

# **Promoting unemployment benefits and income security measures for workers in Asia: current debate, situation and way forward**

Valerie Schmitt, Expert meeting in Niigata, 21-22 February 2011

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# **1 In Asia there is a growing awareness of the importance of establishing unemployment benefits & income security measures for the working age population**

## **a. Justification of unemployment benefits & ALMPs for formal sector workers**

In Asia the crisis contributed to increase unemployment; the situation varied across countries with high unemployment rates in countries like Indonesia and the Philippines (see table 1) and an important increase between 2007 and 2009 of unemployment rates in Cambodia, Japan, Korea, Malaysia, Thailand and Viet Nam. This situation contributed to raise awareness on the importance of introducing unemployment protection measures. A growing number of countries acknowledged that providing income security to workers enables to smooth consumption in times of crisis and to accelerate recovery by boosting the domestic demand for goods and services; therefore unemployment insurance schemes as well as other social protection measures to support the un-employed and under-employed should be an integral component of fiscal stimulus efforts.

Table 1 - Unemployment rates during & after the crisis

	2005	2006	2007	2008	2009	2010(**)
China	4.2	4.1	4	4.2	n/a	n/a
Indonesia	11.24	10.28	9.11	8.39	8.0	7.4
Japan	4.4	4.1	3.9	4	5.1	5.0
Korea, Republic of	3.7	3.5	3.2	3.2	3.6	3.4
Malaysia	3.5	3.3	3.2	3.3	3.6	3.3
Pakistan	7.7	6.2	5.3	5.2	n/a	n/a
Philippines	7.8	8	7.3	7.4	7.5	6.9
Singapore	5.6	4.5	3.98	3.95	3.0	2.8
Sri Lanka	7.7	6.5	6	5.2	5.7	5.4
Thailand	1.4	1.2	1.2	1.2	1.5	1.1
Viet Nam (*)	n/a	n/a	2.0	n/a	2.6	n/a

Source: <http://laborsta.ilo.org/>

(\*) ILO, 2011: Viet Nam Employment Trends 2010.

(\*\*) ILO ROAP, October 2010. Asia-Pacific Labour Market Update

Although the crisis contributed to increase unemployment in many countries, unemployment is a structural problem in most market economies. Unemployment protection measures are therefore needed not only as a temporary measure to face crisis consequences but also after recovery.

Income security measures for workers are also perceived as an efficient way, in the long run, to shift from export oriented economies to a more balanced economic development model relying on a stronger domestic market, or to facilitate the just transition to green economy. Investments in social security can also help to ensure

that progress in poverty reduction is not reversed. It can last but not least contribute to the redistribution of the fruits of growth as emphasized by APEC's statement in Singapore<sup>1</sup> "Unemployment remains unacceptably high in many of our economies. We will work together, and with other international fora, to ensure that the recovery does not stall and to lay a foundation for growth that is inclusive, balanced and sustainable (...)".

In some countries such as Malaysia, the Philippines and Indonesia, the rigidity of the labour law (hiring and firing rules) has some adverse effect, such as the reluctance of enterprises to hire workers on long term contracts and to invest in their employees (in terms of training, career development, etc.). The governments of these countries are in the process of reforming the labour law by introducing a higher degree of flexibility in the hiring and firing rules. It is acknowledged that these reforms should not be conducted at the expense of the sole workers and that they should be facilitated by the introduction of Unemployment benefits schemes and active labour market policies.

Experiences gained from countries, most of which are the developed, where UI cash benefits are provided to the unemployed and where employment services, such as vacancy information, job matching, vocational training, and other Active Labour Market Policies (ALMP), are implemented, show that they are one of the most effective and efficient mechanisms to protect the unemployed and their families against poverty on the one hand, and to assist them to return to employment as soon as possible on the other hand (stabilizing the employment).

#### **b. Justification of income security & ALMPs for vulnerable workers**

Vulnerable employment (own-account workers and contributing family workers) was a major challenge before the crisis in Asian countries although its share in total employment was on a downward trend. In many developing economies, workers who lost their jobs during the crisis did not have access to social protection schemes. Rather than becoming unemployed, these workers often take up various forms of employment, working on their own accounts, or contributing to family businesses. This, in turn, resulted in an increase in the number of workers in vulnerable employment.

