



Study on Minimum Wage for Cambodia's Garment Industry

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Sincerely,
Dr. Kang Chandarot
Project Team Leader
Director of CIDS

Executive Summary

PART I: BACKGROUND

Since the Cambodian Labor Law was passed in 1997, which gave authority to the Ministry of Labor to set minimum wage levels for all working sectors, the only sector with a minimum wage is the textile, garment and footwear industry (henceforth referred to as the garment industry), currently set at \$50 per month. The Labor Advisory Committee (LAC) will review the minimum wage in 2010. As of date, there is no Prakas on minimum wage and no standard for determining the appropriate level.

The Community Legal Education Center (CLEC) commissioned the Cambodia Institute of Development Study (CIDS) to conduct this study in order to develop a transparent and practical framework for determining the minimum wage for Cambodia's garment industry, and to calculate the *ideal minimum wage*. The study will be useful for guiding future regulatory framework on minimum wage for other sectors and for drafting a Prakas on minimum wage determination. In addition, it will be useful for the LAC by providing updated data and analysis on the situation of garment workers.

This study is built upon three components: a thorough literature review of minimum wage practices in other countries; sample survey of 300 garment workers in 5 regions (Phnom Penh, Kampong Chhnang, Kandal, Sihanoukville, and Svay Rieng provinces); and focus group discussions (FGD) with 50 garment workers in the 5 areas.

PART II: DEVELOPING A FRAMEWORK FOR MINIMUM WAGE DETERMINATION

In order to have a common ground for constructive dialogue, it is necessary to define the term “minimum wage”. Sometimes words such as “minimum income” and “living wage” are used interchangeably with minimum wage; however, these concepts are quite different. *Minimum wage is the wage level that employers may not undercut, which is guaranteed by law*. Minimum income is the income level that a citizen and their family need to live and participate in a society, regardless of their employment. Living wage is a wage that covers the basic needs of workers and their family, plus allowing for saving for future purposes.

During the period 2001-07, global real minimum wage increased by 5.7% per year; 3.8% in developed countries and 6.5% in developing countries. All of the major garment-exporting countries have minimum wage for apparel workers. In terms of purchasing power parity dollar (PPP\$), which is the exchange rate that equates the price of a basket of goods and services in a specific country to that in the United States, the minimum wage is highest in Taiwan (955 PPP\$) and lowest in Bangladesh (69 PPP\$) in 2007. Cambodia's wage floor is 156 PPP\$, which is far lower than in China 204 PPP\$, but in similar range as in Indonesia (142 PPP\$), and Vietnam (120 PPP\$) in 2007.

While the minimum wage is a universal policy tool to alleviate poverty, there exists no universal standard for calculating the appropriate level. But as a principle, the formula should be based on the objectives and criteria.

This study develops a simple three-step process for determining the ideal minimum wage: 1) define the objectives for setting the minimum wage, 2) identify the relevant criteria or factors to include in calculating the minimum wage, and 3) develop a simple formula for calculating the appropriate level. Step 1 and step 2 should capture the real situation and aspiration of workers, and thus, should be based on surveys and focus group discussions with the target group. By this way, the ideal minimum wage, which is the result of step 3, reflects the demands of workers.

Through literature review, some common policy objectives for setting a wage floor (minimum wage) include: ensure basic needs of workers (and sometimes their dependants); provide wage protection; create incentives to work; and fair distribution of economic growth (income equality). Based on the objectives of the minimum wage, a set of criteria for setting the minimum wage is identified. Common criteria include: basic needs of workers (and sometimes their dependants); general level of wages; social security system; and economic factors, such as level of employment, unemployment and underemployment; productivity; competitiveness.

PART III: SURVEY FINDINGS

Nine out of ten interviewees are female, with average age of 24 years old. The majority is single, and plays the role of income earner in the household. Ninety-four percent of them have no more than a 9th grade education. Almost all of the workers interviewed in Phnom Penh (90%) are migrants, mostly from Prey Veng and Kampong Cham. Similarly, 67% of workers in Kandal as well as those in Sihanoukville are migrants. Those in Svay Rieng and Kampong Chhnang, however, are all locals. For garment workers, the average household size is 4 persons, 2 are income earners. Sixty percent of the 300 households earn no more than \$50 per month (not including the income of the interviewee).

The 300 garment workers interviewed represents 74 factories. Most of the interviewees work in sewing, with 3 years of work experience in the industry, and 2.5 years at the current factory. Forty-nine percent are members of a trade union. On average, workers earn an effective nominal wage of \$86.88 per month in the most recent month. Workers in Sihanoukville earned the highest (\$90.17 per month), while those in Svay Rieng earned the lowest (\$82.56 per month). Those earning higher than average income are usually piece-rate workers and/or have a lot of overtime.

Based on FGD with garment workers in 5 provinces, the general consensus is that the minimum wage is needed to 1) ensure the basic needs of workers and dependants and 2) provide wage protection. Related to the first objective, workers stated that their core mission for entering the garment sector workforce is to earn cash income for their family. If they do not earn enough to send remittances home, their parents will call them back. Thus, *the minimum wage must cover not only the basic needs of workers, but also their dependants*. Related to the second objective, garment workers are currently heavily dependent on overtime to cover their basic needs and that

of their dependants. During times of economic downturn, like the present, and due to the stiff competitive nature of the garment industry, downward pressure on effective wage such as reductions or elimination of overtime means that workers do not earn enough to finance their basic needs and that of their dependants. To ensure that wages does not fall below an acceptable level, a legally mandated minimum wage is needed to protect the wages of workers.

In line with the two objectives, the workers interviewed demand the following two most relevant criteria for setting the minimum wage are: 1) basic needs of worker; and 2) basic needs of dependants. **These two criteria must be satisfied in order to maintain labor resources in the garment industry; and hence, is critical for stabilizing and sustaining the garment industry, especially during times of economic downturn.**

The basic needs of workers presented in this report refer to workers' current spending on basic needs, which may not be the level deemed physically ideal or sufficient. Among the 300 garment workers surveyed, workers spend \$56.99 per month on their basic needs, of which \$32.79 is food expense and \$24.20 is non-food expense such as housing, transport, clothing, healthcare and etc. Among the different basic needs item, workers ranked food as their first priority, and health as the second priority, explaining that these two items are necessary to enable them to work.

We use minimum remittances required, which is the level of remittances that workers must send to their dependants or else they will be requested to return home, as a *proxy for the basic needs of dependants*. The minimum level of remittances represents the income shortage of the household, after taking account of other incomes, that workers are expected to help finance. According to FGD, workers must send at least \$15 per month to support their dependants.

Based on the objectives and criteria identified from the survey and FGD, the formula for calculating the ideal minimum wage in Cambodia's garment industry is: Ideal Minimum Wage = Basic Needs of Workers + Basic Needs of Dependants. Using our formula, we calculate different ideal minimum wage rates based on two scenarios. Scenario 1 is based on workers' current spending on basic needs, which yields an ideal minimum wage of **\$71.99 per month**. Scenario 2 is based on a situation in which workers' food budget is increased to the same level as the average person (from the current level of \$1.06 per day to \$1.15, according to the National Institute of Statistics), resulting in a minimum wage level of **\$74.85 per month**.

Workers express that the minimum wage should be reviewed every year because of three reasons. First, workers say that their health deteriorates every year, which increases their health expense. Second, the economic situation changes unpredictably each year. Third, changes in family structure, e.g. workers get married or have a child.

To make sure that the suggested minimum wage does not create huge distortion or disruption in the economy and society, it is necessary to compare it with key indicators.

- *Poverty Line*: The ideal minimum wage of \$71.99 per month or \$2.32 per day passes the poverty threshold, which is \$0.81 in Phnom Penh, \$0.68 in urban areas and \$0.61 in rural areas.

- *Average Wage*: This indicator is commonly used to measure wage inequalities in the economy. The ideal minimum wage is 111% of GDP per capita in nominal terms and 115% in real terms. However, this indicator is not relevant or useful for Cambodia's case because of two reasons. First, the objective of the minimum wage is not to narrow wage inequality but to ensure that it covers the basic needs of workers and their dependants, and to provide wage protection. Second, GDP per capita (\$64.37 per month in nominal terms) is not sufficient to cover the basic needs of workers and their dependants (which is \$71.99 per month), and thus, fails to satisfy the objective of the policy.
- *Value Added per Worker*: Value added per worker is the performance of each worker for the factory, and represents the source of wage. Thus, it is important to look at the percentage of wage in value added per worker. There is a *big and increasing gap between value added per worker and wages*. During the period 2004-2006, real effective wage was 24% of real value added per worker on average; in 2007-2009, this ratio fell to 19%. Comparatively, China's ratio is 34% and Indonesia is 25% in 2008, meaning that workers there get a larger share of their performance than workers in Cambodia.
- *Competitiveness*: Even though the minimum wage in Cambodia is relatively higher than in other countries in terms of PPP\$, the profit margin in Cambodia's garment industry (31%) is relatively higher than in rival countries such as India (11.8%), Indonesia (10%), Vietnam (6.5%), Nepal (4.4%) and China (the lowest at just 3.2%). Thus, *uprating the minimum wage will likely not make Cambodia less competitive to rival countries or less attractive to investors*.

PART IV: CONCLUSIONS AND RECOMMENDATIONS

For Cambodia's garment industry, this study finds that:

- Current minimum wage of \$50 per month is not sufficient to cover the minimum basic needs of a worker and dependants, which are the two criteria that must be satisfied in order to effectively achieve the policy objectives of the minimum wage. Workers need at least \$71.99 per month, of which \$56.99 is to cover the worker's basic needs and \$15 is to cover the basic needs of their dependants. Especially, workers request to have enough for food, as food is necessary to maintain their health and ability to work.
- There is a need to review the minimum wage annually, not only to keep wages in line with changes in the economic situation (such as inflation), but also changes in their health situation and family structure of workers.
- Regional minimum wages are not necessary because the total spending on basic needs is similar across region, although differences in spending structure. Thus, we would recommend a single uniform minimum wage level for the garment industry.
- For policy advocacy purposes, we recommend starting with the ideal minimum wage level of \$71.99 per month as it reflects the current situation of workers.
- An increase in the minimum wage will likely not make Cambodia less competitive to rival countries or less attractive to investors because the profit margin in Cambodia is relatively higher than in countries such as Indonesia, Vietnam, Nepal and China. In contrast, a higher minimum wage could lead to higher productivity because workers feel more secured about their income.
- During FGD, workers request that the minimum wage setting committee include trade unions to represent their interest, and government officials to legally bind the negotiations.

