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DEPARTMENT OF EMPLOYMENT AND LABOUR

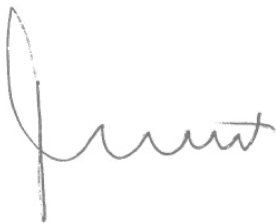
NO. R. 4168

6 December 2023

NATIONAL MINIMUM WAGE ACT NO. 9 OF 2018 INVESTIGATION INTO THE NATIONAL MINIMUM WAGE INVITATION FOR WRITTEN REPRESENTATIONS

I, Adriaan van der Walt, Chairperson of the National Minimum Wage Commission, hereby present the Commission's report and recommendations on the annual review of the national minimum wage and hereby invite written representations in respect of the recommendations in accordance with section 6(2) of the National Minimum Wage Act, No. 9 of 2018.

Such representations should reach the directorate: Employment Standards, Department of Employment and Labour, Private Bag X117, Pretoria, 001 or be sent to nmwreview@labour.gov.za by 8 January 2024.



Prof A. van der Walt

CHAIRPERSON: NATIONAL MINIMUM WAGE COMMISSION

DATE: 30 November 2023

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| Report of the National Minimum Wage Commission on the review and adjustment of the national minimum wage for the year 2024 | November 2023 |
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THE NATIONAL MINIMUM WAGE COMMISSION PROPOSAL FOR 2024 ADJUSTMENT







employment & labour

Department:
Employment and Labour
REPUBLIC OF SOUTH AFRICA

THE NATIONAL MINIMUM WAGE

COMMISSION PROPOSAL FOR
2024 ADJUSTMENT

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LIST OF ACRONYMS

| | |
|----------------|---|
| CPI | Consumer Price Index |
| DPRU | Development Policy Research Unit |
| GDP | Gross Domestic Product |
| ILO | International Labour Organisation |
| NMWA | National Minimum Wage Act |
| The Commission | National Minimum Wage Commission |
| QLFS | Quarterly Labour Force Survey |
| SEDA | Small Enterprise Development Agency |
| SME | Small and Medium Enterprises |
| SMME | Small, Medium and Micro-Sized Enterprises |
| Stats SA | Statistics South Africa |
| UCT | University of Cape Town |





1. THE NATIONAL MINIMUM WAGE COMMISSION RECOMMENDATION FOR ANNUAL ADJUSTMENT OF MINIMUM WAGE

The National Minimum Wage Commission (the Commission) is established in terms of section 8 of the National Minimum Wage Act, No. 9 of 2018 (NMWA). The Commission comprises of representatives from organised labour, business, community and experts in the field of labour market and conditions of employment.

In terms of the NMWA, the Commission is tasked to review the national minimum wage annually and to recommend adjustments; investigate and report annually to the Minister on the impact of the national minimum wage on the economy, collective bargaining and the reduction in income differentials and to make such information available to the public. The primary function of the Commission is to review the national minimum wage and to make recommendations annually for its adjustment. With this in mind, the Commission embarked on a task to deliberate on the proposed annual adjustments of the national minimum wage.

In 2021, the Commission recommended increasing the national minimum wage from R20,76 to R21,69 per hour. The 2022 national minimum wage was revised from R21,69 to R23,19 per hour. In 2023 the minimum wage was revised to R25.42 per hour.

Based on the rigorous analysis of the prevailing economic state of the country, where thorough regard was given to publicly available data on key indicators and the submissions by stakeholders, the results of the deliberations for the review of the national minimum wage were as follows:

Eight of the twelve commissioners propose that the national minimum wage increase by CPI plus 3%.

The following Commissioners were in support of the CPI plus 3% adjustment for 2024:

Neva Makgetla (Independent expert)
 Sarah Mosoetsa (Independent expert)
 Solly Phetoe (Labour)
 Edward Thobejane (Labour)
 Trenton Elsley (Labour)
 Isobel Frye (Community)
 Conti Matlakala (Community)
 Tumelo Zwane (Community)

The following Commissioners were in support of the CPI adjustment for 2024:

Kaizer Moyane (Business)
 Jonathan Goldberg (Business)
 Jahni de Villiers (Business)

One commissioner proposes that the level of the NMW be adjusted within the range of CPI+0.5% and CPI+1%, that is CPI plus 0.75%. The Commissioner in support of this CPI adjustment for 2024 is:

Imraan Valodia (Independent expert)

The enclosed reports by these commissioners contain the motivation and reasoning for their respective recommendations.

The consumer price inflation rate during the deliberations of the minimum wage review was 5.4% (September 2023). However, it is important to note that the inflation rate that will be implemented will be rate six weeks prior to the Minister's approval.

The Commission would like to sincerely thank employers, employees, community stakeholders and advocacy groups for their valuable contributions to the minimum wage review process.



2. MANDATE

The annual review of the national minimum wage is conducted in accordance with section 6 of the NMWA¹ which requires that the Commission "review the national minimum wage annually and make recommendations to the Minister on any adjustment of the national minimum wage". The NMWA mandates that the Commission's review report to the Minister reflects alternative views, including those of the public. The Commission invited written representations in accordance with section 6(2) of the NMWA and received varied comments from trade unions, interested parties, employees' representatives, and employers' representatives.

The NMWA also mandates the Commission to carefully consider South Africa's prevailing economic affairs. This approach allows the Commission to accommodate all manner of changes in the economy and the labour market. These changes include, *inter alia*, relative living standards, the needs of the low-paid, employment levels, and the performance and competitiveness of the national economy.

Specific considerations are given to:

- Inflation, the cost of living and the need to retain the value of the national minimum wage.
- Wage levels and collective bargaining outcomes.
- Gross Domestic Product (GDP).
- Productivity.
- The ability of employers to carry on their businesses successfully.
- The operation of small, medium and micro-enterprises (SMME) and new enterprises; and
- The likely impact on employment or employment creation.

This annual review of minimum wage allows the Commission to evaluate available evidence pertaining to the above indicators and written proposals advanced by various parties.

The rest of the report is structured as follows:

- Outlines the evidence, as required in the NMWA.
- Annexure A represents a summary of research findings by DPRU (Measuring The Impact of the 2023 National Minimum Wage Increase).
- Annexure B represents a summary of public inputs for the minimum wage adjustment.

3. MINIMUM WAGE EARNER PROFILE

The prevailing national minimum wage impacts a notable proportion of wage earners in South Africa. The national minimum wage is currently R25.42 for an ordinary hour of work. According to the second quarter of the Quarterly Labour Force Survey (QLFS) data 2023, approximately 3.8 million workers are covered by the minimum wage.

A summary of workers covered by the minimum wage shows that:

- 51% of the workers are male, and 49% are female.
- 87% of workers work full-time and 13% of workers work part-time.
- 43% of workers are between the ages of 15 and 34.
- 20% of such workers work in community and personal services, and 19% work in trade, 15% in private households and 15% in agriculture.
- 49% of the workers have an incomplete high school education, and 29% have completed a high school education.

