

Involuntary unemployment is an economic contingency people may often face in market economies. Income support for the unemployed is thus one of the most important branches of social security. Unemployment benefit schemes provide income support, usually over a limited period, to those who face temporary unemployment. The objective is to provide at least partial income replacement, enabling the beneficiary to maintain a certain standard of living during the transition period until a new employment is available. Amounts of cash unemployment benefits are either related to the previous earnings of the beneficiary or paid at a flat rate. In a number of countries, if the beneficiary is still unemployed after entitlements to contributory unemployment insurance benefits expire, there exist specific unemployment assistance schemes which continue to pay certain benefits (sometimes means-tested) to those in long-term unemployment. Income support to the long-term unemployed and their families is often taken over by general means-tested social assistance schemes.

In addition to unemployment benefits, which are accompanied in some countries by family benefits for those who are eligible, schemes may also pay contributions to beneficiaries' health insurance and pension schemes on their behalf.

However, the effective provision of income support benefit to the unemployed always has to be complemented by employment services and employability-enhancing measures. These offer assistance in searching for new employment, providing those unemployed with counselling, training or retraining

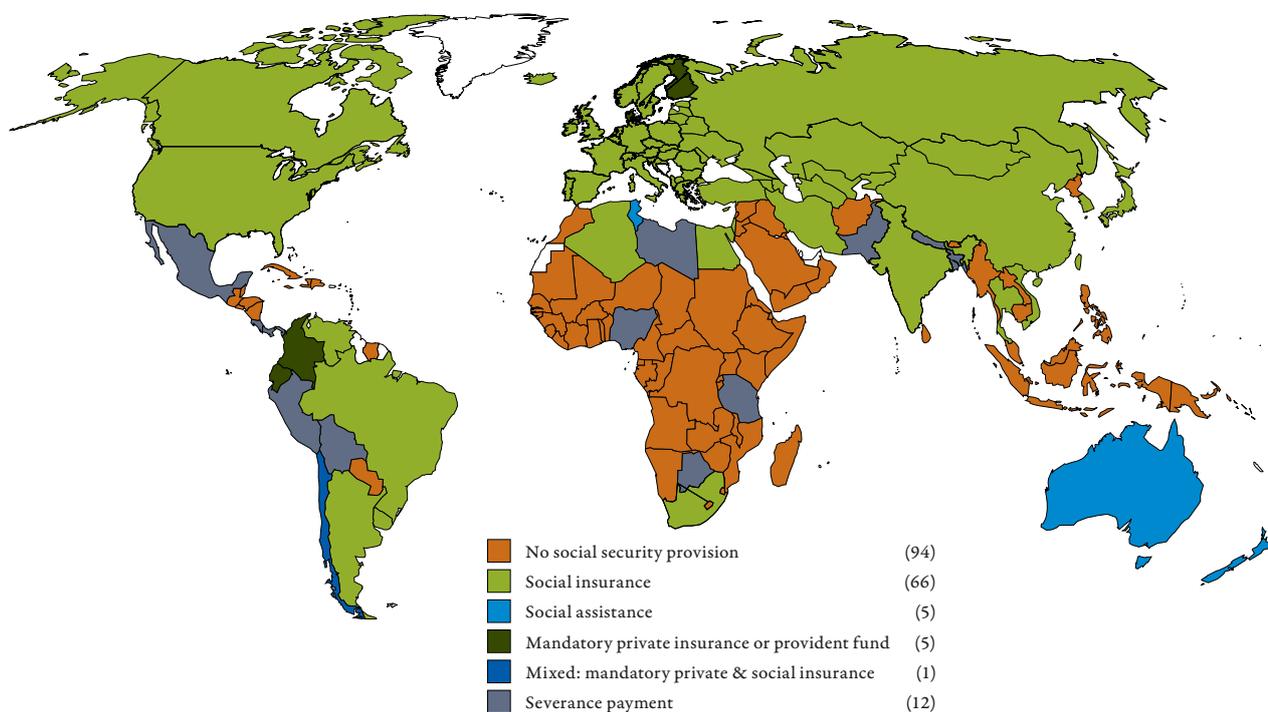
whenever necessary. There are also measures such as public works or other forms of employment guarantees which provide certain forms of paid employment to beneficiaries. Such beneficiaries may still, however, need income transfers in addition to what they earn from this usually very low-paid work; they also need linked benefits (access to other forms of social insurance such as health or pensions) and – since public works are temporary solutions – they need to be assisted with employability-enhancing measures as well. Mainly due to the data limitations, the analysis in this chapter is restricted to schemes providing income support to the unemployed and does not cover many other related and important programmes (such as public works, employment guarantee schemes, training and other employability-enhancing measures, and other “active” labour market policies).

