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Working Paper

Documenting unemployment insurance experiences

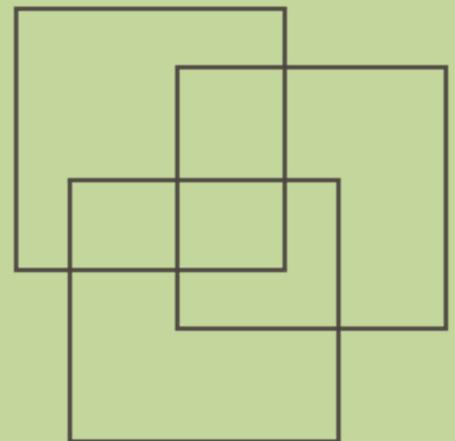
Chile, South Africa, Thailand and Viet Nam

Michel Bedard

John Carter

Loan Ngo Thi

Worawan Chandoevrit



ILO/Japan Promoting Unemployment Insurance and Employment Services in ASEAN

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Working Paper

**Documenting unemployment
insurance experiences**

Chile, South Africa, Thailand and Viet Nam

**Michel Bedard
John Carter
Loan Ngo Thi
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**ILO/Japan Promoting Unemployment Insurance and Employment
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ILO Regional Office for Asia and the Pacific

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Foreword

While the impact of the global economic and financial crisis has been large on the ten countries of the Association of Southeast Asian Nations (ASEAN), the region economies have rebounded remarkably. However, unemployment rates are estimated to have edged down only slightly, and the crisis has definitely slowed the declining trend between 2003 and 2008 in the share of workers in vulnerable employment in the ASEAN countries.

Although the crisis is now part of the past, in the region, there is still a quest for implementing systems and measures that will improve protection of workers who lose their jobs. Among the ASEAN countries that are considering the introduction of unemployment benefits, notably Malaysia, the Philippines, Myanmar and Lao PDR, there is great interest to learn from the two ASEAN member States that have already introduced unemployment insurance namely Thailand (in 2004) and Viet Nam (in 2009). Similarly, two other countries with similar level of economic development (Chile and South Africa) have called the attention of some ASEAN countries.

The present compilation of four case studies, commissioned under the ILO/Japan funded Project Building unemployment insurance and employment services in the ASEAN, hopes to provide some useful information for governments and social partners in search of possible options for the introduction of unemployment benefits in their respective countries.

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Acronyms

ASEAN	Association of Southeast Asian Nations
BoE	Bureau of Employment (Viet Nam)
BNE	Bolsa Nacional de Empleo (Chile)
DOE	Department of Employment (Thailand)
DOLISA	Department of Labour, Invalids and Social Affairs (Viet Nam)
DLPW	Department of Labour Protection and Welfare (Thailand)
EPWP	Expanded Public Works Programme (South Africa)
ESC	Employment Service Centre (Viet Nam)
FTA	Free-trade Agreement
ILO	International Labour Organization
IMF	International Monetary Fund
ISA	Individual Savings Account (Chile)
MOLISA	Ministry of Labour, Invalids and Social Affairs (Viet Nam)
OECD	Organization for Economic Co-operation and Development
OMIL	Municipal Employment Office (Chile)
SFPA	Superintendencia de Fondo de Pensión (Chile)
SSF	Social Security Fund (Thailand)
SSO	Social Security Office (Thailand)
SSS	Social Security System (Thailand)
UIA	Unemployment Insurance Act (South Africa)
UICA	Unemployment Insurance Contributions Act (UICA)
UIF	Unemployment Insurance Fund (South Africa)
UNESCO	United Nations Educational, Scientific and Cultural Organization
VCCI	Viet Nam Chamber of Commerce and Industry
VGCL	Viet Nam General Confederation of Labour

VSS Vietnam Social Services
WTO World Trade Organization

Chile

Michel Bedard

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Chile Country Data

Area	756,096.3 km ²
Population (est. June 30, 2012)	17,402,630
Urban share of population	87.0%
<u>Age structure</u>	
• 0-14 years	21.8%
• 15-64 years	68.7%
• 65 years and over	9.5%
Adult literacy rate (aged 15 and above)	98.6%
Life expectancy at birth (years)	79.1
<u>GDP per capita (2010)</u>	
• US\$	11,929
• PPP (US\$, IMF)	15,002
Labour force (2011)	8.0 million
<u>Labour Force Participation Rates (2011)</u>	
• Total	59.7%
• Men	72.7%
• Women	47.3%
Unemployment rate (2011)	7.1%
Informal Employment	
Legal minimum wage (if exists)	210,000 pesos (420 US dollars)

National Poverty Line	
Human Development Index (HDI) Rank (2011)	44
HDI Gender Inequality Index / Rank (2011)	0.374 / 68

Summary of the UI Scheme in Chile

Start date and Laws	<p>2 October 2002</p> <p>Law 19.728 and Law 20.328</p> <p>UI laws: http://www.safp.cl/portal/regulacion/582/w3-propertyvalue-5939.html</p>
Type of Scheme	Individual Savings Accounts supplemented by Solidarity Benefits
Target group	Private sector workers subject to the Labour Code, with voluntary coverage of those employed before Oct. 2, 2002.
Population insured	3.9 million employees (73% of all salaried employees in Chile)
Qualifying Conditions	<ul style="list-style-type: none"> - Individual Savings Accounts: 6 or 12 months of insured employment, depending on whether permanent or temporary employee. - Solidarity Benefits: 12 months of insured employment in last 24 months, the last 3 being continuous and with the same employer.
Benefits	<ul style="list-style-type: none"> - Monthly payments for any cause from Individual Savings Accounts. - Solidarity Benefits if qualified and laid-off for business reasons.
Benefit amounts and duration	<p>Decreasing monthly benefits based on previous average earnings:</p> <ul style="list-style-type: none"> - for permanent workers, lasting up to 5 months starting at 50% and reducing by 5 percentage points each month; - for temporary workers, lasting 2 months at 35% and 30% respectively.
Source of funding	<ul style="list-style-type: none"> - Combined employer and worker contributions totalling 3% of insured wages, subject to a maximum that is adjusted each year. - Indexed government contribution equal to about 6% of employer-employee contributions.
Administration	<ul style="list-style-type: none"> - Private manager collects contributions, receives and decides applications, pays benefits, manages investments. - Various government agencies exercise supervision and

	report to the private manager on jobseekers' compliance with return to work requirements.
Impact/challenges	<ul style="list-style-type: none">- Less than 20% of all unemployed workers receive benefits from the scheme, about 90% of which comes from Individual Savings Accounts.- Take-up rate is 35% overall, only 13% for Solidarity Benefits.- Very low benefits.

1. History and Background

Easy to recognize on a map, Chile is a long, narrow country, wedged in between the Andes Mountains to the East and the Pacific Ocean to the West, laid out as a ribbon almost 4,700 kilometres long and averaging about 175 kilometres wide. As a result of its relative isolation on the South American continent, Chile has sometimes been compared to an island, but it shares many links with the rest of the continent, both cultural and economic. Chile has only three neighbours: Argentina over about 3,900 kilometres of its eastern border, Bolivia over a 700 kilometre stretch of the northernmost part of its eastern border, and Peru over a short stretch, about 150 kilometres long, of the northern border.

Chile's north to south layout brings with it a variety of climates: from arid deserts in the north to dry temperate conditions in the center (around the capital city of Santiago), temperate then sub polar rainforests in the mid southern area, rounded out by alpine and tundra conditions going further south as far as the southern tip of the continent.

Before Spanish explorers arrived around the mid-1500s, Chile had been inhabited mainly by the indigenous Mapuche as well as, in the North, by the Incas. Over the next 300 years, the Spanish gradually occupied the northern part of the country. Cut off to the north by desert, to the south by the Mapuche, to the east by the Andes Mountains, and to the west by the ocean, Chile became one of the most centralized, homogeneous colonies in Spanish America, a situation which in many respects forged the country's institutions.

After an 8-year war of liberation, the country declared itself independent from Spain in 1818. Chilean politics during the 19th century were described as retaining a "stratified colonial social structure, which was greatly influenced by family politics and the Roman Catholic Church." The 20th century saw Chile being usually ruled by an oligarchy that was established both in politics and in business.

A socialist government was elected in 1970 but was overthrown by a military coup in 1973, leading to 17 years of military rule, during which the country adopted neoliberal economic, social and institutional policies that have perdured to this day. With the return of democracy in 1990, the country has nevertheless become one of South America's most developed and stable countries. Nevertheless, Chile stands out within the OECD as suffering from high-income inequality and poverty, even if it has done better than most other countries in Latin America. Chile's current population exceeds 17 million, about 40 per cent of whom live in the Santiago area.

2. Economy

Chile has been a member of the WTO (World Trade Organization) since 1995 and in 2010 became the first South American country to join the OECD. Its per capita GDP stood at 15,000 US\$ in 2010 (on the basis of purchasing-power parity, under IMF estimates), second only to Argentina on the continent. That figure has grown by an average of 6.4 per cent from 1990 to 2008, dropping by 2.0 per cent during the 2009 recession before recovering to traditional growth rates in 2010 and 2011.

Chile is one of the most stable and prosperous developing nations and consistently ranks high on international indices relating to economic freedom, transparency, and competitiveness. Since 1990, it has pursued market-oriented strategies, expanding global commercial ties, and actively participating in international issues and hemispheric free trade.

The mining sector, largely due to copper extraction, represents one of Chile's most important engines of economic growth and revenue. It contributes approximately 15 per cent of GDP, 50 per cent of exports and 30 per cent of government revenues. The government obtains a large part of those revenues from its ownership of Chile's largest company, Codelco, which is the largest producer of copper in the world. Business services (13 per cent of GDP), manufacturing (11 per cent) and personal services (11 per cent) come after mining in terms of their contribution to GDP, followed by the retail sector (8 per cent) and construction (7 per cent). Chile is known for its wines and is the world's second largest producer of salmon (after Norway), though its agriculture and forestry sectors contributed less than 3 per cent of GDP in 2011.

From a low of just over 6.0 per cent in mid-2007, the national unemployment rate rose to a high point of 10.1 per cent in August 2009 (on a seasonally-adjusted basis), before falling back to 8.1 per cent in 2010 and to 7.1 per cent in 2011. The Chilean labour force is marked by the low participation rate of women (48 per cent compared to 73 per cent for men, in December 2011), and their high unemployment rate (8.0 per cent compared to 5.7 per cent for men). Chilean women in fact have the lowest participation rate of women in Latin America. A further notable fact about the Chilean labour force is the large proportion of persons engaged in self-employment, no less than 23 per cent in December 2011 as seen in the table below.

Table 1: Employed labour force in Chile, December 2011*

<i>Type of worker</i>	<i>Number</i>	<i>Distribution</i>
Salaried workers	5,348,160	70.5%
Self-employed (incl. business owners)	1,763,770	23.2%
Others	477,480	6.3%
Total	7,589,410	100.0%

* As published for the 3 months centered on December 2011.

Source: National Institute of Statistics (INE), Chile.

Chile is generally viewed as pursuing sound macro-economic policies. The Economist Intelligence Unit's latest long-term outlook stated: "There is broad consensus on maintaining a free-market economy and pursuing prudent monetary and fiscal policies. This will provide a basis for continued steady long-term economic growth. A wide network of bilateral FTAs has further helped Chile to attract investment, diversify its economy and offset the small size of its own market."

3. Other significant facts about Chile

The following additional information is mostly taken from the Economist Intelligence Unit's 66 page review of Chile and its economy, published in January 2012.

- In July 2011, the minimum monthly wage for workers aged 18 to 65 was increased by 5.8 per cent from 172,000 Chilean pesos (US\$ 356/month) to 182,000 pesos (US\$ 377/month). The minimum wage is normally adjusted annually to keep pace with changes in prices and general wage levels.
- Companies must provide profit-sharing for each worker. Terms may be provided in the employment contract; otherwise, companies must distribute 30% of profits, or 25% of yearly income.
- After one year of employment, an employee receives 15 paid days (three calendar weeks) of annual leave. After ten years, this increases by one extra day of annual leave, plus one for every three additional years worked, up to 35 days.
- Workers are allowed up to three days of paid sick leave without a doctor's note.
- Law 20.238, signed in 2009, requires equal pay for equal work, regardless of gender.

- Companies with more than 20 female employees must either establish free day-care centres for the children of their female employees or pay directly for such services.
- The retirement age is 65 years for men and 60 for women. Workers must cover the full cost of their social-security benefits (pension, disability and health insurance) through direct deductions that account for about 20 per cent of salary. This includes nearly 13 per cent for pension and life insurance, which goes into individual pension accounts with the privately managed pension fund of each worker's choice. The remaining 7 per cent is for health insurance.
- The country introduced a mandatory unemployment savings scheme in 2002, complemented by a basic unemployment insurance scheme. That scheme, as amended in 2009, will be described in more detail in the following sections.

4. Protection against loss of employment

Employment protection legislation in Chile dates back to 1924, when employers were first required to give advance notice of layoffs, namely a six day notice for blue-collar workers and one month for salaried workers. In addition, severance payments of one month per year of service were provided at termination to salaried workers (but not to blue-collar workers).

The system went through many changes over the years. Severance must now be paid to all workers laid off for an acceptable business reason, at the rate of one month per year of service, subject to a maximum of 11 months. In addition, workers must be given a 30-day advance notice before they are laid off. The indemnity may be increased through collective bargaining. Neither severance payments nor advance notice are required when termination is due to the worker's own decision (e.g. retirement or voluntary resignation) or fault (misconduct).

It appears however that many workers do not get the legally required severance payments, as many employers are able to negotiate lower settlements with laid-off workers, given the desire of those unemployed persons to avoid court procedures. A 2009 OECD report echoed this situation in the following terms: "... there is evidence suggesting that in Chile employers often avoid paying the full amount of severance payments by reaching an agreement with workers, or simply by refusing to pay. Non-compliance also creates a burden on labour courts and government budgets."¹

¹ *OECD Reviews of Labour Market and Social Policies: Chile*, published 2009, OECD (page 20).

5. Unemployment Benefits in Chile

5.1 History

There had been a limited UI scheme in Chile before 2001, under a system initiated in 1937 and modified a number of times. This program still applies to individuals who have not yet come under the new UI program, along with public employees. Known as *subsídio de cesantía* or unemployment subsidy, the scheme has had low coverage and benefits throughout most of its history.

The adoption of a more comprehensive UI program had been under consideration for about a decade when it was passed by the Chilean National Congress in April 2001. Various proposals had been proposed or debated before then but stiff opposition prevented any of them from being adopted. Following the election of a social democrat president in 2000 and on the heels of an economic crisis in 1999, new UI legislation was adopted in April 2001, under the designation of *seguro de cesantía* (unemployment insurance).

5.2 Coverage

The UI scheme in Chile covers all salaried employees in the private sector, or more precisely all employees covered by the Labour Code. There are four main exceptions (in addition to public employees and the armed forces): domestic workers, apprentices, youth aged below 18, and retired persons. There is an additional exemption, namely that coverage is optional for all employees working on the date when the scheme was launched, October 1, 2002, and mandatory only for contracts starting after that date. Nationals and foreign workers are on an equal footing.

In December 2011, 3.9 million workers contributed to the UI scheme, representing 73% of the 5.3 million salaried workers then reported in the national labour force survey. The remainder were accounted for by the previously mentioned exclusions (estimated at about 600,000 individuals), by non-covered individuals having held employment since before the UI scheme started to operate on October 2, 2002² and by possible non-compliance of some employers.

5.3 Contributions

The scheme provides for combined employer-employee contributions at the rate of 3% of insured wages for all covered workers, plus an indexed government subsidy, but the manner in which contributions are allocated depends on whether a worker is considered to be permanent or temporary.

² Voluntary enrolment amongst pre-2002 workers has been modest, currently reaching 160,000 workers of an estimated 600,000 to 800,000 such employees. Current new voluntary enrolments average 750 individuals each month.

For employees with an indefinite or permanent contract, employers pay 2.4 per cent of insured wages, two-thirds of which (1.6 per cent) goes into the employee's individual savings account (ISA). The remainder of the employer contribution (0.8 per cent) is paid into the solidarity fund, which is the true insurance component of the scheme. Permanent workers for their part contribute 0.6 per cent of their insured wages, all of which goes to their ISA. For temporary workers, namely workers engaged under contracts that do not exceed one year (which, incidentally, are not eligible for severance payments), employers pay the entire 3.0 per cent contribution, most of which (2.8 per cent) goes into the ISA and only 0.2 per cent is turned over to the insurance fund.

Table 2: Contributions under the Chilean UI Scheme

(based on insured wages)

		<i>Destination of contributions</i>					
		Indefinite employees			Temporary workers		
<i>Source of contributions</i>	Total	Individual Savings Account	Insurance Fund	Total	Individual Savings Account	Insurance Fund	
Employer	2.4%	1.6%	0.8%	3.0%	2.8%	0.2%	
Worker	0.6%	0.6%	n.a.	n.a.	n.a.	n.a.	
Total	3.0%	2.2%	0.8%	3.0%	2.8%	0.2%	

Insured wages are the total wages paid to covered workers up to a monthly maximum, which is indexed throughout the year in accordance with the inflation rate and each year to keep pace with changes in average earnings. The current maximum insured earnings are 2.3 million Chilean pesos per month, or about US\$ 4,700.

Two additional rules must be mentioned: first, employer and worker contributions to ISAs end after 11 years of employment with the same employer, but the employer's contribution to the insurance fund must continue; and second, employers can subtract the value of the contributions they make to their employees ISAs (plus interest earned) from the eventual severance payments they would have to pay³.

³ Which effectively gives them a 19.2% discount of their future obligation for severance payments.

5.4 Benefits

Benefits under the Chilean scheme are linked to coverage and contributions.

- To access their ISAs, workers need 6 or 12 monthly contributions, depending on whether they were temporary or indefinite employees. These ISA benefits are paid for any job termination, including voluntary quitting and cases of misconduct.
- Withdrawals from ISAs are paid at decreasing monthly rates until the account is empty (at rates of 50%, 45%, 40%, 35%, 30%, 25% and 20%, applied to the last 6 or 12 months average insured earnings).
- Requirements for insurance benefits are as follows: (i) 12 contributions within the last 24 months, the last 3 being continuous and with the same employer; (ii) job loss must be involuntary; (iii) the individual account must be exhausted; and (iv) claims cannot be made more than twice in 5 years.
- Insurance benefits for indefinite workers are made so that, in combination with ISA benefits, there are 5 monthly payments at the rates shown above. For temporary workers, payments are made to produce 2 monthly payments at rates of 35 per cent and 30 per cent, including payments from ISAs.
- “High unemployment” benefits consist of 2 extra months of insurance benefits at a monthly rate of 25 per cent each, if the current unemployment rate is 1 point higher than the 4-year average rate.
- Health insurance is kept in force while receiving monthly benefits.
- Family allowances for low-income families continue for persons entitled to insurance benefits.
- There is no waiting period.
- Payments from ISAs continue for the duration of unemployment, without any job search obligation. Claimants can choose to receive a payment for the month during which they become re-employed.
- Insurance benefits for the unemployed require active job search and monthly reporting to the municipal employment office (OMIL). Claimants must join the National Job Bank, attend scheduled interviews and accept suitable employment or training referrals.
- Benefits cannot be paid while receiving a retirement or disability pension.