¹ The National Minimum Wage No 9 of 2018. Hereinafter referred to as the Act or the National Minimum Wage Act.



4. AIMS OF THE ACT AND FACTORS TO CONSIDER IN THE ANNUAL ADJUSTMENT

4.1. PROMOTING AIMS OF THE ACT

i. Medium-term targets

The NMWA requires the Commission to “set medium-term targets for the national minimum wage within three years of the commencement of this Act” (section 11(d)). It requires the Commission to “promote” these targets in the context of alleviating poverty and reducing wage differentials while taking into account several other considerations (sections 7(a) and (b)), *inter alia* the implications for economic growth, employment, collective bargaining, small business, and inequality. In effect, the medium-term target for the national minimum wage should help evaluate progress toward achieving the main aims of the NMWA over time. However, it does not determine the yearly increase in itself.

After deliberations and consultations, the Commission concedes in their Medium-Term Targets report that, “All wage-earning employees should earn enough to maintain a decent standard of living, defined as sufficient to support themselves and their families at a level that is both socially acceptable and economically viable. The target should ensure that the value of the national minimum wage does not decline relative to the median wage.”

In practice, achieving this target requires that the Commission increase the value of the minimum wage gradually over time in real terms (that is, relative to CPI).

ii. The alleviation of poverty

In accordance with the NMWA (section 7(a)), the Commission considers poverty alleviation in its annual review of the national minimum wage and when making recommendations for adjustments to it.

Government uses official statistics from Statistics South Africa to determine the country’s official poverty line. Statistics South Africa developed three poverty lines to measure different degrees of poverty, namely the food poverty line, the lower bound poverty line and the upper bound poverty line (see Table 1 below).

Table 1: National poverty lines for 2023

| Poverty line | 2023-line value |
|--------------------------|-----------------|
| Food poverty line | R760.00 |
| Lower-bound poverty line | R1 058.00 |
| Upper-bound poverty line | R1 558.00 |

Source: Statistics South Africa. National Poverty Lines P0310.1 2023.

Food poverty line – R760.00 per person per month. This refers to the amount of money an individual will need, to afford the minimum required daily energy intake.

Lower-bound poverty line – R1 058.00 per person per month. This refers to the food poverty line plus the average amount derived from non-food items of households whose total expenditure is equal to the food poverty line or an average-size household,

Upper-bound poverty line – R1 558.00 per person per month. This refers to the food poverty line plus the average amount derived from non-food items of households whose food expenditure is equal to the food poverty line.

iii. The reduction of wage differentials and income inequality

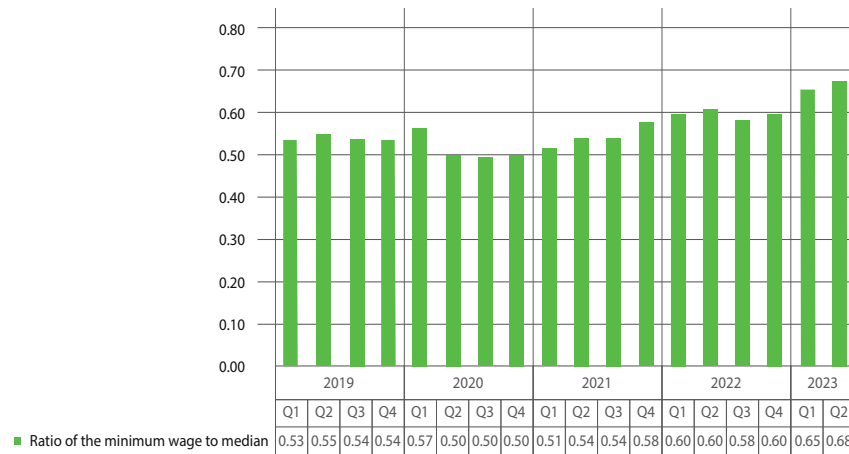
Considerable wage differentials persist in the South African labour market. Setting of medium wage targets to a particular percentage of the median would ensure that the gap between the set minimum wage and the median wage reduces, thereby ensuring that the desired level of the minimum wage is gradually reached and as such assists in reducing inequality and poverty.

The median wage is the wage at which 50% of workers earn above and 50% of workers earn below. Figure 1 indicates the ratio of the minimum wage to the median for the period 2019 to the second quarter of 2023. Data shows that from 2019 to 2021, the minimum wage ranged between an annual average of 52% and 54% of the median wage. From 2022 to the second quarter of 2023, the ratio of the minimum



wage to the median ranged from an average of 60% to 66%. The notable difference in the ratio of the minimum wage to the median in the period 2019-2021 and 2022-2023 may be attributable to the equalisation of domestic and agricultural sectors as they had previously been exempted from paying 100% of the national minimum wage.

Figure 1: Ratio of the minimum wage to the median: 2019 Q1 - 2023 Q2



Source: Statistics South Africa. Quarterly Labour Force Survey P0211 2019 Q1 - 2023 Q2 (Own calculation).

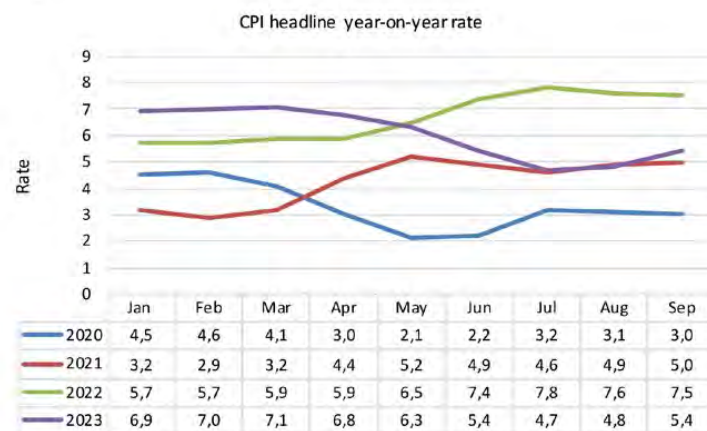
4.2. FACTORS TO CONSIDER IN THE ANNUAL ADJUSTMENT.

iv. Inflation, the cost of living, and the need to retain the value of the minimum wage

Inflation directly impacts the purchasing power of consumers as it reduces the real value of income, leading to a decrease in their ability to buy goods and services. As prices rise, individuals and households face more significant challenges in affording the same level of consumption they once enjoyed. A decline in purchasing power can have wide-ranging consequences, impacting individuals and the overall economy. For this reason the NMWA (section 2(c)) aims to preserve the value of the national minimum wage.