Eligibility conditions for unemployment benefits, as well as benefit amounts and the duration of payment, are usually determined in national legislation. Entitlement criteria usually include:

- being in involuntary unemployment, searching for employment and ready to start employment soon.<sup>1</sup> Applicants for unemployment benefits are usually required to be registered as unemployed by the employment services and – within certain limits – are expected to accept offers of employment from these services as well as to undertake any training offered;

<sup>1</sup> Article 20 of ILO Convention No. 102 states: “The contingency covered shall include suspension of earnings, as defined by national laws or regulations, due to inability to obtain suitable employment in the case of a person protected who is capable of, and available for, work.”

Figure 5.1 Existence of unemployment protection schemes by type of scheme, 2008–09



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15154>

Note: For detailed information by country, see the Statistical Annex.

Sources: ILO Social Security Department, based on SSA/ISSA, 2008, 2009; national legislative texts. See also ILO, GESS (ILO, 2009d).

- being below normal pensionable age;
- having completed a certain qualifying period of contributions or employment.<sup>2</sup>

Unemployment benefits are usually granted only for a limited period,<sup>3</sup> which may depend on the number of years worked previously. The amount may depend on the previous salary or may be a flat rate.<sup>4</sup>

### 5.1 Scope of coverage by statutory unemployment schemes

Present entitlements to unemployment benefits tend to be restricted to those in formal employment, and exist mostly in high- and middle-income countries

<sup>2</sup> Such a period should not be longer than “as may be considered necessary to preclude abuse”, according to Convention No. 102 (Article 23).

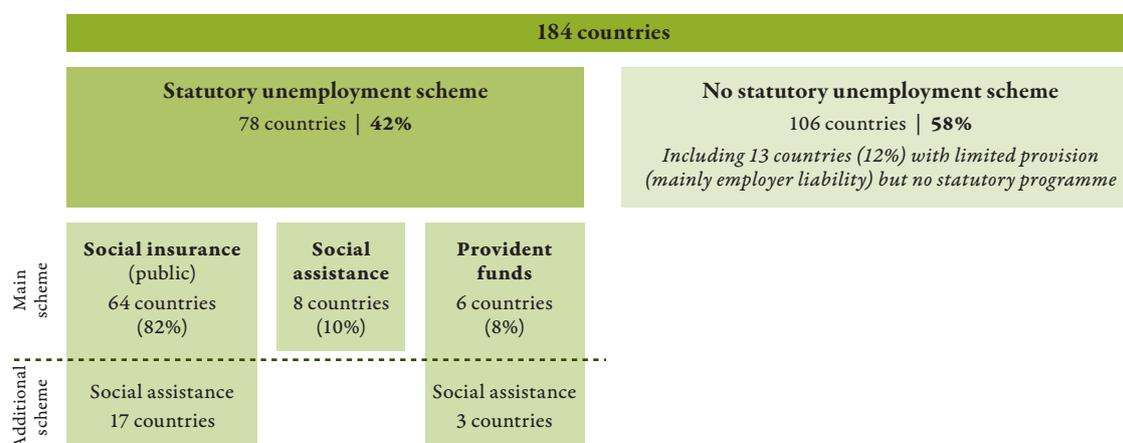
<sup>3</sup> Convention No. 102 requires such a duration limit to be not less than 13 weeks within 12 months for earnings-related benefits, or 26 weeks within 12 months for means-tested benefits (Article 24).