5.5 Administration

Chile has a history of managing its social security schemes through non-governmental concerns, such as mutualistic, non-profit or private for-profit organizations. Government agencies then assume a monitoring and coordination function, and may be called upon to fill the gaps left by those other bodies. The pension system, for example, as established in 1981, is administered for profit by a number of private companies, the six AFPs. Similarly, management of the UI scheme was devolved in 2002 to a non-governmental administrator, which came to be AFC, a private firm formed by the consortium of the 6 AFPs.

AFC was selected on the basis of a competitive bidding process, under a 10-year contract running until 2012, for the sole purpose of managing the UI scheme. It is responsible for collecting UI contributions, paying benefits and investing funds, and all related functions. Its remuneration comes from the commissions based on its investment results, but is notably unrelated to claim workload or duration. AFC is however subject to performance measures concerning how it handles all of its functions and to penalties if those measures are not met. This control is exercised by SP (*Superintendencia de Pensiones*, the Pension Superintendence), the government agency that performs a similar monitoring role for the private pension fund administrators.

Thus, AFC's primary mission is to invest and safeguard the funds it collects on behalf of workers, the task of helping unemployed workers find suitable jobs being left to other institutions, mainly through links to the municipal employment offices (known as *OMIL*). The OMILs are supported by a job bank established in 2011, the management of which has also been adjudicated under private contract.

The private administrator, AFC Chile, has approximately 100 employees of its own. It has subcontracted with the AFPs for the collection of contributions and for the receipt of benefit claims. There is no benefit control function of significant scope, other than internal computer matches against contributor records and reports made by OMILs, as to whether individuals show up each month for their scheduled appointment.

The AFPs operate 190 local offices which can be accessed by UI claimants, while AFC operates 18 of its own offices plus 2 mobile units. Claims for benefits must be made in person but it is possible for individuals to request affiliation, whether mandatory or voluntary, over the Internet. Employers may also use the Internet to advise AFC of job terminations or new hires. Benefit payments go directly to claimants, either in cash at certain financial outlets, by cheques mailed to recipients or by direct deposits in individual bank accounts.

AFC's thus subcontracts for most of the services it needs to operate. In addition to the above, the actuarial reports of 2003, 2005 and 2008 were done by consultants, an earlier version of the national job bank was developed by an external firm (in consultation with government agencies), AFC's informatics systems were developed and are maintained under a contract with one of the shareholders of AFC, the call centre is operated by an external firm.

In its supervisory role, SP has issued a number of detailed directives to AFC concerning the administration of ISAs and of the solidarity fund, accounting, financial and statistical requirements, actuarial reports, calculation of investment yields, procedures and standards to be followed in the collection of contributions and payment of benefits, etc. SP also monitors constantly how AFC performs in respect to all of these requirements, and has on occasion imposed financial penalties when problems arose.

5.6 Filing a Claim for Benefits

To receive benefits, unemployed workers must present a claim at an AFC or at an AFP office. They must then provide a completed and certified *finiquito* (a certified document delivered by the employer at termination of employment, certifying that all outstanding obligations of the employer-employee relationship have been settled) along with their personal identification card. Alternative proof of contract termination is possible if the unemployed worker cannot produce a *finiquito*.

The attending agent will then enter all of the information provided by the worker into the computer system and print out the one-page completed claim form, for the signature of the claimant (a sample form is provided in Appendix 1, in Spanish). The form will also contain the claimant's option concerning solidarity benefits, if applicable. The claimant must decide immediately whether or not to elect benefits under the insurance component, and that choice will apply for the duration of the claim.

The claim processing function is streamlined, based on adjudication processes that rely entirely on the *finiquito* for the reason of separation and on an automated system for the number of contribution months. In addition, no details are asked at this point about work history, qualifications, potential training or other similar issues since this is the responsibility of the local OMIL and not of AFC.

If a claimant does indeed qualify for and elect insurance benefits, they will have to register at an OMIL as a jobseeker, complete the requisite interview and form, and then report each month to that office at the dates specified by AFC, to prove their continuing entitlement. The OMIL will advise AFC whether jobseekers comply with the monthly reporting requirement. The monthly unemployment benefits to qualified jobseekers will be paid by direct bank deposit, cash or cheque.

While the OMILs should in principle be on the front line of helping unemployed workers find new jobs, through job search assistance or training referrals, many of them lack the financial and human resources they would require to fulfill that mission efficiently. Equally important, the OMILs may in practice have insufficient incentives to lead them in the desired direction.

Jobseekers must also enter their information into the National Job Bank (*Bolsa Nacional de Empleo*, or BNE). The BNE is an integrated database system, used by unemployed workers looking for employment and by employers to post their job vacancies. The current version of the BNE was developed in 2010 and 2011, replacing the previous system that had been operated by AFC since 2002. The operation of the new BNE has been adjudicated to a private firm under a three-year contract.

5.7 Accountability and transparency features

The Chilean UI scheme is notable for the strength of its transparency and accountability features.

All of the funds are held on behalf of contributors in trust, at arm's length from government, and are managed without government intervention or influence on particular investments. The government's involvement is limited to setting the rules and standards, which the fund managers must follow, including performance measures in regards to investment results.

Comprehensive statistics on contributions and contributors, on benefit payments and on the growth of the Individual Savings Accounts as well as of the Solidarity Fund are published regularly and promptly, most of them on a monthly basis. All of the relevant data on operations, including quarterly and annual financial reports, are made available publicly through the Internet.

The legislation governing the UI scheme provides that external analysts are entitled to obtain access on demand to a sample database of contributors and claimants and relevant operations affecting them, for the purpose of conducting any academic studies they deem appropriate.

The legislation has created an independent Committee of Users, composed of three representatives of employees plus three representatives of employers, under the chairmanship of a university academic nominated by the government. This committee has full access to financial and operational data of the UI scheme and must report annually on the scheme's functioning, its challenges and any proposed changes to the legislation or to any administrative aspects. That report must be made public through the Internet.

An actuarial report on the projected financial state of the UI scheme over future years must be conducted jointly every three years (required every two years before 2009) by the Pension Superintendence and the Ministry of Finance's Budget Office. That report must be made public. Similar reports must be made every time changes are proposed to the legislation.

Bidding for the management of the UI scheme must be conducted in an open manner, all of the details being made publicly available. The contract cannot be attributed to any firm that has been condemned over the last 2 years for anti-union practices or for practices contrary to workers' fundamental rights.

5.8 Financial Experience

The following tables show the main categories of revenues and spending from 2002 to 2011. Contributions have exceeded benefit payments every year for both the ISAs and the Solidarity Fund. Furthermore, in the case of the Solidarity Fund, the returns on investments have even exceeded the payments made to beneficiaries. For both the ISAs and the Solidarity Fund, the growth in annual surpluses has even accelerated over the years, leading to growing fund balances. This trend continued even during the 2008-2009 economic downturn, in spite of modest benefit improvements made in 2009 and 2010.

Table 3: Financial Experience for Individual Savings Accounts

	Contributions	Benefit Payments	Investment returns	Commissions	Annual Surplus	Year-end balance
	<i>---- (in millions of Chilean pesos) ----</i>					
2002	207	0	1	0	208	208
2003	65,415	5,451	210	109	60,065	60,273
2004	115,622	31,044	5,089	407	89,260	149,533
2005	165,498	55,300	7,065	783	116,480	266,013
2006	214,612	85,776	30,338	1,298	157,876	423,889
2007	272,500	107,875	44,388	2,344	206,670	630,559
2008	345,366	142,894	46,369	3,827	245,014	875,573
2009	376,203	196,712	63,987	4,883	238,594	1,114,167
2010	439,172	195,167	69,908	6,922	306,991	1,421,158
2011	518,388	235,957	126,348	8,591	400,189	1,821,347

Table 4: Financial Experience for the Solidarity Fund

	Contributions	Benefit Payments	Investment returns	Commissions	Annual Surplus	Year-end balance
	<i>---- (in millions of Chilean pesos) ----</i>					
2002	252	0	0	0	252	252
2003	7,400	2	24	19	7,403	7,655
2004	22,765	1,364	859	-05	22,154	29,809
2005	35,722	3,733	1,459	261	33,188	62,997
2006	50,118	5,464	7,756	462	51,948	114,945
2007	66,981	6,012	12,772	794	72,947	187,892
2008	87,697	7,403	14,134	1,339	93,087	280,979
2009	107,579	19,501	21,938	1,919	108,096	389,075
2010	130,462	26,055	37,922	2,828	139,502	528,577
2011	154,460	21,188	39,770	3,766	169,276	697,853

Table 5: Financial Experience for Both Funds Combined

	Contributions	Benefit Payments	Investment returns	Commissions	Annual Surplus	Year-end balance
	<i>---- (in millions of Chilean pesos) ----</i>					
2002	459	0	1	0	460	460
2003	72,815	5,453	234	128	67,468	67,928
2004	138,387	32,408	5,948	512	111,414	179,342
2005	201,220	59,033	8,524	1,044	149,668	329,010
2006	264,730	91,240	38,094	1,760	209,824	538,834
2007	339,481	113,887	57,160	3,138	279,617	818,451
2008	433,063	150,297	60,503	5,166	338,101	1,156,552
2009	483,782	216,213	85,925	6,802	346,690	1,503,242
2010	569,634	221,222	107,830	9,750	446,493	1,949,735

2011	672,848	257,145	166,118	12,357	569,465	2,519,200
------	---------	---------	---------	--------	---------	-----------

Source: data from SP website (<http://www.safp.cl/safpstats/stats/>).

The ISA surpluses at the end of 2011 thus represented 1.5 per cent of the 2011 GDP of Chile⁴ while the surplus in the Solidarity Fund represented 0.6 per cent of GDP. As projected in the last actuarial valuation in 2008⁵, those ratios will continue to grow over the next 15 years or so. For ISAs, the cumulative surpluses could reach close to 3 per cent of GDP in 2015 and 6 per cent of GDP by 2024. For the Solidarity Fund, the cumulative surpluses could reach about 1 per cent of GDP in 2015 and 2.3% by 2024.

Globally, those results reflect the restrictive conditions for benefits and low benefits adopted under the Chilean UI scheme in 2002 and show that significant benefit improvements could be provided without increasing current contributions. Those conclusions are taken from the 2010 report of the independent Committee of employer and worker users, as submitted to government authorities⁶. The Committee added in its report that the emphasis placed on ISAs within the UI system was not compatible with the true objectives of a UI scheme, because it effectively placed most of the costs of unemployment on those least able to afford them, namely workers with discontinuous work patterns, low wages and variable earnings. The Committee went on to propose a number of benefit improvements that could reinforce the insurance features of the UI scheme without jeopardizing its financial sustainability.

5.9 Benefits paid

The total benefits paid under the Chilean UI scheme have equalled 36% of the contributions collected since 2002, with a ratio of 42% for the ISAs and of only 14% for the Solidarity Fund. The relevant data are shown in the following table.

⁴ Estimated by the Central Bank of Chile at 120,232,603 million pesos (data accessed on April 22, 2012).

⁵ 2008 Actuarial Report for the Chilean UI Scheme (Spanish): <http://www.spensiones.cl/redirect/files/doctrab/DT00033.pdf>.

⁶ The Committee's nine reports since 2002 are available in Spanish at <http://www.safp.cl/573/article-3829.html>.

Table 6: Total Contributions and Benefits under the Chilean UI Scheme, from 2002 to 2011

	Contributions	Benefits	Payout Ratios
	---- (in millions of Chilean pesos) ----		
ISAs	2,512,983	1,056,176	42%
Solidarity Fund	663,436	90,722	14%
Both funds combined	3,176,419	1,146,898	36%

The low payout ratio for the ISAs (42 per cent) flows from the design of the Chilean UI scheme: it is driven by the need to set a uniformly high contribution rate to ensure at least a basic amount of individual savings for unemployed permanent workers – the group who were the scheme’s primary targets. Thus, their total ISA contribution was set at 2.2 per cent of insured wages, as seen earlier in Table 2, since lower contributions would not have provided them with worthwhile income from their ISAs. In spite of this contribution rate, the group only receives modest benefits (starting at 50 per cent of previous earnings in the first month and decreasing thereafter to 25 per cent by the sixth month), amongst the lowest seen internationally. For temporary workers, the situation is even less favourable, considering that their 2.8 per cent contribution rate corresponds to a maximum entitlement of two months of benefits, at even lower rates (35 per cent and 30 per cent of their previous earnings).

The payout ratio is even lower for the Solidarity Fund than under the ISAs, at only 14 per cent. Apart from restrictive conditions for insurance benefits and the low benefit rates, this is also attributed to the low take-up of insurance benefits, it being estimated in a 2009 study⁷ that only 13 per cent of those who were eligible for insurance benefits did in fact ask for them – as compared to take-up rates ranging from 46 per cent to 77 per cent in other countries.

⁷ Analysis of the Usage of UI Benefits, at <http://www.spensiones.cl/redirect/files/doctrab/DT00051.pdf>.

These low take-up rates were also seen as a problem by the employer-worker Committee of Users. The Committee recommended a number of public information steps to help remedy that situation. However, such measures might not be the entire answer to the problem, since the 2009 study suggested that the low take-up was also due to the low level of benefits: many jobseekers were not willing to invest their time to apply for benefits, in light of the minimal payments they could receive. This would be especially so for temporary workers who form a major part of the unemployed population, and whose low earnings would only entitle them to minimum benefits.

A different perspective on the Chilean UI scheme can be obtained by examining the number of beneficiaries and the sources of payments made to them, namely whether the benefits were made out of the ISAs or the Solidarity Fund. The average number of unemployed is also shown in Table 7 below. The table shows that almost 90 per cent of all payments are made out of ISAs, 6 per cent come from the Solidarity Fund and the rest come from both sources (when ISA funds are insufficient to cover a full month, the balance of the monthly payment will come from the Solidarity Fund, provided someone is eligible and has opted for them).

Table 7: Average Number of Benefit Recipients from 2003 to 2011 under the Chilean UI Scheme, by Source of Payment, compared to the Average Number of Unemployed

	Sources of Payments* ¹				Unemployed (average number)	Ratio, Total Recipients over Unemployed* ²
	ISA	Solidarity Fund	Mixed	Total Recipients		
2003	8,346	0	6	8,352	609,133	1.4%
2004	36,439	890	632	37,961	662,729	5.7%
2005	57,155	2,433	1,565	61,153	627,421	9.7%
2006	78,357	3,135	2,113	83,606	531,763	15.7%
2007	90,379	3,738	2,902	97,018	494,327	19.6%
2008	102,024	4,386	3,161	109,570	562,400	19.5%
2009	127,400	12,842	6,462	146,703	707,718	20.7%
2010	106,773	15,825	9,562	132,159	626,085	21.1%
2011	120,516	8,650	7,404	136,570	575,381	23.7%
Average	80,821	5,766	3,756	90,344	599,662	15.1%
Distribution	89%	6%	4%	100%		

*¹ Source: Superintendence of Pensions of Chile (www.saftp.cl).

*² Source: National Institute of Statistics of Chile (www.inec.cl).

Though the effective UI coverage seems to be trending upwards, to a current level of about 23 per cent, it must be borne in mind that ISA benefits can be paid for any job termination, even misconduct, and that no active job search is required unless someone opts for insurance benefits from the Solidarity Fund. In addition, the first month of ISA benefits can be paid even if someone returns to work immediately. These rules reflect the premise that individuals should have as much latitude as possible to draw on their own savings. As a result, the calculated ratio of total recipients to unemployed is an overestimation of the UI scheme's effective coverage of the unemployed.

6. Conclusion

The final word on the Chilean UI scheme is given to the OECD, from its 2012 Country Analysis:

“To better protect workers against unemployment and enhance efficiency, Chile should build on recent efforts to strengthen unemployment benefits further. When the system was introduced in 2002 the government started out with moderate benefits to assess sustainability first. Since then benefits have increased somewhat. The system is based on individual savings accounts and a complementary insurance fund, but savings in individual accounts are low for most workers; a large minority have accumulated less than one month’s minimum wage.”

A more extensive extract of that report is found in Appendix II.