The South African consumer price index (CPI) for September (2023) shows that the rate of inflation eased in the second quarter of 2023, compared to the first quarter of the year (Figure 2). According to recent data by Statistics South Africa, CPI for September 2023 came in at 5.4%. Although this is higher than August (4.8%), September (5.4%) inflation marks the sixth consecutive month of annual inflation, which is lower from a peak of 7.1% in March 2023.

Figure 2: CPI headline inflation year-on-year rate, 2020-2023



Source: Statistics South Africa. Consumer Price Index P0141 September 2023



The differences in spending patterns across expenditure deciles cause differences in the inflation experience of households. Table 2 depicts inflation rates experienced by each of the expenditure deciles for the month of September 2023.

There seems to be year-on-year variation in the inflation experience between households who spend relatively little and those who spend the most. Notably, employees earning a monthly national minimum wage are likely to be at decile 4. Data shows that expenditure decile 4 (5.9%) experienced a relatively higher year-on-year inflation rate, than expenditure decile 10 (5.3%). This variation in inflation rates suggests that inflationary pressures tend to weaken as the level of household expenditure increases. Conversely, inflationary pressures tend to increase as the level of household expenditure decreases.

This difference in the inflation experience between these groups is attributed to the poor and the rich have different baskets of consumption. Whereas the poor tend to spend a significant portion of their income on food, the rich are likely to include luxury items in their consumption.

Table 2: CPI per expenditure decile

| Decile | Expenditure | September 2023 versus September 2022 |
|-----------|---------------------------------|--------------------------------------|
| Decile 1 | up to R 20 140.00 | 8.3 |
| Decile 2 | R 20 141 up to R 33 619.00 | 7.8 |
| Decile 3 | R 33 620 up to R 48 673.00 | 6.8 |
| Decile 4 | R 48 674 up to R 65 213.00 | 5.9 |
| Decile 5 | R 65 214.00 up to R 84 698.00 | 5.8 |
| Decile 6 | R 84 699.00 up to R 109 163.00 | 5.4 |
| Decile 7 | R 109 164.00 up to R 143 174.00 | 5.3 |
| Decile 8 | R 143 175.00 up to R 199 920.00 | 5.2 |
| Decile 9 | R 199 921.00 up to R 312 246.00 | 5.2 |
| Decile 10 | R 312 247.00 and more | 5.3 |

Source: Statistics South Africa. Consumer Price Index P0141 September 2023.

Figure 3 shows different contributors to the annual percentage change in inflation. Increases in transportation costs, underpinned by record-level fuel prices pandemic-related supply chain bottlenecks between 2021 and 2022, were the significant factors causing rising inflation in 2021 and 2022. The fuel prices subsequently eased in the first quarter of 2023, moderating transport's contribution to headline inflation.

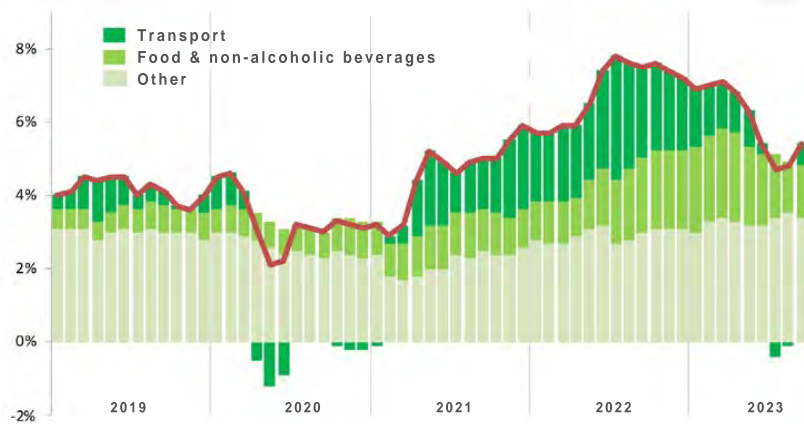
Another persistent driver of inflation is food and non-alcoholic beverages. In September 2023 food and non-alcoholic beverages (1.4%) contributed the most to the annual percentage change in inflation, followed by housing and utilities (1.3%).

Foods that comprise core staples, such as onions (36.7%) and potatoes (32.6%) have become more expensive in 2023 than in the previous year.

The impact of the present inflation rate on households was considered, particularly low-income households.



Figure 3: Contributions of the different groups to the annual percentage change in the CPI headline 2020-2023



Source: Statistics South Africa. Consumer Price Index P0141 September 2023.

Table 3: Contributions of the different groups to the annual percentage change in the CPI headline

| Group | September 2023 |
|----------------------------------|----------------|
| Food and non-alcoholic beverages | 1.4 |
| Housing and utilities | 1.3 |
| Miscellaneous goods and services | 0.9 |
| Transport | 0.6 |
| Alcoholic beverages and tobacco | 0.3 |
| Household contents and services | 0.2 |
| Recreation and culture | 0.2 |
| Restaurants and hotels | 0.1 |
| Clothing and footwear | 0.1 |
| Health | 0.1 |
| Education | 0.1 |
| Residual | 0.1 |
| All Items | 5.4 |

Source: Statistics South Africa. Consumer Price Index P0141 September 2023.

v. Wage levels and collective bargaining outcomes

Wage levels

A minimum wage is the lowest remuneration employers can legally pay their employees. It is particularly interesting how the previous minimum wage change has affected wages given the new wage floor. The Development Policy Research Unit (2023) shows that the resulting change in the national minimum wage is an estimated growth in real hourly wages of between 11% to 21% on average; and these wage effects are more pronounced as one moves closer to the bottom of the distribution. This finding suggests that the minimum wage policy may be moving in the right direction to improve wages for low wage earners.

Collective bargaining outcomes

Wage agreements within some of the significant bargaining councils, many of which span for a period of two years (see Table 4), range from 5.0% to 7.0%. Other bargaining councils used the national minimum wage as the benchmark that the lowest-paid employee would earn.



Table 4: Bargaining council wage increases for the period 2022 to 2023.

| Bargaining council | Agreement period | Increment 2022 |
|---|--|---|
| Metal and Engineering Bargaining Council | 17 October 2022- 30 June 2024. | 5% - 6% |
| Road Freight Bargaining Council | 1 March 2022- 29 March 2024 | 5% March 2022- September 2022. 1% September 2022 – 28 February 2023. 5% March 2023. |
| Motor Ferry BC | 1 January 2022- 31 December 2024. | Employees who are on higher rates than the minimum 680,00 per month from 1 January 2023. |
| Contract Cleaning BC KZN | Wages are effective until a new agreement is signed. | From 1 March 2022 employees should earn R25,58 per hour |
| Canvas BC Gauteng | 8 August 2022 until the Agreement is amended. | 6% |
| Clothing Bargaining Council | 1 September 2022- 30 August 2023 (Year 1) From 1 September 2023 | 7 % wage hike from September 2022. CPI plus 1% |
| National Bargaining Council for The Road Freight and Logistics Industry | 1 March 2024 28 February 2025 | 7% increase |
| South African Road Passenger Bargaining Council (SARPBAC) | 1 April 2023 – 31 March 2024 | 7% increase R56.86-lowest h/wage R129.91-highest h/wage |
| Bargaining Council for The Furniture Manufacturing Industry of the Western Cape | Until March 2025 | 5%-6.5% |
| Bargaining Council for The Furniture Manufacturing Industry, KwaZulu-Natal | From 1 July 2023 | 6.5% Unskilled: as per National Minimum Wage. Semi-skilled R27.07 per hour Skilled R28.60 per hour Supervisor: R30.83 |
| Furniture Bargaining Council | | Lowest paid: as per National Minimum Wage Highest paid: R29.60 per hour |

Source: Department of Employment and Labour. Collective Bargaining 2021-2023

Median settlement levels in collective bargaining are presented in Table 5 below. The data suggest that the median settlements for most industries was about 7%. Mining & Quarrying; Financing, Insurance, Real Estate & Business Services tended to have the highest median at 8%, construction having the lowest (6%).