<sup>4</sup> According to Convention No. 102, unemployment benefits, at least for all those with earnings below average earnings, should not be lower than 45 per cent of previous earnings (and in case of flat-rate benefit, not lower than 45 per cent of typical low earnings).

(see figure 5.1). In a large part of the world where extreme poverty is high, the very concept of “unemployment” seems to be irrelevant, as everybody has to work in order to survive. The main issues in these countries are underemployment and the often extremely precarious character of existing employment opportunities for those in poverty. But even in low-income countries unemployment is a growing challenge, in particular in increasingly populated urban areas. Figure 5.1 provides an overview of the existence of unemployment benefit schemes across the world.

In some countries where there is no unemployment insurance or other statutory income support programmes for the unemployed, there exist legal provisions (usually included in the Labour Code or equivalent acts) obliging employers to pay a lump sum equivalent to several months’ salary to workers who are laid off. The entitlements and amounts of such *severance pay* normally depend on past employment service with a given employer. In the Philippines, for example, employers are obliged to pay one month’s salary for every year of previous employment. The problem is that very often these provisions of the labour law are not effectively enforced: potential beneficiaries are not informed about their entitlements, while

Figure 5.2 Unemployment protection schemes by type of scheme, 2008–09



Source: ILO Social Security Department, based on SSA/ISSA, 2008, 2009. See also ILO, GESS (ILO, 2009d).

employers – particularly those going through a difficult period of adjustment – may evade the law. Even if severance pay is effectively in place it is not a substitute for social security unemployment benefits, according to international standards: unemployment benefits should be periodical payments, not one-off payments, on the one hand; while on the other, the one-sided situation where the individual employer bears total liability, replacing the element of risk-pooling and solidarity inherent in social security, may lead to adverse selections in hiring decisions as well as evasion; both eroding actual coverage.

Contributory unemployment benefits cover mainly employees with formal employment status. In countries with well-developed social security there exist (although rarely) schemes for the self-employed and other categories of employed with more independent status than wage and salary workers (such as “*intermittent du spectacle*” in France). Discussions are under way in several countries with a view to introducing voluntary schemes paid for by workers only, which would also include informal-economy workers. The problem is so-called moral hazard (in that while employees will normally do everything they can to avoid losing a job, with voluntary insurance there may be a tendency for those with a higher risk of becoming unemployed to be over-represented) and thus vulnerability to fraud; such schemes would be difficult to monitor.

Of 184 countries studied (see figure 5.2), statutory unemployment social security schemes exist in only 78 countries (42 per cent), often covering only a minority of their labour force. A majority of countries (64) have contributory unemployment insurance schemes, while:

- 17 of the 64 have, in addition, employment-related social assistance that steps in when the unemployed are no longer eligible for unemployment insurance;
- 8 of the 78 countries have non-contributory, tax-financed social assistance, instead of insurance, as the main or only scheme expected to provide income security to the unemployed; and
- 6 of the 78 countries have only provident-fund-type provisions for those unemployed.

In the other 106 countries studied (58 per cent), even workers in the formal economy have no coverage in case of unemployment. In some of these countries there exist limited provisions in labour legislation obliging employers to provide severance payments to workers who are laid off. As shown in table 5.1, statutory unemployment protection programmes exist in 80 per cent of high-income countries, 54 per cent of upper-middle-income countries, 35 per cent of lower-middle-income countries, and in only 8 per cent of low-income countries.

The figures above take note only of the existence of certain types of unemployment benefit provisions but do not take into account how many of those in employment are legally covered by these provisions. Figures 5.3 and 5.4 show the extent of legal coverage in different countries and regions of the world, measured by the percentage of the economically active population (EAP) who – according to existing legislation – should be covered by one or another type of existing social security scheme aimed at providing income security to the unemployed.