Part I: Background

1 Minimum Wage in Cambodia

In 1997, the Royal Government of Cambodia adopted the Labor Law. This law gives authority to the Ministry of Labor (MOL) to set up minimum wages in all sectors. Subsequently, The MOL issued a Notice on Minimum Wages, setting the minimum wage at US\$ 40 per month in the same year, which was a consequence of bargaining between representatives of employers and employees in the textiles, garment and shoe industry (henceforth referred to as garment industry). In 2000, the minimum wage was increased to US\$ 45 per month for workers in the garment industry. Six years later (2006), the MOL issued another notification¹ increasing the minimum wage to US\$ 50 per month for workers in the garment sector, which is the current wage floor in the industry.

The Labor Advisory Committee (LAC), which consists of representatives of the MOL, employers and trade unions, plans to review the minimum wage for the garment sector in 2010 to determine if the level should be updated and if so, to what level.

To date, there exists no Prakas on minimum wages for the different sectors and no standard for determining the appropriate minimum wage. Besides the garment sector, there is no minimum wage in other sectors.

2 Research Objectives

This study aims to develop a transparent and practical framework for determining the minimum wage for Cambodia's garment industry, which could be useful for:

- Guiding future regulatory framework on minimum wage for different sectors and serving as a reference for drafting a Prakas on Minimum Wage Determination
- Reviewing minimum wage in 2010 for the garment industry by providing updated data and analysis on the situation of workers

In developing a framework for setting the minimum wage, the main tasks of the study is to *explore the objectives, criteria and formula* for determining the minimum wage, as well as to identify the basis and frequency for reviewing the rate. Based on the survey findings, this study will also calculate the ideal minimum wage for Cambodia's garment industry.

¹ Notice 745/06

3 Components of the Study

The study starts with a thorough **literature review** of minimum wage systems and practices in other countries, both developed and developing, to build a common framework. In order to be useful for policymakers and stakeholders in Cambodia, and to ensure that the minimum wage effectively reaches the intended target group (garment workers), we further modify the common framework to fit **the reality and needs of the garment workers**. To make sure that the framework captures the prevailing context of garment workers, the research team conducted a **sample survey** of 300 garment workers in five key regions: Phnom Penh, Kampong Chhnang, Kandal, Sihanoukville, and Svay Rieng (see Table 1). In addition, the team collected qualitative data through **focus group discussions** (FGD) with 50 garment workers in these five areas.

Table 1: Sample Size

Region	Frequency	Percent
Phnom Penh	196	65.3
Kandal*	30	9.7
Sihanoukville	24	8.3
Svay Rieng	25	8.3
Kampong Chhnang	25	8.3
Total	300	100.0

Note: Four of the interviewees in Kandal province work in Phnom Penh, and commute home to Kandal daily

Part II: Developing a Framework for Minimum Wage Determination

4 Definition of Minimum Wage

In order to have a common ground for constructive dialogue, it is necessary to define the term “minimum wage”. Sometimes words such as “minimum income” and “living wage” are used interchangeably with minimum wage; however, these concepts are quite different. The definitions are as following:

- **Minimum Wage** is related to employment and “constitutes the level which employers may not undercut and whose application is guaranteed by law.”²
- **Minimum Income** is the basic level of income that citizens and families need to live and participate in society with human dignity, regardless of their employment. In a system of guaranteed minimum income, if the income from employment is less than the minimum income, the government periodically provides the worker with a sum of money (citizen’s dividend or negative income tax) to fill the gap.³
- **Living Wage** is the wage that would allow a worker and his/her dependants to live a decent life within regulated working hours (not including overtime), from one income source, and should allow for some savings.⁴

By its definition, the minimum wage is less than or equal to the minimum income and living wage; usually less than. This study is about the minimum wage only.

5 Global Minimum Wage Trends

Minimum wage is a universal policy instrument implemented by almost all countries. During the period 2001-07, **real minimum wages increased significantly** in both developing and developed countries in response to increasing income inequality and rising number of working poor. On average, real minimum wages have increased by 5.7% per year; 3.8% in developed countries, and 6.5% in developing countries.⁵

This upward trend in minimum wage across the world occurred during a period of sustained economic growth in most of these countries. Minimum wage adjustments may be more difficult in the current economic situation of the global financial and economic crises. Economic downturns tend to emphasize the labor costs aspects of minimum wage and raise concerns about

² See Wikipedia, “minimum income”, and (Pember, R. & Dupré, M., Unknown)

³ (Pember, R. & Dupré, M., Unknown)

⁴ (Prasanna, R. and Gowthaman, B., 2005)

⁵ (ILO, 2008)

potential job loss. However, the minimum wage is also vital for a quick economic recovery, as it has a role in protecting the purchasing power of the most vulnerable workers and sustaining overall consumption.⁶

Some countries have decided to not let the global economic crisis hinder their minimum wage policy. For instance, in Spain and Brazil, the real minimum wage has been updated to achieve longer term economic and social goals. In Germany, the government has decided to extend collectively bargained minimum wages to a number of other industries, covering a total of 1.7 million workers. On the other hand, some countries have decided to freeze minimum wages, like in South Korea.⁷

For the global garment industry, all of the major garment-exporting countries have a minimum wage for textile and apparel workers. Figure 1 below maps minimum wage rates for different garment exporting countries, who are the top rivals to Cambodian garment producers. The minimum wage is expressed in purchasing power parity dollar (PPP\$) in order to make comparison between the countries. PPP\$ is the exchange rate which equates the price of a basket of goods and services in a specific country to that in the United States. The key factor that influence the level of PPP\$ rate are the relative inflation rates between the specific country and United States. If the inflation rate in the given country is high relative to the United States, the PPP\$ will be low; if the inflation rate is relatively lower than in the United States, the PPP\$ will be high.

As shown in Figure 1, minimum wage is highest in Taiwan (955 PPP\$) and lowest in Bangladesh (69 PPP\$). Cambodia's wage floor is 156 PPP\$ (with nominal minimum wage of \$50 per month and inflation rate of 5.9%⁸ in 2007), which is far lower than in China 204 PPP\$, but in similar range as in Indonesia (142 PPP\$), and Vietnam (120 PPP\$).

Figure 1: Minimum Wage in Major Garment Exporting Countries (PPP\$, 2007)



Source: ILO (2009)

⁶ Paraphrased from (ILO, 2009)

⁷ (ILO, 2009)

⁸ National Institute of Statistics

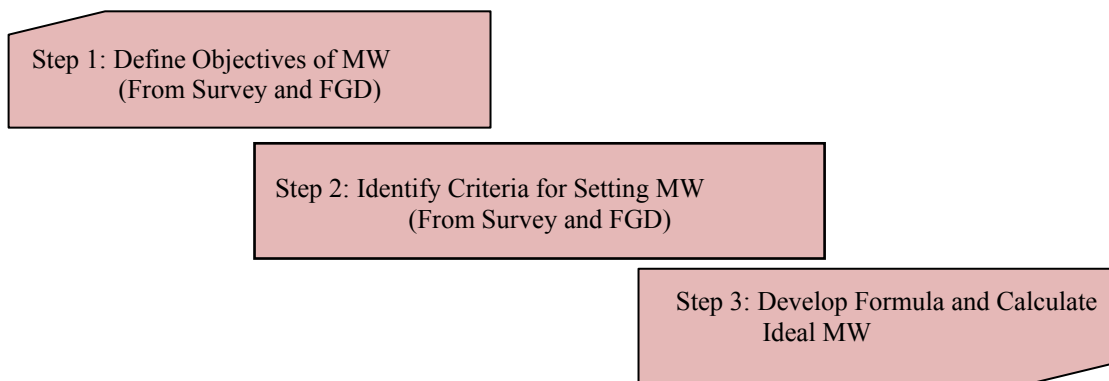
6 Analytical Steps

In order for a policy to effectively reach its intended target group without creating adverse effects on other groups in society, the design process must be grounded with facts. When designing a policy, there are three fundamental steps, which we will use in this study:

- 1) Define the policy **objectives**. What do we want the minimum wage to achieve? Or, why is a minimum wage necessary?
- 2) Identify the **criteria**. Once we have clarified the objectives of the minimum wage, we need to identify the criteria or standard for judging if the minimum wage achieves its objectives. What factors must be accounted for in the level of minimum wage to ensure that its aims are met?
- 3) Develop a **formula** for calculating the minimum wage. Our analysis in step 1 and step 2 gives us a basis for developing a simple and practical equation for calculating the ideal minimum wage.

These analytical steps (depicted in Figure 2) are the building blocks of our framework for minimum wage determination. In the next few chapters, we provide a general overview of common practices in other countries related to the objectives, criteria and formula for minimum wage setting. Part III of this report will adapt the general framework to fit the context of Cambodia's garment industry and its workers using quantitative data from the sample survey and qualitative data from focus group discussions.

Figure 2: Analytical Steps of the Study



7 Objectives of Minimum Wage

In this chapter, we summarize the findings from our literature review of minimum wage practices in different countries. These findings will allow us to develop a common minimum wage framework for setting the ideal wage floor.

Why is a minimum wage necessary? Wages can have an influential weight in the efforts to reduce poverty, raise living standards and increase labor productivity. There are four common objectives for introducing wage floors: ensure basic living standards, provide wage protection, create an incentive to work, and income equity. The objectives differ from country to country, depending on their economic and social context, and stage of development. We briefly describe each of these objectives below.

Ensure Basic Needs of Worker

Historically, minimum wage was created to ensure that workers earn at least enough to pay for subsistence. The underlying purpose of a minimum wage is to guarantee that workers receive adequate wages to cover their basic needs (food, clothing, housing, health and education), and in some cases, their dependants.

