

# FACT SHEET

## NATIONAL MINIMUM WAGE (NMW)



# INTRODUCTION

A minimum wage is the lowest remuneration that employers can legally pay their workers. Equivalently, it is the price floor below which workers may not sell their labour. On the 6th February 2017, an agreement was reached between the parties at the National Economic Development and Labour Council (Nedlac) regarding a national minimum wage in South Africa. It was agreed that as from May 2018, the national minimum wage will be R20 per hour. This meant that an employee working 45 hours per week will earn approximately R 3 500 per month.

This journey to the achievement of this milestone, reached its destination on the 29th May 2018. The South African Government has been anticipating closing the gap of inequality and to curb poverty in the country. To address this problem that was affecting the majority of the population, and specifically, black people in the country, as the least earning group, the National Minimum Wage was introduced by the Government. To this end President Cyril Ramaphosa acknowledged that the introduction of a national minimum wage was an example of what is possible when South Africans engage in a meaningful dialogue to resolve a national problem, in this case, income inequality.

Whilst South Africa is experiencing a disjuncture between the earning class, the unemployed and the working poor, the global inequality remains high. The world bank estimates that our Gini coefficient to be between 0.66 to 0.70 and that the richest 10% of the population accounts for 58% of the country's income. Subsequently, a study released by IMF states that globally, the middle class and the top 1 percentage have experienced large gains. A good example of this is China where more than one third of all wealth is concentrated in the top 1 percent while most of the population remains poor despite strong economic growth (Hairong, 2014). According to IMF, the global trends have displayed a shift in the allocation of labour income towards the higher and lower ends of the distribution, which has resulted in a decline of the income share accruing to the middle 20 percent in many advanced countries such as Australia, Canada and Sweden. Looking at the global disparities, South Africa took a stance to introduce the NMW, which has already been introduced successfully in many of the developing as well as developed countries. As the social partners sat together to introduce this policy, it was believed that it will provide a positive intervention in addressing the inequality in the country, and that on its own, it will not solve all the problems the country is facing; however, it is the implementable policy that can have a positive measure on the poor. The minimum wage is therefore seen as one of the tools to close the wage gap, thereby alleviating poverty, and if correctly implemented. Over and above, as it is envisioned to protect the poor, it is vital that the exclusions and exemptions be kept at minimum.

Below are the four factors that impact the efficiency of NMW as outlined by ILO.

- Broad legal coverage for most or all workers
- An adequate level that considers worker's needs including their families
- Measures to ensure maximum compliance; and
- A consultative process with social partners that will strengthen the legitimacy, ownership and

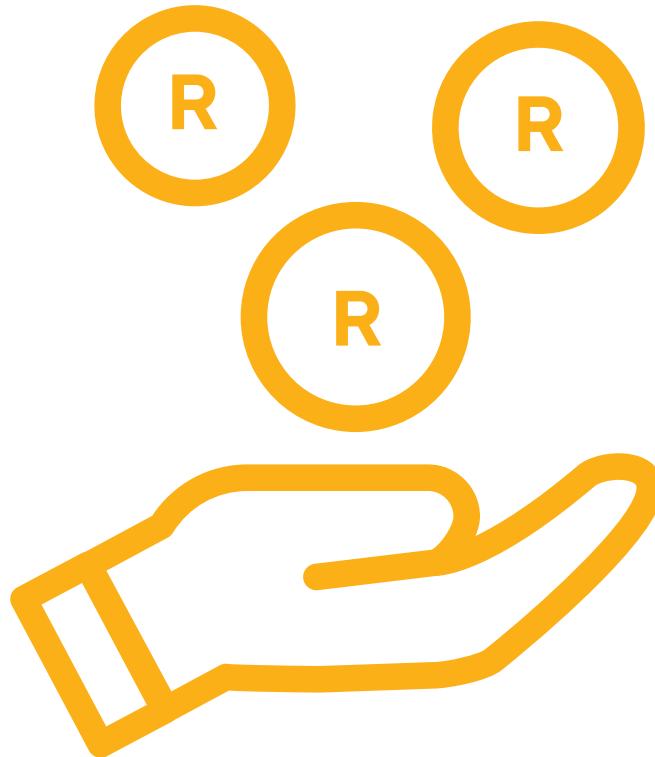


compliance.

