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Labour policy and rights for decent work and a living wage

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Most people living below the international extreme poverty line of USD 2.15 per day have a job but do not earn sufficient income to support themselves and their families. To deliver a long-term and systemic response to poverty, the distribution of income across the value chain must improve – not least by upholding workers’ right to a fair wage in low- and middle-income countries. This chapter discusses how labour market and wage-setting institutions are key levers to improve working conditions, tackle working poverty, enhance productivity, foster sustainable growth and end violations of workers’ fundamental rights to freedom of association, which are increasing at an alarming rate. It examines how development co-operation, by fostering an enabling environment for collective bargaining and directly involving trade unions, can support a just transition to net zero economies and better integrate the fight against poverty and climate change while also enhancing social cohesion and strengthening pillars of democracy.

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Key messages

- Ensuring decent work and access to a living wage constitute systemic responses in the twin fights against poverty and inequality. High prevalence of informal work, low wages, inflation and the recent rise of the platform economy are key contributing factors to working poverty.
- Green transitions could further depress wages as developing countries seek cost competitiveness. Supporting collective bargaining and trade unions helps raise wages and tackle work-related inequalities, and will be key to advance a just transition.
- In developing countries, unions face significant challenges and the level of national compliance with fundamental labour rights has been deteriorating since 2020.
- Experience shows that development co-operation providers can successfully support workers' movements directly, link trade unions with those in partner countries as a form of technical assistance, and promote green and just transition processes by strengthening social dialogue.
- Allocating an increased share of official development assistance to the promotion of labour rights and social dialogue, respectively 0.11% and 0.01% of total allocable aid in 2021, is necessary to realise the power of decent work to tackle poverty and inequalities.

Introduction

Freedom of association and the right to collective bargaining are enshrined in international human rights instruments and the fundamental conventions (No. 87 and 98) of the International Labour Organization (ILO). The right to join or form a union and collectively bargain for better working conditions and higher wages is considered an enabling right underpinning the realisation of other workers' rights, including non-discrimination, the abolition of child labour and the eradication of forced labour.

To sustainably lift people out of poverty and reduce inequality, the responses must be systemic ones that promote real and continual wage growth and decent work for all.

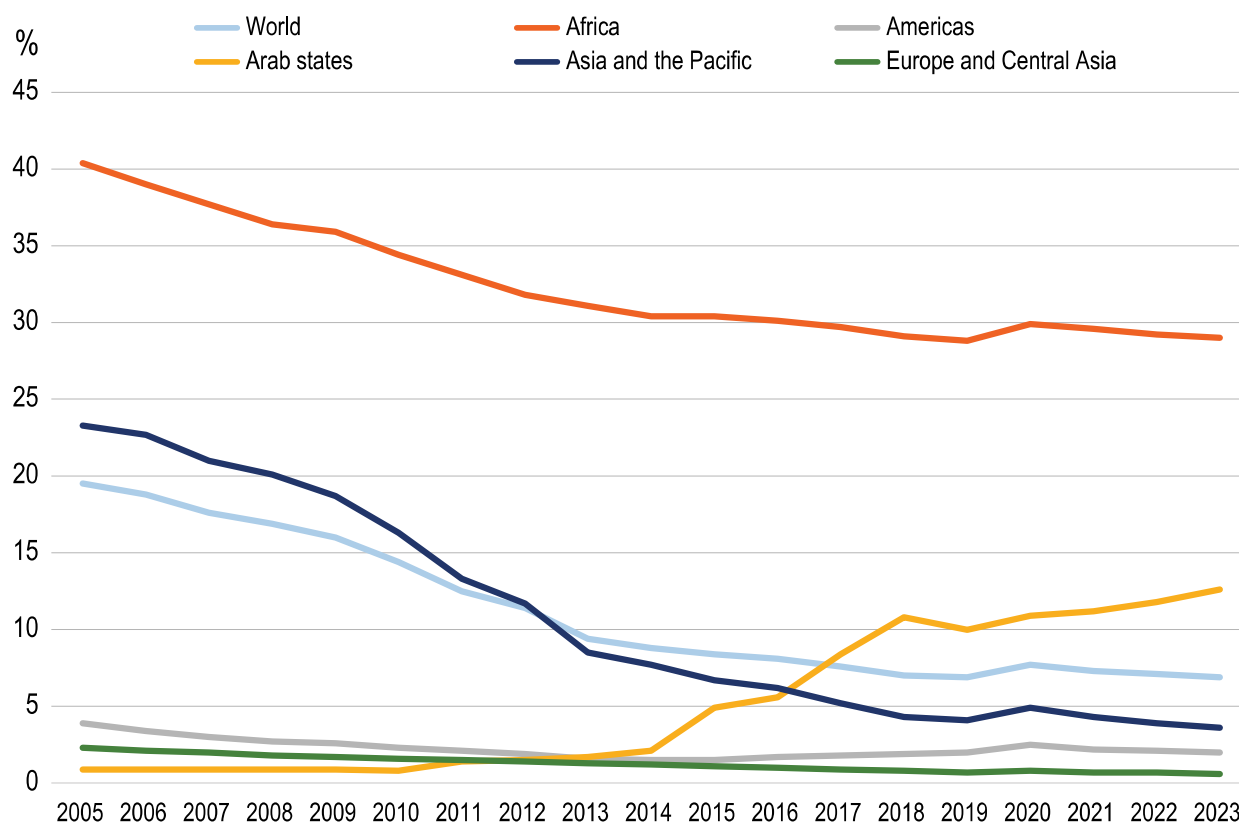
Freedom of association is defined as the right of workers and employers to form and join organisations of their own choosing. It constitutes an integral part of a free and open society and has often played a significant role in countries' democratic transformation. Collective bargaining refers to all forms of negotiations taking place between an employer and one or more workers' organisations to determine working conditions and terms of employment at company or sectoral level. Upholding these rights is therefore essential for achieving Sustainable Development Goal 8 on decent work for all and sustainable growth and critical to the broader fight against poverty and inequality.