Provide Wage Protection

Another objective for instituting a minimum wage is to provide income security for vulnerable workers, especially those who work in sectors highly exposed to economic swings. In addition, firms operating in highly competitive markets might try to cut costs by depressing wages. This objective aims to protect the wages of workers in such sectors from falling below an acceptable level.

Create Incentive to Work

In some countries, like New Zealand⁹, a minimum wage is established to induce people to work. The minimum wage aims to attract people into the labor force by raising the opportunity costs for not working. This objective is less relevant for developing countries, especially for countries that lack a safety net for the unemployed. Most people in developing countries simply cannot afford to not work.

Fair Distribution of Economic Growth and Prosperity

A fourth objective for setting a wage floor is to ensure that workers receive a fair share of their contributions to economic growth and prosperity. The principal aim is to make sure that workers are not exploited, but rather rewarded for their labor. A minimum wage that incorporates a premium for economic growth may also motivate workers to increase productivity. Also, this objective is about narrowing income inequalities in the economy. A minimum wage is set in order to insulate low income workers from deterioration in real wages relative to the average wage.

⁹ (New Zealand Employers' Federation, 1999)

8 Criteria for Setting Minimum Wage

This chapter highlights the common criteria for setting the minimum wage around the world, which is based on our literature review. There are a number of criteria; the relevance of the criteria depends on the objectives of the minimum wage. Some commonly used criteria are basic needs of workers, general level of wages, social security system, and economic factors.

Basic Needs of Workers

The fundamental criterion for setting the minimum wage is the basic needs of workers. As an underlying principle, the minimum wage should not be fixed at a level below subsistence. The minimum wage should at least enable workers to satisfy their basic needs, such as food, clothing, shelter, and health. Basic needs should be based on existing consumption patterns of the target group and not on an abstract notion of what is desirable, in order to ensure that the request is relevant and does not create or widen inequalities in society.¹⁰

General Level of Wages

When the main objective of the minimum wage is to reduce wage inequalities, the general level of wages is given considerable weight. The general wage level is represented by the average wage and/or GDP per capita. The minimum wage to average wage (or GDP per capita) ratio is a useful indicator for measuring the relative status of the target group with the average person. Similarly, the wage rates fixed by collective bargaining agreements for identical or similar work may be taken into account during the wage determination process.¹¹

In a majority of countries, minimum wage is set within 30-60% of GDP per capita; however, in developing countries, it ranges from less than 30% to over 100% of GDP per capita.¹² Minimum wages in developing countries tend to be set at a higher relative level than in developed countries.

Social Security System

The social security system serves as a safety net for the vulnerable, and will give an indication on the necessity of a minimum wage and suitable level. In some countries, the main objective of the minimum wage is to provide a safety net for workers.¹³

Economic Factors

Economic factors are also an important criterion to consider when fixing the minimum wage to avoid friction between stakeholders (namely laborers and employers, but also the government) and the possibility of a social uprising. Important economic factors include the current levels of employment, unemployment and underemployment; the potential impact of the minimum wage on unemployment; competitiveness; and productivity levels. Two other criteria commonly

¹⁰ (Shaheed, Z. Notes on Minimum Wage Fixing, p.113)

¹¹ (Shaheed, Z. Notes on Minimum Wage Fixing)

¹² (ILO, 2009)

¹³ (Shaheed, Z. Notes on Minimum Wage Fixing, p. 114)

considered are the capacity of employers to pay, and the requirements for economic development.¹⁴

9 Formula for Calculating Minimum Wage

How should the minimum wage be set? While the minimum wage is a universal policy tool to alleviate poverty, there is no universal standard or formula for determining the appropriate level. As a principle, the method for calculating the wage floor should be based on the objectives and criteria for setting the minimum wage. The ideal minimum is the sum of criteria, in which the criteria depends on the objectives (see Figure 3).

Figure 3: General Formula for Calculating Minimum Wage

$$\text{Ideal Minimum Wage} = \sum_{\text{Objective 1}}^{\text{Objective N}} \text{Criteria}$$

¹⁴ (Shaheed, Z. Notes on Minimum Wage Fixing, p. 113)

Part III: Survey Findings

10 Profile of Target Group

Before we start our analysis, it is necessary to understand the background and current situation of the target group of the minimum wage – garment workers. This will help provide context to our analysis, especially to the objectives and criteria for setting the minimum wage.

10.1 Personal Background

Among the 300 garment workers interviewed, 90% (270) were female and 10% (30) were male. The average age is 24 years old; most are 21 years of age. The majority (68%) are single, while 25% are married and 7% are widow/widower. Only 12% (or 35 people) are head of their households, while the remaining 88% (265 people) are income earners. Almost all of the workers (94.3%) have no more than a 9th grade education (see Table 2).

Table 2: Education of Interviewees

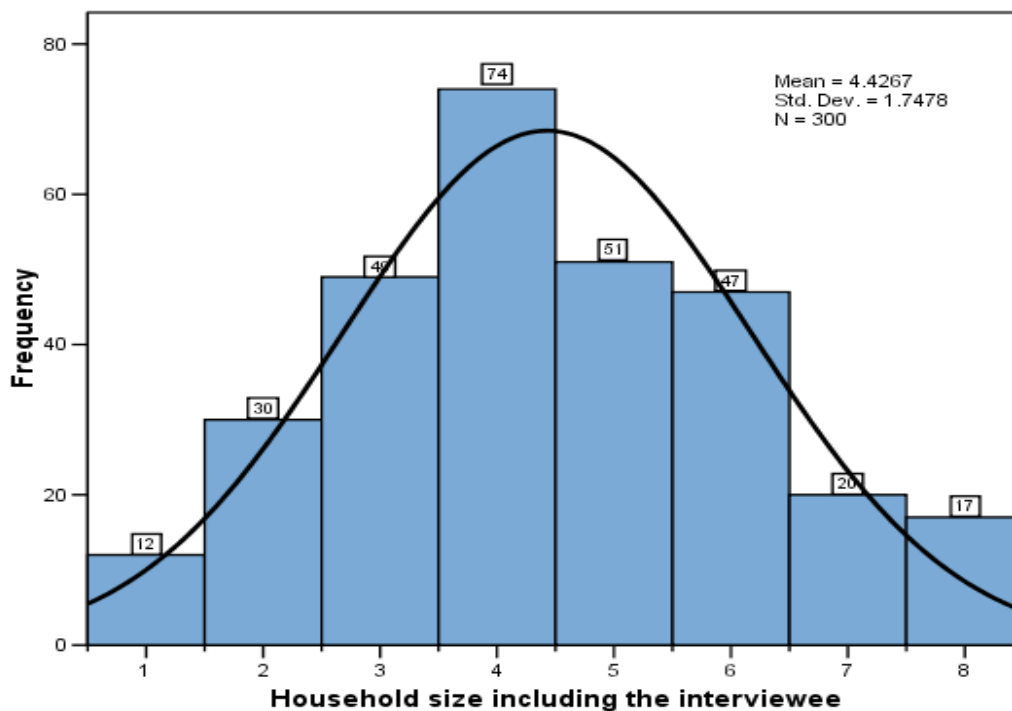
Level of Education Attained	Frequency	Percent	Cumulative Percent
Illiterate or almost illiterate	11	3.7	3.7
Some primary school but not completed	77	25.7	29.3
Primary school (grades 1-6)	71	23.7	53.0
Lower secondary school (grades 7-9)	124	41.3	94.3
Secondary school (grades 10-12)	15	5.0	99.3
Technical training diploma (1-3 years)	1	0.3	99.7
Associates degree or higher	1	0.3	100.0
Total	300	100.0	

Nine out of ten garment workers in Phnom Penh are migrant workers, mostly from Prey Veng (23%) and Kampong Cham (20%), and other provinces like Svay Rieng, Kampong Thom, Kandal, and Takeo. In Kandal, 67% of the workers interviewed are migrant workers, mostly from Prey Veng, while 33% are locals. Similarly, 67% of those working in Sihanoukville are migrants, mostly from nearby Kampot province. In contrast, all of the workers interviewed in Svay Rieng and Kampong Chhnang are locals.

10.2 Household Situation

Garment workers typically come from a household of 4 persons (including the interviewee, shown in Figure 4). Of this, 2 persons are income earners; one is usually a farmer and the other is the garment worker. Excluding the income of the interviewees, each household earns around \$66 per month on average, with most (60% of 300 households) earning no more than \$50 per month. Most of the interviewees come from households that own less than 1 ha of land (54% of 300). In short, **almost all garment workers come from very poor households and due to the strong culture of reciprocity, workers are obligated to contribute cash income to help support other family members.**

Figure 4: Household Size



Note: 1 means that the interviewee has no dependants

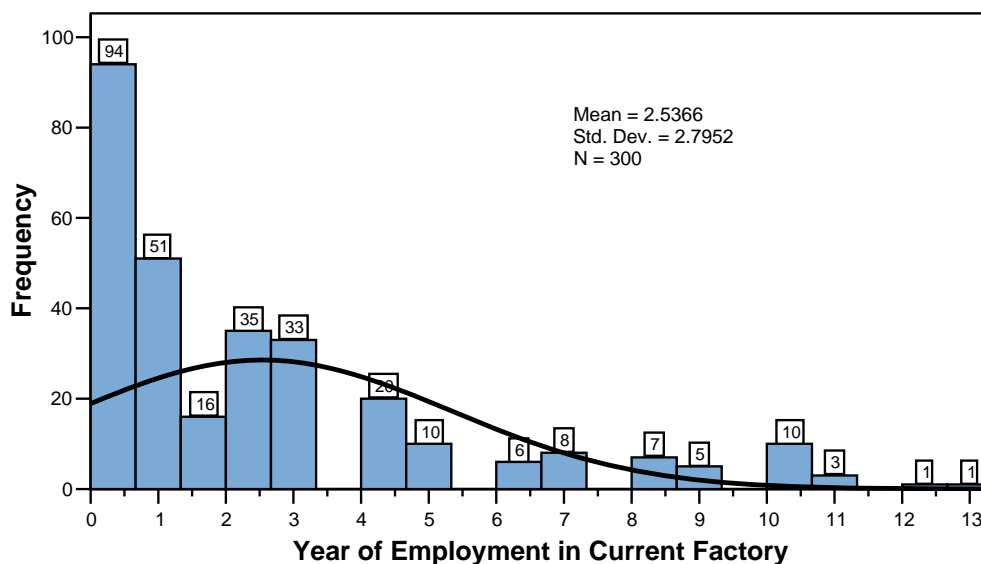
10.3 Job Situation

The 300 garment workers interviewed represent 74 factories. Almost half of them are in sewing (46.3%), while the others hold positions in quality control, cutting, ironing, finishing and others. Approximately 49% of the interviewees are members of a trade union.