Table 5: Median wage settlement levels in collective bargaining in South Africa (%), Jan –Sept 2023

| Industry | Median Wage Increase (%) |
|---|--------------------------|
| Agriculture, Hunting, Forestry & Fishing | 7.1 |
| Community, Social & Personal Services | 7 |
| Construction | 6 |
| Electricity, Gas & Water | 7 |
| Financing, Insurance, Real Estate & Business Services | 8 |
| Manufacturing | 7 |
| Mining & Quarrying | 8 |
| Transport, Storage & Communication | 7 |
| Wholesale & Retail Trade, Catering & Accommodation | 7 |
| Award Benchmark | 7 |

Source: Labour Research Service 2023

vi. Gross Domestic Product

Real gross domestic product (GDP) increased by 0.6% in the second quarter of 2023 after an initial 0.4% increase in the first quarter. The successive GDP increases in 2023 followed a 1.1% decrease in the previous quarter of 2022, mainly driven by a decline in finance, real estate and business services industry in the fourth quarter, contributing more than half of a percentage point to negative GDP growth.

Figure 4: Gross domestic product at market prices (% change)



Source: Statistics South Africa. Gross Domestic Product P0441 Quarter 2 2023.

vii. The ability of employers to carry on their businesses successfully

The Commission recognises that businesses in South Africa must continue operating successfully, as businesses act as catalysts for economic growth.

While the NMWA (section 2) aims to advance economic development and social justice through the application of the national minimum wage, the Act considers the effect that annual minimum wage adjustments may have on employers' ability to carry on their businesses successfully. Because of this consideration, the Act makes provision for a process that exempts deserving employers from paying the national minimum wage where successful applications are made.

viii. The operation of small, medium or micro-enterprises and new enterprises

Small, medium and micro enterprises (SMMEs) are key in driving economic growth. Their contributions are essential in creating employment opportunities and stimulating local economies. Although developing countries tend to have a large number of their SMMEs operating in



the informal sector, it is the SMMEs operating in the formal sector that employ more people, even more than large corporations (De Kok, Deijl and Van-Essen, 2013:51).

According to Small Enterprise Development Agency (SEDA) SMME Quarterly, the number of businesses rose by about 279,000 from the third quarter of 2021 to the third quarter of 2022, about an 11.6% increase (Table 6). This brings the total number of SMMEs to approximately 2.68 million

Data from the SMME Quarterly highlights South African SMMEs are concentrated in trade and accommodation; about one in four SMMEs operate in this sector, one of the lowest-paying sectors.

Table 6: SMME Key Indicators

| Indicator | 2021Q3 | 2022Q2 | 2022Q3 | Quarter on quarter change | Year-on-year change |
|---|-----------|-----------|-----------|---------------------------|---------------------|
| Number of SMMEs | 2 404 564 | 2 535 238 | 2 683 602 | 5.9 | 11.6 |
| Number of formal SMMEs | 677 786 | 680 830 | 792 838 | 16.5 | 17.0 |
| Number of informal SMMEs | 1 641 859 | 1 777 887 | 1 791 317 | 0.8 | 9.1 |
| Number of jobs provided | 9 758 313 | 9 310 816 | - | - | - |
| % operating in trade and accommodation | 38.1% | 39.5% | 39.2% | -0.3% | 1.1% |
| % operating in community services | 13.5% | 13.5% | 14.6% | 1.1% | 1.1% |
| % operating in construction | 13.1% | 14.4% | 14.4% | 0.0% | 1.3% |
| % operating in finance and business services | 16.0% | 13.8% | 12.1% | -1.7% | -3.9% |
| % black-owned formal SMMEs | 73.6% | 75.5% | 75.7% | 0.2% | 2.1% |
| % contribution of SMEs to turnover of all enterprises | -55.5% | 38.3% | 36.1% | -2.2% | 91.6% |

Source: Small Enterprise Development Agency. SMME Quarterly Update 3rd Quarter of 2022

ix. Impact on employment or the creation of employment.

Development Policy Research Unit (2023) conducted a quantitative study on behalf of the Department of Employment and Labour to assess the effect of the 2023 national minimum wage increases. Preliminary findings detail the following:

Employment

- In the main specification, which includes all workers in the QLFS sample, no statistically significant changes in aggregate employment are found.
- However, in the panel approach, which includes two different specifications, there's evidence of a decrease in employment probability associated with the NMW increase.
- The size of this negative effect is small but variable, dependent on the sample used in the analysis.

Hours of work

- Overall, no consistent evidence of changes in working hours is observed.
- At the aggregate level, no changes in working hours are found, and the same result is located in the first panel specification.
- In the second panel approach, which compares outcomes for low- vs high-wage workers, a statistically significant decrease in working hours is found, but only when controlling for individual fixed effects.

Non-compliance

- Related to the strong evidence of wage increases, statistically significant effects are found on non-compliance.
- Results show a reduction in both the headcount and depth of non-compliance. The national minimum wage hike reduced non-compliance headcount by about 4% and depth by about 1%.
- The results suggest the hike resulted in fewer workers earning sub-minimum wages, and for those who remained earning below the national minimum wage, the gap became more compressed.



5 OTHER RECOMMENDATIONS FOR THE ANNUAL ADJUSTMENT OF THE NATIONAL MINIMUM WAGE

5.1. RECOMMENDATION BY BUSINESS CONSTITUENCY

This section serves as the view of the three Commissioners from the business constituency and is expressed as part of the minority view of the report submitted by the Commission.

As business commissioners, our role is to represent the interests of businesses in our country and to ensure that any changes to the minimum wage align with both the needs of workers and the sustainability of businesses.

The decision to increase the national minimum wage is a critical one, impacting both employees and employers. In our analysis, the Commissioners have considered the available data, economic trends, the impact on the business community, and the status of employment.

