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OF DENMARK

## ► Gender Wage Gap in Georgia

Research on the reasons underlying the significant gender pay gap and development of the Labour Cost Assessment Methodology and policy recommendations to improve compliance with ILO Equal Remuneration Convention, 1951 No. 100.





## ▶ **Gender Wage Gap in Georgia**

Research on the reasons for the significant gender pay gap and development of a methodology of labour cost assessment and policy recommendations to improve compliance with the Equal Remuneration Convention, 1951, No. 100

by Gylfi Arnbjörnsson, M.Sc.

International Expert

This study has been commissioned by the International Labour Organization (ILO) as a support to Georgian Trade Unions Confederation (GTUC), within the Project “Inclusive Labour Markets for Job Creation in Georgia”, funded by the Ministry of Foreign Affairs of Denmark

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*Gender wage gap in Georgia*

*Research on the reasons underlying the significant gender pay gap and development of a methodology of a labour cost assessment and policy recommendations to improve compliance with the ILO Equal Remuneration Convention, 1951 (No. 100)*

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## ► 1. Background

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The case of Georgia was on the short list of 25 countries discussed by the ILO Conference Committee on the Application of Standards in 2018 and the Committee of Experts on the Application of Conventions and Recommendations in 2018–2019 owing to violations in respect of the ILO Equal Remuneration Convention (No. 100). Recommendations included amendments to the Georgian legislation to ensure equal pay for men and women for work of equal value, development of a methodology to ensure equal pay for work of equal value and establishment of enforcement mechanisms in this regard.

The analysis of the reasons for a persistent significant gender pay gap in Georgia and the development of a methodology of labour cost assessment together with policy recommendations for the Georgian Trade Union Confederation (GTUC) was requested within the framework of the technical cooperation project between the ILO and the Government of Denmark, entitled “Inclusive Labour Markets for Job Creation in Georgia”. The project aims to improve the capacity of labour market institutions that encapsulate and/or are mandated to develop legislative and policy frameworks, as well as deliver services, which will lead to a well-functioning labour market that generates decent work opportunities. It also aims to improve respect for labour laws and international labour standards, which will be ensured by regulatory labour market institutions.

For this purpose, the project supports: (a) the analysis of the reasons for a persistent significant gender pay gap in Georgia and (b) the development of methodology of assessing work of equal value and policy/legislative initiatives on changes and amendments in the labour and other relevant legislation to bring it in compliance with the ILO Equal Remuneration Convention (No. 100) by the international and national experts.

The document will be presented to all relevant bodies: the Tripartite Social Partnership Commission, Parliament, the Gender Council of the Parliament, and other relevant stakeholders in order to promote policy and legislative changes.

## ▶ 2. Objectives

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The purpose of the report is to:

- ▶ Analyse the reasons for a persistent significant gender pay gap in Georgia;
- ▶ Conduct research to elaborate a methodology of job evaluation and assessment of work of equal value;
- ▶ Recommend principles to provide practical guidance to employers and employees in implementing pay equity; and
- ▶ Establish policy recommendations.

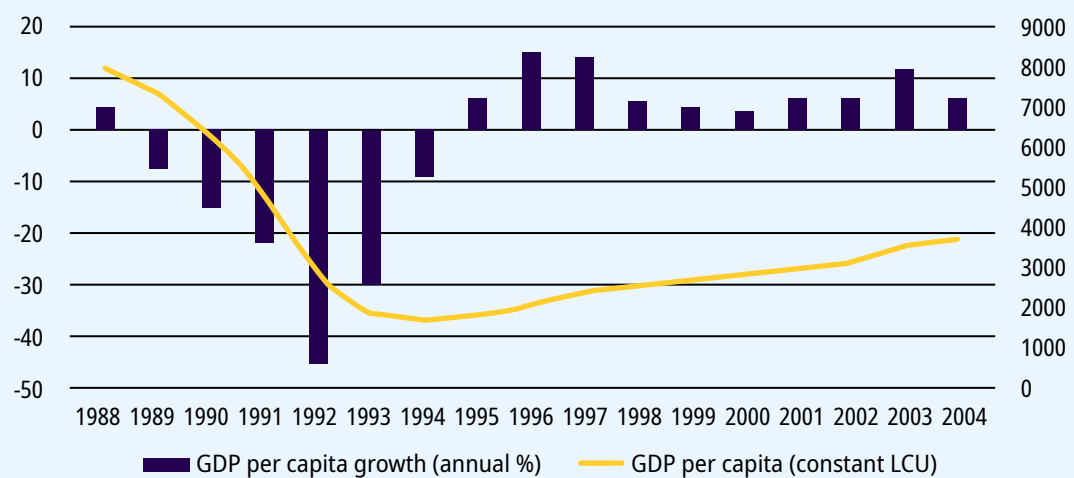


## ► 3. The Georgian economy

### 3.1 The collapse in the early 1990s<sup>1</sup>

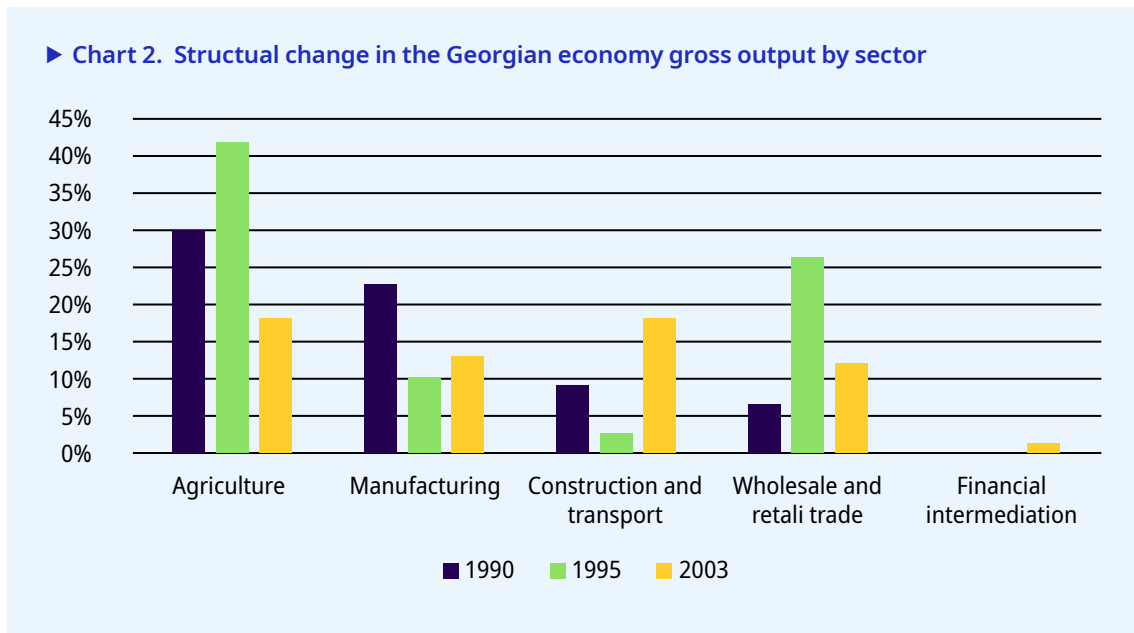
Georgia’s economy has been undergoing a huge reform since its liberation from the Soviet Union in 1991. Like many post-Soviet countries, Georgia experienced a period of sharp economic recession during the early 1990s and lost almost three quarters of its annual GDP. The country suffered from political instability, territorial conflicts and civil wars that prolonged and intensified the economic crisis. The near collapse of the economy is probably best illustrated by the fact that inflation reached 2.000 per cent in 1993, following the drastic decline in industrial output, actual income, consumption, capital investment and almost all other indicators. One of the main driving forces of this collapse was related to energy supply. Before independence, more than 95 per cent of Georgia’s energy was imported from the Soviet Union and after its collapse in 1991 Georgia lost two thirds of its energy supply, and manufacturing firms and plants could therefore not operate at full capacity. Although Georgia has a substantial hydroelectric generation potential, only 14 per cent of it was in use in the early 1990s.

► Chart 1. GDP per capita and Annual Growth, 1989–2004



Source: GEOSTAT

<sup>1</sup> The chapter is largely based on Labadze. 2013.



Obviously, this economic crisis had a very deep impact on the structure of the economy, where manufacturing fell from 23 per cent to 10 per cent of a significantly smaller output. Construction and transport came to a total standstill in the crisis, but agriculture and small trade took over in relative terms.

This devastating economic and political collapse, combined with an unstable security situation, resulted in the migration of almost one million people to other countries. Unemployment fell from 2.7 per cent in 1991 to 14.5 per cent in 1998. At the same time the informal sector<sup>2</sup> grew from 43.6 per cent of GDP in 1990–1993 to 60 per cent in 1994–1995, while similar figures for other East European countries were 32.8 per cent and 40.4 per cent respectively, and for the Organisation for Economic Co-operation and Development (OECD) were 13.7 per cent and 15.7 per cent respectively. Another indicator of this is the fall in the employment participation rate in Georgia from 91 per cent in 1990 to below 60 per cent in 1996.<sup>3</sup>

After 1995, the country enjoyed increased political stability and the economy started to recover at a high annual growth rate of almost 6 per cent annually. The GDP per capita grew even faster, due to the heavy decline in the population in this period.

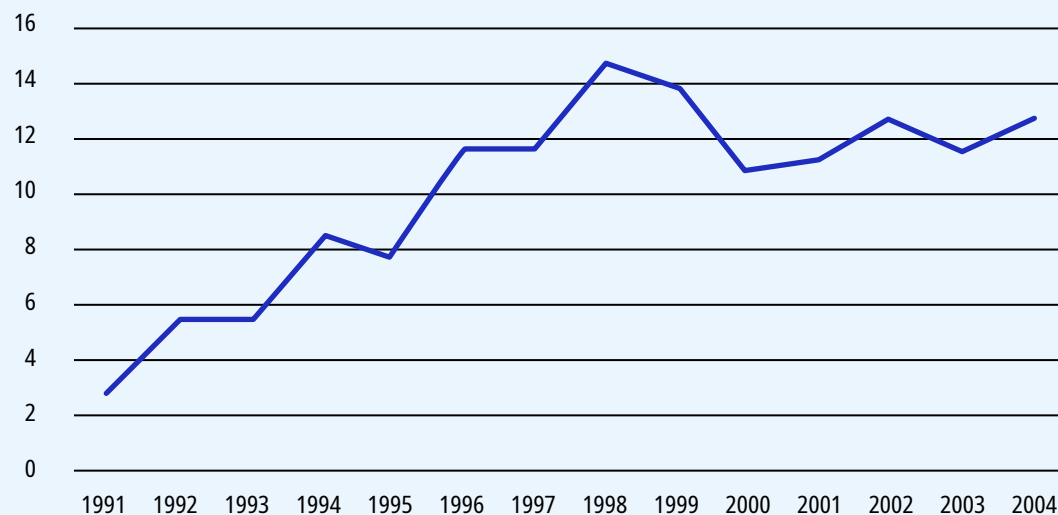
President Shevardnadze (in office from 1995 to 2003) started to reform and liberalize the economy, most prices and trade. He introduced a more stable national currency, the lari (GEL), and downsized the Government. Many formerly state-owned enterprises were privatized.

The security situation during this period significantly improved, compared with the early 1990s, but property rights were still uncertain. Organized crime grew considerably, controlled much of the economic activity and was well represented in the Government structures, all the way up to the presidency. In 2001,

<sup>2</sup> Belev. 2003.

<sup>3</sup> Bemabe. 2005.

▶ Chart 3. Unemployment in Georgia, 1991–2004



Source: World Development Indicators, ILO estimates

USAID depicted the Caucasus Republic “simultaneously as the single most corrupt and reform-prone country in the post-Soviet space”.<sup>4</sup> Under these conditions many of Georgia’s best entrepreneurial talent left the country in search of better business opportunities.

## 3.2 The Rose Revolution

After the elections in 2003, the Saakashvili administration implemented radical reforms in both the business regulatory regime and macroeconomic management, which led to improved economic performance and higher growth rates.

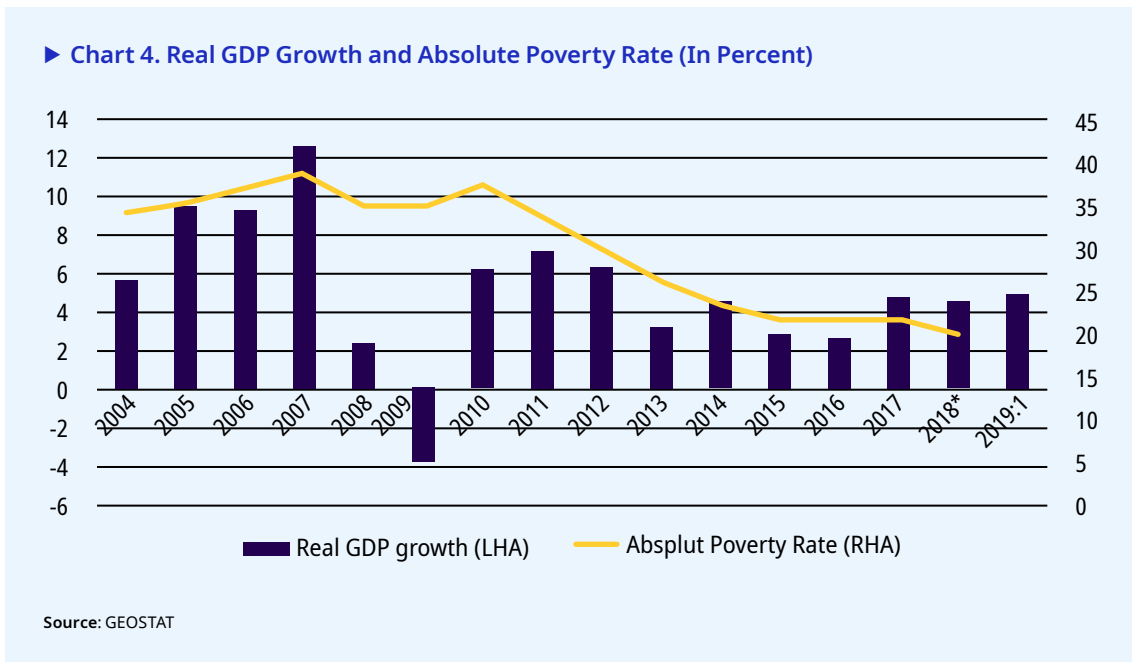
Corruption and criminal violence were drastically reduced, which led Georgia to progress fast in its sovereign credit ratings and key indices, such as “the ease of doing business”<sup>5</sup> and “corruption perceptions”.<sup>6</sup>

These economic reforms and enhanced property rights protection resulted in an improved investment climate where foreign direct investments quadrupled from 2003 to 2007. The Rose Revolution also enjoyed international support and aid from the European Union, the United States, Japan, and international financial institutions, focusing on improved public services and critical infrastructure. The graphs show that GDP growth surged in the first years to 9–12 per cent per year and GDP per capita (in constant US\$, adjusted to the cost of living, PPP) almost doubled between 2004 until 2012. This extraordinary growth peaked just prior to the war with Russia in August 2008, followed by the international financial crisis.

4 Christophe. 2005.

5 World Bank Group. 2019.

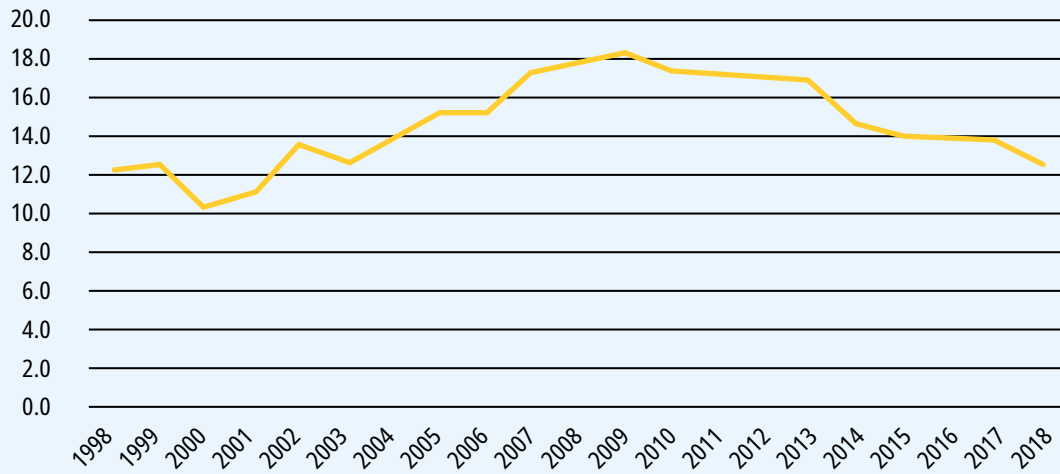
6 Transparency International. 2015.



Although Georgia still delivered a 2.4 per cent growth in 2008, the economy dipped in 2009 by 3.8 per cent but returned to relatively high growth in the period from 2010 to 2012.

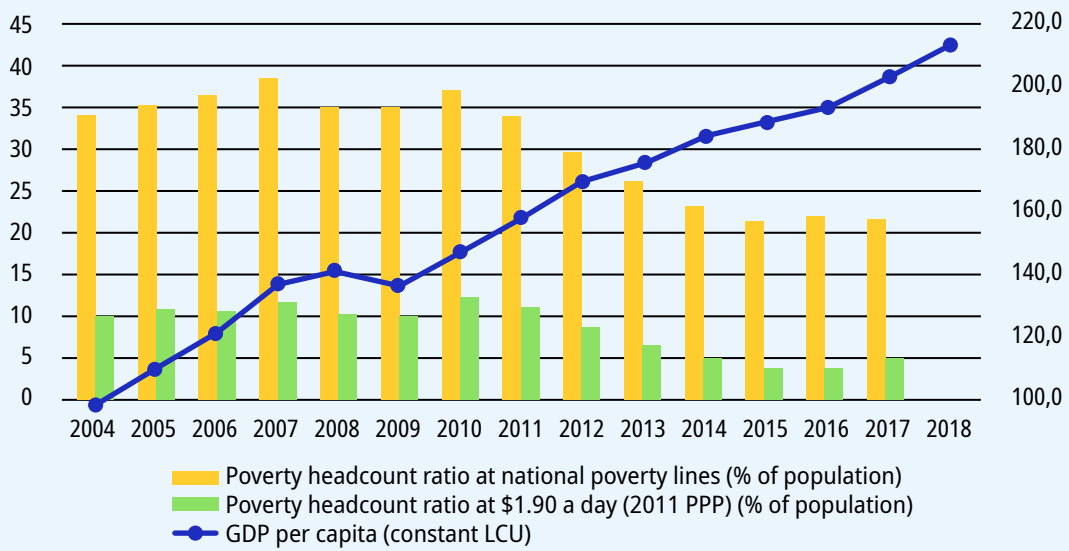
The economic performance of these reforms and transformations of the economy also had adverse effects. These included the downsizing of the public sector, public service reforms and the impact of the privatization programme on employment, with unemployment increasing from 13 per cent in 2003 to more than 18 per cent in 2009. The reforms and deregulation of the labour market, with the introduction of one of the most liberal labour codes in the world and the abolishment of the public labour inspection system, shifted the balance of power between workers and businesses towards an extremely business-friendly regime. In addition, the trade union structure from the Soviet era had lost the confidence, and hence membership of most of its members, and was not in any position to counter this situation. Although the economy was performing positively and the GDP per capita was growing relatively fast in Georgia, the distribution of this income and wealth was very unequal. On the contrary, the transformation did not improve the situation of the country's quarter of the population still living in absolute poverty. Rather, the change in taxation of both personal income and business benefitted those with relatively high incomes. Therefore, it does not come as any surprise that absolute poverty increased in Georgia from 2004–2012 and remained high. Another measure of inequality is the distribution of income in Georgia, measured with the Gini coefficient or index. The Gini index for Georgia is among the highest for countries in transition, which places Georgia as one of the most unequal countries.

► Chart 5. Unemployment in Georgia, 1998–2018



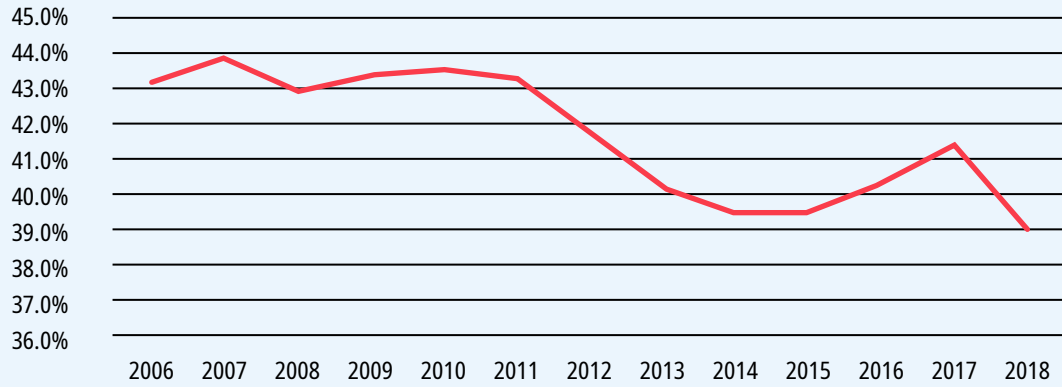
Source: GEOSTAT

► Chart 6. GDP per capita and Poverty headcount in Georgia



Source: GEOSTAT

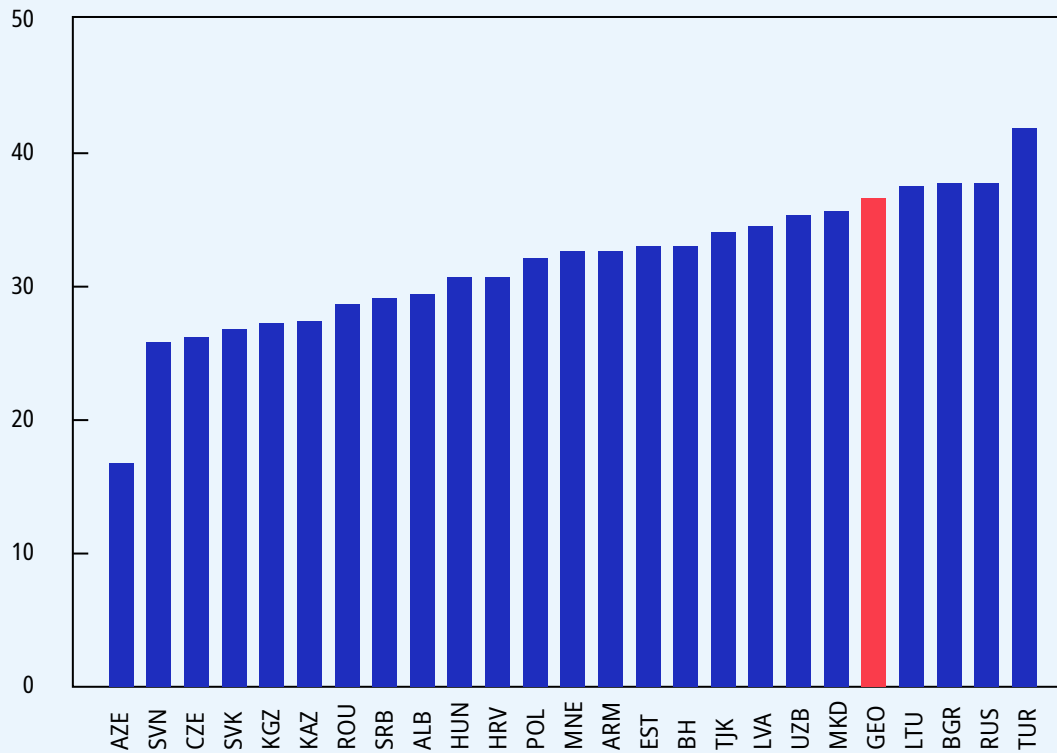
► Chart 7. GINI COEFFICIENTS by total incomes<sup>1</sup>



<sup>1</sup> Includes transfers, cash and non-cash incomes

Source: GEOSTAT

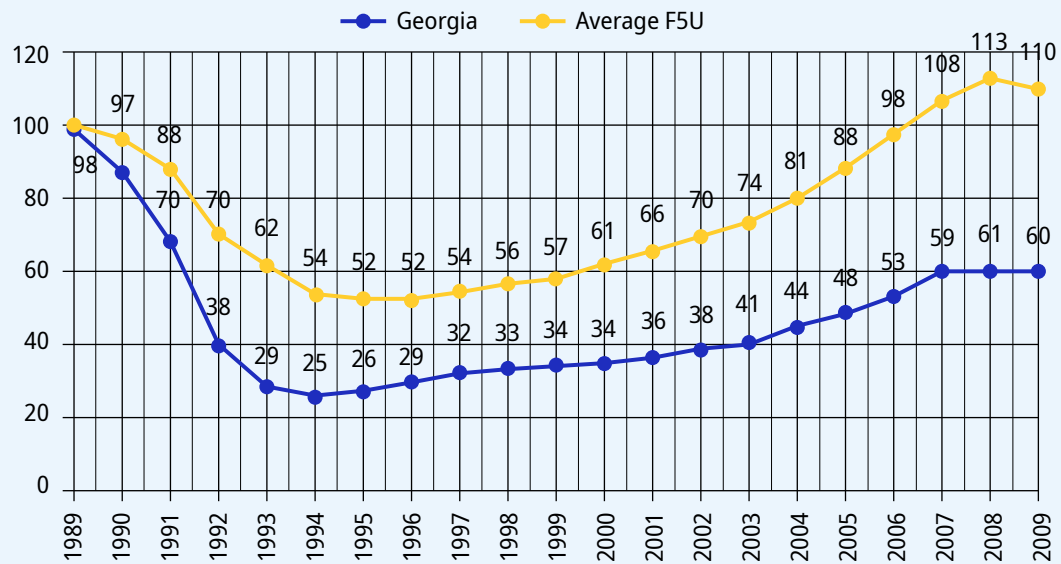
► Chart 8. Gini Index by Country, Latest Data Available (Higher means more income inequality)



Source: World Bank, World Development Indicators.

It is interesting to consider the neo-classical theory of change, which views that competitive markets in combination with competitive forces and private property rights, will lead to welfare maximization. Comparing Georgia to other former Soviet Union countries (Labadze and Tukashvili 2013) and countries in the region,<sup>7</sup> it is clear, that Georgia is lagging well behind in both overall economic growth, in the form of GDP growth, and its distribution among the population. The poverty rate in the region has drastically reduced except in Georgia, where it was constant between 2002–2012. Despite Georgia’s relatively unrestrictive employment protection legislation, the statutory minimum wage, which is one of the lowest in the world, and the lack of insurance in case of unemployment in Georgia,<sup>8</sup> this has not generated higher employment or led to structural changes in the economy. On the contrary, these elements have contributed to increased inequality and high levels of poverty.

► Chart 9. Contraction of GDP, 1989–2009

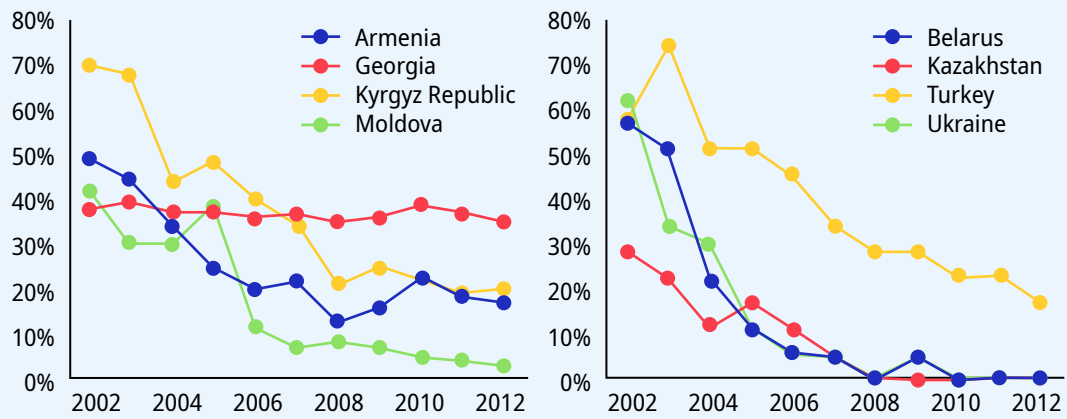


Source: EBRD transition reports

7 Regional Human Development Report. 2016.

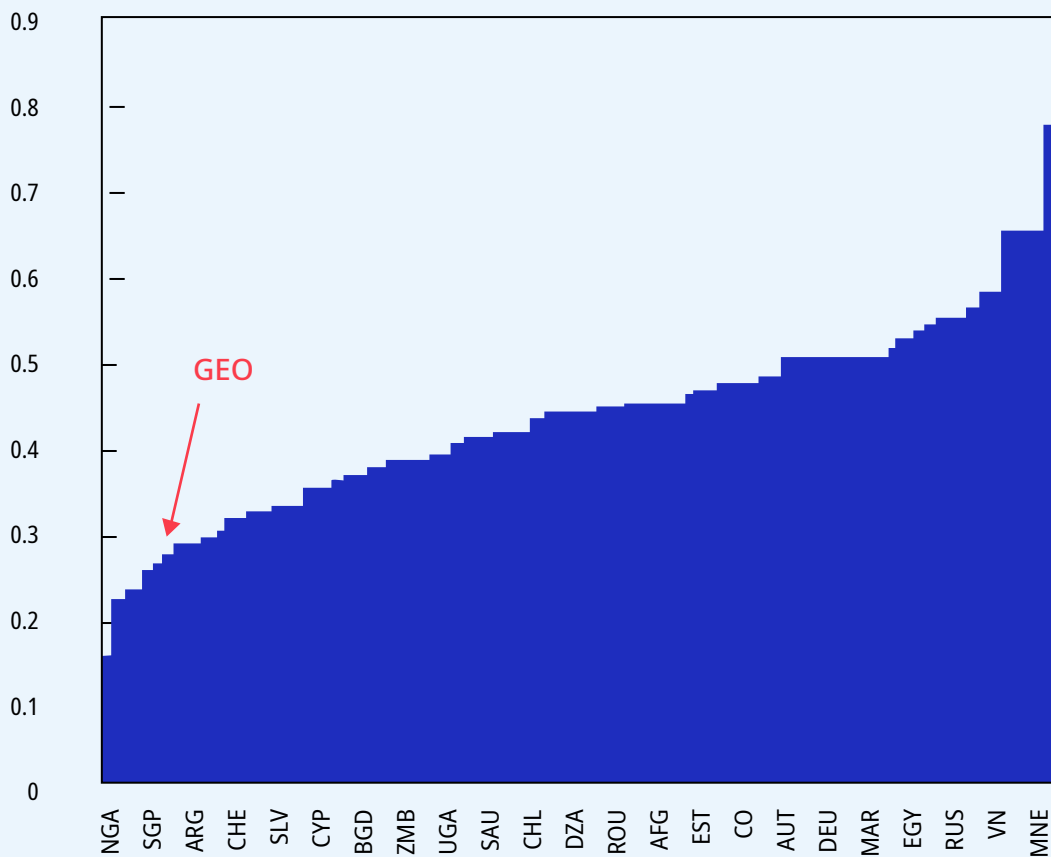
8 IMF. Country Report No. 18/199 Georgia.

► Chart 10. Poverty rates (2002-2012)

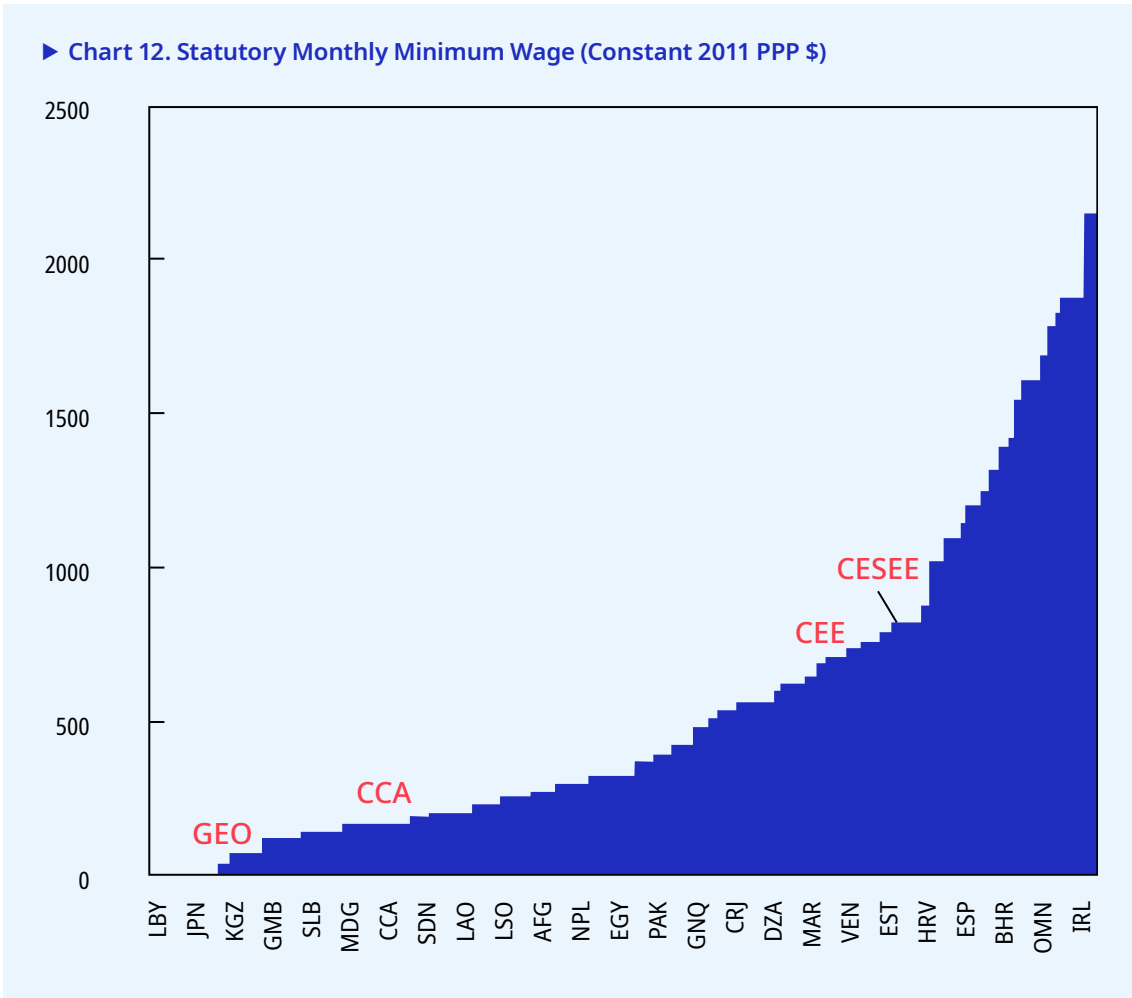


Note: The poverty rates are derived using an international poverty threshold of \$3.10/day-in purchasing-power-parity (PPP) terms, based on the International Comparison Program's 2011 PPP exchange rates  
 Source: World Bank PovcalNet database.

