

# Unemployment Protection – design options

**Capacity building workshop on unemployment protection**

Kigali, 10 – 12 October 2023

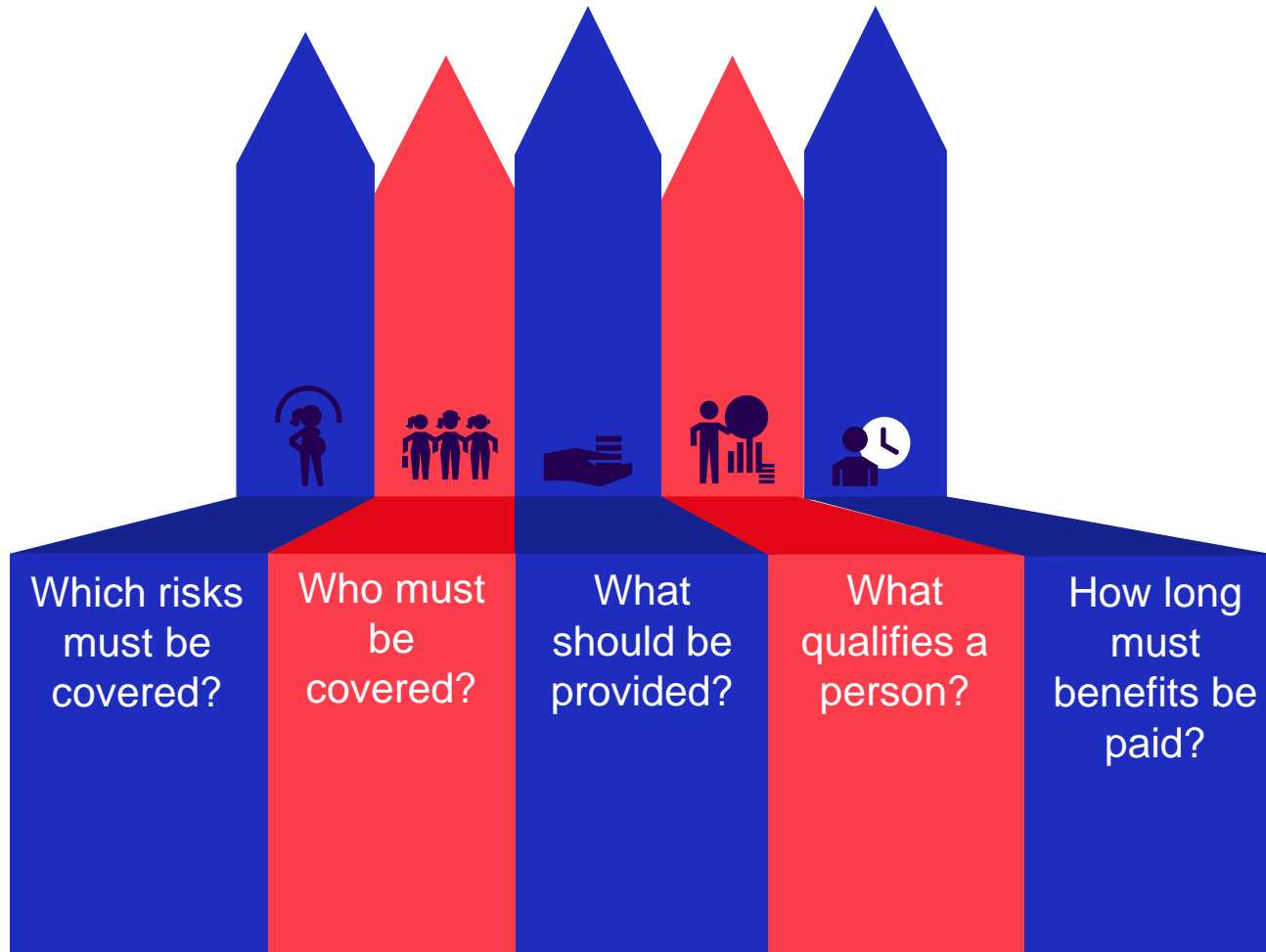
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# Content



- ▶ Finding answers/building consensus - Key message
- ▶ Coverage
- ▶ Benefit level
- ▶ Some eligibility issues
- ▶ Waiting period and duration of benefit
- ▶ Contribution rate
- ▶ Other issues