Table 2 – Share of vulnerable employment in Asia

	1998	1999	2000	2005	2006	2007	2008	2009
East Asia	61.4	60.2	59.1	55.8	55.2	54.5	52.2	50.8
South-East Asia and the Pacific	63.8	66.2	65.5	62.6	62.3	62	62.5	61.8
South Asia	81.9	81.1	82.1	80.5	80.2	79.9	78.9	78.5

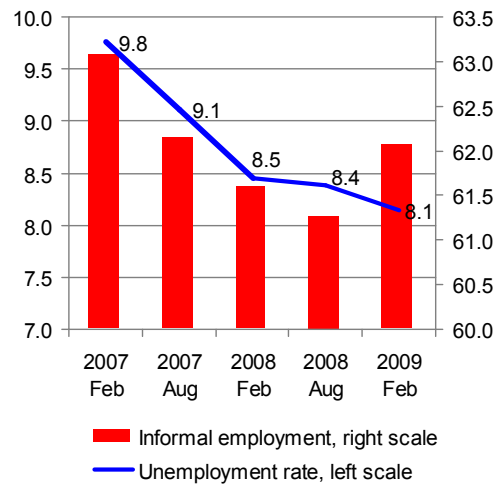
Source: ILO, 2011. Global Employment Trends 2011.

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<sup>1</sup> 21<sup>st</sup> APEC Ministerial Meeting, Singapore, November 11-12, 2009.

This is the case for instance of Indonesia where, in the absence of UI benefits, laid off workers contributed to grow the rows of the informal economy: the number of informal economy workers increased by 2 million between August 2008 and February 2009.

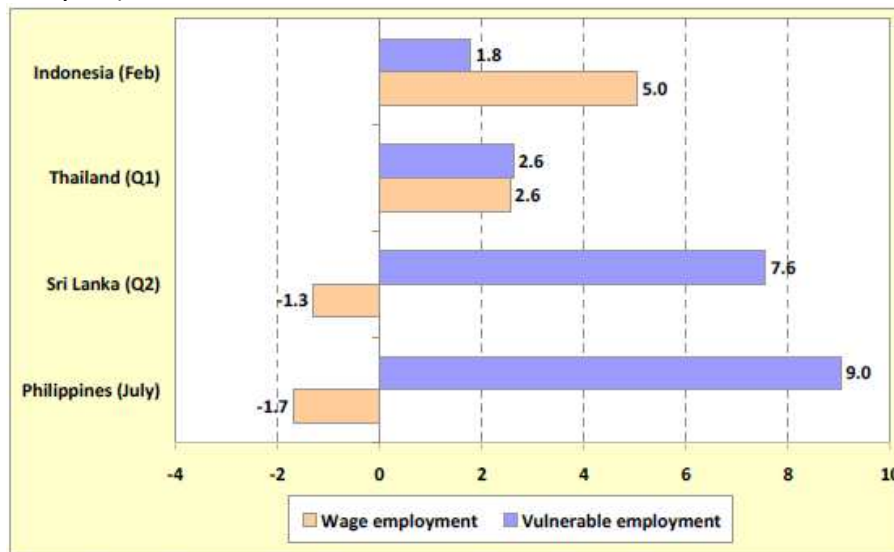
Figure 1 - Indonesia- increase of informal employment during the crisis



Source: ILO, 2010. Indonesian Jobs Pact Scann.

Post-crisis data (2010) shows that rising vulnerable employment is a concern in several Asian developing countries. Much of the job growth in the Philippines and Sri Lanka likely occurred in the informal economy. Wage employment actually contracted, and vulnerable employment grew, by 9% in the Philippines and 7.6% in Sri Lanka. In Thailand the increase in vulnerable employment matched the growth in wage employment. These trends suggest that employment growth does not automatically lead to labour market recovery.

Figure 2 - Change in wage and vulnerable employment, most recent period in 2010  
(%, year-on-year)



Notes: Ages 15+, except Sri Lanka: ages 10+; Sri Lanka excludes Northern Province.  
Vulnerable employment defined as own-account workers and contributing family workers.  
Source: National statistical offices.

Source: ILO ROAP, October 2010. Asia-Pacific Labour Market Update.

For workers in vulnerable employment that have to work in order to survive the main issues are underemployment and the often extremely precarious character of existing employment opportunities. The long-term solution relies on sustainable employment-generating policies, but there is still a need for interventions that alleviate the current situation. These should include: income support / income security for the underemployed and working poor in the form of cash transfers, as well as certain forms of basic employment guarantees in the form of public works or similar. Such measures are among the guarantees of the Social Protection Floor (SPF) promoted by the ILO and the United Nations since April 2009 as one of the UN CEB measures to face the crisis and accelerate recovery.