Furthermore, the minimum wage system as guided by ILO, encourages states to:

- Offer a broad scope of application to keep exclusions to minimum
- Establish a machinery to fix and adjust minimum wages from time to time
- On an equal balance, Involve social partners and independent experts in the system's design and operation
- Consider appropriate measures to ensure effective application of a minimum wage

Although the South African government outstretched itself by appointing a panel to investigate the application of NMW, the results that arose from their findings could not prove if an NMW will eventually reduce poverty (Claire Bisseker). As Indicated by Claire, this uncertainty emerged from the two studies carried out by the University of the Witwatersrand and University of Cape Town that were used by the panel. WITS report showed positive outcomes as it indicated that if the NMW is set at meaningful level above the lowest sectoral minimum wages, it could reduce working poverty and inequality in South Africa. Contrary, UCT's report found that any beneficial impact on wage inequality and poverty would be relatively modest, given that many South Africans in poorest households have either few or no wage earners. However, the Congress of South African Trade Unions (COSATU) indicated that approximately 60% of all South Africans currently earn less than R3000.00 per month, whilst the cost of living for a family of four is above R5 500 per month. It is therefore believed that the minimum wage will impact poor South Africans in a more positive way. Over and above, it is also believed that the implementation of the minimum wage will reduce the disruptive industrial actions, in the form of strikes that South Africans are witnessing almost daily. On the contrary, economists warned that the setting of a minimum wage is likely to lead to job losses. South Africans should therefore be waiting in eager to see what will happen!



# THE HISTORIC EVENTS

The road to the introduction of the National Minimum Wage has had critical milestones as cited below:

- On the 1 November 2017, South Africans witnessed the Cabinet approving the National Minimum Wage Bill, which after further deliberations was to be signed by the president into law.
- On the 8 February 2017 Cyril Ramaphosa; then Deputy President, welcomed the agreement in the National Economic Development and Labour Council (Nedlac) as “a significant advance in our efforts to address the challenges of wage inequality and labour instability” and “further momentum to our national effort to tackle poverty, unemployment and inequality”.



*Cyril Ramaphosa signs minimum wage agreement of R 20/h: 08 February 2017*

“I believe we’ve set a firm foundation towards realisation of living wage principle adopted by all at Nedlac” said President Cyril Ramaphosa.

- On the same day, the government representatives, business and community sectors and two of the three labour federations as represented at Nedlac (National Economic Development and Labour Council), signed the National Minimum Wage agreement.
- On the 29 May 2018, the National Assembly passed the National Minimum Wage Bill. This Bill is to be passed through the NCOP (National Council of Provinces before it can be signed into law by the President.



# THE NATIONAL MINIMUM WAGE BILL (MWEB)

- South Africa has joined other several countries that have implemented the National Wage Bill such as the UK (<https://www.gov.uk/national-minimum-wage-rates>). The Bill seeks to improve the lives of many South Africans in the labour market who are least paid, to improve their lives. However, it brought different views on whether the minimum wage was going to benefit most South Africans or not.



*Labour Minister: Mildred Oliphant*

As described by the Minister of Labour, "The Bill is to provide for a National Minimum Wage; to establish the National Minimum Wage Commission; to provide for the composition and functions of the National Minimum Wage Commission; to provide for the review and annual adjustment of the National Minimum Wage; to provide for exemption from paying the national minimum wage; to provide for transitional provisions in respect of farm workers and domestic workers; and to provide for matters connected therewith". (Government Gazette No. 41257 of 17 November 2017; South African Government).