## Finding answers/building consensus on the key questions



- ▶ Definition of contingency
- ▶ Persons protected
- ▶ Type and level of benefits
- ▶ Entitlement conditions, including qualifying period
- ▶ Duration of benefit and waiting period

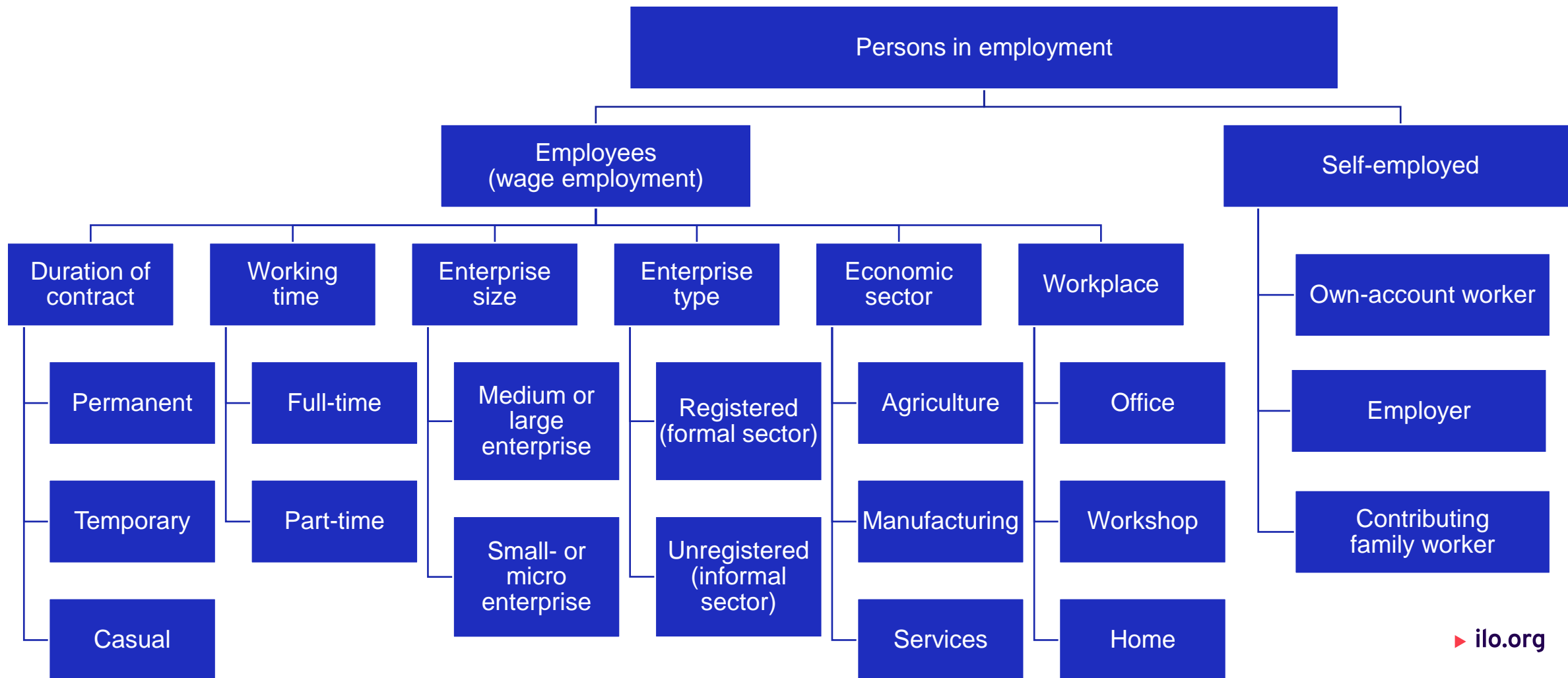
## ► **Key message** - design your own unemployment protection system

- ✓ Every country's design must be based on the economic, social, cultural context as well as financial resources
- ✓ The labour market of every country is unique, UP scheme is also unique
- ✓ UP scheme has a diverse elements - coverage, eligibility, generosity, waiting period, job search requirement
- ✓ Policy coherence and strong linkages with ALMP
- ✓ May start a pilot, record experience, labor market changes, keep improving and re-designing the UP based on the labor market change, evidence, and experience