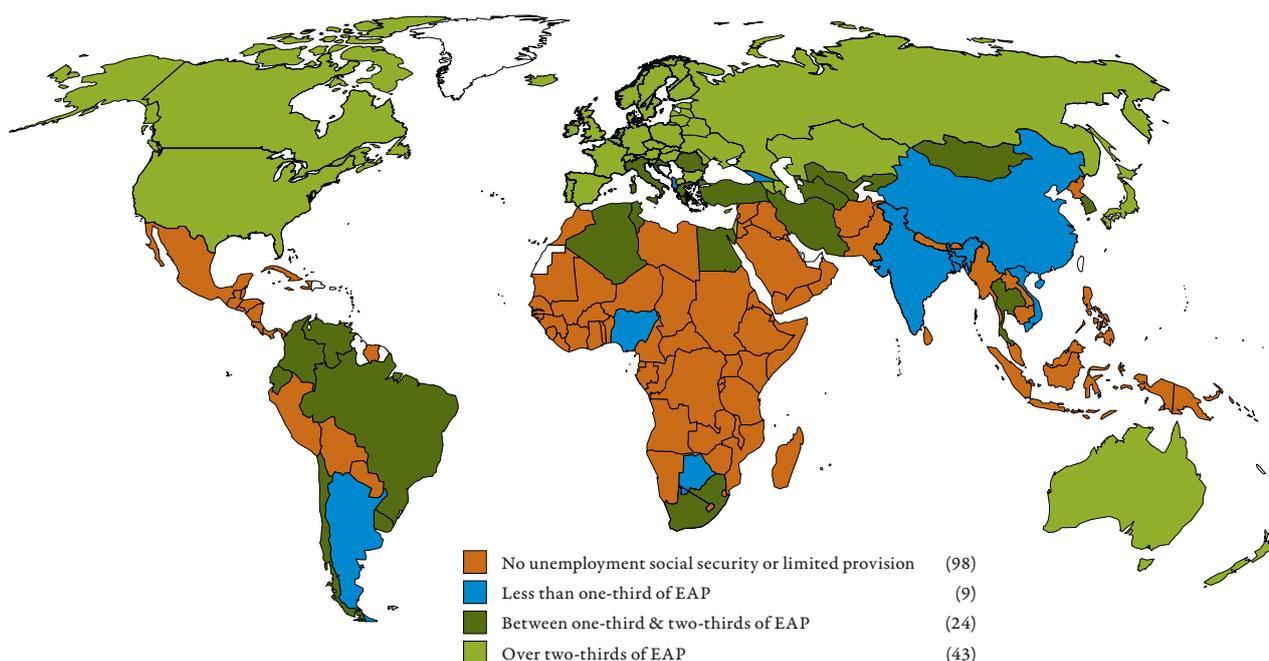
Patterns of the legal extent of coverage are quite similar to patterns of labour market structures

Table 5.1 Unemployment protection: Extent of legal and effective coverage, countries grouped by income level, latest available year

	Low income	Lower-middle income	Upper-middle income	High income	TOTAL
<b>Legal coverage</b>					
Existence of a statutory programme, number of countries (% of countries in parentheses)	5 (8%)	17 (35%)	20 (54%)	36 (80%)	78 (42%)
Contributory and non-contributory schemes (% of EAP)	2.9	18.1	38.4	69.2	30.6
Mandatory contributory schemes (% of EAP)	2.9	15.4	30.3	58.9	25.7
<b>Effective coverage of unemployed (% of all unemployed)</b>					
Total receiving benefits	1.3	3.6	10.4	38.8	12.9
Receiving benefits from contributory schemes	1.3	3.6	9.8	31.3	10.9
Receiving benefits from non-contributory schemes	0.0	0.0	0.6	7.6	2.0
Not receiving unemployment benefit	98.7	96.3	89.1	60.9	86.9

Sources: ILO Social Security Department, based on SSA/ISSA, 2008, 2009; national legislative texts; ILO, LABORSTA (ILO, 2009e) completed with national statistical data for the existence of social security provision in case of unemployment, legal coverage estimates; national social security unemployment schemes data on unemployed receiving unemployment benefits compiled in the ILO Social Security Inquiry database (ILO, 2009c).