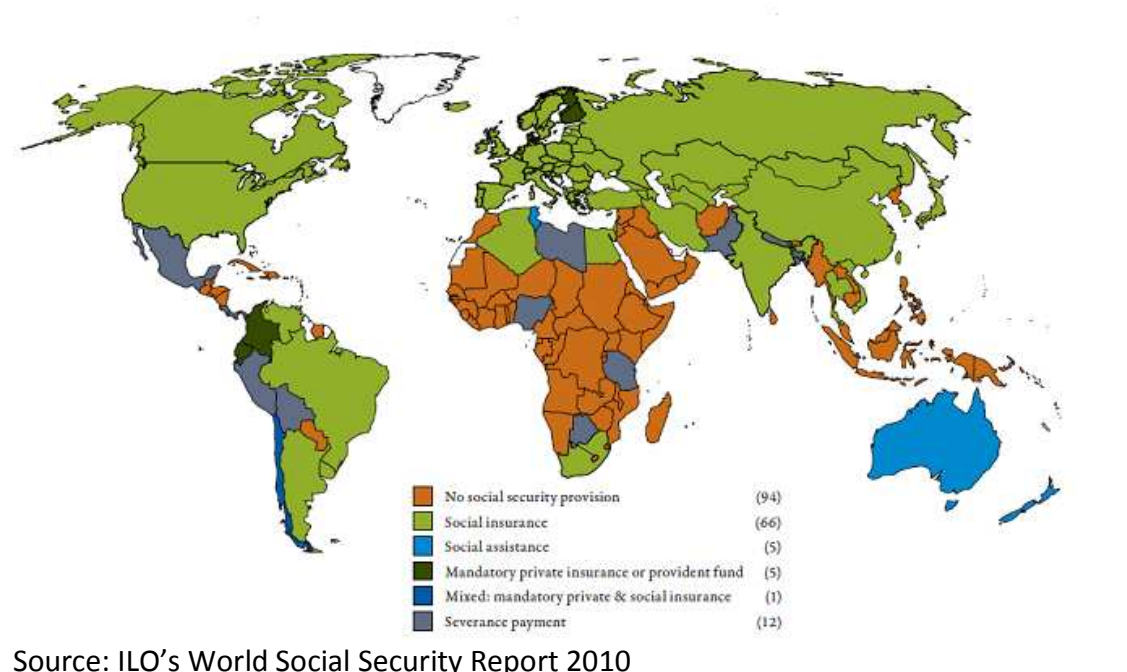
## **2 Despite the recognition of the importance of income security measures for the working age population, only a limited number of countries have established so far unemployment benefit schemes, and the effective coverage is very low**

### **a. A few countries have already established unemployment benefit schemes**

Unemployment benefit schemes provide at least partial income replacement, usually over a limited period, to those who face temporary unemployment. They enable the beneficiary to maintain a certain standard of living during the transition period until a new employment is available. Amounts of cash unemployment benefits are either related to the previous earnings of the beneficiary or paid at a flat rate. There are two main types of schemes: (1) contributory unemployment insurance (UI) schemes;

(2) non-contributory, tax financed unemployment assistance for all workers or for those that are no longer eligible to UI benefits.

Figure 3 – Existence of unemployment protection schemes, by type of scheme



In Asia countries can be divided in the following groups:

- 1- Countries that have established an unemployment insurance scheme: India, Mongolia, China, Thailand, Korea, Japan, Viet Nam ;
- 2- Countries that have established unemployment assistance scheme: New Zealand and Australia ;
- 3- Countries that have established both types of schemes (UI and unemployment assistance); this is the case for instance of Bahrain where the system is composed of an Unemployment benefit and an Unemployment aid for first time job seekers (over 17 years old) or insured persons who do not qualify for the unemployment benefit;
- 4- Countries that have not yet established any unemployment benefits scheme (Malaysia, Philippines, Lao PDR, Cambodia, Indonesia, Myanmar, Papua New Guinea, etc.).

Among UI schemes, the schemes developed in Japan and Korea are not only providing partial income replacement in case of loss of employment but a whole set of measures to facilitate return to employment for the laid off workers and to encourage job creation among enterprises. This integrated approach – known as “Employment insurance” (EI) – can serve as a model for countries in the region (for formal sector workers particularly, but the idea of providing an integrated approach can also be relevant for informal sector) .

The characteristics of the UI schemes in the region vary from one country to the other. Contributions can be shared by employers, employees and the government or only by employees and employers. In Thailand, Bahrain and Vietnam,

contributions are shared between three parties: employers, employees and the government. In China, Korea and Mongolia, contributions are shared between employers and employees only. The contribution rates are shared equally between employers and employees in Mongolia, Vietnam and Thailand, while contribution rate for employers are higher in Korea and Japan. The Chinese unemployment insurance is financed mainly by employers and employees with the contribution rate of 2% and 1% respectively. However, the provincial regulatory fund and local governments provide subsidies to unemployment funds as required.

Table 3 - Contributions rates and sources of funding, UI schemes

	Employee	Employer	Government
Bahrein	1	1	1
China	1	2	discretionary, irregular
India	global contribution under sickness	global contribution under sickness	global contribution under sickness
Japan	0.6	0.9	discretionary, irregular
Korea, Republic of	0.45	1.3	no contribution
Mongolia	N/A	N/A	N/A
Thailand	0.5	0.5	0.3
Viet Nam	1	1	1

Source: statistical annex of ILO's World Social Security Report 2010

Benefit levels are usually determined as a percentage of previous earnings. The benefit level in Thailand can be divided into 2 levels: 50% and 30% of insured previous earnings depending on reason of being unemployed. Mongolian scheme has more sophisticated way of calculating the benefit. Benefit depends on the insured's contribution history. The longer contribution period is, the higher the benefit level will be. Bahrein has two types of benefits: in percentage of previous earnings for the Unemployment benefit, and flat rate amount for the Unemployment aid. In China the unemployment benefit level is set by the local governments at a level higher than the local public assistance benefit but lower than the local minimum wage.