On average, workers have 3 years of work experience in the garment industry, though most (47.3% of the interviewees) have less than 3 years of experience and a few have more than 10 years. The fact that most of the workers are relatively new in the garment industry despite the industry being established for over 10 years, suggests that workers generally do not stay in the garment industry for a long time.

In contrast, workers have worked at the current factory for only 2.5 years on average, though 48% (or 145 interviewees) have worked at the factory no more than 1 year (shown in Figure 5). Seniority bonus, which is a legally mandated entitlement that employers must pay their workers,¹⁵ applies only to work at the current factory. Thus, even if a worker has 10 years of work experience, when they leave to work at another factory (e.g. old factory closes), their seniority bonus is reset to zero.

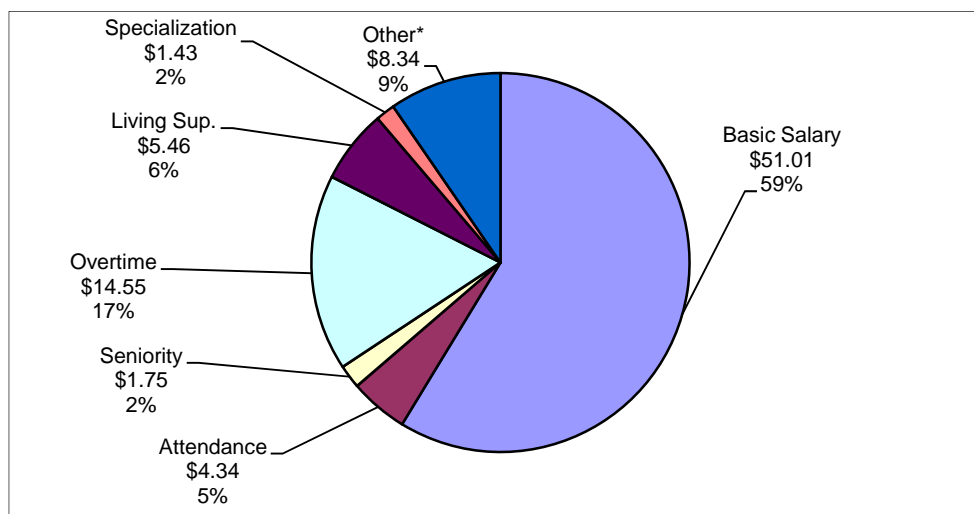
Figure 5: Distribution of Years of Employment at Current Factory



¹⁵ If employed at factory for 1 year, receive \$2 per month; 2 years, \$3 per month; 3 years, \$4 per month; 4 years or more, \$5 per month (maximum).

On average, the workers interviewed earn an effective wage of \$86.88 per month (in the most recent month before the survey), which includes their basic salary, overtime, and other entitlements and allowances. Their basic salary (which is the minimum wage) makes up more than half (58%) of their effective wage. Workers earn \$14.55 of overtime on average in their most recent month of work, which constituted 17% of total wage. Other components of garment workers' wage include attendance bonus, seniority bonus, living support, specialization and other allowances. Almost all of the workers stated that their regular working hours is 8 hours a day, 6 days a week.

Figure 6: Nominal Effective Wage by Components (US\$ per Month)

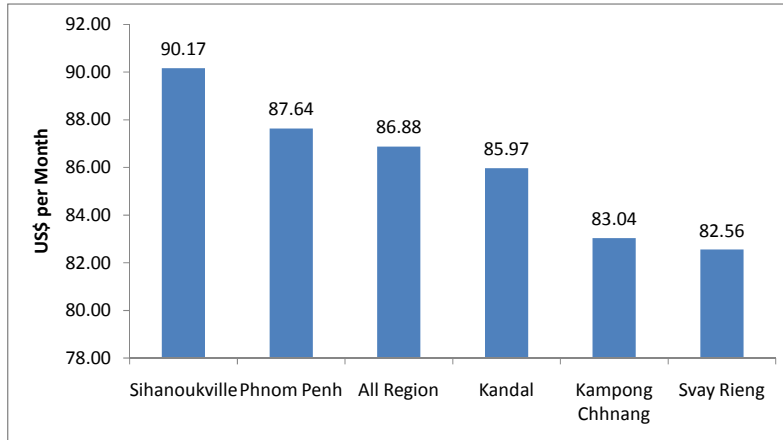


Total Effective Wage is \$86.88 per month; refers to wage received in the last month

By region (shown in Figure 7), workers in Sihanoukville earned the most (\$90.17 per month on average) and those in Svay Rieng earned the lowest (\$82.56 per month). Workers earning higher than the average salary of \$86.88 are usually:

- 1) Piece rate workers: piece rate workers earn \$107.60 per month on average, compared to regular workers, who earn \$83.03, or
- 2) Overtime: have relatively more overtime. Most of the workers who earned above average salary have overtime pay of \$25 per month, compared with \$15 for those earning average salary and \$0 for those earning below the average, or
- 3) Both: piece rate workers and have overtime

Figure 7: Nominal Effective Wage by Region (US\$ per Month)



11 Why is a Minimum Wage Necessary? (Objectives)

Based on our FGD with 50 garment workers in different regions, the **general consensus** is that the **ultimate objectives of the minimum wage** should be to: 1) ensure basic needs of workers and their dependants, and 2) provide wage protection.

Figure 8: Objectives of Minimum Wage for Cambodia's Garment Industry

- 1) Ensure Basic Needs of Worker and Dependants
- 2) Provide Wage Protection

Objective 1: Ensure Basic Needs of Workers and Dependants

The first condition, which cannot be objected, is that the minimum wage should at least cover their basic needs. In addition to their basic needs, workers stated that the minimum wage must also cover the basic needs of their dependants. Regardless of whether workers are migrants or live at their family home, all workers stated that their main reason for entering the garment sector workforce is to earn cash for their family. **It is their ultimate mission and obligation to contribute to the family; if the mission is not achieved, they must return home.** Thus, a basic condition to ensure that labor resources are maintained in the garment sector is that workers must earn enough to cover not only their basic needs, but those of their dependants as well.

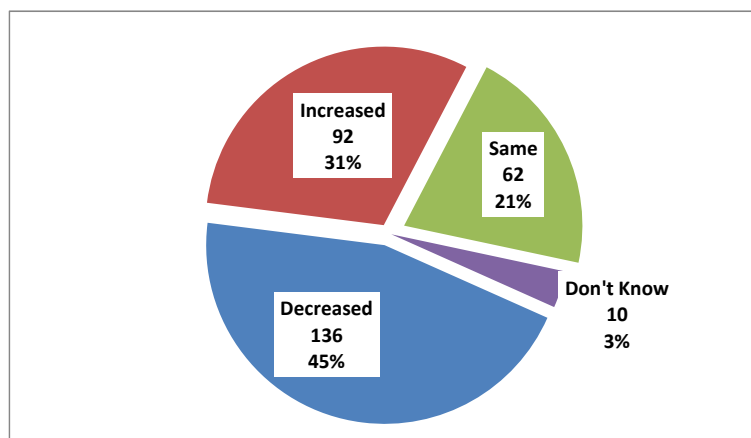
“I must send money home. If I don’t send for more than 3 months, my parents will call me to come home. Why work if I cannot help my family; it is better to work on rice fields.”

Worker in Sihanoukville
FGD on July 26, 2009

Objective 2: Provide Wage Protection

Wages of garment workers need to be protected for a number of reasons. Firstly, stiff competition among garment producers could put downward pressure on wages, possibly falling below subsistence level, if left unregulated. Secondly, garment workers heavily depend on overtime to cover their living costs. Without overtime, workers do not earn enough to finance their basic needs and those of their dependants. In the current economic downturn, overtime is being reduced or eliminated (45% of the 300 workers interviewed said they have seen a decreased in overtime in 2009, see Figure 9). Without any income buffer, workers and their families are vulnerable to fall deep into poverty.

Figure 9: Any Changes in Overtime in 2009?



When faced with economic shocks such as economic downturns, workers cope with the decline in income by:

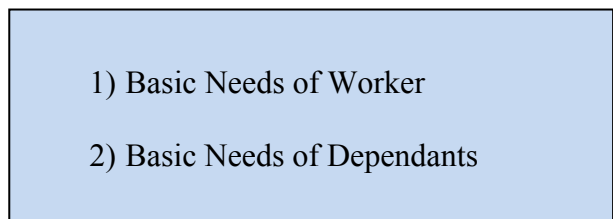
- **Using past savings.** In using up their little savings, workers are left with little to no security for emergencies and precautionary purposes.
- **Cutting personal spending,** especially by buying lower quality food. Consequently, this leads to malnutrition and health problems, which impacts the ability of workers to work.
- **Cutting remittances to dependants.** In the event that workers cannot cut their basic needs any further, their last resort is to cut remittances. The consequence is deterioration in the living standards of workers' household members.

Thus, the long term consequences of economic shocks on low income earners like garment workers can be severe. Given that the collective bargaining power of trade unions is still weak at the current time, which means that successful wage bargaining at the factory level is unlikely, a minimum wage is a necessary instrument to help safeguard workers from economic volatility.

12 What Factors Should Be Used to Set Minimum Wage? (Criteria)

In relations to the objectives of the minimum wage identified in the previous chapter, the most relevant **criteria to consider for setting the ideal minimum wage for Cambodia's garment industry** are: 1) basic needs of workers and 2) basic needs of dependants.