Appendix I

Claim Form for Unemployment Benefits in Chile

 SOLICITUD DE PRESTACION POR SEGURO DE DESEMPLEO		FOLIO	FECHA DE RECEPCION					
Tipo Solicitante: 1 = Titular <input type="checkbox"/> 2 = Mandatario <input type="checkbox"/>			REGION	AFP	SUCURSAL	DIA	MES	AÑO
Documentación Recepcionada: <input type="checkbox"/> Original Poder Notarial <input type="checkbox"/> Fotocopia Poder Legalizada <input type="checkbox"/> In liquido <input type="checkbox"/> Carta de Despedido <input type="checkbox"/> Liquidación de Sueldo <input type="checkbox"/> Otros Detallar: _____								
SECCION 1: DATOS DEL AFILIADO: (Dar un espacio en blanco entre los apellidos y nombres)								
RUT		APELLIDO PATERNO		APELLIDO MATERNO		NOMBRES		
FECHA NACIMIENTO		SEXO		PROFESION U OFICIO		ESTADO CIVIL		
DIA MES AÑO		1- Masc. <input type="checkbox"/> 2- Fem. <input type="checkbox"/>				Soltero (s) <input type="checkbox"/> Casado (s) <input type="checkbox"/> Viudo (a) <input type="checkbox"/>		
NIVEL DE EDUCACION		1- Sin Estudios 2- Educ. Básica 3- Educ. Media Científica - Humanista 4- Media Técnica - Profesional 5- Centro de Formación Técnica o Iz título Profesional 6- Universidad Pregrado 7- Universidad Postgrado					N° de Años Aprobados	
DOMICILIO ACTUAL								
Calle		N°		Depto. N°/ Bloque/ Sector/ Población/ Villa		Región		Ciudad
Código Postal		Teléfono		E-Mail				
SECCION 2: DATOS DEL EMPLEO (Llenar por la Agencia de acuerdo al finiquito)								
1.- CODIGO ACTIVIDAD ECONOMICA		CODIGO		RUT EMPLEADOR				
2.- NOMBRE O RAZON SOCIAL EMPLEADOR								
FECHA TERMINACION DE RELACION LABORAL								
DIA		MES		AÑO				
2.1 DOMICILIO								
CALLE		N°		DEPTO.		POBL./VILLA		COMUNA
								REGION
								TELEFONO
3.- CAUSAL DE TERMINO DE CONTRATO								
<input type="checkbox"/> Art. 159 N° 1: Mutuo acuerdo <input type="checkbox"/> Art. 159 N° 2: Rescisión <input type="checkbox"/> Art. 159 N° 4: Venimiento de plazo <input type="checkbox"/> Art. 159 N° 5: Término de trabajo o servicio <input type="checkbox"/> Art. 159 N° 6: Caso fortuito o fuerza mayor <input type="checkbox"/> Art. 160: Causa imputable al trabajador <input type="checkbox"/> Art. 161: Necesidades de la empresa <input type="checkbox"/> Art. 171, inciso 1								
SECCION 3: OPCION FONDO DE CESANTIA SOLIDARIO								
Sólo para trabajadores con causal de despido: Art. 159 - Nº 6 o Art. 161, ambos del Código de Trabajo. SI <input type="checkbox"/> NO <input type="checkbox"/>				OPTA AL FONDO SOLIDARIO				
		N° Cargas		Monto Pagado		Última Lq. Sueldo: \$		
SECCION 4: OTRAS INFORMACIONES								
SELECCION MODALIDAD DE PAGO 1.- Efectivo <input type="checkbox"/> 2.- Cheque nominativo domicilio <input type="checkbox"/> 3.- Giros postales o radiales <input type="checkbox"/>				4.- Depósitos en: a) Cta. Cte. <input type="checkbox"/> b) Cta. Ahorro <input type="checkbox"/> c) Cta. Vista <input type="checkbox"/>				
En caso del N° 4a o 4b indicar:		Nombre Banco y Suc.:		N° Cta. Cte., Vista o Ahorro:				
FECHA DEL PRIMER PAGO PRESTACION :				LUGAR DE PAGO :				
SECCION 4.1: ACTUALIZACIONES								
ACTUALIZA BENEFICIARIOS		SI <input type="checkbox"/> NO <input type="checkbox"/>						
En caso de actualizar beneficiarios adjuntar formulario definido para este efecto.								
SECCION 5: MANDATARIO								
RUT		APELLIDO PATERNO		APELLIDO MATERNO		NOMBRES		
OBSERVACION LA AGENCIA DEBERA RECEPCIONAR ORIGINAL DEL PODER LEGAL O FOTOCOPIA LEGALIZADA ANTE NOTARIO								
DECLARO BAJO JURAMENTO QUE TODOS LOS DATOS CONTENIDOS EN LA PRESENTE SOLICITUD CORRESPONDEN FIELMENTE A LA VERDAD.					CERTIFICO QUE HE TENIDO ANTE MI VISTA LOS DOCUMENTOS DE IDENTIFICACION DEL SOLICITANTE; FINQUITO Y AUTORIZACION DE CARGAS FAMILIARES, SI CORRESPONDE Y QUE LOS DATOS ALLI CONSIGNADOS CORRESPONDEN A AQUELLOS CONTENIDOS EN ESTA SOLICITUD.			
FIRMA DEL TRABAJADOR O DEL MANDATARIO					FIRMA - TIMBRE NOMBRE Y RUT FUNCIONARIO AFC			

Appendix II

Extract from the OECD's 2012 Country Analysis for Chile, addressing the UI Scheme in Chile

Page 31⁸:

“To better protect workers against unemployment and enhance efficiency, Chile should build on recent efforts to strengthen unemployment benefits further. When the system was introduced in 2002 the government started out with moderate benefits to assess sustainability first. Since then benefits have increased somewhat. The system is based on individual savings accounts and a complementary insurance fund, but savings in individual accounts are low for most workers; a large minority have accumulated less than one month's minimum wage. Access to the insurance fund was very restrictive until recently, so that most workers could benefit only from savings in their individual accounts. A recent reform eased access to the insurance fund, thereby improving chances for workers with indefinite contracts to obtain five monthly payments, declining from 50% to 30% of previous wages. Temporary workers can now access the insurance fund for two monthly payments with replacement rates of 35% and 30%. However, only around 15% of eligible workers exercise their right to use the fund, suggesting a lack of information about the new system. To address this, the government will require the administrator of the funds to carry out information campaigns, and this is welcome. Once it is better established, strengthening unemployment benefits further could help contribute to higher productivity, as this allows workers to search longer for a better job match. While unemployment benefits can undermine work incentives, this effect is unlikely to dominate in Chile because replacement rates and the duration of benefit receipt are very low ... Chile could gradually increase the unemployment benefit duration and/ or replacement rates, while carefully evaluating the effect on the quality of job matches and job search intensity.

Extending unemployment benefits would be an opportunity to limit severance pay and make it more neutral. Currently, severance pay is the main pillar of protection against unemployment, but it is not effective for many workers and it is likely to contribute to labour market duality. Temporary workers and workers with short tenure, who are not eligible for severance pay, account for the bulk of job turnover. Only 6% of dismissed workers are eligible for severance pay, suggesting that employers go to a considerable length to avoid paying it. There seems to be a dual labour market, where a part of the workforce has considerable job security, but the rest face unstable work relationships with lower chances for training and career progression and a higher risk of paying the cost of crises. Severance pay has been shown to reduce the employment chances of young workers (Pages and Montenegro, 2009) and productivity and output growth (Caballero et al., 2006; Micco and Pages, 2006). In return for lower severance pay, employers could be required to provide higher contributions to the individual savings accounts of all workers or to the unemployment insurance fund, which would avoid higher costs for indefinite contracts and thus the ensuing distortions. This could enhance acceptance of the reform, as workers consider severance pay as an acquired right.”

⁸ Source: OECD Economic Surveys: Chile 2012; page 31.

South Africa

John Carter

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South Africa Country Data

Area	1, 219, 090 sq km
Population (March 2012 est)	48,810,427
Rural Population (2010)	38.3%
Urban share of population	61.7%
<u>Age structure</u>	
• 0-14 years	28.3%
• 15-64 years	65.6%
• 65 years and over	6.1%
Adult literacy rate (aged 15 and above)	89.0%
Life expectancy at birth (years)	53.4 years
<u>GDP per capita (2012)</u>	
• US\$	US \$7,508
Labour force (2011)	13,479,000
<u>Labour Force Participation Rates (2011)</u>	
• Total	54.3%
• Men	
• Women	
Unemployment rate (December 2011)	23.9%
Informal Employment	2,134,000
Legal minimum wage (if exists)	

National Poverty Line	
Human Development Index (HDI) Rank (2011)	121
HDI Gender Inequality Index / Rank (2011)	0.462

Summary of the UI Scheme in South Africa

Start date and Laws	<ul style="list-style-type: none"> - Initial Unemployment Insurance Act was passed in 1966, new legislation of 2001 aimed to remedy the deficiencies of the old UIA (it now covers domestic workers, seasonal workers and high-income earners). - Unemployment Insurance Contributions Act
Type of Scheme	Unemployment Insurance Fund
Target group	Collection of premiums applies to all salaried employees with the exception of the following: 1) employees employed for less than 24 hours a month, 2) learners, Skills Development Act, 1988, 3) migrant workers 4) persons in receipt of a monthly pension and 5) national or provincial government employees ⁹ . One percent of salary is collected from the employer and employee.
Population insured	All but there are a number of exceptions including public servants, self-employed, migrant workers, learners.
Qualifying Conditions	<ul style="list-style-type: none"> - Employee must contribute a maximum of 238 days to the insurance fund, in the four-year period immediately preceding date of application for benefits. - The unemployed worker must register as a work-seeker with a labour centre that was established under the Skills Development Act (SDA). Application for UI benefits must be made in the prescribed form at an employment office.
Benefits	An unemployed worker could receive the following types of benefits under the UI Act: unemployment, illness, maternity, adoption and dependent benefits.
Benefit amounts and duration	Ranges from 38% for the highest paid workers to 58% for the lowest paid workers.
Source of funding	The unemployment insurance fund consists of: 1) Collection of premiums of employers and employees by the Commissioner of the South African Revenue Service and the Commissioner of unemployment insurance; 2) money appropriated by Parliament; 3) penalties and fines; 4) interest on return of investment; 5) money paid erroneously to the fund; 6) any bequest or donation; 7) movable or

⁹ Unemployment Insurance Contributions Act, 2002: <http://www.westerncape.gov.za/Text/2006/3/a4-02.pdf>

	immovable property purchased by fund; 8) any other money to which the fund may become entitled ¹⁰ .
Administration	Premiums are collected via the payroll tax collected by The South African Revenue Service Commissioner or paid directly to the Unemployment Insurance Commissioner by those in informal or irregular employment ¹¹ . UI payments are made at the employment office where the unemployed worker applied for benefits.
Impact/challenges	High-levels of long-term unemployment, structural unemployment and poverty, characterized by gender and racial disparities.

¹⁰ Unemployment Insurance Act, 2001, amended 2003: <http://www.ukzn.ac.za/dhr/hr-%20labour%20relations/Acts/Amended%20Act%20-%20Unemployment%20Insurance.pdf>

¹¹ Global Extension of Social Security: <http://www.ilo.org/gimi/gess/ShowWiki.do?wid=855>

1. History and Background

South Africa is a fascinating country, which contains some of the oldest archaeological and human fossil sites in the world. Extensive fossil remains have been recovered from a series of caves in Gauteng province. The area is a UNESCO World Heritage Site and has been termed the “Cradle of Humankind”.

South Africa, as one might expect, occupies the southern tip of the African continent. It has nine provinces and has around 4,900 kilometers of international boundaries which separate South Africa from Namibia, Botswana, Zimbabwe, Mozambique and Swaziland and it also completely surrounds Lesotho. South Africa forms a distinct region, or sub-continent, divided from the rest of Africa by rivers that mark its northern boundary. In addition, the 2,881 kilometer coastline borders the Atlantic Ocean on the west and the Indian Ocean on the south and east.

Dutch traders landed at the southern tip of modern day South Africa in 1652 and established a stop-over point on the spice route between the Netherlands and the Far East, founding the city of Cape Town. The British seized the Cape of Good Hope area in 1806 and many of the Dutch settlers moved to other parts of Africa. The discovery of diamonds, and later gold, was one of the catalysts that triggered the 19th century conflict known as the Anglo-Boer War, as the Boers (original Dutch, Flemish, German and French settlers) and the British fought for the control of the South African mineral wealth.

In 1948, the National Party (comprised of British and Afrikaners) was voted into power and instituted a policy of apartheid (the separate development of races). South Africa became a republic in 1961 after a whites-only referendum. Despite opposition both within and outside the country, the government legislated for a continuation of apartheid. Apartheid became increasingly controversial, and some Western nations and institutions began to boycott doing business with South Africa because of its racial policies and oppression to civil rights.

More recently, in terms of the economy, South Africa has been a middle-income, emerging market with an abundant supply of natural resources. It has well-developed financial, legal, communications, energy and transport sectors. Growth was robust from 2004 to 2007 as South Africa reaped the benefits of macroeconomic stability and a global commodities boom but began to slow in the second half of 2007. This was due to an electricity crisis and the subsequent global financial crisis impact on commodity prices and demand. Gross Domestic Product (GDP) fell more than 2 per cent in 2009 but recovered in 2010-11.

Daunting economic problems still exist from the apartheid era especially poverty, lack of economic empowerment among the disadvantaged groups and a shortage of

public transportation. South Africa's economic policy is fiscally conservative focusing on controlling inflation and attaining a budget surplus. The current government largely follows these prudent policies but must contend with the impact of the global crisis and is facing growing pressure from special interest groups to use state-owned enterprises to deliver basic services to low-income areas and to increase job growth.

Apartheid:

Derived from the Afrikaans word for "apartness", it represents a system of racial segregation commencing from the 1930's and supported by political policy under which the races of South Africa were subject to "separate development". For the purposes of implementing these policies, apartheid recognized four races: Bantu or black African, coloured or mixed race, white and Asian.

The most significant legislative acts which extended the segregation was the Group Areas Act No 41 of 1950 which led to over 3 million people being relocated due to forced removals and the Suppression of Communism Act No 44 of 1950 which was so broadly worded that almost any dissident group could be banned.

The first Unemployment Insurance scheme was implemented with the passing of the UI Act of 1966. Provisions in the Act excluded black Africans, coloureds and Asians from applying for or receiving unemployment insurance benefits. The races were also excluded from other types of assistance and not allowed into the political process.

Apartheid met with international condemnation and established a resistance movement by black Africans. The African National Congress (ANC) was formed in 1910 to lead the African people in the struggle for political, social and economic change. Apartheid was opposed by the African National Congress (ANC) and its leaders, one of which was Nelson Mandela. Mandela spent decades in prison but was eventually released in 1990 by president FW de Clerk who then began the slow dismantling of the apartheid system. In 1994, under free elections, the ANC won the majority of votes (62.65 per cent of votes as opposed to the National Party 20.39 per cent of votes) and formed the government. The anniversary of the elections, 27 April, is celebrated as a public holiday in South Africa known as "Freedom Day".

In the intervening 12 years since the election of the ANC to majority rule, South Africa has struggled to correct apartheid-era imbalances in decent housing, education and health care.

2. Economy

The economy in South Africa is the largest in Africa and is ranked as an upper-middle income economy by the World Bank, which makes the country one of only four countries in Africa represented in this category. The country's economy is reasonably diversified with key economic sectors including mining, agriculture and fishery, vehicle manufacturing and assembly, food-processing, clothing and textiles, telecommunication, energy, financial and business services, real estate, tourism, transportation and wholesale and retail trade¹² (also see appendix "B" – Employment by Industry).

South Africa's economy has been rooted in the primary sectors because of a wealth of minerals and favourable agricultural conditions. The country is renowned for an abundance of mineral resources accounting for a significant proportion of both world production and reserves. It is one of the world's leading mining and mineral processing countries. South Africa is the world's biggest producer of gold and platinum and one of the leading producers of base metals and coal. The country produces 10% of the world's gold and has 40 per cent of the known resources. Also, the country's diamond industry is the fourth largest in the world with only Botswana, Canada and Russia producing more diamonds each year.

As the economy of South Africa becomes more advanced, agriculture has decreased to only 2.3 per cent of total economy in 2008 (9.1 per cent in 2001). But South Africa is not only self-sufficient in virtually all major agricultural products it is also a net food exporter.

Communications has been one of the fastest growing sectors in the country due to the rising expansion of mobile telephony (33 million phones in the country). South Africa is also the largest internet market in Africa with an estimated 4.6 to 5.4 million users. Tourism has been earmarked as a growth industry as the industry is ideally suited to enhance the country's many natural, cultural and other resources. According to the World Travel and Tourism Council, tourism directly or indirectly constitutes approximately 7 per cent of GDP and employment in South Africa.

The manufacturing industry's contribution to the economy is relatively small providing just 13.3 per cent of jobs and 15 per cent of GDP. This industry was impacted adversely by the global and financial crisis in 2009 but rebounded only in the automotive, iron, steel, food and beverages industries in 2010.

South Africa has a highly developed financial sector despite its "emerging market" status. The South African banking system is well developed and effectively regulated. It has a sophisticated financial structure with the JSE Securities

¹²South Africa's Economy – "Key Sectors": <http://tinyurl.com/7m3qu6>

Exchange, a large and active stock exchange that ranks 18th in the world in terms of total market capitalization as of March 2009¹³.

3. Challenges facing South Africa

While many positive developments have taken place in post-apartheid South Africa, unemployment and poverty remain serious challenges. Since, 2000, the unemployment rate has hovered around or above the 25 per cent mark¹⁴. But the expanded unemployment rate (a measure that includes discouraged unemployed workers) is about 37.1 per cent affecting predominantly unskilled and low-skilled workers¹⁵. What makes this even more daunting is the low number of South Africans who are self-employed or are involved in the informal sector. Poverty is also a major problem in South Africa with poverty estimates placing 50 to 60% of the population below the poverty line¹⁶.

The Unemployed Population			
Year	# of Unemployed	Increase/Decrease	Percentage
Dec 2008	3,908,000	-	-
Dec 2009	4,226,000	318,000	7.5%
Dec 2010	4,137,000	-89,000	-2.2%
Dec 2011	4,244,000	107,000	2.5%

Unemployment and poverty continue to have racial and gender characteristics. Joblessness among South African women and youth in the ex-homelands, urban slums and rural areas run as high as 70 to 80 per cent in some parts of the country. Overall, a larger number of women are in poverty than men (approximately 12 million women and 10 million men). In the second quarter of 2010, the jobless rate increased to 25.3 per cent while the number of people with work fell by 15,000¹⁷. In the third quarter of 2010, 29.80 per cent of blacks were officially unemployed, compared with 22.30 per cent of coloureds, 8.60 of Asians and 5.10 per cent of whites.

¹³ Capitalization – total value of the tradable shares of a publicly traded company

¹⁴ Wikipedia- Economy of South Africa:

http://en.wikipedia.org/wiki/Economy_of_South_Africa#Historical_statistics

¹⁵ Statistics South Africa. 2007. *Labour Force Survey*. March. Pretoria: Statistics South Africa.

¹⁶ Impact of Employment Guarantee Programs on Gender Equality and Pro-Poor Economic Development:

http://www.levyinstitute.org/pubs/UNDP-Levy/South_Africa/Policy_Brief_EPWP_South_Africa.pdf

¹⁷ Bloomberg: <http://www.bloomberg.com/news/2010-07-27/south-african-jobless-rate-rises-to-25-3-undermining-economic-recovery.html>

High unemployment and poverty rates, as well as other factors such as crime, have in turn hurt investment and growth consequently having a negative feedback effect on employment¹⁸. Crime is considered a major or very severe constraint on investment by 30 per cent of enterprises in South Africa, putting crime among the four most frequently mentioned constraints.

South Africa is also suffering from a brain drain whereby it is estimated that 1.0 to 1.5 million highly skilled South Africans had emigrated usually to countries with aggressive recruitment programs such as Britain, United States, Canada, New Zealand and Australia. Of course, those most negatively affected by this migration are the poor as well as lost of investment (e.g. doctor training).

There is also concern relating to illegal immigration to South Africa from many neighbouring countries, which is creating resentment of immigrants who are seen as depriving the native population of jobs. These native South Africans also view themselves as “previously disadvantaged” due to the policy of “apartheid” which has forced employers to hire illegal immigrants who are more skilled especially in the construction, tourism, agriculture and domestic service industries.

At the end of 2010, an estimated 34 million people were living with the HIV virus worldwide up 17 per cent from 2001¹⁹. The epidemic of HIV continues to be most severe in South Africa, which has more people living with HIV (an estimated 5.6 million) than any other country in the world. In addition, almost half of the deaths from AIDS-related illnesses in 2010 occurred in Southern Africa.

4. Unemployment Insurance Fund (UIF)

4.1 History

The South Africa Act 25 of 1937 provided for the establishment of contributory unemployment insurance funds for specific scheduled industries. But a compulsory unemployment insurance scheme on a national basis was only established in 1946²⁰. Similar to most countries which adopted an unemployment insurance program, it was based on the principles of insurance and not assistance. Therefore, only those who paid contributions into the fund (or their dependents) prior to becoming unemployed can receive unemployment insurance benefits.

The initial UIA was passed in 1966, which provided an unemployment insurance scheme but was limited in terms of coverage and there were problems with the sustainability of the UIF.