The benefits are only provided for a limited period of time (between 2 months and 2 years). This period is related to insured's previous contribution period. The longer the contribution history, the longer the possibility to enjoy the benefits.

Table 4 – Level and duration of benefits

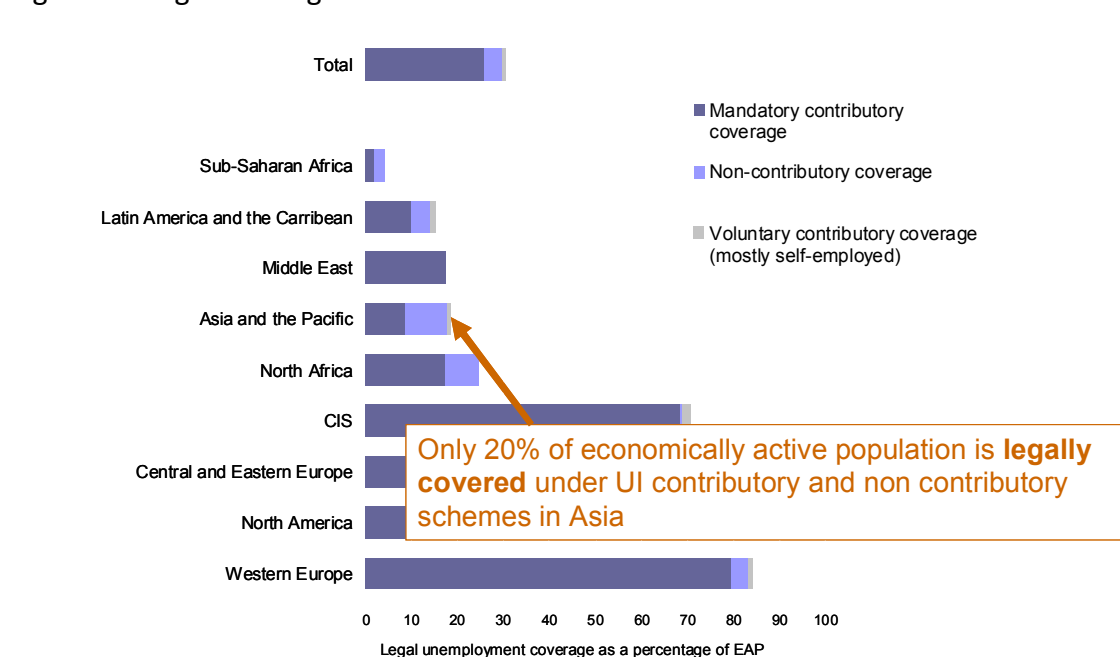
	Level of benefits in relation to previous earnings	Duration of benefit payment
China	Benefits are higher than public assistance benefits but lower than local minimum wage	Up to 1-2 years depending on contribution history
India	50% of insured's average wage	Up to 6 months
Mongolia	45-70% depending on contribution history	Up to 76 days
Thailand	50% of insured's average wage for involuntary unemployed, 30% for voluntary unemployed	Up to 6 months for involuntary unemployed and 3 months for voluntary unemployed
Viet Nam	60% of average wage of the last 6 months before being unemployed	Up to 3-12 months depending on contribution history

Source: Social security programs throughout the world. Asia and the Pacific, 2008.

#### b. The problem of low coverage (legal & effective) of UI/EI schemes

The average legal coverage of unemployment benefits in Asia is relatively low (20%) compared to other regions. This is due to the fact that only a small number of countries have already established unemployment benefits schemes, and among these countries, the percentage of economically active population which is legally covered is in many cases limited (to formal sector enterprise workers, and in some cases like Viet Nam to only large enterprises).

