



Ministry of Health, Labour and Welfare, Japan

# Expert Meeting

**On Building Social Safety Nets for Employment**

- Strategies in Asia -

**21-22 February 2011**

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## **Chairperson's Summary**

**of**

### **Expert Meeting on Building Social Safety Nets for Employment —Strategies in Asia—**

The Ministry of Health, Labour and Welfare of Japan (MHLW) organized an Expert Meeting on “Building Social Safety Nets for Employment—Strategies in Asia—” from Monday, 21 to Tuesday, 22 February 2011 at the Toki Messe (Niigata, Japan), in which a discussion was held among academic experts and others. (See attachment for the list of participants.)

The outcomes of the Meeting will be distributed as background information at the Special Session which will be hosted by the MHLW and held in conjunction with the 15<sup>th</sup> ILO Asian and the Pacific Regional Meeting (scheduled for 12 April 2011).

#### **[The purpose of the Expert Meeting]**

The objectives of the Meeting were as follows:

- 1) To deepen the understanding of the concept of social safety nets;
- 2) To deepen the understanding of the evolution and current status of social safety nets in Asia;
- 3) To share knowledge regarding social safety nets for employment, drawing on the experience of the response to the Asian financial crises and the recent economic crises;
- 4) To share the most recent findings on the challenges and strategies for the implementation of unemployment insurance and active labour market policies.

#### **Session 1: Overview of the Evolution of Social Safety Nets for Asian Countries**

##### **1. Concept arrangement on the social safety nets**

Juro Teranishi (Professor, Nihon University, Professor Emeritus, Hitotsubashi University)

The key concepts of social safety nets were clarified at the beginning of the session as the definition of social safety nets varies widely.

- (1) A discussion was held on various concepts, such as “social safety nets,” “social security,” “social protection,” and “social protection floor.”
- (2) Discussants defined these concepts in various ways by considering such points as whether they: 1) covered only short-term risks or also structural problems such as poverty; 2) took a universal approach, without targeting anyone, or were restricted to the poor; 3) had a contributory or welfare system; 4) covered which areas, such as unemployment, disability, aging, education, and health; and 5) were based

on entitlements or in the discretion of the government. Experts from the ILO and the Asian Development Bank (ADB) gave explanations on the “social protection floor” and “social protection”, respectively.

- (3) It was pointed out that the World Bank defined “social safety nets” in a restricted way as a noncontributory transfer program<sup>1</sup> targeting the poorest of the poor. Professor Teranishi’s opinion was that social safety nets covered a wide range of areas including unemployment insurance which addressed temporary risks. He reasoned that the term “safety net” originated from the idea of a net to protect acrobats in a circus from falling to the ground. The discussants also confirmed that the term was used in a broad sense with social security and welfare benefits in mind in the statements made at APEC, the G20, and ASEM. Furthermore, they confirmed that the ADB provided its definition of “social safety nets” together with “social protection” as follows: “‘Social safety net’ and ‘social security’ are sometimes used as an alternative to ‘social protection.’ Of the two terms, ‘social protection’ is the most commonly used internationally. The term ‘social safety net’ appears to have a less precise meaning; some people use it to mean the whole set of programs and policies discussed in this strategy, others use it to refer only to welfare programs targeted to the poor. On the other hand, the term ‘social security’ is generally used to refer to the comprehensive mechanisms and coverage in high-income countries, and is less applicable to new areas such as community and area-based schemes.”<sup>2</sup>
- (4) During this meeting, it was confirmed that a variety of definitions existed for “social safety nets” and, therefore, it was noted that the term needed to be used with its scope being clarified.

## 2. The evolution and current situations of social safety nets

Yasuhito Asami (Professor, Faculty of Social Sciences, Hitotsubashi University)

Ms. Valerie Schmitt (Social Security Specialist, ILO Decent Work Technical Support Team for East and South East Asia and the Pacific (DWT-Bangkok))

In this session, the current status of the social safety nets in Asian countries was reviewed, and factors affecting the development of safety nets were explored.

