in terms of the supply of migrant workers. In the relatively low-skilled categories, employers typically face no shortage in the supply of labour because workers from other countries are willing to accept the wages on offer. This tendency may be inducing employers to engage Indian workers at a lower wage than the stipulated referral wage. In contrast, in the relatively higher-skilled categories, such as nurses, there may be shortages in the supply of requisite skills and hence the willingness of employers to offer wages to Indian workers equal to or even more than the stipulated referral wage.

Fourth, when the prevailing market wages are lower than the referral wages, there can be implications, such as the substitution of employment contracts. While the employment contracts drawn in India may indicate that the referral wage is the same or near as the wage on offer (if only because that is a prerequisite for obtaining the emigration clearance approval), a different contract may be made operational in the destination country, with the actual wage to be paid lower than the referral wage. And the Indian workers may be willing to accept this contract substitution because the wage on offer, even if lower than the referral wage, may be significantly higher than what they can potentially earn in India and because the migrants may have already invested considerable expenditure in the recruitment process.

The next section looks at the wage differential in detail.



5. MINIMUM WAGES IN INDIA AND THE PREVAILING MARKET WAGES IN THE SELECTED DESTINATION COUNTRIES

As discussed earlier, wage differential is considered a key factor for initiating and perpetuating international labour migration. This research looked at the extent of such wage differentials in the context of Indian labour migration to Kuwait, Saudi Arabia and the United Arab Emirates by comparing the current market wage rates in India with the prevailing market wage rates in those destination countries for the targeted low- and semi-skilled categories of labour. The minimum wage rates in India were used as a proxy for the prevailing market wage rates for this comparison.

The minimum wages system in India is fairly complex, with 48 minimum wage rates set by the central Government for different categories of workers engaged in government-owned establishments and by state governments determining wage rates for nearly 1,125 job categories at that level. The research thus selected a prevailing wage rate – the current minimum wage rate fixed for the state of Delhi for semi-skilled workers – to make the comparison because Delhi currently has the highest minimum wage set for the semi-skilled category of workers among all states in India. The minimum wage rates for semi-skilled or low-skilled workers in relatively poorer states (such as Uttar Pradesh and Bihar, from where a significant proportion of migrants to the Gulf countries originate) are much lower. For instance, in Uttar Pradesh, the minimum daily wage rate for low-skilled construction workers is currently fixed at 200 Indian rupees (INR), which will amount to a maximum of 6,000 INR per month, almost half of the fixed minimum wages in Delhi. Considering that the prevailing market wage rates obtained in the destination country relate to the basic monthly wage (excluding allowances), the wage rate in Delhi also refers to the basic wage and excludes the dearness allowance.³

It is thus evident that there is a significant differential between the actual wage rates in the targeted destination countries and the Indian labour market for the relatively low-skilled workers (Table 5).

3 The dearness allowance is a cost-of-living adjustment paid to government employees, public sector employees and pensioners in Bangladesh, India and Pakistan. It is calculated as a percentage of an Indian citizen's basic salary and is used to mitigate the impact of inflation on income.

Table 5. Prevailing market wages in destination countries and minimum wages in India
(in INR)

Categories of workers	Prevailing market wages in GCC countries			Minimum wages in Delhi (in INR per month), October 2015
	Kuwait	Saudi Arabia	United Arab Emirates	
Carpenter	19 858 - 22 064	17 740 - 30 158	16 299 - 21 732	
Mason	19 858 - 23 167	17 740 - 30 158	16 299 - 21 732	
Driver – light duty	19 858 - 24 270	21 288 - 30 158	18 110 - 21 732	Semi-skilled 10 140
Reinforcing fitter	22 064 - 24 270	19 514 - 30 158	18 110 - 23 543	

Note: Exchange rate applied (as of 10 Apr. 2016): (i) KWD1 (INR220.64), (ii) SAR1 (INR17.74) and (iii) AED1 (INR18.11)

A low-skilled migrant worker is earning approximately 1.5–3 times more in wages in the destination countries, even when the wages are compared with the highest rate of minimum wages prevailing among the different Indian states. Actually, the differential would be more pronounced if the research compared the prevailing wage rates in the destination countries with the minimum wage rates stipulated in relatively less developed states, like Uttar Pradesh and Bihar, two states that have accounted for a considerable proportion of the low-skilled migration flows to the Gulf countries in recent years.

These wages must be seen in the context of potential savings, because the costs for workers' food, accommodation, travel to and from work and medical insurance are often paid for by employers, in addition to the wages.

It is also important to recognize that the impact of such migration flows has been considered positive, at the macro and the micro levels. At the macro level, there has been tremendous increase in workers' remittances, which has acted as a stabilizing factor in India's external reserves. The impact of low-skilled migration in reducing poverty and improving educational and health outcomes in the relatively less developed areas has also been significant (Sasikumar, 2014). Hence, it is imperative for India to balance the promotion of international labour migration of low-skilled workers as a means to improve income and livelihood structures of the relatively vulnerable sections of the society with the protection mechanisms needed to safeguard workers overseas.



6. MINIMUM REFERRAL WAGES IN AN INTERNATIONAL COMPARATIVE PERSPECTIVE

In this section, a comparison is made of the referral wages fixed by the Government of India with similar minimum wages stipulated by the two other origin countries, Nepal and the Philippines. Due to lack of data compatibility and availability, it is not possible to analyse all the destination countries and occupational categories. This comparative analysis is made for Saudi Arabia and covering only the low- skilled job categories: carpenters, masons and domestic workers.