Tackling systemic causes of low wages through collective bargaining is critical to reduce poverty and inequality

Most people in the world who are experiencing poverty¹ have a job. Yet their incomes do not offer an adequate standard of living for themselves and their families and do not cover their basic needs, such as food, health and housing. To sustainably lift people out of poverty and reduce inequality, the responses must be systemic ones that promote real and continual wage growth and decent work for all. Just prior to the COVID-19 pandemic, an estimated 44% of workers in low-income countries and 52% in lower middle-

income countries were either moderately or extremely poor (Gammarano, 2019, p. 2^[1]). Though progress has stalled recently, the global working poverty rate has been steadily declining for decades. Yet significant regional disparities persist (Figure 8.1). In 2023, Africa had the highest share of working poor at 29%, and sub-Saharan Africa alone had 145 million people in extreme working poverty, almost a third of its employed population. In 2023, a significant majority of workers, 55-79%, were considered to be extremely poor in 9 African countries (ILO, 2023^[2]; Sodergren et al., 2024^[3]).

Figure 8.1. Regional disparities in working poverty rates persist, 2005-23



Notes: The working poverty rate conveys the percentage of employed persons living in poverty despite their being employed. Extreme poverty is defined using the international poverty line of USD 2.15 per day at purchasing power parities, in line with Sustainable Development Goal target 1.1.

Source: Trade Union Advisory Committee to the OECD based on ILO (2023^[4]), "ILO modelled estimates", *ILOSTAT database*, <https://ilostat.ilo.org/topics/working-poverty>.

Poverty rates are particularly high among workers in the informal economy, which today represents nearly 58% of workers globally and 90% of workers in low-income countries. Informal work represents about 85% of total employment in Africa, 68% in Asia and the Pacific, and 53% in Latin America and the Caribbean (ILO, 2024^[5]). While formalisation of the economy is essential to guarantee decent work, evidence shows that transitions to formal jobs do not automatically lift the poorest workers out of the lowest income quantile due to the absence of effective wage-setting institutions such as minimum wage laws and collective bargaining (OECD, 2024^[6]).

