

# Unemployment Protection in Asia

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# Agenda

- Conventions of the International Labour Organization (ILO);
- Unemployment Protection Programs in Asia;
  1. Mandatory Unemployment Insurance Schemes;
  2. Severance Pay Programs;
  3. Non-Contributory Programs;
  4. Programs provided by non-government agencies and social assistance;
- Options for Improving Unemployment Protection Programs/Schemes;
- Informal Economy;
- Obstacles for Women and Youth to Benefit from Unemployment Protection Programs/Schemes;
- Conclusion.

# 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

1. Mandatory Unemployment Insurance (UI) Schemes - Japan (1947), China (1986), Republic of Korea (1995), Mongolia (1997), Taiwan (1999), Thailand (2004) and Viet Nam (2009); Proposed for Malaysia and the Philippines;
2. Severance Payment Programs;
3. 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;
4. Programs provided by non-government agencies and social assistance.

# 1- Mandatory UI Schemes

- Main objective for UI: to provide temporary partial income replacement to qualified insured workers who have lost their job involuntarily while they seek to obtain new employment;
- no UI scheme can solve the unemployment problems of a country;
- 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.

# 1- Mandatory UI Schemes (continued)

- **Advantages:**

- UI schemes benefit the unemployed workers and their families, employers, governments and society at large.

- **Disadvantages:**

- Potential issue of moral hazard.

- **Administrative Issues:**

- Employer must submit form (electronic or paper format) outlining insured contributions, reason for separation and monies on separation.

# 1- Mandatory UI Schemes (continued)

- Elements of UI schemes:

- 1. Coverage:

- **ILO Convention: 102 - at least 50% of employees; ILO Convention 168 – at least 85% of employees;**
- Private sector salaried workers in the formal employment;
- Exclusions: government workers (Japan, Republic of Korea, Taiwan and Thailand);
- Other exclusions:
  - unique working conditions such as low earnings in Japan and the Republic of Korea;
  - School teachers and small business workers in Taiwan;
  - Self-employed;
  - Domestic workers;
  - Temporary or part-time workers.

# 1- Mandatory UI Schemes (continued)

## 2. Financing:

- ILO Convention **102**: workers pay no more than 50%; ILO Convention **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 Thailand (employers/workers/government);
- Contributions of 1 to 2% in most Asian countries except China (3%);



# 1- Mandatory UI Schemes (continued)

## 3. Qualifying Conditions:

- Workers must register for employment (actively looking for work);
- Need sufficient amount of contributions: **ILO Convention 168**: qualifying period no longer than necessary to preclude abuse;
  - The range for months of contributions are 6 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, 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 is dismissed;
  - For example: Japan extends the waiting period by 3 months; Thailand reduces the benefit rate and duration;
  - Forced resignations are more complex and require further scrutiny.

# 1- Mandatory UI Schemes (continued)

## 4. Amount of Benefits:

- **Convention 102:** prescribed rate is 45% while **Convention 168** rate is at least 50%;
  - Most frequent rate in Asia is 50 to 60% - Taiwan, the Republic of Korea, Thailand (for involuntary job loss), China provides flat rate benefits; Mongolia has lowest rate at 45%;

## 5. Duration of Benefits:

- **Convention 102:** at least 13 weeks of benefit per year;
  - In Asia, the duration of benefits fall between 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);
  - Mongolia pays 76 days of UI benefit;
  - China considers length of service for duration of benefit.

# 1- Mandatory UI Schemes (continued)

## 6. Types of Active Labour Market Policies (ALMPs):

- Many Asian countries have at least minimal employment interventions to assist unemployed workers and employers such as job referrals, job banks, labour market information, resume and job search workshops;
- Japan and the Republic of Korea use the name “Employment Insurance (EI)” to emphasize the proactive nature of their scheme:
  - In Japan, the EI system includes a number of other benefits and services to encourage early re-employment and increase employability, such as life-long vocational training, skills development, self-employment assistance, job fairs, job counselling to name a few;
  - In Korea, the EI system maintains a strong and continuing focus on helping individuals return to employment; Korea’s EI system operates two main active labour market programs, namely:
    - Vocational Competency Development, which consists of vocational training subsidies for jobseekers and employee training subsidies;
    - Employment Stabilization Program, which assists in employing jobseekers through job creation subsidies and in facilitating employment for seniors and workers with disabilities.

# 1- Mandatory UI Schemes (continued)

## 7. Proposed Malaysian UI Scheme:

- Current Unemployment Protection Program: Retrenchment Benefits:
  - Legal provisions provide for minimum allowances to be paid to workers who are made redundant due to business closures, technological changes, restructuring and other situations, in the case of those who earned less than RM1,500 per month (RM2,000 per month since April 1, 2012) on the Malaysian Peninsula (RM2,500 per month in Sabah and Sarawak since October 1, 2005);
- Proposed UI Scheme for Malaysia:
  - 3 Pillars: 1) Unemployment Insurance; 2) Active Labour Market Policies; 3) savings account (to replace retrenchment benefits);
  - Actuarial study recommended Unemployment Insurance Scheme along with ALMPs only.

## 2- Severance Pay Programs

- Many workers have benefitted from severance payment for a long time; however, many employers have reneged on paying severance payments due to various reasons with no guarantee of payments and the only form of redress was legal action;
- Severance pay programs: usually lump-sum cash payments (through collective agreements or as part of an enterprises' policy);
- Payment is related to the amount of time worked and the last wage in the job;
- In Asia:
  - Situations ranging from no severance payment provisions (the Republic of Korea, Japan and Singapore) to severance pay paid along with redundancy payments (the Philippines and Thailand);
  - Many pay 1 month's salary for one year of service: China, Indonesia, Mongolia, the Philippines;
  - But for 20 year's service, the amount of severance pay differs: China (20 months), Indonesia (9), Mongolia (1), the Philippines (10).

# 3- Non-Contributory Unemployment Protection Programs

- **Conditional Cash Transfers (CCTs):**

- Governments can utilize direct redistribution of resources to poor households;
- 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 unemployment protection scheme and a number of scattered non-contributory programs which aim at providing some social assistance;
- But Myanmar has enacted an Unemployment Insurance Act a few years ago but has not been implemented to date; insured persons will need 36 months of contributions and involuntarily lost his/her job and register at the employment office. They will receive 50% of previous salary for six months;
- An interesting element to the Myanmar UI Act is the provision allowing an employer to the right to claim back 25 percent of the collected contributions plus interest when a worker is granted unemployment insurance.

# 3 - 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**: Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)
  - Under this scheme adult household members living in rural areas are provided with 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.

# 4 - Other Unemployment Protection Programs

## **Programs provided by non-government agencies and social assistance:**

- For those who do not qualify for or exhaust their UI benefits, most Asian countries have social assistance programs on the basis of need.



# 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 (Loan to cover);
- 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;
  - Registration for employment services – a precondition;
  - Referring jobseekers to vacancies.
- Countries should consider complimenting various unemployment protection schemes; for example, the Republic of Korea launched PWP in the Asian financial crisis in the late 1990’s and the global financial crisis of 2008;

# 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;
- Main issue in dealing with the informal economy: formalization of the informal economy – whether and how to formalize it – it's a complex issue.

# 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.

# 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?**