*"The National Minimum Wage will make a huge difference in the lives of workers and it is here to stay"*

Minister of Labour: Mildred Oliphant



## The New National Minimum Wage (NMW):

- The National Minimum Wage is the amount stated in Schedule 1 as adjusted annually in terms of section 6
- Every worker is entitled to payment of a wage in an amount no less than the NMW
- Every employer must pay wages to its workers that is no less than the NMW
- The payment of an NMW cannot be waived and the NMW takes precedence over any contrary provision in any contract, collective agreement or law, except a law amending this Act
- The NMW must constitute a term of the worker's contract except to the extent that the contract, collective agreement or law provides a wage that is more favourable to the worker
- It is an unfair labour practice for an employer to unilaterally alter wages, hours of work or other conditions of employment in connection with the implementation of the NMW and sections 191, 193, 194 (4) and 195 of the Labour Relations Act apply, unless the context indicates otherwise
- Sections 32 and 33 of the BCEA apply to the R20 payment of the NMW to workers

It is of vital importance to indicate that all workers who do not fall under the farm/forestry, domestic sector, Extended Public Works Programme and learnerships in terms of the Skills Development Act, should not be paid less than the set National Minimum Wage per hour.

Below is the guideline of minimum wages for different sectors:

- R20 for each ordinary hour worked
- R3 500 for 40 – hour work
- R3 900 for 45 – hour work
- R18 per hour for farm workers (90% of the National Wage)
- R15 per hour for domestic workers (75% of the National Wage)
- R11 per hour for Extended Public Works Program employees (EPWP) (55% of the National Wage)
- R20 minimum wage per hour for learners employed in terms of the Skills Development Act

These amounts will be adjusted within two years of the Bill being officially implemented. Below is the table for learnership allowances as included in the NMW

NQF LEVEL	CREDITS ALREADY EARNED BY LEARNER	MINIMUM ALLOWANCE PER WEEK
LEVELS 1 TO 2	0 – 120	R301.01
	121 – 240	R601.99
LEVEL 3	0 – 120	R301.01
	121 – 240	R566.93
	241 – 360	R928.11
LEVEL 4	0 – 120	R301.01
	121 – 240	R602.05
	241 – 360	R928.11
	361 – 480	R1354.51
LEVEL 5 TO 8	0 – 120	R301.01
	121 – 240	R652.15
	241 – 360	R975.75
	361 – 480	R1374.61
	481 – 600	R1755.84



# EXEMPTIONS

As the National Minimum Wage Bill has set a precedent to employers, it also includes exemptions which can only be granted if the employer cannot afford the set minimum wage. However, there are procedures to be followed by an employer if they need an exemption such as, consultation with the trade union that represent affected employees or consultation with the employee on a personal capacity.

To assist with the process of exemptions, the government has launched an online tool that employers can use when they apply for exemption from paying the new minimum wage ([www.labour.gov.za](http://www.labour.gov.za)). The system requires the employer to declare their financial position, household income, balance sheet, working hours and to generally motivate why do they want to be exempted.

## **Exemptions as outlined on the NMW Bill:**

1. An employer or employers' organisation registered in terms of section 96 of the LRA, or any other law, acting on behalf of its members, may, in the prescribed form and manner, apply for an exemption from paying the NMW.
2. An exemption granted in terms of this section:
  - a. Must specify the period for which it is granted, which may not be longer than one year
  - b. Must specify the wage that the employer is required to pay workers; and
  - c. May contain any other relevant condition
3. The Minister may delegate or assign powers or duties arising out of the application of this section, excluding the power to make regulations, in accordance with the provisions of section 85 of BCEA (Basic Conditions of Employment Act).

