Unemployment Protection in Asia-Pacific

Tuesday, August 18, 2015
John Carter
Agenda

• Unemployment Protection Throughout the World
• Unemployment Rates for Asian Countries
• International Labour Organization (ILO) Conventions
• Unemployment Protection Programs in Asia-Pacific – existing and proposed
• Advantages and Disadvantages of Various Unemployment Protection Schemes
• Options to improve unemployment protection schemes
• Further Issues on unemployment protection:
  • Informal Economy
  • Obstacles faced by women and youth to benefit from unemployment protection schemes
Unemployment Protection throughout the World

• Information Available: 201 countries

• Unemployment Scheme anchored in national legislation: 89 countries (44%)

• Periodic cash benefits - 85 countries (95%)
  • Social Insurance (Mandatory): 73 countries (86%)
  • Subsidized Voluntary Insurance: 3 countries (4%)
  • Mandatory individual savings accounts: 1 country (1%)
  • Only Social Assistance or Employment Guarantee Scheme: 7 countries (8%)
  • Only Mandatory individual savings accounts (periodic) - 1 country (1%)
## Unemployment Rates for Asian Countries

### Table 2 - Unemployment Rate Statistics of Selected Asian Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank*</th>
<th>Unemployment Rates (estimated 2013)</th>
<th></th>
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<th>Youth (15-24) (%)</th>
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<tr>
<td></td>
<td></td>
<td><strong>Total (%)</strong></td>
<td><strong>Male (%)</strong></td>
<td>**Female (%)</td>
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ILO Conventions

• Convention 102 (1952): Social Security (Minimum Standards) Convention

• Convention 168 (1988): Employment Promotion and Protection against Unemployment (also Recommendation 176)

• The flagship of all ILO social security Conventions – only international instrument for all nine branches of social security;

• Sets higher standards regarding unemployment benefits mainly but not only applicable to industrialized countries.
Unemployment Protection Programs in Asia-Pacific


2. Unemployment Savings Schemes – Jordan (2011);

3. Severance Payment Programs;

4. Non-Contributory Programs – for those who are economically active but not in formal employment (in the informal economy), the working poor in formal employment and the long-term unemployed;

5. Programs provided by non-government agencies and social assistance.
Mandatory Unemployment Insurance Schemes -1

- Need to have clear idea of what should be achieved by adopting a UI scheme, accompanied by a realistic view of the limits of such an instrument; no UI scheme can solve the unemployment problems of a country even if it’s well designed and with Active Labour Market Policies;

- Main objective for UI: to provide temporary partial income replacement to qualified insured workers who have lost their job while they seek to obtain new employment;

- All UI schemes are unique and have different characteristics in the design of diverse elements; need for stakeholders in each country to develop their own design based on national priorities, their national economy, labour market and unemployment situation.
Mandatory Unemployment Insurance Schemes – 2

• Advantages:
  • UI schemes benefit unemployed workers and their families, employers governments and society at large:
    • Unemployed workers and families: avoid poverty and financial difficulties and more positive attitude in finding a job that is suitable;
    • Employers: productivity gains in hiring someone with the right skill set and easier to terminate if protected by UI scheme; work sharing very popular to avoid layoffs and retrain;
    • Governments: brings economic stabilization during recessions and higher tax revenues;
    • Society at large: social stability leading to reduced unrest, protests and crime.
  • Disadvantages: some feel moral hazard is an issue with UI schemes (as insured unemployed persons may not do enough to search for a job or may lack motivation and turn down job offers) but others feel this is overblown.
Mandatory Unemployment Insurance Schemes – 3

• **Elements of UI schemes:**

1. **Coverage:**
   - ILO Convention: 102: at least 50% of employees; 168: at least 85% of employees;
   - Salaried workers of private sector traditionally those covered but government workers are excluded in Japan, Republic of Korea, Taiwan and Thailand;
   - Other exclusions are groups with unique working conditions, e.g. low earnings in Japan and Republic of Korea or school teachers and small business workers in Taiwan; self-employed have been excluded in many countries as well as domestic workers, temporary or part-time workers;
   - In addition, workers of firms with less than a specific number of employees have been excluded, e.g. Republic of Korea and Viet Nam (initially)

2. **Financing:**
   - ILO Conventions: 102: Workers pay no more than 50%; 168: Government ultimate guarantor;
   - Bipartite sharing of costs in China, the Republic of Korea, Taiwan, Mongolia and Viet Nam (as of 2015); tri-partite in Bahrain and Thailand (employers/workers/government);
   - Contributions of 1 to 2% in most Asian countries except China (3%) and Bahrain (3%);
Mandatory Unemployment Insurance Schemes – 4

• Elements of UI schemes (continued):

3. **Qualifying Conditions:**
   
   • workers must register for employment (be actively looking for work);
   
   • Need sufficient amount of contributions: ILO Convention 168: qualifying period no longer than necessary to preclude abuse; in Asia, the range for months of contributions are 4 to 24 months over the last 15 to 24 months (reference period); requiring 6 months - Japan, the Republic of Korea and Thailand; requiring 12 months - China, Bahrain, Taiwan and Viet Nam; requiring 24 months - Mongolia;