¹⁸ <http://www.webcitation.org/65xzwTEI6>

¹⁹ World Aids Day Report – United Nations: <http://tinyurl.com/89zdr6f>

²⁰ Social Security Unemployment Handbook: Page 2

The new legislation of 2001/2001 sought to remedy the deficiencies in the old UIA of 1966.

4.2 Institutional Set-up

A set of two laws now regulates unemployment insurance in South Africa – the Unemployment Insurance Act (UIA) and the Unemployment Insurance Contributions Act (UICA). The UIA provides the regulatory authority to administer UI claims for benefits and the payment of UI benefits. The Act empowers the UIF to register all employers and employees in South Africa. The Unemployment Insurance fund (UIF) was established in terms of Section 4(1) of the UIA. The UICA empowers the South African Revenue Service (SARS) commissioner to collect monthly contributions from both employers and workers. Section 9 of the UICA empowers the unemployment insurance commissioner to collect contributions from all employers who are not required to register with SARS. These contributions are used to pay benefits and any other expenditure reasonably incurred relating to the application of this Act²¹.

The UIF delivers its services at Labour Centres, satellite offices (visiting points) and mobile units. There are currently 125 Labour Centres at which the public can access UIF services. There centres further service more than 820 visiting points. To improve service, the Fund increased from 57 to 81 the number of sites for decentralized processing of claims.

The UI Fund promises to process or finalize an unemployed workers claim within 5 weeks of receiving his/her application and all relevant documents.

The Ministry of Labour has been developing and enhancing electronic services in order to improve the delivery of services²². Currently, employers use various methods of submitting contributions. But the UI Fund operates a u-filing system designed to assist employers to submit declarations electronically. There are further enhancements to provide employers and employees alike with a web-enabled functionality to declare and pay contributions and to provide employees working for accredited employers a virtual office for claims submission. The ministry also conducted a number of stakeholder briefing sessions and exhibitions to promote electronic services to process claims efficiently and effectively as well as maintain data integrity and reduce the risk of fraud.

The UI Fund also has a call centre with a staff complement of 64 agents who handled 279,476 enquiries as well as letters, faxes and emails.

²¹ Unemployment Insurance Fund Annual Report 2011 (Part 1): <http://www.labour.gov.za/documents/annual-reports/unemployment-insurance-fund/2011/unemployment-insurance-fund-annual-report-2011>

²² Ministry of Labour Web Site, "On-Line Services – UIF online declarations": <http://www.labour.gov.za/DOL>

4.3 Coverage

The UIA and the UICA both apply to all employers and employees subject to certain exclusions. The new acts expanded coverage over the old UIA 1066 by including domestic workers, seasonal workers and high-income earners. But there are still a number of exemptions such as public servants, self-employed, learners (under contracts within the sphere of the Skills Development Act) and certain classes of migrants.

A total of 1,350,651 employers (4.7 per cent increase in 2010/11) are registered with the Fund. They are categorized mainly as commercial, domestic and taxi employers. The majority are in the commercial sector. The taxi sector has been slow to comply with the requirements to register and continues to resist the Fund's attempts to register its employees. Officials of SARS and UI have aggressively pursued the registrations of taxi employers by conducting visits to all provinces in the past year in order to communicate the processes and procedures for registering employers for UI coverage.

It has been suggested that coverage for UI should be expanded to include the following:

- Public servants
- Migrant workers
- Learnerships
- Irregular migrants (reimbursement)
- Partially unemployed (those who work with two simultaneous employers)²³.

4.4 Claiming Benefits

According to Section 17 of UIA 2002, workers who lose their employment must complete an application for UI benefits in the prescribed form at an employment office. The application must be made within 6 months of the termination of the contract, but the UI Commissioner may accept an application after the 6-month time limit has expired when just cause is shown by an unemployed worker.

The claims officer must investigate the application for benefits and, if necessary, request further information regarding the unemployed workers previous employment including the reasons for termination. If the application complies with the provisions of the UIA, the claims officer must: 1) approve the application, 2) determine the benefit rate and duration of benefits, 3) authorize the payment of UI benefits and 4) stipulate when the applicant must report to the employment office. Ongoing monthly reporting is required in order to confirm that he/she is still unemployed in respect of which, the unemployment benefit has been claimed and that he/she is capable of and available for work.

²³ Professor Marius Olivier, Director, ISLP – “Redesigning the South African Unemployment Insurance Fund: Reform Proposals.

If the application does not comply with the provisions of the UIA, the claims officer must advise the applicant in writing that the application is defective and the reasons why it is defective.

4.5 Types of Benefit from UIF

There are five types of benefit payable from the UIF: 1) regular unemployment benefits, 2) illness benefits, 3) maternity benefits, 4) adoption benefits and 5) dependent's benefits (payable to the spouse of person who has died and had been financially supporting the household). Regular unemployment benefits are payable to those who are actively seeking work and are available and capable of accepting suitable employment. Payments made as a result of maternity benefits do not reduce the entitlement to regular benefits.

4.6 Entitlement to Benefits

In order to receive regular unemployment benefits, a contributor can receive benefits if he/she accrues at a rate of one day's benefit for every completed six days of employment as a contributor to a maximum accrual of 238 days benefit in the four-year period immediately preceding the date of application for benefits. These credits are given to the unemployed worker as they contribute to the fund.

If an unemployed worker has worked for less than 238 days, he/she can claim for the number of days' credits he/she has built up. As of April 2002, benefits are calculated on a sliding scale dependent on one's salary. The benefit rates range from 38 per cent for the highest paid workers (those earning more than R97,188 per annum, R8,099 per month or R1869 per week) to 58 per cent for the lowest paid workers.

Additionally, an unemployed worker cannot be in receipt of a state pension or benefits paid from a government compensation fund or payments made from another unemployment fund or scheme.

Also, the reason for the termination of employment must be considered when determining the entitlement to benefits. An unemployed worker has a right to UI benefits for any period of unemployment lasting more than 14 days and the reasons for separation must be one of the following:

1. The termination of the contributor's contract of employment by the employer of that contributor or the ending of a fixed term contract;
2. Dismissal of the contributor by reason of misconduct;
3. Insolvency of the enterprise;
4. In the case of a domestic worker, the termination of the contributor's contract of employment by the death of the employer of that contributor.

Therefore, if the unemployed worker quits his/her employment, he/she is refused benefits. The unemployed worker must register as a work-seeker with a Labour Centre established under the Skills Development Act 1998. An unemployed worker

can be refused benefits (maximum 13 weeks) while on claim when a) the unemployed worker fails to report for any interview or fails to comply with the provisions of the Act and b) the unemployed worker refuses without just reason to undergo training and vocational counselling for employment.

When an unemployed worker has been caught working and collecting benefits or committed fraud, the UI Commissioner may deny his/her access to the fund for a period up to five years.

It has been recommended to allow those who quit their position because of a compelling family reason (to be paid once in a lifetime – Dr. Marius Olivier).

5. Labour Market Policies

South Africa is characterized by high levels of long-term unemployment and structural unemployment²⁴. It is generally accepted that South Africa's unemployment problems are more structural than cyclical and that it is more difficult for employment policies to cure structural unemployment instead of cyclical unemployment. Also, UIF is focussed on assisting those who lose their job temporarily with replacement benefits and not the larger issues of long-term unemployment or poverty. In the 2008/09 fiscal year, 442,000 claimed normal (regular) unemployment benefits. Given that the maximum claim period is 238 days, and many will receive benefits for a shorter time, this implies that significantly less than 442,000 unemployed workers were in receipt at any given time. Therefore, the percentage of unemployed workers receiving benefits is less than 10 per cent of the total unemployed (4.2 million in December 2011 as reported by Stats SA). Therefore, there is a need to address those who do not receive UI benefits by developing policies that targets those who are most vulnerable.

The Skills Development Act 97 of 1998 was promulgated by the government amidst high levels of unemployment, low levels of investment in the South African labour, disparities in income distribution and unequal opportunity due to Apartheid and poverty. Through this act, the government aimed to address two main priorities: 1) the need to improve skills and increase productivity to compete in the global economy and 2) the need to reverse apartheid imbalances and to create a more inclusive and cohesive society²⁵.

Less than 10 per cent of the unemployed who are actively looking for work receive unemployment insurance benefits. Another solution in assisting those who are unemployed for a lengthy period of time is the creation of jobs through public works programs by the government. To address the serious problem of chronic unemployment, among other measures, the government of South Africa introduced

²⁴ Handbook – Social Security – Unemployment – page 4

²⁵ Erasmus, B.J.& van Dyk, P.S. (2005) *Training Management in South Africa*. Cape Town, Oxford University Press.

the Expanded Public Works Programme (EPWP) in 2004. This active labour market policy is a public job creation programme that provides the unemployed with a paid work entitlement.

The main goal of EPWP is to provide economic empowerment and contribute to poverty alleviation. By creating short to medium-term jobs for unskilled workers who have been unemployed (in most cases for prolonged periods of time), this job creation policy aims to achieve another goal as well: to build skills and provide on-the-job training. This, in turn, will help prepare the unskilled with longer-term employment. EPWP projects and job creation are primarily focused on labour-intensive infrastructure such as construction and maintenance of roads and bridges.

However, it is also acknowledged that job creation efforts are costly in terms of financial support and the lengthy period of projects.

The Department of Labour also has developed a number of employment initiatives, which are less costly to assist the unemployed such as career information and guidance, recruitment and job matching services and information services.

6. Conclusion

Over the past century, South Africa had to overcome numerous problems with wars, calamities, Apartheid, AIDS, poverty and a few financial/global crises. But they have demonstrated an ability to overcome these obstacles on a daily basis. They are faced with significant challenges however including high unemployment rates, substantial numbers of those who are long term unemployed, disparities in education and housing as well as the AIDS pandemic.

The new amended Unemployment Insurance Act 2001 and Unemployment Insurance Contribution Act 2002 have introduced a number of enhancements to improve the UIF including broadening the basis for contributions, changing the method of collecting contributions and the calculation of benefits and imposing fines/penalties relating to non-compliance of contributions of premiums.

But South Africa is experiencing substantial levels of unemployment and additional changes are required in order to ensure the sustainability of the fund and the development of an effective UIF. Recommendations have been made to improve the UIF such as further expanding the coverage provisions and better linkages with UIA, the Skills Development Act and more emphasis on resolving long-term unemployment through enhanced skills development and wage subsidies. Discussions have taken place on providing more effective unemployment assistance to compliment the UIF in the future to overcome the problems of lengthy unemployment and poverty.

Appendix 1 Key Labour Market Indicators of South Africa ²⁶					
	Oct-Dec 2010	July-Sept 2011	Oct-Dec 2011	Year to Year Change	Year to Year Change
	Thousand			Percentage	
Population (15 to 64 years)	32,193	32,555	32,670	477	1.5%
Labour Force	17,269	17,761	17,741	472	2.7%
Employed	13,132	13,318	13,497	365	2.8%
Formal Sector (non-agricultural)	9,163	9,436	9,616	453	4.9%
Informal Sector (non-agricultural)	2,225	2,160	2,134	-91	-4.1%
Agriculture	627	624	630	3	0.5%
Private households	1,117	1,098	1,118	1	0.1%
Unemployed	4,137	4,442	4,244	107	2.6%
Not economically active	14,924	14,795	14,929	5	0.0%

²⁶ Stats South Africa – 4th quarter 2011: <http://www.statssa.gov.za/publications/P0211/P02114thQuarter2011.pdf>

Discouraged work-seekers	2,150	2,204	2,315	165	7.7%
Other (not economically active)	12,774	12,591	12,614	-160	-1.3%

Rates (%)

Unemployment Rate	24.0%	25.0%	23.9%	-0.1%
Employed/population ratio (absorption)	40.8%	40.9%	41.3%	0.5%
Labour Force Participation Rate	53.6%	54.6%	54.3%	0.7%

Appendix 2

Employment by Industry in South Africa					
	Oct-Dec 2010	July-Sept 2011	Oct-Dec 2011	Year to Year Change	Year to Year Change
	Thousand			Percentage	
TOTAL	13,132	13,318	13,497	365	2.8
Agriculture	627	624	630	3	0.5
Mining	298	324	327	29	9.7
Manufacturing	1,783	1,737	1,789	6	0.3
Utilities	94	73	81	-13	-13.8
Construction	1,056	1,086	1,057	1	0.1

Trade	2,975	3,012	3,060	85	2.9
Transport	761	756	788	27	3.59
Finance and other business services	1,594	1,768	1,739	145	9.1
Community and Social Services	2,826	2,836	2,902	76	2.7
Private Households	1,117	1,098	1,118	1	0.1

Thailand

Worawan Chandoevwit

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Thailand Country Data

Area	513,120 sq km
Population (2012)	66,79 million
Rural Population	65.5%
Urban share of population	34.5 %
<u>Age structure</u>	
• 0-14 years	20.51%
• 15-64 years	67,59%
• 65 years and over	11.90%
Adult literacy rate (aged 15 and above)	89.0%
Life expectancy at birth (years)	75 years
<u>GDP per capita (2011)</u>	
• US\$ (WB)	US \$5,480 (per year)
Labour force (2011)	13,479,000
<u>Labour Force Participation Rates</u>	
• Total (August 2013)	73% ²⁷
• Men	80%
• Women	63%
Unemployment rate (Dec 2011)	5.9%
Informal Employment (2010) ²⁸	24.49 million
Legal minimum wage (if exists)	300 THB

²⁷ Thailand – A labour market profile, ILO, 2013: http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_205099.pdf

²⁸ See Appendix III

National Poverty Line	
Human Development Index (HDI) Rank ²⁹ (2012)	103
HDI Gender Inequality Index / Rank	0.36

²⁹ <http://hdrstats.undp.org/en/countries>

Summary of the UI Scheme in Thailand³⁰

Start date and Laws	<ul style="list-style-type: none"> - July 2004 - Royal Decree No. 120 Section 80 A on August 26, 2003 formed the legal basis of system implementation.
Type of Scheme	Social Security Fund (SSF)
Target group	<ul style="list-style-type: none"> - All private sector workers are covered except: farmers, domestic workers, companies with pre-2004 “superior employee benefit schemes”. □ - Excluded: civil servants and employees of state enterprises (covered under a separate scheme).
Population insured	9 million workers
Qualifying Conditions	<p>At least 6 months of contributions in the 15 months before termination □- Registered with the Employment Office □- Termination of employment must not be due to a job violation, a pre-meditated criminal act against the employer, or an illegal act resulting in serious damage □to the employer’s business or imprisonment.</p>
Benefits	Sickness, maternity, invalidity, survivor, child allowance, old-age, unemployment, employment injury
Benefit amounts and duration	<ul style="list-style-type: none"> - Unemployed workers who are laid off receive 50% of insured earnings, based on the highest paid 3 months in the 9 months before job loss - Unemployed workers who voluntarily resign only receive 30% of insured earnings □- Maximum daily benefit is THB250 - Unemployed workers who are laid off get up to 180 days within 1 year □- Unemployed workers who voluntarily resign only receive up to 90 days within 1 year. - Following the 2008 economic crisis, UI compensation was extended to 240 days for workers unemployed in 2009.
Source of funding	Contribution rates:

³⁰ This report uses primary data from the Labour Force Survey conducted by the National Statistical Office (NSO) and secondary data from the Social Security Office (SSO). The report also includes findings from interviews with stakeholders, e.g. Social Security Office (SSO), Department of Employment (DOE), Department of Skill Development (DSD), Department of Labour Protection and Welfare (DLPW), provincial offices of SSO, DOE and DSD in Pathumthani, Chonburi, Khon Kaen and Bangkok, National Congress of Thai Labour (NCTL), Employers’ Confederation of Thailand (ECOT) and the UI beneficiaries from the four provinces mentioned above.

	<ul style="list-style-type: none"> - Employers and Employees: 0.5% of earnings, on monthly maximum of THB15,000 - Government: 0.25% of employee earnings.
Administration	<ul style="list-style-type: none"> - Department of Employment receives the claim form. - Department of Skill Development trains the insured persons as needed - The Social Security Office collects contributions and maintains data.
Impact/challenges	<ul style="list-style-type: none"> - Still a large share of informal economy workers and low awareness about unemployment insurance entitlements among formal employees; - Coverage of voluntary quitters may affect adversely the competitiveness of Thailand's enterprises by inducing a high-turnover rate, especially among young workers.

1. History and Background

1.1. Country Profile

Thailand, was the first country among Association of South East Asian Nations (ASEAN) to have launched its unemployment insurance (UI) scheme in 2004 with an objective to mitigate the repercussion from the rise in unemployment and workers' vulnerability. The experience of Thailand in the implementation of UI is valuable and is worth being shared among other low and middle-income countries with similar labour market features, in particular their large informal economy.

Thailand, member of the ASEAN since 1967, is classified as a middle-income country. The country's total Growth Domestic Product (GDP) amounted to 4.2 trillion Baht in 1995 and increased to 10.8 trillion Baht 15 years after (Table 1). Per capita annual income increased from 71,000 Baht to 161,000 Baht during the same period. Manufacturing, agriculture, and wholesale/retail trade represent the major contributing sectors to the Thai GDP. Food and beverages, office, accounting, and computing machinery are the main contributors in the manufacturing sector. The economy of Thailand is export dependent, with export revenue accounting for more than two-third of the national GDP.

Whereas the population in Thailand increased from 60 million in 1995 to 67 million in 2010, the annual economic growth rate decreased from 1.1 per cent in 1995 to 0.6 per cent in 2010. Thailand is also considered to have an ageing society, in which 12 per cent of the population is over 60 years old. The economically active population is about 58 per cent of the population or 39 million workers, which corresponds to about 80 percent of labour force participation. Labour costs remain low in Thailand. The minimum wage in Bangkok in 2011 was 215 Baht per day. It shifted by 40 per cent to 300 Baht (or about US\$10 in 2012 with the revision of the national minimum wage policy).

1.2 Employment trends during 1997-2012

In 2012, total employment reached 38.7 million, composed of 54 per cent male and 46 per cent female workers. With low population growth and better opportunities to access higher education, the proportion of teenage workers (15 to 19 years old) has declined from 8.4 in 1995 to 3.5 percent in 2010. On the contrary, the proportion of older workers (over 60 years old) has increased from 5.3 to 7.9 percent.

Over the last decades, the level of skills and education of workers has increased in Thailand. The proportion of workers with primary education has declined from 77.8 per cent in 1995 to 54.4 per cent in 2010. Most of the workers with primary education are in an older age group whereas the improved access to university increased significantly the proportion of workers with university degree. If the demand for workers with higher education does not grow in the future, Thailand will have to cope with a scenario where a large proportion of the highly educated population is unemployed.