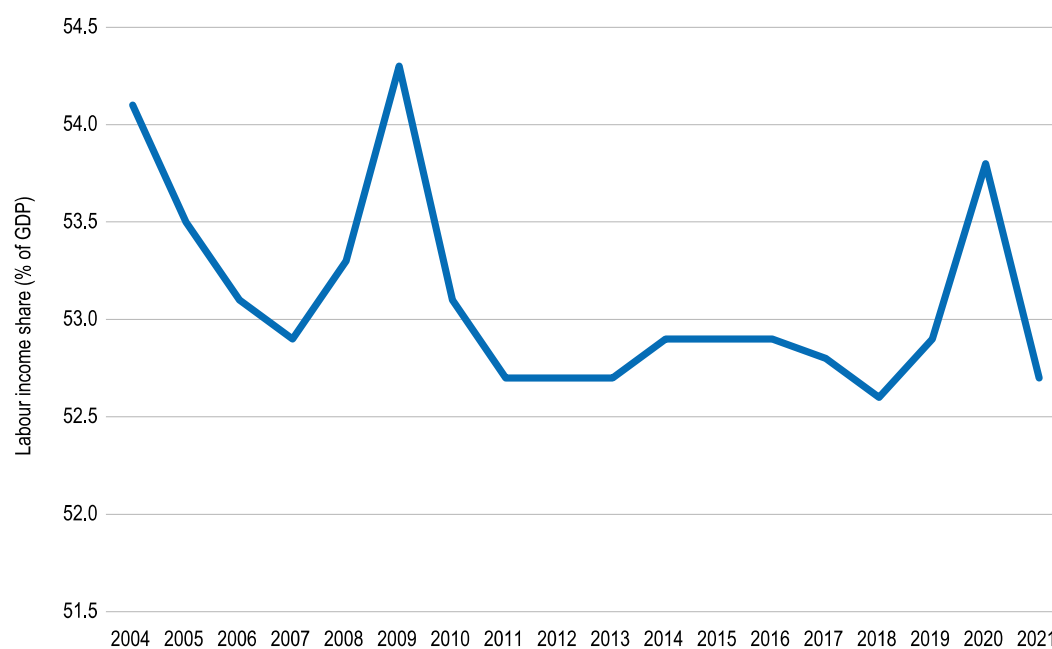
Labour productivity has been increasing more than real wages, and global economic turbulence threatens to keep wages depressed

While statutory minimum wages are essential and have proven to make a significant contribution to decent work, they also are not always sufficient to lift workers out of poverty. The ILO recently adopted guiding principles to calculate a country's "living wage", defined as "the wage level that is necessary to afford a decent standard of living for workers and their families, taking into account the country circumstances" (ILO, 2024^[7]). These principles underline the importance of supporting collective bargaining to ensure that wages respond to workers' needs while taking into account levels of economic activity and productivity. Collective bargaining is also key to contribute to a "fair distribution of the gains generated through value-added along global supply chains" (ILO, 2024^[7]).

The unequal distribution of value added within global supply chains raises major challenges for development policies (Selwyn, 2019^[8]). The OECD-WTO database on trade in value added shows that in 2021 a large majority of total global value created accrued to global lead firms from advanced economies, while only a small portion of total value added was distributed in emerging economies where most workers and labour-intensive productions are located (OECD, 2021, p. 61^[9]; Banga, 2013^[10]).

Labour productivity has increased more than real wages over the last four decades. As a result, across all regions, the share of labour as a percentage of gross domestic product (GDP) has been declining since the 1980s (ILO, 2022^[11]; International Institute for Labour Studies, 2011^[12]). During the 2008-09 financial crisis and the COVID-19 pandemic, the labour share increased markedly. This does not imply that wages and labour income increased, however. Rather, while both capital income and labour income have fallen, profits and other capital incomes have dropped faster than labour income (Figure 8.2).

Figure 8.2. Global decrease in the labour income share, 2004-21



Note: The labour income share is the ratio of total labour income as a percentage of GDP (a measure of total output); both are provided in nominal terms.

Source: Trade Union Advisory Committee to the OECD based on (2023^[13]), statistics on labour income and inequality, November 2023, <https://ilostat.ilo.org/topics/labour-income/#>.

The weakening of unions is an important factor in the decline of the labour income share and the rise in inequalities in low- and middle-income countries (Chancel et al., 2022^[14]; Jaumotte and Buitron, 2015^[15]). Recent trends have made matters worse. Fuelled by inflation, global monthly wages fell in real terms by 0.9% in the first half of 2022, the first negative wage growth this century (ILO, 2022, p. 36^[11]). The current global economic slowdown, sluggish global productivity growth, monetary tightening and fiscal austerity are likely to further aggravate poverty and inequality. Furthermore, the urgent need to embark on a green transition may generate significant additional challenges for countries attempting to catch up in terms of economic and social development (Box 8.1). Among these are a lack of investment capacities; the increased cost of capital; and the potential loss of competitiveness in global trade resulting from carbon pricing, tariffs and other measures.