Figure 4 – Legal coverage in Asia



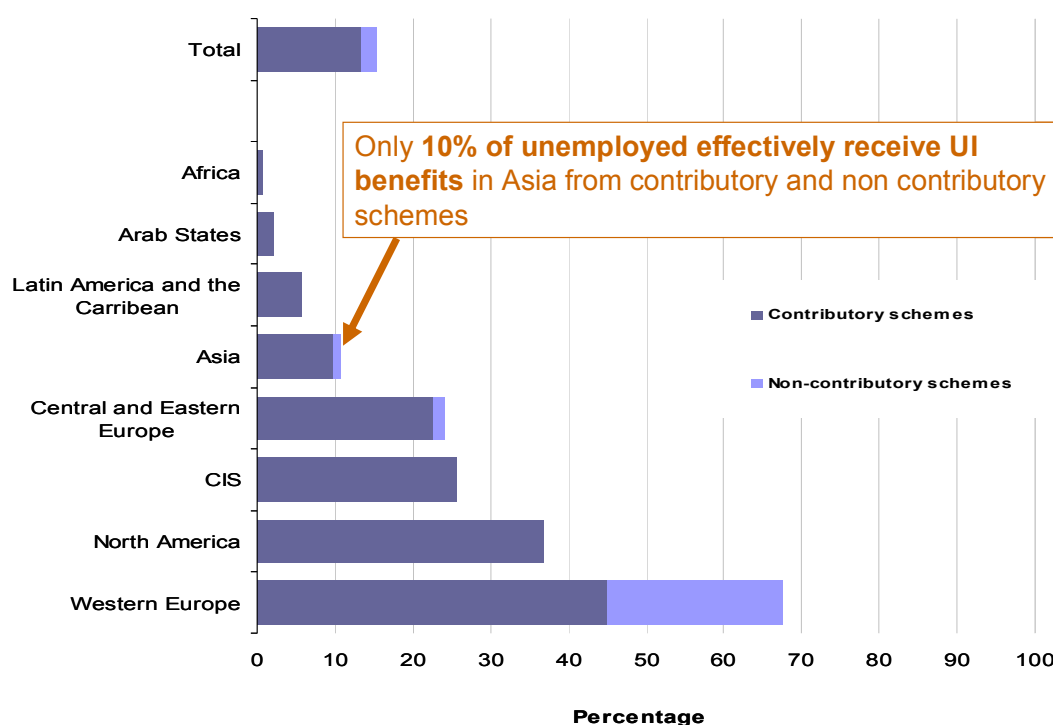
Source: statistical annex of ILO's World Social Security Report 2010



Among countries that have established UI/EI schemes the legal coverage vary from 1% in India to nearly 84% in Japan. In India, even though the scheme has been extended to cover all workers in formal sector, the ratio of covered persons to economically active population remains low, because of the large proportion of workers in the informal sector (about 93% of economically active population).

The effective coverage is defined as the number of persons receiving unemployment benefits among the total number of unemployed and is even lower (10%) for various reasons.

Figure 5 – Effective coverage in Asia



Source: statistical annex of ILO's World Social Security Report 2010

Some people who are legally covered by UI/EI schemes may not be aware of the existence of the scheme, and are therefore not registered or regularly contributing to the scheme. They are not entitled to benefits in case of loss of employment. In other cases the employers may be willing to evade the law by not registering all their employees or under-declaring the number of working months. The difference between legal and effective coverage is mainly due to suboptimal law-enforcement.

Table 5 – Legal and effective coverage

	Legal coverage (% of EAP)	Effective coverage (% of unemployed receiving benefits)
Bahrein	66.5	34.2
China	31.9	12.9
India	1	...
Japan	83.8	23.5
Korea, Republic of	66	37.2

Mongolia	29.5	16.8
Thailand	44.1	14.7
Viet Nam	14.2	...

Source: statistical annex of ILO's World Social Security Report 2010

In countries like Japan or Korea however the relative low level of effective coverage may be explained by the percentage of the workers who are hired on short term contracts (less than 6 months in Japan) and therefore not entitled to UI/EI benefits, and by the important share of long-term unemployed who are no longer entitled to receiving benefits. In Korea, the number of “irregular” workers (not or under declared) may also be an explanation.

### **c. The inadequacy of protection under the severance pay system**

In most of the ASEAN countries<sup>2</sup> where there is no Unemployment Insurance or other statutory income support programs for the unemployed, there exist legal provisions (usually included in the Labour Code or equivalent acts) obliging employers to pay a lump sum equivalent to several months salary to workers who are laid off. The entitlements and amounts of such severance pay normally depend on past employment service with a given employer. In the Philippines, for example, employers are obliged to pay one month's salary for every year of previous employment. In Indonesia, a similar system of severance pay for formal sector employees exist, which contributes to maintain income stability for terminated employees and their families. The problem is that very often these provisions of the labour law are not effectively enforced: potential beneficiaries are not informed about their entitlements, while employers – particularly those going through a difficult period of adjustment – may evade the law. In Indonesia severance pay is estimated to be equivalent to a “hiring tax” of approximately one third of a worker's annual wage, and together with other measures, contribute to the rigidity of the labour market which would hamper job growth by discouraging entrepreneurs from starting new businesses. In addition the protection offered by the severance pay does not comply with international standards according to which unemployment benefits should be periodical payments, not one-off payments.