- (1) Professor Asami explained as follows: In the past there was a generally accepted notion that the development of social security in Asia was underdeveloped. However, in recent years, social security in the more developed countries in this region had been increasingly expanding in terms of areas and the scope of its coverage. Professor Asami referred to such expansion as a “Two-Tier Social Security Model.”<sup>3</sup>

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<sup>1</sup> World Bank Website:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTSAFETYNETSANDTRANSFERS/0,,contentMDK:22190130~menuPK:1551684~pagePK:210058~piPK:210062~theSitePK:282761,00.html>

<sup>2</sup> Asian Development Bank “Social Protection” 2005

<sup>3</sup> “Two-tier Social Security Model” (a two-layer model of social security): Many Asian countries undergo a developmental process in which social security is first introduced in the formal sector (government employees and regular workers in private enterprises), and as areas and coverage of social security in the sector gradually expand, the protection extends to the informal sector. Consequently, in many countries, the social security programs for the formal and informal sectors become separate. Professor Asami calls the situation in which the former precedes and is developed the two-tier social security model.

- (2) Two driving forces behind the expansion of “social security” are: economic imperatives (i.e., giving incentives for workers to develop skills and responding to an increase in individual risks following the collapse of agricultural and regional communities) and political ones (i.e., expanding the provision of “social security” in order to broaden political support).
- (3) Ms. Schmidt stated that the first objective of the “Social Security Staircase”<sup>4</sup> advocated by the ILO was to provide a guarantee of the “Social Protection Floor” (the minimum level of non-contributory benefits) to the whole population as their entitlements. On the basis of the Social Protection Floor, “social security” provided to the formal sector on a contributory basis is improved, and then the program is gradually extended to informal economy workers.
- (4) There are similarities between the models of “Social Security Staircase” and “Two-Tier Structure.” Professor Asami remarked that although the two-tier model was often criticized for being unfair, it could be actively valued as the second-best policy, in light of limitations in the capacity of administrative bodies, such as capturing of income and corruption. He also pointed out the importance of improving the effectiveness of “social security” schemes in the formal sector. A participant indicated that the expansion of social security was not necessarily easy due to financial constraints and political reasons.

## Session 2: Promotion of Social Safety Nets for Employment: Challenges and Strategies

1. Social Safety Nets for Employment—Policy Implication from the Experience of the Past Two Economic Crises—  
 Sri Wening Handayani (Principal Social Development Specialist, ADB)  
 Mukesh C. Gupta (Senior Employment Specialist, ILO, Decent Work Technical Support Team for South Asia (DWT New Delhi))

During the session, the experience of the Asian countries and international organizations’ responses to the past two economic crises (the Asian monetary crisis in 1997 and the current economic crisis beginning in 2008) was shared.

- (1) Ms. Handayani illustrated the significance, cases, outcomes, and lessons of social protection provided through the ADB’s “Public Works Program” (labour intensive public works). As a poverty program, labour intensive public works constitute an important component of the “social protection.” Labour intensive public works create temporary employment and quickly mitigates the impact of a crisis. The key points for properly implementing public works programs are: an appropriate level of wage rates, inclusion of the poor, and women’s participation. Mr. Gupta described the Indian government’s crisis response measures including guaranteed rural employment. He explained that while India’s “National Rural

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<sup>4</sup> “Social Security Staircase” (staged development of the social security): The coverage of “social security” expands along two dimensions simultaneously: horizontal expansion (to increase the number of people eligible to be protected by “social security”) and vertical expansion (to increase the level of “social security” benefits by introducing new security arrangements and/or increasing the amount of benefits using the existing schemes.)

Employment Guarantee Act”<sup>5</sup> was an example of success, few unemployment benefits (paid in cases in which a person who wishes to work is offered no employment for more than fifteen days) had been paid in practice. Mr. Gupta also pointed out remaining problems, such as registration of job seekers and the management of benefit claims.

- (2) A question was posed regarding the limitations of labour intensive public works (i.e., prohibition of the use of construction machines and contract work) in view of the enhancement of skills and the effectiveness of public works. A view was expressed that as these public works focused on the participation of many low-skilled poor and capacity building of the community, they did not necessarily attach importance on the training of participants’ skills.
- (3) Moreover, in connection with public works, relative merits of “conditional/unconditional cash transfer” (conditional and non-conditional cash benefits)<sup>6</sup> were discussed. Ms. Handayani said that the cash benefits and public works each had their own advantages. She also stated that although many of the cash benefits programs were still in the experimental stage, they seemed to be effective in specific areas such as education and health services. Public works, on the other hand, have merits in enhancing the community’s capacity.