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Box 8.1. Development co-operation must support a just green transition that protects workers' rights and livelihood

Countries that are highly indebted or with very limited fiscal space are also often the most vulnerable to the effects of climate change. They also tend to have the greatest investment needs, both in terms of adaptation and mitigation, to shift to carbon-neutral economies and clean energy-based productions (Voyvoda, 2023^[16]). It is sometimes argued that emerging economies may leapfrog to green industries and clean energy. But there are serious concerns about their capacity to access the necessary funding as well as about the potential spillover effects of climate actions adopted in advanced economies. For example, the European Union (EU) Carbon Border Adjustment Mechanism, which imposes a carbon tariff on imports into the European Union from certain high-emitting sectors, may induce an annual USD 5.9 billion decline in developing countries' incomes (UNCTAD, 2021^[17]). If no appropriate measures are taken, the carbon tax could put additional pressure on developing economies to seek cost-competitiveness by compressing wages.

To protect wage growth and foster policy coherence, it is critical to support low- and middle-income countries in moving up the supply chain towards the processing of critical raw materials and development of finished products that are needed for the energy transition. Development co-operation should also promote responsible business conduct – including respect for environmental obligations and labour standards in supply chains – and support countries' efforts to pursue a truly “just transition of the workforce” in line with the Paris Agreement. Support for the just transition should also include financial support to allow countries to make the necessary investments in green infrastructures and to create green and quality jobs (ILO, 2015^[18]). Social protection schemes are also key to protect both workers at risk of losing their jobs or livelihoods (especially if these rely on exposed biodiversity or natural resources) and businesses affected by climate change or the transition. While social protection benefits can provide immediate assistance and poverty relief, cash-based social assistance programmes can also positively affect people's behaviours, including in terms of land use and conservation practices. Indonesia's national poverty alleviation programme, for example, is estimated to have reduced tree cover loss in villages by 30% without including a direct objective of fighting deforestation (Györi, Diekmann and Kühne, 2021^[19]).

Strengthening social dialogue is crucial to leave no worker behind and foster a truly just transition. Building on the DAC Recommendation on Enabling Civil Society in Development Co-operation and

Humanitarian Assistance, countries should ensure that workers have a voice in the design and implementation of adaptation and mitigation policies at the company, sectoral and national level, including in the context of just energy transition partnerships. With support from international development agencies, some nationally determined contributions have successfully adopted a just transition approach that integrates efforts to fight climate change, poverty and inequality by relying on social dialogue. Antigua and Barbuda are one example (Government of Antigua and Barbuda, 2021^[20]). By organising dialogue between employers' and workers' groups, these countries have put the creation of green and quality jobs at the centre of the formalisation of the economy and development strategies.

Sources: Voyvoda (2023^[16]), *Transitioning to a Clean Energy Growth Model: Challenges, Opportunities and Solutions*, https://unctad.org/system/files/non-official-document/MYEM2023_31Oct_presentation_-_Voyvoda.pdf; UNCTAD (2021^[17]), *A European Union Carbon Border Adjustment Mechanism: Implications for Developing Countries*, https://unctad.org/system/files/official-document/osginf2021d2_en.pdf; ILO (2015^[18]), *Guidelines for a Just Transition Towards Environmentally Sustainable Economies and Societies for All*, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf; Györi, Diekmann and Kühne (2021^[19]), *The Importance of Social Protection for Climate Change Mitigation in LMICs: Success Stories and Opportunities for the Future*, https://socialprotection.org/sites/default/files/publications_files/GIZ_Social_Protection_CCM_LMICs.pdf; Government of Antigua and Barbuda (2021^[20]), *Antigua and Barbuda Updated Nationally Determined Contribution for the Period 2020-2030*, <https://faolex.fao.org/docs/pdf/ant208476.pdf>.

Collective bargaining correlates with lower poverty and inequality but is under mounting threat

There is abundant and compelling evidence that collective bargaining leads to better labour market outcomes in high-income countries, including in terms of wages, gender equality and the creation of quality jobs (OECD, 2019^[21]). This is also true in low- and middle-income countries despite the additional challenges they face, such as prevailing informality and low trade union density rates. Unions help ensure the protection of workers' fundamental rights (ILO, 2021^[22]) and reduce wage inequality including the gender pay gap (Hayter and Weinberg, 2011^[23]). The example of South African trade unions in the campaign to establish a national minimum wage law shows the important role they can play (Box 8.2).

Box 8.2. South Africa's trade unions campaigned for and won a national minimum wage with support from development co-operation

South African trade unions have played a pivotal role as advocates for decent work and wages for the working poor. With support from a partnership programme co-funded by the Belgian Directorate-General for Development Cooperation and Humanitarian Aid and the Belgian General Confederation of Liberal Trade Unions, three major trade confederations – the Congress of South African Trade Unions (COSATU), the Federation of Unions of South Africa and the National Council of Trade Unions – successfully campaigned for a statutory national minimum wage. The International Labour Organization provided technical support and the National Economic Development and Labor Council, the national South African social dialogue structure, provided a platform. The national minimum wage law went into effect in 2019.