► Chart 11. Employment Protection Legislation Index (Latest date available)







### 3.3 More inclusive growth

After the Parliament elections in 2012 and presidential elections in 2013, the Georgian Dream was elected and formed a new majority Government. Before the elections, the party had promised democratic reforms and strengthening of civil society, which had been weakened during the Rose Revolution. As early as 2013, the new Parliament pushed through legislation to strengthen judicial and media independence, controversial amnesty legislation, the amendment of the labour code to bring it into line with international standards and a radical change in the local self-government law. Many of the changes introduced by the Georgian Dream are a clear step away from the neo-classical reforms that followed the Washington-consensus style economic liberalization that were adopted previously in Georgia, to align more closely with institutional change theory, where institutions are seen as crucial for reducing poverty and inequality and “the quality of the institutional transformation has significant explanatory power for understanding the divergent outcomes of inequality in transition countries”.<sup>9</sup>

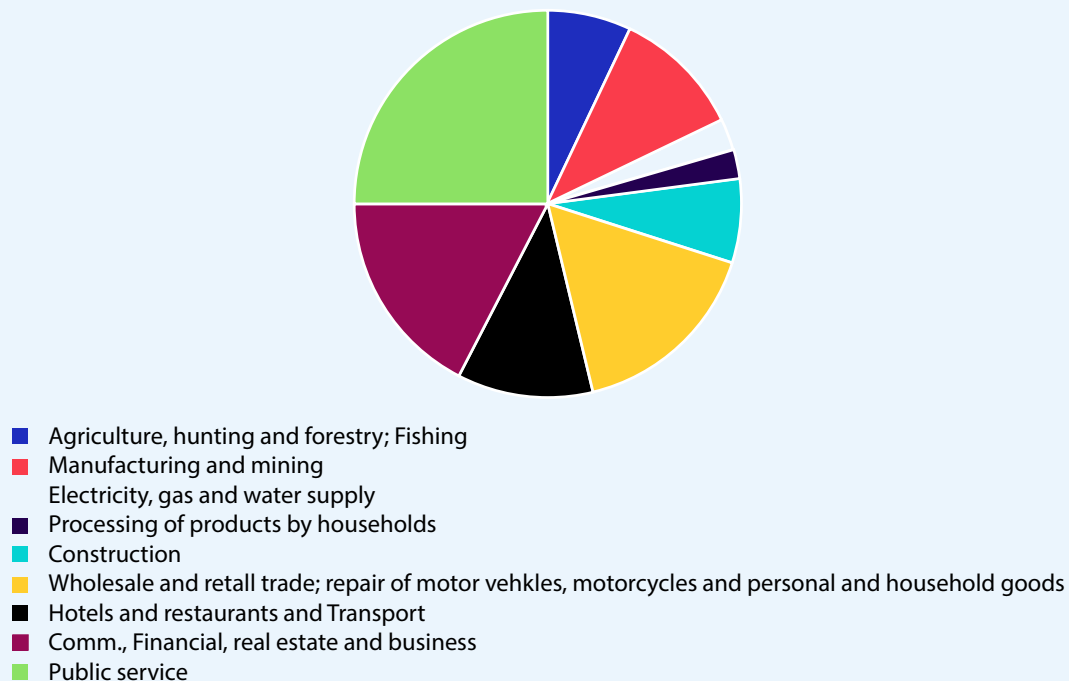
<sup>9</sup> Fouskas 2014 and Acemoglu and Robinson 2008.

The GDP continued to grow in Georgia after the transition of power in 2012, although at a slightly slower rate. Interestingly, this growth seems to be more inclusive than previously. The unemployment rate fell from 17.2 per cent in 2012 to 12.7 per cent in 2018, with more jobs being created and the absolute poverty rate declining as well. The Gini index also fell, representing a development towards a more equal distribution of income, although Georgia is still among the most unequal countries in transition.

### 3.4 The growth structure

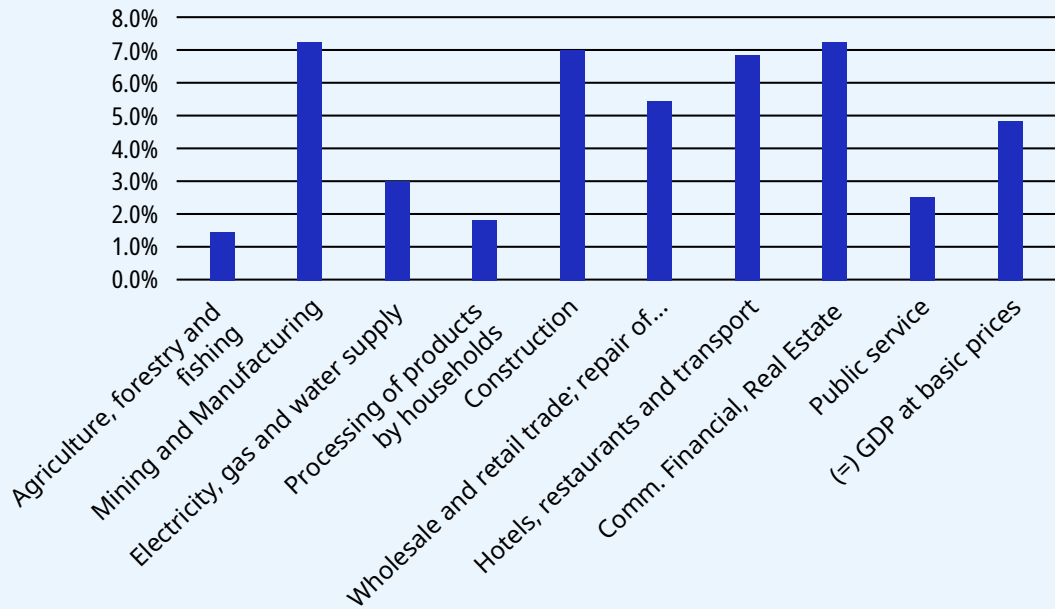
The structure of the Georgian economy in terms of GDP by sector has changed radically since the country's independence. Since 2010, agriculture has been stagnant, while manufacturing, construction, wholesale and retail trade, tourism, transport and commercial, financial, and real estate services have grown considerably over the national average of 4.9 per cent annually. Output has also been increasing in electricity, gas, water supply and public services, but at a much slower pace.

► Chart 13. GDP by Sector, 2018



Source: GEOSTAT

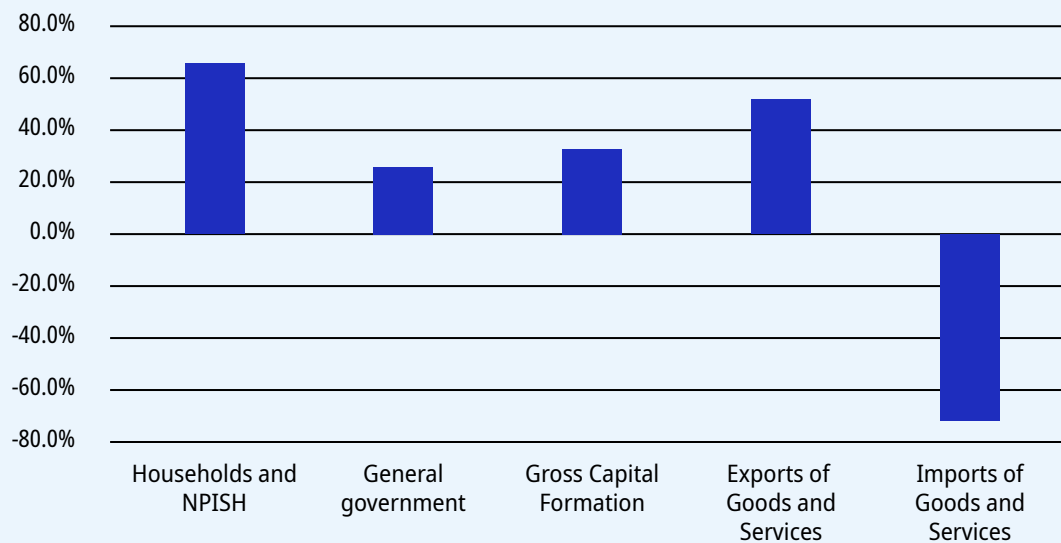
► Chart 14. Average Annual Growth Rates by Sector, 2010–2018



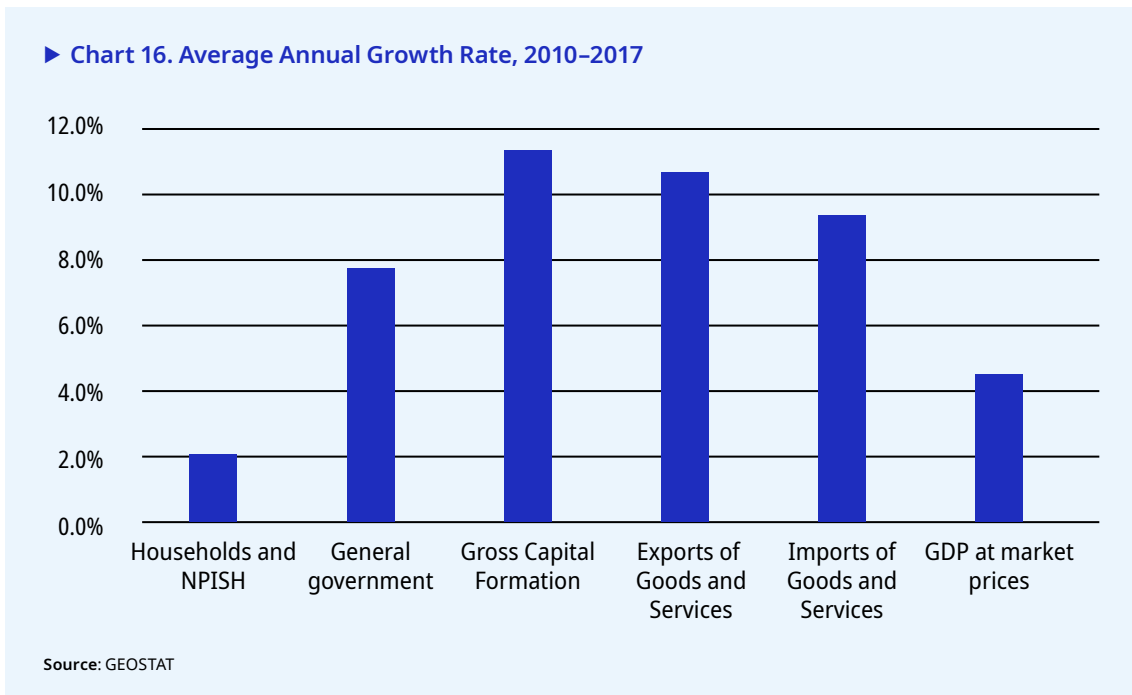
Source: GEOSTAT

Looking at the composition of GDP in terms of the main categories of use, private consumption accounts for 63.7 per cent of GDP, capital formation 31.5 per cent, public spending 25.7 per cent and foreign trade deficit 19.8 per cent of GDP, with exports at 51.3 per cent and imports – 71.1 per cent.

► Chart 15. Composition of GDP, 2018



Source: GEOSTAT



Since 2010, private consumption has grown only slightly compared to the average growth rate of GDP, while capital formation and foreign trade demonstrated extraordinary growth rates between 9–11 per cent annually. Public spending has also increased relatively fast. The current account deficit has been very high, around 12 percent of GDP for the last 15 years, where the trade deficit has been a major contributor, reflecting both high imports and low export growth. Expanding export markets and products could help to boost Georgia’s growth and increase its economic resilience. Thanks to free trade agreements with the European Union, China, and the EFTA (Iceland, Liechtenstein, Norway, and Switzerland), the share of Georgia’s exports to those markets increased from 22 percent to 34 percent from 2013 to 2017. Therefore, compared to many other countries, Georgia’s export markets are relatively diversified, according to the Herfindahl market concentration index. However, Georgia’s export product diversification is relatively low and has not improved over time.<sup>10</sup>

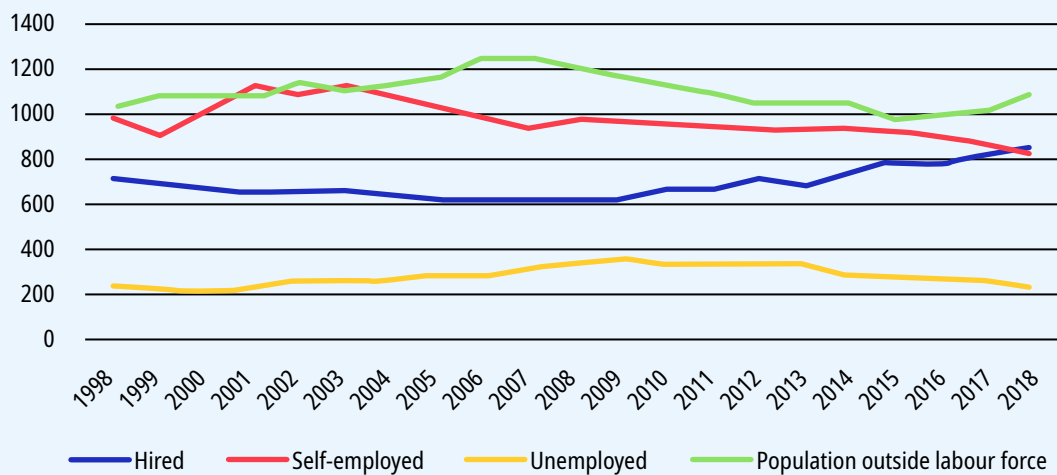
## ▶ 4. The Georgian labour market

### 4.1 Employment

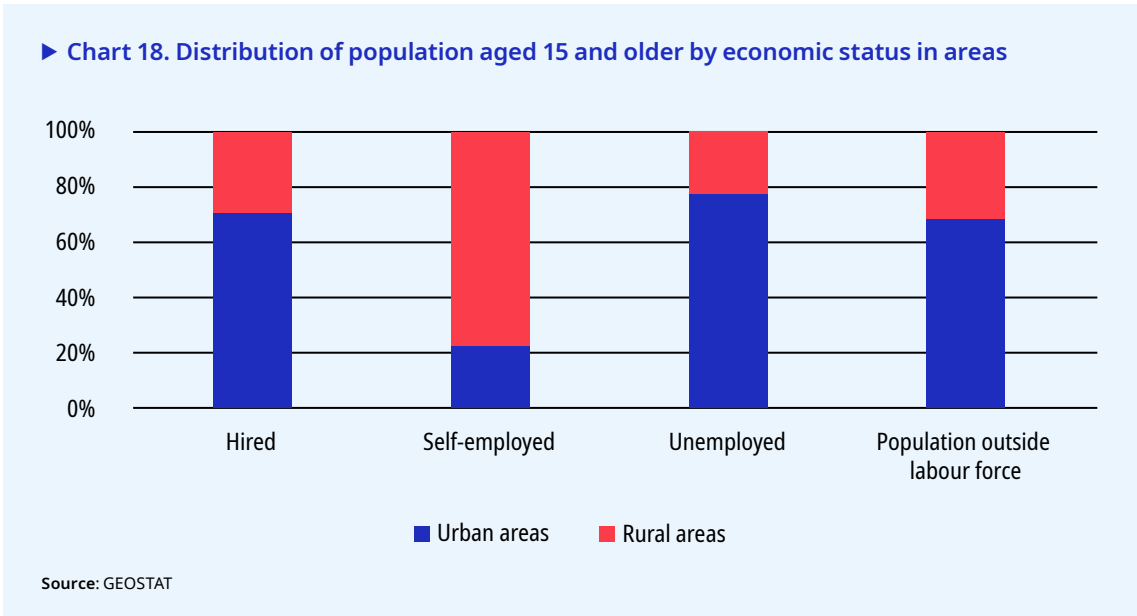
Over the last 20 years, the active population in Georgia has remained remarkably stable at around 3 million persons. The economic activity rate has been between 60 and 66 per cent during this period and currently stands at 63.9 per cent. From 1998–2008 the population increased by 140,000 persons while, simultaneously, the number of employed persons fell by 131,000, namely those that were hired. The unemployed increased by almost 108,000 and those that were registered outside of the labour force grew by 168,000. In 1998, 57 per cent of employed persons were self-employed, increasing to 61 per cent in 2008.

After 2008, the active population fell by 123,000 persons, of which more than 100,000 persons migrated to seek better living conditions abroad. Nevertheless, the number of persons in employment grew by almost 97,000 and unemployment fell by more than 100,000 persons. To maintain the employment rate, around 118,000 persons that were registered outside of the labour force became active, thus the migratory flow did not affect the active population. It is interesting to note that, from 2008 to 2018, almost 240,000 more persons were working as hired employees, while more than 140,000 fewer persons were registered as self-employed. This means that for the first time since Georgia's independence there were more employees than self-employed in 2018.

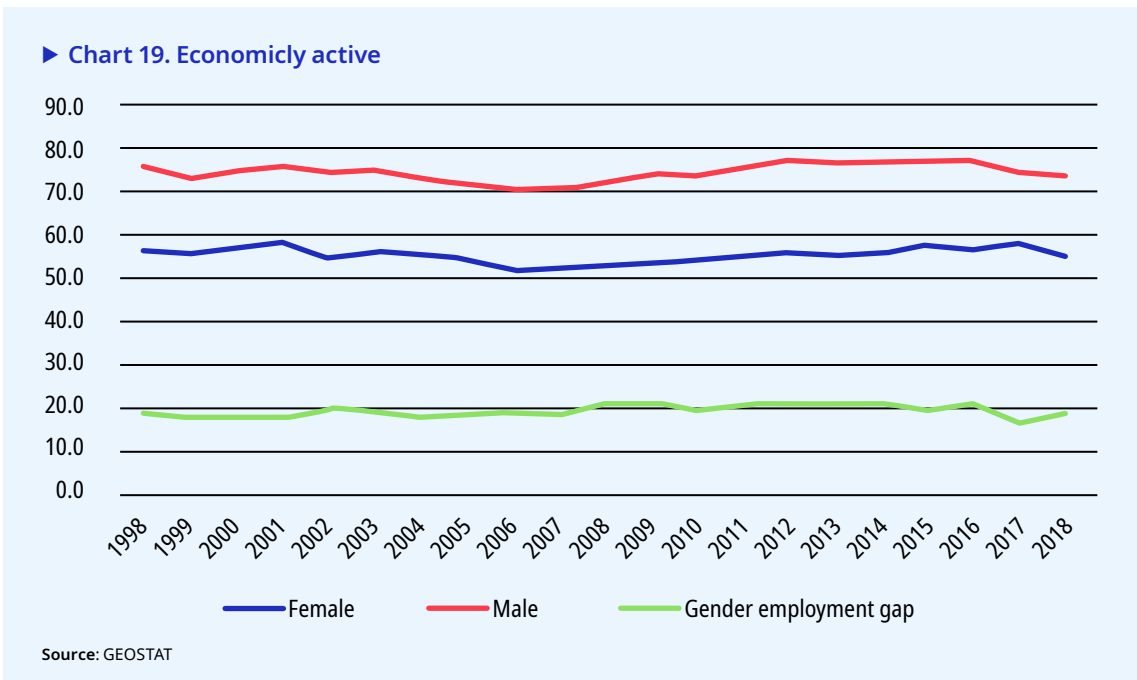
▶ Chart 17. Distribution of population aged 15 and older by economic status, 1998–2018



Source: GEOSTAT



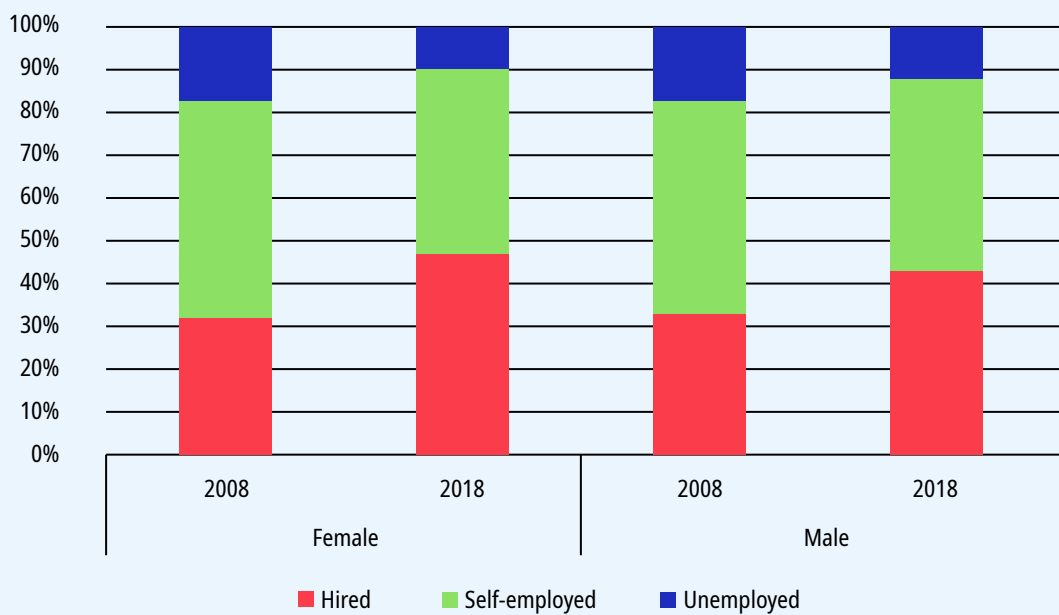
This structure is very different from a regional perspective, where urban areas are more heavily characterized by formal labour contracts, and employed persons account for two thirds. The rural areas, however, are characterized by almost 80 per cent self-employment, predominantly in agriculture. There seems also to be a remarkable difference between the urban and rural areas with respect to unemployment and/or registration outside of the labour force. While people in the urban areas are more likely to register as either unemployed or outside of the labour market, people in rural areas register as self-employed, relying on agriculture as a source of livelihood.



The economic participation rate is very different between men and women. About 55.6 per cent of women over 15 years were active compared to 73.6 per cent of men, accounting for a gender employment gap of about 20 per cent. Since 53.6 per cent of the working age population is female, owing to a much higher migration rate among men, the proportion of women in the labour force is 46.6 per cent. Among salaried employees, women account for 49.2 per cent and among the self-employed, women account for 45.5 per cent.

There are many similarities, in terms of status and gender, in the distribution of the active population in 2008 and 2018. In 2008 the proportions appear to be the same but in 2018 the number of employed women increased by more than 140,000, while the number of employed men increased by 98,000. Currently, the majority of women have a labour contract while most men are still registered as self-employed.

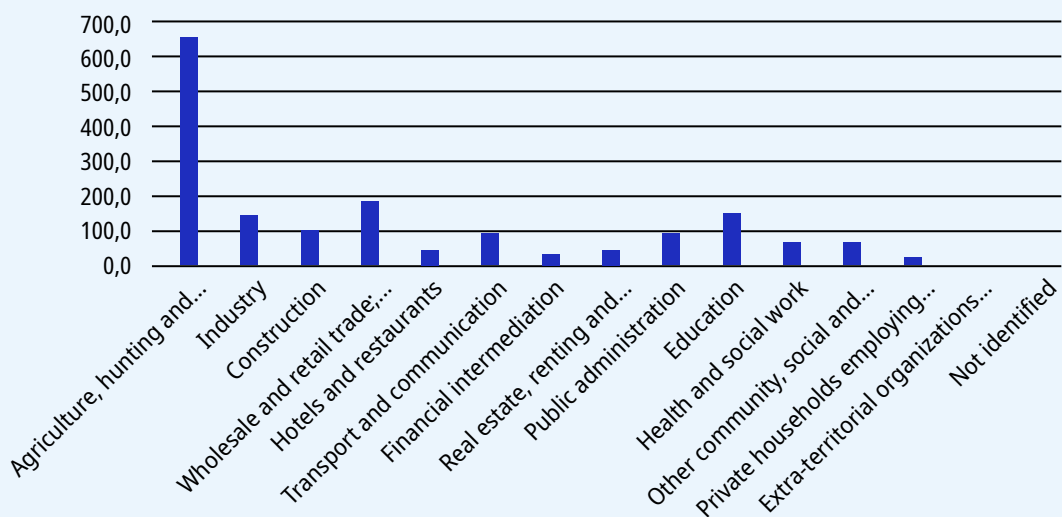
► Chart 20. Distribution of population by economic status and sex, 2008–2018



Source: GEOSTAT

As indicated in Chapter 2, the structure of the Georgian economy changed radically during the enormous transitions following its independence from the Soviet Union. According to GeoStat's surveys, almost 1.7 million persons were registered in employment in 2018, both employed and self-employed. Of those, almost 660,000 persons were working in agriculture, hunting and forestry, which account for 39 per cent of the total labour market. Although GeoStat does not publish data on economic activity by economic status, it is accurate to assume that a very large portion of this employment represents self-employed persons in rural areas.<sup>11</sup> It is also clear that the rate of productivity, measured by value-added per worker, is considerably different between the agriculture and other sectors. According to the World Development Indicators, the value-added per worker in agriculture was only US\$1,323.3 (at constant 2010 prices) while it was US\$14,848.6 in industry and US\$13,504.3 in services. Since the purpose of this report is to examine the difference in remuneration between women and men in the labour market, the rest of this analysis will rely on the business survey, excluding the self-employed.

► Chart 21. Distribution of employed persons by economic activity, 2018

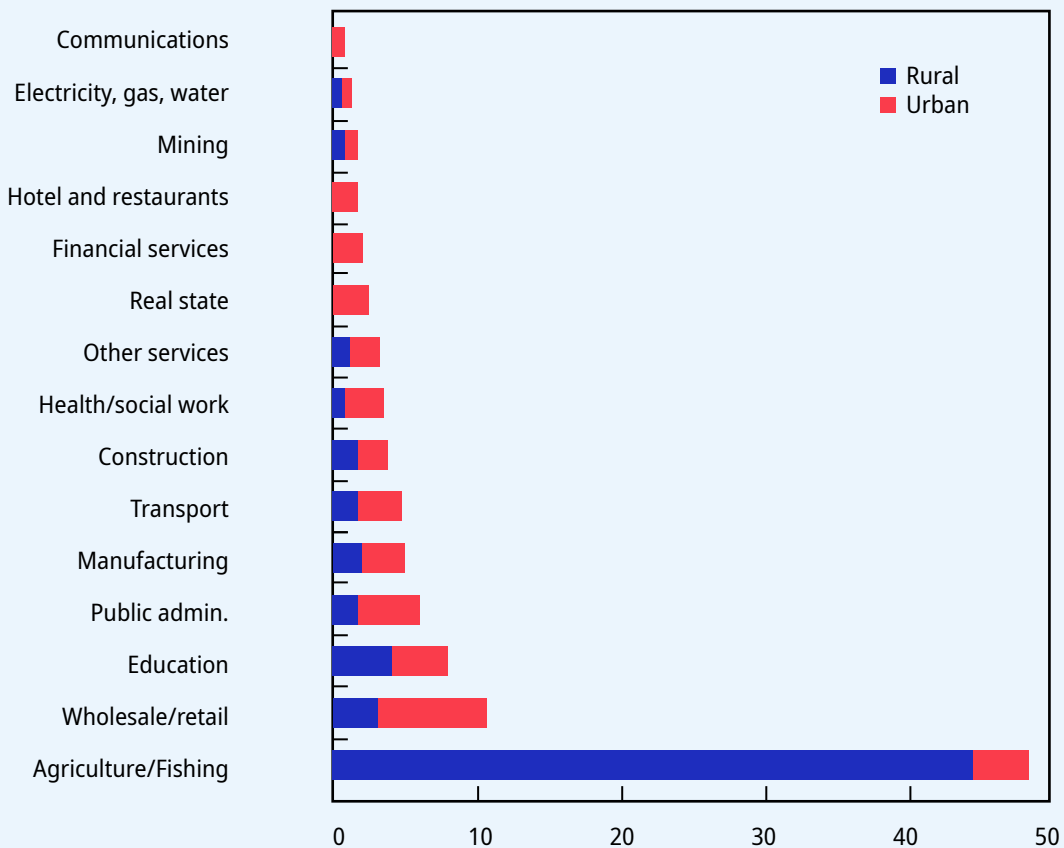


Source: GEOSTAT

11 IMF Country Report No. 18/199 Georgia. p. 21. Sources: GeoStat, survey by the Ministry of Economy and Sustainable Development, WB and IMF staff calculations. The share of employment by sector includes both employed and self-employed persons. The business survey by the Ministry of Economy and Sustainable Development focuses on businesses and therefore excludes the self-employed, which are typically associated with the agriculture sector.



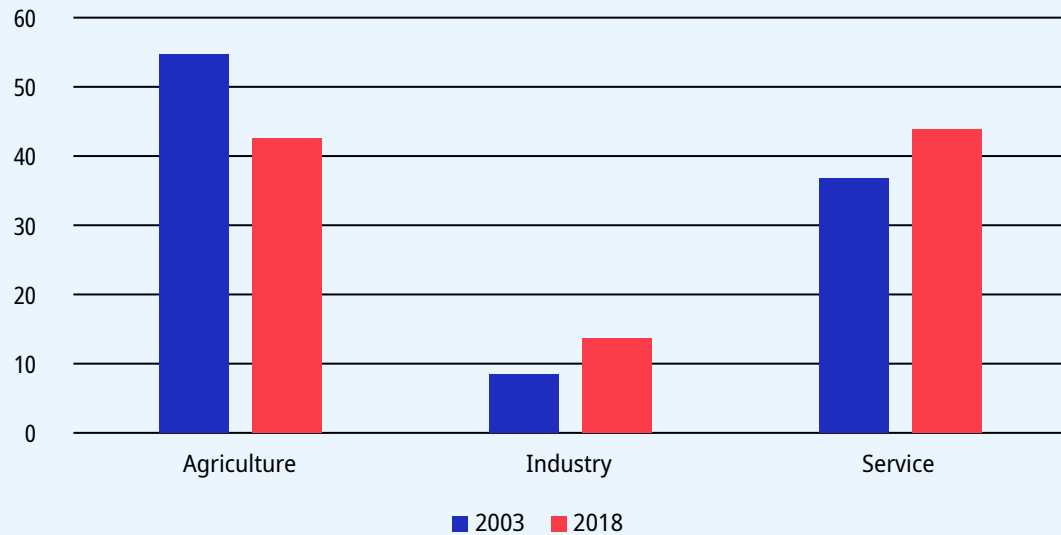
► Chart 22. Share of Employment by Sector and Area, 2015 (In percent)



Over the last ten years, more than one third of new employment has been created in wholesale, retail, and trade in Georgia’s business sector for both women and men. Other sectors account for much less of the total of new employment. Primarily women were employed in the manufacturing, tourism, healthcare and social work sectors and men in the manufacturing, construction, tourism, and transportation sectors. Looking at the average annual growth rate, almost all sectors are growing at a high rate, except electricity, information and communications, education, healthcare and social work (public services).

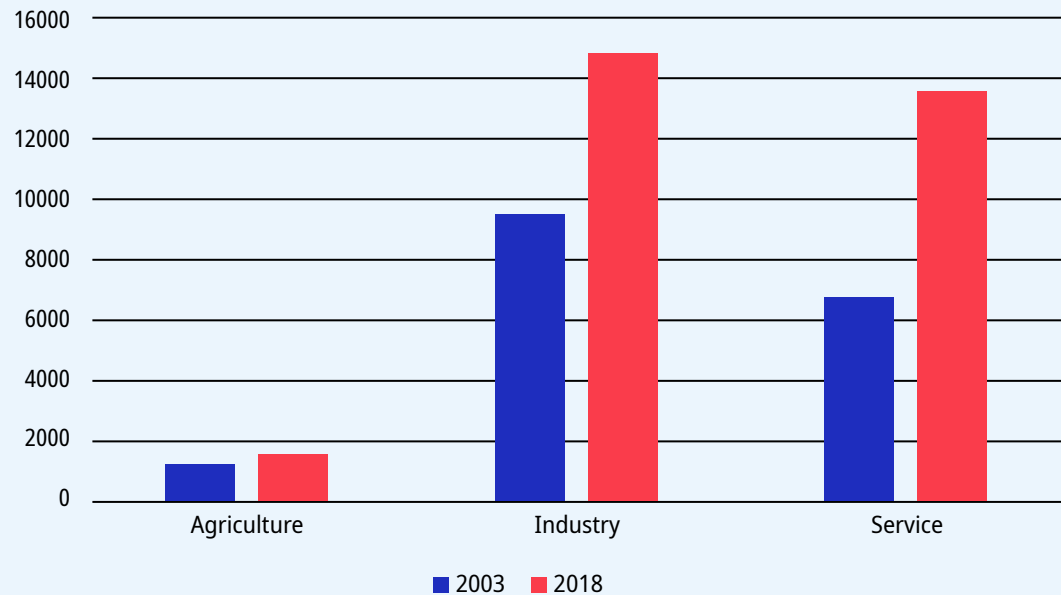
In 2017, the wholesale and retail trade, healthcare and social work were the largest sectors for women’s employment, followed by manufacturing, and real estate and business activities. The three largest sectors for men’s employment in 2017 were wholesale and retail trade, manufacturing, and construction, followed by transport and communications, and real estate and business activities.

► Chart 23. Sectoral Share of Employment



Source: World Development Indicators

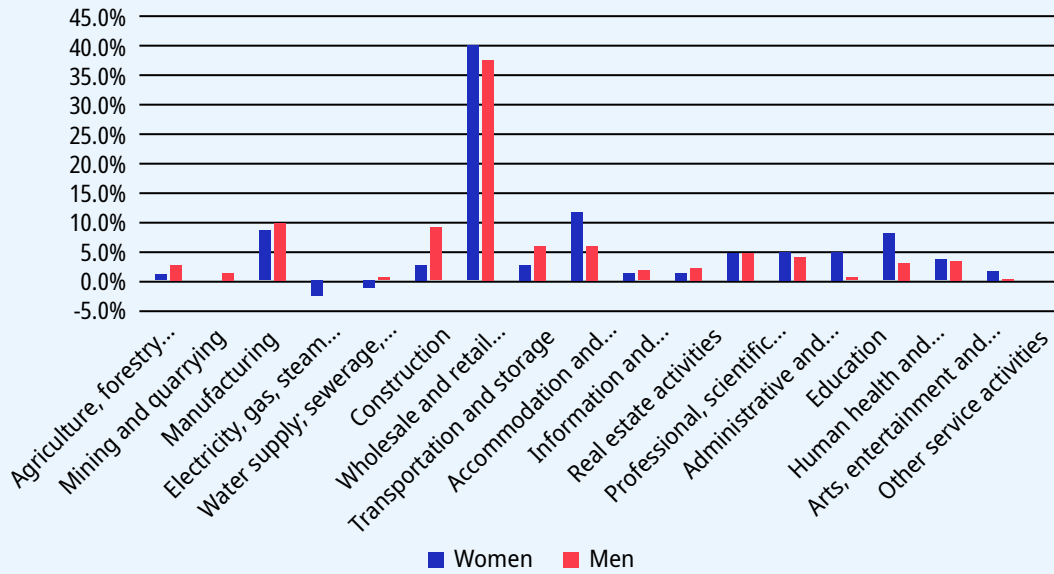
► Chart 24. Value-added per Worker by Sector



Source: World Development Indicators

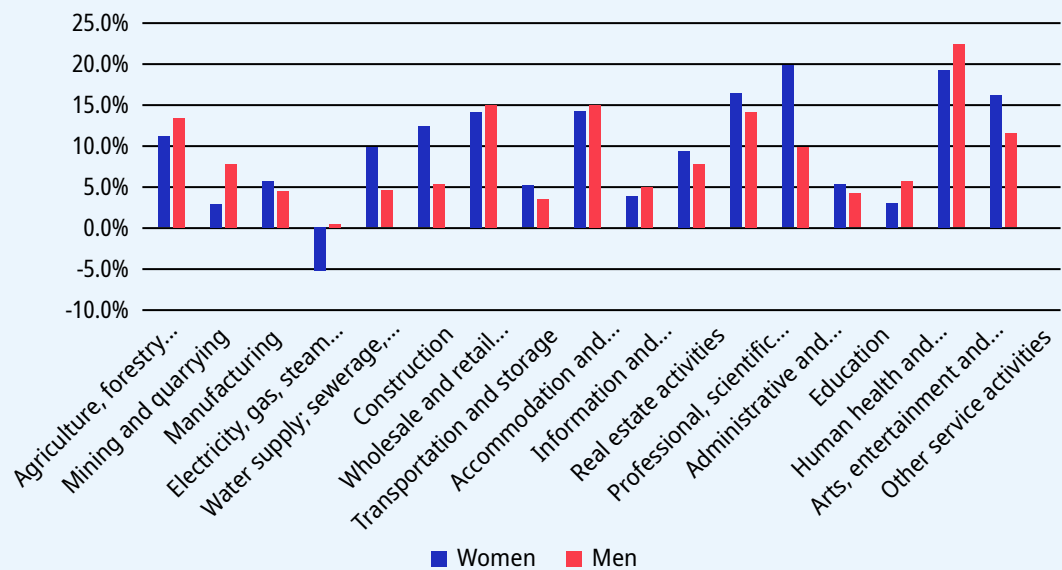
The gender composition of each sector reveals a very traditional gender segregated labour market, where traditional manual labour sectors, such as construction, mining and quarrying, fishing, electricity and transport and communication, are male dominated, and healthcare and social work, education and tourism are female dominated. Other sectors, such as wholesale and retail trade and manufacturing, are more gender diverse.