### **d. Only a few experiments to provide income security for the vulnerable workers**

The flagship program in this respect is the new rural employment guarantee scheme that provides a guarantee of 100 days of employment to rural households at a wage level of 100 Rupies per working day. The worker has the possibility to claim for the income equivalent to the 100 days of work in case the local authorities are not able to provide him/her with employment within 15 days. A similar employment guarantee scheme has been established Indonesia although the number of days guaranteed is so far limited to 18 days. In other countries public employment schemes may provide employment opportunities and some kind of income security, although the minimum income is not guaranteed. In China the minimum living

<sup>2</sup> Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, Singapore, Thailand, Viet Nam.

standard guarantee schemes provide basic income security to 66 million urban and rural residents (2008). Other income security measures include transfers in cash or in kind, such as the huge CCT program “4Ps” in the Philippines, or the Rice for the poor program (distribution of rice at a subsidized price) in Indonesia.

### **3 There is a need to further support the development of unemployment benefits and income security measures, as well as Active Labour Market Policies, both for formal sector workers and vulnerable workers**

#### **a. Policy choices and models of society**

Labour market policies can be divided in two categories: Active policies and Passive policies. Passive policies aim at providing temporary ‘income security’ for the unemployed. They include:

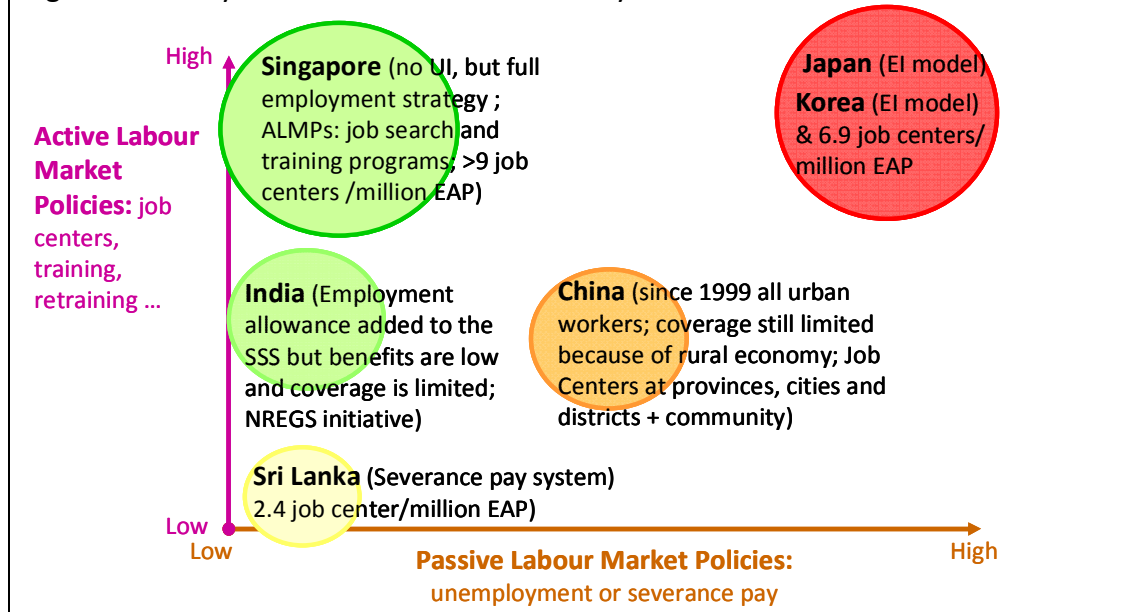
- Unemployment insurance,
- Severance pay and similar termination benefits, which are funded by the employer and provided as a lump sum,
- Unemployment-related social assistance for all workers or that steps in when the unemployed are no longer eligible for UI.

Active policies provide active support to unemployed workers in making ‘transitions’ to new employment. They include:

- Job search assistance through the public employment service (i.e. job centres), including job and career counselling.
- Training or re-training to increase employability.
- Promotion of self-employment through business management training, mentoring, access to credit, tax breaks, etc.
- Wage subsidies to encourage hiring of unemployed.

In Asia some countries are very much in favour of “Active Labour Market Policies”. The extreme case is that of Singapore that pursues a full employment strategy, by putting all efforts in the development of employment services that provide training and job placement to employees. On the other extreme are countries that have established UI systems but where the linkages with Employment services are not strong enough. Two countries seem to pursue both strategies in a simultaneous and integrated way: it is the case of Japan and Korea.

Figure 6 – Policy choices and models of society



#### b. The promotion and development of UI/EI schemes for formal sector employees

In many countries in Asia, there is a lack of understanding among governments, workers and employers of the importance of income-security measures (for those workers who lose employment or whose income is reduced) and employment services. There is therefore a need to:

- Raise awareness and interest for unemployment benefits among governments, workers and employers, to reach a buy in of the UI/EI schemes in the region;
- Conduct operational research;
- Provide technical assistance at country level for the design, implementation, management ... of UI/EI schemes;
- Track progress of the extension of coverage through regular surveys, the Social Security Inquiry, the documentation of experiences.

There is also a lack of capacities to design, implement and manage UI schemes and employment services, as well as to develop synergies between income security measures and employment services. There is therefore an urgent need to:

- Build capacities in these fields;
- Share knowledge on challenges faced by existing schemes and good practices;
- Provide technical assistance in the design, implementation and proper operation of unemployment insurance combined with a range of employment services.