Figure 5.3 Unemployment protection schemes: Legal extent of coverage worldwide as a percentage of the economically active population (EAP), latest available year



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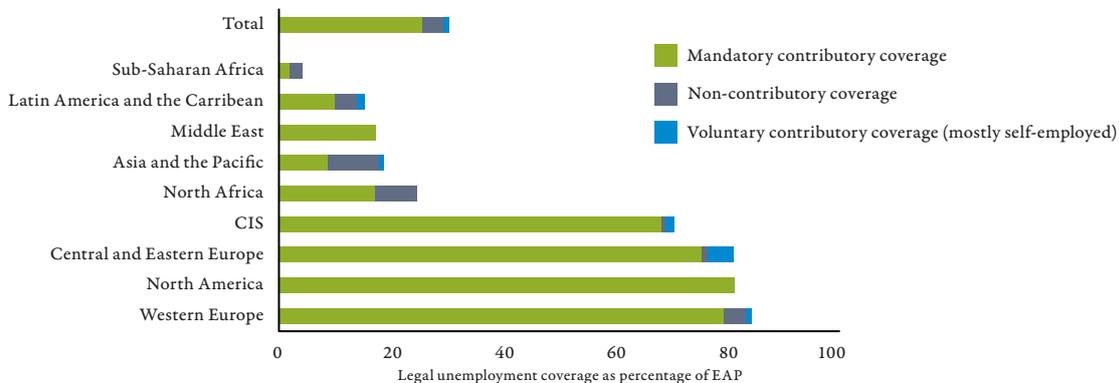
Sources: ILO Social Security Department, based on SSA/ISSA, 2008, 2009; national legislative texts; ILO, LABORSTA (ILO, 2009e) completed with national statistical data for the quantification of the groups legally covered. See also ILO, GESS (ILO, 2009d).

(compare the map in figure 5.3 with figure 2.1 in Chapter 2 which shows percentages of wage employment worldwide). However, because unemployment benefits provision is much less widespread than other types of social security provision (such as old-age pensions), the legal extent of coverage is also much lower.

Figure 5.4 provides estimates of the legal extent of coverage by unemployment benefits for different

regions of the world. Globally, less than 30 per cent of the economically active are covered by law for any form of income support benefit in case they become unemployed. Legal coverage is as high as 80 per cent or more in Western Europe, North America and Central and Eastern Europe and a bit less (70 per cent) in the Commonwealth of Independent States (CIS) countries, although effective coverage is dramatically lower

Figure 5.4 Unemployment protection schemes: Legal extent of coverage, regional estimates, as a percentage of the economically active population (EAP), latest available year



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Note: Latest available year used for calculations of regional estimates. Regional estimates are weighted by the economically active population. For detailed information by country, see the Statistical Annex.

Sources: ILO Social Security Department, based on SSA/ISSA, 2008, 2009; national legislative texts; ILO, LABORSTA (ILO, 2009e) completed with national statistical data for the quantification of the groups legally covered. See also ILO, GESS (ILO, 2009d).

in the latter group. In the rest of the world only a small minority is legally covered: slightly over 20 per cent in North Africa, less than 20 per cent in Asia, Latin America and the Middle East, and just a few per cent of the economically active in sub-Saharan Africa.

When we look at countries grouped by income level we can see (table 5.1) that in high-income countries nearly 70 per cent of the labour force is covered by law for some type of unemployment protection scheme (contributory or non-contributory); the figures are less than 40 per cent in upper-middle-income countries, less than 20 per cent in lower-middle-income countries and less than 3 per cent in low-income countries.