- **Economic Context:**

South Africa has faced significant economic challenges in recent years. Persistently high unemployment rates, exacerbated by the COVID-19 pandemic; high inflation globally and nationally; the crises of electricity loadshedding and water 'shifting'; and high oil prices, are among the headwinds that have put enormous pressure on businesses. Many small and medium-sized enterprises (SMEs) are struggling to stay afloat, while larger corporations are equally facing ongoing financial pressures, including entrenched institutional and/or contractual labour costs. The announced closure by ArcelorMittal SA of its plants in Vereeniging and Newcastle, beyond the direct loss of over 3500 jobs, will certainly impact the adjunct economies of the two towns and their surrounds. Similar business viability is frequently expressed by big corporates, including VW SA, which underscore the dire state of the economy. Smaller employers are in an even worse position as they have very little to no capacity to absorb these constraints, which often lead to significant losses or complete business closure.

The enduring problems with the country's network and logistics industry, unpredictable electricity supply and criminal activities are also cited among the causes of SA's struggling GDP growth. The SA Reserve Bank and IMF have revised down the country's growth for 2023 to 0.7% and 0.9% respectively, while the outlook for 2024 is equally not promising.

- **Inflation risks**

Although global inflation is steadily coming down, it remains relatively high. In South Africa, our inflation risks continue to worry the South African Reserve Bank. High wage increases tend to fuel these inflation concerns, which lead to other worries for the society, including higher borrowing costs.

- **Current National Minimum Wage:**

While well-intentioned, the current national minimum wage poses a challenge for businesses, particularly SMEs. It is important to note that the national minimum wage was introduced in 2019 at a rate of R20 per hour, and it has since been adjusted annually, leading to the current wage of R25,42 per hour. To put it in context, the national minimum wage has been growing every year beyond the Consumer Price Index, and significantly so in sectors like agriculture, at a time when the country and most businesses experienced economic stagnation, decline or extremely muted growth.

- **Comparison with collective bargaining outcomes**

Sectors of the economy that determine wages through collective bargaining seem to have taken account of the realities of our economic performance, with agreed wage increases ranging between 5% and 7%. With CPI averaging 5.4% - 5.8%, it is clear that any legislated wage increase that is significantly above CPI will fall above the upper band of collectively agreed wage increases. The clear message, intended or not, of this outcome is that collective bargaining is failing as a method to achieve improvements on the minimum floor of legislated increases.

- **Impact on Businesses:**

Increasing the national minimum wage without considering the current economic climate may lead to further business closures, job losses, and a decrease in investment. SMEs, in particular, are sensitive to labour cost increases and might be forced to reduce their workforce to remain viable. This would counteract the goal of reducing poverty and inequality. Similarly, where businesses choose to absorb the costs and not impact employment, the additional cost is invariably passed on to consumers through high prices for goods and services, which may also affect the attractiveness and sustainability of such businesses.



- **Consideration for Workers:**

While it is crucial to support businesses, the Commissioners also recognises the importance of a fair and liveable wage for workers. Low wages may perpetuate poverty and income inequality; therefore, an appropriate balance must be struck. However, it is essential to recognise that the burden of improving the living standard of workers and their families should not be relegated to the employers only. The provision of services to citizens, such as public transport, education and health, is government's constitutional responsibility. A worker's wage should not be exploitative, but should reflect the size and contribution of their job to the employer's business.

- **Recommendations:**

Given many businesses' economic challenges and fragile state, the Commissioners recommend a cautious approach to increasing the national minimum wage. We should consider a modest increase that does not overburden businesses and is in line with current inflation rates and economic growth projections. This should not be beyond the Consumer Price Index for the month of January 2024. This would ensure we maintain the level of the minimum wage in line with the Act's mandate and also continue to address poverty and inequality without jeopardising employment opportunities.

Moreover, this increase must be accompanied by mechanisms that support and incentivise businesses to maintain or create jobs, such as increased tax incentives for employment or reduced regulatory burdens.

In conclusion, we believe that while an increase in the national minimum wage is necessary to improve the well-being of our workers, it should be done prudently, considering the prevailing and forecasted economic conditions, as well as the need for businesses to recover and grow. Our collective responsibility is to strike a balance that benefits both workers and employers, ensuring that South Africa's economy can emerge stronger and more equitable.

Thank you for considering our input on this crucial matter.

Sincerely,

Kaizer Moyane

Jonathan Goldberg

Jahni de Villiers

5.2. RECOMMENDATION BY IMRAAN VALODIA (INDEPENDENT EXPERT)

This document is submitted as a minority report, by Professor Imraan Valodia. The document argues that the appropriate level of increase in the national minimum wage for 2024, balancing the cost-of-living increase faced by workers and the challenging economic environment faced by employers is in the range of CPI+0.5% and CPI+1%. The recommendation is for an increase of CPI+0.75%.

According to the International Labour Organization (ILO), setting the level of the national minimum wage and adjusting the level "is perhaps the most challenging part of minimum wage fixing. If set too low, minimum wages will have little effect in protecting workers and their families against unduly low pay or poverty. If set too high, minimum wages will be poorly complied with and/or have adverse employment effects" (see ILO Minimum Wage Policy Guide, https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_508566.pdf.)

- **The ILO recommends:**

A balanced and evidence-based approach is necessary which considers, on the one hand, the needs of workers and their families and, on the other, economic factors. An appropriate balance between these two sets of considerations is essential to ensuring that minimum wages are adapted to the national context, and that both the effective protection of workers and the development of sustainable enterprises is taken into account (emphasis in original).

- **Strategic Considerations:**

South Africa introduced a national minimum wage in January 2019. Following careful research and consultation, the level was set at a realistic level of R20 per hour, appropriately balancing the need to address low wages in the economy, and at a level that did not impose an undue burden on employers. In two sectors of the economy, domestic work and agriculture, where wage levels were extremely low, a three-year adjustment to the level of the national minimum wage was provided for. Each year since 2019, the level of the national minimum wage has increased in real terms but at a realistic level. The evidence to date, except for the latest period, is that the national minimum wage has not negatively impacted employment. However, while this finding provides support for the



national minimum wage as a policy intervention, it should not be interpreted as a license for irresponsible increases in the level of the national minimum wage. On the contrary, the lesson should be that increases in the wage level should be cautiously considered so as not to undermine the work that has been done since 2019. The most recent report of the DPRU, which conducted research on the impacts, highlights that, for the first time in 2023, the Commission has some evidence that employment levels may have been negatively affected.

Notwithstanding this caution, unless there are exceptional conditions, policy should at the very least aim to maintain the real value of the national minimum wage. Where conditions allow it, because the national minimum wage aims to protect the most vulnerable segment of employed workers, policy should endeavour to increase the real value of the national minimum wage. However, this has to be done in a responsibly, that does not place an undue burden on business, takes account of economic conditions, and has due regard for possible unintended consequences.