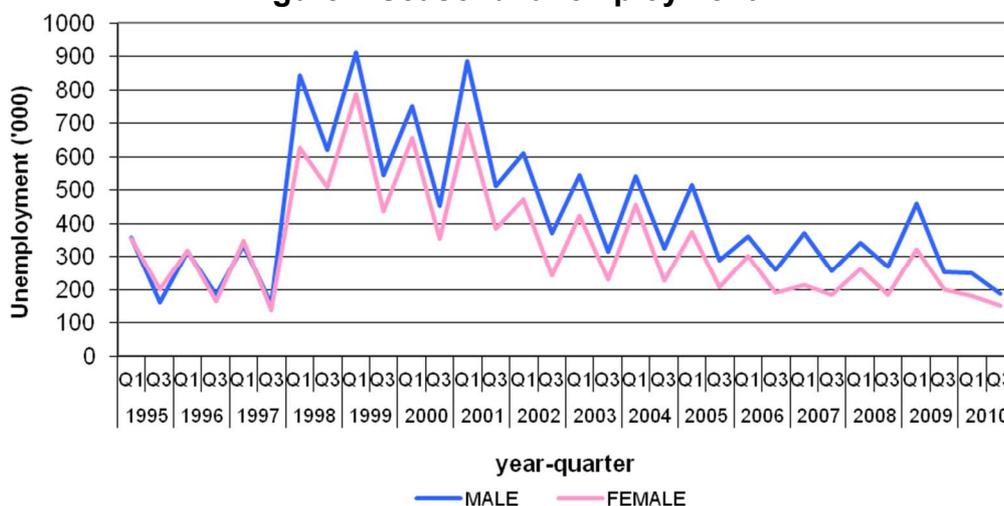
The share of employment in agriculture sector has been high, but declining from 51.7 per cent in 1995 to 40.7 per cent in 2010. In Thailand, the agriculture sector is more labour intensive than other sectors. On the contrary, the employment shares of

commerce and service sectors have increased significantly to reach about 38 per cent of total employment.

The demographic structure and profile of workers in the formal and informal sectors differs significantly. The informal sector, representing 60 per cent of the economically active population, which accounts for 23.5 million workers, consists mainly of employees and employers in the agriculture sector, self-employed workers, and unpaid family workers. More than 60 per cent of informal economy workers have primary and lower education and 3.6 per cent have university degrees. The informal sector also has a higher proportion of elderly workers and a lower proportion of workers located in Bangkok and the central area. On the other hand, the proportion of employment in the formal economy, of which workers are in non-agriculture sectors and covered by the Social Security Act, has slightly increased from 32 per cent in 1995 to 40 per cent today. About 34.3 per cent of workers in the formal sector have primary or lower education and 23.8 per cent have a university degree.

Workers may move between the formal and informal sectors, particularly among jobs that do not require advanced skills. Low-skilled employees who work in manufacturing, commerce, or services usually move back to work in the rice fields during the third quarter of the year and later return to their previous working industries. Although this phenomenon tends to diminish, it is still notable in Thai labour market. The period of absence from the formal to informal sector is short since the size of rice fields occupied by families is small. The movement between formal and informal sectors does not have high costs to the workers as long as the demand for low-skilled workers remains as high as it currently is.

Figure 1 Seasonal unemployment



Source: NSO, Labour Force Survey quarter 3

Figure 1 shows that seasonal unemployment in quarter 1 (dry season) is always higher than in quarter 3 (rainy season). Those who cannot find a job in quarter 1 can move back to work as unpaid family workers in quarter 3. It is shown in Figure 1 that the differences between the number of unemployed in quarter 1 and 3 has been declining. It may imply a decline in the seasonal impact on the pattern of unemployment.

1.3 Unemployment situation

The unemployment rate in Thailand is quite low. It is defined by the percentage of unemployed workers among the total labour force. Unemployed persons are classified as such under the following circumstances: they have no job, are available for a job and looking for a job. Following this definition, in Thailand, the number of unemployed excludes seasonal unemployment because the seasonal unemployed are not available for work and do not search for a job.

The unemployment rate in quarter 3 was below 1 per cent in 2010 (Table 2). The unemployment rate is higher among the young workers who may be entering the labour market for the first time. These unemployed persons have never been employed and therefore have no entitlement to any unemployment compensation; e.g. the severance pay and unemployment insurance benefit. The unemployment rate among highly skilled persons is higher than others since they may choose to be unemployed rather than work in the farm or helping family through work that is not remunerated.

Table 1 Unemployment rate

	1995	2000	2005	2010
Unemployment rate	1.11	2.39	1.35	0.87
By Sex (%)				
Male	0.91	2.44	1.47	0.90
Female	1.35	2.34	1.21	0.84
By Age (%)				
15-19	2.41	6.70	5.60	3.20
20-29	1.75	4.56	2.99	2.39
30-39	0.69	1.54	0.87	0.66
40-49	0.49	1.02	0.46	0.19
50-59	0.74	0.88	0.28	0.16
60+	0.64	0.46	0.21	0.05
By Education (%)				
Primary or lower	0.99	1.64	0.70	0.33
Lower Secondary	1.28	3.46	2.15	1.19
Upper Secondary	2.01	3.55	1.99	0.80
Lower Vocational	2.08	5.37	2.00	1.44
Upper Vocational and Diploma	1.53	6.95	3.47	2.03
University	1.28	3.29	2.60	2.38
By Region (%)				
Bangkok	0.73	1.94	1.87	1.10
Central	1.05	3.24	1.47	1.00
North	1.12	3.02	1.22	0.81
Northeast	1.19	1.72	1.12	0.79
South	1.32	1.59	1.42	0.77

Source: NSO ,Labour Force Survey quarter 3.

2. Setting up unemployment insurance in Thailand as part of the social security system

2.1 Overview of social security system

The Social Security Act B.E. 2533 (1990)³¹ regulates the implementation of the social security system for private employees in Thailand. The Act requires the Social Security Fund (SSF) to provide seven types of benefits grouped into three categories: A. sickness, maternity, invalidity and survivor benefits; B. old-age benefit and child allowance; and C. unemployment insurance benefit. Benefits in group 'A' have been provided since 1990. The old-age benefit and child allowance have been

³¹With two amendments in 1994 and 1999: http://thailaws.com/law/t_laws/tlaw0266.pdf.

implemented since December 1998.³² The unemployment insurance benefit is the last type of benefit to be provided by SSO in 2004. The Workmen's Compensation Act B.E. 2534 (1991) gives authority to SSO to provide employment injury benefit (Table 3). The benefits provided as indicated in Table 6 show that Thailand complies with most provisions of the ILO Social Security (minimum standards) Convention, 1952 (No.102).

Table 2 Benefits provided by Social Security Office

Type of benefit	In-kind or cash Benefits	Source of fund
Sickness	Medical care, cash benefit as percentage of insured earning	SSF
Maternity	Lump-sum payment, cash benefit for maternity leave	SSF
Invalidity	Medical care, cash benefit as percentage of insured earning	SSF
Survivor	Lump-sum payment, cash assistance	SSF
Child allowance	Monthly cash benefit payment	SSF
Old-age	Cash benefit as percentage of insured earning	SSF
Unemployment	Cash benefit as percentage of insured earning	SSF
Employment injury	Medical care, cash compensation for income loss	WCF

Note: Social Security Fund is from tripartite contribution, but WCF is from employer's contribution only.

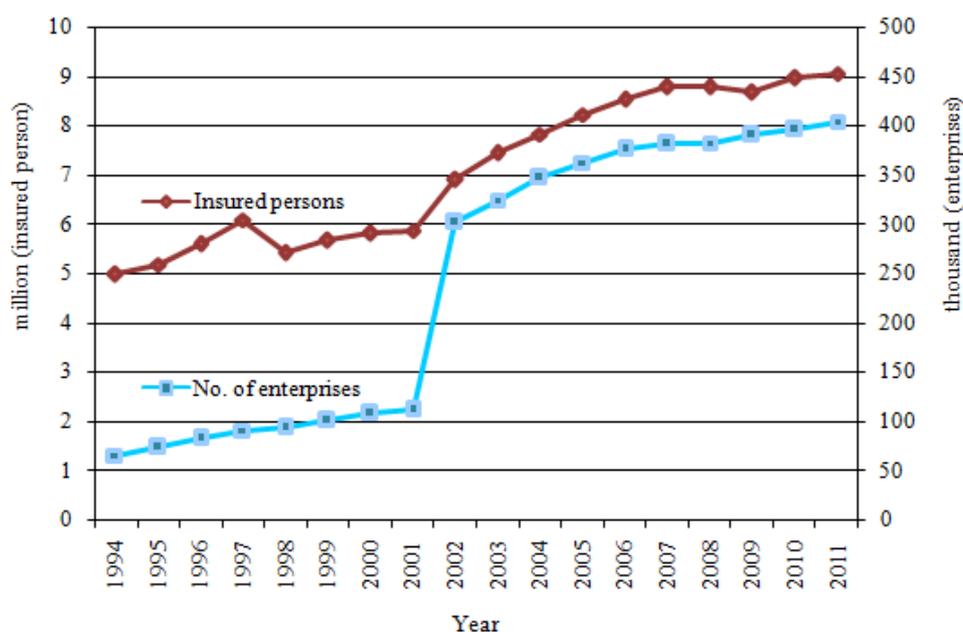
2.2 Design process

The economic crisis in 1997 induced high unemployment rates in 1998 and 1999 (about 5 per cent in quarter 1 and 3 per cent in quarter 3). During those years, no income support was provided to the unemployed. When unemployed, Thai people opt to return to the rural areas to seek informal support from their families and friends. Many researchers and policy makers recommended an implementation of UI program to support unemployed persons. In March 1998, the ILO conducted a feasibility study on the introduction of UI scheme in Thailand at the request of SSO. The preliminary findings led to the technical cooperation between the Ministry of Labour and Social Welfare and the World Bank under the Country Development Partnership for Social Protection (CDP-SP) programme. The background papers, excel-based toolkit, and simulation result prepared under this programme were

³²It was postponed by the amendment of the Social Security Act in 1994. The Social Security Act stated that the old-age benefit and child allowance must be provided within six years after the enforcement of the Social Security Act 1990.

presented in the review workshop in March 2003. On the other hand, in December 2000 the Social Security Committee established the Sub-Committee on the Preparation of Unemployment Insurance, represented by representatives from the government, employers, workers, and social partners. The proposal made by this Sub-Committee was shared with the ILO for their comments on the compliance with ILO Conventions, financial valuation, and recommended model system. The design and implementation of the UI program in Thailand complied with the ILO Employment Promotion and Protection against Unemployment Convention, 1988 (No.168), although Thailand has not yet ratified the Convention³³. In August 2002 SSO launched a brainstorming seminar on unemployment insurance in five regions across the country, at which tripartite stakeholders and related organizations participated. The participants agreed that UI should be introduced starting from 1 January 2004. It should also be noted that the political agenda of the Thai Rak Thai Party's government elected in 2001 was a strong push for the completion of the UI design process.

Figure 2 Number of insured persons and private enterprises



Source: SSO.

Note: The new enterprises registered in 2002 employ only 1-10 employees.

It should be noted that ILO Convention 168 aims to ensure that social security systems provide employment assistance and economic support to those who are involuntarily unemployed. However, Thailand's UI system appears more generous than the ILO Convention by providing UI benefits to both voluntary and involuntary unemployed. The implication of this particular feature of the UI scheme in Thailand will be discussed in the next section.

³³Only 6 countries have ratified the C168; namely, Norway, Switzerland, Sweden, Finland, Romania, Brazil, Albania, and Belgium.

When the UI program started, the number of insured persons under the Social Security System (SSS) was almost 8 million, about 22 per cent of the total employment (Figure 2). In 2010, the number of insured persons increased to 9 million, about 23 per cent of total employment.

2.3 Severance pay

Involuntary unemployed persons are entitled to severance pay. The Labour Protection Act 1998 enforces the employers who lay off their employees to offer severance pay of which amount varies according to the duration of employment (Table 4).

Table 3 Severance pay

Duration of employment	Amount of severance pay
120 days – 1 year	30 days of last wage
1 – 3 years	90 days of last wage
3 – 6 years	180 days of last wage
6 – 10 years	240 days of last wage
10 years and above	300 days of last wage

In the case when employers, per an order from the labour inspectors, are not in a position to liquidate the severance payment, employees can ask for financial assistance from the Labour Welfare Fund³⁴. The Fund is under the administration of the Department of Labour Protection and Welfare. The amount of cash assistance depends on the duration of employment (see table above).

3. UI scheme legal framework and institutional structure

3.1 Legal coverage

The Social Security Act B.E.2553 (1990) includes four articles related to unemployment insurance and benefits as follows:

Article 5 paragraph 8: “unemployed” means the termination of job of an insured person due to the termination of the legal contract between an employer and employee.

Article 78: employees who are insured persons are entitled to the unemployment benefit if they have paid a contribution for a period of no less than 6 months within 15 months before they become unemployed, and they must meet the following conditions:

³⁴Labour Welfare Fund (LWF) was established according to the Labour Protection Act 1998. Income of LWF is the subsidy from the government, fines from those who are labour protection offenders and contribution from employees and employers whose firms do not have provident fund for their employees.

- (1) They are capable of working, available to work when provided with appropriate jobs, or do not reject job training. They must register at the public employment office and report to the officer at the employment service at least once a month.
- (2) They must not be laid-off because they perform dishonest duty; intentionally commit a criminal offence against the employer; intentionally cause any damage to the employer; violate work rules, regulations or orders of the employer that cause serious damage; neglect their duty without justified reasons for seven consecutive working days; behave carelessly that causes serious damage to their employer; or be imprisoned by the final judgments of imprisonment with the exception of imprisonment arising from petty offences.
- (3) They must not receive the old-age benefit under Part 7 of this Act.

Article 79: The insured persons have the right to receive the unemployment benefit on the eighth day after the termination of last employment under the regulations and rates of benefit determined in the Ministerial Regulation.

Article 104 paragraph 3: The commencement of collecting contribution for the unemployment benefit is determined in the Royal Decree.

The Annex of the Social Security Act determines the maximum contribution rates for all seven types of benefits included under the SSS. The maximum rate of contribution for the unemployment benefit is 5 per cent of wages for each of employee, employer, and government.³⁵

The provision of the Social Security Act opens an option to offer unemployment benefit to the involuntary unemployed, since Article 5 does not specify the reasons for termination of a contract.

3.2 Institutional set-up and administration of UI fund

The Social Security Act also determined the institutional structure of UI implementation. The government departments—Social Security Office (SSO), Department of Employment (DOE), Department of Skill Development (DSD)—have to operate under the UI implementation. Under the act, the Social Security Fund is divided into three funds: 1) first fund to cover sickness, maternity, invalidity and death, 2) second fund to cover child allowance and old-age pensions, and 3) third fund to cover unemployment benefits.

Table 4: Contributions rates per fund (per cent)

Categories	Employers	Employees	Government
Sickness	1.5	1.5	1.5
Maternity			
Invalidity			

³⁵The amendment of the Social Security Act in 1999 does not require the government to contribute at an equal rate as the employee and employer.

Death			
Child Allowance	3	3	1
Old-age pension			
Unemployment	0.5	0.5	0.25

Source: Social Security Office, Thailand, July 2012

3.3 Financing

In 2004 when the contribution for the unemployment benefit was collected, the contribution rate was set at 0.5 per cent of wages for each the employee and the employer. The government contributes 0.25 per cent of wages. The rates have never been changed. The current contribution rates for all benefit are shown in Table 6.³⁶ The contribution rate from all parties is 8.75 per cent of wages. The minimum insured wage is 1,650 Baht and the maximum one is 15,000 Baht (or about USD484) per month. This makes the maximum contribution for each of employee and employer 450 Baht per month and for the government 412.5 Baht per month.

Table 6 Contribution rate

% of wages	2010-11	Jan-June 2012	July-Dec 2012
Employee	1.5+3+0.5	0.5+2+0.5	0.5+3+0.5
Employer	1.5+3+0.5	0.5+2+0.5	0.5+3+0.5
Government	1.5+1+0.25	1.5+1+0.25	1.5+1+0.25
Total	12.75	8.75	10.75

Note: Contribution rates for group A + B + C. "A" covers sickness, maternity, invalidity and survivor benefits. "B" covers old-age benefit and child allowance. "C" covers the unemployment benefit.

3.4 Qualifying conditions

The SSO determines the regulations for claiming the unemployment benefit as follows.

- The qualifying period is 6 months in the past 15 months.
- The UI claimant must submit a claim form at the employment office within 8 days after job termination and within 30 days after the date of unemployment.
- Article 5 does not specify the reason for termination of contract. Therefore both voluntary and involuntary termination of contracts is covered.

³⁶The government likes to temporarily adjust the contribution rate for old-age benefit since the benefit has not been paid until January 2014. The current balance of the old-age benefit looks comparatively better than other benefits.

- The employment office will check with the SSO database about the cause of unemployment and whether the claim meets eligibility requirements.
- The UI beneficiary has to report regularly upon the requirement of the employment office
- The unemployment benefit is terminated if
 - the beneficiary returns to be an insured person of Article 33³⁷ or
 - the beneficiary reaches 55 years old or
 - the maximum qualifying benefit is reached.
 - the beneficiary rejects job offered by the employment office.
 - the beneficiary rejects skills training recommended by the employment office.
- The UI beneficiary who becomes 55 years old can apply for the old-age benefit, conditioning on the old-age benefit regulations.

3.5 Benefits

- If the cause of unemployment is involuntary unemployment, the benefit rate is 50% of the average amount of the three highest monthly wages out of nine months.³⁸ If unemployment is due to quit without just cause, the benefit rate is 30% of the average wage.
- The amount of benefit will be deducted by the number of days delayed if the claim is after 30 days of job termination.
- The maximum period of receiving the benefit in a calendar year is 90 days for voluntary unemployment and 180 days for involuntary unemployment.

4. Review of Performance of the UI scheme

4.1 Linkage with national employment situation

When the UI program started in 2004, the social security system covered employees in all firm sizes in the non-agriculture sector. At that time, the number of insured persons was below eight million, the national unemployment rates oscillated between 1.5 and 3 per cent. The unemployment rates among the insured persons tend to be lower than the national unemployment rates. In the period of 2004-2008, the national unemployment rates were between 1.2 and 3 per cent. The unemployment rates among the insured persons during the same period were lower than 1 percent (Figure 3).