Figure 10: Criteria for Minimum Wage Setting in Cambodia's Garment Industry



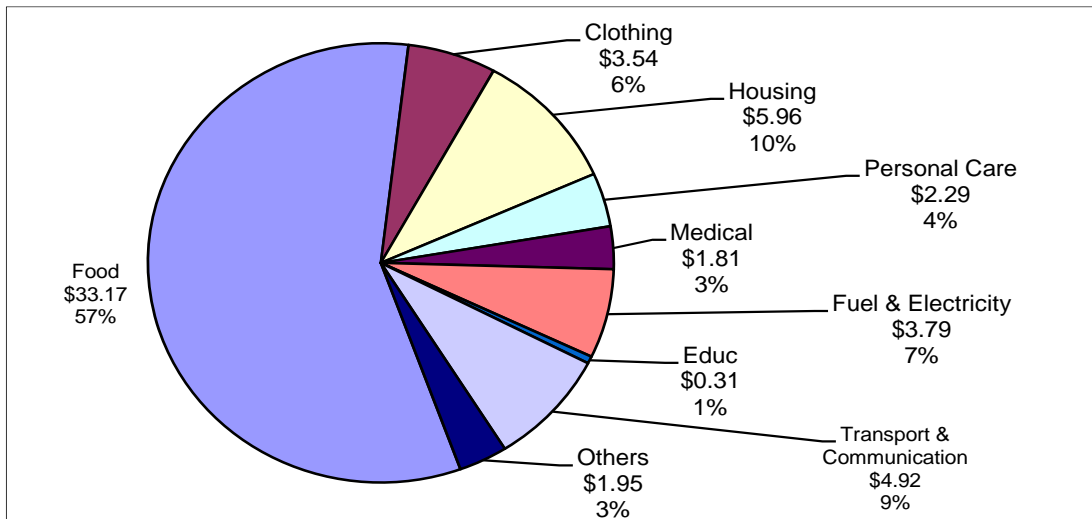
These two criteria are the basic conditions that must be satisfied in order to maintain labor resources in the garment industry; and hence, critical for stabilizing and sustaining the garment industry, especially during times of economic downturns. If workers cannot earn enough to finance their living costs and send money home, they will exit the sector's workforce, either to work in a different sector or to work in their family's subsistence economy.

12.1 Criteria 1: Basic Needs of Worker

The main objective of the minimum wage, as presented in the previous chapter, is to ensure that workers can earn enough to cover their basic needs. Thus, the key criterion for setting the minimum wage is the basic needs of workers. Based on interviews on consumption patterns, basic needs of workers include food, clothing, housing, transport, health, communication, education, and personal care. **The minimum basic needs of workers are represented by their current spending on basic needs.** It is important to highlight that the figures on basic needs of worker presented in this section and in this study represents workers' current spending on basic needs based on their income, which may not be the level deemed physically ideal or sufficient.

Among the 300 garment workers interviewed, the average spending on basic needs is \$56.99 (Figure 11). By region, workers in Phnom Penh and Sihanoukville spend slightly more than the average, \$58.02 and \$57.28 respectively (shown in Figure 12). Workers in Kandal, Kampong Chhnang and Svay Rieng spend less than the average, of which Svay Rieng the lowest with \$52.38 per month. According to interviews, the difference in spending on basic needs is due to differences in earnings, not due to different levels of basic needs. Those with higher income, spend more, and vice versa. Workers in Svay Rieng have the lowest effective salary of \$82.56, while those in Sihanoukville earn the most at \$90.17 per month.

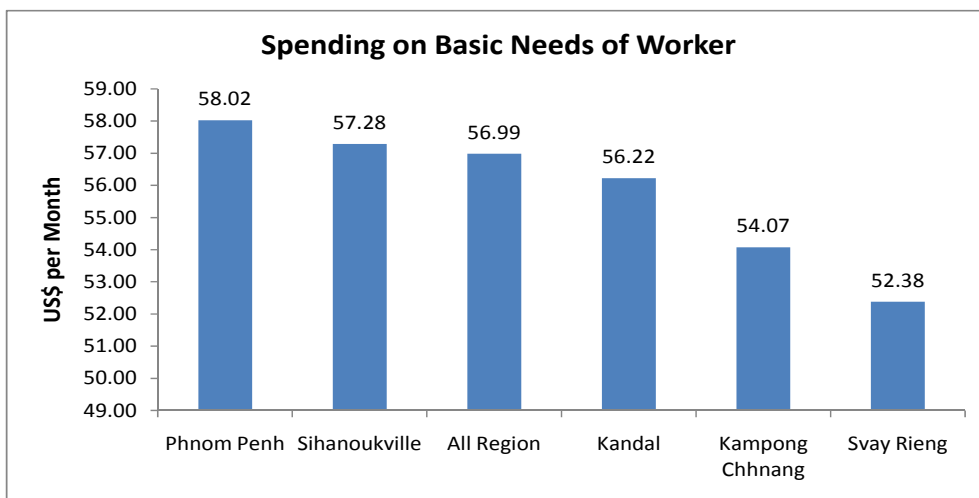
Figure 11: Average Spending on Basic Needs by Items (US\$ per Month)



Total spending on basic needs is \$56.99 per month on average

More than half of workers’ total spending on basic needs is on food (57%), while non-food items such as housing, transport & communication, clothing, fuel & electricity, personal care, medical/health care, education and others constitute 43%. In the following sub-sections, we describe some of these items in greater detail.

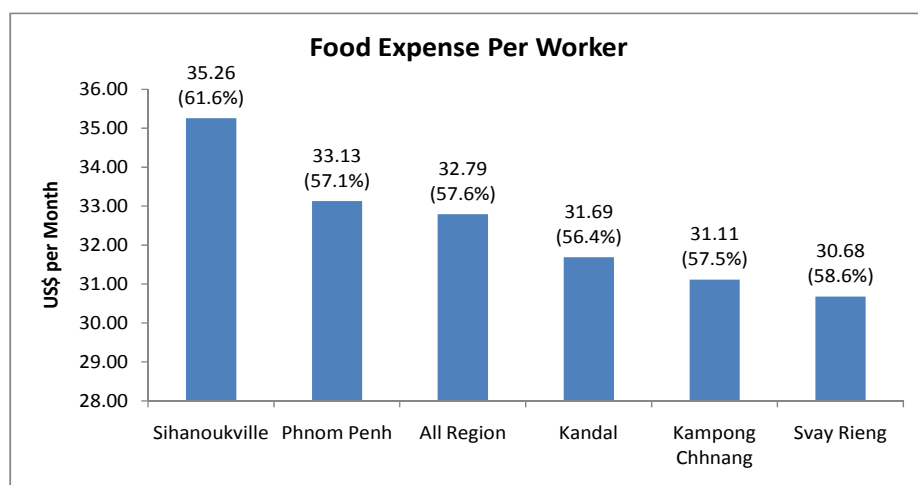
Figure 12: Average Spending on Basic Needs of Worker by Region (US\$ per month)



12.1.1 Food

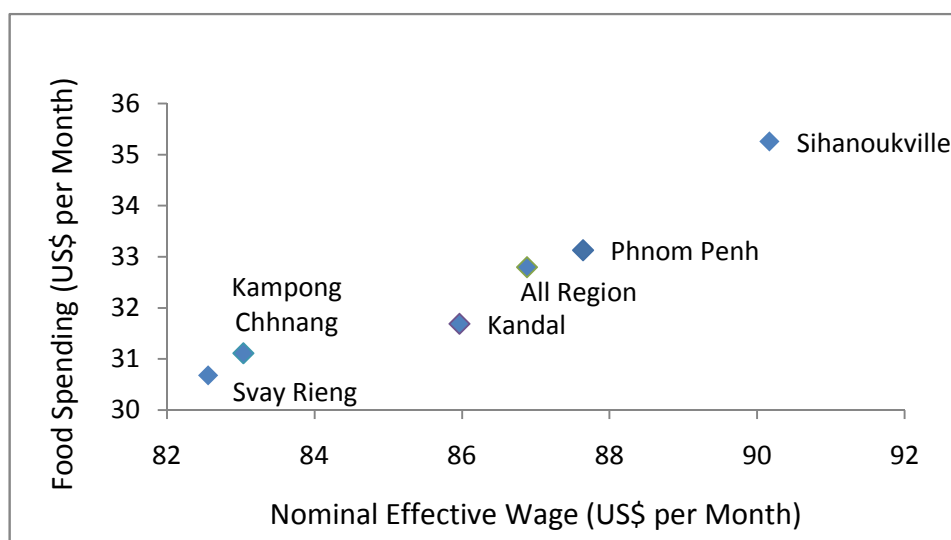
On average, garment workers spend \$32.79 per month on food or \$1.06 per day (see Figure 13). Food spending makes up 57.6% of their total spending on basic needs. There is a positive correlation between the level of effective wage and food spending; those with higher income, spend more on food (see Figure 14). Workers in Sihanoukville, who earn relatively higher than workers in other regions at \$90.17 per month, spend more on food (\$35.26 per month or 61.6% of total spending). At the other end, workers in Svay Rieng, who earn the lowest among the regions at \$82.56 per month, spend the lowest on food \$30.68 (58.6% of total spending).

Figure 13: Average Food Expense by Region (US\$ per Month)



Note: Figures in parenthesis represent % of total expense on basic needs of worker

Figure 14: Nominal Effective Wage vs. Food Spending by Region (US\$ per Month)



During FGD, workers were asked if their current food spending was sufficient. *“I spend about 5,000 riel per day on food. It is enough based on my salary, but not enough to keep me healthy. I can only afford to buy low quality food. I can’t afford to buy foods with high nutrition, like fruits”*, said one worker in Kandal; a reflection that was agreed by all workers in all the regions under study. In order to be healthy and have enough energy, workers say they need around 10,000 riels per day, both male and female.



Workers keep their spending on food low by bringing rice from home. For instance, workers in Kampong Chhnang said they get 15 kg of rice per month from home, consuming ½ kg of rice per day, worth about \$8.