# Coverage

## OPENING THE BLACK BOX: Employment and social security coverage:



# Coverage

- Traditionally, salaried workers of the private sector
- Need to discuss coverage of:
  - Public sector workers
    - not at great risk of unemployment
    - but may be affected by privatization process
    - Need for productivity and improving efficiency – jobs may not be secure
    - Increase contribution base
    - consider solidarity with other workers: possibility to reduce contribution rate
  - Self-employed persons
    - can be envisaged with very strict conditions, or limited to sole proprietors (easier to track/control)
    - Alignment with formalisation strategies
  - Seasonal workers
    - can be envisaged with very strict conditions (longer period of past contributions, average earnings over a longer period, benefit duration proportional to period of contribution payment)

# Coverage - Persons protected in practice

Carbo Verde	Employed persons. Exclusions: Self-employed persons.
Mauritius	Private-sector employees. Exclusions: Public-sector employees and employees of state-owned companies; part-time workers; self-employed persons; and foreign workers.
South Africa	Employed persons working more than 24 hours a month, Exclusions: Most categories of self-employed persons and certain civil servants.
Tanzania	Employed citizens of Tanzania, including civil servants, employees of local governments, police and correctional personnel, judiciary officers, and private-sector employees.

## Proposal for Eswatini and Kenya

The UBF to cover salaried employees in both the private and the public sectors.



# Persons protected in practice

Algeria	Public- and private-sector employees with a permanent contract. Exclusions: Self-employed persons.
Egypt	Public- and private-sector employees. Exclusions: Self-employed persons; temporary, seasonal, and casual workers; family labor; household workers; civil servants and employees of local governments; employees older than age 60; artisans; and citizens of Egypt working abroad.
Morocco	Private-sector salaried employees and apprentices in industry, commerce, agriculture, and liberal professions; employees of cooperatives; craftsmen; and certain categories of fishermen. Exclusions: Self-employed persons.
Tunisia	Salaried employees. Exclusions: Self-employed persons, agricultural workers, and household workers

# Persons protected in practice



- All employees
- Exclusions: less than 20 scheduled working hours per week and self-employed workers



- All workers with a few exceptions (persons working less than 60 hours a month)



- Vietnamese citizens with employment contracts of 1 to 3 years or permanent contracts who are employed by private- and public-sector organizations with 10 or more workers
- Exclusions: self-employed persons



- Salaried workers



- Salaried workers (regardless of nationality), and first-time job seekers (Bahraini citizens only)



- All employees (85% of workforce)



- Voluntary employees, self-employed and graduates



- Salaried workers



- All regular workers with a few exceptions

## **Covering the informal sector (Main issues)**

# Nature of informal employment

- Covers significant
- Economic activities that occur outside the scope of government regulation
- Characterized by lack of rights and protection for the workers involved
  - whether through the absence of labour standards, health and safety regulations, or social security benefits
- Women are more likely to be self-employed than men??

# Covering the informal sector – Main issues

In the context of the informal economy, the main risks that the UI scheme would face by covering this segment of the labour force are:

1. The possibility that the worker may control his/her employment or unemployment status, and
2. The lack of support to the unemployed worker for a quick return to work (lack of efficient employment services and absence of training).

# Covering the informal sector – Main issues

- UI usually covers only those who are in regular paid employment, that is those at risk of becoming involuntarily unemployed
- The lack of regulations covering informal employees, like domestic workers or others in the household sector, may make it harder to extend unemployment insurance to them.
- Self-employed persons are generally not covered because they may be deemed to have a certain control over whether they work or not
- Unemployment insurance schemes in the world do not generally cover workers without employment contracts



# Benefit level

# Benefit level

- UI benefit replaces a portion of lost income
  - Decision required concerning benefit rate and wage basis for calculating benefits (reference earnings)
  - Maintain standard of living, but keep incentive to seek new employment
  - Minimum benefit may be introduced
  - Earnings ceiling may be established
  - Convention 102 requires benefit rate of 45%, Convention 168 requires 50%
  - In some countries, the benefit rate is higher initially and reduces over time
- Countries with benefit level decreasing over time with the objective to offer a better replacement rate at inception, but also to encourage the person to return to employment as soon as possible.
  - **Jordan:** 75% of the covered wage for the first month, 65% for the second month, 55% for the third month and 45% from the fourth to the sixth month.
  - **Malaysia:** 80% for the first month, 50% the second, 40% the third and fourth and 30% the fifth and sixth months.



