



## **ADVISORY on the Implementation of Productivity-Based Pay Schemes for the Mining Industry in Caraga**

### **Background**

During the Mindanao-wide Two-tiered Wage System Briefing in Davao City, RB Caraga committed to issue an Advisory on two-tiered wage system for the Mining Sector. The mining sector was chosen as the pilot for the advisory in recognition of its contribution to the growth of the economy of the region. Thereafter, the secretariat gathered data from different government agencies, such as the National Economic and Development Authority, the Department of Trade and Industry, Mines and Geosciences Bureau, and the Department of Labor and Employment to establish the Region's economic performance and to identify and profile the priority industries of the Region.

Further, RB Caraga conducted a public consultation in Surigao City on November 11, 2013 to gather information on the incentive schemes currently being implemented by mining companies in the region. Several mining companies participated and they shared their own initiatives. The information generated during this consultation was used as one of the bases in crafting this Advisory.

### **Economic Context of Advisory**

#### *Economy of the Caraga Region*

For three (3) consecutive years, the Caraga region displayed strong economic performance as it grew by 7.4 percent in 2009-2010, 8.5 per cent in 2010-2011 and 10.6 per cent in 2011-2012. The region exceeded its growth targets by 3.1 percentage points in 2012, 2.6 percentage points in 2011 and 1.4 percentage points in 2010 based on the GRDP targets identified in the Regional Development Plan (2011-2016). This growth performance is higher than the neighboring regions of Region X and XI for the same years.

The growth of the region is driven mainly by the Industry Sector particularly construction and mining and quarrying sub-sectors. Industry grew by 18.4 percent in 2012. The Service Sector followed, which grew by 9.2 percent. The growth of the service sector was propelled by Transport, Storage and Communication subsector, which grew by 15.6 percent.

The Agriculture, Hunting, Forestry and Fishing Sector, which over the years has exhibited a declining trend, regained its vitality with the positive growth of the Agriculture and Forestry subsector which grew by 3.5 percent.

In terms of percentage contribution of each sector to the total GRDP, the Service Sector contributed the most with 44.9 percent. Subsector-wise, the Mining and

Quarrying subsector continues to overtake the Agriculture and Forestry subsector as it made a 21.9 per cent contribution compared to the latter's 17.9 percent.

#### *Labor and Employment*

The region's labor force slightly decreased from 65.75 per cent in 2011 to 65.23 per cent in 2012 but employment grew from 94.03 per cent in 2011 to 94.33 per cent in 2012, bringing the total number of employed to 1.041 million in 2012. Further, unemployment declined by 5.95 per cent in 2011 to 5.68 per cent in 2012.

For jobs generated, the region recorded an increase of 8.7 percent or 3,307 jobs generated in 2012 compared to the 2011 figure of 34,699 jobs. Comparing the LGUs, Butuan City got the biggest share of 27 percent in jobs generated, followed by Surigao Del Norte with 26 percent. In terms of growth in job generation, Surigao Del Norte continues to take the lead with 17.98 percent growth. The significant growth of jobs generated in Surigao Del Norte is attributed to the development of the mining industry in the Province.

In terms of job generation in the mining industry, a total of 18,828 jobs were generated in 2012, which is 17 percent more than the figure for the previous year. The increase is attributed to the operation of two (2) new companies namely, Greenstone Resources Corp and SinosteelPhils. H.Y. Ming Corporation. Males accounted for close to 93 percent of those employed in the mining industry. Nickel producing mines remain the top source of employment accounting for 78 percent of the total employment generated. While mining activities create employment opportunities, majority of the skilled workers employed in the industry are from outside Caraga; laborers and other unskilled positions are those occupied by Caraganons.

#### *Prospects*

The Caraga Region's economy is anticipated to continue with its current growth trajectory. With the operationalization of the Taganito HPAL Nickel Corporation, the Mining and Quarrying subsector will remain to be the dominant growth driver.

#### **Legal Context of Advisory**

Republic Act 6727 or the "Wage Rationalization Act" provides for the adoption of a Two-Tiered Wage System as a reform within the current minimum wage system and this is aimed at improving the coverage of minimum wages; promoting worker and enterprise productivity and; addressing the negative effects of minimum wage policies.

Further, Section 10 of Wage Order No.12, which took effect on May 21, 2013, stipulates that PRODUCTIVITY-BASED WAGES are established *to attain higher levels of productivity for competitiveness, to preserve and generate gainful employment and to augment the wages of workers, business enterprises are encouraged to adopt productivity improvement and gain sharing programs*".

In addition, Republic Act 6971 or the "Productivity Incentive Act of 1990 provides benefits and incentives under Sec. 7 t to encourage enterprises to adopt productivity incentive schemes. The following are the benefits and incentives under Section 7:

a) A business enterprise which adopts a productivity incentives program, duly and mutually agreed upon by parties to the labor-management committee, shall be granted a special deduction from gross income equivalent to fifty percent (50%) of the total productivity bonuses given to employees under the program over and above the total allowable ordinary and necessary business'; deductions for said bonuses under the National Internal Revenue Code, as amended.

b) Grants for manpower training and special studies given to rank-and-file employees pursuant to a program prepared by the labor by the labor-management committee for the development of skills identified as necessary by the appropriate government agencies shall also entitle the business enterprise to a special deduction from gross income equivalent to fifty percent (50%.) of the total grants over and above the allowable ordinary and necessary business deductions for said grants under the National Internal Revenue Code, as amended.

c) Any strike or lockout arising from any violation of the productivity incentives program shall suspend the effectivity thereof pending settlement of such strike or lockout: Provided, that the business enterprise shall not be deemed to have forfeited tax incentives accrued prior to the date of occurrence of such strike or lockout, and the workers shall not be required to reimburse the productivity bonuses already granted to them under the incentive program. Likewise, bonuses which have already accrued before the strike or lockout shall be paid the workers within six (6) months from their accrual.

d) Bonuses provided for under the productivity incentives program shall be given to the employees not later than every six (6) months from the start of such program over, and above existing bonuses granted by the business enterprise and by law. Provided, that the said bonuses shall not be deemed as salary increases due the employees and workers.

e) The special deductions from gross income provided for herein shall be allowed starting the next taxable year after the effectivity of this Act.