12.1.2 Housing

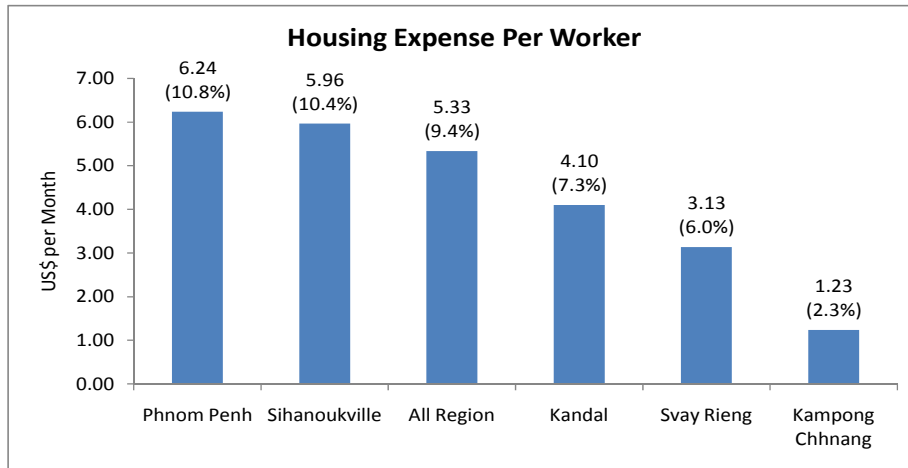
Eight out of ten interviewees rent housing (see Table 3). Almost all of the workers in Phnom Penh rent (90.8% of the workers interviewed in Phnom Penh), spending on average \$6.24 per month, the highest among all regions (refer to Figure 15). A large majority of workers interviewed in Sihanoukville (88%) and Kandal (79.3%) also rent housing, with average expense of \$5.96 and \$4.10 per month respectively. In contrast, most workers Svay Rieng and Kampong Chhnang live at their family home. Only those who live too far from the factory rent housing near the factory to save on transport cost.

Table 3: Number of Interviewees Renting Housing

Region	Frequency	% of Interviewees*
Phnom Penh	178	90.8
Sihanoukville	22	88.0
All Region	242	80.7
Kandal	23	79.3
Svay Rieng	11	44.0
Kampong Chhnang	8	32.0

Note: *% of total interviewees in the specific region

Figure 15: Average Housing Expense by Region (US\$ per Month)



Note: Figures in parenthesis represent % of total expense on basic needs of worker

Regardless of the region, the conditions of the housing are similar. Rooms are usually no more



than 12 m², costing around \$25 per month, which usually includes water but not electricity. To save on rent, rooms are usually share among 3-5 workers. There is usually no fan in the room because workers cannot afford electricity, which makes the room hot and stuffy at night. Workers complained that *“It’s difficult to sleep at night because it is so hot, especially during the dry season. I can’t sleep a few nights per month. When I go to work, I have no energy and I get ill.”*¹⁶ During FGD, workers stated that their living situation would

be more decent if rooms are shared with only 2 people. However, they cannot afford to live with just 2 people because of their low income.

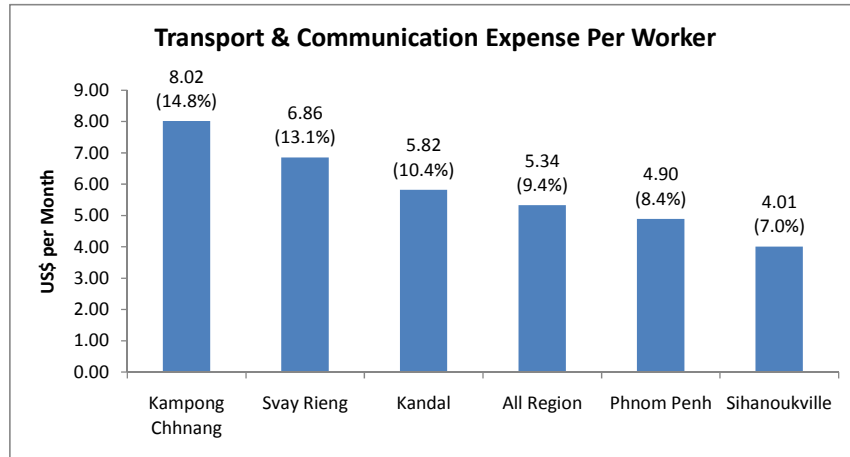
12.1.3 Transport & Communication

Workers spend \$5.34 per month on transport and communication on average; roughly 9.4% of their basic needs expenditure (as illustrated in Figure 16). The bulk of this expense item is transportation cost. Workers in Kampong Chhnang, Svay Rieng and Kandal spend more than the average, while those in Phnom Penh and Sihanoukville spend less than the average. This is because workers in Kampong Chhnang, Svay Rieng and Kandal typically live at their family

¹⁶ Quote from worker in Sihanoukville during FGD on July 26, 2009.

home and commute to work by truck taxi; while those in Phnom Penh and Sihanoukville rent housing near the factory and walk to work.

Figure 16: Average Transport & Communication Expense by Region (US\$ per Month)



Note: Figures in parenthesis represent % of total expense on basic needs of worker

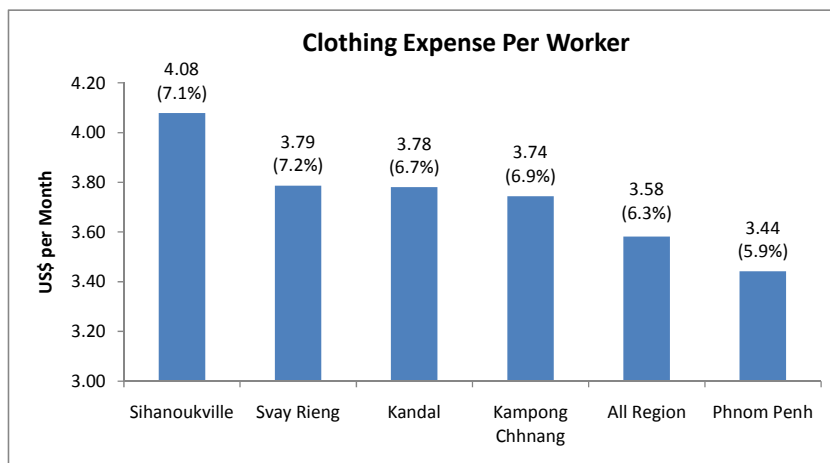
Regardless of the region, the type and conditions of transport is the same. The truck taxi is usually a 1-1 ½ ton pick-up truck, with no seats. According to the truck drivers, about 40-60 passengers are packed on the truck. The cost ranges from \$7-\$10 per month, inclusive of overtime and Sundays. Workers typically live about 10 km from the factory. In Kampong Chhnang, the travel distance is farther, about 30 km, which is why their spending on transport is the highest. When the price of fuel increased in 2008, so did the price of transport.



12.1.4 Clothing

On average, workers spend \$3.58 per month on clothes and footwear; about 6.3% of total basic needs expense (as shown in Figure 17). The difference in spending on clothing between regions is marginal (range of \$0.64 per month).

Figure 17: Average Spending on Clothes by Region (US\$ per Month)



Note: Figures in parenthesis represent % of total expense on basic needs of worker

During FGD, workers stated that they buy around 10 outfits per year. They spend the most on clothes during Khmer New Year, Pchum Ben, and Water Festival; at least \$10, but usually around \$30 per holiday. This includes female and male. Besides these special occasions, workers buy regular clothes every 2-3 months, spending no more than \$10 each time.

12.1.5 Health

Spending on health care, which includes doctor visits, treatments and medicine, is roughly the same in all regions, around \$1.75 per month on average; making up 3% of total basic needs expense (as shown in Figure 18). This low level does not mean that workers are generally healthy and thus do not need a lot of health services, but reflects the amount that workers can afford with their given income.

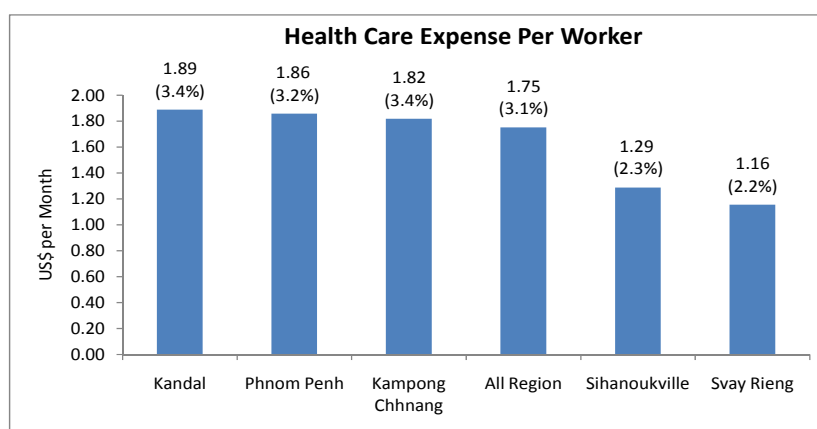
“I get sick more often now. Compared to 2 years ago, I am sick more often. I get bladder infection because I can only afford low quality food, and have little time to rest between meals because our lunch break is only 30 minutes.”

*-Worker in Kandal
FGD on August 13, 2009*

During FGD, workers in all regions stated that their health has deteriorated since working at the factory. Participants estimated that in a factory of 100 workers, 70% of the workers are ill because they are exposed to chemicals and dust, sitting all day, little time to rest between meals, and little time to use restrooms. They stated that the remaining 30% of workers can expect to get sick too over the next year. Many of the workers complained of the following symptoms:

- **Headaches:** Workers say they have headaches 2-3 days a week. They can get 1 dose of medicine from the factory’s clinic once a day. When this is not sufficient, they buy medicine from the pharmacy, spending 3,000 riels (\$0.75) for 3 doses of headache medicine.
- **Intestinal flu:** In all regions, workers stated that almost all workers get intestinal flu after working 1-2 years at the factory. Treatment costs 200,000-400,000 riels (\$50-100) each time. Some workers have gotten intestinal flu more than once.

Figure 18: Average Health Care Expense by Region (US\$ per Month)



Note: Figures in parenthesis represent % of total expense on basic needs of worker

The breakdown of spending above gives us a clearer picture of workers’ spending patterns based on their current income and budget constraint; however, it is not sufficient to determine which item is most important to workers. To get a deeper insight on the issue, workers were asked to rank their basic needs in order of priority (summarized in Table 4).

