

# THE WAGE PROTECTION SYSTEM IN THE UAE

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## INTRODUCTION

News headlines in the UAE have recently proclaimed that "companies defaulting on salaries will soon be a thing of the past" (Gulf News), as the UAE government has launched its Wage Protection System (the "WPS"). Certainly the WPS is a significant step to protect the rights of workers in the UAE, and given the size and importance of the construction sector in the UAE, the WPS will also have a big impact on how employers in the UAE construction industry operate and pay employees. Below we look at the WPS, how it will operate and the impact the WPS will have on employers and employees across the UAE.

## WHAT IS THE WPS?

The WPS is an electronic salary transfer system that requires companies to pay workers' wages via specific financial institutions, such as banks and bureaux de change, approved and authorised by the government to provide such a service.

The system, developed by the Central Bank of the UAE, allows the Ministry of Labour (the "Ministry") to create a database that records wages payments in the private sector in an attempt to guarantee the timely and full payment of agreed-upon wages. The WPS is essentially an initiative to safeguard the payment of workers' wages - a system that is arguably overdue in the UAE.

## REQUIREMENTS OF THE WPS

In order to comply with the WPS, a company will need to do the following:

- register with the Ministry;
- have a bank account with a bank operating in the UAE;
- enter into a contract with any financial institution approved and authorised by the Central Bank of the UAE to provide the WPS service;
- transfer workers' wages via WPS by the specific deadlines set by the Ministry; (which is within 2 weeks of their due date or on the dates specified in the work contract if wages are to be paid more frequently); and
- meet all costs and expenses incurred in complying with the WPS.

## CONSEQUENCES OF FAILURE TO COMPLY WITH OR JOIN THE WPS

Compliance with the WPS is mandatory for all businesses operating in the UAE and, of course, there are consequences for those businesses that fail to comply. The current sanctions are as follows:

- Institutions failing to transfer workers' wages by the specific deadlines set by the Ministry will be denied the right to obtain new work permits. This ban will only be lifted 1 month after the transfer of the workers' wages in full; and
- Institutions that delay wages' payment more than 1 month after the due date will be denied the right to obtain new work permits, as well as all the institutions owned by the violating institution and all those responsible for the violation will be referred to court (in accordance with Ministerial Resolution No. 788 of 2009).

## IMPACT OF THE WPS

### Advantages

It is thought that this new system will apply to over 4 million employees when fully implemented and one significant advantage is that it is likely to enhance the Ministry's ability to implement preventative measures to reduce labour disputes over wages.

The system will allow the Ministry to know, on a 'real time' basis, whether or not salaries have been paid in full.

Defaulting companies can be easily identified, and as the supervision and sanctions will be administered by the same Ministry, the application of sanction should also be quite simple. As discussed above, defaulting companies will be prevented from obtaining new work permits, which may create significant problems for employers and therefore be a significant incentive for a company to comply with the WPS.

Another consequence of the WPS is that disclosures must be made to the Ministry, impacting on the ability of local companies to 'sponsor' the employees of international businesses that do not have a corporate presence in the UAE. The illegal, but widespread, practice of local companies 'sponsoring' foreign individuals that are in fact employed by and performing services for an international business without a corporate presence in the UAE, will be affected by the disclosure and transparency required under the WPS. Under the new system, such arrangements will be harder to maintain.

While the WPS offers wage protection to all employees, it is unskilled workers, who are particularly vulnerable, that are arguably most in need of the protection afforded by the WPS however as is noted below, some difficulties are apparently being experienced in extending the WPS to this sector of the labour market.

### Difficulties

It is apparent that there have been some teething difficulties in implementing the System, which unless resolved, may affect the utility of the System. Some businesses have cited the unwillingness of some banks to open accounts for low-income workers, which may represent a major obstacle in satisfying the requirements of the WPS. Time will tell how such issues are resolved.

## WHERE TO NEXT?

The WPS is a positive step for the UAE in respect of disclosure and transparency, and may serve to protect the interests of often powerless employees. While the WPS appears to have been implemented to address a specific problem, it is inevitable that questions will be asked whether the centralisation and disclosure of labour and wage data to the Government may not also represent the first step towards subsequent governmental wage or employment policies.

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