## 2. Challenges and Strategies for Promoting Unemployment Insurance and Active Labour Market Policies in Asia

### Part 1

Noriyuki Suzuki (General Secretary, International Trade Union Confederation-Asia Pacific (ITUC-AP))

Fasihul Karim Siddiqi (Managing Committee Member, Employers’ Federation of Pakistan)

During this session, views and efforts regarding the introduction of unemployment insurance and other measures were shared from the standpoints of labor and management, respectively.

- (1) Mr. Suzuki explained the labour union’s view, role and efforts in establishing social safety nets. He offered the labour union’s definition of “social safety nets” which was very broad and comprehensive<sup>7</sup>. Mr. Suzuki presented the labour union’s main activities carried out for implementation of better “social safety nets” at the community level (1) dialogue with international financial institutions, 2) regional seminars, review meetings, and other awareness raising and advocacy events. He pointed out

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<sup>5</sup> “National Rural Employment Guarantee Act”: Public works aiming at rejuvenating the natural resource base in sustainable rural areas (water conservation, renovation of water bodies, land development, rural connectivity) provides at least 100 days of guaranteed wage employment per year to the poor.

<sup>6</sup> “Conditional/Unconditional Cash Transfer” (conditional and non-conditional cash benefits): Measures that offer cash benefits to the poor, either on the condition that a child is put in school (conditional) or without any condition attached in particular (non-conditional).

<sup>7</sup> The ITUC-AP defines social safety nets as a comprehensive mechanism encompassing employment insurance with unemployment benefits, vocational and skills training and retraining for employment and job placement, retrenchment benefits, retirement/old age benefits, occupational safety and health benefits, guaranteed minimum wage, maternity benefits and other benefits specific to women; and general social development covering basic medical care and treatment, education, housing, social assistance programmes for special groups, community development and natural disasters.

that as an outcome of these activities, the term “social safety nets” was quoted many times in the ASEAN, APEC, ADB, and G20 documents. According to Mr. Suzuki, the challenges which the trade union faces are: the continuing low level of social protection, low coverage, lack of funding, and pressure from globalization to cut down on “social security”. He emphasized that it had been statistically proven that the improvement of “social safety nets” was effective for the fair distribution of incomes and correction of disparities. Moreover, Mr. Kamimura remarked that in recent years, there had been progress in parts of Asia in regard to social safety nets. However, the more developed countries in the region have become defensive in their efforts in the midst of the globalization of the economy.

- (2) Furthermore, Mr. Suzuki pointed out that in order to promote “social safety nets,” it was important that, as preconditions, trade unions freely operate under a fair labour union law system and that the sound industrial relations is promoted.
- (3) Mr. Siddiqi presented the characteristics of the labour market in Pakistan. He also explained that the introduction of the unemployment insurance had been proposed to the Pakistani government based on the social dialogue. Moreover, he said that in Pakistan employers’ interest in unemployment insurance had emerged in the course of the privatization of many state-owned enterprises.

(Part 2)

Yasuhiro Kamimura (Associate Professor, Nagoya University)

Valerie Schmitt (Social Security Specialist, ILO DWT)

Naoki Hamada (Former Expert of Japan International Cooperation Agency (JICA), Secretariat of Central Labour Relations Commission)

This session reviewed the theoretical need and the possibility of and explored strategies for introducing unemployment insurance and active labour market policies in Asia.

- (1) Mr. Kamimura and Ms. Schmitt’s presentations contained many points in common. They each provided explanations for the justification (need) for unemployment insurance, various existing unemployment insurance schemes and alternative policies, “legal coverage” (the ratio of legally insured persons as a percentage of the total labour force), and “effective coverage” (the ratio of the beneficiaries to all those unemployed).
- (2) Mr. Kamimura pointed out that the GDP per capita and the size of the agricultural sector varied when comparing the data of countries that had introduced unemployment insurance and those that had not. He suggested that limited economic development and a large population engaged in agriculture did not necessarily give countries reasons for refusing the introduction of the unemployment insurance schemes, as was often said. Mr. Kamimura also indicated that there was no evidence that unemployment insurance systems contributed to an increase in the unemployment rate, as was frequently pointed out. Mr. Kamimura explained that a country’s decision to adopt an unemployment

insurance system was based on its philosophy and political leadership. Mr. Kamimura suggested that it was thus theoretically possible to consider the adoption of unemployment insurance schemes in some Asian countries.