# Level of benefit

- **South Africa:** 38% to 60% of earnings, depending on the insured's level of earnings (lower-income persons receive a higher percentage of their earnings and higher-income persons receive a lower percentage). This level of benefit is paid for the first 238 days; it is reduced to 20% from the 239<sup>th</sup> to the 368<sup>th</sup> day.
- **Cabo Verde:** 65% of the insured's reference salary. The minimum monthly unemployment benefit is the legal monthly minimum wage.
- **Denmark:** highest benefit rate at 90% (heavily subsidized by government)
- **Mongolia:** lowest rate set at 45%
- **Mauritius:** 90% of the insured's average monthly basic earnings is paid for the first three months; 60% for the next three months; 30% thereafter, up to 12 months.

## Proposal for Eswatini

- Benefit rate. Two options: 50% Reference earnings for calculating benefits: last 6 months
- Minimum benefit: 50% of minimum wage – in line with C 168

# ► Some eligibility issues

## Qualifying period

- The payment of unemployment benefits is dependent on the existence of a sufficient individual record of contributions.
- On this issue, both Conventions No. 102 and No. 168 ask that the qualifying period not be longer than necessary to preclude abuse. Countries usually require either 6 or 12 months of contributions to qualify.
- In South Africa, persons are eligible if they have contributed to social security for at **least 5 days** (but the duration of benefit payment is proportional to the period of contribution). In Cabo Verde, persons must have at **least 6 months** of contribution.