   • Reason for Separation: ILO Convention 168: allows for denial or reduction of UI benefits when the person voluntarily quits or his/her actions lead to a dismissal; normally if a person involuntarily loses his/her position through no fault of their own, UI benefits are paid; but if a person quits without just cause, UI benefits could be denied or the benefit rate/duration are reduced (e.g. Japan extends the waiting period an extra three months while Thailand reduces the benefit rate and duration); forced resignations are more complex and require further scrutiny;
Mandatory Unemployment Insurance Schemes – 5

• Elements of UI Schemes (continued):

4. **Amount of Benefits:** ILO Convention 102: prescribed rate is 45%; Convention 168: at least 50%; most frequent rate is 50 to 60 percent in Asia – Taiwan, Bahrain, the Republic of Korea, Thailand (for involuntary job loss); China provides flat rate benefits; Mongolia has lowest rate at 45%;

5. **Duration of Benefits:** ILO Convention 102: at least 13 weeks of benefit each year; in Asia, 3 to 12 months of UI benefit; in other countries, range is higher from 3.5 to 24 months; 6 months of benefit is paid in Taiwan, Thailand (involuntary loss of employment) and Bahrain; in Mongolia, 76 days of UI benefit is paid;

6. **Special circumstances:** Bahrain: provides “Aids” benefits for first time jobseekers who have graduated from university and have entered the labour market to find work; China and Viet Nam consider lengthy service for duration of benefit.
Mandatory Unemployment Insurance Schemes – 6

• Types of Active Labour Market Policies:
  • All countries throughout the world have minimal employment interventions to assist unemployed workers and employers such as job referrals, job banks, labour market information, resume and job search workshops;
  • Mobility assistance;
  • Job Sharing (or work sharing) where employers who are facing a temporary business slowdown will be allowed to put their workforce on reduced work hours while the UI system compensates their workers through partial UI benefits;
  • Part-time work: is the compensation by the UI system for loss of income to jobseekers who accept to return to work on a part-time basis, while continuing to search for full-time employment or enrolling in re-training programs;
  • UI programs offer unemployed workers training or retraining on skills development; though highly touted, must be managed with careful regard to their costs, effectiveness and targeting.
Unemployment Savings Schemes (USSs)

• Also called Unemployment Insurance Savings Schemes (UISAs)
• 1990: Colombia and other Latin America countries reformed their severance pay provisions and moved toward a pre-funded system under individual savings accounts;
• Employer deposits amount into the individual reserve fund with high contribution rates; for example, Brazil (1989, 8% contribution rate), Colombia (1990, 9.3% contribution) or in Equador (2001, 8.3%);
• Advantages: guarantees the worker will receive funds upon termination; job separations and hiring increased;
• Disadvantages: high contributory rates, lump sum payment.
Unemployment Savings Schemes (USSs) (continued)

- **Chile 2002:**
  - Hybrid UISA scheme
  - Combines a savings and an insurance feature
  - Jointly financed by employers and workers with a much lower contribution rate (3%)
  - Qualifying Conditions:
    - Savings: workers need 6 to 12 months of contributions (depending if permanent or temporary worker); either voluntary or involuntary terminations;
    - Insurance: a) 12 contributions within last 24 months, the last 3 being continuous and with the same employer; b) job loss must be involuntary; c) the individual account must be exhausted and d) there is a maximum of 10 monthly payments over 5 years
  - Benefits:
    - Savings: up to 7 months with decreasing amounts from 70% to 35%;
    - Insurance: if savings account is exhausted before 5 months have been paid, the worker will be entitled to supplementary insurance benefits for remaining months (maximum 5) – (permanent workers).

- **Jordan 2011:**
  - Pure savings feature with no solidarity or insurance component but individuals could receive loans from the public Social Security Commission (SSC) if insufficient contributions;
  - Jointly financed by employers (1%) and workers (0.5%)
  - Qualifying Conditions:
    - Any employment termination provided there was at least one month of contributions after September 1, 2011;
  - Benefits:
    - 3 months of unemployment benefits with 36 contributory months with SSC (before or after Sept. 1, 2011);
    - 6 months of unemployment benefits with 180 contributory months with SSC (after Sept. 1, 2011);
    - Payment of benefits: benefits are paid at reducing rates: 75% of the last contributed salary for the first month, then 65%, 55%, and 45% for the last 3 months if applicable;
    - Maximum payment of 500 JD (USD $706) per month;
  - Advantages: reduces moral hazard
  - Disadvantages: restrictive and low coverage
Severance Pay Programs

- Typically provide lump sum cash payments to workers who voluntarily or involuntarily terminate their contract of service with their employer (through collective agreements or as part of an enterprises’ policy);
- Many different terms used: retrenchment benefits, dismissal compensation, redundancy compensation, termination benefits, seniority pay, indemnities and leaving allowance – it’s a complex issue;
- Payment is related to the amount of time worked and the last wage in the job;
- Asia: situations ranging from no severance payment provisions (for example Bahrain, the Republic of Korea, Japan and Singapore) to severance pay paid along with redundancy payments (examples are Philippines and Thailand); Viet Nam, effective 2009, the years during which UI contributions are paid for an employee are not counted for the calculation of severance pay.
- Advantages: many workers have benefitted from severance payments for a long time;
- Disadvantages: many employers reneged on paying severance payments due to various reasons with no guarantee of payment; only form of redress was legal action.
Non-Contributory Unemployment Protection Schemes