- (3) Ms. Schmitt stressed that the main challenge was the employment of vulnerable populations in the informal sector. She presented an overall picture of income security provided to the whole integrated formal and informal sectors and reintegration of them into labour market. Ms. Schmitt, citing the case of the Republic of Korea, presented an approach, in which the protection of unemployed workers (income security) and the measures to promote reintegration into labour market (the active labour market policy) were linked, as a step forward from unemployment insurance.
  - (4) Mr. Hamada illustrated Japan's experience in technical cooperation for the improvement of employment services in Indonesia (a technical cooperation project to improve the services of the public employment exchange agency) and explained the significance of improving employment services based on that experience.
  - (5) During the discussion, a question was raised as to whether unemployment insurance could lower the unemployment rate. Professor Asami likened unemployment insurance to the safety belts of automobiles. He said that safety belts could not reduce the number of traffic accidents even if they alleviated the damage of the accidents. Likewise, unemployment insurance can reduce the impact of temporary loss of individuals' incomes, but it cannot lower the unemployment rate. On that basis, he stressed that the risk of unemployment was on the rise due to globalization, and unemployment insurance enhanced the flexibility of the labour market needed for economic development without putting too much burden on the workers. Just as we should not drive cars without wearing safety belts, it is dangerous to operate an economy without unemployment insurance.
  - (6) According to Professor Kamimura, unemployment insurance gives incentives for job change and may possibly increase the unemployment rate. Nevertheless, he mentioned that it provided time for the unemployed to find jobs that fit them and acquire new skills. When they finally secure the most suitable job that maximizes their individual abilities, a positive effect will be produced to the utility of individuals and macroeconomics.
  - (7) Next, the validity of severance pay (which is legally required for employers) and provident funds as alternatives to unemployment insurance were discussed. It was indicated that it was difficult to ensure enforcement for the former, while the latter was insufficient to be an alternative measure of unemployment insurance because it failed to fully protect low-wage earners.
  - (8) Furthermore, it was pointed out that employment services including vocational training played a great role in promoting the skills development that fit the needs of the market.
- Finally, Mr. Sakurada mentioned that social dialogue and the tripartism played big roles in expanding "social safety nets," in response to the economic crisis in Japan.

## List of Participants

### (Experts)

- Prof. Yasuhito Asami (Professor, Faculty of Social Sciences, Hitotsubashi University)
- Mr. Mukesh C. Gupta (Senior Specialist, Employment Intensive Investments, ILO, DWT New Delhi)
- Mr. Naoki Hamada (Former Expert of JICA, Secretariat of Central Labour Relations Commission)
- Ms. Sri Wening Handayani (Principal Social Development Specialist, ADB)
- Mr. Shinichi Hasegawa (Director, ILO Office in Japan)
- Dr. Yasuhiro Kamimura (Associate Professor, Nagoya University)
- Mr. Hiroyuki Matsui (Co-Director, International Cooperation Bureau, Nippon Keidanren (Japan Business Federation))
- Mr. Takaaki Sakurada (Adviser on International Affairs, Japanese Trade Union Confederation (JTUC-RENGO))
- Ms. Valerie Schmitt (Social Security Specialist, ILO DWT-Bangkok)
- Mr. Fasihul Karim Siddiqi (Managing Committee Member, Employers' Federation of Pakistan)
- Mr. Noriyuki Suzuki (General Secretary, ITUC-Asia Pacific)
- Prof. Juro Teranishi (Professor, Nihon University, Professor Emeritus, Hitotsubashi University)

### (MHLW)

- Mr. Taro Muraki, Assistant Minister for International Affairs, Minister's Secretariat, MHLW
- Ms. Chihoko Asada, Deputy Assistant Minister for International Affairs, Minister's Secretariat, MHLW
- Mr. Shojiro Yasui, Deputy Director for International Cooperation in Labour International Affairs Division, Minister's Secretariat, MHLW



## Agenda

### Concept of the Meeting

Asian countries have been making rapid economic growth in recent years, but persistent poverty and growing inequalities remain. The two past economic crises have revealed the need for adequate social safety nets to protect vulnerable populations from calamity, particularly in financial crises. In response, a number of international organizations including the ILO, the World Bank and the Asian Development Bank took the initiative to promote social safety nets in Asian countries. Although differing in history, culture, religion and stage of development, many countries have made efforts to strengthen their social safety nets. However, the overall picture is still far from attaining the goal of providing adequate safety nets for all.