# Eligibility - Qualifying period

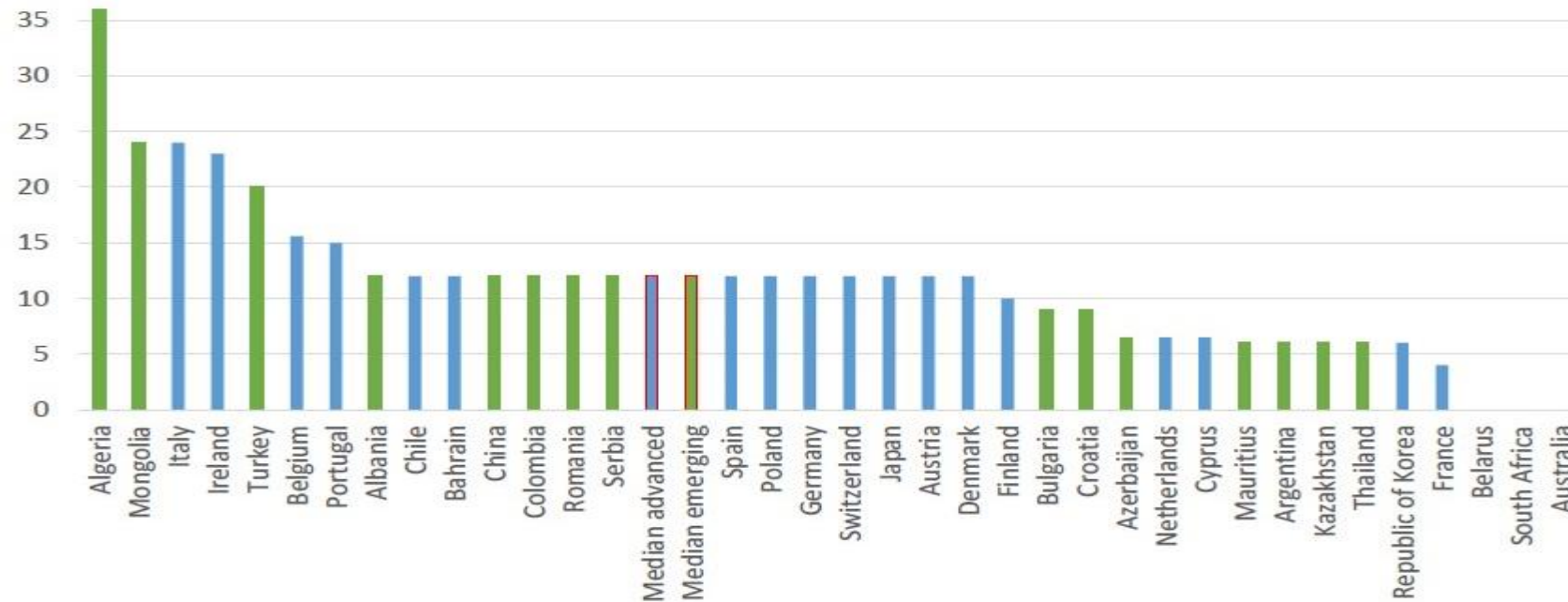
## Suggested scenario for Eswatini

12 months out of the 18 months preceding the date of commencement of unemployment

- JAPAN - 12 months of coverage during the last 24 months
- SOUTH KOREA - 180 days of coverage during the last 18 months
- VIETNAM - 12 months of coverage during the last 24 months
- ARGENTINA - 12 months of coverage during the last 36 months
- BEHRAIN - 12 months of coverage or first-time jobseeker
- CANADA - 420-700 hours (12 to 20 weeks)
- CABO VERDE - At least 6 months
- FRANCE - 4 in last 28 months if younger than 50, or 4 in last 36 months if older
- THAILAND - 6 months of coverage during the last 15 months

# Eligibility/qualifying requirement

- Length of employment base period - months



Source : Asenjo A., and Pignatti C., 2019, Unemployment insurance schemes around the world: Evidence and policy options, ILO

# Reason for job termination

- Normally paid only in case of involuntary job loss. Article 20 of Convention No. 168 allows for the denial of benefits when they lose their job due to their own misconduct or quit without any valid reason.
- Some countries recognize voluntary termination. But in that case, they generally increase the waiting period before paying UI benefits
- Should be careful with termination of employment at retirement
  - Retirement is generally voluntary
  - Sometimes UI wrongly viewed as a remainder of Severance pay
  - Costly measure
- General suggestion
  - Deny benefits when workers lose their job due to their own misconduct or quit without any valid reason

## Reason for job termination

- Unemployment Benefit Funds pay benefits to workers who **involuntarily** lose their job. Article 20 of Convention No. 168 allows for the denial of benefits when they lose their job due to their own misconduct or quit without any valid reason. Convention No. 102 has similar provisions. Should be careful with termination of employment at retirement
- For the purposes of UI retirement is generally considered voluntary
- Sometimes UI wrongly viewed as a remainder of Severance pay
- Be mindful of costly designs

# Reason for job termination

- Normally paid only in case of involuntary job loss
- **South Africa**
  - Unemployment must be the result of termination of the insured's contract, the ending of a fixed-term contract, the dismissal of the insured (except for disciplinary reasons), insolvency of the employer, or the death of the employer for a household worker.
- **Cabo Verde**
  - The person must be involuntary unemployed

## Suggestion for Eswatini

Unemployment benefits should be paid only in case of involuntary job loss. It is suggested to deny benefits when workers lose their job due to their own misconduct or quit without any valid reason.



# ► **Waiting period and duration of benefit**

# Benefit duration

- Waiting period
  - Necessary to avoid benefit claims for only short periods of unemployment (reduction of administration costs –could be excessive compared to the benefits to be paid)
  - Provides time for reviewing claimant applications and establishing their right to benefit
  - Convention 102 precludes waiting period longer than 7 days
- Maximum duration of benefit
  - Affects both the cost of the scheme and the claimant's motivation to find new employment
  - Convention 102 requires at least 13 weeks
  - Convention 168 requires at least 26 weeks during each unemployment spell, or 39 weeks over a 2-year period
- Benefit duration
  - Usually linked to qualification requirements
    - Easy conditions often linked with short duration

# Waiting period










A waiting period of 7 days may be prescribed

- Art. 24(3), C. 102
- Art. 18(1), C. 168

A qualifying period may be prescribed to preclude abuse

- Art. 23, C. 102
- Art. 17(1), C. 168

# Waiting period in practice

	• 7 days
	• 7 days
	• Found no job within 15 days
	• ---
	• 7 days
	• 2 weeks + duration of severance pay
	• 3 weeks if self-employed
	• 1 week + duration of severance pay
	• 7 days