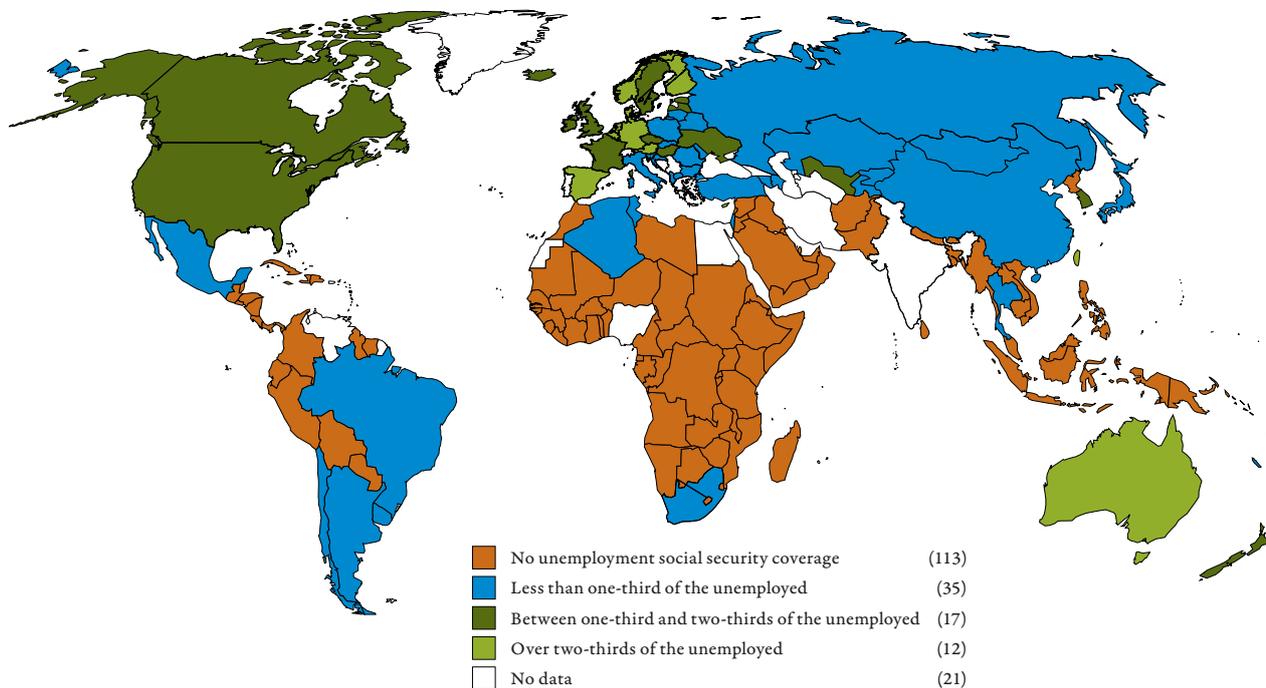
## 5.2 Effective extent and level of coverage

There are no sufficient data on the effective level of potential coverage by statutory social insurance programmes at the global or regional level – that is, how many of those legally covered are actually contributing and thus may receive income support if they become unemployed, but it is known from many country cases that effective coverage is often substantially lower than legal coverage. However, for most countries which have a statutory unemployment social security scheme, there exist some data showing effective coverage by unemployment protection schemes measured as a percentage of those among the unemployed who actually receive some kind of benefit.

Figure 5.5 maps such effective coverage across the world. Again, in the majority of countries there are no unemployment protection schemes. But even in countries where the legal coverage is high, only a minority of those classified by labour force surveys as unemployed are actually receiving benefits from statutory unemployment benefit schemes. For example (see table 5.1), less than 40 per cent of all unemployed receive statutory benefits in high-income countries. The reason is obvious – many of those unemployed are long-term unemployed whose entitlement (if they ever had one) to unemployment benefit schemes has expired. Among the unemployed are also new entrants to the labour market. In many countries the unemployed are migrant workers who may not be entitled to statutory unemployment benefits. This does not mean, however, that the entire 60 per cent of unemployed not receiving any statutory unemployment benefits are without any kind of income support. Many of them probably qualify in their countries for general social assistance benefits, whether means-tested or targeted to the poor. In many countries these social assistance schemes include the families of those unemployed as a main target group.