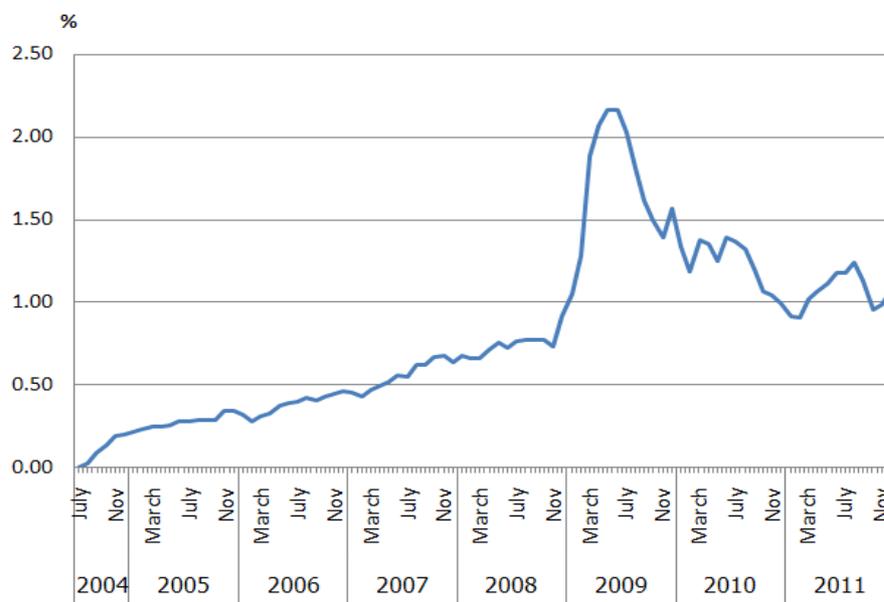
Nevertheless, as a result of the global economic crisis at the end of 2008, the number of UI beneficiaries increased significantly, with a higher proportion of female beneficiaries. Since that period, the unemployment rate among the insured persons has remained in line with the national unemployment rate. Figure 4 shows that the

³⁷There are three types of insured persons: Article 33 is mandatory for those employed as employee in non-agriculture enterprises; Article 39 is voluntary for those who used to be insured persons Article 33; and Article 40 is voluntary for those self-employed or any individuals who are not eligible to be insured persons Article 33 and 39.

³⁸Average daily wage is calculated using the highest wages in any three months during the last 9 months of employment divided by 90. However, for those who have been employed for less than 9 months, the average daily wage is wages in the last 3 months divided by 90.

number of UI beneficiaries has been gradually increasing and the number of claims is on the rise. Since the UI program is new to the Thai labour market, there might be some eligible unemployed who fail to claim the benefit until its expiration. However, more workers are becoming aware of this new welfare as time passes.

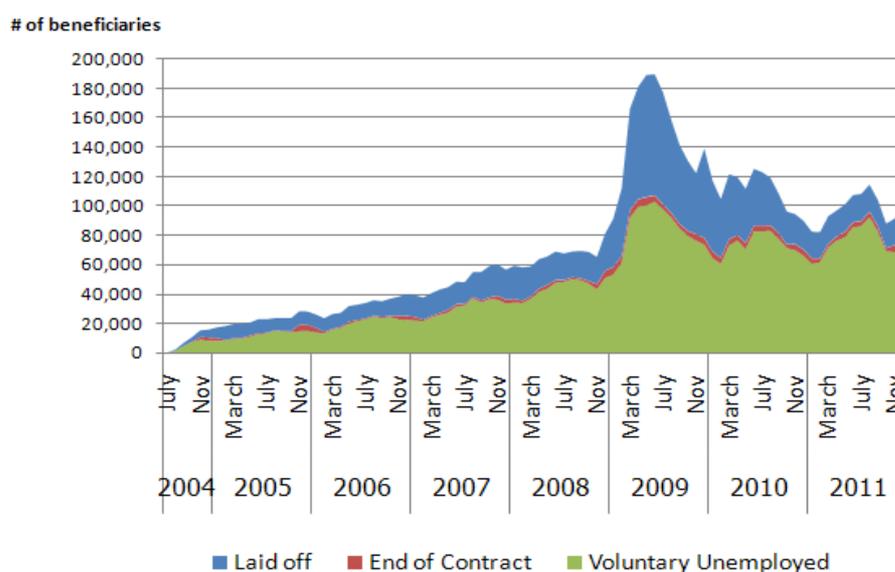
Figure 3 Unemployment rate among insured persons



Source: Compiled from SSO's number of insured persons and UI beneficiaries.

Note: The unemployment rate among insured persons is the number of UI beneficiaries as a percentage of the number of insured persons.

Figure 4 The number of UI beneficiaries



Source: SSO

4.2 Overall reflection of the UI services

As mentioned by UI officers and trade union representatives, UI beneficiaries are still unfamiliar with the UI regulations and their entitlements; in particular there is some confusion in providing the reason for contract termination (being laid-off or quitting voluntarily). The surveys to UI beneficiaries at provincial employment offices revealed that about 20 per cent of UI beneficiaries are repeating claimants. A high proportion of UI beneficiaries (72 per cent) know very little about UI regulations, particularly the ones related to the maximum period allowed for registration, resulting in the lower level of benefits; while 10 percent of the beneficiaries do not know about the UI regulations at all. The interviewees from government, employers' and workers' organizations pointed out the importance of improving public awareness about the UI scheme.

About 80 per cent of UI beneficiaries are quite satisfied with the service of the SSO and about 65 per cent are satisfied with the service of the DOE. The main dissatisfaction amongst UI beneficiaries comes from the delay of payment. There are cases where employers and employees do not report the same reasons for the termination of a contract. Settling these disputes causes some delay in processing the UI claim. In order to help the claimants, the UI official accepts to pay the benefit at a level of 30 percent of wage to the claimant, adding retroactively the additional 20 percent if the dispute is solved in favor of the employee. Employers sometimes do not report the termination date of employment to the SSO, also resulting in the delay of the payment.

Moreover, a group of beneficiaries residing in provinces without a one-stop service center do not feel it is convenient to travel between the provincial employment office and the SSO. One-stop services center should therefore be established in all provinces in order to increase accessibility to the scheme.

Public employment service is another issue, which could be improved. Job vacancies available at the provincial offices are sometimes outdated. About 65 per cent of UI beneficiaries found their last job through suggestion from friends or relatives. Only 2 per cent got the last job through the services provided by the DOE.

4.3 Legal coverage versus effective coverage, still some gaps

All officials questioned the payment of UI benefits to voluntary unemployed persons; whereas employers do not agree with paying the UI benefit to voluntary unemployed persons as they view it as an increased burden for the Fund. Despite of this, there are several gaps in the terms of claiming the eligible benefits. There are cases where employers agree with their workers to sign a letter of resignation and receive the severance pay in exchange. In this case, the "forced-to-resign" employees will qualify for a reduced UI benefit as they turn to be voluntary unemployed. The employers' representative also recommended the review of the current duplication of benefits between severance pay and unemployment allowance.

At the same time, some UI beneficiaries are reported to abuse the system by returning to work and receiving benefits at the same time. They negotiate with the new employers, usually small enterprise, not to report the new employment to SSO and thus savings from the SSO contributions.

Similarly to voluntary unemployed persons, providing UI benefits to seasonal workers is also an issue to be debated. Seasonal workers are not really searching for jobs but self-employed in farming activities during the period of 'unemployment'. Seasonal workers are found working mainly in agriculture related factories such as sugar mills and refineries, canned pineapple factories and tobacco factories. Their skills are also in demand by other factories. However, they are inactive in finding a new job during their seasonal unemployment. Although not reporting for active job search is a criteria for suspension of UI benefits; in practice, the scheme allows the self-employed to continue receiving their UI benefits.

4.4 Low participation in skills development and training programmes

The number of UI beneficiaries who participate in the skills development programme is rather limited. In the budget year 2010 and 2011, there were 128 and 3 UI beneficiaries participating in the skills development programs. Beneficiaries do not want to attend skills development programs because of the cost of traveling to training institutes and the available courses do not usually match workers' demands and needs. Only 4 out of 117 interviewees attended skills development programmes.

The completion rate is 100 per cent because the participants voluntarily enrolled. One of the reasons the UI beneficiaries refuse to undertake skill development programs is that they do not want to change their occupation. DSD admits that skill development curricula and schedules are set in advance. According to DSD, requests for more adapted curricula and schedule are made by a limited number of UI claimants which does not justify changing the programme.

4.5 Voluntary quitters, main receivers of UI benefits

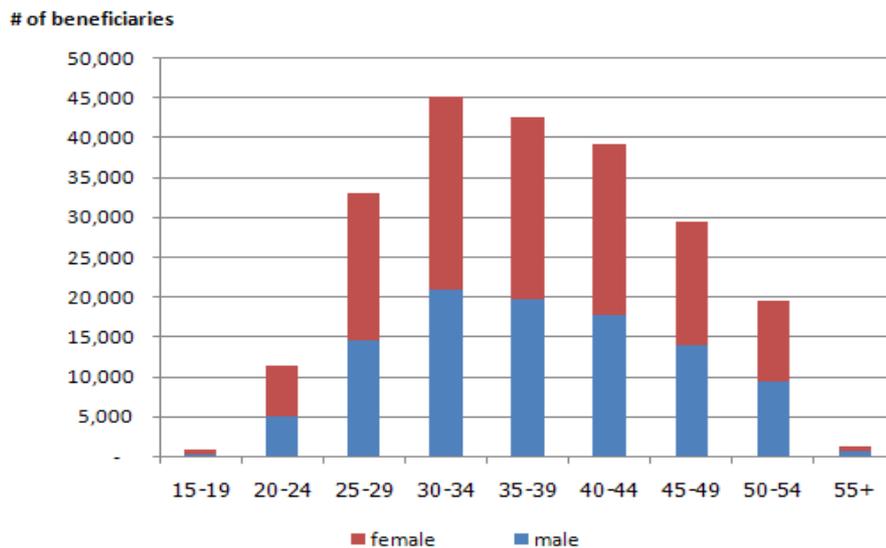
The statistical data indicated that the number of voluntary unemployed who claim for the UI benefits is greater than the number of involuntary unemployed or laid-off. Before 2010, involuntary unemployed beneficiaries were about 30-40 per cent of total beneficiaries; this proportion fell to about 20 per cent in 2010. The proportion of voluntary unemployed is always higher in January and February each year. In 2011, there are 506,000 unemployed persons receiving UI benefits, among which about 87 per cent left their job without just cause. About 216,000 persons returned to employment and about 108,000 persons do not seriously search for jobs.

Since 2004, SSO's expenditures for UI benefit amount to about 20 billion Baht, of which 50 per cent was spent for involuntary unemployed persons. In 2011 alone, about 2.3 billion Baht or 66 per cent of UI expenditure were paid to voluntary unemployed persons (Figure 7). This amount could be saved and the contribution rate for the UI benefit could be reduced; or the level and duration of benefits or package of services offered by the Employment Center could be improved. The existing system of paying the UI benefit to voluntary unemployed penalizes those who are employed.

Age structures of UI beneficiaries who are involuntary and voluntary unemployed do not share the same characters. Figure 5 shows that about 50 per cent of involuntary unemployed who received the UI benefit are in age groups 35-39, 40-44 and 45-49. Figure 6 shows that about 50 per cent of voluntary unemployed who received the UI benefit are in age groups 25-29, and 30-34. These age distributions of UI

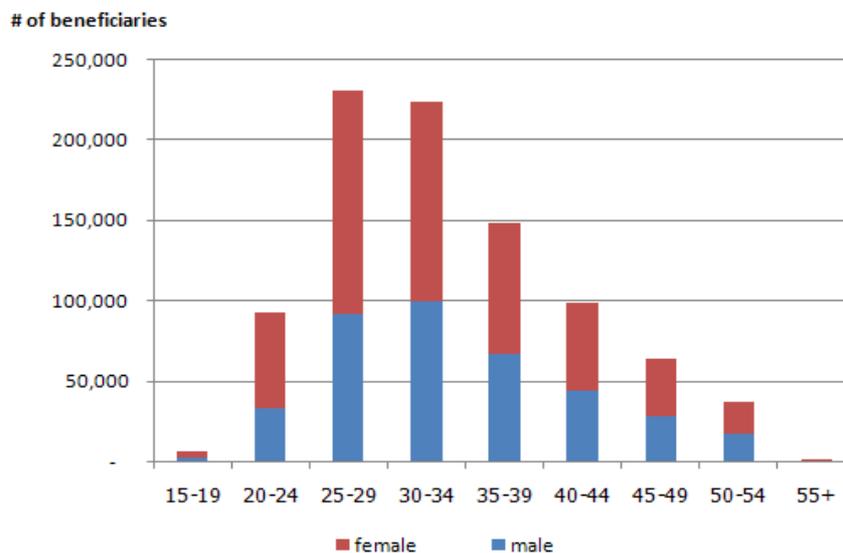
beneficiaries could turn into a national concern at a certain stage as the UI benefits could possibly encourage young workers to quit and change jobs more frequently. They may find less incentive to improve their skills, which negatively affects the country's labour productivity and competitiveness in the future.

Figure 5 Age and gender distribution of involuntary unemployed in 2011



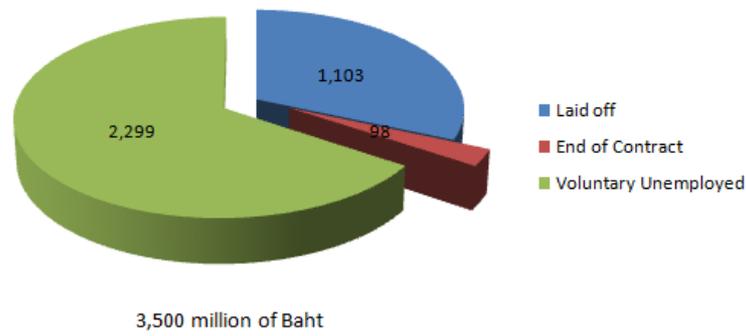
Source: SSO

Figure 6 Age and gender distribution of voluntary unemployed in 2011



Source: SSO

Figure 7 Expenditure for the UI benefit in 2011

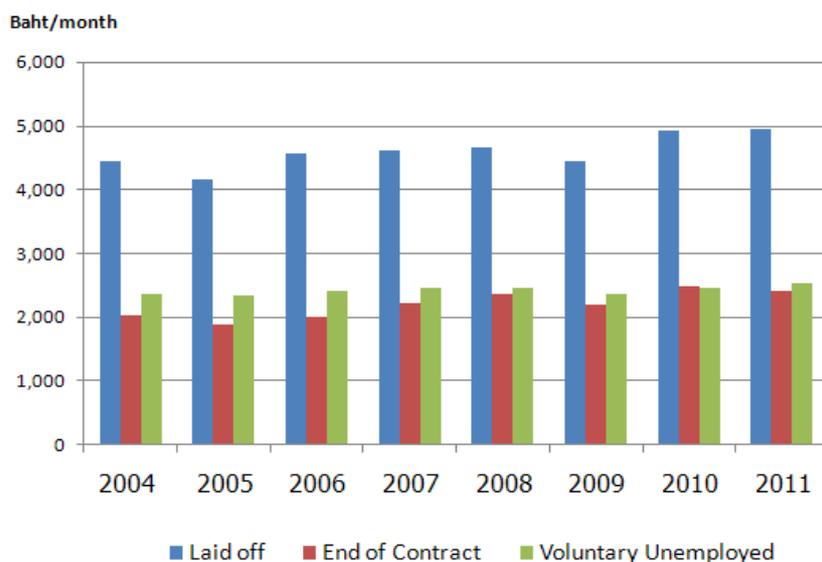


Source: SSO

4.6 Financial performance and sustainability

Most of UI beneficiaries are employees with low wages, which makes the average benefit per beneficiary low. 46 per cent of the interviewed UI beneficiaries in four provinces have secondary education or lower and averagely earn less than 10,000 Baht per month. Between 2004 and 2011, the average benefits per beneficiary per month were below 5,000 Baht for involuntary unemployment and about 2,500 Baht for voluntary unemployment (Figure 8). Even with a high number of claims from the voluntary unemployed persons, the UI scheme has maintained a positive balance. In 2011, the UI scheme accumulated 60 billion Baht, which is three times the UI expenditures between 2004 and 2011. This could support the scheme for more than ten years if the structure of unemployment remains unchanged.

Figure 8 Average UI benefit per beneficiary per month



Source: SSO

4.7 Response to the flood crisis in 2011

There were 28,679 enterprises employing 993,944 workers that were affected during the floods in September to December 2011. The government adopted several measures.

A wage subsidy of 2,000 Baht per employee for a maximum of three months period was offered to enterprises, which retained their employees. Employees will then receive 75 per cent of wages while the factories temporarily stop their operations. 347 enterprises employing 210,150 employees participated in this program. The issue was that employers were uncertain about whether to shut down the factories or not.

Moreover, SSO extended the UI claim registration period from 30 days after job termination to 60 days after job termination. If registration took place after the 60 days period, the UI benefit was deducted by the number of days of delayed registration. The SSO also increased the number of staff at the registration centers.

Finally, DLPW took some measures to prevent lay-off such as helping employees in the flood areas to work in other unaffected enterprises (called Friends Help Friends Project). There were 13,226 employees moving to 108 enterprises.

5. Conclusions

5.1 The larger picture of underemployment

Thailand has adopted the ILO's definition of unemployment which refers to the loss of earnings due to inability to find a suitable job, in the case of a person capable of working, available for work and actively searching for a job. However, the low official unemployment rate in Thailand is made controversial by the large informal economy that still employs the majority of the work force.

In the informal economy, where everyone has to work to survive, the concept of under-employment seems to be more relevant than unemployment. Therefore, low official unemployment rate may lead to underestimating the issue, especially among the public in general. To address the persistent underemployment, adapted measures that will combine income support, skills development and employment promotion are yet to be reinforced in the country.

5.2 Revision of eligibility criteria

The coverage of voluntary unemployed by UI benefits is questionable. In Thailand, it appears that the one leaving voluntary their employment are the young persons. This may have adverse effect on the competitiveness of Thailand's labour market. UI benefits payment should be conditioned to active search of work, participation in a training programme, engagement in social work, among other initiatives.

If an amendment to the qualifying conditions is to be discussed, attention should be given to those who may be forced to resign (for example, due to hazardous working

conditions, transfer of the company, harassment, among other reasons that will have to be clearly defined). The reform should ensure that investigation mechanisms are in place to guarantee the rights of the workers.

5.3 Weak measure to facilitate return to work

In 2009 and 2010, about 65 per cent and 27 per cent of UI beneficiaries got the new job without assistance from the employment office. Many of the interviewed UI beneficiaries also got their last jobs through personal networks. Labour Officials have recommended upgrading the job database to ensure that most updated labour market information is available. They have also recommended strengthening monitoring mechanisms so UI payment in case of refusal of suitable employment.

5.4 Response provided in time of crisis

The UI regulations should be flexible to respond more effectively to natural disasters. It is agreed that flood or other natural disasters are considered as involuntary reasons for temporary loss of earnings. In such situation, the UI scheme, strong on the positive balance of its fund, should constitute an element of the crisis response to support workers affected by flood or other natural disasters.

5.5 Duplication of two unemployment compensations

According to the law in Thailand, unemployed persons are entitled to both severance pay and the UI benefits. Receiving both UI and severance benefits might reduce incentive to return quickly to work. The UI benefit should provide support after the period of severance pay is ended, e.g., if severance pay is equivalent to three month salary, the unemployed should first exhaust the severance pay and after three months, if no job is yet found, apply for UI benefits for the whole entitlement period. After six months of being unemployed, an unemployed person should be instructed to take a skill development programme.