- **Considerations for 2024 adjustment:**

The following key considerations should inform the level of the increase in the national minimum wage for 2024.

The National Minimum Wage Act requires the Commission to consider the following, when conducting an annual review of the national minimum wage:

1. **Inflation.**

In line with developments in the global economy, inflation continues to be relatively high in South Africa. The headline inflation rate (September 2023) is 5.4%. It is important to note, as is apparent in the National Minimum Wage Commission report, that inflation for the lower income decile, deciles 1, 2 and 3, is significantly higher, respectively, at 8.3%, 7.8% and 6.8%. This is clear in Table 1 below, which is replicated from the NMW Commission report:

Table 1: CPI per expenditure decile

| Decile | Expenditure | September 2023 versus September 2022 |
|-----------|---------------------------------|--------------------------------------|
| Decile 1 | up to R 20 140.00 | 8.3 |
| Decile 2 | R 20 141 up to R 33 619.00 | 7.8 |
| Decile 3 | R 33 620 up to R 48 673.00 | 6.8 |
| Decile 4 | R 48 674 up to R 65 213.00 | 5.9 |
| Decile 5 | R 65 214.00 up to R 84 698.00 | 5.8 |
| Decile 6 | R 84 699.00 up to R 109 163.00 | 5.4 |
| Decile 7 | R 109 164.00 up to R 143 174.00 | 5.3 |
| Decile 8 | R 143 175.00 up to R 199 920.00 | 5.2 |
| Decile 9 | R 199 921.00 up to R 312 246.00 | 5.2 |
| Decile 10 | R 312 247.00 and more | 5.3 |

Source: Statistics South Africa. Consumer Price Index P0141 September 2023.

Several of my fellow Commissioners who support a proposal of CPI+3% use this to support the argument for an increase of CPI+3%. However, this is an incorrect interpretation of what the data tells us. Deciles 1-3 are typically households with no income earners so the national minimum wage has no effect on these households. The national minimum wage primarily impacts households with an income of R60 000 and above (the annualised national minimum wage is approximately R60 000). As is apparent from Table 1 above, the inflation rates for these households is not significantly higher than the average rate of 5.4%. Thus, there is no basis for using these inflation data to argue for an increase in the NMW of CPI+3%.

2. **Wage levels and collective bargaining outcomes.**

As outlined in the majority report, bargaining outcomes are at levels around 5-7%. Thus, the majority proposal of adjusting the national minimum wage at the level of CPI+3% is out of line with collective bargaining trends.

3. **Gross Domestic Product.**

South Africa's GDP growth has been extremely low for several of years. Since the first quarter of 2021, the growth rates are: 0.6%, 1.3%, -1.9%, 1.4%, 1.5%, -0.8%, 1.8%, -1.1%, 0.4% and 0.6% (second quarter 2023). While workers are not to be blamed for this, these



low levels of economic growth are not the environment where firms and other agents can absorb large increases in costs, especially given the difficulties firms are experiencing with loadshedding.

4. The ability of employers to carry on their business successfully.

Assessing employer's ability to conduct their businesses is a complex matter, and the Commission does not have unambiguous data to determine this matter. However, I think it would be fair to say that the South African economy is under severe stress and business conditions are very difficult. Unfortunately, the Commission does not have reliable data on liquidations and insolvencies, but as the confidence data above suggests, businesses are under high levels of stress. An increase in the level of the national minimum wage that is inappropriately high, will negatively affect business.

5. The likely effect of the increase on employment and the creation of employment.

While it is encouraging that, except for 2023, the existing research does not show any evidence that the national minimum wage has led to negative employment effects, this is not a basis for not being cautious and prudent about setting the level of the national minimum wage. Excessively high adjustments to the level of the national minimum wage, could well have negative consequences. Moreover, it is probable that the introduction of the NMW has not had any negative consequences because the process and adjustments were managed carefully and prudently manner, except for 2023.

6. Conclusion

As the ILO suggests, setting the level of the national minimum wage requires carefully balancing the need to protect workers against poverty and low wages, with taking into account the state of the economy and the ability of employers to develop sustainable enterprises. The South African economy is fragile and growth rates are low. On the other hand, wage levels at the bottom of the wage distribution are low and protecting the real value of the workers' earnings is important. Furthermore, policy should seek to increase the level of the national minimum wage, but this should be done in a considered and careful manner. Thus, appropriately balancing all of these considerations, an increase within the range of CPI+0.5% and CPI+1% is appropriate. I recommend that the Minister consider an increase of CPI+0.75%.





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ANNEXURE A: MEASURING THE IMPACT OF THE 2023 NATIONAL MINIMUM WAGE INCREASE

This report is focused on the labour market impact of the National Minimum Wage (NMW) increase that became effective on the 1st of March 2023. The updated minimum wage was set at R25.42/hour – a nominal increase of 9.6% from the previous year – and applies to all employees in South Africa. To measure the effects of this change we use individual-level data from Statistics South Africa's Quarterly Labour Force Survey (QLFS) covering the period 2022Q2-2023Q2, which includes four quarters prior to the wage change but only one quarter of data following it, as well as higher-quality wage data not available in the public domain. We emphasise that this analysis focuses only on the immediate effects of the adjustment.

We measure changes in wages, employment, and working hours that can reasonably be attributed to the new, higher wage floor. In addition, we test for effects on non-compliance. As in any attempt to isolate causal estimates our results rely on an appropriately designed estimation approach and the quality of the underlying data. To isolate the effect of the policy we adopt two main empirical strategies: (i) The first uses the full QLFS dataset over the period under review and exploits wage variation across districts to examine aggregate changes in our outcomes of interest; (ii) The second approach uses a smaller subsample of the QLFS for which we can follow the same individuals over time and uses this feature to estimate the effects of the minimum wage increase in two different ways. Relying on a combination of approaches gives us more confidence in the results we report and allows for additional specificity when interpreting our various findings.

Our results suggest an apparent, positive wage effect, which remains consistent across all specifications and samples. The wage effects appear stronger at the bottom of the distribution. Consistent with these wage increases, we observe significant reductions in both the level and depth of non-compliance. Regarding employment effects, our results are mixed. Using the full cross-sectional dataset and estimating effects at the district level, we find no aggregate effects on employment following the wage increase. By contrast, we find a negative but small impact on employment when using the smaller panel sample and measuring employment effects for the same individuals over time. The findings for working hours are similarly equivocal, suggesting either no significant change or a marginal reduction in weekly working hours. We provide a summary of the main findings below.

• Main Findings:

Wage Effects

- Substantial wage effects are observed across all empirical specifications, and in our event study design which, considers wave-specific changes.
- We find average real hourly wage increases attributable to the NMW hike that varies between 11%-21%, depending on the specific sample of workers.
- Additional estimates reveal small, but positive, differential wage increases for employees in the Domestic Work and Agriculture sectors relative to other covered workers.