Cognizant of the contribution of the *mining industry* to the economy of the Caraga region and its potential to further propel the region to greater heights, the Board, invoking the aforementioned legal bases, hereby issues an Advisory on Productivity-based incentive schemes for the Mining Industry of Caraga Region. These schemes are designed to improve productivity of workers through the provision of commensurate incentives.

### **Purpose**

This advisory is being issued to encourage enterprises to adopt productivity improvement programs in recognition of their worker's contribution and share in the fruits of production. Further this Advisory is issued to strengthen the link between pay and Productivity.

The application of this advisory is VOLUNTARY IN NATURE.

## PRODUCTIVITY-BASED INCENTIVE SCHEMES

### 1. Production Incentive Scheme

#### A. For individual Workers

$$\frac{\text{Output per man-day}}{\text{Production Target/man-day}} =$$

Excess output from production target shall be subject to Production Incentive  
*(Percentage shall be determined by management in consultation with the workers)*

#### B. For groups/unit/department/section

$$\frac{\text{Output per man-day}}{\text{Production Target/man-day}} =$$

Excess output from production target shall be subject to Production Incentive  
*(Percentage shall be determined by management in consultation with the workers)*

- The percentage of Incentive to be given in excess of the production target set by the management per man-hour/weekly/monthly shall be left to the discretion of the former provided that prior consultation with the workers is conducted with regards to the incentive.
- The production incentive shall apply to all workers regardless of their status, rank and position, including those workers employed by subcontractors.
- The production incentive may be given on a monthly basis considering the working season/cycle of operation of the mining company.

### 2. Zero-Accident Incentive Scheme

- All workers and staff involved in the mining operations who are exposed to danger and hazards, who do not incur accident after every 30 days continuously shall be entitled to **1% of the monthly salary of the worker or certain percentage to be determined by the Labor-Management Committee organized inside the company.**
- The zero accident Incentive Scheme may be given on a monthly or quarterly basis whichever is most applicable and beneficial to the workers.

### 3. Longevity Incentive Pay Scheme

- To engender loyalty of the workers to the company and to give credit or recognition to the years rendered in the company, longevity incentive pay may be given to the workers commensurate to the actual number of years in service:
  - 5% of latest monthly salary – 2 years in service
  - 10% of the latest monthly salary - 3 years in service
  - 15% of the latest monthly salary - 4 years in service
  - 20% of the latest monthly salary - 5 years in service
- The longevity incentive pay for six (6) years and above shall be determined by the management provided it exceeds 20% of the latest monthly salary of the workers.
- The longevity incentive Pay may be given annually, or by semester, whichever is practical.

### 4. Attendance Incentive Scheme

- To encourage and develop time-consciousness in a workplace, attendance incentive pay may be given to any workers with perfect attendance for each month.
  - 200.00 for each month of perfect attendance with no tardiness.
  - 150.00 for each month of perfect attendance with 1-3 tardiness.
- *Note: all the figures indicated in the advisory are suggestive in nature. The company may adopt or change the figure depending on the agreement between the management and the workers.*

The Board, further, encourages workers and management to discuss these recommendations, examine their respective conditions and agree to jointly develop and implement a productivity incentives program. Relative to this, companies are enjoined to:

- 1.1. Create or tap existing labor management structures/committees to design and implement a productivity incentives program indicating coverage, performance or standards and targets, productivity program, sharing scheme and frequency of sharing, among others.
- 1.2. Upgrade or adopt new technologies and innovation in their work processes, with management spearheading the productivity drive and workers supporting improvements in work processes.
- 1.3. Share the gains from productivity improvement with their workers.

## Technical Support

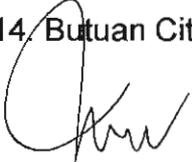
1.4. The Regional Tripartite Wages and Productivity Board-Caraga shall provide capacity building and consulting services, to legitimate mining enterprises in designing quality productivity improvement programs and gain-sharing schemes through:

1.4.1. Productivity training programs such as the 5S or Good Housekeeping; ISTIV modules for manufacturing enterprises; Service Quality for service establishments and Green Productivity;

1.4.2. Work Improvement Measurement Studies (Time and Motion Studies).

Please be guided accordingly.

May 16, 2014, Butuan City.

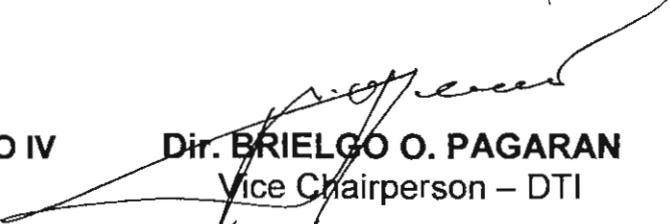
  
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