5.6 Low awareness of UI regulations and procedures

Employees are aware of the existence of an UI system in Thailand but are not familiar with its regulations. For instance, some applicants lose part of their entitlement due to the late registration to the employment office. In certain cases, employees and employers report different reasons for termination of contract which results in a delay in paying benefits. Moreover, employers do not rigorously report the starting date or ending date of employment.

Yet, many Thai workers and especially new-entrants are not aware of their social security rights and obligations. It is even more the case about the unemployment insurance which is the youngest scheme of the social security system in Thailand, About half of telephone inquiries to provincial SSOs relate to UI benefits. Therefore, awareness raising on social security should be continuously promoted through all kinds of media. SSO should also discuss with the Ministry of Education about adding social security in education curriculum.

5.7 Monitoring and evaluation

Monitoring and evaluation is a key element for improvement of any social security systems. To date, there is not in place a mechanism that allows rigorous periodical review of the UI scheme's performance. It is suggested that such review should take into consideration the following aspects of the scheme: actuarial review, qualifying conditions and level of benefits, performance of the support programme to facilitate return to work and coordination among the three departments involved in the scheme's implementation.

Appendix I

Structure of employment by age, education, and industry

	1995	2000	2005	2010
Total employment (Million)	32.26	32.83	36.30	38.69
By Sex (%)				
Male	54.59	55.04	53.63	54.04
Female	45.41	44.96	46.37	45.96
By Age (%)				
15-19	8.39	5.51	4.28	3.54
20-29	28.65	26.27	22.93	21.03
30-39	26.91	27.43	27.11	25.29
40-49	19.04	22.08	24.27	25.06
50-59	11.76	12.88	14.27	17.20
60+	5.25	5.83	7.14	7.89
By Education (%)				
Primary or lower	77.79	68.30	61.57	54.41
Lower Secondary	9.20	12.84	13.74	15.61
Upper Secondary	3.33	5.62	8.03	10.52
Lower Vocational	2.67	2.96	3.34	3.40
Upper Vocational and Diploma	2.40	3.09	3.71	4.52
Bachelor+	4.62	7.19	9.60	11.55
By Work status (%)				
Employer	2.94	3.35	3.11	2.69
Own Account	30.47	30.27	31.53	31.97
Unpaid Family Worker	30.80	26.65	21.56	22.66
Government Employee	6.38	7.16	7.47	8.76
State Enterprise Employee	1.13	1.12	0.97	0.85
Private Employee	28.28	31.44	35.21	32.99
Co-op worker	0.00	0.00	0.14	0.07
By Industry (%)				
Agriculture	51.73	48.63	42.56	40.69
Manufacturing	12.65	13.51	14.85	13.49
Construction	5.71	3.89	5.10	5.39
Utility	0.47	0.35	0.29	0.26
Commerce	14.29	16.96	17.32	18.85
Transportation	3.06	2.90	2.96	2.71
Services	12.10	13.76	16.91	18.62
By Region (%)				
Bangkok	11.33	12.48	10.68	49.83
Central	22.33	32.62	25.09	171.45
North	19.43	12.60	18.37	771.03
Northeast	34.74	23.14	32.64	267.83
South	12.16	19.16	13.22	129.21

Source: NSO, Labour Force Survey quarter 3.

Appendix II

Employment in the formal sector

	1995	2000	2005	2010
Formal Sector (Million)	10.39	11.26	14.12	15.21
By Sex (%)				
Male	60.68	57.04	58.03	56.04
Female	39.32	42.96	41.97	43.96
By Age (%)				
15-19	9.09	5.33	4.31	3.48
20-29	36.67	34.82	33.11	28.05
30-39	29.51	30.57	30.88	30.58
40-49	16.33	19.30	20.72	23.23
50-59	7.06	8.13	9.19	12.56
60+	1.34	1.85	1.79	2.10
By Education (%)				
Primary or lower	53.99	43.62	39.15	34.32
Lower Secondary	14.54	16.47	16.77	16.55
Upper Secondary	6.02	9.04	11.32	12.81
Lower Vocational	6.18	5.58	5.50	5.00
Upper Vocational and Diploma	6.05	6.77	6.65	7.50
University	13.22	18.53	20.61	23.82
By Work status (%)				
Employer	4.43	4.33	5.07	5.04
Government Employee	19.81	20.88	19.21	22.28
State Enterprise Employee	3.50	3.25	2.49	2.17
Private Employee	72.25	71.54	73.24	70.50
By Industry (%)				
Agriculture	0.31	0.10	0.72	0.59
Manufacturing	29.89	31.34	32.20	28.53
Construction	16.52	10.73	12.34	12.61
Utility	1.42	1.02	0.76	0.65
Commerce	18.06	20.59	20.75	21.73
Transportation	4.18	4.04	3.67	3.47
Services	29.62	32.18	29.56	32.42
By Region (%)				
Bangkok	15.52	26.98	20.33	17.34
Central	17.69	31.90	34.77	32.05
North	10.98	13.87	14.59	15.71
Northeast	30.90	16.58	18.89	23.01
South	24.91	10.67	11.42	11.89

Source: NSO, Labour Force Survey quarter 3.

Appendix III

Employment in the informal sector

	1995	2000	2005	2010
Informal Sector (Million)	21.86	21.57	22.11	23.49
By Sex (%)				
Male	51.70	53.99	54.17	52.74
Female	48.30	46.01	45.83	47.26
By Age (%)				
15-19	6.49	5.61	4.09	3.58
20-29	22.96	21.80	18.16	16.49
30-39	26.43	25.79	24.97	21.86
40-49	21.71	23.53	24.54	26.24
50-59	15.11	15.37	17.61	20.20
60+	7.30	7.91	10.62	11.63
By Education (%)				
Primary or lower	89.11	81.20	75.90	67.42
Lower Secondary	6.66	10.95	11.83	14.99
Upper Secondary	2.05	3.83	5.91	9.04
Lower Vocational	1.00	1.59	1.97	2.36
Upper Vocational and Diploma	0.66	1.17	1.84	2.59
University	0.53	1.27	2.55	3.60
By Work status(%)				
Employer	2.24	2.85	1.87	1.18
Own Account	44.96	46.08	0.00	52.67
Unpaid Family Worker	45.44	40.57	0.00	37.33
Private Employee	7.37	10.50	11.01	8.71
Community worker	0.00	0.00	0.00	0.11
By Industry (%)				
Agriculture	76.17	73.98	69.19	66.66
Manufacturing	4.46	4.20	3.80	3.75
Construction	0.56	0.32	0.50	0.71
Utility	0.01	0.00	0.00	0.00
Commerce	12.50	15.06	15.14	16.98
Transportation	2.52	2.30	2.52	2.21
Services	3.76	4.14	8.86	9.68
By Region (%)				
Bangkok	21.29	26.98	4.53	5.16
Central	42.85	31.90	18.93	19.06
North	12.73	13.87	20.79	20.43
Northeast	18.26	16.58	41.39	40.27
South	4.88	10.67	14.36	15.09

Source: NSO, Labour Force Survey quarter 3.

Viet Nam

Ngo Thi Loan

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Viet Nam Country Data

Area	331,210 sq km
Population (March 2012 est)	91,519,289 ³⁹
Rural Population (% of total population)	70%
Urban share of population	30%
<u>Age structure</u>	
• 0-14 years	25.1%
• 15-64 years	66.2%
• 65 years and over	8.7%
Adult literacy rate (aged 15 and above)	93% of total population
Life expectancy at birth (years)	75 years
<u>GDP per capita (2011)</u>	
• US\$	US \$1,596
Labour force	48.015 million ⁴⁰
<u>Labour Force Participation Rates (2011)</u>	
• Total	76.5%
• Men	81.0%
• Women	72.3%
Unemployment rate	2.28%

³⁹ [http://www.theodora.com/wfbcurent/Viet Nam/Viet Nam people.html](http://www.theodora.com/wfbcurent/Viet%20Nam/Viet%20Nam_people.html).

⁴⁰ ILO/MOLISA Viet Nam Employment Trends in 2010, (Hanoi, ILO, October 2010).

Informal Employment	2,134,000 million
Legal minimum wage (if exists)	Between VND 1,650,000 and 2,350,000 depending on the region ⁴¹
National Poverty Line	US \$ 2.25 per day/per person
Human Development Index (HDI) Rank	127
HDI Gender Inequality Index / Rank	0.299

⁴¹ The minimum wage is set to increase from 14 per cent to 17 per cent depending on the region, starting from December 31st 2013

Summary of the UI Scheme in Viet Nam

Start date and Legal framework	<ul style="list-style-type: none"> - 1 January 2009 - Social Insurance Law (2006), Decree 127 (Decree No. 127/2008/ND-CP) with some updates made by Decree 100 (Decree No. 127/2012/ND-CP); Circular 32/2010/TT-BLDTBXH and Circular 04/2013/TT-BLDTBXH
Type of scheme	Social insurance
Target group	Formal economy workers, all size of enterprises
Population insured	14,7 million (2010) ⁴²
Qualifying conditions	<ul style="list-style-type: none"> - An unemployed worker must have a minimum of 12 full months of insurable employment in the last 24-month period to termination. - Only termination due to misconduct excludes an unemployed from UI benefits.
Benefits	<ul style="list-style-type: none"> (i) Unemployment insurance benefits, paid to workers who leave their positions voluntarily or involuntarily but are actively seeking work and are available for employment; (ii) Employment services; (iii) Vocational training grant; (iv) Health insurance card.
Benefits amount and duration:	<ul style="list-style-type: none"> - Benefit rate is 60 per cent of the monthly salary over the last six consecutive months. The same rate applies to voluntary and involuntary contract termination. - The duration varies with the period of contribution, from 3 months to maximum 12 months.
Source of funding	A tripartite arrangement with one per cent paid by employers, workers and the government into the UI fund.
Administration	<ul style="list-style-type: none"> - In charge of making policy: Ministry of Labour, Invalids and Social Affairs. - Viet Nam Social Services (VSS) collects UI contributions and issues benefit to workers. ESC staff registers insured unemployed and process claims. DOLISA calculates the level of benefits. ESC staff also provides guidance to the unemployed workers during registration and monthly job seeking interviews

⁴² Deok Soon Hwang, edited by. 2013 *Unemployment Insurance in Asia*, Korea Labour Institute

	<p>relating to vacancies and vocational training courses.</p> <ul style="list-style-type: none"> - Workers' organization: Viet Nam General Confederation of Labour (VGCL) - Employers' organization: VCCI
Impact/challenges	<ul style="list-style-type: none"> - Remarkable progress in registering employees into the UI scheme and processing UI claims; - Low enrolment into the vocational training support programme - Low rate of re-employment prior to exhaustion of UI benefits period.

1. History and background

Viet Nam is the eastern most country on the Indochina peninsula in Southeast Asia. It is bordered by China in the north, Laos to the northwest, Cambodia to the southwest and the South China Sea. With an estimated population of 91.5 million as of 2012, Viet Nam is the world's 13th most-populated country and the 8th-most-populated Asian country.

The Socialist Republic of Viet Nam is a single party state. Its current constitution, which replaced the 1975 constitution in April 1992, asserts the central role of the Communist Party of Viet Nam in all phases of government, politics and society. The National Assembly of Viet Nam is the one and only legislature of the state composed of 498 members. It is superior to both the executive and judicial branches.

Since the 1980's, the economy of Viet Nam had been shifting from a centrally managed one towards a socialist-oriented market economy. In doing so, the country enjoyed high growth rates throughout the 1990's. In the period 2000 to 2010, Vietnamese authorities committed themselves to a more liberal economy. They moved to implement the structural reforms needed to modernize the economy and to produce more competitive export-driven industries. As a result, Viet Nam joined the WTO in 2007 after a decade of negotiations. Agriculture, which was so dominant in earlier years, continues to slip in terms of economic output (25 per cent of share in 2000 – 20 per cent of share in 2010). But industry's share in the same period increased from 36 per cent to 41 per cent. Deep poverty has declined significantly and Viet Nam is working to create jobs to meet the challenge of a labour force that is growing by more than one million people per year. However, the growth-oriented economic policies have had a negative impact on the inflation rate, which reached 18.1 per cent in 2011 making it one of the highest in the region.

2. Economy

Viet Nam, like many other countries, has been affected seriously by the 2008 global financial and economic crisis. Its GDP growth rate dropped dramatically from 8.46 per cent in 2007 to only 5.3 per cent in 2009 and then stayed around 5 to 6 per cent until this year, 2013.



Source : GSO Vietnam

The inflation rate, in the same period, was also fluctuating drastically. It reached its highest record at 23 per cent in 2009, then reduced a bit to 18 per cent in 2011 and dropped to just a one-digit number in 2012. To restrain the inflations as such, a number of credit policies were employed by the Government for which the credit growth rate was suddenly reduced sharply from about 50 per cent in 2007 to only 5.1 per cent⁴³ in 2012. The economy which remained resource based where the main drive was capital, having been hit hard by the global crisis, was doubly shocked by these domestic reaction policies.

As a consequence, in 2012, while nearly 70,000 businesses⁴⁴ registered for establishment, representing a decrease of 9.9 per cent against the previous year, more than 54,200 others dissolved or were in agony, making a year-on-year rise of 6.29 per cent. Though there is no data available on the total number of laid-off employees as a result of these closures, all 64 ESCs across the country noticed an increase of 43 per cent⁴⁵ in the registrations for UI benefits during the period from 2011-2012.

Beside those completely lost jobs, many other workers suffered income losses as their working hours were reduced⁴⁶. In January 2012, 1.3 million Vietnamese were unemployed, while more than 4.5 million others were seeking part-time jobs⁴⁷.

Among those who were laid off, some workers experienced delays in receiving the severance payment when their employers were facing serious treasury concerns.⁴⁸

⁴³Source: State Bank of Vietnam, http://www.sbv.gov.vn/portal/faces/vi/vim/vipages_trangchu/tkttnh/dntd?_adf.ctrl-state=4j23q13bj_4&_afLoop=6403574936200.

⁴⁴Annual business report 2012 – VCCI.

⁴⁵Such increase can also be partially explained by the active awareness-raising campaign to promote the new UI scheme among the employers and workers.

⁴⁶<http://www.eastasiaforum.org/2008/11/04/vietnams-crisis-within-the-crisis/>.

⁴⁷<http://english.vietnamnet.vn/en/society/17799/vietnam-needs-over-15-million-new-jobs-by-2020.html>.

⁴⁸Ngoc Q. Pham: *Impact of Global Financial and Economic Crisis on Viet Nam*, 2009, ILO.

As often observed in times of economic crisis in emerging economies not equipped with income security measures, employees losing their job in the formal sector tend to find some temporary earning sources in the informal economy. In certain cases, this may become a permanent alternative.

Viet Nam has two thirds of its employment concentrated outside of wage and salaried employment, among which, only 55.4 per cent of the employees have signed a written contract; the other half works under a verbal agreement or no contract at all. As a result, only 9 million of the workers (18 per cent of the labour force) meet the criteria to register for the social insurance scheme, leaving the large majority of workers and families with no protection when losing their source of income.

The Government is pressured by the economic and the labour market trends to commit efforts to address the needs of the underemployed and the young unemployed. Underemployment⁴⁹ is estimated to account for 6.8 per cent of the economically active population (EAP)⁵⁰. Among the officially reported unemployed workers⁵¹, young unemployed within the ages of 15-24 represent more than 52 per cent and this trend is increasing⁵².

3. History of the development of the scheme

The Asian financial crisis of 1998 triggered a discussion on the merits of implementing an unemployment insurance scheme in Viet Nam. Subsequently, changes were made to the Labour Code in April, 2002 (Law 35/2002/QH10 – “Amendments and Supplements to some Articles of the Labour Code”). Under these changes, UI was introduced for the first time. The changes laid the groundwork for establishing a UI scheme.

Over the next few years, consultations continued and a national consensus emerged comprising of decision makers and stakeholders’ opinions to determine the specifics of the UI program. Several workshops and meetings were conducted involving representatives from MoLISA, BoE, VSS, Viet Nam General Confederation of Labour (VGCL), Viet Nam Chamber of Commerce and Industry (VCCI) and vocational training representatives. The Social Insurance Law was also updated to reflect the new UI scheme.

⁴⁹ Underemployment is usually defined as an employment situation where workers are employed but not in the capacity they desire, e.g. in terms of compensation, hours or work, skill levels and experience (ILO, *Viet Nam Employment Trends 2010*). Underemployment is defined as those who work less than 35 hours a week (ILO, 2011: *Global Employment Trends 2010*).

⁵⁰ ILO: *Viet Nam Employment Trends 2010*, (ILO Hanoi, 2011).

⁵¹ The standard definition used to measure the number of unemployed in Viet Nam is those individuals without work, seeking for work in recent past period and currently available for work (ILO, *Viet Nam Employment Trends 2010*).

⁵² ILO: *Viet Nam Employment Trends 2010*, (ILO Hanoi, 2011).

Viet Nam also had the opportunity to study other UI programs in Asia such as Republic of Korea and Japan. Thailand also implemented a formal UI scheme in 2004, which provided expertise in the development of an adequate UI income protection program.

Viet Nam benefited from VSS experience in the administration of other social security schemes and payment of social benefits and VSS provided valuable assistance in the development of UI coverage, collection of premiums and payment of UI benefit.

As a response to the concern of major lays-off and result of the consensus building exercise, the Law on Social Insurance was amended on June 26, 2006 with reference to the new UI scheme. In addition, Decree 127 (Decree No. 127/2008/ND-CP) was promulgated by the National Assembly on 12 December 2008 allowing for the commencement of collection of UI premium from enterprises with at least 10 employees, starting 1 January 2009. Decree 127 provides details on UI coverage, managing and administering the UI fund and the roles and responsibilities of workers, employers, labour agencies (MoLISA) and Viet Nam Social Security. Subsequently, MoLISA officially published Circular 04 (Circular No. 04/2009/TT-BLDTBXH) in 22 January 2009 expanding on the policies and procedures of the UI scheme. It provided guidance on entitlement and qualifying conditions for receiving UI benefits as well as processing UI claims for benefit. Circular 32 replaced Circular 04 in October 2010 with a streamlined version of the amended guidance on UI procedures.

It was decided that BoE would be responsible for the processing of UI claims in their 63 provincial sites throughout Viet Nam. Funding was provided for additional staff and upgrading the ESC locations.

In October 2009, BoE conducted a number of workshops with ESC managers and stakeholders to plan for the implementation of the UI scheme and start UI operations. The workshops were designed to assist the managers and stakeholders to better understand the policies of the UI plan and to develop operational plans in processing UI claims for benefit and payment of benefit. A communication strategy was advanced to inform the public and employers of the impending UI implementation. A procedure manual was also developed to guide ESC staff in processing UI claims for benefit and other types of allowances (lump sum, vocational training and job seeking). Managers were trained as master trainers in December at various locations throughout Viet Nam. ESC staff was formally trained by the master trainers in the few weeks prior to the implementation date. A “hot line” was established connecting ESC staff to the national BoE officers to rectify any issues not covered by the procedure manual.