Unfortunately there are no regularly published data from a sufficient number of countries on the numbers and structure of general social assistance benefit recipients, and thus it is impossible to calculate global or regional estimates of the coverage numbers in question. Beyond the high-income OECD countries, effective coverage is dramatically lower. This is mainly due to the fact that in many of these countries there is no social security scheme for the unemployed: in

Figure 5.5 Unemployment: Effective coverage worldwide – unemployed who actually receive benefits, latest available year (percentages)

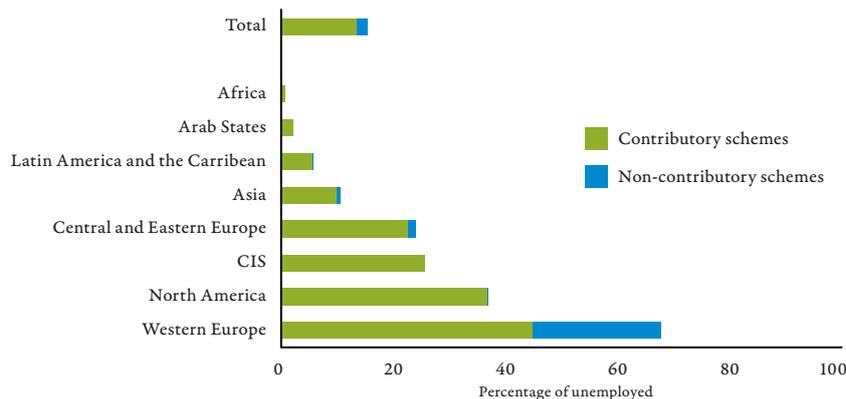


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Note: For detailed information by country see the Statistical Annex.

Sources: ILO Social Security Inquiry database (ILO, 2009c), compiled from data on unemployed receiving unemployment benefits collected from national social security unemployment schemes; ILO, LABORSTA (ILO, 2009e) for total unemployed used as the denominator. See also ILO, GESS (ILO, 2009d).

Figure 5.6 Unemployment: Effective coverage, regional estimates – unemployed who actually receive benefits, latest available year (percentages)



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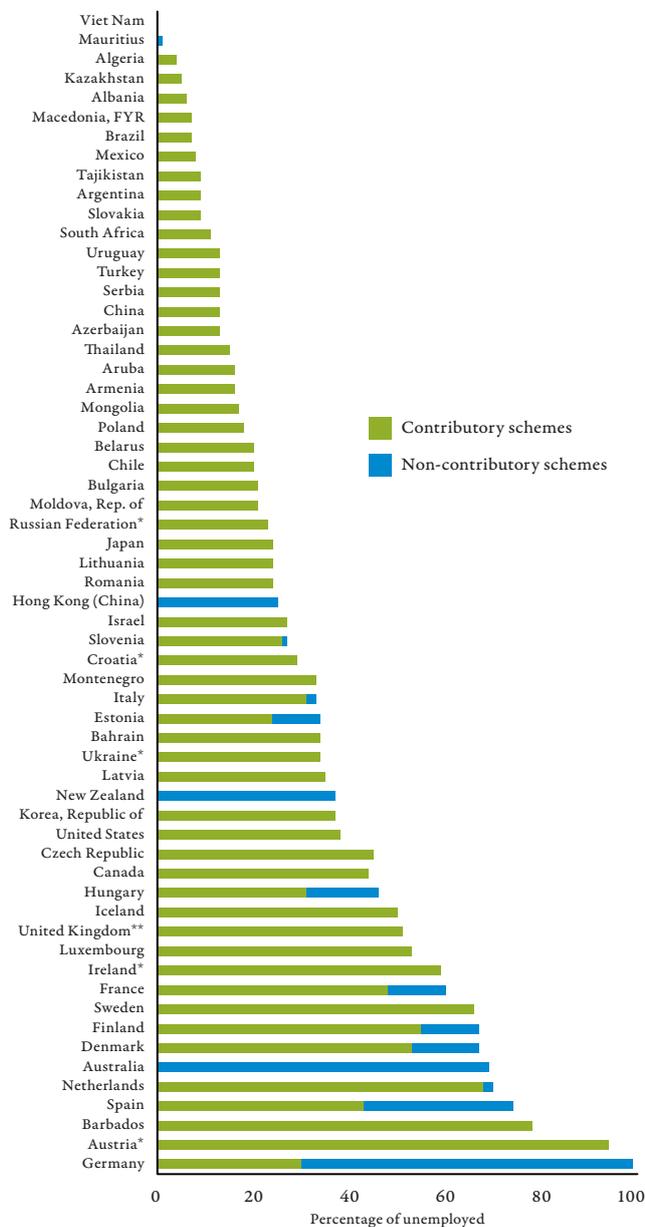
Note: Regional estimates weighted by the economically active population.