Table 4: Which basic needs item is most important?

Region	First Priority	Second Priority
Phnom Penh	Food	Health
Sihanoukville	Health	Food
Kandal	Food	Health
Svay Rieng	Health	Food
Kampong Chhnang	Food	Health

Source: Based on FGD with garment workers

Food was generally ranked first priority and health second priority. Workers explained their selection as following:

- **Food:** Workers say food is a priority spending item for them because food helps maintain their health and energy, enabling them to work, and
- **Health:** Workers say that if they are sick, they cannot work; and therefore, they must maintain their health.

12.2 Criteria 2: Basic Needs of Dependants

On average, garment workers come from a household of 4 persons (including the interviewee), 2 of which are income earners and 2 are dependants. It is difficult to determine an accurate figure on the basic needs of dependants because of the existence of the household subsistence economy. The National Institute of Statistics (NIS) has some statistics on average expenditure per person in rural areas, but the data is outdated and may not account for non-monetary consumption. To overcome this, CIDS asked workers the minimum amount of remittances they must send home. The **minimum remittances level is a proxy for the basic needs of dependants**, which takes account of other household income and the income from the subsistence economy; in other words, minimum remittances represent the gap or shortage in income the household needs. During focus group discussions with workers, workers stated that the minimum remittance required is **\$15 per month** on average.

Figure 19: Basic Needs of Dependants (US\$ per Month)

Basic Needs of Dependants = Minimum Remittances Required = **\$15 per month**

13 Ideal Minimum Wage

Based on the objectives and criteria identified in the previous chapters, we can develop a simple equation to calculate the ideal minimum wage for Cambodia's garment industry. We have established that the two most relevant criteria to consider for setting the minimum wage are basic needs of worker and basic needs of dependants. Putting these components together, we get the formula shown in Figure 20.

Figure 20: Formula for Calculating Minimum Wage

$$\text{Minimum Wage} = \text{Basic Needs of Workers} + \text{Basic Needs of Dependants}$$

In this section, we will calculate the ideal minimum wage for Cambodia's garment industry using the above formula, quantitative data from the sample survey and qualitative data from the FGD. We calculate two different levels of ideal minimum wage based on different scenarios:

- Scenario 1: Based on Current Spending Pattern on Basic Needs of Worker
- Scenario 2: Increase Food Budget of Garment Workers to Average Level

Scenario 1: Current Spending Pattern

The survey findings reveal that garment workers currently spend **\$56.99 per month on their basic needs**, of which \$32.86 is on food and \$24.13 is on non-food items (i.e. housing, transport, health, etc). **Basic needs of dependant is estimated to be \$15 per month**, which represents the minimum amount of remittance workers must send home or else their parents will call them home. Plugging, these figures into our equation, we find that the **ideal minimum wage under scenario 1 is \$71.99 per month** (illustrated in Figure 21). *This level of minimum wage would enable workers to maintain their current level of spending and send remittances home to help finance the basic needs of their dependants.*

Figure 21: Ideal Minimum Wage (Scenario 1)

$$\begin{aligned} \text{MW} &= \text{Basic Needs of Workers} + \text{Basic Needs of Dependants} \\ &= 56.99 + 15.00 \\ &= \mathbf{\$ 71.99 \text{ per month}} \end{aligned}$$

Scenario 2: Increase Food Budget to Average Level

As mentioned, the current level of food spending by workers (\$32.86 per month or \$1.06 per day), is not sufficient. According to data from the National Institute of Statistics (NIS), the average person in Phnom Penh spends \$1.15 per day on food. If we increase the food budget of garment workers to the level of the average person, whilst keeping the level of non-food basic needs of workers and basic needs of dependants unchanged, the **ideal minimum wage in scenario 2 is \$74.85 per month** (calculations provided in Figure 22). *This level of minimum wage would enable garment workers to have a food budget equivalent to the average person in Phnom Penh, and allow them to send remittances to help their family members.*

Figure 22: Ideal Minimum Wage (Scenario 2)

$$\begin{aligned} \text{MW} &= \text{Basic Needs of Workers} + \text{Basic Needs of Dependants} \\ &= 59.85 + 15.00 \\ &= \mathbf{\$ 74.85 \text{ per month}} \end{aligned}$$

14 Adjusting the Minimum Wage

How often should the minimum wage be adjusted and what criteria should be considered? In many countries, the basis for adjusting or uprating the minimum wage includes changes in cost of living, changes in general income level, and changes in consumption patterns. Some countries review the minimum wage every year, some every three years, and some only adjust it when faced with social unrest.

Based on FGD with garment workers, the consensus view is that the minimum wage should be reviewed **every year**. There are three reasons justifying this request:

- **Increase in health expenses:** Workers stated that their health deteriorates every year, which increases their health expense. Workers should get sick within one year of working at the factory. The main health problems are headaches and intestinal flu. As mentioned earlier, workers stated that they get headache 2-3 times a week. They also informed that almost all workers get intestinal flu after 1-2 years of working at the factory; treatment costs around \$50-\$100.
- **Changes in economic stability:** Especially changes in prices and in the macroeconomy, provides little income security for workers.
- **Changes in family structure:** Because most workers are around 24 years of age, their marital status and family structure can change from year to year. For example, they get married or have children. These changes require an increase in expense.

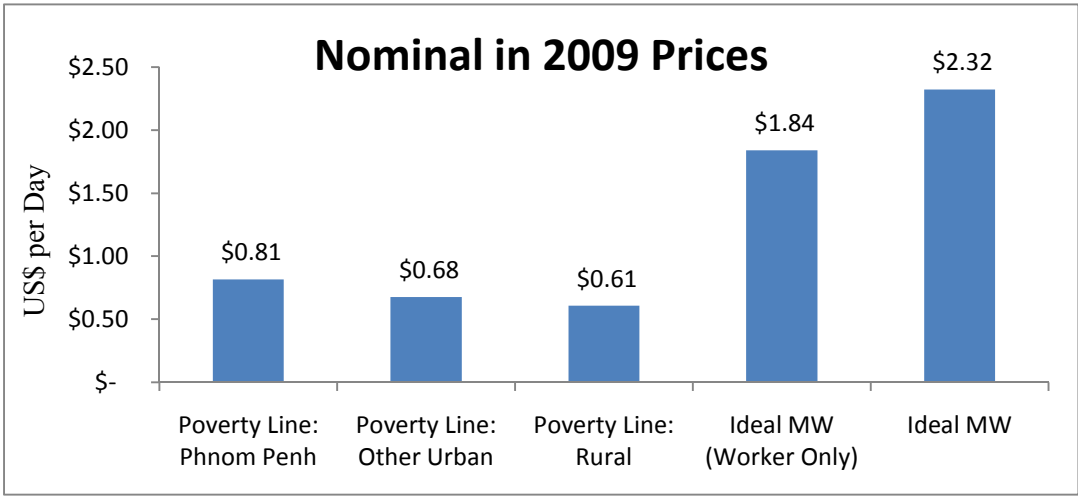
15 Comparison of Ideal Minimum Wage with Key Indicators

To make sure that the minimum wage does not widen inequalities in the economy and society, and that it is relevant and appropriate for the country context, it is generally compared to a number of indicators such as the poverty line, general level of wages, and productivity. In this section, we compare the ideal minimum wage under scenario 1 (\$71.99 per month) to these various benchmarks.

15.1 Poverty line

The minimum wage is a policy instrument to alleviate poverty. Therefore, the rate should be set above the poverty line to ensure that the policy’s aim is met. According to the Ministry of Planning (Figure 23), the poverty line¹⁷ is 3,258 riels per person daily (or \$0.81) in Phnom Penh; 2,705 (or \$0.68) in other urban areas, and 2,429 riels (\$0.61) in rural areas, in 2009 prices. The ideal minimum wage under scenario 1 of \$71.99 per month or \$2.32 per day is over the poverty threshold, and thus, satisfies the poverty aims.

Figure 23: Poverty Line vs. Ideal Minimum Wage (Nominal US\$ per Day)



Source: MOP, NIS, CIDS

The ideal minimum wage consists of not only the basic needs of workers but also of their dependants. To make a more accurate comparison, we break down these costs. In the wage floor of \$71.99 per month, \$56.99 is to cover the basic needs of worker, which is roughly \$1.84 per day. Thus, the ideal minimum wage passes the poverty line threshold. However, we must be cautious with interpreting these results. **While the ideal minimum wage would enable workers to earn well above the poverty line, it does not mean that worker are not poor.**

¹⁷ Poverty line is adjusted to 2009 prices by CIDS using Consumer Price Index (CPI) figures from the National Institute of Statistics (NIS)

The average person in Phnom Penh can afford to spend \$3.01 per day on basic needs, of which \$1.15 is for food¹⁸. In contrast, garment workers can afford to spend only \$1.84 per day, of which \$1.06 is on food.

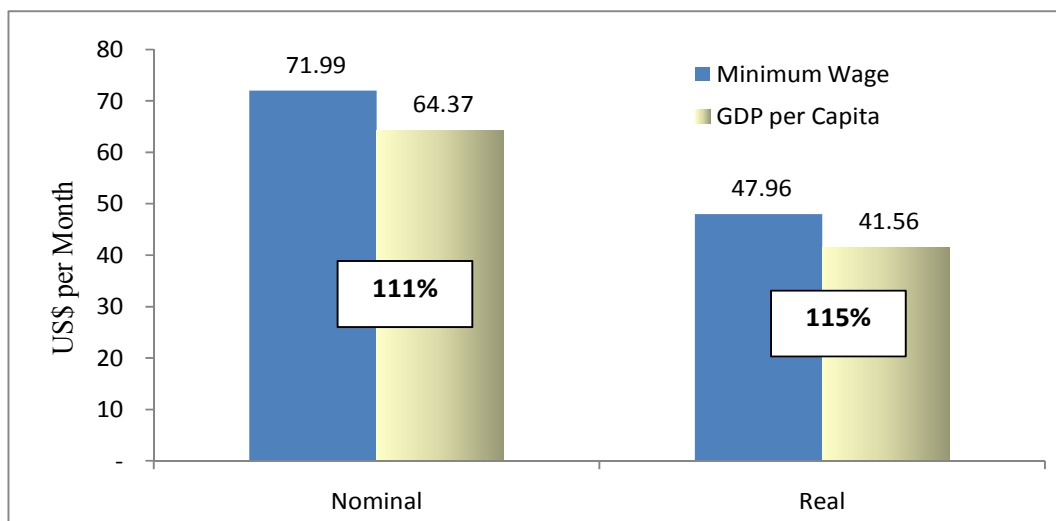
15.2 Average Wage

The minimum wage is usually compared to the average wage to determine if the wage floor is set at a level that could reduce wage inequalities in the economy. When there is a lack of data on average wage, GDP per capita is used as a proxy.