# Duration of benefit

Convention No. 102  
(Art. 24)

***Benefit paid throughout the contingency***

***Possibility of limiting the duration to:***

- 13 weeks within a period of 12 months (if employees protected); or***
- 26 weeks within a period of 12 months (if all residents are protected)***

Convention No. 168  
(Art. 19)

***Benefit paid throughout the contingency***

***Possibility of limiting the initial duration of payment of the benefit to 26 weeks in each spell of unemployment, or to 39 weeks over any period of 24 months***










***In the event of unemployment continuing beyond this initial period, the duration of the payment of benefit may be limited to a prescribed period***

# Benefit duration

## International experience

- **South Africa**
  - One day of benefits is paid for each accumulated credit, up to 365 days. One credit is earned for every five completed days of employment.
- **Cabo Verde**
  - Benefit is paid for up to 2 months (up to 3 months for those with more than 24 months of contributions). An additional month of unemployment benefit is paid if the person is aged 35 or older (2 months if aged 50 or older).
- **China and Viet Nam**
  - Place emphasis on long-term service.
- In **Canada**, benefit duration varies with number of hours worked in qualifying period, and with the regional unemployment rate where the insured resides.
- Some countries have provisions for prolonged UI benefits in times of high unemployment or due to natural calamities or disasters.

# Duration of benefit

 Japan	• 90 days to 330 days, according to the length of coverage, age and reasons for unemployment
 South Korea	• 3 to 8 months
 Vietnam	• 3 to 12 months
 Argentina	• 4 to 12 months (older workers + 6 months)
 Ukraine	• 6 months
 Canada	• 14 to 45 weeks
 Denmark	• 24 months
 France	• 4 to 24 months
 Thailand	• 6 months (8 months during 2009)

# Suspension of Benefits: Art. 69, C. 102 and Art. 21 & 22, C. 168

- ❑ Benefit may be **refused, withdrawn, suspended or reduced** to the extent prescribed if the person concerned:
  - is absent from the territory;
  - had deliberately contributed to his or her own dismissal;
  - has left employment voluntarily without just cause;
  - has stopped work to take part in a labour dispute or when he or she is prevented from working as a direct result of a stoppage of work due to this labour dispute;
  - has attempted to obtain benefits fraudulently;
  - has failed without just cause to use the facilities available for placement, vocational guidance, training, retraining or redeployment in suitable work;
  - is in receipt of another income maintenance benefit;
  - has received severance pay.



# ► Contribution rate

# Sharing contributions

- Contribution rate is the cost of the scheme
- Between employers and workers
  - Discussion among tripartite constituents
  - Consider ILO standards
- Consider other social security (and other) financial obligations of the different parties

## Contribution - Africa

	<b>Employee</b>	<b>Employer</b>	<b>Govt.</b>
Mauritius	1.0	2.5	Finances deficits
Morocco	0.19	0.38	
Algeria	0.5	1.0	
Tunisia	0.1111	-	0.2889
South Africa	1.0	1.0	
Cabo Verde	0.5	2.5	1.5
Egypt	-	2.0	Finances deficits

# Sharing of UI contributions in selected UI schemes

	From employee	From employer	From government	Remarks
Argentina		0.89 to 1.50		Sectoral contribution rate (highest in agriculture)
Bahrain	1	1	1	
Canada	1.83	2.56		
Chile	0.6 (ISA)	1.6 (ISA) 0.8 (SI)	7.9% of Employers' contributions	Temporary employee: 2.8% (ISA), 0.2% (SI) from employer
China	1	2	Ad-hoc contribution	
Denmark	Flat fee, 30% of expenditures		70% of expenditures	Typical fee between 70 to 80 USD
France	2.4	4		
Germany	1.50	1.50		
Japan	0.6	0.6 + 0.35	25% of payment	Only employers contribute to Two Services
Republic of Korea	0.55	0.55 + 0.25 (<150) to 0.65 (>1000)		Employers' contribution only to Employment Security and VT Fund
Mongolia	0.5	0.5		
Thailand	0.5	0.5	0.25	
US		3.2		Varies from 1.4% to 6.7% across States
Viet Nam	1	1	1	