Although it is yet too premature to assess whether the UI scheme can effectively mitigate impacts of economic shocks such as the 2008 crisis, its establishment certainly proves the Government’s commitment to anticipate and cope with future

economic downturns. It is particularly relevant given the persistent economic slowdown in Viet Nam in 2011-2012.

4. Linkage with national policies and development plan

Viet Nam's active labour market policy hinges on a more dynamic labour market development which is moving from rural to urban and agriculture to non-agriculture activities. Indeed, the largest sector of employment in Viet Nam remains agriculture, forestry and fisheries, which employed 47.6 per cent of the workforce in 2009⁵³. This demonstrates the structural shift of Viet Nam's labour-intensive agricultural jobs towards higher value-added and more technology and capital intensive industries and service sectors⁵⁴.

However, in fact, it is relatively easy to observe that in times of difficult economic conjuncture, the unemployed tend to accept any temporary job, as a survival choice, in the informal economy. This remains a major challenge to the achievement of decent work and better protection of all workers in Viet Nam.

In an attempt to control the situation, the Government, on one hand, is trying to reform the UI scheme to expand its coverage to reach out to more vulnerable workers. On the other hand, it is considering special efforts to address emerging challenges in term of job creation and retention, long term unemployment and underemployment, increasing working poor, growing youth unemployment, effective support to the sustainable development of small and medium enterprises (SME), upgrading skills to adapt to the changing labour market and an increase in productivity⁵⁵.

In support for the Government's efforts, the Communist Party showed strong political will through having Party Resolution No 15 issued in 2012 where the right to social security for all residents is acknowledged. The resolution encourages the Government:

- to pass a Social Insurance Law to expand coverage to the informal and rural workers and to ensure the sustainability of the system as whole and the pension fund in particular,

⁵³ILO/MOLISA: Viet Nam Employment Trends Report in 2010 (Hanoi, ILO, 2011): http://www.un.org.vn/en/publications/publications-by-agency/doc_download/185-vietnam-employment-trends-report-2010.html (accessed on 29 October 2012).

⁵⁴Idem as 72

⁵⁵Recent statistics showed that about 40 per cent of Vietnamese workers did not undergo vocational training, while low-productivity jobs accounted for a large proportion in the national economy. In 2010, nearly 24 million labourers worked in the agro-forestry and fishery sector, making up 49 per cent of the country's total number of jobs. However, the average productivity in this sector only accounted for one fourth of the total jobs in the industry and service sectors. (<http://english.vietnamnet.vn/en/society/17799/vietnam-needs-over-15-million-new-jobs-by-2020.html>).

- to define a minimum living standard which would be used for the determination of entitlement and the calculation of levels of benefits under existing antipoverty and social assistance programs,
- to reduce fragmentation of existing social assistance and antipoverty programs while improving the delivery system of social transfers and services and to set up an effective and transparent management information system
- to design a public employment program and to approve a new National Target Program on Poverty Reduction

Following up on this Resolution, many national programmes are being developed, expanded or integrated to address the issues of job creation for rural and informal workers, poverty reduction and social assistance.

The new draft Employment Law could be seen as an example of this movement. Though it is in need of further technical discussion, the EL demonstrates its breakthroughs by introducing an integrated approach to consolidate and strengthen synergic impacts of many on-going tax-financed programmes on job creation for poor⁵⁶ and other marginalized groups who are not covered yet by contributory schemes, e.g. youth, people with disability, ethnic minorities, or poor. It also opens a door to develop relevant unemployment protection programmes for both informal and formal workers.

In addition, in the continuity of the 2006-2010 National Target Policy on Poverty Reduction, Viet Nam is now implementing three major sets of policies for the five-year period to promote rural development. The first set of measures aims at providing micro-credit assistance, and reinforcing education and job skills training. The second one focuses on improving access to health, sanitation and housing. And the third one will support infrastructure development in poor rural districts, in particular remote villages in extreme difficult conditions⁵⁷.

⁵⁶ Generally, the poorer population tends to reside in rural areas, work in the agricultural sector and be considered as part of the informal workforce. Approximately 70.0 per cent of the country's workforce lives in rural areas, or 33.5 million people.

⁵⁷ Nguyen Thi Oanh: *Assessment of the situation of unemployment and time-related underemployment in Viet Nam: Recommendations to improve protection of the unemployed*, ILO/Japan-ASEAN UI Project, (Hanoi, 2012 {to be published})

5. Description of the unemployment insurance scheme in Viet Nam

5.1 Target population

Legal coverage is stipulated in the Law on Social Insurance amended in June 2006. The coverage includes Vietnamese citizens working under labor contracts or working contracts of an indefinite term or a term of between full twelve months and thirty-six months for the employers that employ 10 employees or more.

Contracted civil servants are covered under the plan but not government officials. Also excluded from the UI programme are international migrant workers.

As per December 2012, about 8,3 million⁵⁸ workers were covered under the UI scheme, which represents 80 per cent of those legally covered but still less than 18 per cent of the active population. The labour market is still largely dominated by workers in the informal economy in Viet Nam. The UI system has accepted more than 1 million cases registered as unemployed to ESCs among which 869,000 workers were granted UI benefits up to December 2012. Interviews with unemployed workers, carried out during the 18 months' implementation review of the UI scheme, reveal that most of the beneficiaries are satisfied with the services provided by the system. Beneficiaries acknowledged that the received support indeed enables them overcoming the financial difficulties due to the loss of job.

5.2 Benefits

The compulsory UI scheme of social insurance type provides temporary unemployment allowance, vocational training support and Health Insurance for the insured unemployed. An insured person, if having made at least a 12-month contribution and failed to find a job after 15 working days since the day when his/her unemployment registration was made, should be qualified to receive UI benefits. The duration of UI benefits depends on individual contribution history but should not be less than 3 months or over 12 months.

Months of Benefits	Insurable Employment
3 months	Between 12 to 35 months
6 months	Between 36 to 71 months
9 months	Between 72 to 143 months
12 months	144 months or greater

Unemployed workers must turn in their Health Insurance (HI) cards when they terminate their employment. HI is reinstated once they receive their UI benefits.

Vocational training allowance for insured unemployed who are on UI benefits is provided up to six months, even if benefits are exhausted before completion of the training course.

⁵⁸According to VSS report to National Assembly on March 1st 2013.

“Mr. Dang Quang Khanh is on UI allowance for 3 months starting from May 1st 2010 to July 30th 2010. Mr. Khanh applies for vocational training support to attend a training course and he then receives a decision made by the director of a provincial DoLISA on August 5th 2010 (when his UI allowance already ended) for a 6-months course of motorbike repairs. Though this course commences from October, after his UI allowance terminates, he may still be supported for complete this 6-months course.”⁵⁹

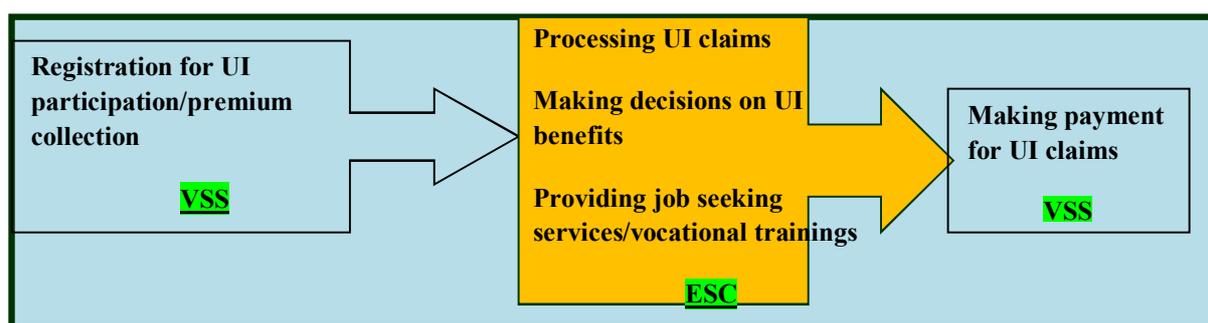
5.3 Institutional set-up

In Vietnam, The Bureau of Employment (BoE) under the Ministry of Labour, Invalids and Social Affairs (MoLISA) has the overall responsibility for administering the UI scheme. Viet Nam Social Security (VSS), an agency reporting directly to the Prime Minister, is responsible for collecting contributions and disbursing benefits. At the provincial level, all Employment Service Centers (ESC) under the Department of Labour, Invalids and Social Affairs (DoLISA) are in charge of registering UI applicants and calculating the amounts of benefits paid to the unemployed who claimed for UI allowance.

Each province owns one ESC. As such, some larger provinces, however, might be supplemented with several representative offices in critical areas or timing.

At present, VSS network has been expanded to reach every commune in the country and has a total of about 15,000 staff plus many agents at the commune level.

Under the UI system, ESCs are responsible for receiving registration of unemployment, processing claims, providing employment services and facilitating access of unemployed to vocational training course. VSS is in charge of UI contribution collection, and, following the decisions made by ESCs, releases payments for UI benefits.



This joint mechanism requires a huge effort of coordination between the agencies at both ministerial and provincial levels. MoLISA, to facilitate the effective implementation of UI policy at provincial level, did establish a memorandum with VSS to agree on key working principles such as: (i) Each agency shall provide timely support to its lower level for proper implementation of UI policies and procedures;

⁵⁹Source: Example 3, Circular 32/2010/TT-BLDTBXH, issued on Oct. 25th 2010.

(ii) Exchanging database and information between the agencies and (iii) Frequent meeting and reporting for solving problems.

Following this general agreement, many provinces were able to come up with a more specified collaboration agenda that was the most relevant in the provinces. It is easy to see that such agreement has brought in significant changes to improve the efficiency of UI in several provinces like Ho Chi Minh city and Binh Duong where the process of claims assessment was shortened from 20 working days to about 10-15 days only.

Operations and processes to available benefits

As mentioned earlier, each province has one main ESC and may be, depending on the scope of work, supplemented by several satellite offices to ease the conduct of UI service delivery. The main ESC often is located in provincial town and basically is consisted by 4-5 core specialized functions: (i) UI services, (ii) job counselling, (iii) vocational training, (iv) labour market information and (v) labour supply services.



Once a job seeker comes to an ESC for registration of unemployment, he/she should meet UI staff in one corner, then is able to access information on job vacancies or free job counselling services.

5.4 Financial and legal sustainability

The collection of contributions is a tri-partite responsibility of 1 per cent of payroll each for employers, workers and government. The contributions are kept in a special national UI fund and transferred to provincial Social Insurance offices for payment to the unemployed worker by cash (at commune level) or direct deposit. In Ho Chi Minh City, 100 per cent of unemployed workers are paid by direct deposit.

In April 2002, the National Assembly passed amendments to the Labour Code which laid the groundwork for the introduction of unemployment insurance. It has been the result of a decade of discussions and consultations on establishing unemployment insurance.

Finally, in 2006, Viet Nam adopted its Law on Social Insurance, which included provisions for unemployment benefits. It started collecting contributions on 1 January 2009. The economic crisis of 2008 provided further justification and impetus for UI.

The Decree 127 (Decree No. 127/2008/ND-CP) with some updates made by Decree 100 (Decree No. 127/2012/ND-CP) and the Circular 32/2010/TT-BLĐTBXH regulate the implementation of the UI scheme.

The fund is financed by tripartite contributions. Employers and employees pay at the rate of 1.0 per cent each, on wages paid up to 20 times the minimum wage. The government also contributes an amount equal to 1.0 per cent of the contributory wages of all insured workers.

Though the scheme has not conducted any professional actuarial evaluation so far, the fund seems confident with its financial situation in a short run by having an accumulated surplus reached VND24,000 billion (equivalent to about USD1.14 billion) by December 2012.

6. Conclusion

6.1 Impact of the scheme and lessons to be learned from four years of implementation

The UI programme has produced visible evidence on how employment policy could interact with and join a social protection measure to protect the unemployed, retain employment and improve the employability of workers.

A good UI programme design could help the unemployed (and their family) to overcome the difficult period during unemployment, and at the same time, improve their chances at re-employment. At macro level, the programme is also expected to contribute to ease the adjustments of the labour market or socio-economic development plan through offering active support to workers that are at high risk of unemployment.

In this regard, Vietnam UI has been seen as a good example of combining and linking unemployment benefits and activation measures to support workers returning to employment quickly. Key major components of Vietnam UI include (i) unemployment allowance, (ii) employment services, (iii) vocational training grant and (iv) health insurance.

In the system design, however, there are number of areas that Vietnam is considering to improve in the near future such as:

Facts	Lessons
<p>1. The existing coverage is limited still. The scheme covers workers those working for bigger employers (with 10 workers or more) and having a relatively stable job (with the contract of 12 months or more). This rule, by nature, neglects the participation of the workers in small enterprises those, in fact, are more vulnerable to jobless. These</p>	<p>- <i>Vulnerable workers should be considered as the main target of the programme, and the scheme should consider to expand the coverage to reach out this group as soon as possible.</i></p>

thresholds are now under reviewing process for removal.	
<p>2. Questions remain if the real unemployed are targeted. Currently, workers who leave their jobs voluntarily can collect full UI benefits. Combined with the possibility to receive remaining entitlements as a lump sum payment if they find employment (including returning to their previous employer), these two provisions may question the prime function of unemployment insurance in Vietnam.</p>	<p><i>- The benefits package should be designed in the way that its provisions should not run contrary to the principles of unemployment insurance and do not provide workers further incentive to quit and take advantage of the lump sum. It is felt that the lump sum provisions should be eliminated from the UI program unless more stringent rules are applied.</i></p>

At the implementation state, the scheme has managed to set up its offices in all 63 provinces and, within a short period of time, equipped UI staff with basic trainings on operational procedures. As a result, it had been able to deliver services to about 1 million UI claimers during the first 3 years (2010-2012). The system, however, could perform even much better if the following constraints are promptly addressed.

Facts	Lessons
<p>1. The rate of unemployed who have accessed to vocational training appears very small, it accounts for less than 0.2 per cent of total unemployment allowance recipients for the same period</p>	<p><i>- The scheme should set a SMART targets for every 5-year period to ensure its resources are allocated properly to achieve programme priorities.</i></p> <p><i>- In-depth study is needed in case a problem arises as such to understand the reasons behind the figures so that the solutions could be taken promptly.</i></p>
<p>2. When an employer fails to remit its UI contribution on time, unemployed are not accessible to UI benefits as their SI book, one among required documents, shall not be certified by Provincial SI in this case.</p>	<p><i>- Workers should be deemed as insurable as long as they are employed. The system should find an appropriate procedure alternative in which workers should not be punished just because of the fault committed by employers.</i></p>
<p>3. The payments for UI benefits, in many provinces, take few weeks to reach its recipients if it is done manually.</p>	<p><i>- In several provinces of Vietnam, good partnerships with local banks can reduce the number of UI payments in cash, of which the process of payments could be shortened from 5-6 days to just 1-2 days after the decision on UI benefits is made</i></p>

<p>4. In some cities/province like Ho Chi Minh City or Binh Duong province where trust is built between ESC and provincial Social Insurance, a database can be shared for both sides to use in processing claims and releasing payments so as to make the decision making process much shorter and easier.</p>	<p><i>- Collaboration mechanisms should be established with key partners to maximize the support and synergy of related schemes so as to reduce the workload and processing time.</i></p>
<p>5. Only 80 per cent of employers nationally remit their contributions on time, leaving about 20 per cent⁶⁰ that are not compliant to the law, according to the results of our meetings with VSS⁶¹.</p>	<p><i>- A strong reinforcement mechanism is a important factor to attain a high compliance rate in UI operations.</i></p> <p><i>- The sanctioning measures applied for the violation behaviors of SI contributions should not be considered as administrative acts but criminal acts instead.</i></p>

6.2 Fraud management

A vital component in any unemployment insurance program is the protection of the fund from unauthorized use by those who commit fraud and abuse.

The provisions governing inspections is enunciated in the Social Insurance Law under article 10⁶². Further provisions are found in Decree 127 (Article 5), which outlines the tasks for the inspection unit such as failure to remit UI premiums and falsification and forgery of unemployment insurance dossiers and using the unemployment insurance fund for improper purposes.

The ILO, in its six-month report, had highlighted the need for early consideration of an Investigation and Control Unit in ESCs to combat fraudulent claims and abuse of the system. Currently, PSI will refer cases of delinquent employers not paying their contributions but there are no procedures in place for ESC to refer suspected cases of fraud or abuse of the fund to the inspection and control inspectorate.

⁶⁰The reasons for this issue were explained as being mainly because the sanctioning measures applied for the violation behaviors of SI contributions (including UI) appear too weak to address the issue. Unlike tax policy, all SI violations are treated by administrative acts in which the principle sanctions include only caution and fine.

In this regard, if an employer fails to make SI contributions for 500 employees, they have to pay a fine of circa USD1,500 maximum plus some interest imposed on the delayed amount.

⁶¹The meeting was conducted for reviewing performance of UI scheme after 18 months of operations, 2011.

⁶² Article 10: The Social Insurance Inspectorate: 1) The Labour, Invalid and Social Affairs inspectorate shall perform the functions of specialized social insurance protection. 2) The organization, tasks and powers of the specialized social insurance inspectorate shall be as stipulated in the inspection law.

6.3 Appealing procedures

The appeals process is intended to provide a general method of recourse for persons dissatisfied with the decisions by ESC/DoLISA on their entitlement to UI benefits. BoE reported in their one-year evaluation that no appeals have been received from unemployed workers even though a significant number of workers didn't qualify to receive UI benefits since the implementation of UI in January 2010. This is worrisome in that this casts doubts in the effectiveness of the appeal system. Looking at the way an appeal is dealt with in Vietnam, yet, it is understandable that people do not have confidence in the unemployment insurance appeal system, as the only route for an appeal is through the person who made the decision or by filing an expensive lawsuit.

Lessons learnt: an independent and objective Board of Appeal should be established to receive and decide on appeals filed by those who disagree with the decisions of BoE/ DoLISA. This board should be composed of three people who have no connections to government departments (suggest one representative of labour, one representative of employers and one chairperson who is respected in the community and displays unbiased and objective characteristics).

Appendix I

Recent Statistics on Processing Activities at ESCs			
	Issue	Month - March 2012	First Quarter 2012*
1.	# of Registrations	53,399	116,620
2.	# of Applications processed	44,412	86,341
3.	# of Applications approved	30,034	61,155
	Men:	<u>12,632</u>	<u>26,586</u>
	Less than 24 years of age	2,082	4,053
	25 to 40 years of age	8,271	16,890
	greater than 40 years of age	2,279	5,643
	Women:	<u>17,402</u>	<u>34,569</u>
	Less than 24 years of age	4,411	8,318
	25 to 40 years of age	11,058	21,805
	greater than 40 years of age	1,933	4,446
4.	Approved for lump sum payment	487	704
5.	# Using Job Counselling and Matching Services	17,195	44,393
6.	# Cases Received Vocational Training	282	585
7.	# Cases UI benefits suspended	774	2,629

*First Quarter 2012: From December 21, 2011 to March 20, 2012.

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