Sources: ILO Social Security Inquiry database (ILO, 2009c), compiled from data on unemployed receiving unemployment benefits collected from national social security unemployment schemes; ILO, LABORSTA (ILO, 2009e) for total unemployed used as the denominator. See also ILO, GESS (ILO, 2009d).

upper-middle-income countries slightly over 10 per cent of the unemployed receive benefits, in lower-middle-income countries less than 4 per cent and in lower-income countries less than 2 per cent (which is probably within the range of the statistical error). In addition,

in most lower-income countries there are still no large-scale social assistance schemes which would provide even a certain level of income support to the unemployed and their families. Figure 5.6 shows effective coverage by geographical region, and figure 5.7 by country,

Figure 5.7 Unemployed receiving unemployment benefits, selected countries, latest available year (percentage of total unemployed)



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15160>

Notes: \* Data unavailable for recipients of unemployment assistance in case of ineligibility for unemployment insurance benefit or expiry of the right to it. The overall percentage of those covered is therefore underestimated for the following countries with assistance schemes: Austria: emergency assistance; Croatia: unemployment assistance; Ireland: jobseeker's allowance (means-tested); Russian Federation: unemployment assistance; Ukraine: unemployment assistance. \*\*United Kingdom: includes jobseeker's allowance (social insurance and social assistance). Detailed information by country is available in the Statistical Annex.

Unemployed beneficiaries of *general* social assistance schemes are not included due to unavailability of data. Including them would increase coverage rates but only in countries where such schemes exist on a larger scale (high-income and some middle-income countries).

Sources: ILO Social Security Inquiry database (ILO, 2009c), compiled from data on unemployed receiving unemployment benefits collected from national social security unemployment schemes; ILO, LABORSTA (ILO, 2009e) for total unemployed used as the denominator. See also ILO, GESS (ILO, 2009d).

for the latest available year. In Western Europe, 50 per cent of the unemployed receive benefits from contributory schemes, while another 25 per cent benefit from non-contributory schemes. Similarly high coverage is found in Australia – achieved, however, solely by a non-contributory means-tested scheme. On average, the second largest extent of effective coverage is found in North America and in Central and Eastern Europe, where about one-third and one-quarter respectively of the unemployed receive payments from contributory schemes. In Latin America this proportion is just below 10 per cent, including the limited coverage in countries where there is some unemployment social security protection such as Argentina or Brazil, and countries where there is at present no statutory provision. Coverage rates are lowest in Africa, Asia and the Middle East, where social security schemes for unemployment are still under debate rather than actually implemented.

The main conclusion from this short statistical overview of coverage by unemployment benefit schemes is that globally coverage is low and concentrated in higher-income countries. One of the reasons for this is the prevailing informality of employment in lower-income countries, which makes traditional unemployment insurance schemes not a feasible solution there. Also, unemployment insurance schemes are designed mainly to protect those who have temporarily lost employment, often due to downturns in the economic cycle; they are also relevant in case of job losses due to the restructuring of an enterprise, an industry or the whole economy. In the latter case, particularly, unemployment benefits are necessary but far from sufficient: they need to be complemented by training and retraining and other labour market policies. In lower-income countries, with a wider informal economy and more informal employment, people also lose jobs as a result of economic downturns as well as restructuring of industries or enterprises and structural adjustments of the economy. However, the main source of widespread poverty in lower-income countries is not temporary, but structural, unemployment and underemployment. The long-term solution relies on sustainable employment-generating policies, but there is still a need for interventions that alleviate the current situation. These should include income support to the unemployed and underemployed (working poor) in the form of cash transfers, as well as certain forms of basic employment guarantees in the form of public works or similar. It is for this reason that both income support and employment guarantees are among the foundations of the social protection floor (as defined in Chapter 1) promoted by the ILO and the United Nations.