The ratio of the ideal minimum wage to GDP per capita in 2009 is 111% in nominal terms and 115% in real terms (as shown in Figure 24). At the global level, the minimum wage is usually set within 30-60% of GDP per capita, although in developing countries, it varies from less than 30% of GDP per capita to over 100%.¹⁹

In the case of Cambodia, **this indicator is not a relevant or appropriate yardstick for justifying the level of minimum wage** because of two reasons. First, the main objective of setting a minimum wage in the garment industry is not about wage inequality, but to ensure that garment workers can earn enough to finance their basic needs and those of their dependants, and to protect their wages from economic shocks. Second, the average wage level is lower than the minimum basic needs of workers and their dependants; thus, does not achieve the first objective of the minimum wage.

Figure 24: Ideal Minimum Wage vs. GDP per Capita (2009)



Source: NIS, CIDS

¹⁸ NIS Social-Economic Survey 2003-2004, adjusted to 2009 prices by CIDS using NIS Consumer Price Index

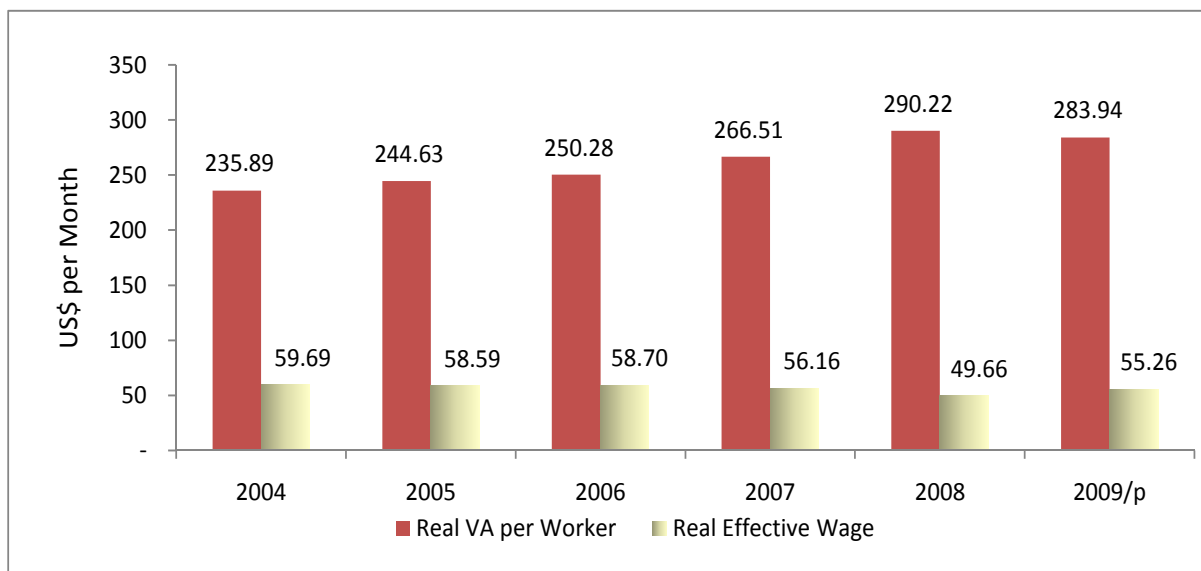
¹⁹ (ILO, 2009)

15.3 Value Added per Worker

The common argument is that workers should not be paid more than the value of their work or else firms would go out of business. Value added per worker is the performance of each worker for the factory, and represents the source of wage. Thus, it is important to look at the percentage of wage in the value added per worker.

Figure 25 compares the real value added per worker in the garment industry with workers' real effective wage. As the graph illustrates, there is a **big and increasing gap between value added per worker and wages**. During the period 2004-2006, real effective wage was 24% of real value added per worker on average; in 2007-2009, this ratio fell to 19%. Comparatively, China's ratio is 34% and Indonesia is 25% in 2008, meaning that workers there get a larger share of their performance than workers in Cambodia.²⁰

Figure 25: Real Value Added vs. Real Effective Wage in Garment Industry (2004-2009)



Source: NIS, MOC, CIDS; p = projected

This unfavorable trend justifies the necessity of the minimum wage as a tool to ensure that workers get a fair share of economic prosperity. The fall in value added per worker in 2009 is due to fall in orders because of the global economic downturn, not as a result of lower labor performance.

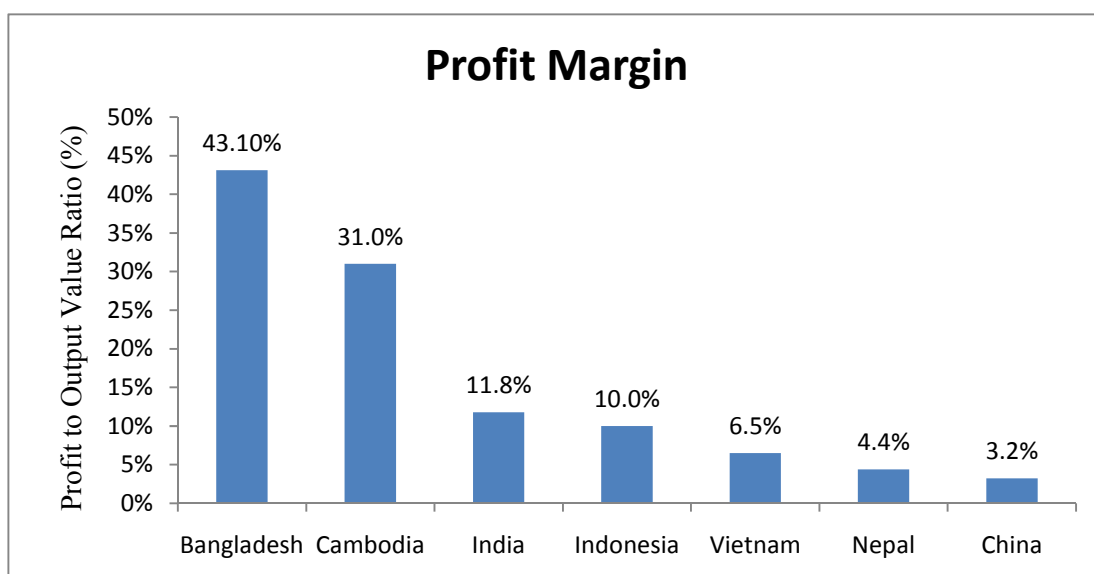
²⁰ CIDS database, compiled from official sources in different countries

15.4 Competitiveness

Opponents to an increase in the wage floor might argue that Cambodia's minimum wage is already relatively higher than in competing countries like Indonesia, Vietnam and Bangladesh (as shown in Figure 1), and thus, an increase in the minimum wage will make Cambodian producers less competitive. To really understand the possible impact on competitiveness, we need to look at the profit margin not the minimum wage level. Even if the minimum wage is relatively higher than in other countries, if the profit margin is relatively larger, producers will still find the country attractive and will not relocate.

Figure 26 reveals the profit margin of the garment industry in major garment exporting countries. As shown, the profit margin in Cambodia (31%) is much higher than in India (11.8%), Indonesia (10%), Vietnam (6.5%), Nepal (4.4%) and China (the lowest at just 3.2%). **This means that an increase in the minimum wage will likely not make Cambodia less competitive to rival countries or less attractive to investors.**

Figure 26: Profit Margin of Garment Industry in Select Countries (%)



Source: CIDS Database and etc (See List of References)

On the contrary, an increase in the **minimum wage could lead to higher productivity**. During FGD, workers stated that a higher minimum wage will make them feel more secured and encourage them to work harder, which will lead to better work performance. Also, workers stated that with a minimum wage, their monthly income will not depend so much on their health situation, meaning that they have a guaranteed income even if they have to take sick leave. By having time to recovery from illness, they feel that they will be able to perform better.

Part IV: Conclusions and Recommendations

This study develops a clear, transparent and practical methodology for determining minimum wage rates in Cambodia for the garment industry and for other sectors. The simple 3-step process is: 1) define the objectives for setting the minimum wage, 2) identify the relevant criteria or factors to include in minimum wage setting based on the objectives, and 3) develop a formula for calculating the appropriate minimum wage. The quality of the final outcome will depend on how well each step of the wage setting process captures the reality of the target group. Thus, it is critical to gather data on the target group and to get their inputs on the necessity of a minimum wage.

For the garment industry, this study finds that:

- Current minimum wage of \$50 per month is not sufficient to cover the minimum basic needs of a worker and dependants. Workers need at least \$71.99 per month, of which \$56.99 is to cover the worker's basic needs and \$15 is to cover the basic needs of their dependants.
- The minimum wage should be reviewed annually, not only to keep wages in line with changes in the economic situation (such as inflation) but also to changes in workers' health situation and family structure.
- Regional minimum wages are not necessary because the total spending on basic needs is similar across region, although differences in spending structure. Thus, we would recommend a single uniform minimum wage level for the garment industry.
- For policy advocacy purposes, we recommend starting with the ideal minimum wage level of \$71.99 per month as it reflects the current situation of workers.
- An increase in the minimum wage will likely not make Cambodia less competitive to rival countries because the profit margin in Cambodia is relatively higher than in countries such as Indonesia, Vietnam, Nepal and China. In contrast, a higher minimum wage could lead to higher productivity because workers feel more secured about their income.
- During FGD, workers request that any minimum wage setting committee include trade unions to represent their interest, and government officials to legally bind the negotiations.

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