The new wage-setting institution, the National Minimum Wage Commission, has made periodic adjustments (Table 8.1). Its latest report in 2024 proposed an increase of the minimum wage to match inflation, and its review considered the objectives of inequality and poverty alleviation. The report noted that approximately 6 million workers are now covered by the minimum wage, including workers from the informal economy and in the agricultural, domestic, construction, retail, hospitality and cleaning sectors (South Africa Department of Employment and Labour, 2023^[24]). COSATU has welcomed the new proposed adjustment and lauded the progress in the five years since the national minimum wage was enacted (Congress of South African Trade Unions, 2024^[25]).

Table 8.1. Progressive increases in the national minimum wage in South Africa

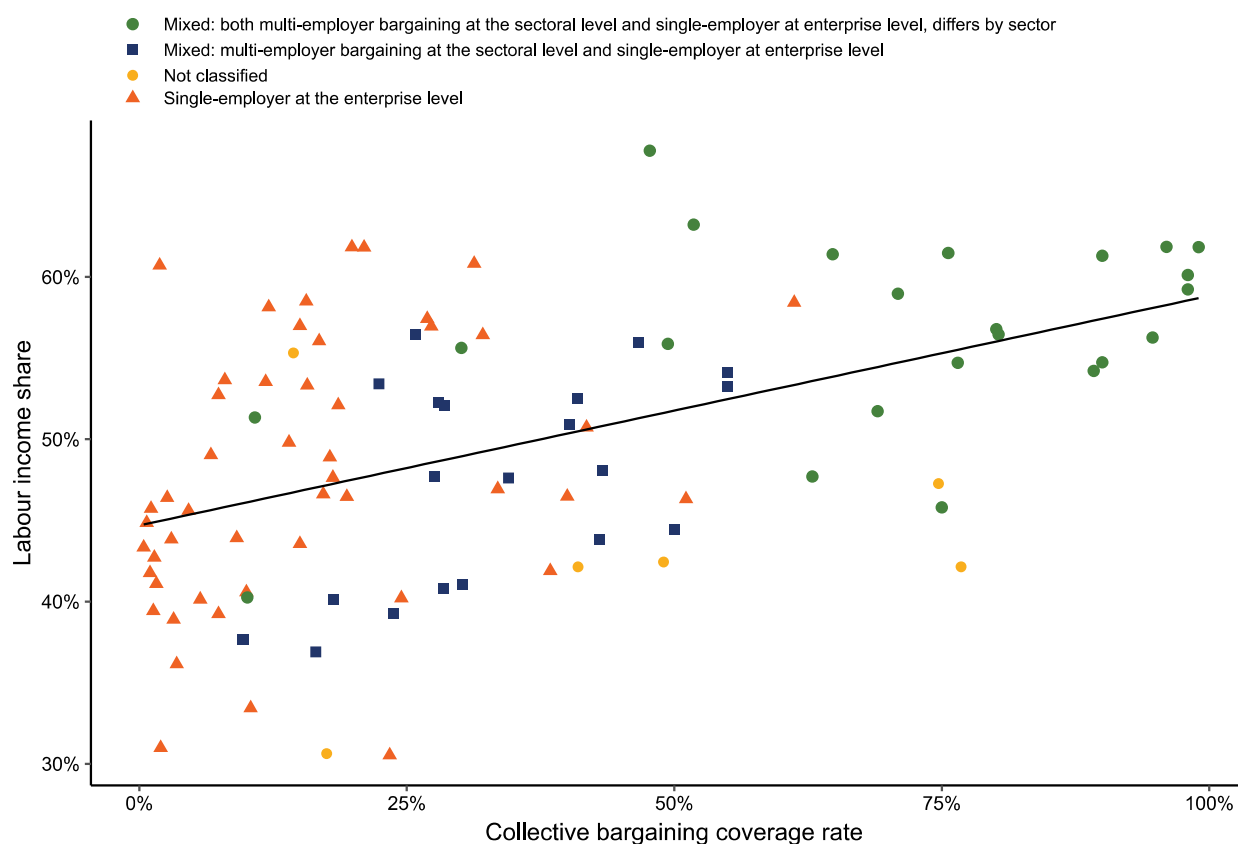
	2019 national minimum wage (in South African rand)	2024	2025
General hourly minimum wage	ZAF 20	ZAF 27.58	ZAF 30
Farm workers	ZAF 18	ZAF 27.58	ZAF 30
Domestic workers	ZAF 15	ZAF 27.58	ZAF 30