► **Chart 25. Distribution of new jobs in the Business Sector 2007–2017 by kind of economic activity**



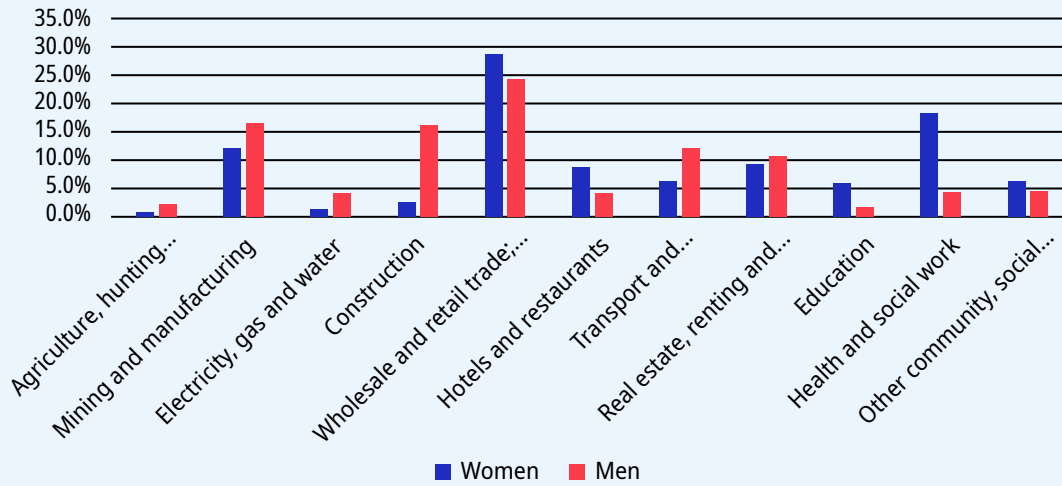
Source: GEOSTAT

► **Chart 26. Average growth rate of employment in the Business Sector 2007–2017 by kind of economic activity**



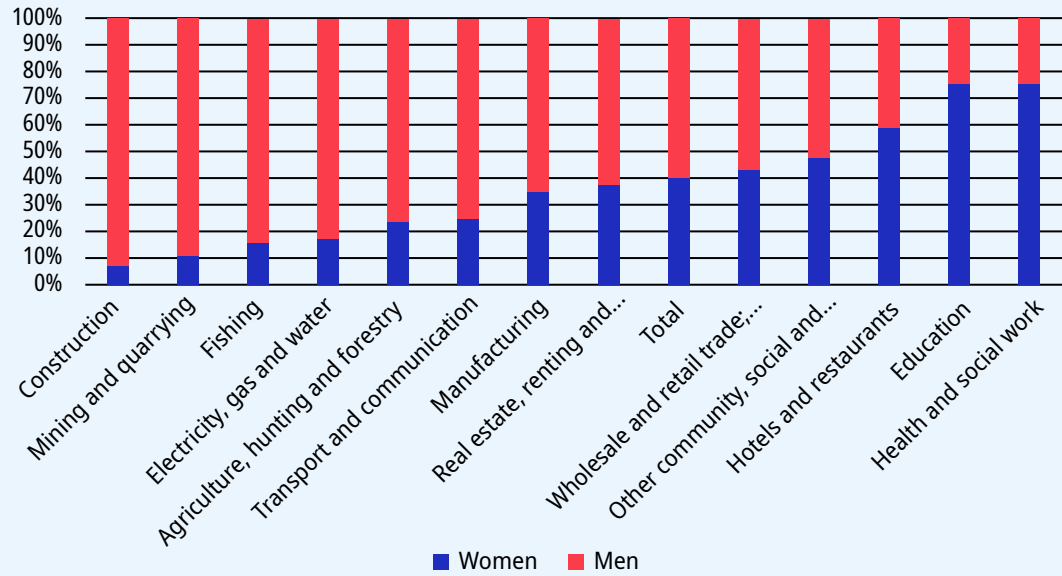
Source: GEOSTAT

► Chart 27. Employed in Business Sector by kind of economic activity, 2017



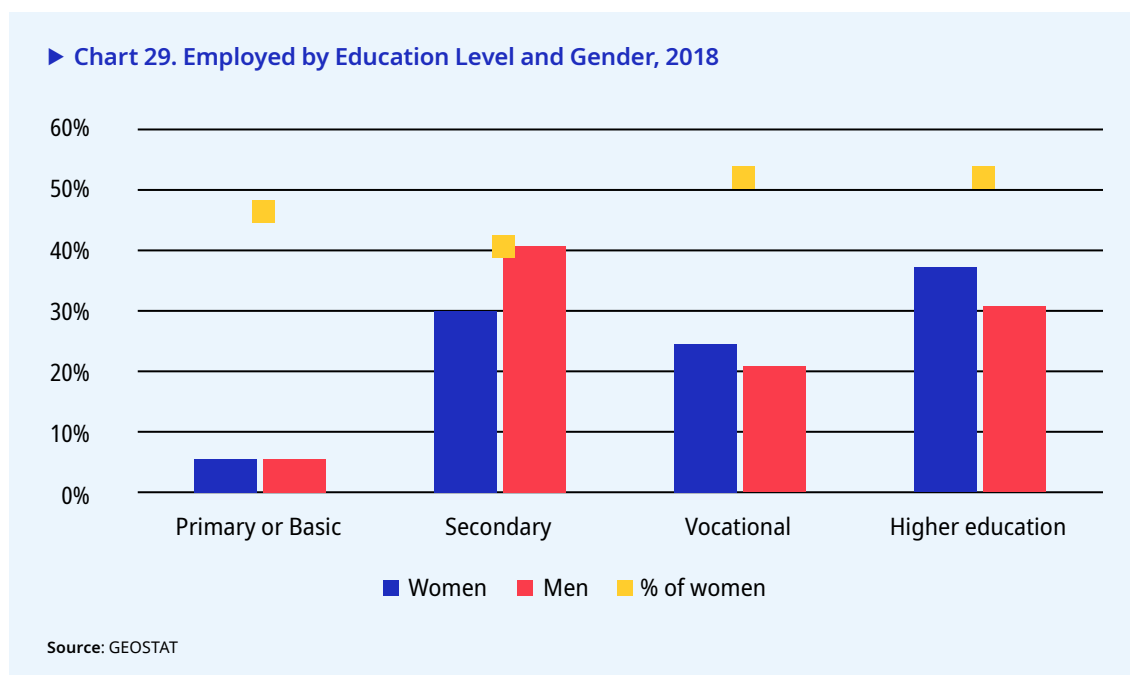
Source: GEOSTAT

► Chart 28. Employed in Business Sector by kind of economic activity by gender 2017 and average earnings



Source: GEOSTAT

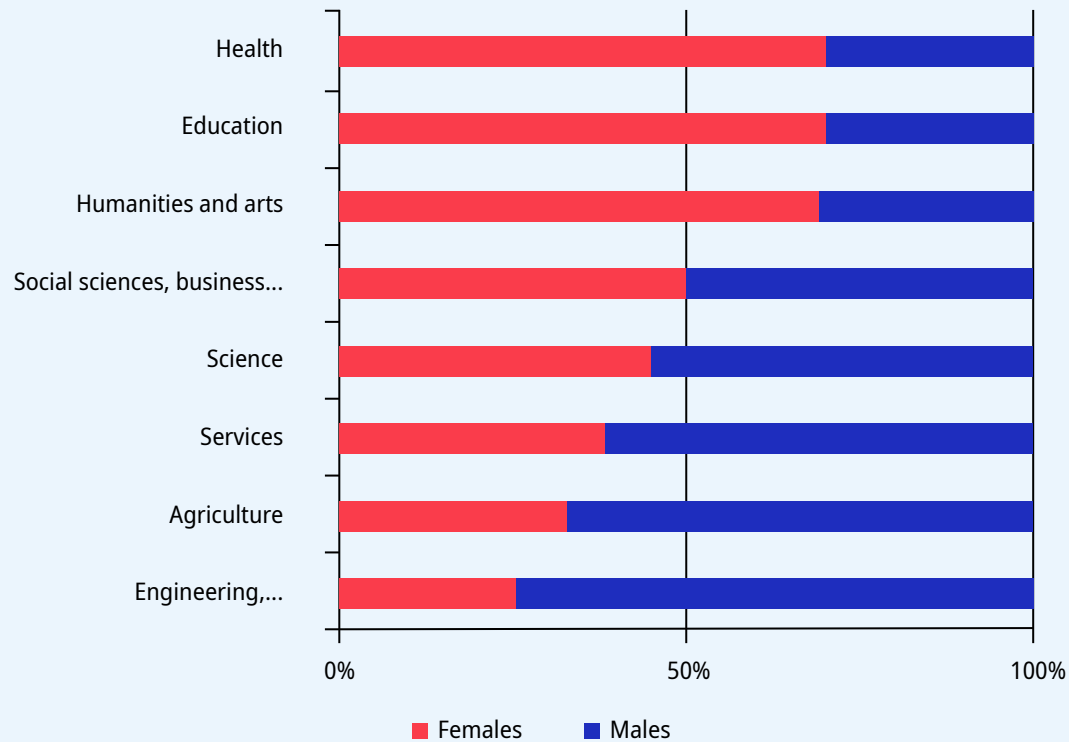
It is also interesting to note the distribution of education levels of employed persons in Georgia (both employed and self-employed), where women appear to be better educated than men. In general, the work force in Georgia is very well educated, with 57 per cent having completed vocational or higher education and only 6 per cent having stopped at primary or basic education. Women are in absolute majority in both vocational and higher education, while men are in majority in primary and secondary education.



The gender segregation in the labour market also corresponds with the educational pathways that women and men choose. Men appear to be more interested in science, technology, and engineering, while women tend to focus on areas such as humanities, education, and health. This choice of studies maintains and reproduces the same segregation on the labour market.

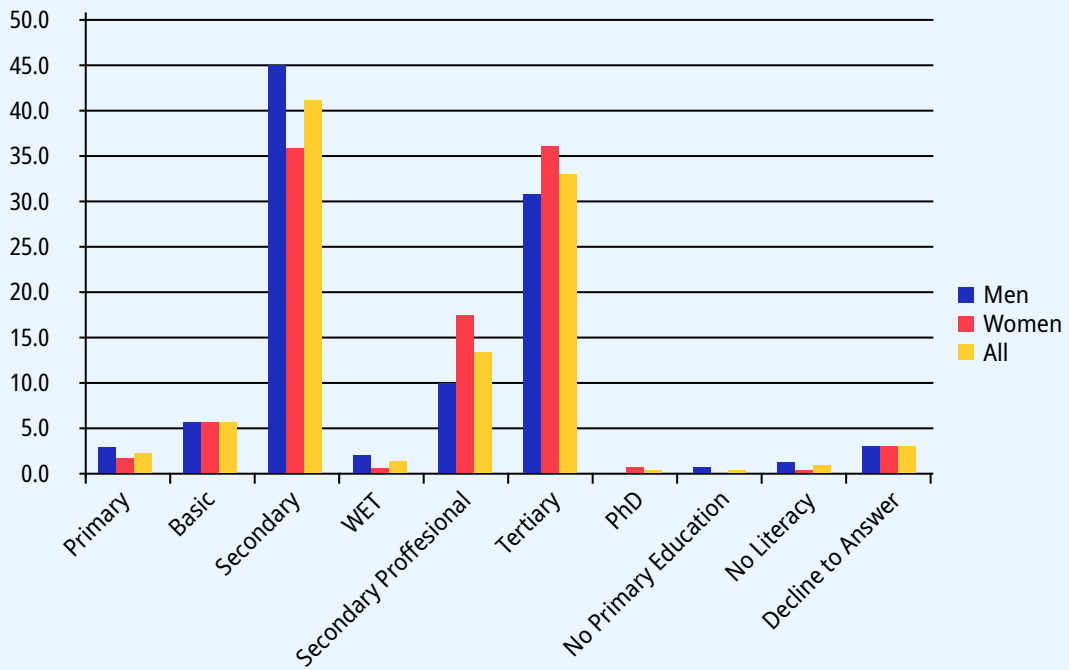
One possible explanation for this composition in the labour market might be the difference in migration patterns among men and women, with the possible negative effect of a “brain drain” among men (Labadze, L. and Tukashvili, M. (2013), p.31). Looking at the distribution of education levels among migrants from Georgia, the GeoStat survey shows that the three main groups of emigrants are people with a secondary, secondary technical and higher education. More educated women emigrate from Georgia than men, while men with lower education levels, mainly secondary education, emigrate. Georgia is nonetheless faced with what appears to be a “brain drain” problem, where well-educated people emigrate to find better suited and better paid jobs.

► Chart 30. Tertiary graduates, by sex and field of study



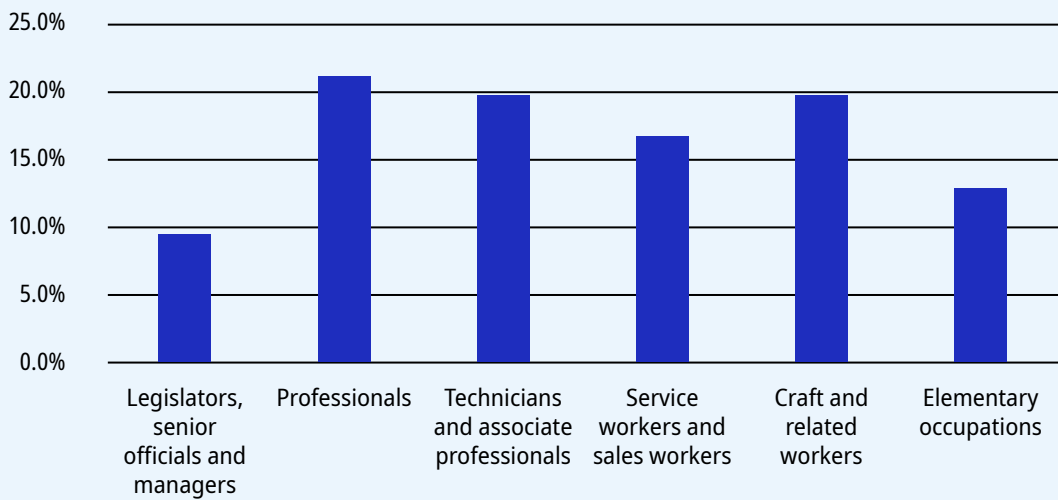
Lastly, it would be interesting to see whether there was a difference in the distribution of women and men by the type of occupation they engage in on the Georgian labour market. The distribution according to the ISCO88 classification is familiar, with professionals, technicians and craft workers accounting for about 20 per cent each of the total employment, while service workers and elementary occupations cover 12–16 per cent and legislators and managers 9 per cent. There is a significant difference in the occupations held by women and those held by men. Women are employed largely as professionals, technicians and service workers but are also in elementary occupations. Men are employed more as craftsmen and legislators or managers. This correlates with the distribution of education levels in the labour market examined above, where women are better educated than men. This higher level of education does not, however, lead into managerial positions.

► Chart 31. Emigrant distribution by education and gender



Source: GEOSTAT, 2008.

► Chart 32. Distribution of employed persons by occupation, 2017

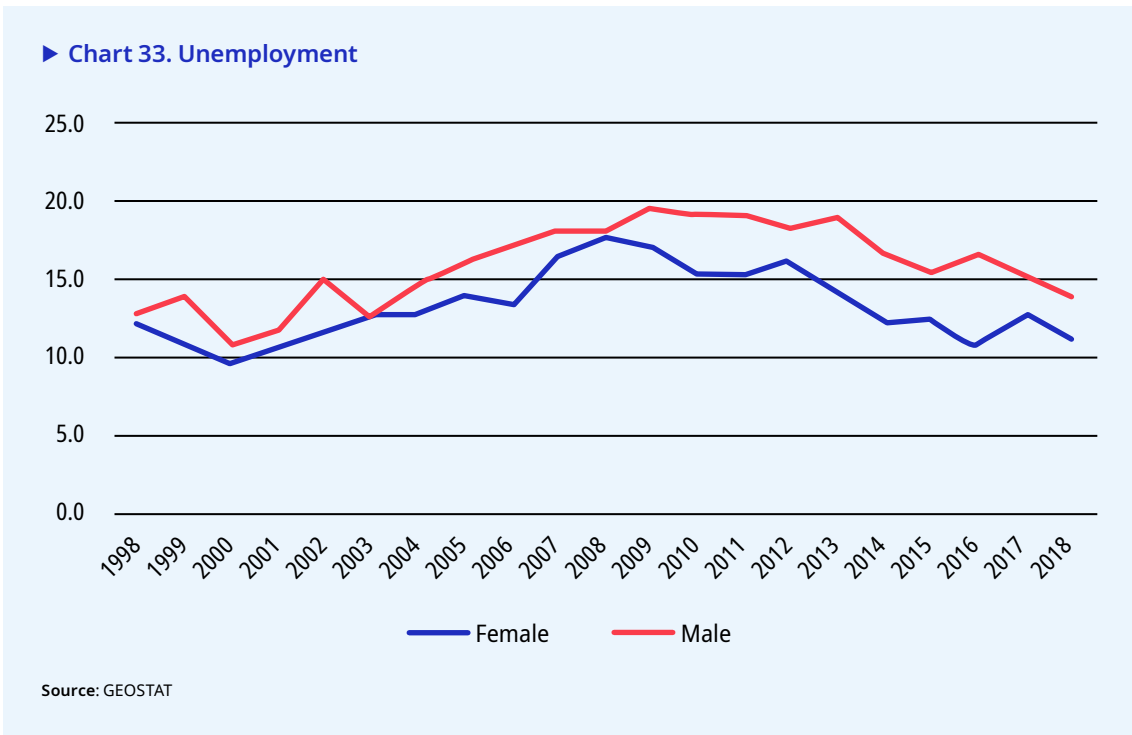


## 4.2 Unemployment

Unemployment has been very high in Georgia since its independence. Up until the financial crisis in 2008, the unemployment rate had been escalating from 11–12 per cent to 17–18 per cent in 2009. Unemployment is higher among men than women but for both sexes the rate fell in 2010 and currently stands at 12–14 per cent. Unemployment is much higher in urban areas (over 20 per cent and up to almost 30 per cent in 2009) than in rural areas, where it is around 5 per cent.

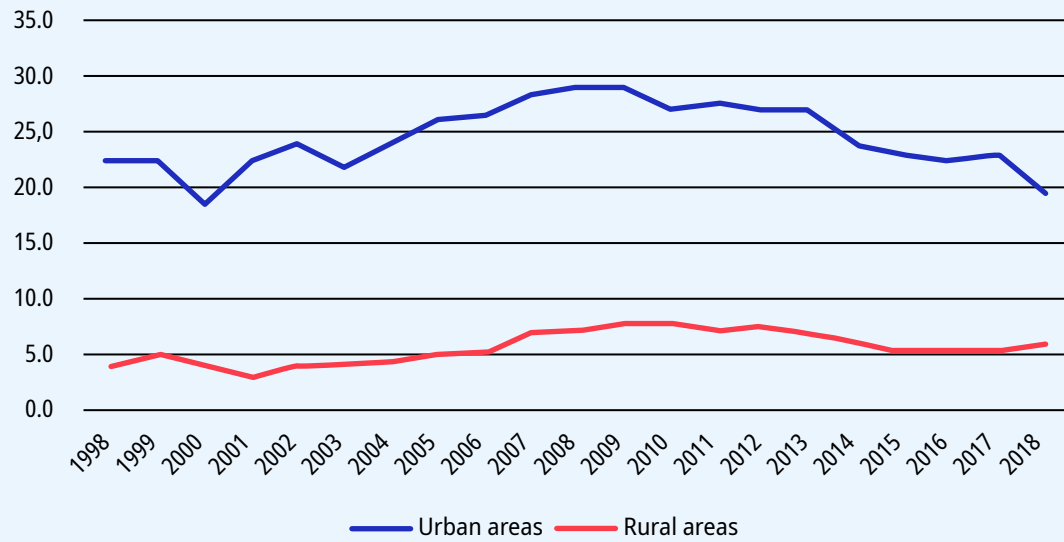
The biggest problem of the unemployment structure is the high youth unemployment rate. In 2018, the unemployment rate reached the highest level for 15–24-year-olds (35.2 per cent for women and 26.7 per cent for men). The unemployment rate is traditionally the lowest for the older age groups of persons over 55 years. This large group among the population is not employed, does not search for work and consequently belongs to the category of inactive population.

Looking at unemployment by education level, it is interesting to note that in general it is higher among those with a higher education level, especially among women, although unemployment among men with secondary education is also very high.



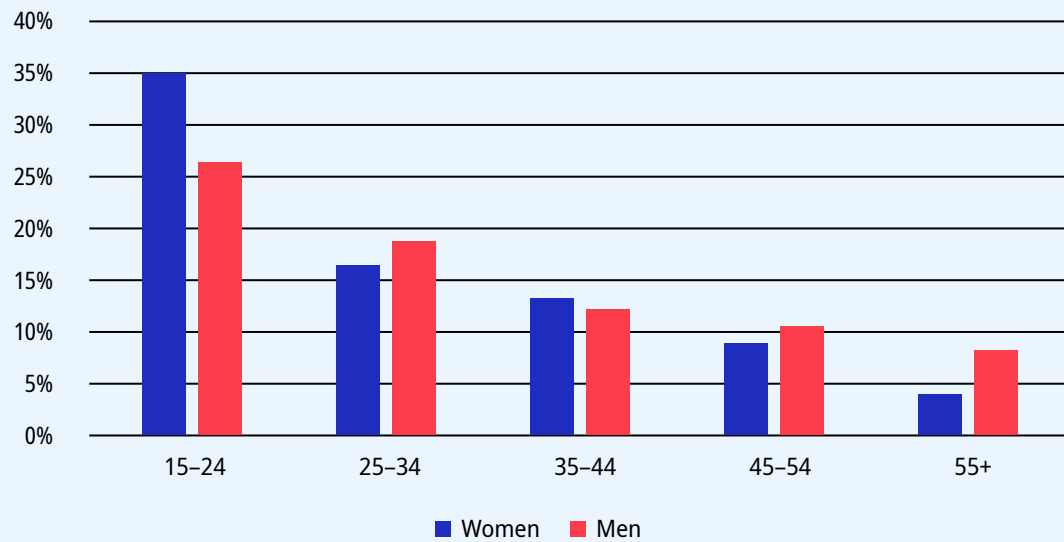


► Chart 34. Unemployment by areas



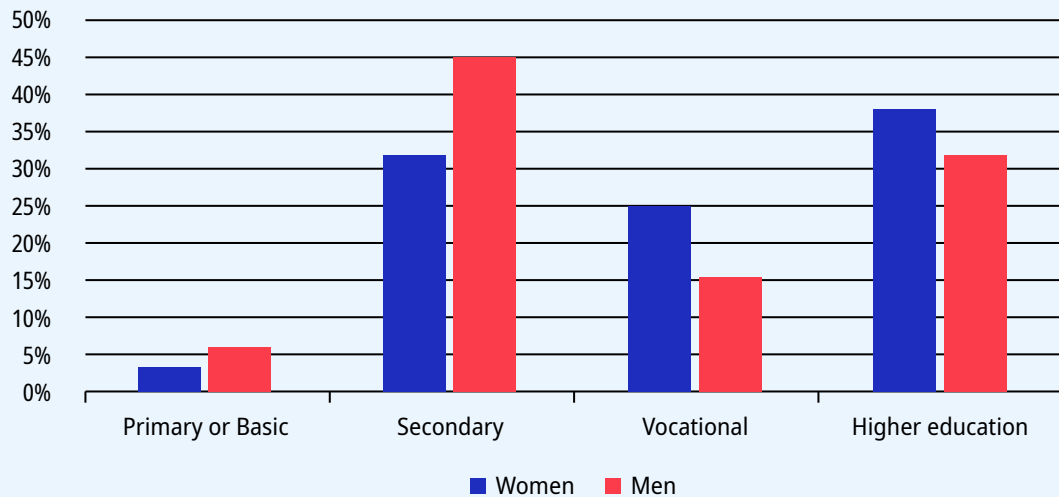
Source: GEOSTAT

► Chart 35. Unemployment by Age



Source: GEOSTAT

► Chart 36. Unemployed by Education Level and Gender, 2018



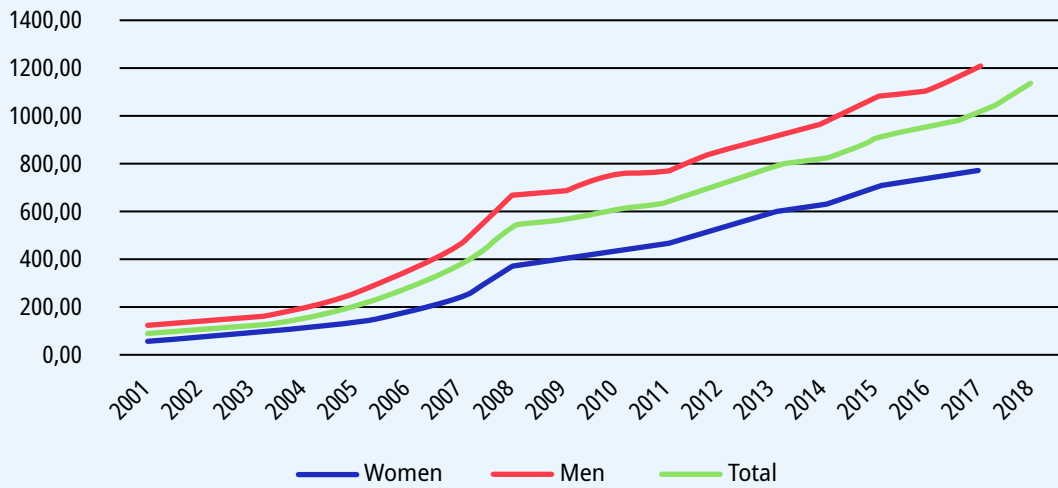
Source: GEOSTAT

### 4.3 Average monthly earnings and the gender wage gap in Georgia

Average monthly earnings have increased considerably in Georgia since 2001, from GEL63.50 for women and GEL125.20 for men to GEL770.20 for women and GEL1,197.40 for men. The annual growth rate for earnings was particularly high in the years before the financial crisis in 2008, up to 40–50 per cent per annum, but since then has been considerably lower, at 5–10 per cent annually. The data on average monthly earning that GeoStat publishes is based on total earnings<sup>12</sup> for all hours worked, but part-time workers are recalculated into full-time equivalent. No historical information is available on hourly earnings, although GeoStat started to collect and publish data on working time in 2017. Therefore, it is difficult to conclude whether the substantial increases in earnings from 2001–2008 are due to longer working time or actual wage increases. Inflation was relatively high during that same period and increased up to 10 per cent in 2008 but has been considerably lower since. Due to the much lower annual rate of inflation, real income increased considerably during that period.

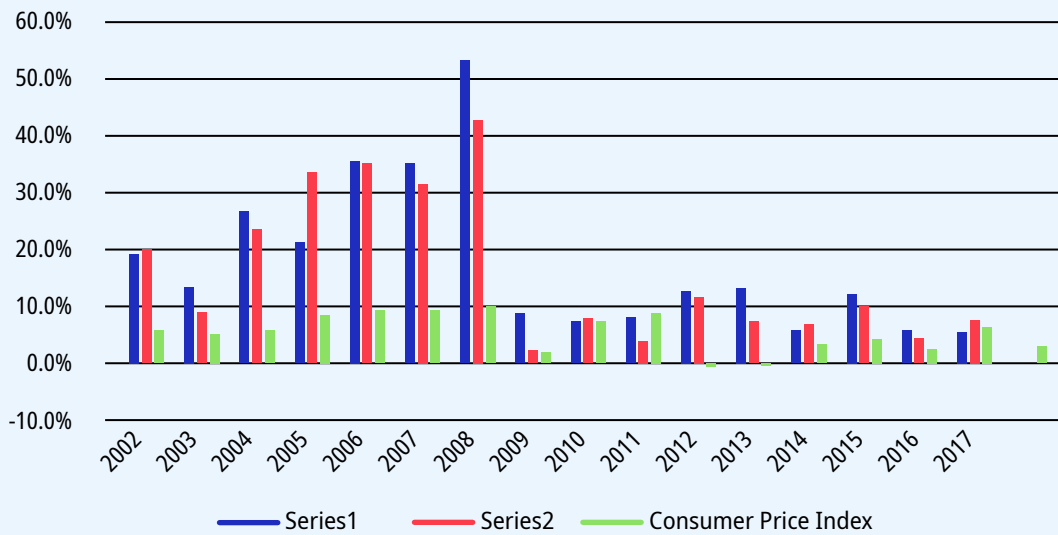
<sup>12</sup> See definitions on GeoStat's website here.

► Chart 37. Average Monthly Nominal Salary of Employees by Gender

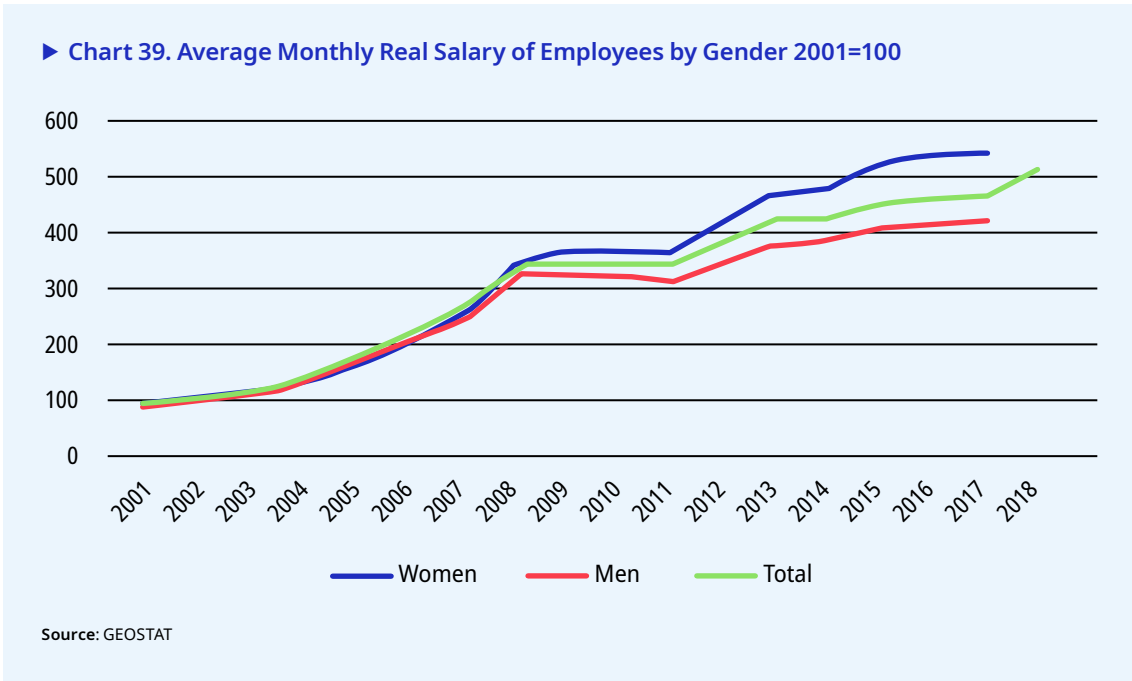


Source: GEOSTAT

► Chart 38. Annual change in average monthly nominal salary and prices

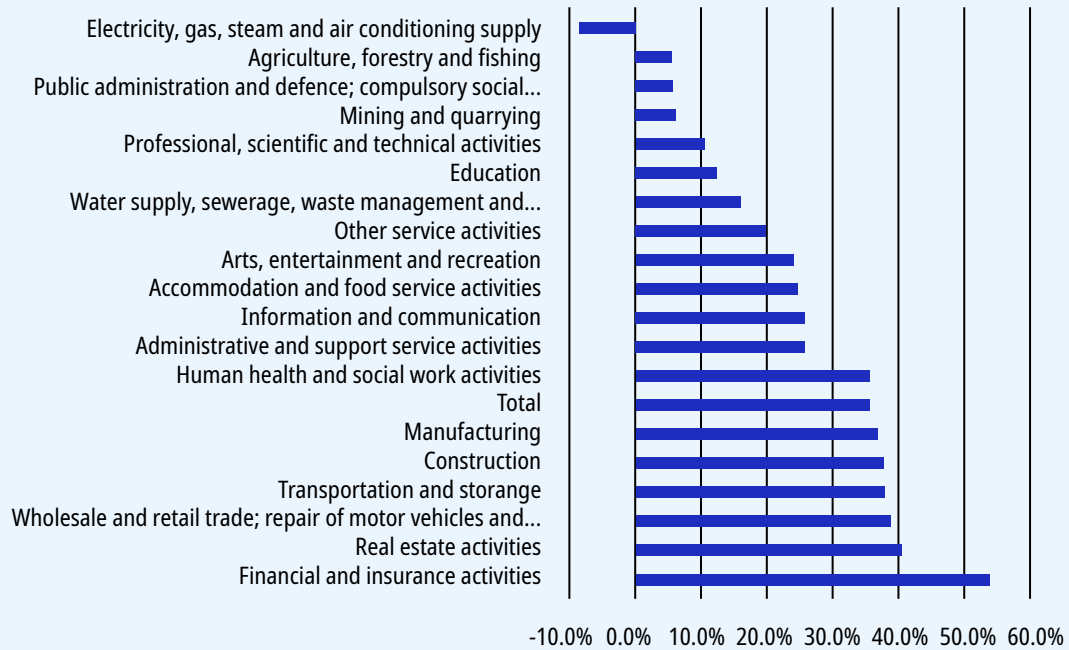


Source: GEOSTAT



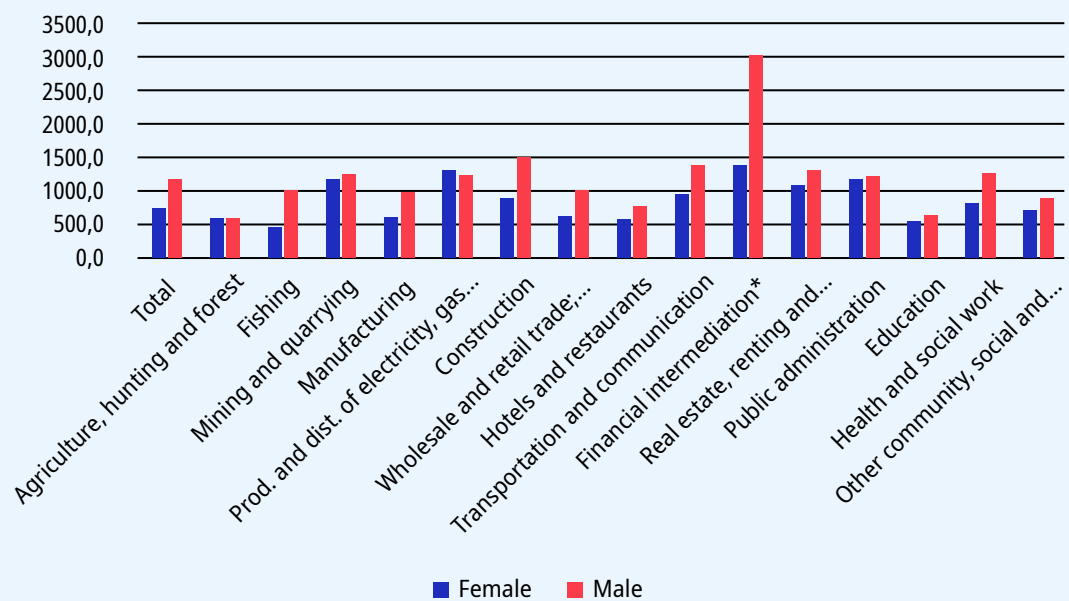
Although the average unadjusted gender wage gap in absolute terms has increased since 2001, that is, from GEL61.70 to GEL427.20 in 2017 (in fixed 2017 prices, from GEL138.57 to GEL427.20), it is clear that the annual relative changes in women’s average earnings have been higher than for men after 2008. In real terms women’s wages have increased by 26.8 per cent more than men’s. The unadjusted relative average gender wage gap, which was around 50 per cent in 2001, thereby fell to 35.7 per cent in 2017 after having fallen to 34.5 per cent in 2016. Looking at the different sectors of the economy, men receive higher earnings than women in all sectors except electricity and gas, where women actually receive higher earnings than men. The difference is particularly large in the finance sector, almost 55 per cent, and in traditionally male-dominated sectors such as construction, manufacturing and transportation. As noted earlier, the gender wage gap has been gradually reducing since 2007. Turning to the differences in the accumulated growth in average monthly earning by sector from 2001 to 2017, with an index at 2001=100, women’s earning has been growing faster than men’s in several sectors, namely agriculture, real estate and business activities, and public administration, health and social work, with a smaller rise in manufacturing. It is also interesting to see how the gender wage gap developed over time. The average unadjusted gender wage gap fell from 49.3 per cent in 2001 to 35.7 per cent in 2017. Looking at sectors where the gap has narrowed, the change in public administration, real estate, renting and business activities, agriculture, hunting and forestry and other community and social work is quite remarkable, while in most other sectors the gap has actually widened. This increase is particularly dramatic in financial intermediation, where the gap widened from 20 per cent to over 50 per cent in this period. The increase is also quite large in construction, and wholesale and retail trade.