**c. Towards active and passive labour market policies for vulnerable workers**

Active and passive labour market policies are not only relevant for formal sector employees, but also for:

- workers in vulnerable employment (self-employed workers, particularly in sectors such as agriculture and services in urban areas, and contributing family workers);
- other types of vulnerable workers who are not entitled to unemployment benefits (such as wage earners working in small and medium enterprises when the UI Law only applies to enterprises with a minimum level of employees);
- long-term unemployed who are no longer entitled to UI/EI benefits when available in the country;
- unregistered employees i.e. wage earners who, although working in enterprises that are registered, are not declared by their employer to fiscal administration / social security scheme;
- casual workers, etc.

Passive Labour Market Policies for these workers would include minimum income support, cash transfers or other income guarantee measures (such as under the new rural employment guarantee scheme in India). Active Labour Market Policies would consist of programs and services aiming at increasing the employability of these workers or their capacity to create jobs:

- skills assessment,
- identification of job opportunities,
- job placement in public employment programs or formal types of jobs,
- training & retraining,
- provision of incentives (in cash or in kind) to undertake training or seek jobs,
- business development services (micro-credit, accountancy services, etc.).

Table 6 – Typology of passive and active LMPs

	<b>Formal sector employees</b>	<b>Vulnerable workers</b>
<b>1- Protect the unemployed</b> through income support measures	Unemployment insurance Unemployment assistance Severance Pay	Unemployment assistance Other forms of minimum income security (cash transfers, food distribution ...)
<b>2- Facilitate return to employment</b> through employment services and other ALMP	Vacancy information Job matching Vocational training Support to existing jobs Job creation	Employment guarantee schemes Public Works Programs (cash and food for work) Vocational training Business development services

**d. The development of adapted strategies for vulnerable workers,  
notably in the informal economy**

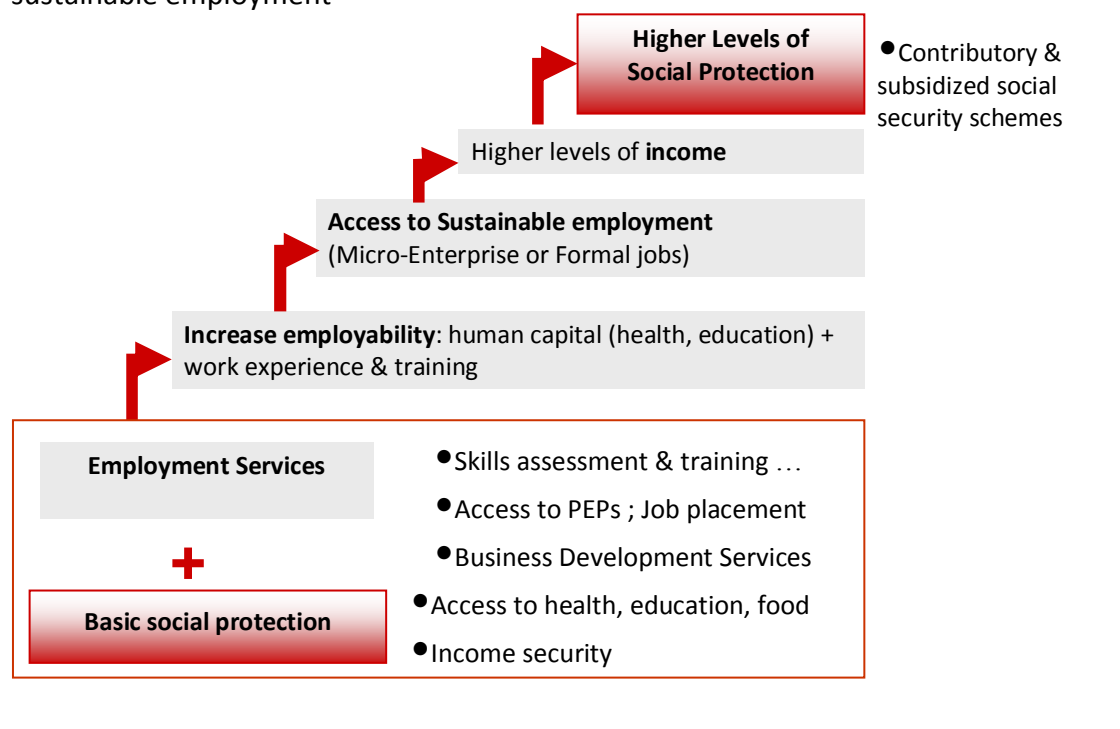
The social protection floor promotes a guarantee of basic income security for economically active population: “All those in active age groups who cannot (due to unemployment, underemployment, sickness or invalidity) or should not (in case of maternity) earn sufficient income on the labour market should enjoy a minimum income security through social transfer in cash or in kind schemes or employment guarantee schemes”.