Conditional Cash Transfers (CCTs)

• Governments can utilize direct redistribution of resources to poor households;

• In the case of CCTs, governments and aid organizations make payments to poor households which is conditional on meeting certain requirements or conditions

• In Myanmar, the social protection system is principally composed of one contributory social protection program and a number of scattered non-contributory programs which aim at providing some social assistance;
Non-Contributory Unemployment Protection Schemes (continued)

Public Employment Programs (PEPs)

- Describes programs involving direct employment creation by governments;
- Two types stand out: Public Works Programs (PWPs) and Employment Guarantee Schemes (EGSs)
  - PWPs offer cash payments or food for work; traditionally used as temporary response to specific shocks and crisis;
  - EGSs involve long-term rights-based programs in which some level of entitlement to work is provided;
- Most popular EGS: Maharashtra Gandhi National Rural Employment Guarantee Scheme (MGNREGS)
  - Under this scheme adult household members living in rural areas are provided up to one hundred days of employment per annum at minimum wage; if not given work within 15 days of registration, the government must pay out the employment allowance.
- Advantages: provides secure income; work experience; infrastructure investments.
Options for Improving Unemployment Protection Schemes

• Ongoing changes and improvements occur with all forms of unemployment protection schemes – for example, Viet Nam passed new legislation to enhance its UI scheme and Chile made significant changes to deal with restrictive issues;

• An Organization for Economic Co-operation and Development report indicated countries should review their existing or proposed schemes and identify areas for improvement – main findings:
  • Countries seem to be increasing the number and variety of instruments used to “activate” jobseekers, centering on intensive interviews, verification of job search, establishing individual action plans’
  • Registration for employment services is a precondition for receiving benefits;
  • Referring jobseekers to vacancies not only helps reduce the risk of prolonged unemployment but also acts as a work test;

• Countries should consider complimenting various unemployment protection schemes; for example, the Republic of Korea launched PWPs in the Asian financial crisis in the late 1990’s and the global financial crisis of 2008;

• Myanmar identified through the ILO’s Assessment Based Dialogue Program significant problems with lack of effective coordination among those responsible for CCTs/PWPs including NGOs.
Informal Economy

- Extensive and a key element of the labour market - accounts for 60% of the workforce – ILO;

- Informal employment as a percent of Total Non-Agricultural Employment:
  - South Asia: 82% (range: 62% in Sri Lanka to 84% in India)
  - East and Southeast Asia: 65% (range: 42% in Thailand to 73% in Indonesia)

- Refers to all economic activities by workers that are in law or in practice, not covered (or insufficiently covered) by formal employment arrangements;

- Characteristics: lack of protection for non-payment of wages and other labour standards, absence of occupational health and safety conditions and no social benefits such as pensions, sick pay, health and unemployment insurance;
Informal Economy

• Main issue in dealing with the informal economy: formalization of the informal economy – whether and how to formalize it – it’s a complex issue;

• According to Ms. Martha Chen, international coordinator of “Women in Informal Employment Globalizing and Organizing” – the formalization debate needs to distinguish between wage workers in informal jobs and self-employed in informal enterprises (also different segments of self-employed and wage earners in the informal economy;

• Wage earners: obtaining a formal wage job – or formalizing their current job;

• Self-employed: benefits of operating formally.
Obstacles for Women and Youth to Benefit from Unemployment Protection Schemes

- **Youth**
  - Restrictive provisions of UP schemes – qualifying conditions;
  - Lower quality of jobs for those who find work; temporary/part-time employment;
  - First to be let go from job during crisis or business slowdown;
  - Longer and more insecure school-to-work transitions;
  - Increased detachment from the labour force.

- **Women**
  - Restrictive provisions of UP schemes– qualifying conditions;
  - Low labour force participation rate prevents women from participating in UI or savings schemes;
  - Substantial number of women work in informal employment;
  - Women face greater difficulties entering the labour force than young men;
  - Traditionally greater share of responsibilities for childcare and the household.
## Asian Labour Force Participation Rates

### Table 1 - Economic Statistics for Selected Countries in Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank*</th>
<th>Population</th>
<th>Labour Force</th>
<th>Labour Force Participation Rate (%)</th>
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<td>Total</td>
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</table>
Conclusion

- **Legal Coverage:** Only 17% of the labour force in Asia and the Pacific are potentially eligible for benefits (contributory or non-contributory) under existing legislation in the event of unemployment (ILO 2014-15 report);

- **Effective Coverage:** Asia and the Pacific: just over 7%; worldwide: 12%

- Most appropriate strategy for developing countries in developing an unemployment protection plan: build a combination of instruments based on the needs of each country;

- Need for actuarial assessment critical during the building stage and at regular intervals after implementation.
Thank You!

Questions?