Social safety nets provide protection from short-term and emergency risks. Social safety net programmes vary considerably depending on the risks to be covered, such as the ones which may affect individual households (i.e. illness, disability or unemployment), ones which may affect communities or regions (i.e. floods or famine), or ones that may affect countries (i.e. global financial crisis). Among those, preparations for the risks of illness and certainty of ageing, namely health insurance and pensions have progressed substantially in their coverage. On the other hand, social safety nets for employment, which provide temporary income security and help for getting re-employed, remain underdeveloped in many countries.

Employment is the key to the quality of life and provides the most sustainable route out of poverty by facilitating social mobility and promoting opportunities. It also enables nations to become sustainably developed. Social safety nets for employment also provide human security, as does Japanese ODA, in improving people's lives by ensuring their employment.

The importance of social safety nets for employment is higher than ever in a globalizing world, in which the Asian region has become more integrated and interdependent. Events in recent years have shown that a crisis can rapidly spread across economies and have a dramatic adverse impact on the entire regional and global economic system and on employment. Moreover, strong and inclusive social safety nets for employment can help smooth transition of workers when structural changes are needed.

Ensuring employment opportunities and independence for all adults is one of the goals of social development. Social safety net programmes in employment should serve this goal. Safety net programmes should not be limited to providing income security for the unemployed, but work as a

spring-board to reintegrate them into labour market. The programmes include not only unemployment insurance, but also job matching, job-search assistance and vocational training.

The target of social safety nets for employment is not limited to formal workers. During the economic crises, the approach of programs in job creation was implemented in many countries, including labour intensive public works, subsidies to small and medium sized enterprises for maintaining employment, entrepreneurship programmes by social fund/micro credit in communities and the expansion of public sector employment in the medical and education sectors. Those programmes covered both informal and formal workers. Adequate policy interventions are required for job-losers, no matter whether they are in the formal or informal sectors.

This Expert Meeting aims to identify key elements for the promotion of social safety nets for employment. The first part of the meeting will cover an overview of the evolution of social safety nets in Asian countries; and defining the concept of social safety nets. The second part will focus on safety nets for employment, review different types of safety net programmes taking examples from the response to the crisis. Particular attention will be paid to promoting unemployment insurance combined with active labour market policies, for which the challenges, strategies and the role of tripartite partners will be identified.

The outcomes of the Meeting are to be distributed as background information in the Special Session which will be organized by the MHLW on 12 April, in conjunction with 15<sup>th</sup> Asian and the Pacific Regional Meeting to be held in April 2011 in Kyoto.

### Monday 21 February 2011

09:00 – 09:30 Registration

#### OPENING SESSION

09:30 – 9:50

##### **Opening Remarks**

-Mr. Taro Muraki

Assistant Minister for International Affairs, Ministry of Health, Labour and Welfare, Japan

##### **Remarks**

-Mr. Shinichi Hasegawa

Representative, ILO Office in Japan

09:50 – 10:10

##### **Introduction to the Meeting**

- Mr. Shojiro Yasui

Deputy Director for International Cooperation on Labour  
International Affairs Division  
Ministry of Health, Labour and Welfare, Japan

10:10 – 10:40            **Tea/Coffee Break**

## **SESSION 1: Overview of the Evolution of Social Safety Nets for Asian countries**

10:40– 11:20    **Concepts of Social Safety Nets**

“Safety nets” are said to owe their origin to the net to protect a performer of aerial acrobatics in a circus. The definition of social safety nets seems to vary widely; however, there is a consensus that the programmes of the nets cover short-term or emergency risks, which may affect individual households (i.e. illness, disability or unemployment), communities or regions (i.e. floods or famine), or countries (a global financial crisis). This session aims to clarify key concepts to understand what social safety nets are.

### **Presentation**

-Dr. Juro Teranishi

Professor, Nihon University, Professor Emeritus, Hitotsubashi University

### **Discussion**

11:20 – 12:10    **Overview of the Evolution of Social Safety Nets in Asian Countries**

Social safety nets have been developed to compensate for the lack of mutual assistance in households or communities, thus the formation of social safety net programmes depend largely on the culture, history, religion and stage of development of each country. In addition, social safety net programmes can be categorized by the targeted risks such as individual risks, region-wide or nation-wide risks, and by funding schemes such as social insurance, provident funds or public assistance. This session aims to deepen our understanding of the factors affecting the development of the nets, and review the current situation of social safety nets in Asian countries in each category.