Source: ILO

## ► Other issues

# Choice of a financing policy

## Pay-as-you-go (PAYG) with contingency reserve

- UI benefit should contribute to a **counter-cyclical stabilization of the economy**
  - Its revenue should remain as stable as possible over time
  - The contribution rate should not be increased at the onset of a recession, as this would only make the recession worse
  - This implies the need for some form of dedicated reserve that can be used during periods of recession
- The social security institution should establish an unemployment **contingency reserve**
  - Such a reserve should be set aside to cover costs if expenditures temporarily exceed revenues.
  - A reserve objective established at two years of scheme's expenditures would leave time for an adjustment of the contribution rate in case of unfavourable experience.

# Individual accounts: not appropriate for UI

- Some countries have adopted an individual account approach for the provision of unemployment benefits.
- Under such a system, contributions on behalf of workers are deposited in an unemployment savings account.
- In some cases, a link is established between the UI account and the retirement rights of the individual under the social insurance scheme. Two situations may then arise – (i) unemployment savings account is sufficient; (ii) employment savings account is not sufficient to cover the UI benefit payments.

## **Drawbacks:**

- It represents an “individual risk” approach instead of “collective risk” approach.
- Depending on the level of contributions accumulated in the unemployment savings account, unemployment benefits derived from these savings may rapidly become insufficient in case of successive unemployment spells, thus forcing to dip into retirement savings and reduce future retirement income.

# **Transition between Severance allowance and UI insurance**



# Severance payment (versus unemployment benefits)

- For the worker
  - Lump sum versus periodic payments
    - Severance payments provide lump sums to employees, while unemployment benefits provide a periodic earnings-related compensation to jobseekers.
  - Dependency upon employer' financial situation
    - Severance payments fall under the Employment Act. They are paid only if the employer is solvent, able and willing to meet its obligations to former workers. Unemployment benefits, on the other hand, are guaranteed by the State under the social security legislation.
  - Long versus short service
    - Mandatory severance payments provide effective protection for workers with relatively long employment records with the same employers, but they provide little or no protection for those with short employment records.
- For the employer
  - For employers, severance payments make the firing of employees more costly, and thus deter them from laying off workers.
  - In many instances, however, they discourage employers from hiring new workers to avoid eventual liabilities. Outsourcing then represents an alternative for employers, where workers are effectively rented from an outside agency.

# Limitations of Severance pay

- Provide a lump-sum payment (short-term remedy)
- No linkages with ALMPs
  - No support to reemployment
- Limited coverage
  - Permanent contracts only
- Compliance generally low during economic crisis
  - Severance pay comes after all debts are cleared with creditors
- Liabilities and financial burden on employers at time of critical economic conjuncture
- Burden on employers in declining industries, where most layoffs will happen
- Hampers job creation by making structural adjustment difficult

# Provisions in Rwanda

- Severance pay in Rwanda is calculated in accordance with the completed length of service as follows: 1 month's salary for employees that have been in service for less than five years of service. 2 months' salary for employees that have been in service for between 5 and 10 years of service

# Criteria for choosing the transition options

- Current provisions of the Employment Act
- Desire to protect accumulated rights under SA
- Perception of workers
  - Immediate SA lump sum versus periodic UI benefit
- Compliance of employers concerning the payment of SA
- Average length of service of workers
  - SA provides higher protection for workers with long employment records with the same employers, but they provide little or no protection for those with short employment records
- Cost to be supported by employers (SA + UI)

# Possible transition scenarios

Option 1 – SA reduces amount of UI benefit amount

Option 2 – SA delays UI benefit commencement

Option 3 – SA paid in addition to UI, but stop service accumulation under SA

Option 4 – SA paid in addition to UI, but for a temporary period only

# Other considerations in the choice of UI provisions

- National priorities for the extension of social security
  - Protection of formal and informal employees, prevalence of other priorities (health care and pensions), coverage and objectives of the schemes
- Social dialogue
  - An essential element of a consultative process for the introduction of unemployment benefits is the establishment of a national tripartite working committee
- Severance pay and unemployment benefits
  - Maintenance or not of certain severance benefits may influence UI design
- Institutional set-up and capacities
  - Administrative processes and efficiency
  - Registration mechanisms
  - Quality of employment placement and counselling services