Table 6. Minimum wages and referral wages fixed by selected origin countries for their workers in Saudi Arabia in Saudi riyal (SAR1 = US\$0.26 = INR 7.74)

Profession	India	Philippines	Nepal
Carpenter	1 700	1 530	1 000 (semi-skilled)
Mason	1 700	1 530	1 000 (semi-skilled)
Domestic	1 500	1 520	800 (low-skilled)

It is evident from Table 6 that the referral wages fixed by India for low-skilled categories are the highest, at 40 per cent and 10 per cent higher than those set by Nepal and the Philippines, respectively. Though the fixing of such high wages could be justified on the grounds of ensuring stronger protection for workers, it also has to be considered that such high wage levels may encourage foreign employers to bypass Indian migrants for workers from other countries, particularly in low-skilled categories for which the supply is abundant. This may periodically reduce employers' preference for Indian workers. But if this tendency continues for long, it may adversely impact migration outflows from India, which in turn will restrict livelihood options and dampen remittance inflows. As Mohammed Jindran, the managing director of a recruitment agency in the United Arab Emirates explained, "Of course it will encourage companies to look at Bangladesh and Pakistan as more viable options to get migrant workers" (Nair, Menon and Rashad, 2014 in Reuters Monday 17 November 2014).



7. CONCLUSIONS AND POLICY RECOMMENDATIONS

The setting of minimum wages is regarded as a powerful instrument to regulate the wages of workers and ensure that they are not exploited by being paid unacceptable wages. Existing practices worldwide indicate that minimum wages are fixed at “reasonable” rates to achieve a balance between the protection of workers and the promotion of employment, because excessive wages may constrain employment levels while ensuring protection to workers. Existing patterns of minimum wage fixation are also based on certain specified norms or are sometimes recommended by specialized committees with tripartite participation.

The referral wage system recently introduced by India, which sets certain minimum wages for Indian migrant workers employed in different destination countries, essentially evolved out of the principles of the minimum wage system. It is not that the Indian missions are following commonly specified criteria to decide these wage rates for different job categories in various countries. Nor have these rates been recommended by any committee with relevant stakeholder participation.

India’s referral wages were the highest among the three origin countries studied. The differentials were relatively more for low-skilled job categories, such as carpenters and masons, and were most pronounced in Saudi Arabia, where the referral wages were 30–40 per cent higher than the prevailing wages.

There exist significant wage differentials between the domestic minimum wages fixed in India (even the highest rate) and the prevailing wage rates in the three destination countries for low-skilled job categories. Such wage differentials are the primary reason for the initiation and perpetuation of international labour migration in these categories from India. Considering that a significant proportion of such migration originates from relatively poorer states, such as Uttar Pradesh and Bihar, it has positive implications for livelihood options for the vulnerable sections of worker households. However, there is the likelihood of the high referral wages fixed by the Government affecting such migration and therefore household earnings, as previously discussed.

Based on these findings, it is important to revisit the referral wage system. The following highlights some of the policy parameters that should be considered.

1. India must continue to have a minimum referral wage system. This is to ensure that standards adopted to establish the minimum wages for Indian workers are not undermined by other countries and for Indian workers who are overseas.
2. The referral wages currently seem to be highly protection centred; they should be fixed in such a way as to strike a balance between the protection of Indian migrant workers in destination countries, on the one hand, and not preventing international labour migration from India, on the other hand. Such an approach would also support the Government’s balanced approach of

neither preventing nor promoting migration.

3. The referral wages may be fixed based on certain criteria, such as the prevailing market wages in the destination countries (to be identified through surveys), minimum rates fixed by other origin countries and minimum wage rates in India. However this has proven to be difficult to ascertain.
4. The wages could be fixed based on the criteria of being equal to or higher than the highest minimum wage prevailing in India. This would be the simplest, transparent and therefore most preferable way to establish referral wages.
5. The referral wages should be fixed and recommended by a committee consisting of relevant stakeholders, such as government officials, major employers, large recruiting agents and returned migrants, and there must be transparency on how these wages are determined.
6. The wages should be in broad categories rather than each specific occupation, like it is in India, and also practised by other origin countries: low skilled, semi-skilled and highly skilled and they should be negotiated into bilateral agreements.
7. The referral wages should be fixed within a wage band due to the different skill levels of workers, even within the same category.
8. There must be recognition that the practice of tying emigration clearance approval to the minimum referral wage rate has resulted in employers in destination countries sending wage demand letters based on the minimum referral wages, thus generating contracts from the eMigrate system that have no locus standi in the destination countries. This leads to contract substitution. It is therefore imperative that demand letters are sent only through a labour ministry (or its equivalent) in destination countries and not sent directly to the eMigrate system.

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Minimum Referral Wages for International Migrant Workers from India: An Assessment

In the absence of minimum wages in many countries of destination, the Government of India instituted Minimum Referral Wages to regulate the wages of Indian migrant workers employed in different occupations in countries falling under the category of “emigration check required” (ECR). The rationale for introducing the concept of minimum referral wages is that it ensures Indian migrant workers are not placed in disadvantageous positions by the unilateral fixing of wages – which might be much lower than the prevailing wages in the host country as well as in India – by foreign employers.

This technical report adopts a comparative approach to assess the functioning of the minimum referral wage system in the context of migration flows from India to three selected destination countries in the Gulf region - Kuwait, Saudi Arabia and United Arab Emirates. It concludes with policy recommendations.

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