The idea is to provide these economically active people who became vulnerable a temporary assistance that will facilitate their (re)integration in the labour market and their finding of a decent job.

For those who cannot work (pregnant women, persons with important disabilities) this minimum income security guarantee would take the form of a minimum pension for the period of incapacity to work. For those who are able to work it could take the form of a self targeted employment guarantee program in various sectors of activity (building and maintenance of public goods such as roads or social infrastructures, climate change prevention and mitigation, such as reforestation or the building of dams, food production programs, etc.).

The Social Protection Floor, linked to adapted employment services, carries the potential to create incentives for economically active workers needing temporary support to become self-reliant and gradually benefit from higher levels of protection through contributory or partially contributory systems. With their progressive access to better paid jobs, their capacity to contribute to social security schemes is increased and they progressively have access to higher levels of social security benefits.

Figure 7 – Moving up the staircase: towards higher levels of social protection and sustainable employment



An integrated approach could be promoted by which households would register in a “single window service” and find under this single entry point information on minimum income support measures and other social security schemes, skills development programs, employment services, etc. They would be supported by a dedicated “case manager” that would understand their specific situation (vulnerability & skills assessment), develop a personalized plan with them in terms of skills development, enterprise creation or job placement, channel information on all social services they are entitled to, facilitate administrative procedures such as the registration to basic social services or social insurance schemes, in case of an accident, sickness, ill health or any other contingency occurring in the family, support them in claiming for benefits (for instance under Employment Injury Insurance, health insurance, Employment Guarantee Schemes...), support injured workers in their reintegration through the development of a rehabilitation plan and / or the adaptation of the workplace, etc. Examples from France, Chile and India show that outreach services through social workers or case managers are critical to facilitate and ease access to such services (especially for the poor and vulnerable who often lack information and empowerment).

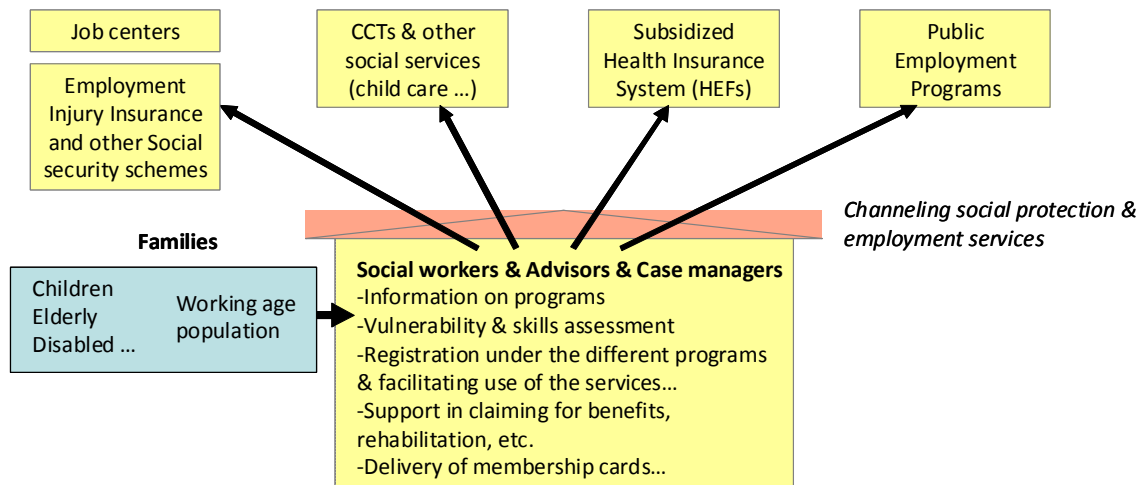
The working age population would progressively have access to more sustainable employment, generate higher levels of income, and be increasingly able to contribute to social security schemes. This integrated approach could be build around existing social protection schemes (CCTs, PEPs, etc.) or existing employment services that would be the core or backbone in the convergence of various social protection schemes & employment services currently in place.

Figure 8 – A Single Window Service providing an integrated and adapted access to social protection (including income security measures) and employment services

**At policy level:**

Ministry of Labour	Min. of social welfare	Min. of health	Min. in charge of infrastructure & rural development
<ul style="list-style-type: none"> <li>• Policy development</li> <li>• Employment services design, implementation</li> <li>• Training &amp; skills programs</li> <li>• Social security</li> </ul>	<ul style="list-style-type: none"> <li>• Policy development</li> <li>• Social services &amp; transfers design and implementation</li> <li>• Technical expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Policy development</li> <li>• Health infrastructure</li> <li>• Distribution of health cards for free access</li> <li>• Health insurance ...</li> </ul>	<ul style="list-style-type: none"> <li>• Policy development</li> <li>• Implementation of PWP</li> </ul>

**At implementation level, social protection and employment programs:**



VS, 9 March 2011.