The law has had a substantial impact on the working poor. A few years ago, many farm and domestic workers received poverty wages – sometimes as little as ZAF 6 per hour. In 2019, the minimum wage for domestic workers was set at ZAF 15 and for farm workers at ZAF 18. Today, their wages have increased to match the general hourly minimum wage of ZAF 27.58. While significant challenges remain to expand the scope of application of the minimum wage and increase it towards a living wage, the law is considered a major poverty alleviation achievement and is a concrete example of development co-operation supporting trade unions and social dialogue to promote poverty and reduce inequalities.

Sources: South Africa Department of Employment and Labour (2023^[24]), *The National Minimum Wage Commission Proposal for 2024 Adjustment*, https://www.gov.za/sites/default/files/gcis_document/202312/49835rg11649gon4168.pdf; Congress of South African Trade Unions (2024^[25]), "COSATU welcomes the 2024 increase in the national minimum wage from 01 March 2024", <https://mediadon.co.za/2024/03/01/cosatU-welcomes-the-2024-increase-in-the-national-minimum-wage-from-01-march-2024>.

Strengthening collective bargaining also greatly contributed to reducing inequalities in Latin America in the 2000s. In Argentina, Brazil, Mexico and Uruguay, reduced inequality in labour incomes accounted for over 60% of the fall in inequality, most of which occurred among registered wage earners (i.e. formal workers) (Berg, 2015^[26]). Today, data collected by the ILO show a clear positive association between the coverage of collective bargaining and labour income share, including in developing countries² (ILO, 2022^[27]) (see Figure 8.3).

Figure 8.3. Collective bargaining coverage rates and the labour income share

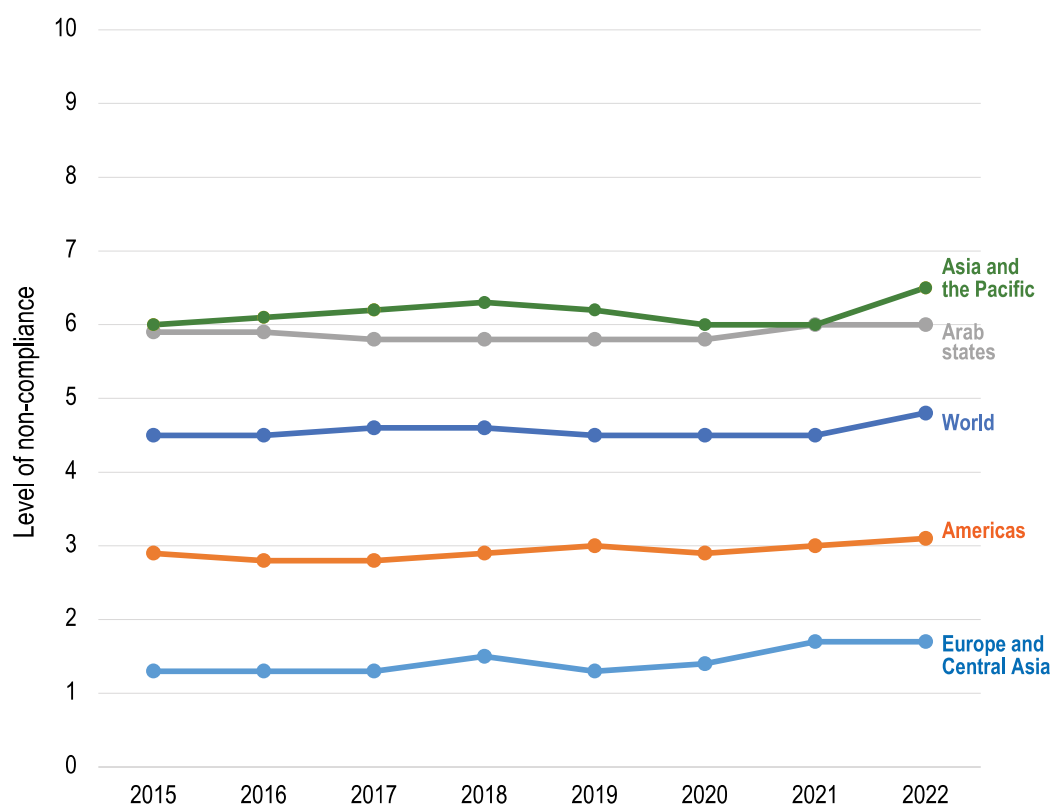


Sources: ILO (2023^[28]), ILOSTAT, <https://ilostat.ilo.org/beyond-the-numbers-exploring-the-relationship-between-collective-bargaining-coverage-and-inequality>.