► Chart 40. Gender wage gap in 2017 by economic activity

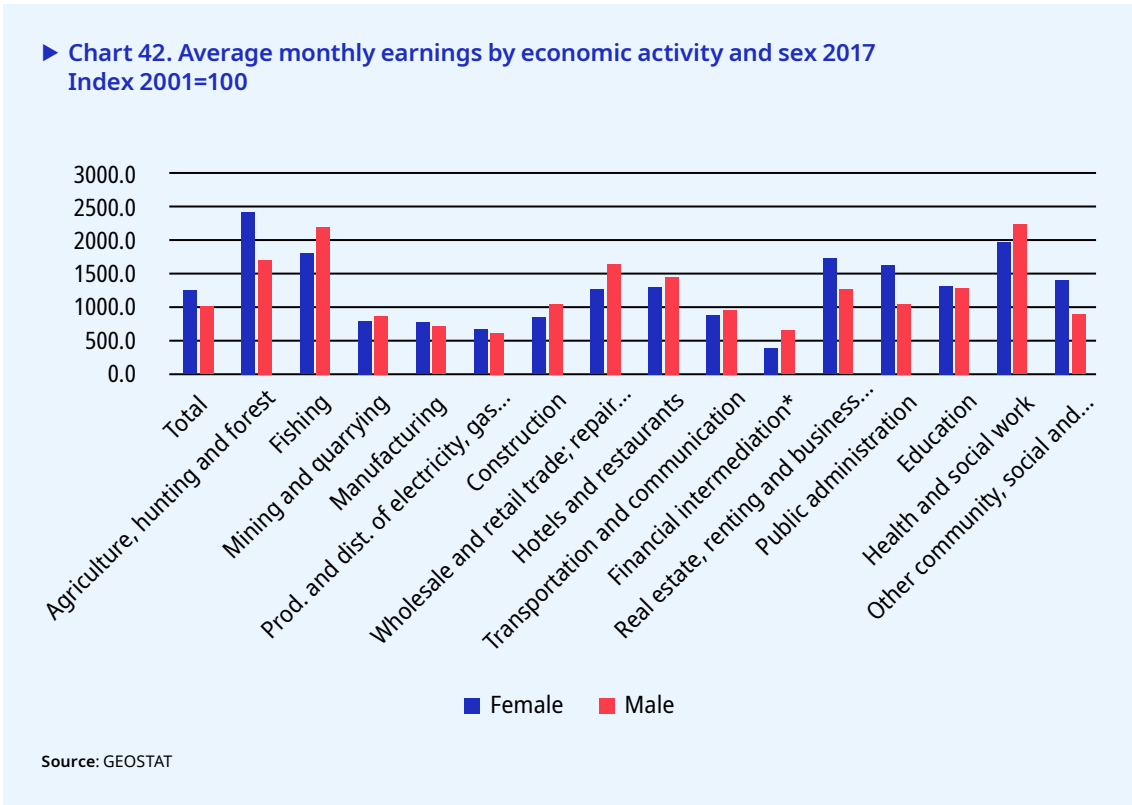


Source: GEOSTAT

► Chart 41. Average monthly nominal earnings by economic activity and sex, 2017



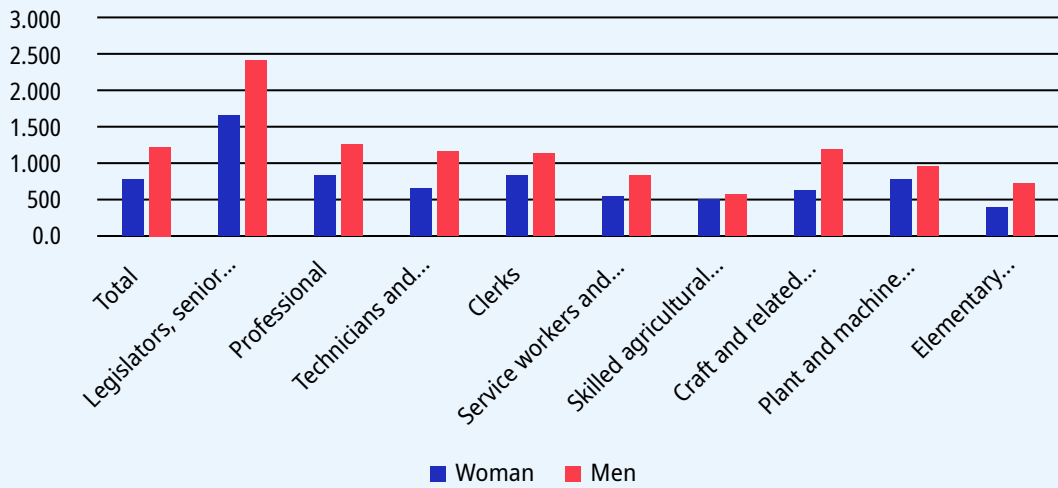
Source: GEOSTAT



With respect to earnings by different types of occupation, legislators, senior officials, and managers earn considerably more than all other occupations, especially men. It is also noteworthy that the difference in average monthly earnings among professionals, technicians, clerks, and craftsmen is very low and does not reflect the difference in education levels. The unadjusted gender wage gap by occupation reveals that the gap is narrower for skilled workers in agriculture, plant and machine workers and clerks, while it is broader among craft trade, elementary occupations and technicians. It is interesting to note the size of the gap in elementary occupations since, in most analyses of gender wage gaps within the OECD, the gap tends to be much narrower among elementary workers. This is because in most cases these wages are covered by gender neutral collective agreements or largely influenced by statutory minimum wages. In Georgia this is not the case since there are few collective agreements, especially among unskilled workers in the private sector, and no statutory minimum wage exists in the country.<sup>13</sup> The gender wage gap among legislators, senior officials and managers is smaller than the average, covering a large difference between legislators and senior officials with 16.4 per cent and corporate managers with 36.7 per cent.

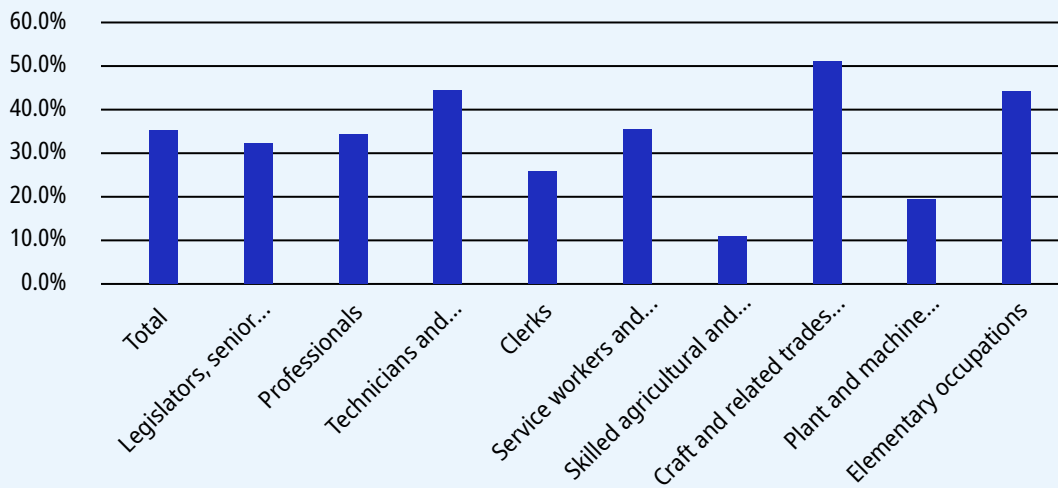
<sup>13</sup> To be more precise, there is a 1991 presidential decree still in force guaranteeing workers a certain minimum wage of GEL20 per month. This amount has not been adjusted to either inflation or normal wage increases and has therefore no relevance for the wage formation in Georgia.

► Chart 43. Average monthly nominal earnings of employees by occupation, 2017

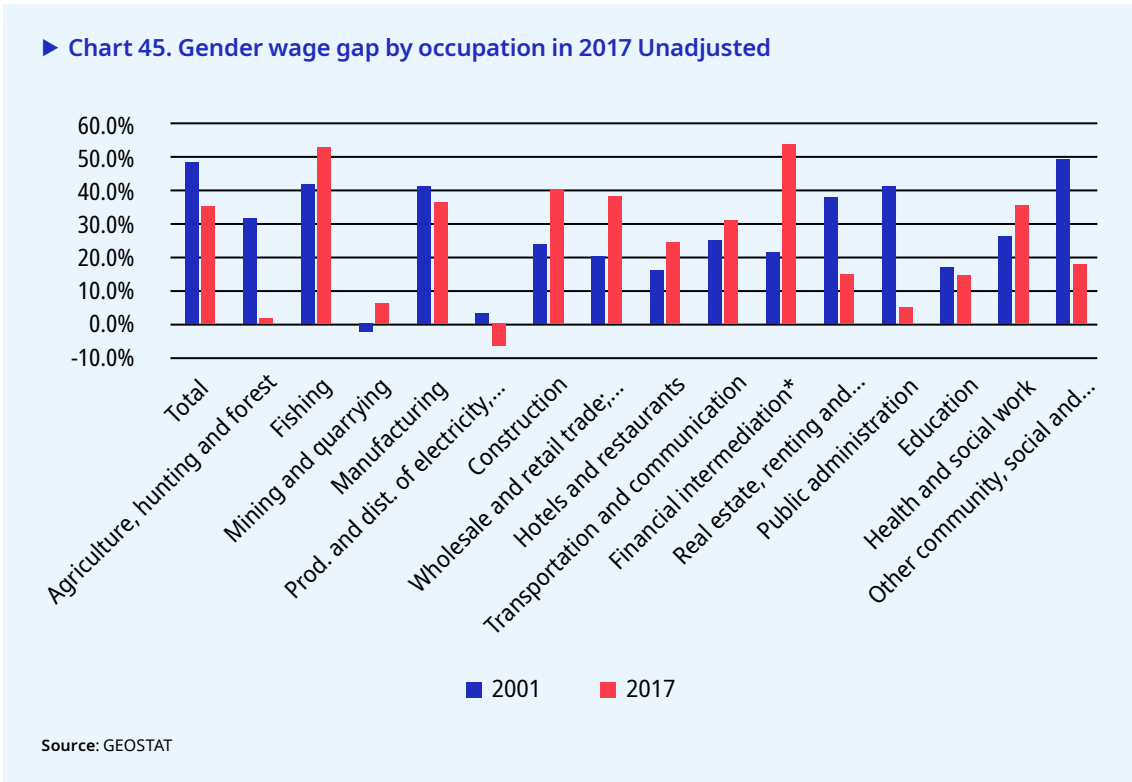


Source: GEOSTAT

► Chart 44. Gender wage gap by occupation in 2017 Unadjusted



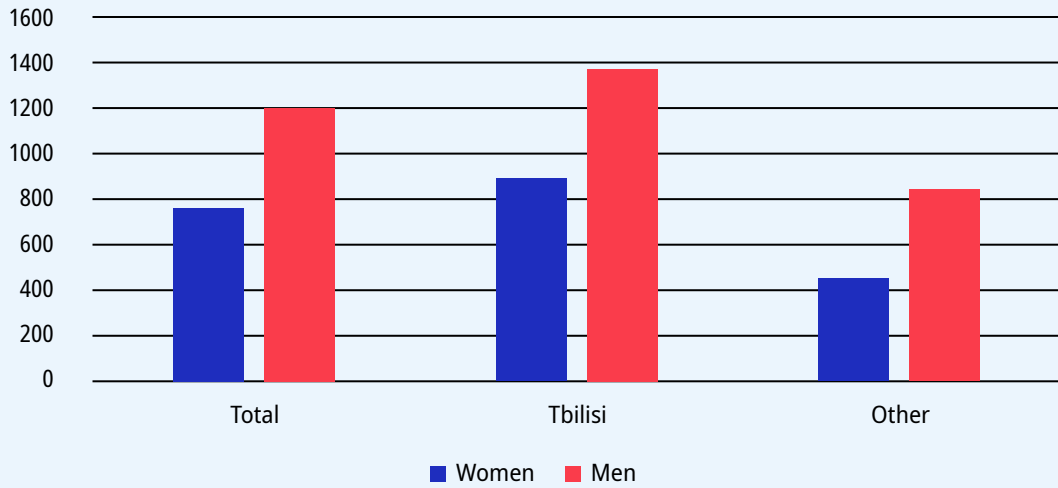
Source: GEOSTAT



Looking at the different levels of average earnings of women and men against the size of enterprise, regions and ownership, we note that the gender wage gap exists throughout the economy. Women are better paid in large companies than in small, while men are better paid in medium-sized companies. Both women and men receive much higher average earnings in Tbilisi than in other regions. The regional gender wage gap in Georgia is significantly larger than the national gender wage gap. For women, the regional wage gap for those who live and work outside of Tbilisi is about 50 per cent lower than for those who live and work in Tbilisi and has come down from 56 per cent in 2001. For men, this regional wage gap is somewhat narrower: 38 per cent in 2017, a fall from 43 per cent in 2007. This indicates the large difference in structure and composition of the economy in urban and rural Georgia and underlines the necessity of an active regional policy.

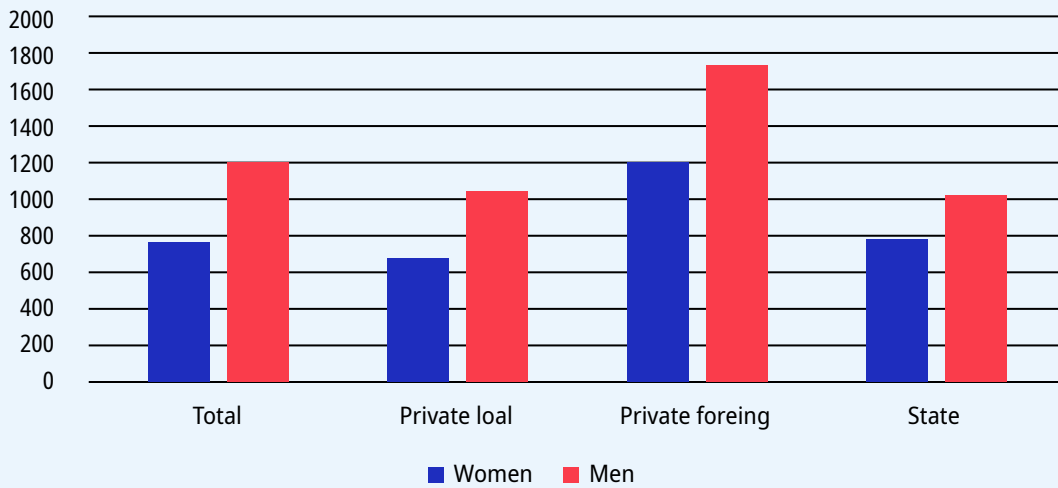


► Chart 46. Average Monthly Remuneration by Regions in 2017



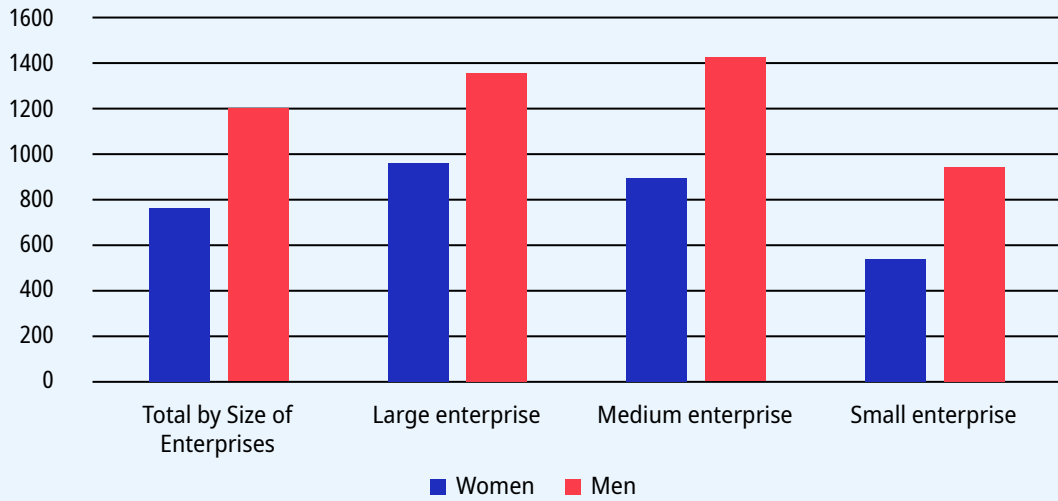
Source: GEOSTAT

► Chart 47. Average Monthly Remuneration by Ownership of the Enterprise, 2017



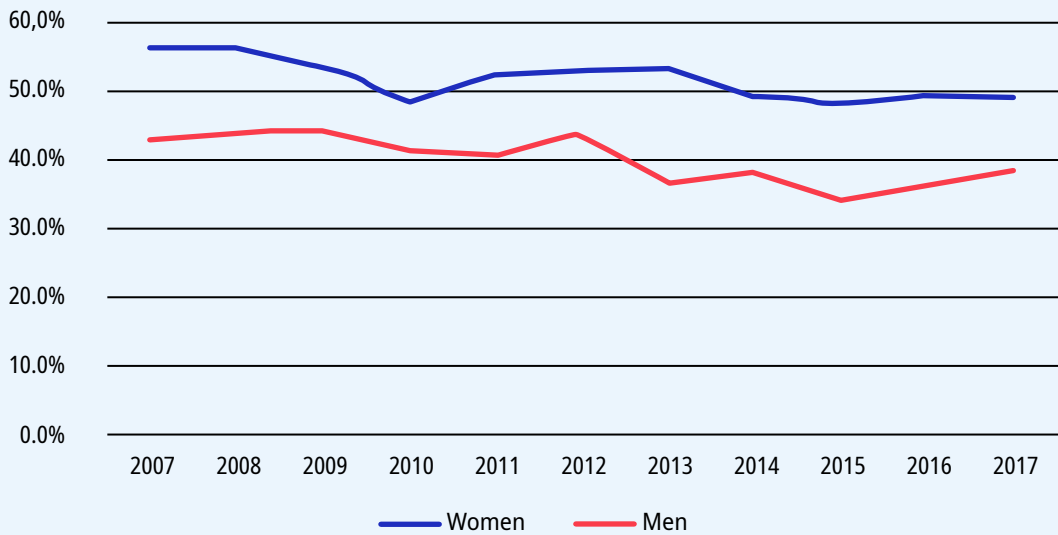
Source: GEOSTAT

► Chart 48. Average Monthly Remuneration by Size Of the enterprise, 2017



Source: GEOSTAT

► Chart 49. Regional wage gap by gender in Georgia

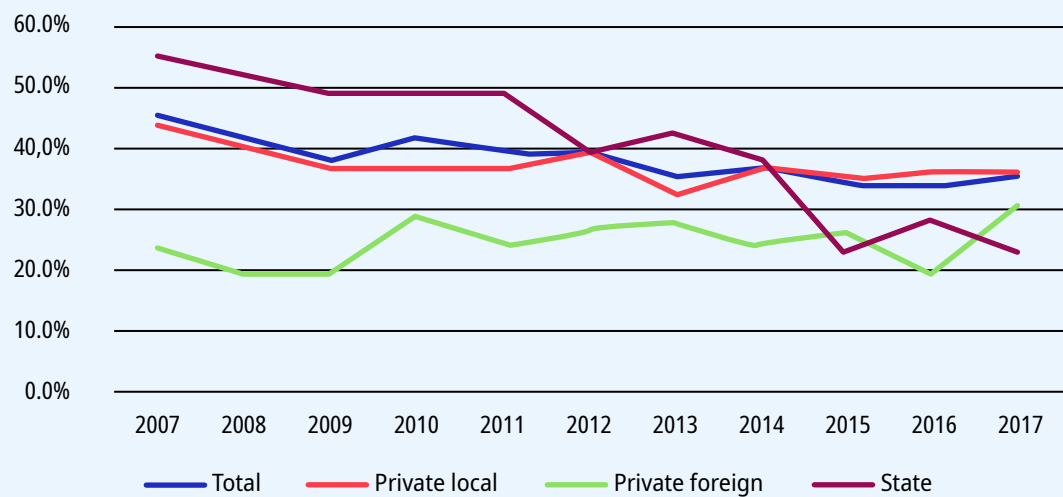


Source: GEOSTAT

As regards to ownership of the enterprises, the average earnings for men and women are considerably higher in foreign owned private companies than in both locally owned companies and state owned, where the average wage level is similar.

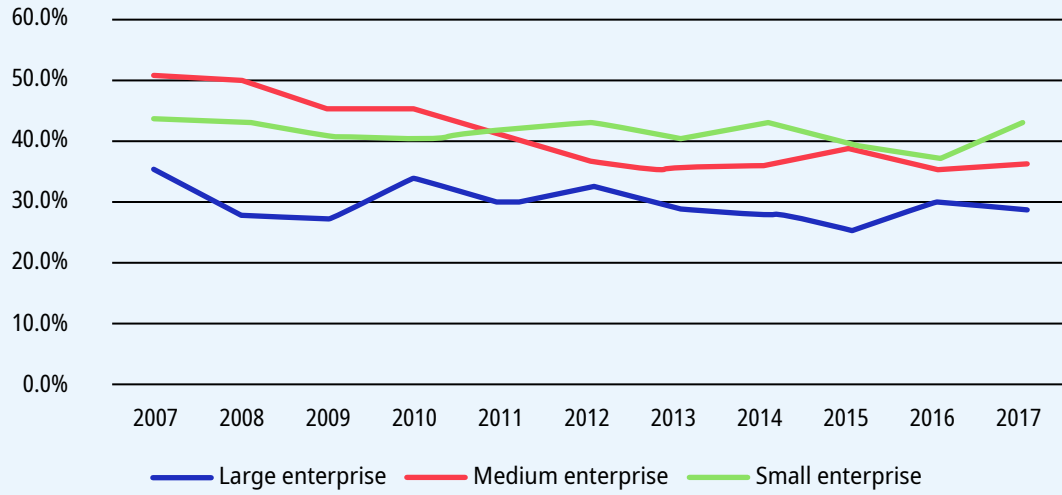
As indicated above, the unadjusted average gender wage gap has been narrowing over the past years. While this is the case for most categories, in terms of the size of the enterprise the gap has mostly narrowed among medium-sized companies and remains the smallest among larger companies, although stagnant at 30 per cent. Foreign owned private companies appear to have the narrowest gender wage gap. It stood at around 25 per cent until 2017 when it widened to over 30 per cent. Most remarkable is the change in state owned enterprises. Here the gender wage gap has fallen from 55.3 per cent in 2007 to 24 per cent in 2017. The narrowing of the gender wage gap in locally owned companies has been much slower. In Tbilisi, the gender wage gap is narrower than in other regions and continues to shrink, while the situation appears to be more stagnant in other regions.

► Chart 50. Gender wage gap by ownership of enterprise Unadjusted



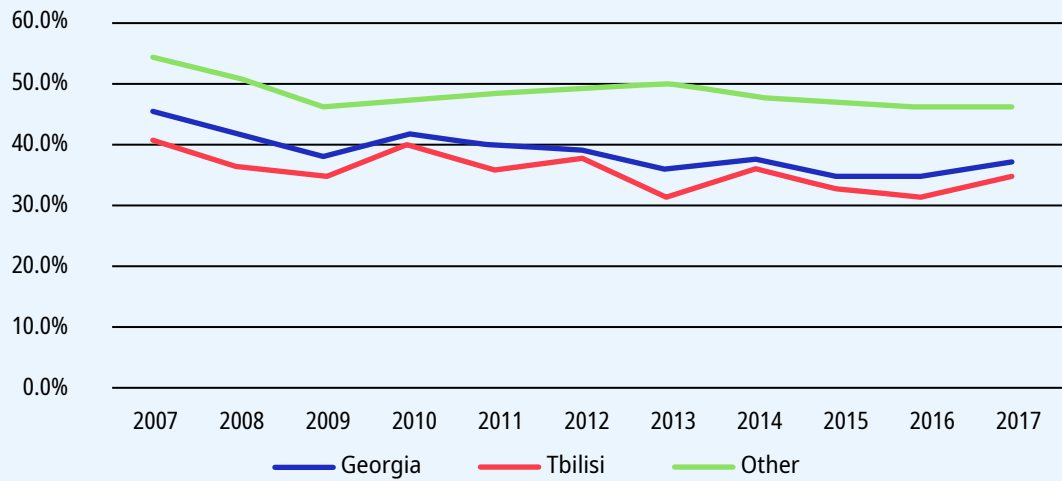
Source: GEOSTAT

► Chart 51. Gender wage gap by size of enterprise Unadjusted



Source: GEOSTAT

► Chart 52. Gender Wage Gap in Georgia by Regions Unadjusted

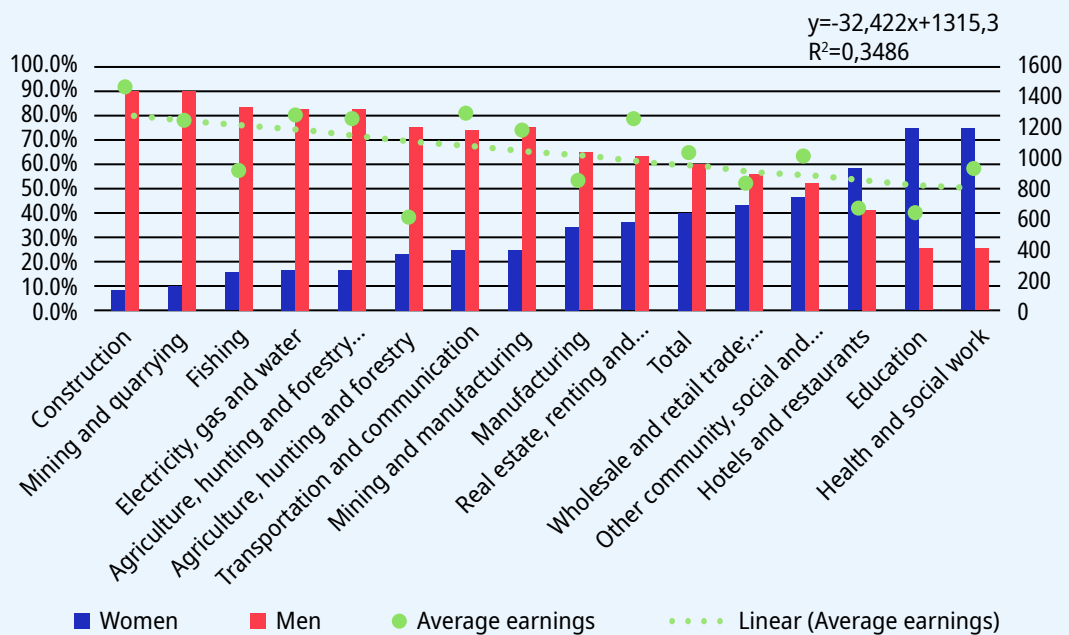


Source: GEOSTAT

To sum up, the gender wage gap in Georgia is very wide in all the different categories but has been narrowing over the last decade. The gap is largest in male-dominated sectors and occupations, as well as in urban areas and locally owned private companies. The gap has narrowed the most among state owned enterprises and has remained much smaller among foreign owned companies, although stagnant. The change in the gender wage gap among medium-sized companies appears to be the driving force for the overall reduction in the gap. It is among the largest companies that the gap is the smallest, albeit stagnant. There has been no registered change in the gap among small companies, where it appears to be around 40 per cent.

It is interesting to compare the actual level of average earnings in each sector with the gender composition in that same sector. For Georgia, the data indicates that the higher the proportion of women within sector, the lower the average earnings appear to be in that same sector and, vice visa, the higher the proportion of men within a sector, the higher the average earnings appear to be. This implies that at least part of the average gender wage gap can be explained by the industrial segregation on the labour market in Georgia.

► Chart 53. Employed in Business Sector by kind of economic activity by gender 2017 and average earnings

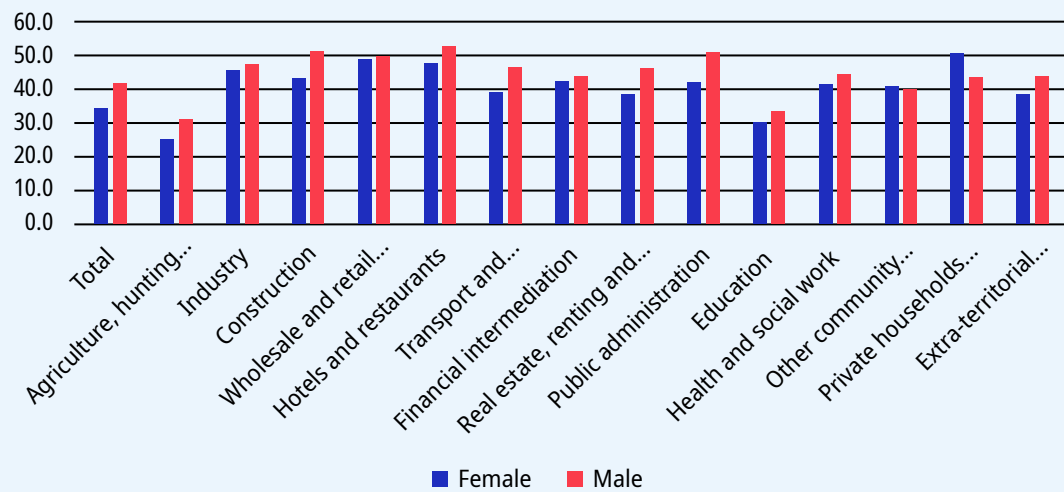


Source: GEOSTAT

As discussed above, the data on average monthly earnings in Georgia is calculated based on total number of hours worked, although part-time work is recalculated to full time equivalent. Thus, while eliminating the effect of part-time work on the average wage gap, the differences in working time between the sexes influence the outcome. On average men worked 41.4 hours a week in their main job, while women worked 34.2 hours. If we use this data to estimate hourly earnings, part of the gender wage gap can be explained by the difference in working time alone. With this simple exercise we can bring the unadjusted gender wage gap down from 37 per cent down to 24 per cent, that is by one third.

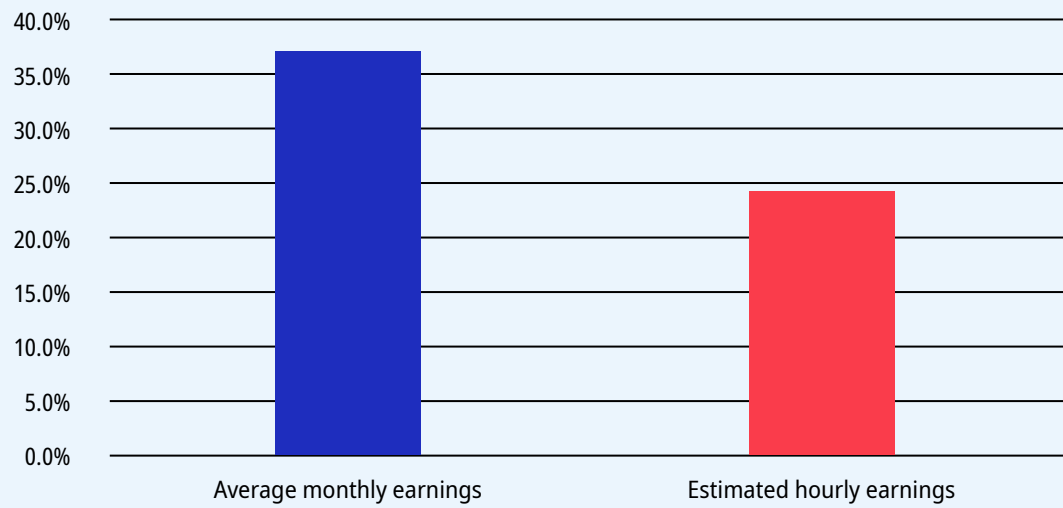
This exercise shows that to fully understand the underlying causes of the gender wage gap it is necessary to take into account different aspects related to each gender, such as background and characteristics, to decompose the unadjusted gender wage gap into an “explained” and “unexplained” part, that is, the part regarding gender endowments differentials and that related to the wage structure.

► Chart 54. Average number of usual weekly hours of work by kind of activity and sex 2017\*



\* In main job  
Source: GEOSTAT

► Chart 55. Gender wage gap in Georgia



Source: GEOSTAT own calculations

## ► 5. Decomposing the gender wage gap

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To be able to understand and tackle the possible discrimination based on earnings between women and men on the labour market, we have to be able to decompose the possible differences in pay between women and men for equal work or work of equal value, taking into account the impact of the differences in the average characteristics of men and women in the labour market. Nevertheless, the unadjusted gender pay gap, calculated as the relative difference between the average earnings of women and men,<sup>14</sup> is widely used as the key indicator to monitor progress in this area. However, as the simple exercise above demonstrates, the unadjusted gender wage gap does not capture the underlying discrimination.

To this end, we need to measure the impact of differences in the average characteristics of women and men in the labour market and this demands the use of microdata from two broad areas: the earnings of individual employees and the observed characteristics of individual employees.

While there are numerous theoretical and empirical studies discussing the effect of human capital variables (endowments or productivity differentials) such as age, education, tenure, seniority and working time, there is no “universally accepted” set of company or institution variables that should be included when investigating determinants of wages. However, there is widespread empirical evidence that different companies or institutions, including public-private, different sizes and technological level, pay different wages to employees of equal ability.

In the ILO’s Global Wage Report 2018/19, the different labour market endowments, attributes and characteristics for decomposing the gender pay gap were listed.

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14 This is normally done based on hourly wages to exclude differences in both part-time and overall working time.