Employment Effects

- In our main specification, which includes all workers in the QLFS sample, we find no statistically significant changes in aggregate employment.
- However, in our panel approach, which includes two different specifications, we find a decrease in employment probability associated with the NMW increase.
- The size of this negative effect is small but variable, dependent on the sample used in the analysis.

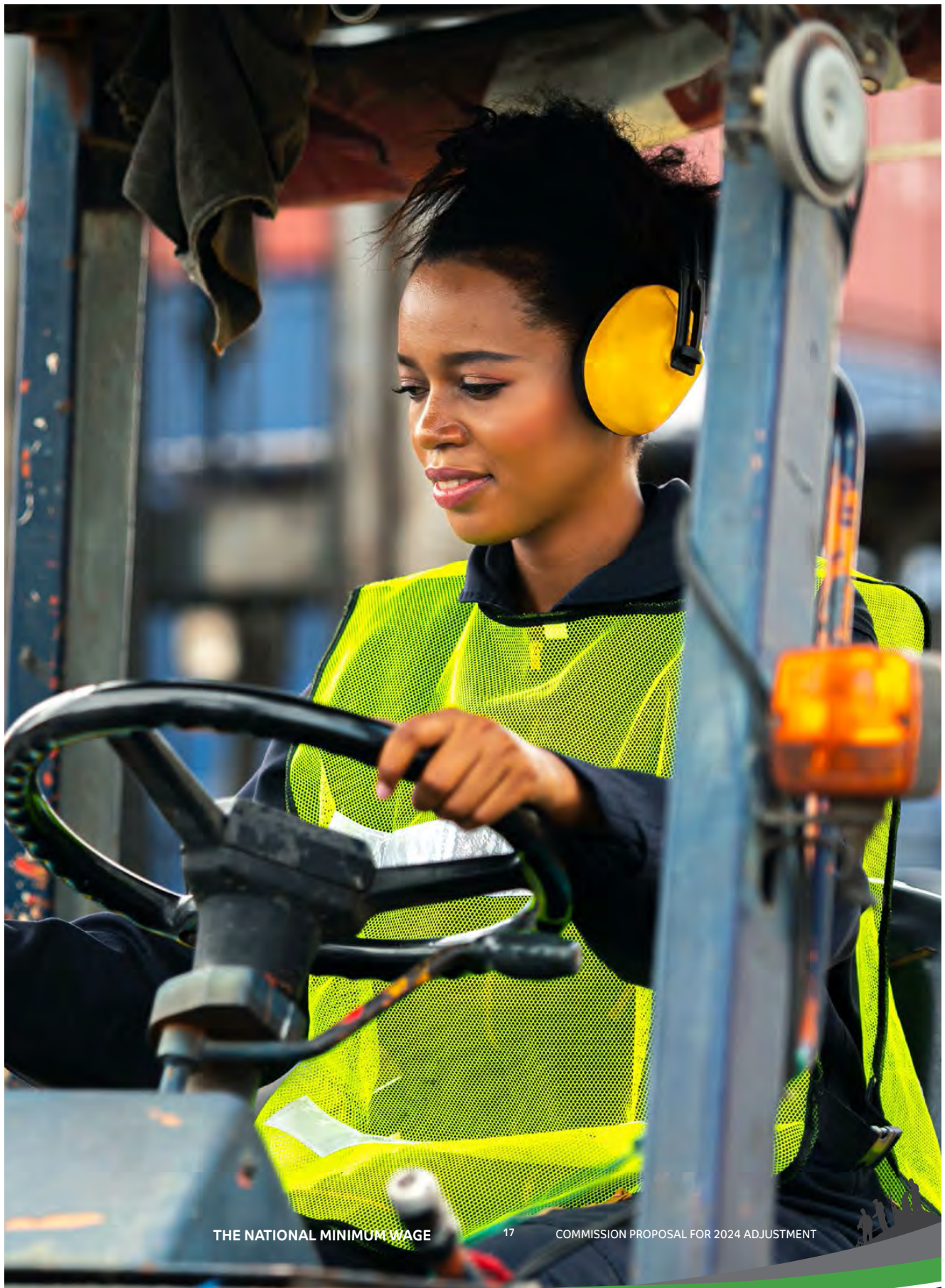
Working Hours Effects

- Overall, we do not observe consistent evidence of changes in working hours.
- At the aggregate level we find no changes in working hours, and the same result is found in our first panel specification.
- In our second panel approach, which compares outcomes for low- vs high-wage workers, we find statistically significant decrease in working hours, but only when controlling for individual fixed effects.

Non-Compliance Effects

- Related to the strong evidence of wage increases, we find statistically significant effects on non-compliance.
- Our results show a reduction in both the headcount and depth of non-compliance. The NMW hike reduced non-compliance headcount by about 4% and depth by about 1%.
- The results suggest the hike resulted in fewer workers earning sub-minimum wages, and for those who remained earning below the NMW, the gap became more compressed.





ANNEXURE B: SUMMARY OF PUBLIC INPUT

The NMWA requires that the Commission's review report reflect on alternative views, including public interests. For this reason, the chairperson of the Commission published, by way of the Government Gazette (GG), an invitation for written representations on the 01st of August 2023. The public responded through the Department of Employment and Labour email address and the DEAR SOUTH AFRICA website. A total of 2594 inputs were received. The respondents are grouped in the following order:

- Trade unions/Labour organisations
- Interested parties
- Employer representatives

The demographic data indicates that the majority of people who responded were from Gauteng (829), followed closely by Western Cape (787). Northern Cape submitted the lowest number of inputs at only 35 respondents. A glimpse of this information highlights that the participants of the polls are mostly from urban areas. Rural areas such as KwaZulu-Natal, North West and Mpumalanga are grossly underrepresented. This indicates a need to open up the lines of communication and develop better ways to reach disadvantaged workers in gathering public inputs.

The majority (1492) of the respondents did not agree with the adjustment of the national minimum wage in 2024. Those who agreed with the adjustment were 689, while 377 only partially agreed with the adjustment. The data from DEAR SOUTH AFRICA SA did not include a column to classify interested parties, employer representatives, or labour organisations.

Of respondents, 1 226 were concerned about the affordability of the possible adjustment of the national minimum wage for employers. The cost of living was the second most cited reason for the concern on the adjustment of the national minimum wage at 587, with above inflation increases at 234 respondents.

Qualitative findings:

- **Affordability**

The qualitative findings of the report reveal that many employees also employ people in the home to help with caregiving and domestic matters. The concern arises that if the person working needs to hire a nanny or if an elderly person requires a helper in the house, they will not be able to hire at the set minimum wage as it is higher or equal to their salaries. This could result in job losses for the people who could have benefited from the small amounts they could have negotiated with their employers. Another recurring theme is that any wage is better than nothing. There is a concern that the national minimum wage takes away the employers' and employees' liberty to negotiate their wages. Instead, it increases the chances of unemployment.