The rise of platform work together with the persistent prevalence of informal employment are considerable obstacles to unionisation and the fight against poverty in developing countries. The World Bank recently estimated that the number of global online gig workers ranges anywhere between 154 million and 435 million, representing between 4.4% and 12.5% of the global labour force (Datta et al., 2023^[29]). Together, low- and middle-income countries account for 40% of traffic to gig platforms. There are examples of collective representation and negotiations in the platform and informal economy that can be seen as steps towards collective bargaining and formalisation.³ Trade unions have also concluded global framework agreements with multinational companies to secure and enforce workers' rights throughout their global operations (Uni Global Union, 2024^[30]).

The International Trade Union Confederation Global Rights Index shows that freedom of association and collective bargaining, despite their being fundamental human and labour rights, are routinely violated in low- and middle-income countries, preventing unions from defending workers' rights and from strengthening their bargaining position in wage setting (ITUC, 2023^[31]). Violations reported in 2023 increasingly took the form of criminalisation of the right to strike, impeded registrations of trade unions, restriction of the right to join a union and arbitrary detention of workers' representatives. As illustrated in Figure 8.4, data reported by the United Nations in 2022 show that the number of violations of fundamental labour standards, i.e. freedom of association and collective bargaining (SDG indicator 8.8.2), has increased alarmingly in much of the world since 2020⁴ (United Nations Economic and Social Council, 2022^[32]).

Figure 8.4. Non-compliance with core labour standards (SDG indicator 8.8.2) has jumped since 2020



Notes: SDG indicator 8.8.2 relates to the level of national compliance with labour rights (freedom of association and collective bargaining) based on ILO textual sources and national legislation by sex and migrant status. It ranges from 0 to 10, with 0 being the best possible score (indicating higher levels of compliance) and 10 the worst (indicating lower levels of compliance). Data for Africa are not available.

Source: TUAC based on Sodergren et al. (2024^[3]), “Charting progress on the global goals and decent work”, <https://ilostat.ilo.org/charting-progress-on-the-global-goals-and-decent-work>.

Despite this bleak situation, there are positive albeit still limited examples of trade unions being consulted in low- and middle-income countries in the context of national SDG plans or United Nations Economic and Social Council voluntary national reviews, which contributes to enhancing transparency and inclusive social dialogue at the national level (Papadakis and Cauqui, 2023^[33]). These examples could be further promoted and built on to encourage similar action elsewhere.

Development co-operation can help promote decent work and wages by supporting the enabling environment for fundamental worker’s rights

Since the 1990s, labour market regulations and institutions have wrongly been perceived as barriers to development,⁵ leading to advocacy for deregulation of the labour market and collective wage-setting institutions in the context of development assistance programmes.⁶ While this narrative is now less explicit and there are many positive examples of development co-operation supporting the advancement of worker’s rights (Box 8.3), much remains to be done to ensure greater policy coherence and respect for internationally agreed-upon fundamental labour standards, including in operations of international financial institutions and structural adjustment programmes.

Box 8.3. Development co-operation providers supporting and strengthening trade unions' capacities

Through their participation in the Better Work programme, a collaboration between the International Labour Organization (ILO) and the International Finance Corporation that is present in 13 countries, factories have steadily improved compliance with the ILO's core labour standards and national legislation covering compensation, contracts and working time. By fostering social dialogue, the programme has also significantly improved working conditions and enhanced factories' productivity and profitability at the same time. Assessments carried out in Cambodia, Nicaragua and Viet Nam have demonstrated that the non-compliance rates of factories with a union presence and a collective bargaining agreement were, on average, nearly 10% lower than those of other factories (Better Work, 2024^[34]).

The United States Agency for International Development's Global Labor Program, implemented by the Solidarity Centre, builds on the 2023 Presidential Memorandum on Advancing Worker Empowerment, Rights, and High Labor Standards Globally and offers examples of important initiatives with unions in Bangladesh, Cambodia and Lesotho, among others (USAID, 2024^[35]).