► **Table 1 – Labour market endowments, attributes and characteristics for the decomposition of the gender pay gap**

Group	Variables	Notes
<b>Endowments</b>	<ul style="list-style-type: none"> <li>▶ Age</li> <li>▶ Education (categories)</li> <li>▶ Years of experience</li> </ul>	<ul style="list-style-type: none"> <li>▶ In the case of the SES, years of experience are substituted for “tenure” in current employment.</li> <li>▶ Countries vary in terms of the number of educational categories, although most will identify four or five (e.g. no education; below primary; lower secondary; high school/vocational; university and above).</li> </ul>
<b>Job attributes (or characteristics)</b>	<ul style="list-style-type: none"> <li>▶ Working time</li> <li>▶ Contractual conditions</li> <li>▶ Occupational categories</li> </ul>	<ul style="list-style-type: none"> <li>▶ “Working time” can be a continuous variable or a dummy variable to identify full time versus part time (following the international definition given by the OECD).</li> <li>▶ “Contractual conditions” implies a dummy variable to distinguish between permanent and temporary contracts.</li> <li>▶ The occupational categories for all countries follow the international classification code ISCO-88 or ISCO-08.</li> </ul>
<b>Workplace characteristics</b>	<ul style="list-style-type: none"> <li>▶ Industrial category for production (principal economic activity)</li> <li>▶ Size of the enterprise</li> <li>▶ Public or private sector</li> <li>▶ Regional location</li> <li>▶ Urban versus rural area</li> <li>▶ Type of collective pay agreement</li> </ul>	<ul style="list-style-type: none"> <li>▶ The industrial categories for almost all countries follow the industrial classification given by NACE Rev. 4.</li> <li>▶ The size of the enterprise is usually declared in categories (micro, small, medium and large).</li> <li>▶ Type of collective pay agreement is an indicator available only for SES countries.</li> </ul>
<b>Personal characteristics</b>	<ul style="list-style-type: none"> <li>▶ Belongs to a union</li> <li>▶ Is a migrant (not considering internal migration)</li> <li>▶ Works as domestic worker</li> <li>▶ Formal versus informal employment</li> </ul>	<ul style="list-style-type: none"> <li>▶ These variables – except for “belongs to a union” and “is a migrant” are available for low- and middle-income countries only. The exception is Australia, where the variable “domestic worker” can be identified.</li> </ul>

Source: Global Wage Report 2018/19, Table 9.1 p. 56.

The method of decomposing the gender wage gap involves taking all the different components that have an influence on an individual’s actual pay and attempting to evaluate each of them separately. Obviously, this depends on the data collected when carried out at a national or sectoral level or a company level. The former depends on the questionnaire used by the statistical bureau (or those collecting the data) and is usually more limited in the actual number of variables but enables the analysis to include the influence of other variables, such as the characteristics of the company itself, while the latter, a company-based decomposition, can be more easily controlled with respect to how the different variables, such as professional status or skills levels, influence the actual pay (see the discussion in Appendix III on Logib).

The Global Wage Report 2018/19 highlights the need for better data on the distribution of wages, especially where data is collected through labour force and household surveys and establishment surveys that omit non-registered enterprises. An example of the problems with these surveys is the question of the number of children, where the questionnaire does not enable a definition of “motherhood” or “fatherhood”. For policymakers to be able to use the data to formulate an appropriate policy it is very important to go beyond summary measures to understand the underlying wage structure. This means collecting more disaggregated data with more variables on women’s and men’s characteristics, as well as conducting the analysis across the wage distribution.

## 5.1 Different statistical methods to decompose the gender wage gap

Very different statistical methods are used to decompose the gender wage gap and isolate the contribution of each observed characteristic underlying the unadjusted gender wage gap. The most widely used methods separate the unadjusted gender wage gap into explained and unexplained parts. The explained part is the gap between women’s and men’s earnings that is due to the differences in the average characteristics of their participation on the labour market. This part is commonly not associated with direct discrimination between women and men but nevertheless can be used to substantiate policy measures to minimize the influence of these factors on women’s and men’s actual earnings. Such measures include campaigns to raise awareness of gender segregation on the labour market and labour market policies that encourage women to seek education and/or jobs in typically male-dominated areas.

The unexplained part of the gender wage gap, often called the adjusted gender wage gap, measures the difference between the average earnings of women and men with the same characteristics according to the dataset. If the dataset contains all possible variables that can influence wage formation, the unexplained part would be an accurate measure of the degree of direct discrimination between women and men, since it uncovers differences in remuneration for equal work or work of equal value. As this is never the case, the unexplained part of the equation must be treated as a residual that contains both discrimination and the effect of other variables not collected. It nonetheless draws attention to the necessity of qualifying the surveys that are conducted and collecting more qualitative data on the workforce to enable a better analysis on this subject to be conducted.

There are different ways to analyse the gender wage gap. The first one is to use a traditional regression analysis (the Ordinary Least Squares Regression). This model has been used to gather findings on the “corrected gender pay gap” on an annual basis, and is often used in the cross-sectional data of each year. The results indicate an annual difference between men’s and women’s wages. However, it is important to bear in mind that results can be distorted, as the effects of variables not covered cannot be corrected, since there is only one measurement per individual in the sample. Similarly, the method is poorly suited for calculating the pay gap between men and women over a longer period, since it is not possible to consider the different individual influences that Breusch and Pagan Lagrange’s multiple theory test demonstrates.<sup>15</sup>

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15 Breusch and Pagan. 1980.

One way to deal with different distribution of individuals in the longitudinal database is to apply a Generalized Least Squares Random Effects model. This model assumes different distribution between individuals but assumes that there is no correlation between individual effects and the variables used in the model. This assumption is not always correct and when tested with Hausman's theory test,<sup>16</sup> and if the test result is significant, it cannot be concluded that there is no correlation between individual effects and model variables. In fact, this means that some unexplained factors are related to the model's variables. For example, some of the unexplained factors may be assumed to be the general skills of employees that are likely to influence his or her choice of work and education. This leads to bias in the model's results. Given that it is not possible to establish the absence of a relationship between unmet individual effects and the longitudinal model variable, it is necessary to find a method that does not depend on this assumption.

The Generalized Least Squares Fixed Effects model has these features, since the individual effects are built into the model's variables. However, the model has the disadvantage, in contrast to a random effects model, of not being able to evaluate over time the effects of variables with the same value. This is a serious problem when examining the gender pay gap, as the gender of a person does not change over time. As a result, a fixed effects model is poorly suited for estimating the gender pay gap. However, it provides estimates with acceptable accuracy for models where the effects of different cloud variables are examined for each gender.

The Oaxaca<sup>17</sup> method, also called the Blinder-Oaxaca method, is usually used to break down the pay gap between men and women into an explained and unexplained pay gap. The method comprises two steps: a regression analysis and a decomposition analysis of the structure of earnings. First, two regression models are calculated, one for men and the other for women. This can be done with a random effects model in which all explanatory variables are used but the auxiliary variable is calculated as hourly wages converted using natural logarithm. Second, the gender pay gap is broken down, whereby the intersection of the regression model and the slope of the regression model of women is replaced by the same size from the male model. The results indicate what a women's salary would be if it was governed by the same factors as for men with the same characteristics. From these results, one can see how much of the gender pay gap is considered to be explained on the basis of the model's variables and how much the unexplained difference is. In this context the explained pay gap consists of the specified measured variable that has the effect of raising wages, but that variable is higher for the other sex. For example, if it emerged that older working age had the effect of raising wages and men were generally of an older working age than women, this would be a part of the explained difference. The unexplained wage difference is then the difference between the men's and women's wages that remains when all the variables in the model have been taken into account.

Over the years, the Oaxaca and Blinders decomposition of the gender pay gap has been acknowledged as the standard methodology in decomposing the pay gap, both in theoretical analysis and as a basic method used by statistical bureaux. In a statistical working paper, Eurostat applied the Oaxaca decomposition to decompose the unadjusted gender pay gap (Leythienne and Ronkowski, 2018). Most of the EU member states statistical bureaux apply the Oaxaca method and Iceland Statistics, but with different variations. Although the Oaxaca method is widely used, and thus enables a better comparison across countries, Ponthieux and Meurs (2015) emphasize that "the decomposition method has been developed and extended to explain changes over time in the unexplained pay gap, to intergrade quantile analysis and to treat dichotomous outcomes, nonlinear models, censored outcomes and nonparametric setups." In the ILO's Global Wage Report 2018, Part II, the gender pay gap is decomposed by using methods developed by Fortin, Lemieux and Firpo (2011) to identify, measure and decompose the

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16 Hausman 1978.

17 Oaxaca 1973 and Blinder 1973.

explained and unexplained parts of the gender pay gap. The main argument for using this method, apart from the fact that other alternatives require significant computational requirements, is that this method uses the construction of a counterfactual that considers all women in the sample, whereas in propensity score matching, the techniques often rely on the selection of a few women as counterfactuals.

GeoStat does not, however, publish any data on the adjusted gender wage gap but is planning to start this year on the basis of the changes made to the labour market survey in 2017, where more explaining factors were incorporated into the questionnaires, among them more detailed questions on working time. My advice would be to use methods similar to those used by Eurostat, namely based on the Oacaxa-Binder method,<sup>18</sup> regardless of the above-mentioned theoretical discussions, due to the possibility of comparing the results with data coming from EuroStat. An important addition should be an exploration of the pay gap across the wage distribution. There is no doubt that the method of decomposing the gender wage gap will be further developed and the participation of GeoStat in such discussions will be important.

It is important to note that when the Oacaxa method is applied, the slope coefficients of different variables are calculated using a regression model for the other gender and these slope coefficients are used to calculate the predictive value for the other gender. Obviously, this causes a problem in the case of variables in the model that are only available for one gender. For example, in the case models used to estimate the corrected wage differential, the effects of the “job” are kept constant. This means that all possible jobs that people occupy in the labour market are compared to one comparative job (regarding wage differentials). If the database contains specific jobs that only one gender performs, these jobs are not part of the analysis when the Oacaxa method is applied and thus the effects of these jobs are not reflected in a clear or unexplained wage differential. In the case of gender segregated jobs, where earnings are much higher than in other jobs in the labour market, there is a risk that the results of the Oacaxa method will be distorted. One way to solve this is to use the ISCO 2008 standard and regroup different occupations using the same approach as gender neutral job evaluations.

As can be seen from this discussion, it is important to continue the development of and research on methods for assessing the gender pay gap. The methods used to estimate the gender pay gap are not free from distortion but it could be possible to reduce errors using other methods, such as the Hausman Taylor model,<sup>19</sup> where problems both with the random effects model (assuming there is no correlation between unmeasured properties and further development of methods for the study of gender pay gaps is a very important covariate) and with the fixed effect model (since the effects of variables that are stable over time cannot be estimated) can be avoided. It is also important to further develop the use of the Oacaxa method, for example, to more closely identify the factors with the most significant effect on the wage differential and those which influence its development. It would provide even better information on the reasons for the wage differential. In addition, methods must be sought to capture the effects of gender-based occupations when examining the explained and unexplained pay gap.

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18 The author of this report had meetings with GeoStat during a visit to Tbilisi in September and understood that GeoStat would be using a different statistical method. The first preliminary results of these calculations suggest that the adjusted gender wage gap might be around 25 per cent compared with the raw unadjusted gap of 37 per cent in 2018.

19 Hausman et al. 1981.

## 5.2 Decomposing the gender wage gap in Georgia

The most detailed and comprehensive analysis of the gender wage gap in Georgia was conducted by Tamar Khitarishvili, a research associate at the Levy Economics Institute of Bard College.

In her working paper of July 2013, Khitarishvili analysed the gender wage gap in Georgia in the period 2004–2011<sup>20</sup> using the Georgian Household Budget Survey data for 2004–2011 for 25–55 year-old wage workers with positive income. The sample was limited by age in order to avoid the issues of early retirement and schooling. By using the HBS survey, Khitarishvili was able to use traditional explanatory variables such as the level of education, age, marital status, nationality, urban/rural areas, skill level (corresponding to four occupational categories based on the ISCO-88 single-digit occupation coding), sector, industry and a variable representing the blocks of time worked.<sup>21</sup>

The main conclusions of the analysis were that, while the gender wage gap declined throughout the period, this drop could be separated into two distinct periods separated by the crisis in 2008 (in Georgia a double dip crisis with both the financial crisis and the August war with Russia). As we showed earlier, women's real wages grew faster than men's in the period 2004–2007, whereas women's real wages did not fall as much as men's real wages after the crisis until 2011. Going further to look at the distribution of wages, Khitarishvili showed that this development could be nuanced with the fact that between 2004 and 2007 the gender wage gap contracted at the top of the wage distribution but widened at the bottom. This reveals the fact that, although the gender wage gap was contracting, inequality among women increased and inequality among men dropped. Counter to this, the drop in the overall gender wage gap after the crisis and until 2011 occurred throughout the wage distribution. However, men's real wages dropped throughout the distribution while women's real wages increased at the bottom.

Analysing these shifts in the gender wage gap, Khitarishvili applied a decomposition method developed in Firpo, Fortin and Lemieux (2009). The approach allows for the decomposition into the endowment (composition or explained) component and the returns (structural or unexplained) component for each of the explanatory variables that makes it directly comparable to the Oaxaca-Blinder approach (Firpo et al. 2009, Oaxaca 1973 and Blinder 1973). The result was that during 2004–2011 the different endowments of women and men could explain between 22–61 per cent of the total gender wage gap and that the gap was the smallest at the top of the distribution, “revealing no signs of the glass ceiling effect” (p. 53). The primary contributors to the gender wage gap were “work hours, industrial composition and employment in the state sector” (p. 53). Another finding was that industrial segregation was less of a problem among high earning women and men.

In explaining the change in the gender wage gap over time, Khitarishvili noted that the reduction in the wage gap between 2004 and 2007 revealed “the switch from a glass-ceiling type of gender gap distribution to a sticky-floor type of distribution” (p. 54). The change in the gender wage gap between 2009 and 2011 can be explained by the decrease in men's working hours being greater than women's, and by the increase in women's returns to education at the 10th percentile.

In a more recent paper,<sup>22</sup> Tamar Khitarishvili (et al.) analysed the period 2004–2015, focusing on the contribution of occupational and sectoral segregation to the gender wage gap in Georgia. As shown above, the Georgian labour market is highly segregated in terms of sectors or industries, and occupations. It was also shown that average earnings tend to be lower in industries or sectors where women are in the majority, and hence could largely explain the difference.<sup>23</sup> By using more comprehensive methods

20 Khitarishvili 2013 and Khitarishvili 2016.

21 See ILO Global Wage Report 2018/19, p. 55 and Leythienne and Ronkowski 2018.

22 Khitarishvili et al. 2018.

23 In Khitarishvili 2009, the author actually came to the conclusion that “the component of the wage gap that can be explained is almost completely due to occupational differences, with the majority of the paid female labor force working in three industries: education, health care and culture. These also happen to be industries with the lowest mean wages”.

and detailed information on the labour force, Khitarishvili (et al.) put this general conclusion to the test by analysing both intersectoral and intrasectoral, and industrial and skills components in the effects of composition and structure. The main conclusions were, “that the gender wage gap in Georgia is present mainly due to the gender wage inequality within industries and skill categories rather than due to the industrial and skill-based segregation” (p. 23). There is no doubt that both industrial and occupational segregation during 2004–2015 in Georgia was very high. The Khitarishvili (et al.) analysis demonstrated that regardless of this high level of segregation, the gender wage gaps within the sectors (both public and private), industries and skill categories were the main factors behind the observed gender wage gap. The authors highlighted the fact that the industries and occupations that were dominated by women did not pay much less than the overall average in the country and that these industries and occupations were to a much lesser degree affected by the double dip crisis in 2008, which hit male-dominated industries, such as construction, much harder.

Their findings also revealed “the growing role of the private sector in contributing to the gender wage gap contraction in Georgia. Importantly ... at least a half or more of the gaps within sectors (public and private), industries and skill categories cannot be accounted for by observed characteristics”. Further, they demonstrated that the main factor in narrowing the gender wage gap was the reductions in the inequality within sectors, industries and skill levels but highlighted that “changes in industrial and occupational segregation benefitting women also contributed to the reduction in the gap in all three cases” (p. 24).

Decomposing the gender wage gap in Georgia contributes to about 40 per cent of the unadjusted gap. This means that 40 per cent of the difference between monthly earnings of men and women in Georgia can be explained by the difference in average characteristics between male and female workers that is in favour of men. This is a slightly higher relative proportion than was registered in a similar study in Europe, Leythienne and Ronkowski (2018), where the model could only explain 31 per cent of the unadjusted gender wage gap in the European Union. Here one must bear in mind that the average unadjusted wage gap in the European Union was 16.6 per cent, of which 5.1 per cent could be explained, while the unadjusted wage gap in Georgia is 35.7 per cent, of which 12.3 per cent could be explained. My conclusion of these results is that the pay gap in Georgia due to occupational and sectoral gender segregation is considerably higher than in many other countries and accounts for almost two and a half times the share of the gap.

However, it is also clear that other factors remain unaccounted for in Georgia, where 60 per cent of the gender wage gap, accounting for 21.4 per cent gender wage gap, remains unexplained. Being a residual, one cannot conclude that this is a measurement of discrimination through unequal pay for equal work, although discrimination is obviously one factor. Other variables that have an influence on wages and wage formation might be missing in the dataset, typically work experience and various personal characteristics, that are not collected in the surveys. The inclusion of such additional variables in the regression analysis might change the results.

Khitarishvili (2016) draws attention to the role of policy interventions in reducing the gender wage gap in Georgia, where public sector reforms had enabled a swift reduction in the gender pay gap. This goes hand in hand with what we saw earlier, analysing the wage gap by ownership of enterprise, where the gap among state owned enterprises in Georgia fell from 55.3 per cent in 2007 to 24 per cent in 2017. This is in part due to the fact that there is a high degree of industrial and occupational segregation in Georgia. Khitarishvili (et al.) “further underscores the important role that policy interventions can play. In particular, the findings of the high unexplained share of the intra- and inter- components emphasize that unobserved barriers that limit their labour market earnings remain sizable for women in Georgia. Thus, our policy recommendations include the implementation of measures that will directly contribute to equal wages, such as the laws that mandate equal pay for equal work and ensure stronger representation of women on company boards” (World Bank 2016 p. 24).

### 5.3 The impact of the motherhood gap on the overall pay gap

The actual and expected division of labour within families or households by gender has an important influence on the gender wage gap, especially with regards to the responsibilities related to childbirth and child care. This is called the motherhood pay gap or penalty, defined as the pay gap between mothers and non-mothers with similar endowments or background on the labour market. Another way is to calculate the pay gap between mothers and fathers compared to women and men without children. This gap is quite well documented in literature by numerous studies (Budig and Hodges 2010, Evertsson and Duvander 2010, Aisenbrey et al. 2009 and Gangl and Ziefle 2009). In an ILO report on the motherhood gap, it was concluded that “from the available data it appears that the unadjusted motherhood gap tends to be larger in developing countries than in developed countries. Globally, the motherhood gap increases as the number of children a woman has increases; in many European countries, for example, having one child has only a small negative effect, but women with two and especially three children experience a significant wage penalty” (Grimshaw and Rubery 2015).

Another aspect of the impact of the division of labour within households is the existence of a fatherhood premium, although empirical studies suggest that becoming a father actually leads to a wage gain. While this premium has not been confirmed as widely as the motherhood penalty in studies, this gain varies between countries and can be up to 20 percent (Killewald 2012, Lundberg and Rose 2002, ILO Global Wage Report 2018/19).

Many reasons have been put forward to explain the underlying factors behind the motherhood pay gap. Grimshaw and Rubery (2015) hold that these reasons can be seen as three analytical frameworks: rationalist economics, sociological and comparative institutionalist.

In the rationalist economics approach the labour market interruptions and/or reductions in working time are associated with less willingness to seek out higher-paid jobs with more responsibility, along with women seeking employment in family-friendly jobs that are paid less. The sociological approach argues instead that (at least some) employers build traditional expectations of the burdens imposed by families on mothers' time and energy into their hiring and promotions, and highlight the absence of adequate childcare and other work-family measures as a market failure and undervaluation of women's work. The comparative institutionalist approach emphasizes that countries provide different opportunities for mothers to access decent wages through specific policies to support responsibilities and work, such as childcare provision, maternity and paternity leave, a country's tax and benefit system, the degree of inequality in a country's overall wage structure, and that the cultural and family context matters and implementation gaps are a key area of concern, particularly in developing countries, where women work informally or under precarious contracts in the formal sector which exclude them from statutory provisions related to leave, job protection and so on.

All these frameworks contribute to understanding the underlying factors behind the raw motherhood pay gap. Looking at the situation in Georgia, data on the raw motherhood pay gap is not easily accessible, but apparently the Georgian society is to a large degree patriarchal with a strong foundation in the core family.

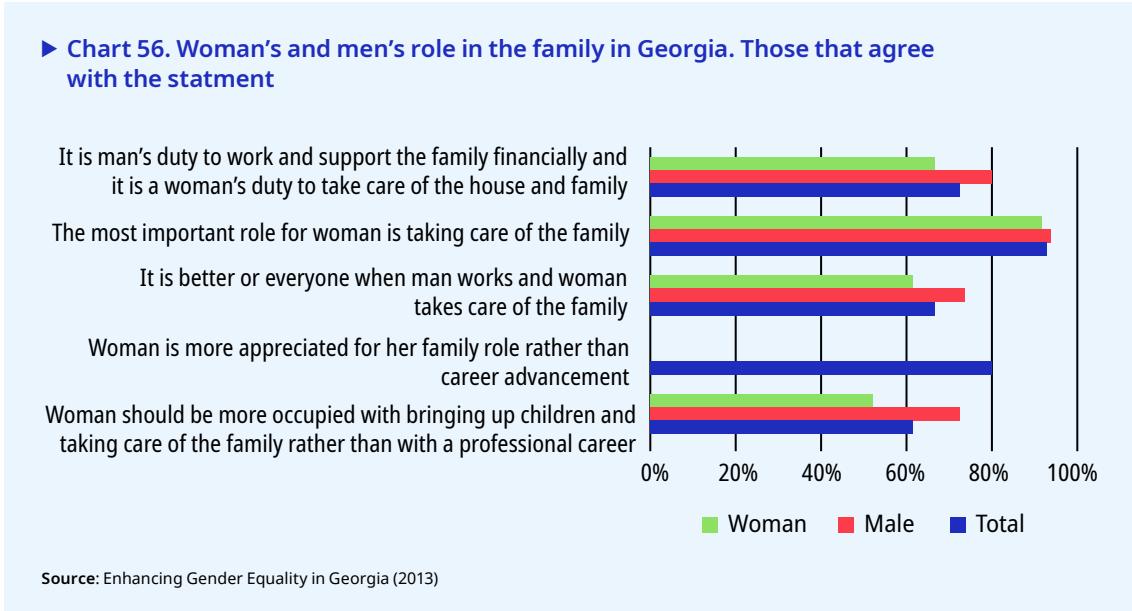
As a part of a project led by UN Women, UNDP, Sweden and UNFPA, entitled Enhancing Gender Equality in Georgia, a survey was conducted in 2013<sup>24</sup> on how the population regards different aspects of women's participation in politics and business.

According to this report, the family is an exclusive space, where women must be self-realized by combining the roles of housewife and mother. A large majority (72 per cent in total, 66 per cent among women and 80 per cent among men) believe that it is a man's duty to work and support the family financially, while a women's duty is taking care of the house and family.

<sup>24</sup> Enhancing Gender Equality in Georgia 2013.



More than 90 per cent believe that the most important role for women in life is taking care of their family, with 91 per cent of women and 93 per cent of men completely agreeing with this statement.



The majority (66 per cent) is of the opinion that it is better that men work and women take care of the family, and this opinion is shared by 73 per cent of men and 61 per cent of women. Similarly, 79 per cent believe that women are more appreciated for their family rather than their career.

Lastly, the importance of family for women is highlighted by the fact that 61 per cent are of the opinion that women should be more occupied with bringing up children and taking care of the house rather than with a professional career. This statement is shared 72 per cent of men and 52 per cent of women.

The same is verified by the statement supported by most women and men that a woman cannot be fully happy no matter what success she achieves in her career unless she has a family.

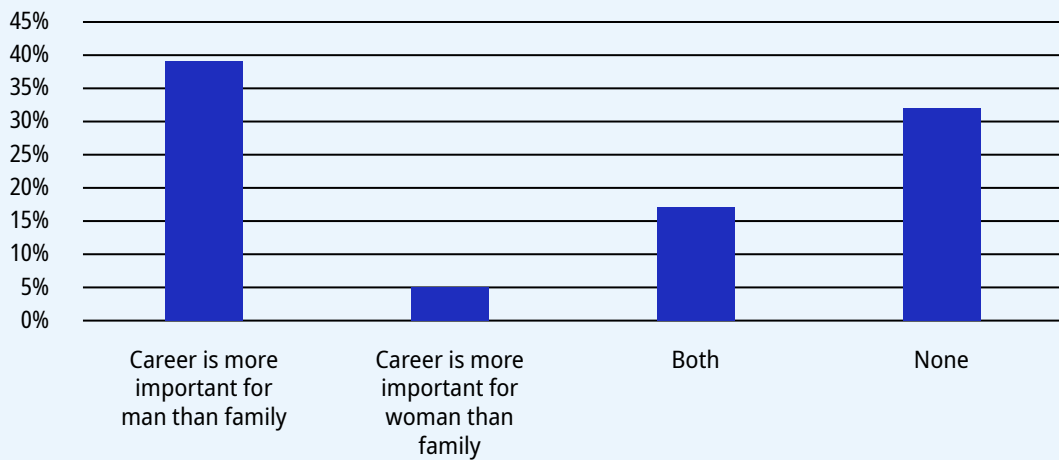
Looking into this further, the research shows that a career is considered more important for men than for women. However, many people believe that a career should not be more important than a family either for women or men, which again indicates the significance of family for Georgian society.



► Chart 57. Woman cannot be fully happy without a family in Georgia



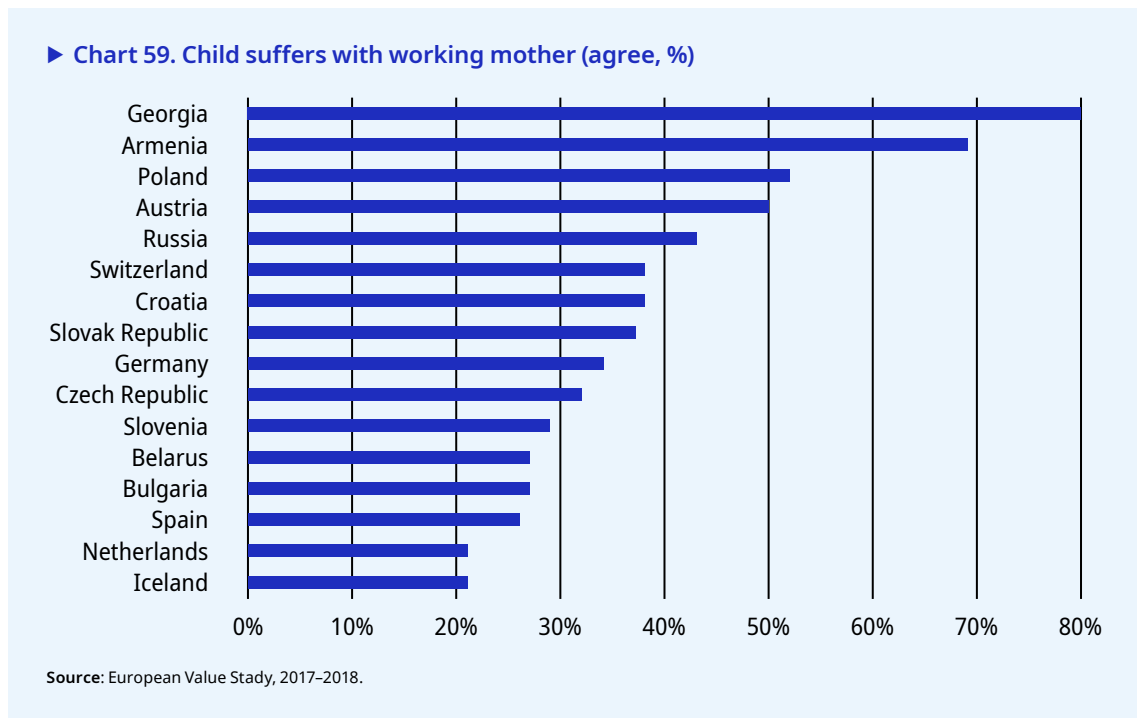
► Chart 58. Importance of career and/or family in Georgia



The study clearly showed that traditional views on gender roles are quite strong in Georgia: a woman's main function is to take care of and raise children, and take care of the household, while a man's function is to support the family financially. The fact that 30 percent of women actually support their families financially does not appear to change public opinion towards this scenario being less than ideal. Rather, this indicates that if the family finances allow, it would be better for women to stay at home or take an easier job if necessary.

To narrow the gender pay gap, further action is needed to overcome gender stereotypes in the education system and support families to balance work and family life.

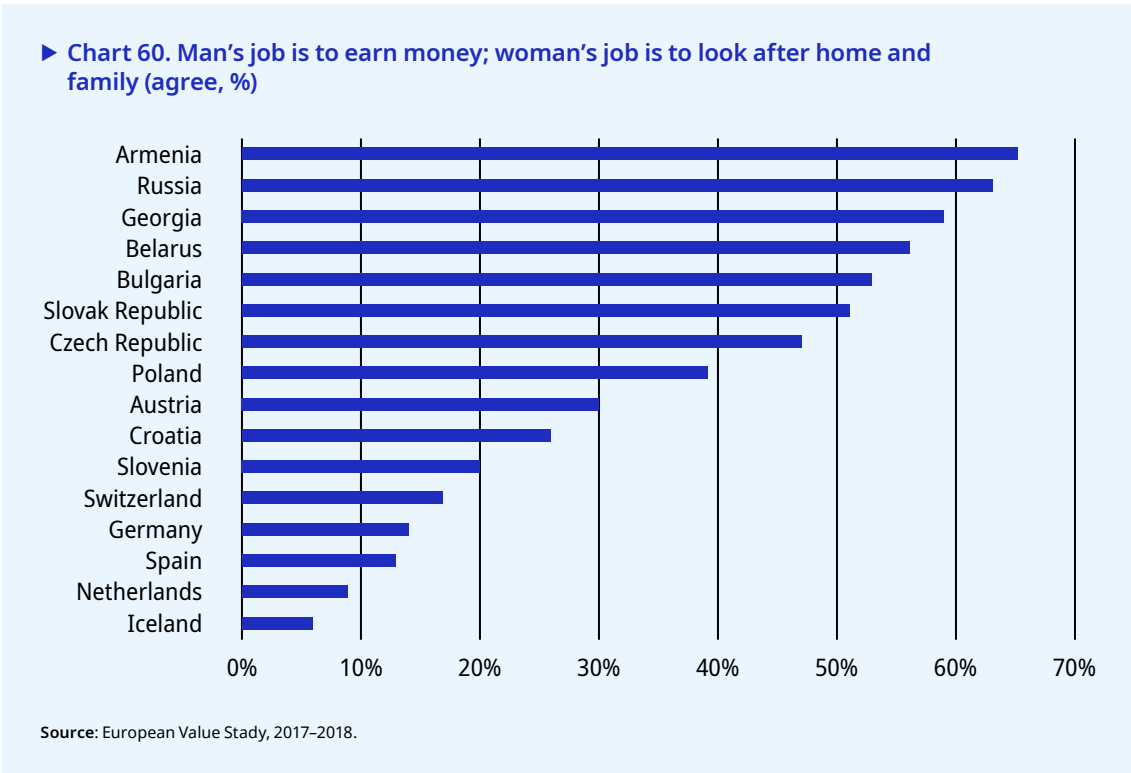
The European Values Study,<sup>25</sup> a large multinational survey research programme that has been studying basic human values for almost 40 years, has asked several questions regarding gender and employment, and Georgia has been a part of this research in recent years.



Of the 16 countries where the European Values Study has conducted this research, Georgia is the only country where 80 per cent of the population agree with the idea that a child suffers with a working mother, whereas only 21 per cent of the population in Iceland and the Netherlands share this view.

Furthermore, the patriarchal status of the Georgian society is confirmed when we look at public opinion on women's role in the labour market. A total of 59 per cent of Georgians agree that a man's job is to earn money while a woman's job is to look after the home and family, compared with 6 per cent of the population in Iceland and 9 per cent in the Netherlands. This opinion is also well reflected in the paternal leave statistics, where in Iceland 90 per cent of fathers take leave, while in Georgia according to unofficial statistics, in 2017, only eight fathers did the same.

25 GORBI 2019.

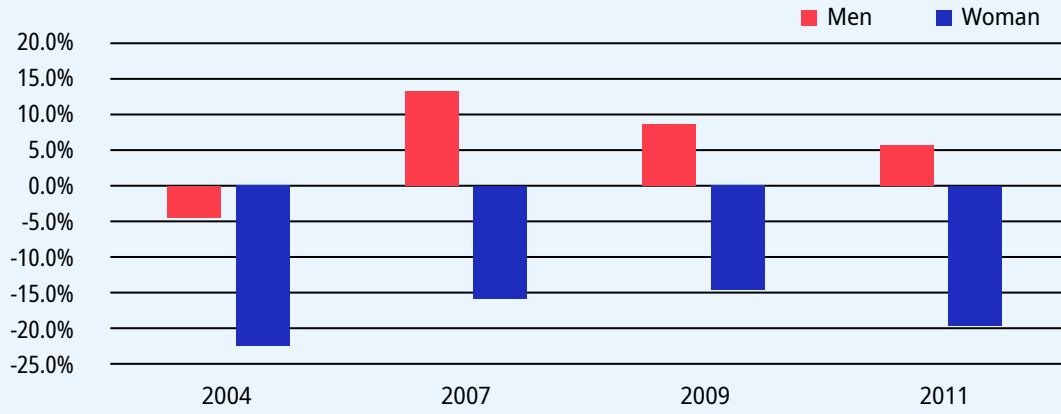


It is therefore interesting to see how these traditional views on gender roles in society play out in the wage settling system. National Statistics of Georgia (GeoStat) does not publish data on wages after marriage status nor parenthood, but here again we can rely on Tamar Khitarishvili’s work. In her working paper from 2013, she published summary statistics of wages for several characteristics, among them the marriage status of men and women for the years 2004, 2007, 2009 and 2011 but unfortunately not disaggregated by men and women with or without children. Therefore, we cannot look at the motherhood or fatherhood penalties/premiums directly, but we are able to calculate the unadjusted pay gap for married men and women compared to unmarried persons, and between married and unmarried men and women.

If we look at the impact of marriage on men’s and women’s average wages, we see that, except for 2004, there is an opposing effect for men and women. Women appear to bear a rather heavy penalty in their wages for being married, looking at the raw pay gap, while men seem to enjoy a sizable premium for marriage. For women, the penalty is 15–20 per cent lower average wages while the premium for men is 6–13 per cent higher. The figures were highest in 2007 and declined in 2009 and 2011.

Due to this effect, the unadjusted gender pay gap between men and women in Georgia is considerably larger for married women than for those who are unmarried, although the gap is narrowing for both categories. In 2004 the unadjusted pay gap for married women was 54 per cent compared to 43 per cent for unmarried women and in 2011 the gap was 42 per cent for married women and 23 per cent for unmarried women.

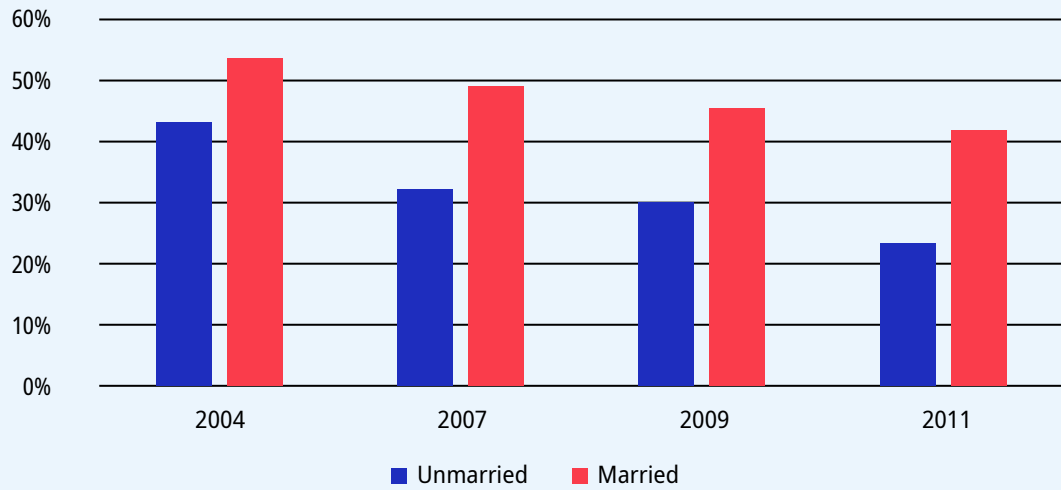
► Chart 61. Penalty/premium of marriage unadjusted pay gap<sup>1</sup> in Georgia, 2004–2011



<sup>1</sup> Married man/woman compared to unmarried

Source: Khitarishvili, 2013.