- **State of the economy**

A large number of respondents are concerned about the state of the economy. There is a perception the government has placed the responsibility of poverty eradication on the shoulders of businesses, despite seeing the deteriorating conditions of the country's economy due to load shedding, high inflation, rising fuel prices and high unemployment. There is a concern that many businesses will eventually close down. There is also an outcry that, for many employers, the national minimum wage is unaffordable and puts businesses at risk of closing down.

- **Corruption**

The country's high corruption rate is another contributing factor to the resistance against the national minimum wage. Several respondents felt that the government has failed its people and mismanaged funds that should have helped develop the country, and no accountability is observed. The focus is not on fixing their wrong but rather on enslaving employers.

Labour organisations

The Congress of South African Trade Unions (COSATU) proposes an increase of CPI by 3% in 2024. Two unions, Solidarity and the National Union of Metalworkers of South Africa (NUMSA), recommend that the NMWA be abolished. Loadshedding, high unemployment rate, fuel prices, post COVID-19 impact and a social security dependent society are the reasons for these view points.



Employer organisations

The Agricultural Business Chamber of South Africa urges the Commission to consider a multi-year outlook with medium-term projections and yearly. We therefore propose that the mean CPI for the preceding calendar year be used as the measure and consider that employers in primary agriculture offer their employees a variety of benefits, including the provision of housing, water, and electricity necessities.

AGRI Letaba, Agri SA, Agri Western Cape, Agri Limpopo and KwaZulu-Natal Agricultural Union proposed a 3.5 – 4% increase. The current economic climate, the conditions of agriculture (i.e. being price takers), Load shedding, ongoing fuel hikes, collapsing infrastructure, dilapidated railway system, ailing municipal service delivery and increasing taxation, risk of mechanisation, inflation and rising interest rates are some of the reasons given for the proposed percentage.

The Confederation of Employers in South Africa proposes that the national minimum wage be abolished as it fuels the influx of illegal immigrants and raises the rate of unemployment amongst South Africans. Consolidated Employers Organisation and HORTGRO recommend an average annual CPI. Proactive Employers Association of SA is concerned that Small and medium enterprises, may struggle to absorb the higher wage bills. This could lead to potential job losses. Retail Association proposes that adequate consideration should be given to how increases to the national minimum wage stifle job creation.

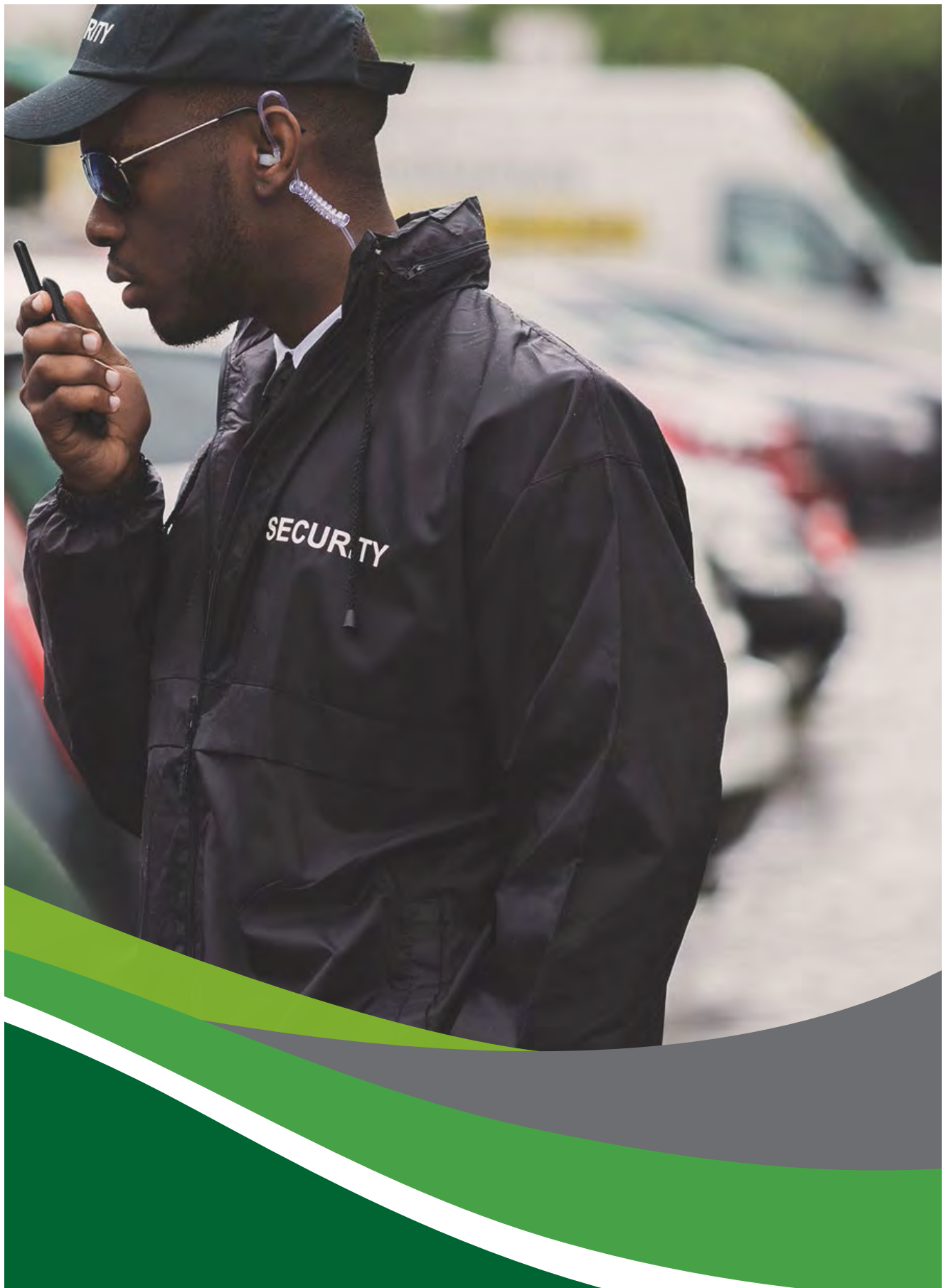
South Africa Wine Industry (SAWI), Springfield Farm and VINPRO feel that the agricultural sector has not fully recovered from the effects of COVID-19. It was impacted even greatly due to the ban of the sale alcohol and wine. The decline in the consumption of nuts, the Ukraine war and inefficient port operations continue to affect the industry negatively.

Interested parties

The Emalahleni Community Up n Rising for EmploymentEmployment states that any increase to this minimum might stifle employment opportunities, and something must be done to stimulate and encourage more employment in the country. Socio-Economic Rights Institute of South Africa calls for a living wage instead of a minimum wage and cites the inflation rate and CPI from June to July 2023.









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