Development co-operation providers can also play an important role in linking trade unions in their own countries to those in developing countries. In Ethiopia and Ghana, for example, the Norwegian Confederation of Trade Unions has been working with the Norwegian Agency for Development Cooperation to implement a project aimed at fighting modern slavery and promoting fair wages and workers' rights (Karanja and Lomosi, 2023^[36]). Unions in countries as diverse as Honduras, Nigeria and the Philippines are working with union organisations from high-income countries (including Australia and the United States) to build collective bargaining and improve the lives and livelihoods of the working poor in both formal and informal work.¹

1. See, for example: <https://www.solidaritycenter.org/wp-content/uploads/2022/07/Honduras.Bargaining-for-Decent-Work-and-Beyond.REV-7.2022.pdf>; <https://www.solidaritycenter.org/category/what-we-do/freedom-to-form-unions>; <https://www.solidaritycenter.org/wp-content/uploads/2024/02/Solidarity-Center-Annual-Report-2023.pdf>; and https://www.apheda.org.au/wp-content/uploads/2024/02/compress_116402_UAA-Annual-Report-2023-2024-v5.pdf.

Sources: Better Work (2024^[34]), "Better Work Jordan annual report shows challenges, progress in garment sector", <https://betterwork.org/better-work-jordan-annual-report-shows-challenges-progress-in-garment-sector>; USAID (2024^[35]), "Global Labor Program", web page, <https://www.usaid.gov/democracy/global-labor-program>; Karanja and Lomosi (2023^[36]), *LO's Global Programme on Trade Union Efforts to Combat Modern Slavery in Ethiopia and Ghana*, <https://www.norad.no/globalassets/publikasjoner/publikasjoner-2023/norad-collected-reviews-17-23.pdf>.

These examples show that collective bargaining can make a significant, long-term and systemic contribution to the fights against poverty and inequality while also fostering social cohesion (OECD, 2021^[9]). Together with trade policies⁷ and in line with their overall commitment to support and enable civil society and civic space, development co-operation actors can actively contribute to protecting workers' rights through support for unionisation and the rebalancing of workers' bargaining power. Allocating an increased share of official development assistance to the promotion of labour rights and social dialogue, respectively 0.11% and 0.01% of total allocable aid in 2021 (OECD, 2021^[37]), would help fully realise the power of decent work to tackle poverty and inequalities.

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Notes

¹ The working poverty rate conveys the percentage of employed persons living in poverty despite their being employed. The poverty line is generally defined as the per capita monetary requirements an individual needs to afford the purchase of a basic bundle of goods and services. For the purpose of SDG

target 1.1 (eradicate extreme poverty), an absolute international poverty line of USD 2.15 per day is used to define extreme poverty. See: <https://unstats.un.org/sdgs/metadata/files/Metadata-01-01-01b.pdf>.

² A related interactive chart and data are available at: <https://ilostat.ilo.org/beyond-the-numbers-exploring-the-relationship-between-collective-bargaining-coverage-and-inequality>.

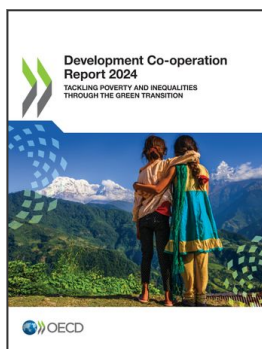
³ In Ghana, for instance, online ride-hailing drivers are organised in about 16 online drivers' associations, the earliest of which was established in 2018 and some of which are affiliated with the Trades Union Congress Ghana; see: https://webapps.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/publication/wcms_875942.pdf; <https://hbr.org/2016/11/why-diverse-teams-are-smarter>. In Senegal, the National Confederation of Senegalese Workers took steps to formalise workers in the private security sector, including through establishing unions in companies that employ guards. The Confederation negotiated a collective agreement with employers in January 2019.

⁴ An interactive chart and background data are available at: <https://ilostat.ilo.org/charting-progress-on-the-global-goals-and-decent-work>.

⁵ See, for instance, <https://doi.org/10.1596/978-0-1952-1102-3>.

⁶ The World Bank's Doing Business indicators, launched in 2002, include a sub-index on labour laws called the Employing Workers Index. This assesses the degree of regulation in labour markets in the areas of working time, minimum wages and dismissal protection based on a benchmark of no regulation and zero cost. Countries with more regulated labour markets ranked lower in the Employing Workers Index.

⁷ For instance, Viet Nam ratified ILO Convention No. 98 on the right to collective bargaining in 2019, fulfilling commitments under the EU-Viet Nam Free Trade Agreement which fully entered into force in 2020.



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