► Chart 62. Gender pay gap in Georgia by marriage status, 2004–2011



Source: Khitarishvili, 2013.

This confirms that there exists a large penalty for married women and although data is missing for the direct impact of children, we can assume that this would also be the case for motherhood compared to fatherhood.

The problem with these figures is, as before, that they do not consider working time and other labour market characteristics. Khitarishvili has in many of her studies looked at this in terms of marriage and, in some studies, of the effect of having children.

- In her 2009 study she finds that marriage, a key variable in determining the probability of a person being wage employed, plays opposing roles for men and for women. Being married raises the probability that a man is employed by 0.2630. For women, the effect is the opposite and very sizable: marriage reduces the probability of a woman being wage employed by 0.3799. Not surprisingly, having children under six has strong and negative bearing on women's probability of being engaged in wage employment, reducing it by 0.1605. It has little effect on the probability of men working for a wage (if anything, it is positive, albeit insignificant) (Khitarishvili 20XX, 15).
- In her 2010 study she draws the attention to the fact that marriage is beneficial to men as their earnings increase by as much as 20 per cent as a result of getting married. Women's earnings as a result of marriage are not statistically altered. Note however that without information on the number of hours worked it is not possible to assess the welfare consequences of these results. It is conceivable, for example, that married men's earnings are higher than unmarried men's earnings because they work more hours in order to provide for their families. Similarly, married women might choose to work fewer hours, especially once they have children, but earn more per hour (Khitarishvili 2013, 23). While the number of children under sixteen is likely to influence the probability of individual's employment (for women, in particular), it is less likely that the variable measuring the number of children under six (another commonly used instrument) will influence their wages directly. Indeed, these identifying variables were both relevant ... and valid (Khitarishvili 2013, 28).
- In her 2013 study she concluded that the differences in the returns to marriage contribute prominently to the gap. At the mean, it is men's positive returns to marriage that are driving this result (women's returns are negative but insignificant), potentially revealing the differences in the choices married men and women make with respect to their work and/or in the way employers perceive married workers based on their gender (Khitarishvili 2013, 18).
- In her 2016 study she found that women faced a sizable marriage penalty at the top of the distribution (this becomes particularly obvious in 2005 and 2006) even though, as we have established, similar proportions of high-earning men and women were married. In contrast, at the bottom of the distribution, women's marriage premium was higher than men's. These findings suggest that at the bottom of the wage distribution marriage served as a barrier to female employment (given that proportionately fewer employed women than employed men were married) whereas at the top of the wage distribution it served as a barrier to earning higher wages, in line with the glass ceiling effect (Khitarishvili 2016, 18).

These findings clearly underline the need to do more analyses on this topic in Georgia, especially with regard to the direct and indirect impact of having children under 16 years old and especially under 6 years old on both women and men. Regardless of this, there is a great need to address this issue on the labour market in Georgia regarding family laws, policies and measures, gender stereotypes and societal expectations.

## 5.4 Wage formation in Georgia

As part of the preparation for this report, I had the opportunity to visit Tbilisi in early September and interview people from public and private institutions and companies, as well as employers' associations, and discuss how the wage formation process in Georgia is conducted. Although the interviews by no means constitute a comprehensive analysis of the Georgian wage settlement system, they provide an overview of how the process is conducted. It is clear from this visit that collective agreements appear to have very little impact on wage formation, although they do exist in different sectors and large companies. In most cases, decisions on wages and wage increases are taken unilaterally by management (or parliamentary decision for the state fiscal budget) in relation with the budget for the coming years. No or limited consultation is held with trade unions or employees, and labour agreements are on an individual basis. In none of the companies and institutions visited had there been local conflicts or disputes on wages or wage increases.

As part of reform of the public sector in Georgia after the Rose Revolution, the remuneration system for civil servants was reformed to align more closely with the law on gender equality, which stipulates that "the remuneration system shall be based on the principles of equality and transparency, which implies receiving, in compliance with pre-established rules, equal pay for the performance of equal work, with due consideration of the post/position responsibilities".<sup>26</sup>

In this pay system, the officers' positions are assigned to four hierarchical ranks, top management, middle management, senior specialist and junior specialist level, and according to the following relevant factors of the functions of each position: (a) responsibility, (b) the level of complexity of duties, (c) competences, (d) required qualification and (e) work experience. Based on these factors, the Government of Georgia determines position titles, the unified procedure for assigning officers' positions to four hierarchical ranks and the nine hierarchical lists of officers' positions assigned to a respective hierarchical rank. This pay system is largely based on the principles of factor comparison or point method,<sup>27</sup> and has contributed to a significant reduction in the gender wage gap among state owned enterprises. In this pay system, each director can classify each defined job into one of ten different categories, which leaves a fairly large scope for individual subjective judgment. This might explain the fact that, despite this new system and its positive effects on gender pay gaps in the public sector, there remains a considerable gender pay gap in public entities.<sup>28</sup>

In the private sector, there are examples of a systemized approach to decisions on wages using internationally approved evaluation methods, but this is not common. Neither is the use of formal gender equality policy instruments or formal measurements of gender pay gaps, since "all decisions on wages are taken on a gender-neutral basis" as one of the interviewees claimed.

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26 Law on remuneration in public institutions, 2017, Article 3 - Basic principles of the remuneration system.

27 Decree No. 627 of 19 November 2014.

28 See also [Changes to the Rule of Labor Remuneration in Public Institutions](#).

## ▶ 6. Job evaluation to reduce the gender pay gap

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Along with the development of statistical methods to decompose the gender wage gap to better understand the underlying reasons for the gap, there has been much effort put into developing ways to ensure that women and men receive equal remuneration for the same or similar work but also for work of equal value. The Equal Remuneration Convention, 1951 (No.100), one of the eight core international labour standards, was put forward to address discrimination in remuneration and ensure that women and men are treated equally in this respect. Following the adoption of this Convention, many Member States started to adopt anti-discrimination legislation, explicitly banning any form of discrimination in remuneration of women and men, demanding equal pay for equal work and gradually over time this was expanded to cover work of equal value. This raises the question of comparable worth, the principle that women and men should be compensated equally for work requiring comparable skills, responsibilities, and effort.<sup>29</sup> The argument here is that the persistent gap between women's and men's occupations is caused by a systemic and historical undervaluation of female work.<sup>30</sup>

Job evaluation is a widely used method to implement the principle of "equal wage for equivalent work of equal value" in practice. It was originally developed as a managerial tool for determining wage levels within a company and establishing relativities or hierarchy of jobs. It is important to bear in mind that it differs from performance evaluations and assessment in that the main goal of a job evaluation is to rate the job, not the person responsible for doing it. The task is to determine the value of one job in relation to others in the organization in order to ensure a fair job hierarchy and the establishment of a salary system. The most robust job evaluation systems are analytical methodologies. There are different types of job evaluation systems to choose from, although there are primarily three methods used: the ranking method, the classification or grading method and the factor comparison or point method. Of these, the ranking method is the simplest, where jobs are arranged from highest to lowest, in order of their value or merit to the organization. Jobs can also be arranged according to the relative difficulty in performing them. The classification or grading method places groups of jobs into job classes or job grades, where separate classes may include office, clerical, managerial, personnel, etc. The factor comparison or point method is widely used and considered to be one of the most reliable and systematic approaches for job evaluation. Here, jobs are expressed in terms of key factors (namely skill, responsibility and effort) and points are assigned to each factor after prioritizing them in order of importance. The points are summed up to determine the wage rate for the job. Jobs with similar point totals are placed in similar pay grades.

Since the task is to substantiate a gender-neutral system to evaluate women's and men's jobs, it is important to bear in mind, that many of these job evaluation systems have been criticized for being gender biased and actually reproducing both social and historical discriminatory heritage in valuing men's and undervaluing women's occupations (England, 1992). The first two methods, often referred to as "global methods", have especially been criticised for the fact that they compare and classify jobs without carrying out a detailed analysis of their content. The disadvantage is that they do not allow for the identification and hence elimination of the influence of prejudices and stereotypes which cause predominantly female jobs to be undervalued. It is therefore necessary to select a system that guarantees gender neutrality. Research has shown that analytical systems offer the most guarantees of this, if they are correctly applied. To do this, it is important to choose a gender-neutral and analytical system, ensure that the job evaluation process is undertaken on a gender-neutral basis and guarantee gender neutrality within the procedures themselves. The factor comparison or point method is widely

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29 Bender et al. 2014.

30 England 1992 and Chicha 2006.

accepted for allowing this (Chicha 2008), but the best remedy to avoid gender bias is of course to increase awareness among all stakeholders and issue recommendations about gender neutrality in job evaluation. Preconceptions and gender-based stereotypes in job evaluation may have a negative and discriminatory effect in both directions.

If job evaluation is to be effective and able to support a credible, acceptable grading/pay banding structure, all forms of bias must be avoided, and the evaluator must concentrate on the role and its requirements. In the preparatory phase it is therefore important to set up a supervisory committee with equal and broad representation of the work groups being evaluated. This committee should have the necessary training in both job evaluation and equality issues and the formal ability to participate fully in setting up the perimeters of the job evaluation system. It is considered good practice in job evaluation to build protection against possible bias throughout the process. This might include:

- involving those who hold the position in completing relevant job information documents when roles are evaluated by trained evaluators;
- using job descriptions which adhere to the factors;
- anonymizing any personal data before the position is scored;
- involving trade union representatives to support position holders through the process, if required;
- documenting each role evaluated, including the reason for each factor assessment, to ensure transparency; and
- ignoring the characteristics and qualities of the position holder (for example gender, age and experience) and focusing on the role.

The job evaluation process consists of various phases, which can be summarized as:

1. Selecting key jobs or clusters of jobs and identifying the factors common to all the identified jobs, such as skill, effort, responsibility, etc.
2. Dividing each major factor into several sub-factors: each sub factor is then defined and expressed clearly in the order of importance, preferably on a scale.
3. Defining the factor degrees and deciding how many degrees should be on the scale for a given factor or sub-factor: once the total number of points and the weight of a factor or sub-factor is established, the next step is to assign points to the degrees within the factors.
4. Converting the points into monetary values, taking account of the hourly/daily wage rates, once the worth of a job in terms of total points is expressed. The results of the committee's activities must be written up in a job evaluation manual.

As mentioned earlier, job evaluation systems were originally designed as managerial tools and are only applicable at the organizational or company level and are not appropriate for regional, sectoral or national levels. The question is then how to get individual organizations or companies to use formal job evaluation systems as a tool to secure comparable job worth, eliminate existing gender wage gaps and prevent such gaps from emerging in the future.

## 6.1 Involving the social partners

In Europe, the involvement of the social partners, namely trade unions and employer associations, has been important to promote the mechanisms that are associated with the gender wage gap, along with addressing gender roles, promoting women in decision-making, and supporting work-life balance. Within the context of actions to eliminate the gender wage gap, in their framework agreement the social partners (ETUC and Business Europe) undertake:<sup>31</sup>

<sup>31</sup> Smith 2010.



- ▶ to ensure that pay systems do not lead to pay discrimination between women and men;
- ▶ to develop a variety of instruments to act on the underlying causes of gender pay differences;
- ▶ to provide information and guidance about existing legislation on equal pay;
- ▶ to ensure that pay systems and job evaluation schemes are transparent and gender neutral, including the possible discriminatory effects of secondary elements of pay.

The presence of trade unions does help to narrow the earnings differentials for women and men, and wage dispersion is lower in organized sectors compared to unorganized sectors.<sup>32</sup> The effect might be even stronger in sectors that are female-dominated, suggesting that unions have an even greater role in feminized sectors in reducing the gender pay gap.<sup>33</sup> It has also been suggested that the benefits for women of union membership can be more than for men, although this is not always by design.<sup>34</sup>

The engagement of the social partners in the fight against the gender wage gap could be a good mechanism for coping with institutional heterogeneity in Georgia. This has also been one of the ILO's recommendations for combatting the gender wage gap, and promoting social dialogue and collective bargaining. As we have seen in this report, gender segregation in terms of both sectors and occupations is more significant than gender itself in explaining low pay, and tackling sectoral inequalities would therefore be a useful step<sup>35</sup> in Georgia. As such, a reduction of the gender wage gap requires action that works with the diversity of these national industrial relations systems. However, the uneven distribution of social partners across sectors and the almost total lack of collective agreements in Georgia also needs to be recognized. In general, female-dominated sectors tend to have lower rates of unionization, except for the public sector. The effects of segregation on the gender pay gap extend beyond the relative strength of social partners in different sectors, and flux in collective bargaining arrangements mean that institutions that could address low pay or the gender pay gap are shifting.

## 6.2 Legislative and policy measures to further the use of job evaluations

There are many good examples of using both legislative measures and/or direct policy decisions to influence organizations and companies to further their direct actions to eliminate gender-based wage gaps by more broadly using other analytical and systematic approaches in structuring their pay systems. In recent years, several countries have embraced proactive pay equity laws, which require employers to regularly examine their compensation practices, assess the gender wage gaps and take action to eliminate the portion of the gap due to discrimination in pay.

In France, an act on compulsory pay gap bargaining was introduced in 2001 and amended in 2006, requiring companies to define and plan the steps needed to eliminate the pay gap between women and men based on a diagnosis of these differences. In case of a lack of commitment to “fair and serious” negotiation (based on information provided by trade unions), penalties were envisaged. In these negotiations, the concept of comparable worth was adopted (Bender and Pigeyre 2017).

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32 Metcalf et al. 2000.

33 Elvira and Saporta, 2001.

34 Allen and Sanders 2002.

35 Rubery and Grimshaw 2009.

In Iceland, an equal pay standard was published in 2012,<sup>36</sup> which was the product of work initiated by a joint declaration of the Minister of Social Affairs and Insurance, the Icelandic Confederation of Labour and Business Iceland in October 2008 stating their intention to develop a standard to serve as the basis for equal pay certification on the labour market, covering gender equality with regard to wage, engagement in employment and dismissal from employment. The standard is a management system based on the same principles as the ISO9001 and ISO14001 and, as such, an administrative tool designed to establish and maintain gender equality in wages within a workplace by eradicating gender-based discrimination. The standard requires managers of companies and institutions to classify the jobs done by all their employees and choose the criteria that best characterize the employees' functions under each given job, based on the principles of job evaluation to classify different jobs on a fair and gender-neutral basis. In 2018 the Act on equal status and equal rights of women and men was amended to make it mandatory for all organizations with more than 25 employees to certify that they have adopted this standard.

In Switzerland and Germany, the emphasis has been on exposing the gender wage gap through easily accessible instruments to measure the gender wage gap at the company level. This instrument is called the LOGIB and is an Excel based programme which calculates regressions on the basis of the data on each employee. The programme uses similar classifications to those in job evaluations for explanatory variables, although fewer and simpler than in the equal pay standard. The unexplained "rest" is calculated as well, and the recommendation is that if the residual is larger than 5 per cent, the firm is advised to further investigate the factors which contribute to the wage gap. The programme is freely accessible on the web and can be downloaded free of charge.<sup>37</sup> The LOGIB is more developed and more widely implemented in Switzerland, where the instrument is used by the Federal Office for Public Procurement, and companies wishing to participate in public contracts as contractors must prove that they comply with the rules on equal pay for work of equal value, which is part of the Equality Law. They must show that the wage differentials in their companies are due to "objective" factors like education, vocational skills etc., and not a result of discrimination. If the unexplained gender wage gap is larger than 5 per cent, the Federal Office may exclude the company from the tender process and future contracts.

LOGIB has developed a second module intended for small and medium-sized enterprises. This could be useful for a country like Georgia. Both are available online and are good practices under the Equal Pay International Coalition.

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36 See the Introduction in Appendix II and on the [Government of Iceland Equal Pay Certification website](#).

37 See Appendix III and the Swiss Federal Office for Gender Equality web pages for further information on the LOGIB system [here](#) and [here](#).

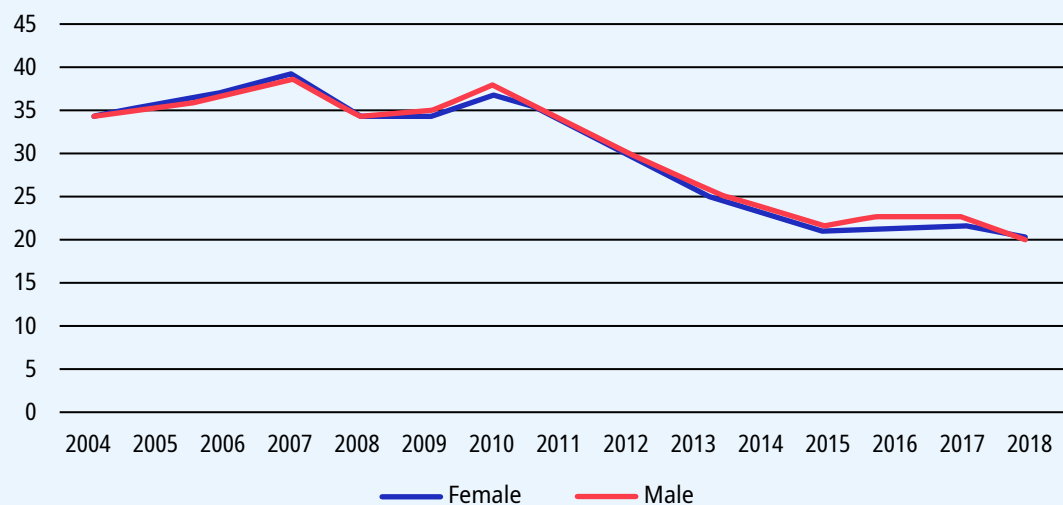
## ► 7. The effect of minimum wages on inequality, poverty and the gender wage gap

### 7.1 Reducing poverty and income inequality with minimum wages

The minimum wage has been regarded as an important element of public policy for reducing poverty and inequality, whether this is done with a legislated national minimum, through collective bargaining or with a combination of these two with extension clauses. As we saw in Chapter 1, Georgia is among the most unequal countries in the world with a very high GINI coefficient compared with other countries, although it has declined steadily in recent years.

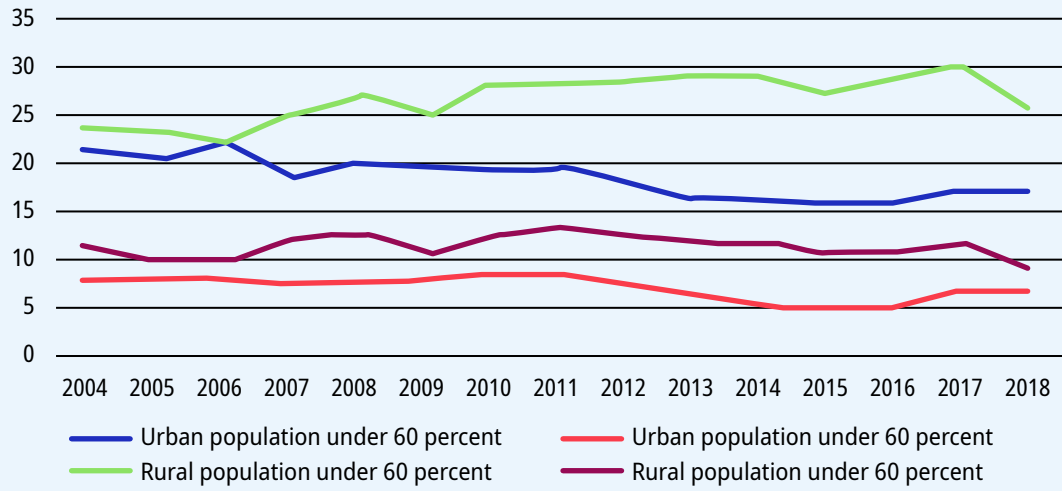
The absolute poverty rate, that is the number of persons that are below the minimum subsistence level, has also declined over the last five years. However, this is rather because the subsistence level is fixed to prices and not income. With real wages rising and unemployment falling, one would expect this to happen. This does not necessarily mean that the distribution of wages has become more equal. Looking at the relative poverty indicators for Georgia, measured with the number of persons with wages under 60 per cent of median wages (what Eurostat defines as “at risk of poverty”) and those with wages under 40 per cent of median wages, we see a different picture. In general, this indicator for Georgia is at a rather high level, indicating that poverty is a big problem. The number of persons at risk of poverty (those with wages under 60 per cent of median wages) has reduced slightly in urban areas but at the same time there are now more people at risk of poverty in the rural areas. Last, but not least, looking at income shares of the lowest and highest 10 per cent in Georgia, we see that the highest 10 per cent receive almost 30 per cent of all income, while the lowest 10 per cent only relative around 2.5 per cent of all income. This means that the ratio between the lowest and the highest decile is 12.5 compared with 9.6 in OECD countries, 5.25 in the EU and below 4 among the Nordic countries.

► Chart 63. Absolute Poverty by Gender



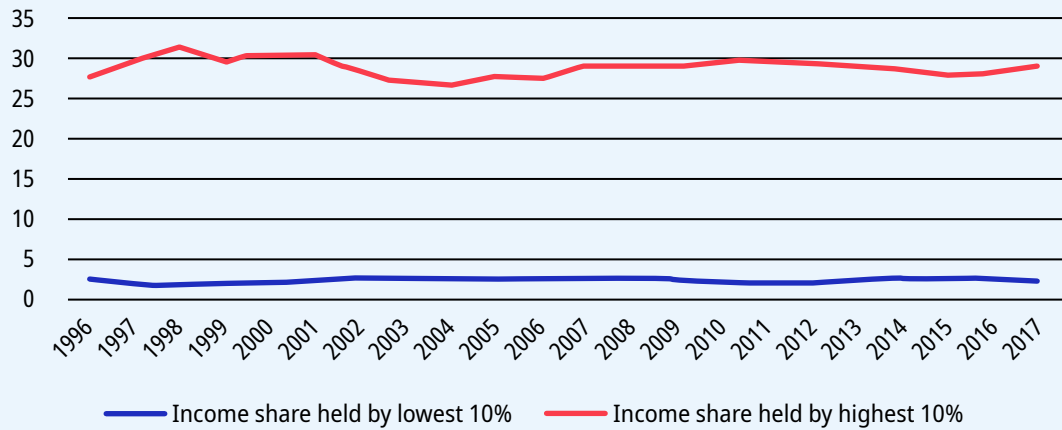
Source: GEOSTAT

► Chart 64. Relative Poverty Indicators by Regions, 2004–2018



Source: GEOSTAT

► Chart 65. Income share of lowest and highest 10% in Georgia, 1996–2017



Source: World Development Indicators, Georgia

Collective bargaining can be an effective mechanism for defining an appropriate minimum wage level, particularly at the low and middle levels of the wage distribution (Pillinger et al. 2016). This has been the case in the Nordic countries, where Denmark and Sweden use collective bargaining as their only mechanism for setting minimum wages, while Finland, Iceland and Norway negotiate on the minimum wage but use extension mechanisms to ensure that collective agreements cover all workers at industrial or regional level, regardless of participation (Eldring and Alsos 2021). For Georgia, with such wide sectoral disparity in the wage formation and a gender segregated labour market, it is also important to underline that collective bargaining can be very effective in reducing wage disparities both within and across sectors and firms (Pillinger et al. 2016).

It has also been pointed out that for workers' and employers' organizations to bargain for equal pay, they must have access to relevant wage data, as they need to understand the principle and what the requirements under national law. They can negotiate the form of job evaluation to be undertaken and at what level, and the possibility of establishing a pay equity committee and its functioning. They may also need to consider efficiency gains through streamlined job classification systems to offset any pay rises, and to guarantee that no worker will be paid less as a result of the job evaluation.

The importance and negative effects of the gap between rich and poor in societies has drawn more awareness over the last decade, where both the IMF and the OECD have, through substantial research and country comparisons, shown that growth that disproportionately benefits higher income groups over lower income groups will in the long run not only increase income inequality, and in turn raise social and political concerns, but also affect economic interests. The OECD pointed out that inequality "tends to drag down GDP growth, due to the rising distance of the lower 40 per cent from the rest of society. Lower income people have been prevented from realising their human capital potential, which is bad for the economy as a whole".<sup>38</sup>

In a study on economic growth in 2012, the OECD summed up certain policy implications and stated that "well-designed labour market policies and institutions can reduce inequality. A relatively high minimum wage narrows the distribution of labour income, but if set too high it may reduce employment, which dampens its inequality-reducing effect". It is also interesting that in their policy recommendation, the OECD highlighted the role of trade unions in reducing wage inequalities by ensuring a more equal distribution of earnings.<sup>39</sup>

In a recent paper, Militaru, Popescu, Cristescu and Vasilescu (2019) analysed the income distribution and the effect of a change in minimum wage and the level of the minimum wage using the case of Romania, and found evidence "indicating a positive effect of the minimum wage on wage inequalities reduction for both genders, although higher for women, as they are more present among lower paid employees. The minimum wage policy can reshape the wage distribution, by enlarging the share of minimum income earners and narrowing the middle".<sup>40</sup>

Debates over the effect of raising the minimum wage are often focused on whether jobs will disappear,<sup>41</sup> but the most frequent finding is that the effect on employment is close to zero and too small to be observable in aggregate employment or unemployment statistics.<sup>42</sup> In a recent World Bank publication, it was concluded that "although the range of estimates from the literature varies considerably, the emerging trend in the literature is that the effects of minimum wages on employment are usually small or insignificant (and in some cases positive)".<sup>43</sup>

<sup>38</sup> OECD 2015.

<sup>39</sup> OECD 2012.

<sup>40</sup> Militaru et al. 2019.

<sup>41</sup> OECD 1998.

<sup>42</sup> Belman et al. 2014.

<sup>43</sup> Kuddo et al. 2015.

In a study of the effect of an increase in the minimum wage in Brazil, Engbom, and Moser (2018) found that “the policy change induced a notable decline in earnings inequality”, and “at the same time, employment and output fall only modestly as workers relocate to more productive firms”. In their attempt to qualify the underlying causality between higher minimum wages and reduced inequality, they found that the increase was largest for low-skilled workers and declined gradually for higher-earning groups, with the result that the gap between top and bottom earners shrinks, thereby reducing earnings inequality. But why? When low-productivity companies increase their wages to meet the new minimum, high-productivity firms increase wages too because they want to attract workers quickly. They need to outbid low-productivity firms with better offers than they made before the wage hike: “Such competitive pressure leads the minimum wage to spill over to higher-paying firms” (p.11).

Turning to the employment effect of raising the minimum wage, they come to the conclusion that in a labour market that is not fully competitive, the minimum wage increase leads to “efficient reallocation of workers toward more productive firms”. In other words, increasing the Brazilian minimum wage actually led to small efficiency gains as well as to a large reduction in earnings inequality.

There are further studies that show that minimum wages do indeed contribute to higher labour productivity – both at the enterprise level and at the aggregate economy-wide level.<sup>44</sup>

This effect of the minimum wage on productivity is actually a prime example of how the institutional mechanisms of the Nordic model work. The interaction between solidaristic wage policies (the commitment by the trade unions to secure the minimum wages), macroeconomic policies and social policies in the Nordic countries are in fact focused on this. By providing room for expansionary economic policies, rising minimum wages and uniform growth in labour costs, the interaction between egalitarian wage policies and market competition generated pressure for restructuring that shook out marginal companies and increased the earnings and investment capacity of highly productive ones. Such restructuring was enhanced by the welfare state’s commitment to income security, active labour market policies, and training and mobility support, all of which bolstered confidence and encouraged company-level cooperation in productivity and innovation. Today, this model for growth and restructuring is often called “flexicurity”.

## 7.2 Using national minimum wage to reduce the gender wage gap

In the ILO’s Global Wage Report 2018/19 the question of whether the gender wage gap in a given country is mostly driven by pay gaps at the bottom, in the middle or at the top of the wage distribution was addressed with important policy implications concluded. The report highlighted that “a minimum wage could reduce the gender pay gap at lower wage levels, collective pay agreements could have the same effect higher up in the wage distribution, while policies that promote greater representation of women in senior and highly paid positions could have a positive effect at the top levels” (p. 91). In Georgia, the gender wage gap has been more related to “sticky floors” than “glass ceilings” (Khitariashvili 2013). Therefore, a well-designed minimum wage with broad legal coverage could reduce the gender pay gap at lower wage levels in the country.

As mentioned earlier, the use of national minimum wages has been a controversial tool for the redistribution of income, with criticisms of the possible negative effects it can have on employment and wages further up in the distribution when workers above the minimum wage seek to restore previous differentials. In absolute terms, however, minimum wage gains help low-paid women workers. Bargain, Doorley and Van Kerm (2018) analysed the use of national minimum wages in Ireland and the UK. Their conclusion was that for the case for Ireland the wage gap was eliminated at very low wage levels after the introduction of the national minimum wage and, overall, this had a limited effect on the average wage

<sup>44</sup> ILO 2016.

gap, however. Although the results for the United Kingdom were not as clear, the authors' conclusion was that this had more to do with relatively limited (and gender-biased) compliance by companies in the United Kingdom in implementing the national minimum wage. This was also the conclusion of Metcalfe (2008) who further concluded, that the national minimum wage did not have any effect on employment in the United Kingdom, despite a large increase in the levels of minimum wages.

Eyraud and Vaughn-Whitehead (2007) estimate that about one third of women are low paid compared to less than one fifth of men. In their study of low pay in four countries – the United Kingdom, the United States, Canada and Germany – the OECD concluded that women are among the groups more likely to remain in low paid positions for long periods, particularly lone parents. Pollert and Charlwood (2009) pointed out that, as is the case in Georgia, a lack of collective representation among low paid sectors, particularly for women, is very problematic and therefore the application of national minimum wages is an effective way to address problems of low pay. Women are also the major beneficiaries of minimum wages so any advances in the levels of minimum wages help women disproportionately (Eyraud and Vaughn-Whitehead 2007, 48).

Furthermore, it has also been pointed out that the setting and enforcement of minimum wages is an important means of applying the Equal Remuneration Convention, 1951 (No. 100). This Convention refers to the “legally established or recognized machinery for wage determination” as one of the means to apply the principle of equal remuneration. In many countries “machinery for wage determination” involves the setting of minimum wages. Studies show that minimum wages can help decrease wage inequalities between men and women, if they are set at an adequate level and are regularly reviewed and adjusted.

## ► 8. Legislative and institutional change to further gender equality

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By reviewing the relevant legislation in Georgia that has an immediate effect on the gender pay gap and labour market participation, such as the Law on Gender Equality, the Labour Law and the Law on the Elimination of All Forms of Discrimination, and comparing it with legislative measures on gender equality and discrimination in EU/ European Economic Area (EEA)<sup>45</sup> countries and other Member States of the OECD, it becomes clear that there is a need to reform and reword, in some cases this implies comprehensive reformulation, to increase the impact and direct influence of the legislation on society with the aim of increasing gender equality.

Within the EU the principle of equal pay for men and women for work of equal value has been a concern from its creation and is laid down in the original EEC Treaty of 1957, in Article 119.<sup>46</sup> The equal pay directive<sup>47</sup> and the interpretation of the European Court of Justice aim to ensure its application in practice. The European Court of Justice finding that Article 119 is directly effective<sup>48</sup> proved to be a powerful instrument for enforcing this principle in national courts. The Community law principle of equal pay is, in general, also fully reflected in the legislation of the Member States and the EEA countries.

Furthermore, in addition to legislation, in most European countries collective bargaining and the resulting collective agreements are an important - if not the major - source of rights and obligations on the labour market and in the employment relationship. An exception to this rule is certain States where collective bargaining has been declining or plays a limited role. This is the case for many of the central and eastern European countries, where more emphasis is placed on individual freedom, especially the freedom of contract, rather than on collective bargaining.<sup>49</sup>

Where collective agreements are a significant source of labour rights, they obviously also address the question of pay (and may even contain pay scales), and often combine this question with the issue of equal pay for men and women. In other cases, pay equality is covered by the general provisions on gender equality in the collective agreement. Collective agreements are concluded at various levels, such as national, sectoral (both in terms of the level of the professional branch and/or the type of industry), company or local. Of these, the agreements at national or sectoral level are of importance with respect to gender equality and anti-discrimination clauses. In many countries, the agreement can be declared generally applicable through legislation, that is the *erga omnes* principle, setting out that the content of the agreement is valid also for those who are not party to them as such, but who work in the country or sector concerned.

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45 The EEA Agreement, which entered into force on 1 January 1994, enables Iceland, Liechtenstein and Norway to enjoy the benefits of the EU's single market without the full privileges and responsibilities of EU membership.

46 Now Article 141 of the EC Treaty.

47 Directive 75/117/EEC on the approximation of the laws of the Member States, relating to the application of the principle of equal pay for men and women, OJ [1975] L 45/19. This Directive has now been replaced by Directive 2006/54/EC on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation (recast), OJ [2006] L204/23.

48 Case 43/75 Defrenne II [1976] ECR 455.

49 Prechal, S., Susanne, Sacha P., Burri, S., van Seggelen, I. and de Graaff, G. (eds.), 2007: "Legal Aspects of the Gender Pay Gap", Report by the Commission's Network of legal experts in the fields of employment, social affairs and equality between men and women, Employment & Social Affairs, European Commission.



Rubery, J. and Koukiadaki, A. (2016) go even further and claim that social dialogue and collective bargaining are most likely to promote inclusive and gender equal employment systems where the bargaining is coordinated and conducted at a national or sectoral level.

Many experts agree that the gender pay gap is primarily a socio-economic problem that will by no means be resolved by legal rules alone (Prechal et al. 2007). Nevertheless, they do believe that there is a role to be played by the law, primarily by providing a framework for all actors involved. By explicitly prohibiting direct and indirect pay discrimination and enforcing this prohibition effectively, and by imposing obligations concerning equal pay upon the social partners and especially the employers, legislation is a useful and necessary tool.

Many of the laws in Georgia on gender equality are of a general descriptive character in the form of abstract formal rights but without the direct formulation that enables practical implementation and enforcement through a court of law. A lot of work has been done to analysing this situation in Georgia, both domestically in cooperation with international aid organizations<sup>50</sup> and the revision by the Conference Committee on the Application of Standards on Georgia's application of the Equal Remuneration Convention, 1951 (No. 100), which was ratified in 1993.<sup>51</sup>

Before summarizing the main recommendations, it is important to emphasize that the development of the legal framework on anti-discrimination and gender equality in developed countries was a major factor in both raising awareness of the underlying human rights aspect of this debate, underlining that human rights are absolute rights where there is no room for compromise, and the actual achievements in reducing inequality in those countries, although there is still a long way to go. Zabalza and Tzannatos (1985) measured the effect of British anti-discriminatory legislation on relative levels of pay and employment, and found that, after taking other factors into account, anti-discriminatory legislation had a positive and significant effect on both relative earnings and relative employment of women. By setting out the legislation and its implementation through collective agreements, employers were faced with a higher price for female labour and overall did not take any action to reduce female employment. This conclusion was further confirmed by analysing the timing of the effects in relation to both the adoption of the legislation and its implementation of equal pay by collective agreements. Their analysis also confirmed that the impact of the legislation was permanent, while gains in women's pay through income policies were both fewer and transitory.

It is important to underline, as pointed out in the ILO's policy review,<sup>52</sup> "that equal pay legislation only addresses a part of the problem, namely unequal pay for work of equal value. It does not address discrimination encountered by women in promotion, training, education, which keep disadvantaged groups in lower paid jobs" (Fredman 2013). The report identified that progress has been made with respect to the legal mechanisms addressing the issue of gender equality and especially in pay equity, although there are still significant shortcomings limiting the effectiveness of the legal mechanisms both at the international and the national level. Therefore, the main conclusion was that "legal mechanisms have an important role to play in promoting greater inclusivity".