## **Regulations**

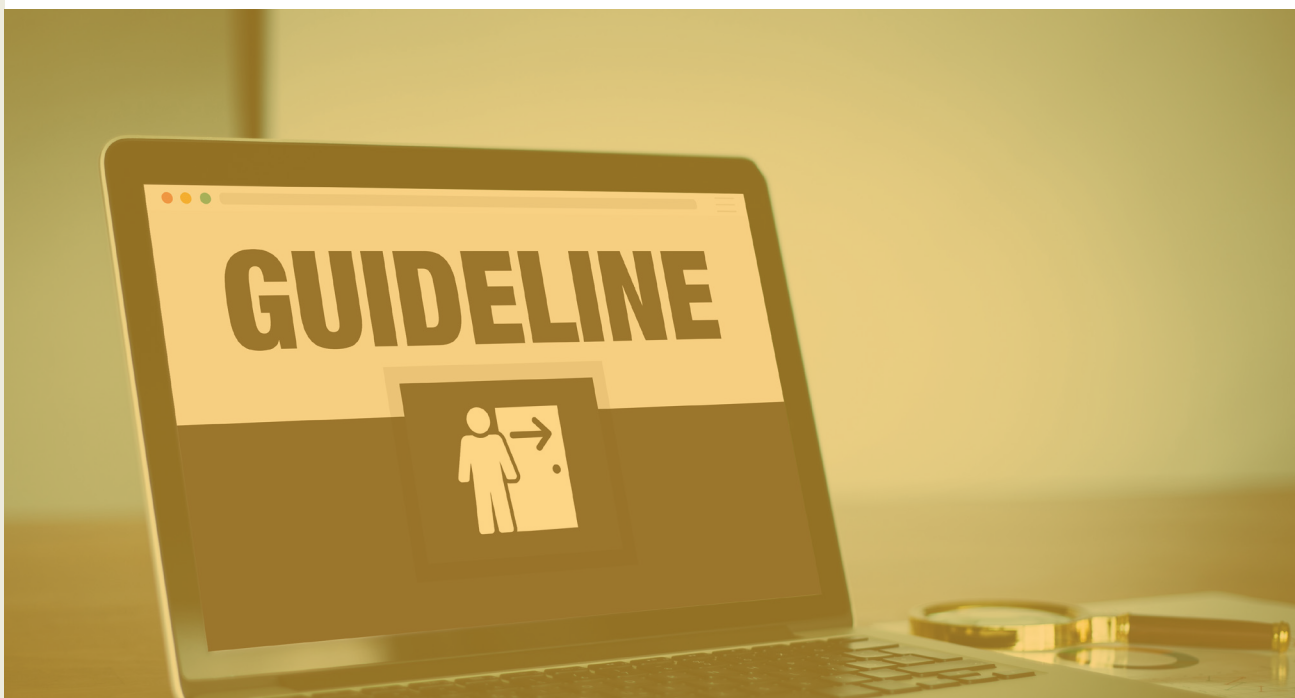
1. The Minister may, after consulting NEDLAC and where appropriate after consulting the Commission, make regulations relating to:
  - a. The form and way in which exemptions must be made in terms of section 15 (1) which include:
    - i. The procedure for applying for an exemption
    - ii. Information to be submitted with an exemption application
    - iii. Obligations on employers to consult with employees or trade unions concerning an exemption application
    - iv. Criteria that must be applied when evaluating exemption applications
    - v. Period within which an application must be made; and
    - vi. Period within which a decision on an exemption application must be made; and
  - b. Any other matter that must or may be prescribed in terms of this Act or which the Minister considers necessary or expedient to be prescribed to achieve the primary objectives of this Act



# GUIDELINES FOR HR PROFESSIONALS

**The following are the guidelines to be considered for good practice in HR:**

- To ensure that policies, procedures are consistently administered and aligned with the NMW structure
- Organisations should ensure that such policies are following professional HR standards and the regulatory requirements
- HR departments should plan, manage and co-ordinate all HR initiatives to handle the issue of NMW properly e.g. deal correctly with compensation and all other benefits as well as training employees on the subject matter
- To coach managers on HR policies and statutory requirements
- To manage the implementation programme in a manner that will eliminate or reduce grievances





# CONCLUSION

Although minimum wage laws are in effect in many jurisdictions, differences of opinion exist about the benefits and drawbacks of a minimum wage. Supporters of the minimum wage say it increases the standard of living of workers, reduces poverty, reduces inequality, and boosts morale. In contrast, opponents of the minimum wage say it increases poverty, increases unemployment and is damaging to businesses, because excessively high minimum wages require businesses to raise the prices of their product or service to accommodate the extra expense of paying a higher wage.