The shortcomings of the gender equality legislation in Georgia are that it has limited effect given that it is not based on equal pay for work of equal value and the formulation is so general that it is difficult to raise direct claims based on the legislation, and it has not been invoked in a court of law in Georgia (Jalagania and Nadareishvili 2014).<sup>53</sup>

50 Jalagania et al. 2014.

51 ILO 2019 *Report of the Committee of Experts*, 393–395.

52 Rubery et al. 2016.

53 See also the Progress Report on the National Action Plan of 2014–2016 for the Implementation of Gender Equality Policy in Georgia. 2016.

Another aspect of this discussion is the adoption of the United Nations 2030 Agenda for Sustainable Development in 2015, which calls for a further action to finally end legal discrimination against women and ensure there are strong legal frameworks in place to advance gender equality. Target 5.1 (to end all forms of discrimination against women and girls everywhere) and indicator 5.1.1 (on whether or not legal frameworks are in place to promote, enforce and monitor equality and non-discrimination on the basis of sex) also provide a solid framework for this work. Target 8.5 calls for equal pay for work of equal value. The Equal Pay International Coalition was established to help to contribute to the achievement of Target 8.5 and Georgia is a member of this Coalition.

The shortcomings of the Georgian legislation also received attention at the 107th International Labour Conference in 2018, where the Committee on the Application of Standards discussed Georgia's application of the Equal Remuneration Convention, 1951 (No. 100) and concluded by calling upon the Georgian Government to:

“(i) ensure that national legislation, in particular the Labour Code (2006), the Law on Gender Equality (2010), the Law on Elimination of All Forms of Discrimination (2014) and/or the Law on the Public Service (2015), expressly commits to the principle of equal remuneration for men and women for work of equal value in consultation with the social partners; and

(ii) implement effective enforcement and detection mechanisms to ensure that the principle of equal remuneration for men and women for work of equal value is applied in practice.”

In January 2018 the report by USAID entitled “Gender Equality in Georgia: Barriers and Recommendations” was published in Tbilisi. The report was initiated by the Gender Equality Council of the Parliament of Georgia. In the preface to the report, Tamar Chugoshvili (the First Vice Speaker of the Parliament of Georgia and the Chair of the Gender Equality Council) emphasized that “local experts along with the international expert developed this baseline research, which has ensured that both the local context and international standards have been taken into account respectively”.

Prior to this, a report on the implementation of the gender equality policy was published in 2017 as a follow up to the national action plan, where it was highlighted that although the Ministry of Justice had made several attempts to propose to the Parliament amendments to the laws concerning gender equality, labour and anti-discrimination, none of them passed through the Parliament.

In the report, there are many well-founded and well-argued proposals and recommendations concerning many laws that directly or indirectly influence gender equality in Georgia. Here I would like to draw attention to a few important recommendations that all have important implications on the gender pay gap in general, as well as on women's relative position on the labour market and make a sound basis for policy-oriented action plans to tackle the persistently wide gender pay gap in Georgia.

**List of important recommendations for amendments to the Law on gender equality, Law on public service and Labour Code:**

- The terms “gender mainstreaming”, “gender impact assessment”, “gender-responsive budgeting”, and “gender audit” should be included among the definitions set forth in Article 3 of the Gender Equality Law.
- The scope of Article 6 should be expanded to include labour relations in the public and private sector.
- A specific measure should be added to the Gender Equality Law requiring employers employing over a specified minimum number of employees, including in the private sector, to develop internal gender equality plans and to be required to periodically report on their implementation.
- The Gender Equality Law should be amended to sanction sexual harassment, foreseeing liability for employers who fail to reasonably respond to complaints, including through the imposition of disciplinary measures.

- ▶ The gender equality award should be established to incentivize private sector efforts to combat gender discrimination in the workplace.
- ▶ Provisions should be introduced into the Labour Code defining and requiring equal pay for equal work in both the public and private sector, including the methodological criteria for the appraisal of remuneration rates. The provisions should require all employers with over a minimum number of employees to report gender-disaggregated data to GEOSTAT annually.
- ▶ The ILO Maternity Protection Convention, 2000 (No. 183) should be signed and ratified.
- ▶ Provisions should be introduced into the Labour Law and the Law on Public Service prohibiting discriminatory job advertisements and discrimination during the interview stage.
- ▶ The scope of pre-contractual relations in the Labour Law should be clearly defined to include vacancy announcements. The legislation should specifically prohibit questions involving the applicant's marital status, pregnancy and other private matters during interviews.
- ▶ Article 38 of the Labour Law should be amended to ensure that the burden of proof is always on the employer in all cases alleging discrimination, harmonizing it with the Anti-discrimination Law and Civil Procedure Code.
- ▶ Article 38 of the Labour Law should be amended to ensure that the burden of proof is always on the employer in cases involving termination for allegedly discriminatory reasons.

To promote transparency on wages and earnings, I would also recommend an amendment to Article 5 and 6 of the Labour Code requiring that all labour agreements be in writing and explicitly banning secrecy clauses.

## 8.1 Regulation and enforcement of the principle of equal pay

The principle of equal pay for work of equal value is fully reflected in the legislation of all the current 28 EU Member States and the three countries of the EEA: Iceland, Liechtenstein and Norway. Hence, the equal pay principle can be implemented both at the constitutional and/or legislative level, either as a part of general labour law or as provided for in specific anti-discrimination or equality legislation. Despite this major achievement in setting the framework in terms of labour rights at both the EU and national levels, data is still showing a persistent gender pay gap, reportedly of 16.3 per cent on average, for the 28 EU Member States in 2015.

This underlines the fact that policy or legislative mechanisms to promote equal pay without strong enforcement and monitoring of progress are unlikely to be successful. Individual enforcement through litigation is likely to be a riskier option for workers compared to actions taken by the state or workers' representatives to change wage practices.

Enforcement mechanisms provide the structure for compliance with law, mandates, commands, decrees or agreements. These structures may be formal, informal or hybrid. Without such structures, the law remains declarative or symbolic, and actions can depart from what is prescribed in the law without any consequence. In many respects, Georgia falls into this category of countries, especially when we take into account the unclear and unspecific nature of the gender equality and anti-discrimination laws in the country. Although the laws safeguard equality in general, the absence of specific legal language concerning the enforcement of rights, responsibilities of enforcement agencies and measures for enforcement, among others, means that enforcement will be uneven, discretionary and arbitrary.

Nevertheless, it is absolutely necessary for the state and trade unions to provide support to complainants. It is more likely that rights to equal pay are enforced if high quality data is available (Rubery and Koukiadaki 2016).

In their report from 2016, Rubery and Koukiadaki classified different mechanisms to enforce measures to promote gender pay equity and inclusive labour markets, where the state, employers, trade unions (and/or NGOs or pressure groups) and individuals play different roles.

The state is essential in the enforcement of the legislation on equality and can be active through labour inspections and enforcement or by setting up channels to enable other actors to act to ensure equal pay. The state can also set incentives, either positive in the form of prizes and awards or negative in the sense of “naming and shaming”.

Trade unions have a very important role in enforcing both legal and collectively agreed standards at sectoral and workplace levels. Although their core focus is likely to be on collectively agreed minimum standards, they play an important role in supporting and backing up individuals in seeking solutions through tribunals and courts.

Employers can contribute individually or collectively to enforcement of inclusive labour rights. Through the employers’ associations they may influence compliance with either legal or collectively agreed regulations.

► Table 2 – Mechanisms of enforcement

	State	Employers/bipartite/ tripartite	Trade unions/ NGOs	Individual
Enforcement mechanisms	Labour inspectorates. Conciliation and arbitration. Access to courts/tribunals. Tax inspectors. Incentives or “naming and shaming”. Sanctions.	Independent/ bi- or tripartite auditing of companies. Employer associations – members to respect collective agreements.	Action at workplace and sectoral level to enforce collective agreements. NGOs – publicity and advice campaigns. “Naming and shaming”.	Access to legal/ semi-legal remedies. Whistle-blower protections.

Source: Rubery and Koukiadaki 2016, p. 93

For individuals to be able to exercise their rights, there are three important conditions. First, they must be aware of their rights, second, they need access to supportive enforcement mechanisms and, third, they must have protection against victimization for enforcement activities. All of these conditions can and do pose different barriers to enforcement in practice.

Nearly all experts have observed (Foubert 2017) from a merely legislative perspective, that judicial protection is sound in the respective EU/EEA countries, but it has emerged that there are major differences in the overall effectiveness of such judicial procedures. Often the way in which judicial enforcement is organized at the national level negatively affects a victim’s chances of actually obtaining judicial redress.

Many researchers note the specific problem with the individual nature of equal pay litigation. Only a few cases on equal pay are brought before the courts every year (and a few more before the competent equality bodies) in most of the European countries. There appears to be a structural problem with respect to anti-discrimination legislation and its ineffectual enforcement processes. Several specific problems have been identified with the individual litigation-driven model. Although litigation as such can only contribute to diminishing the pay gap in a modest way, the fact is that a perception among employers

that equal pay litigation is increasing may help to enforce compliance with the law (for review, see Prechal 2007, Foubert 2017, Rubery and Koukiadaki 2016, Fredman 2013 and Hepple et al. 2000).

The causes of ongoing pay discrimination appear to be related to the limited effectiveness of pay equity legislation and, more particularly, to organizations' failure to comply with it. They seem reluctant to abide by this legislation on account of the pay bill increases that would ensue, and because of perceived potentially negative effects on their competitive position (Chicha 2006).

In many countries, the infringement of the equal pay principle may be subject to administrative sanctions, mostly administrative fines. In the United Kingdom, administrative fines are only imposed as a secondary order, whereby a tribunal must start by ordering the employer to comply with the equal pay act and, failing that, the tribunal can order the employer to pay a penalty. Some countries prevent employers who are convicted of gender discrimination from obtaining an advantage that they would otherwise have qualified for, such as subsidies or other public benefits or exclusion from public procurement. Such a penalty may be retroactive as well as having effect in the future (Foubert 2017).

If we look at the possibility for an individual of litigating employment discriminate cases there seems, according to experts (Foubert 2017), to be several barriers and obstacles that all have the effect of hindering the judicial enforcement of the principle of equal pay for equal work:

1. Costly proceedings.
2. Lack of pay transparency.
3. Lack of sensitivity and/or knowledge of gender-based pay discrimination.
4. Fear of victimization.
5. Lack of trust in the national judicial system.
6. Changes in the national political and economic situation.
7. National procedural law, especially the short limitation periods and/or uncertainty as to which limitation periods apply to pay discrimination claims.

Because of these de facto barriers for the enforcement of legislation (and here I would like to underline that this does not in any way diminish the necessity of effective legislation) it is also important to focus on the institutional framework on the labour market to foster support for victims of discrimination.

With respect to gender pay equality, we should look at the three main wage setting mechanisms – legal, collective and voluntary – as being potentially complementary rather than competitive. While legal regulation, particularly with regard to minimum wage setting, is clearly necessary where collective bargaining is not widespread, such regulation on its own is hardly ever enough. It is important to promote inclusive and transparent labour markets to close the gender pay gap. To do that we need both stronger and more extensive employment standards, with higher minimum wages, more protection for non-standard forms of employment and stronger collective bargaining, along with effective gender-specific measures to reduce the undervaluation of women's work. It is also necessary to extend the duties on employers to actively promote gender equality.

There is empirical evidence to suggest that countries with inclusive collective bargaining coverage and centralized coordinated bargaining do tend to have more egalitarian pay structures and that these are helpful for women (Elvira and Saporta 2001, Blau and Kahn 1992 and Rowthorn 1992).

There is also extensive literature on national models, which has revealed "the importance for gender equality of institutional complementarity between social welfare and gender policies on the one hand and employment organisation on the other" (Stier et al. 2001 and Esping-Andersen 1990). "This has led to Sweden, together with other Nordic welfare states, being identified as the most gender equal regimes, though not necessarily those with the smallest aggregate gender pay gaps" (Rubery and Koukiadaki 2016, 46).

In reviewing the literature on promoting and enforcing the anti-discrimination legislation, there is a common understanding that the equality bodies have a very important role in this respect, often with the backup of the social partners (Wladasch 2015). These bodies play an important role in promoting and securing effectiveness, dissuasiveness and proportionality of sanctions and remedies in discrimination cases. They are designated to ensure that those affected by discrimination are assisted and also to be drivers for change on the way to a more equal society.

To summarize this chapter on enforcement, I would like to cite the recommendations made by Foubert (2017),<sup>54</sup> which demonstrate the importance of clear and unequivocal judicial enforcement procedures, as well as well informed, specialized and proactive institutions (such as the courts and equality bodies) in order to deal with either judicial or non-judicial enforcement mechanisms.

In the study of the different enforcement systems, it was clear that specialization is crucial for handling such cases. The authors underline five different reasons for this:

1. Clear definitions of legal concepts, for example, “equal work”, “work of equal value” and “indirect discrimination”, as well as clarity with respect to the question of whether a comparator is required or whether unequal treatment can be justified substantially enhance the possibilities of judicially enforcing the equal pay principle for men and women (the example given here is the clear definition of these concepts in the Icelandic legislation).
2. The more specialized the involved judicial or non-judicial body is, the more satisfactory its activities seem to be. A good example is probably the Icelandic Gender Equality Complaints Committee, which has the task of examining sex-based (pay) discrimination cases and delivering a ruling in writing that is binding on the parties.<sup>55</sup>
3. The specialization of claimants enhances judicial enforcement. While most of the victims of pay discrimination are only confronted once with pay discrimination – and will consequently never be specialists – the possibility of a class action suit allows certain organizations to obtain a specialist position at the service of discriminated workers (for example, Italy).
4. The procedural rules that are specifically “geared” towards discrimination cases (considering the vulnerable position of the alleged victim of the discrimination) also have a positive impact on judicial enforcement. That should not only involve the mere mentioning of the shifting of the burden of proof but also encompass a description of which and how much information is needed for the actual shifting of the burden of proof.
5. Judicial enforcement is undoubtedly also served by legal rules that protect employees who claim their rights against victimization, specifically in discrimination cases. It is to be expected that a prohibition on retaliation that is based on general principles of labour law offers less protection as it is less visible.

Apart from specialization, it is also recommended to pay attention to the fact that both judicial and non-judicial enforcement initiatives are widely covered by national mass media. That appears to be a good way to bring items onto the political agenda.

54 The European network of legal experts in gender equality and non-discrimination prepared the report on enforcement by sending out detailed questionnaires to legal experts in 31 states, including the current 28 EU Member States and the three EEA countries of Iceland, Liechtenstein and Norway.

55 Iceland has its Gender Equality Complaints Committee, a semi-judicial body set up on the basis of equality legislation. Its task is to examine cases and to deliver a ruling in writing. If the case may be expected to influence policy on the labour market as a whole, the Committee shall seek comments from the national federation of workers and employers before delivering a ruling. Most cases regarding sex-based wage discrimination go to the Complaints Committee whose rulings are binding for the parties to the case. If a ruling of the Complaints Committee is in the claimant’s favour but the respondent does not accept the ruling and brings an action to have it annulled by the courts, the claimant’s legal costs, both at the District and the Supreme Court level, shall be paid by the treasury. If the Gender Equality Complaints Committee deems a complaint evidently unfounded, the Committee may order the claimant to pay the defendant’s legal costs. An attachment may be made, without a prior court judgment, to secure the payment of legal costs.

## ► 9. Policy recommendations

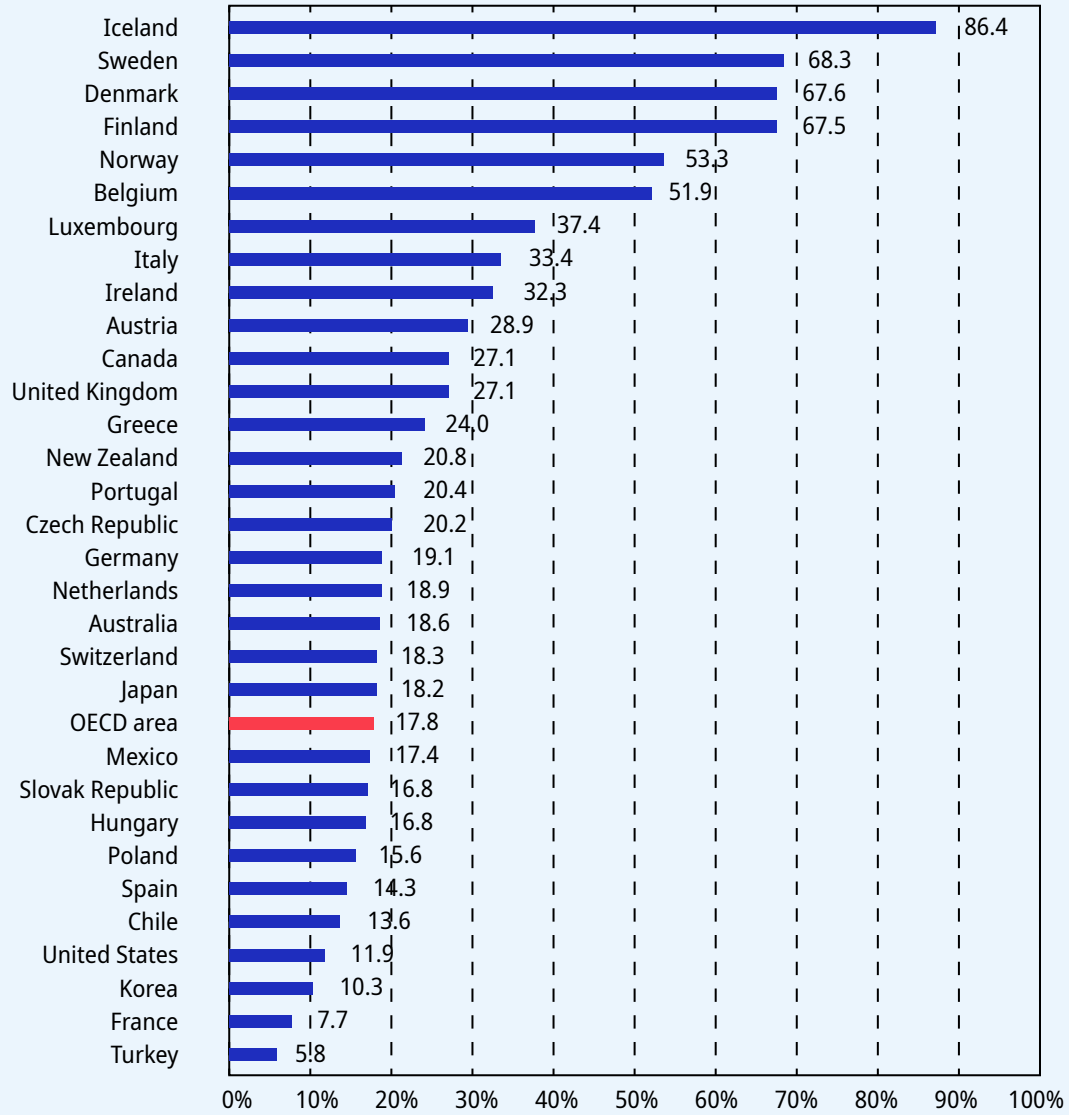
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After reviewing the gender equality situation in Georgia, particularly the size of the gender pay gap, it is obvious that both the Government and social partners in Georgia will face an enormous challenge in the coming years. In this chapter, I would like to make some policy recommendations based partly on the findings set out earlier in this report and the necessary legislative amendments concerning the gender pay gap issue, but also on my experience in participating in the promotion of gender equality in Iceland. I would like to separate the proposals of the GTUC for a trade union policy on gender equality and those for a unified front of the Government and the social partners to jointly push for an agenda that attacks the huge gender pay gap in Georgia.

### 9.1 Towards a trade union policy on gender equality

The GTUC unites 21 sectoral trade unions with some 150,000 members in a labour market that has around 1.1 million employees in a hired position or unemployed, and a further 830,000 self-employed. This means that the participation rate in Georgia is between 14.4 per cent and 18.5 per cent depending on whether the unemployed are taken into account (but excluding the estimated number of managers, publicly elected persons and senior public officials), compared to the OECD average of 17.8 per cent. This puts Georgia in a similar position to countries like Spain, Poland, Hungary, Mexico, Japan, Australia and the Netherlands. Although I would strongly recommend that the GTUC should continue its effort to increase its representativeness by organizing more workers, especially at the lower end of the wage distribution, it already has a credible representation, which makes the GTUC an important stakeholder on the labour market and at the social dialogue table.

► Chart 66. Trade Union Density in among the OECD countries



During the preparation of this report, ILO ACTRAV issued a policy brief<sup>56</sup> analysing the role trade unions can play and are playing at different policy levels in respect of both overall wage inequality and gender-specific wage inequality. This brief underlined the need for specific gender equality policies and for incorporation of such policies into the trade union strategies that aim at closing the gender pay gap. The following key challenges and opportunities were highlighted in the policy brief (p.10):

<sup>56</sup> ILO 2019, *Closing the Gender Pay Gap: What Role for Trade Unions?*



- ▶ the need to promote and implement legislation at different policy levels that give expression to the principles of equal pay for equal value, including for particular sectors (e.g. public sector or care economy), categories of workers (e.g. domestic, rural or informal work) or types of employment relationship (standard vis-à-vis non-standard forms of employment);
- ▶ enhanced monitoring and enforcement to prevent, detect and address violations through strengthened labour administrations and inspectorates, dispute resolution systems, including through labour courts and sanctions applied in case of non-compliance;
- ▶ improved access to information on pay differentials, including regarding performance-based pay systems (e.g. bonuses) and sex-disaggregated data in all economic sectors as a means of promoting pay transparency;
- ▶ the use of gender-neutral job evaluation and classification methods, and the targeting of sectoral and occupational segregation;
- ▶ promote the development of strategies and action plans, including access to vocational training for women, at the company level to address gender wage gaps;
- ▶ raise awareness and address underlying causes of pay differentials, such as gender stereotypes concerning women's occupational aspirations and capabilities, and vertical and horizontal job segregation; and
- ▶ explore innovative practices to promote gender equality, i.e. through gender equality clauses in public procurement, compliance and impact assessments, affirmative action measures, the appointment of a mediator or ombudsman, etc.

These are all major challenges that the trade unions should consider, with some being more relevant than others in respect of the current situation in Georgia. Coming from a Nordic country, and based on my experience of dealing with social dialogue and collective bargaining on gender equality, or rather inequality, at the central level, I would like to add certain themes and points to this list that I consider important:

Collective bargaining:

- ▶ strengthen cooperation between the social partners and the Government with a view to addressing general economic policies, employment rates, business and industrial development, policies for an inclusive world of work (IA activities), as well as research and development and a forward-leaning labour market and competency policy;
- ▶ promote good macroeconomic governance, proactive labour market policies and coordinated wage formation that ensures high employment and low unemployment rates;
- ▶ promote active public policies that ensure social governance, welfare development and proactive industrial and business policies;
- ▶ develop and strengthen the industrial bargaining model and coordinated wage formation;
- ▶ contribute to strengthening Georgia's competitive edge through coordinated wage formation and proper macroeconomic governance;
- ▶ contribute to developing international trade agreements that ensure fair competition worldwide, and that strengthen trade union rights, human rights, consumer rights and the environment; and
- ▶ maintain the focus on setting and preserving an adequate minimum wage, preferably by negotiating with the employer association and extending that agreement to all sectors.

Policy within the trade union movement:

- ▶ help to develop useful high-quality training schemes beyond the training offered by employees' affiliated unions, highlighting the role of collective agreements to further gender equality and eliminate gender pay gaps;
- ▶ strengthen coordination between affiliates to prevent members leaking into other unions when changing jobs;
- ▶ underline the value of collective agreements and proactive local branches and develop benefit programmes as important membership benefits for existing and potential members; and
- ▶ invest in education and training of trade union leaders and negotiators in modern negotiation techniques and procedures, focusing on creating win-win situations and sharing of responsibility, while keeping the focus on the core responsibility of representing the workers' interests.

Labour market policy:

- ▶ strengthen women's position on the labour market by converting the maternity leave system to a parental leave system, where both parents have the right and opportunity to spend time with a newborn, thus neutralizing the consequences of childbirth on women and men respectively in relation to the labour market and increasing men's responsibility for childcare;
- ▶ strengthen vocational training starting from primary school level, including upper secondary and tertiary vocational education, and actively advocate the breaking down of the traditional barriers that contribute to a segregated labour market;
- ▶ work towards a proactive family and gender parity policy to reinforce women's position in the labour market;
- ▶ support measures to improve the gender balance in education and on the labour market;
- ▶ defend standard working hours, strengthen the trade union movement's influence on the organization of working hours and outlaw so-called "zero-hours" contracts; and
- ▶ ensure that the right to full-time employment is effective for all workers.

Gender equality policy:

- ▶ secure women's access and equal participation in formulating the goals and strategies behind the trade union policy, while also ensuring that the fight against gender inequality and the gender pay gap is a joint venture involving men and women and not only the task of women (i.e. focus on "equal opportunities" and "equal rights committees" instead of the traditional "women's committees");
- ▶ work towards stronger protection against discrimination in statutes and collective agreements, and strengthen the duty of action and reporting in legislation on discrimination, i.e. a qualified labour inspectorate;
- ▶ work towards the incorporation of comprehensive anti-discrimination activities into shop stewards' training;
- ▶ prioritize low wage groups and equal pay in collective bargaining; and
- ▶ demand that the Georgian Government follow up on the ILO Strategy for Decent Work and focus especially on gender equality and women's rights.

The process of securing workers' equitable and just share of the values that are created in society (measured as GDP per capita) is in essence a social struggle between labour and capital. Although I believe that this challenge can be faced in an atmosphere of cooperation and broad social responsibility, it is very important to develop and constantly explore the affiliated trade unions' possibility of organizing and conducting well targeted and planned collective actions and strikes. In this respect, a trade union's most important "best alternative to a negotiated agreement" (BATNA) will always be the opportunity they

have to use collective actions to put pressure on the counterpart, the employers and/or governments. Their awareness of and confidence in this possibility is also equally important.

## 9.2 A multilevel approach to reduce the gender pay gap

It is quite clear that there is no simple or patent solution, or quick fixes, to Georgia's problems regarding gender equality and gender pay gaps. What is needed is a multilevel approach to define a targeted action program. In this respect, it is important to bear in mind that the major steps forward in equal pay in Europe were achieved by such action plans at all levels. The next steps forward in the fight against the gender pay gap in Georgia could be made in the same fashion. For Georgia, all the stakeholders have in some way emphasized their commitment to this goal. The Government has committed to the UN Sustainable Development Goals and international conventions, the Georgian Employers' Association has committed to the Ten Principles of the UN Global Compact<sup>57</sup> and the GTUC has for many years iterated its commitment to greater gender equality. This should be an important baseline from which to go forward to define an action plan to reduce the gender pay gap with targeted goals.

In this respect the following four actions are important:

- ▶ Create clear and defined obligations for organizations - both public and private - to address the gender pay gap in the form of positive obligations for action;
- ▶ Set appropriate minimum wages - women are more likely to be low paid so addressing low pay addresses both overall inequalities and the gender pay gap;
- ▶ Encourage the social partners to negotiate on the appropriate level that might be extended to all sectors;
- ▶ Introduce job evaluation as a tool to achieve greater compliance with gender equality goals in remuneration;
- ▶ Define and promote a pilot project among several enterprises in the private sector to apply the Logib self-test from Switzerland;
- ▶ Promote transparency to highlight inequalities that are often hidden by individualized pay arrangements and secrecy agreements;
- ▶ Raise awareness to address the root causes of occupational and sectoral segregation, unpaid care work, work-life balance for men and women, violence and sexual harassment, access to quality childcare and adequate social protection, and challenging existing social norms, and gender and racial stereotypes; and
- ▶ Highlight examples of good practices by awarding a "Gender Equality Recognition" label for outstanding improvements and develop "local champions" to provide means to deal with national or sectoral diversity. Add incentives to the drive to tackle the gender pay gap at all levels by establishing an award or equal pay symbol that companies or institutions can use in their marketing to certify that their pay system is gender neutral.

This multi-level approach requires strong Government participation and leadership in coordinating policies (namely targets) and promoting good practice, combined with the active engagement of the social partners. It would therefore be appropriate to allocate this coordination to the Social Partnership Tripartite Commission, with the Prime Minister heading it.

57 In a letter to UN Secretary General, the [Georgian Employers' Association stated their commitment](#) to the labour market through Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; and Principle 6: the elimination of discrimination in respect of employment and occupation.

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## ► Appendix I. Collective bargaining and economic stability in Iceland

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### Framework agreement on wage agreements and changes in labour legislation

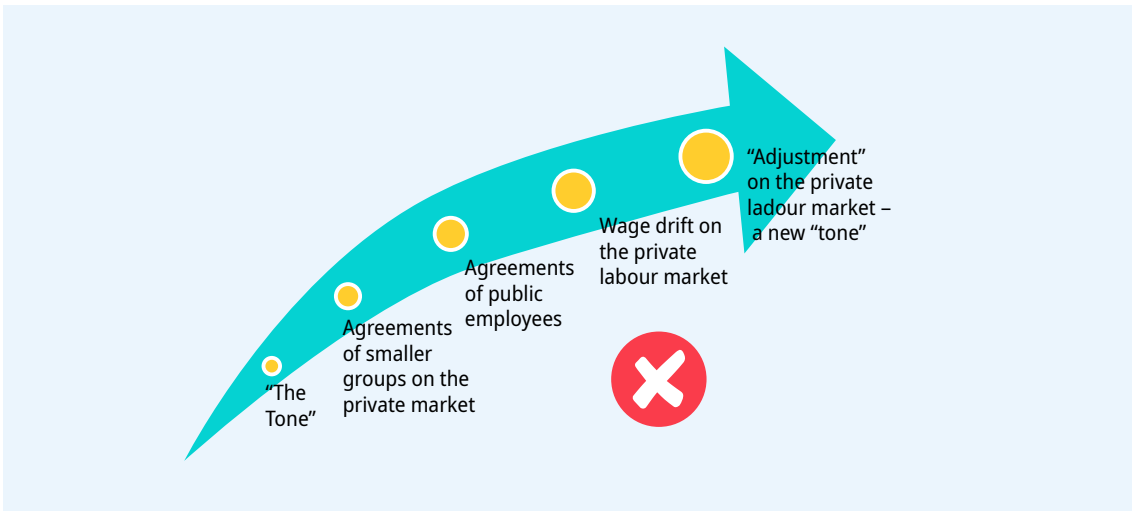
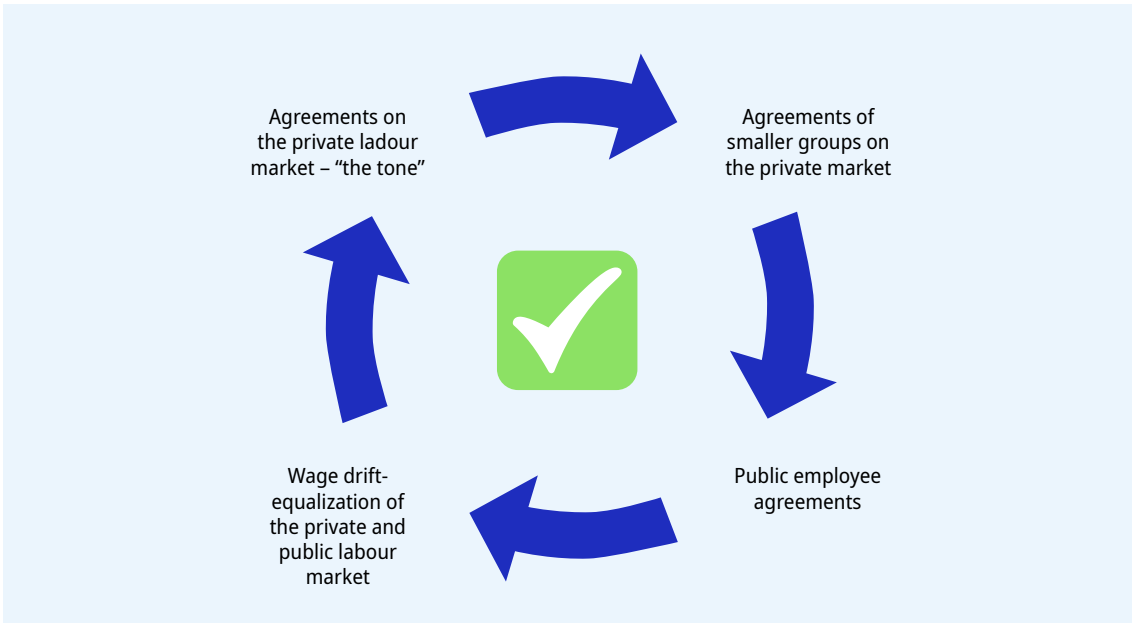
It is important that the framework agreement on wage agreements supports the main goal of promoting increased purchasing power on the basis of stable prices. The Nordic countries have formulated such settlements frameworks relating to the labour law and agreements among all the major confederations on the labour market. The rules set out by these frameworks mean that the smaller unions that choose to remain outside of the confederations do not have the same flexibility to go their own way.

The Danish labour market model is based on a formal agreement between the confederation of labour, the confederation of employers' and the Government. The parties within the export sectors (the breakthrough areas) commit to setting the tone for wage increases with wage agreements that harmonize with the sector's competitive position. According to the agreement between the social partners on the labour market, other sectors or occupations in the private labour market agree to negotiate on the same themes. If an agreement is not reached within a specified time, the mediator gives the parties a definitive deadline for agreements, otherwise the mediation proposal will extend to the contracts still pending. This has been called the "chaining in" effect, implying that smaller groups are linked to the collective bargaining agreements concluded through a formal dissemination proposal and voted on in a joint ballot. The proposal as a whole is therefore accepted or rejected jointly and, if rejected, a general strike starts five days later. Negotiations between the parties in the public labour market are usually take place a year later and also take account of the example of the export sectors. At the same time, public employees are guaranteed equality with workers in the private labour market in terms of any wage drift that occurs during the contract period.

Smaller groups of workers are thus in a difficult position to undermine the model's stability by forcing higher wage increases than generally agreed, for example with strikes.

The state mediator in Denmark has extensive resources to support the stability of this model. He can link groups with a brokerage proposal if they have contractual terms and main relationships. He may also postpone the party's strike action if he does not consider the contracts fully proven or for other valid reasons. In this way, it is ensured that the labour market is in balance with respect to wage development when the next cycle begins. Salary changes for individual groups are broadly comparable. Similar rules apply in Norway and in the Act on State Mediators in Sweden. The mediator is not permitted to directly contribute to a conclusion that goes beyond the "mark" in that country. The "mark" represents the wage changes that have been agreed in the export industry.

The picture illustrates this cycle of the Nordic labour market model quite well.



This has not been the case in Iceland. Generally, there is considerable imbalance in wage development, partly because of the big impact of the wage drift on individual groups. Examples from the private labour market are not always respected in collective bargaining agreements and are often used as starting points in smaller groups that often rely on strikes to gain large increases. Thus, the foundation is laid and maintained for the imbalance of individual groups of employees. A large part of the wage negotiations then involves mapping the relative status of individual groups of workers. Each negotiation process in Iceland creates a new imbalance that is the subject of the next cycle. In the Nordic countries, however, the balance is not disturbed from the first contracts made in each cycle until they are renewed.

Furthermore, the state mediator does not have the remedies available to a mediator in Denmark to join groups or postpone actions. Such sources, though of a different nature, also exist with state mediators in Norway and Sweden, and are considered a very important factor in the stability of the labour market models of these countries.

## Formal agreement as the basis of the social model

As mentioned earlier, the Nordic social model has repeatedly shown that it can better deal with both booms and recessions than other countries.<sup>58</sup> The ability of small open Nordic market economies to unify equality and efficiency is related to the interplay of the three pillars that together form the triangular character of the Nordic social model. These pillars are:

- **Clear and responsible economic policies**, based on active economic measures to ensure stability, good access to foreign markets through free trade and uniform wage formation that promote economic growth, full employment and social adjustment;
- **Extensive welfare system**, based on general income security and access to services that leads to high employment participation and mobility of workers, free or affordable education, as well as health and welfare services funded by taxes and a guarantee of equality and balance in terms of living standards, health and job opportunities; and
- **A well organized labour market**, based on the interaction between legislation and collective bargaining, peace clauses for the duration of the collective agreements and centralized coordination of wages, where strong associations with the interests of exports and competitiveness are guided by the principle of negotiating and facilitating tripartite agreements. Emphasis has been placed on active labour market policies with a focus on participation, lifelong learning, education and mobility.

Why has this social model more effectively achieved the goals of steady growth and equitable sharing? To answer this, we must look at the interaction between the organizations and institutions, the political parties and the social partners that are behind these foundations. This is a long way from being an automatic process that can be set up through a legal measure. This is based on the key participants - both political parties and social partners - having enough impact, scope and power of attorney to seek full solutions and implement or enforce the necessary actions required in these three areas to ensure a successful outcome.

This point also underscores the fact that the model's results will not be implemented through statutes or resolutions, nor will they come into being by themselves. This is a delicate interaction and all aspects must be nurtured to renew the capacity and power of these parties to continue the partnership. This is also why cross-political cooperation is needed because it does not produce ever-changing policies and objectives in the political arena.

A very good example of this interaction and the factors behind it is the connection between the uniform wage policy, economic policy and the welfare policy. By creating room for responsible and growth-stimulating economic policies with more jobs, a higher minimum wage and a steady increase in labour costs, the uniform wage policy enforces, in combination with the competitive markets, companies with low productivity to restructure and rationalize. At the same time, new investments are allocated to companies with higher productivity and revenue opportunities, and free access to foreign markets is crucial owing to the importance of equality in foreign trade. With welfare assurance through the welfare system, and active labour market policies on retraining, vocational rehabilitation and mobility, it has been possible to maintain a consensus on this restructuring.

<sup>58</sup> See also The Economist 2013. "[The next supermodel](#)." 2 February.

Furthermore, this has enabled the social partners to work together to increase productivity and renewal at regional and national levels.

Growth, employment for all, social safety nets and equality are therefore not only goals that are reflected in the success of the partnership, but they are also key prerequisites for obtaining enough support to update the policy and tools, thereby developing the skills to implement them.

It goes without saying that if there is a genuine will to take up the Nordic social model, it will take more than mere changes in the labour market. Here, then, expectations and measures at the level of politics, the Central Bank and the labour market need to be aligned if this is to be addressed. For example, the role of these parties in the inflation target is mentioned. In the Nordic model, this role structure clearly sets forth the division of responsibility for the implementation of economic policy between governments and the Central Bank.

- The government to ensure that fiscal and economic policy is aimed at ensuring a balanced economy. A fiscal policy aimed at ensuring stability is also a prerequisite for maintaining the fixed exchange rate policy.
- In a fixed exchange rate policy (such as the Danish one), it is clear that monetary policy interest rate instruments are conditional on influencing the exchange rate. At the same time, the interest rates cannot be used to control domestic demand or economic cycles, as this could jeopardize the exchange rate stability. In this way, the Central Bank must only maintain its exchange rate against the euro with its monetary instruments.
- Within this framework of economic policy, social partners can enter into wage agreements based on low inflation where the exchange rate effects disappear. Therefore, “moderate” wage agreements can result in greater purchasing power than if the exchange rate, wages and prices are changed in a flux.

## Welfare in the labour market

However, the labour market wage agreements do not emerge in a vacuum. They are the source of the debate, expectations and demands that are emerging among members and companies. In Iceland, extensive cooperation has been developed between the social partners and the Government on various social solutions in a very different way from elsewhere. This applies to the participation of workers and companies, which is much greater in Iceland than elsewhere, in labour market organizations, taking into consideration the general value of collective bargaining for those who are not participants in organized organizations under Act No. 55/1980, with the extension of collective agreements, and various welfare services such as pension funds, health insurance funds, unemployment insurance, parental leave, the Wage Guarantee Fund, and the Vocational Rehabilitation and Vocational Education Fund. This structure has in many ways taken a special place among other nations in that it has better prevented social dumping and abuse and, in parallel, companies are in a better position in terms of competition with those trying to create an advantage based on social dumping and black economic activity.

Cooperation on the financing of these projects, either through collective contributions or statutory premiums through social security tax, has also meant that individual companies have a high social responsibility for the development of these welfare systems. The strength of this arrangement was undeniably evident in the collapse of 2008, as these important transfers did not impose any fiscal burden for the state for the simple reason that they were financed in this way. Despite the economic hardship of recent years, Icelanders have been able to build a comprehensive vocational rehabilitation system, which is already beginning to deliver significant results in reducing community spending and providing a number of workers with a better quality of life through active participation in the labour market. It is important to have a political agreement between all political parties and the labour market on this system. It is, in turn, necessary to better explain the independence of the funds for these important tasks, separate those funds from the Treasury and give the labour market more control over their structure and services.

In the Nordic social model, the prerequisite for a settlement in the economic policy field is a broad consensus on both the welfare system and its implementation, as well as the tax system. The ability of society to reform and restructure is based on the guarantee of performance and the active measures to help workers and businesses succeed in the competition and agree on ways to reach that goal.

The structure of the Icelandic labour market is in many ways similar to that in the other Nordic countries as labour legislation was initially drawn up as a Nordic model. Thus, it has been the role of the social partners to negotiate on wages and other terms with the rights and obligations that accompany them. Close cooperation and consultation with both employers and trade unions in the Nordic countries has also meant that workers' rights are in many ways respected, although there can be considerable differences in their scope. It is also noteworthy that there can be significant differences in rights between countries, depending on whether the rights in question have been introduced by legislation, securing all relevant rights, or collective agreements, guaranteeing the rights of members of the relevant trade unions, or a combination of the two. In Iceland, to some extent, the process of linking collective bargaining and legislation has gone beyond that in the other Nordic countries due to the high level of participation in trade unions. Up to 90 per cent of workers are in trade unions and companies with around 70 per cent employees are in employers' organizations, hence the attitude to legislation has been different from that in the Nordic countries in general. To ensure that unionized workers who work with companies outside the employers' organizations,<sup>59</sup> mainly small or medium-sized enterprises, have the same rights as other workers, the social partners, in consultation and cooperation with the Government, have drawn up agreements on the implementation of such rights through legislation or their incorporation into the provisions of the general agreements. In this way, in the past few decades, a well-organized and extensive labour market rights system, called the Icelandic labour market model, has developed. It is a system of benefits that all workers enjoy today.

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59 The participation rate in employers' organizations is estimated to be around 75 per cent of the labour force and has been growing in recent years.

## ► Appendix II. Equal pay standard and equal pay certification in Iceland

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The Act on Equal Status and Equal Rights of Women and Men stipulates that the Minister, in cooperation with the labour market organizations, shall ensure that before 1 January 2010 a “special certification system for the implementation of the Equal Pay and Equal Employment Policy shall be developed”. A special protocol in the collective agreement between the Icelandic Confederation of Labour and the Confederation of Icelandic Employers in February 2008 also states that there is “a certification process that companies can utilize and includes certification of the implementation of gender equality policies and equal opportunities for employment and job development”.

In October 2008, the then Minister of Social Affairs and Social Security, the Icelandic Confederation of Labour and the Confederation of Employers issued a joint declaration of their intent to seek negotiations with the Icelandic Council of Standards to the effect that the Council should oversee the drafting of a standard that could be used as a basis for gender equality certification on gender equality work, hiring and layoffs.

In December 2008, the Council set up a technical committee, which then worked on developing the standard. The technical committee worked in accordance with European rules of procedure on the Standards Technical Councils to which the Standards Council of Iceland is bound. It soon became clear that the standard contract was a much more comprehensive project than originally envisaged, and the committee's position was that it was not fruitful to discuss gender equality on the one hand and equality in employment, layoffs and equal opportunities for work and development on the other, in one and the same standard. For this reason, the technical committee worked solely to draw up a standard on gender equality. The final standard was issued in December 2012, entitled ÍST 85: 2012, Equal Pay - Requirements and Guidelines. The goal of the equal pay standard is to make it easier for employers to establish and maintain gender equality in their workplace. In this way, companies and institutions can set up a management system that ensures that the procedures and decisions in pay are based on objective considerations and do not involve gender discrimination.

The equal pay standard is a “standard of claim”, which means that the standard specifies the requirements for its implementation. It is also certifiable, whereby companies and institutions may seek certification from accredited, independent certification bodies that they meet the requirements of the standard and thereby confirm that there is no gender pay gap in the company or institution (cf. Article 1(c) of the equal pay standard). It is also possible to seek confirmation from interested parties that the requirements of the standard are met (cf. Article 1(b) of the standard). The ideology behind such certification or confirmation is that companies and institutions can demonstrate that equal pay is paid for the same or equivalent work and thus can attract qualified staff and gain a good reputation.

The preparation of the standard was based on recognized management standards, such as the ISO 9000 quality management standard and ISO 14000 environmental management standard. Their main characteristic is that companies and institutions applying the standard must adopt policies and then establish procedures to implement them. The equal pay standard does not set out how wages are generated but rather the implementation of a management system, equal pay policy and documented procedures designed to ensure that women and men who do the same or equal work enjoy the same terms. The standard stipulates that requirements for management reviews and improvements should derogate from equal pay policies.

One of the prerequisites for achieving equal pay is that wage decisions are based on professional methods. These must be transparent methods that can be tested. Auditing is also a prerequisite for managers to respond to deviations from equal pay policies. When implementing the standard, the company or organization in question must classify the work of all employees and select the criteria that are most characteristic of the employees' tasks in the job. The annexes to the standard contain explanations and instructions on the use of the standard, instructions on classification of jobs in large enterprises and organizations, guidelines on wage analysis and a summary of national judgments, opinions and rulings of the Gender Equality Appeals Tribunal and judgments of the European Court of Justice. No specific standards for equal pay are set out in the national standard, but each company or organization is expected to set benchmarks and objectives that are consistent with the activities in question.

The equal pay standard specifies that employers determine whether and how compensation may be introduced for factors that exceed the job requirements of employees that may affect how they perform their job, and whether to include performance appraisal of the job, including what objective criteria should be used for such an assessment. The standard also states that although the authorities require access to a company or institution's equal pay policy and sufficient information for its evaluation, this does not imply that individuals' payrolls are disclosed or that all payroll figures are available. It is natural that information on employees' salaries is presented in the form of statistics that cannot be linked to individuals.

Regulation No. 929/2014, on the Certification of Equal Pay Systems of Businesses and Institutions based on the equal pay standard, was introduced by the then Minister of Social Affairs and Housing on 24 October 2014. The Regulation addresses the requirements for the certification process based on Article 1(c) of the equal pay standard and those who carry out such certification. The purpose of the Regulation is to ensure that certification complies with international requirements for the provision of accredited certification. It stipulates that the Ministry should ensure that courses are regularly held for assessors in equality and labour markets. This will include, among other things, the law concerning equal status and equal rights for women and men, labour law, wage agreements, wage analysis and classification and assessment of the value of work. Assessors shall complete the course with a degree and receive a certificate if they pass the examination. The first course for certification bodies was held under the auspices of the Ministry in collaboration with the University of Iceland Continuing Education in autumn 2015. It is assumed that the field of certification of the Patent Office will ensure the qualification of the certification body.

The equal pay standard is a management tool to promote gender equality. Certification by an accredited certifier or confirmation by interested parties, if agreements have been reached between associations of the social partners, are intended to confirm that the decision on wages is based on objective considerations. Certification or confirmation that a company or organization meets the standards of equal pay standards does not prevent workplaces from settling between employees in wage decisions based on objective considerations, such as issues related to education, experience, knowledge, responsibility, stress or working conditions. In addition, certification or confirmation does not preclude individual factors that affect how an employee can perform his or her job or include an assessment of job performance. The gender pay gap is thus not prohibited as such but, if it exists, it must be based on objective considerations that in no way relate to gender.

The pilot project introducing the equal pay standard has highlighted a set of tools that can be used to eliminate the gender pay gap in the workplace. When the requirements of the standard are adhered to, a new perspective on wage setting emerges that promotes better awareness of gender equality issues and the factors that influence wages. So far, companies and institutions have voluntarily ensured equal pay based on the pay standard. In order to better ensure that women and men enjoy the same wages and

benefits for the same or equivalent jobs, a Bill was proposed in 2017 whereby companies and institutions with 25 employees or more would be required, on an annual basis, to obtain equal pay certification from the accredited body. Furthermore, it was proposed that the social partners' organizations be permitted to engage in negotiations to enable companies with 25 to 99 employees to request, on an annual basis, stakeholder confirmation instead of certification from accredited bodies. The legal obligation for equal pay certification therefore, in the same way as Act No. 13/2010, amends the Act on Public Limited Companies and the Private Limited Companies Act, which provide for gender proportionality on the boards of public limited companies to promote gender equality in the labour market.

Along with the amendments, legislation was introduced where it was considered that increasing the number of women in managerial positions in the business community by other means would be too slow. This legislation has led to an increase in the number of women on corporate boards. It was the consideration of the Minister that the benefits entailed by the above Bill would outweigh views concerning its negative impact on the companies and institutions concerned. The Bill would not be seen to go beyond the legal obligation to provide equal pay and achieve the legitimate goals of the Government. This is evident in the light of the clear intention of the legislature, legislation and measures under the Government to promote equality, as gender equality has not yet been achieved in this country. The gender pay gap is still measurable despite women's long-standing participation in the labour market, side-by-side with men. This gender pay gap is generally disadvantageous to women. Therefore, it is necessary to establish gender equality with equal pay based on legislation. Thus, the legal responsibility for achieving gender equality in the labour market cannot be ignored by employers. Furthermore, the legislation was deemed to have a positive impact not only on workers and gender equality, but also on companies and institutions, which are encouraged to make firmer decisions. It is a reasonable requirement to expect that employers' pay systems are transparent and based on objective perspectives communicated to employees.



## ► Appendix III. Equal pay self-test tool: Logib

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### 1. What is Logib?

Logib,<sup>60</sup> the federal Government's equal pay self-test tool, enables the verification of wage equality in a company – in other words, equal pay for work of equal value – between women and men. The calculation is performed using a regression analysis that takes into account objective factors predicting salary, including personal characteristics referred to as “human capital” (training, potential years of employment, length of service) and other factors related to the job itself (skill level, professional position). Sex is included in the regression as an additional independent variable. In the absence of discrimination, this variable has no significant influence on pay.

Logib is a tool that runs in Microsoft Excel. This document describes the different steps leading to the result of the analysis and its interpretation.

The employee data necessary for the calculation is entered in the Excel data list and then imported into the Logib file.

### 2. What data is required?

#### 2.1 Reference periods

Select a month for a reference period. This should provide a representative and up-to-date depiction of your company's workforce structure and wage policy.

If certain salary elements in your company are only paid periodically (e.g. bonuses or other special payments), select a reference month from the previous year to take this into consideration.

#### 2.2 Persons to be entered in the system

In principle, all persons employed in the company, that is employees from all business units and places of activity who were employed by the company and received a salary in the reference month, should be entered in the Excel data list. This includes executive directors, partners and members of the board of directors, provided they have a contract of employment with the company and are actively involved in its operations.

Certain groups of employees with a special employment situation are specifically indicated and excluded from the Logib analysis in order to avoid distorting its results.

#### 2.3 Data to be recorded in the system

The data required for an equal pay self-test largely corresponds to the data companies have to supply to the Federal Statistical Office every two years for the Swiss Earnings Structure Survey. Differences in data are justified by the fact that an analysis at company level requires greater precision than official statistics, hence the necessity to partly collect data in a different form.

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<sup>60</sup> The following is a short version of the [Logib manual](#), which is freely accessible.

To use Logib to analyse wage equality in your company, you must enter the following information for all employees in the Excel data list (one line per employee):

### 3. Employee data

#### Personal data

- ▶ Key
- ▶ Year of birth
- ▶ Sex
- ▶ Years of service
- ▶ Training

#### Workplace data

- ▶ Function (job carried out)
- ▶ Skill level (there are two options for allocating a classification)
- ▶ Professional position

#### Data on work-time percentage and wage

- ▶ Employees paid monthly: activity rate as a percentage
- ▶ Employees paid hourly: number of paid hours during the reference month
- ▶ Basic wage
- ▶ Allowances
- ▶ 13th monthly wage
- ▶ Special payments

#### Entry of different usual working hours (optional)

- ▶ Usual weekly working hours in company (for full-time employees, i.e. activity rate = 100 per cent)
- ▶ Usual annual working hours in the reference year (for full-time employees, i.e. activity rate = 100 per cent)
- ▶ Statistical population (employees with regular / special employment contracts)

#### Remarks (special cases) and optional additional columns

- ▶ Remarks
- ▶ Optional additional columns (Addition 1 to 5)

### 3.1 Personal data

#### Key

Enter a combination of letters and numbers.

#### Age (date of birth, year of birth, age)

Enter the age of employees either in years (YY), the year of birth using four digits (YYYY) or the complete date of birth (DD.MM.YYYY).

#### Sex

Please use the following coding: 1 = male, 2 = female

**Years of service (date of entry, year of entry, number of years of service)**

Enter the number of years of service as an integer, the year of entry (YYYY) or the precise date of entry to the company (DD.MM.YYYY).

**Training**

The highest educational level should be specified for every employee. It must be certified by a certificate or diploma. For diplomas that have been completed abroad, please enter the code for the equivalent training in Switzerland.

Enter numbers from 1 to 8 which correspond to the following definitions.

**Tertiary: University (codes 1 and 2):**

With regard to entering tertiary level university degrees (codes 1 and 2), you have two options depending on your actual business situation:

***Either***

Enter the tertiary level university degrees based on the type of institution and differentiate systematically between university degrees and degrees from a university of applied sciences. In this case, the codes are as follows:

- 1 = Universities and institutes of technology (UNI, ETH),
- 2 = University of applied sciences, university of teacher education or equivalent,

***Or***

Enter the university degrees based on the type of degree and differentiate systematically between Bachelor (first degree) and Master (second degree), regardless of whether the degree was obtained from a university/ETH, university of applied sciences, university of teacher education or a similar educational institution. In this case, the codes are as follows:

- 1 = Master's degree,
- 2 = Bachelor's degree.

**Tertiary: Higher vocational training (code 3)**

3 = Higher vocational training with Federal PET diploma, advanced or master craftsman diploma, diploma from a technical college (TS), PET college, engineering college (HTL), business administration college (HWV), art and design college (HFG), Institut d'Études Sociales (IES) or equivalent.

**Upper secondary (codes 4 to 6)**

4 = Teaching certificate at various levels: primary teacher's training college (for teaching at preschool, primary school, art and design, home economics) or equivalent,

5 = Academic baccalaureate, vocational baccalaureate, specialized baccalaureate or equivalent,

6 = Completed vocational education and training leading to a federal or cantonal certificate of proficiency, full-time vocational school, upper secondary specialized school, VET programme (Federal VET certificate – EBA) or equivalent.

**Compulsory schooling (codes 7 and 8)**

7 = In-house vocational training not recognized by the State Secretariat for Education, Research and Innovation (SERI),

8 = Compulsory schooling without professional qualification.

### 3.2 Workplace data

In addition to personal data (age, sex, length of service, training), details of the function performed, referred to as “workplace characteristics”, also need to be declared:

- ▶ Function;
- ▶ Skill level (previously “level of qualifications”);
- ▶ Professional position.

#### Function (job carried out)

Enter the title of the function or job carried out according to the functional specifications. When entering the function, please check you have not made any typing errors. Otherwise, these are automatically recognized as two different functions and will be listed twice in the Logib file, joblist sheet. For the same reason, you should use only gender-neutral function names.

The functions do not flow directly into the analysis but are used for allocating the two workplace characteristics: “skill level” (previously “level of qualifications”) and “professional position”. Unlike personal characteristics (training, potential years of employment, length of service), when defining workplace characteristics, the focus is on the function or job profile of the employees.

In most cases a procedure which begins quite broadly and is subsequently refined as required is the quickest way to define functions:

- ▶ Jobs which essentially contain similar tasks and responsibilities are generally combined to form one function. This deliberately ignores the fact that persons within such created functions may differ in terms of varying additional or ancillary tasks.
- ▶ This broad function structure is used to classify the professional position and the skill level for every function. Here it is sufficient to visualize a few function holders and their key tasks (functional specifications, position in the company organisation chart/responsibility).
- ▶ Finally, a check is carried out for each function to identify whether there are individual persons within a function who carry out tasks which are so significantly different from those performed by other function holders that a different classification of professional position and/or skill level would be appropriate.
- ▶ In this case, a previously defined function (e.g. project manager) is divided into two or more functions (e.g. junior project manager and senior project manager).

The functions are considered in the analysis on the basis of the two workplace characteristics “skill level” and “professional position”. These are explained further below.<sup>61</sup>

#### Skill level

The required skill level (previously “level of qualifications”) is used to classify functions according to the requirements of the tasks performed. Classification can be based on the job profile and functional specifications (tasks) and the skill profile (required skills).

To record the skill level, you have two options:

<sup>61</sup> Rather than classifying the workplace characteristics for every person individually, it is advisable to define and classify the professional functions first. This means you can be sure that employees who essentially have similar tasks and responsibilities are classified in the same way. In principle, one function should have one classification with regard to skill level and professional position (e.g. all employees with the function “project management” are classified as follows: skill level = 2, professional position = 4). The functions are either already stored in your personnel information system or you should refer to the details for the “job carried out” in the Swiss Earnings Structure Survey (according to the Swissdec standard).

- ▶ Allocation before importing data into the Logib file by entry in the data list, column G, or
- ▶ Allocation per function after importing data with a single mouse click in the automatically generated function list in the Logib file, joblist sheet. If you have not carried out any such classifications, we recommend this way of allocating the required skill level in the Logib file.

Enter numbers 1 to 4 according to the following **definitions**:

- 1 = Demanding and most difficult work,
- 2 = Complex technical or practical tasks,
- 3 = Professional and specialized knowledge required,
- 4 = Simple manual or repetitive tasks.

The following overview shows characteristic tasks, required skills and the qualification that is usually required per skill level:

#### **Skill level 1**

Characteristic tasks according to job profile: solving complex problems. Decision-making based on broad factual and theoretical knowledge. Analyses, research and development. Diagnosis and remedy. Transfer of knowledge.

Required skills according to job profile: *Intellectual* Understands complex documents. Familiar with complex concepts and issues. *Psycho-social* Organization of complex interpersonal situations. *Physical* Where necessary coping with physical stress.

Qualifications usually required: university, university of applied sciences.

#### **Skill level 2**

Characteristic tasks according to job profile: complex technical or practical tasks requiring factual, technical or methodical knowledge.

Required skills according to job profile: *Intellectual* Understands complex documents. Compilation of detailed reports. *Psycho-social* Organization of complex interpersonal situations. *Physical* Where necessary coping with physical stress.

Qualifications usually required: higher vocational training, university of applied sciences.

#### **Skill level 3**

Characteristic tasks according to job profile: manually skilled, technical and/or clerical activities requiring knowledge and skills in a particular occupational field.

Required skills according to job profile: *Intellectual* Reading and writing minutes and simple reports. Simple calculations. *Psycho-social* Regular verbal communication. *Physical* Specific manual skills.

Qualifications usually required: vocational training, Baccalaureate, vocational Baccalaureate.

#### **Skill level 4**

Characteristic tasks according to job profile: Simple repetitive tasks especially of a manual or physical nature.

Required skills according to job profile: *Intellectual* Where necessary basic reading and writing skills. Where necessary mental stress due to monotony. *Psycho-social* Occasional simple verbal communication. *Physical* Physical strength and stamina. Fine motor skills (precise movements).

Qualifications usually required: compulsory schooling, vocational training.

### Professional position

The variable “professional position” records how much responsibility a function has.<sup>62</sup> There are five levels for professional situation (excluding management function; lowest, lower, middle and senior management). In principle, a function should always have the same position in the organization chart or hierarchy, i.e. the same classification with regard to professional position.

#### Professional position 1

Senior management Director or involvement in executive management: shaping or helping to shape policy at corporate level. Responsibility or joint responsibility for the achievement of the company’s goals. Coordination of various management functions. Responsibility for policy and achievement of objectives in a specific area.

#### Professional position 2

Middle management Management of a department within the company, high level support roles: responsibility for the planning and organization of a specific area. Involvement in the development of long-term action plans.

#### Professional position 3

Lower management Performance-oriented management of a sub-area, qualified support roles: responsibility for carrying out tasks in own area of activity. Involvement in planning and organization.

#### Professional position 4

Lowest management Supervision of tasks according to specific instructions: supervision of work in progress. Occasional involvement in planning and organization.

#### Professional position 5

No management function.

## 3.3 Data on work-time percentage and wage

Data on the individual work-time percentage (i.e. the activity rate or the number of paid hours) and the individual wage components (i.e. basic wage, allowances, the 13th monthly wage and special payments) must be coherent for every single employee. Below you will find some examples of what to do in certain cases:

- **Change in activity rate** during the year: check whether the proportion of the 13th (14th or “nth”) monthly wage, allowances and special payments was calculated correctly according to the activity rate in the reference month.<sup>63</sup>
- **Change in basic wage** during the year, e.g. in the case of a promotion: check whether the proportion of the 13th (14th or “nth”) monthly wage was calculated correctly according to the activity rate and the (new) function in the reference month.

<sup>62</sup> The professional position is primarily derived from the management hierarchy in the company, as usually shown in the company’s organization chart. However, there may also be employees without management responsibility who have another specific responsibility (e.g. specialist responsibility; responsibility for human life; responsibility for valuable, material or immaterial goods). Such employees may accordingly be classified more highly than professional position 5 (no management function).

<sup>63</sup> Example for a person who reduced their activity rate as of 1 October from 100 per cent to 80 per cent. If you have chosen October as the reference period, the proportion of special payments for this month is: [annual amount of special payments/((9\*100)+(3\*80))\*80]. The amount is thus divided by 9 months at 100 per cent and 3 months at 80 per cent and then multiplied by the activity rate in the reference month, which in this case is 80 per cent. If the reference month were September, the proportion would be: [annual amount of special payments/((9\*100)+(3\*80))\*100]. For the 13th monthly wage, it is sufficient to divide the basic wage of the reference month by 12.

- ▶ **Partial or complete absences during the month** (illness, accident, maternity, military service, etc.) which result in a reduction in the wage paid: the corresponding contractually agreed wage for the activity rate is given. This means that for an activity rate of 100 per cent, the normal (contractual) 100 per cent wage is given (instead of a reduced wage due to absences).
- ▶ Entry or departure during the month due to unpaid leave or following an entry or departure: the corresponding (contractually) agreed wage for the activity rate is given.<sup>64</sup> Also check whether the proportion of the 13th monthly wage and the special payments corresponds with the activity rate (see first point).

### 3.3.1 Work-time percentage (activity rate, number of paid hours)

The work-time percentage is

- ▶ recorded for employees paid monthly in column I of the Excel data list;
- ▶ for employees paid hourly in column J of the Excel data list.

For each employee, please only fill in one of the columns.

#### Employees paid monthly: activity rate

Enter a decimal number. This number should correspond to the contractual activity rate (i.e. without any extra hours or overtime, as the basic wage and all other wage components are indicated without the payment of any overtime).

Example: activity rate: 100 per cent => figure to enter in data list: 100.

**In the case of short-time work** due to partial unemployment, enter the actual activity rate during the reference month (because in this case the basic wage and all other wage components are indicated according to the actual activity rate excluding any compensation for short-time work).

**Reminder:** if there is an entry in column J, "paid hours" (for employees paid hourly), the number "0" should be entered in column I "activity rate".

#### Employees paid hourly: hours paid in the reference month

Enter a decimal number. This number should correspond to the number of hours paid by the company in the reference month.

Hours that should be included:

- ▶ Hours worked and paid in full (excluding overtime hours);
- ▶ Fully paid "lost" hours e.g. due to a doctor's appointment, military service, vacation, absence due to accident or illness, etc.

The following should not be included:

- ▶ Overtime;
- ▶ Hours paid out through short-time working compensation from unemployment insurance payments.

**Reminder:** if there is an entry in column I "activity rate" (for employees paid monthly), the number "0" should be entered in column J "paid hours".

<sup>64</sup> Example for a person who started their job in the middle of the month with an activity rate of 80 per cent: enter 80 per cent as the work-time percentage and the contractual monthly wage for the 80 per cent job.

### 3.3.2 Wage, wage components

For standardized analyses for federal procurement purposes, the following wage components are entered (the proportional amount for the reference month or 1/12 of the annual amount):

- ▶ Basic wage (including regular wage components, including proportion of fringe benefits and participation rights);
- ▶ 13th monthly wage;
- ▶ Statutory allowances for night work and Sunday work and other extra pay for difficult working conditions (e.g. shift work, on-call service, other hardship allowances);
- ▶ Special payments which are paid irregularly.

However, the following are not to be entered:

- ▶ Family and child allowances;
- ▶ Seniority gifts, loyalty premiums;
- ▶ Remuneration for overtime;
- ▶ Payments in lieu of vacation;
- ▶ Further training paid by the employer;
- ▶ Reimbursement of expenses;
- ▶ Severance pay;
- ▶ Marriage allowances;
- ▶ Contributions to relocation expenses;
- ▶ Short-time working compensation payments from unemployment insurance.

The *wage components to be entered* will be explained separately below.

#### Basic wage

##### **Employees paid monthly:**

Please indicate the basic wage paid in the reference month corresponding to the work-time percentage entered in the column "activity rate".

E.g. Person A, full-time: activity rate = 100 per cent, basic wage = CHF 6,000 / month

E.g. Person B, part-time: activity rate = 25 per cent, basic wage = CHF 1,800 / month

If a person did not receive their full wage for the reference month due to unpaid leave or joining or leaving the company, the basic wage and all other components should be entered in accordance with the specified activity rate for the full month.

The gross amount of the basic wage including regular wage components, fringe benefits and participation rights must be entered. This means including:

- ▶ The amount of social contributions (compulsory and above-minimum contributions) paid by employees (AHS/AI, APG, AC, AANP, occupational pension plan).
- ▶ **Where available:** regular variable wage components for the reference month (e.g. function allowances, tips, premiums related to work carried out, commissions, shares of turnover etc.). Should this number vary significantly between individual months, an average value should be given (a twelfth of the annual amount).
- ▶ **Where available:** Fringe benefits (wage statement, 2.1-2.3) and participation rights (wage statement, 5), each at a twelfth of the annual amount.

However, this is **excluding**:

- ▶ Extra pay for difficult working conditions (allowances for shift/ night/ Sunday work; these are entered separately in the "Allowances" column).



- ▶ Pro rata 13th (14th, etc.) monthly wage (this is entered separately in the “13th monthly wage” column). Special payments such as bonuses which are paid on an irregular basis (annually or half yearly) (these payments are entered separately in the “special payments” column).
- ▶ Remuneration for overtime;
- ▶ Family and child allowances;
- ▶ Payments in lieu of vacation;
- ▶ Reimbursement of expenses;
- ▶ Seniority premiums;
- ▶ Short-time working compensation payments from unemployment insurance.

### Employees paid hourly

Please indicate the **basic wage paid in the reference month** corresponding to the number of working hours entered in the “Employees paid hourly: hours paid in the reference month” column.

E.g. Person C: Number of paid hours = 50 hours, hourly wage = CHF 35 / hour,  
basic wage = 50 \* 35 = CHF 1,800/month.

The gross amount of the basic wage should be indicated.

The following should not be included:

- ▶ Pro rata 13th (14th, etc.) monthly wage (this is entered separately in the “13th monthly wage” column);
- ▶ Compensation for short-time work paid by unemployment insurance.

### **Compensation for holidays and public holidays:**

Depending on whether you enter the usual working hours for employees paid hourly gross or net (i.e. including or excluding holidays and public holidays), you need to enter the basic wage and all other wage components for employees paid hourly with or without compensation for holidays and public holidays:

- ▶ Usual annual working hours = “gross” means: you enter the usual annual working hours including holidays and public holidays. In this case, you must indicate all wage components excluding supplements for holidays and public holidays for employees paid hourly.
- ▶ Usual annual working hours = “net” means: you enter the usual annual working hours excluding holidays and public holidays. In this case, you must indicate all wage components including supplements for holidays and public holidays for employees paid hourly.

### **Allowances**

Enter the proportional amount (1/12 of the annual gross amount) of the statutory allowances for night and Sunday work and other extra pay for difficult working conditions.

This does not include remuneration for overtime, compensation for short-time work.

Notes:

- ▶ Specify the pro rata amount of the payments made during the period of employment during the reference year, i.e. in the 12 months preceding the reference date.
- ▶ For employees who have been working at the company for less than a year, enter the monthly average since their entry to the company.

### **13th monthly wage**

Please indicate as the 13th, 14th, etc. monthly wage the proportional gross amount corresponding to the activity rate (or numbers of hours paid, or employees paid by the hour) in the reference month (e.g. a twelfth, i.e. 8.33 per cent of the basic wage in the reference month if the 13th monthly wage equal to one month’s full pay is paid).

E.g. Person A, full-time: basic wage = CHF 6,000 / month,  
13th monthly wage (proportion in reference month) =  $6,000 / 12 = \text{CHF } 500$ .

See the introduction to section 4.3 for the procedure to follow in case of absences without payment of wage (entry or departure from job during the reference period, unpaid leave).

### Special payments

Please indicate the **proportional gross amount** of the special payments for the reference month (1/12 of the annual amount). Special payments are payments linked with work performance and are paid out irregularly (e.g. bonuses, gratuities and profit sharing). Specify **1/12 of the amounts paid during the period of employment during the reference year, i.e. in the 12 months preceding the reference date.**

E.g. company X: reference month = June 2018; reference date = 30.06.2018.

Date special payments were last paid = April 2018. Special payments to be entered = special payments for April 2018 / 12.

This does **not** include:

- Remuneration for overtime, short-time working compensation payments;
- Payments in lieu of vacation;
- Severance payments, marriage allowances, contributions to relocation expenses.

As these are usually annual or semi-annual payments, please indicate the pro rata amount for one month of work (for the activity rate in the reference month).

### 3.3.3 Entering different usual working hours

Usual weekly working hours in company (for full-time employees, i.e. activity rate = 100 per cent)

There are two ways to enter the usual working hours in hours per week (always for full-time employees, i.e. activity rate = 100 per cent) for employees paid monthly:

1. **Entry** for the whole company in Logib file.
2. **If necessary:** different usual working hours for individual sites or groups of employees: if the usual weekly working hours for certain employees paid monthly differ from those for the entire company, enter the usual working hours **in hours per week** for an activity rate of 100 per cent in the data list, column O.

#### Usual annual working hours in the reference year (for full-time employees, i.e. activity rate = 100 per cent)

If you **have employees paid by the hour**, there are two ways to enter the **usual working time in hours per year** (always for full-time employees, i.e. activity rate = 100 per cent) for employees paid hourly:

3. Entry for the whole company in the Logib file;
4. If necessary: different usual working hours for individual sites or groups of employees: if the usual number of hours per year differ from those for the entire company for certain employees paid by the hour, enter the usual working hours in hours per week for an activity rate of 100 per cent in the data list, column P.

**Note:** For both variants, please read the respective explanations: Entry of usual working hours, gross or net.

### 3.4 Statistical population (employees with special employment contracts)

#### Statistical population

The “statistical population” column defines which employees are included in the analysis and which ones are excluded or not considered.

1 = “Normal” employment contract (normal case, included in the Logib analysis)

For employees with special employment contracts, please indicate the follow codes:

2 = Apprenticeship

3 = Traineeship

4 = Expat (employee workplace abroad, contract with Swiss enterprise)

5 = Other<sup>65</sup>

#### IMPORTANT:

- Employees assigned number 1 are included in the Logib analysis.
- Employees assigned numbers 2 to 5 are excluded from the analysis.

Empty fields or missing details in the statistical population column are interpreted by Logib as number 1 (inclusion).

If you are carrying out the Logib analysis for a self-declaration in the context of procurement, please contact the helpline if you have any questions about any other possible reasons for exclusion (code 5).

### 3.5 Remarks (special cases) and optional additional columns

This is where you can enter your notes and remarks on individual employees and, if needed, other company-specific information such as function levels.

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<sup>65</sup> Exclusions include invalidity insurance recipients whose performance in their current job is limited and who thus receive a reduced wage (e.g. if settling-in allowances or wage bill contributions are granted or they receive active assistance from a job coach).

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