Opinions have been expressed over time whether this is a good move or not. Some have noted that with its raging unemployment and many low-paying jobs, South Africa faces a dilemma as it introduces a national minimum wage. Higher wages are necessary for better living standards; but wage growth can potentially exacerbate already high unemployment and consequently reduce living standards.

Overall, economists argue that wage growth is a hindrance to employment creation in South Africa. For example, in better paying sectors (such as manufacturing), wages negotiated by collective bargaining councils have reduced employment by about 10%.

Be that as it may, consensus is slowly shifting, with greater recognition for the role of minimum wages in reducing inequality. Latin America is a case in point where inequality was initially extreme, but declined (at least partially) in response to minimum wages at the turn of the century. One might expect the same benefits in South Africa, which has remained close to the top of world inequality rankings. Complementary policies to specifically support small and rural firms may be essential for minimum wages to reduce inequality in South Africa.

**NMW:** National Minimum Wage

**LRA:** Labour Relations Act

**BCEA:** Basic Conditions of Employment Act

**EPWP:** Extended Public Works Programme

**ILO:** International Labour Organisation

**MWB:** Minimum Wage Bill

## Sources:

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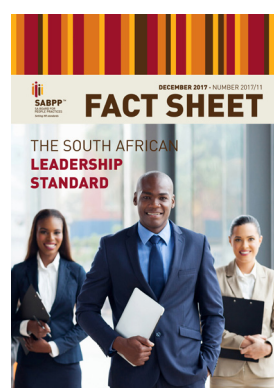
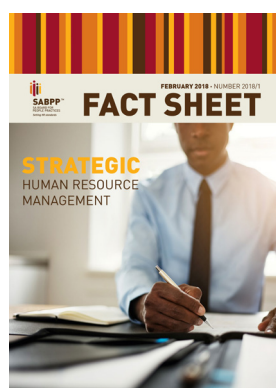
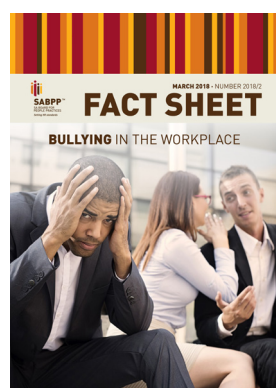
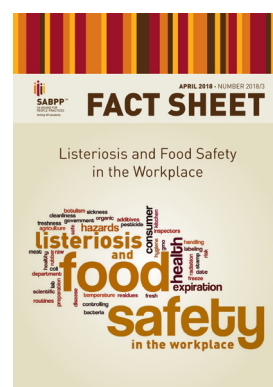
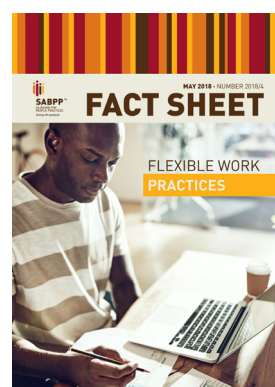
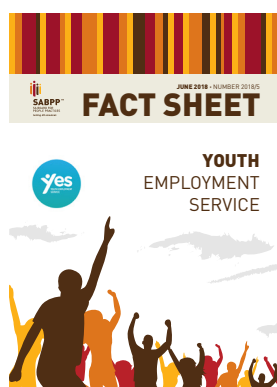
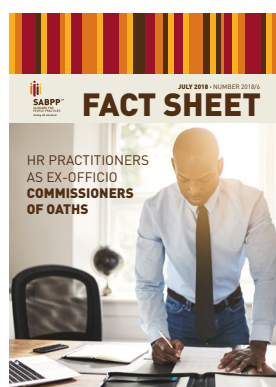
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