### **Presentation**

-Dr. Yasuhito Asami

Professor of Comparative Politics at Hitotsubashi University

### **Short Comment**

-Ms. Valerie Schmitt

Social Security Specialist, Decent Work Technical Team in Bangkok, ILO

### **Discussion**

12:10 – 14:00    Lunch Break

## **SESSION 2: Promotion of Social Safety Nets for Employment: Challenges and Strategy**

14:00 – 15:20    **Social Safety Nets for Employment - Policy Implication from the Experience of the Past Two Economic Crises -**

Social safety net programmes to respond to global economic crises have covered mainly loss of income by the loss of work for both hired and self-employed workers. The programmes include job creation approaches, such as labour-intensive public works, subsidies to small and medium sized enterprises for maintaining employment, entrepreneurship programmes by social fund/micro credit in communities, and the expansion of public sector employment in the medical and education sectors; and also workers assistance approaches, such as unemployment insurance systems, public employment services, or public vocational training. This session aims to share the experience of the responses of Asian countries and international organizations to the past two economic crises, namely the Asian Currency Crisis in 1997 and the current economic crisis which started in 2008.

**Presentation**

-Ms. Sri Wening Handayani

Principal Social Development Specialist, Regional and Sustainable Development Department, Asian Development Bank

-Mr. Mukesh C. Gupta

Senior Specialist Employment Intensive Investments, Decent work Technical Team in New Delhi, ILO

**Discussion**

15:20 – 15:50 **Tea/Coffee Break**

15:50 – 17:10 **Challenges and Strategies for Promoting Unemployment Insurance and Active Labour Market Policies in Asia**

As a workers assistance approach, unemployment insurance combined with effective active labour market policies, such as employment service and vocational training, are effective tools for reintegrating the unemployed into the labour market. However, policy development in this area is relatively slow in Asia, with only a few countries introducing unemployment insurance after the Asian Currency Crisis. This session aims to critically re-examine the conventional concerns upon the introduction of insurance and explore strategies to establish an unemployment insurance system combined with active labour market policies.

**Part 1**

**Presentation**

-Mr. Noriyuki Suzuki

General Secretary, ITUC-Asia Pacific

-Mr. Fasihul Karim Siddiqi

Employers' Federation of Pakistan

**Discussion**

19:00 – 20:30 **Dinner**

hosted by Taro Muraki, Assistant Minister for International Affairs

**Tuesday 22 February 2011**

9:00 – 11:00 **Challenges and Strategies for Promoting Unemployment Insurance and Active Labour Market Policies in Asia**

**Part 2**

9:00 – 10:10

**Presentation**

-Dr. Yasuhiro Kamimura

Associate Professor of Welfare Sociology and Comparative Social Policy , Nagoya University

-Ms. Valerie Schmitt

Social Security Specialist, Decent Work Technical Team in Bangkok, ILO

-Mr. Naoki Hamada

Former JICA expert

10:10 – 10:40

**Tea/Coffee Break**

10:40 – 11:30

**Discussion**

**CLOSING SESSION**

11:30 – 11:45

**Closing Remarks**

-Ms. Chihoko Asada

Deputy Assistant Minister for International Affairs, Ministry of Health, Labour and Welfare, Japan

12:00 – 13:00 **Lunch**



# **A Conceptual Framework for Social Safety Net; Individualization of Society and Risk Management**

Juro Teranishi  
Professor, Nihon University,  
Professor Emeritus, Hitotsubashi University

The purpose of this paper is to present a conceptual framework for social safety net (SSN); tentatively defined as social measures for temporal alleviation of damages caused by income risks. Section 1 summarizes main characteristics of SSN as a social security system following this tentative definition. Section 2, utilizing the notion of individualization of society and focusing on the development of globalization, argues why social SSN has become necessary in the contemporary world. Section 3 concludes the paper by deliberating on the relevance of the reasons for necessity of SSN for Asian countries.

## **(1) Main Characteristics of SSN**

Let us summarize basic characteristics of SSN by means of three key words; prevalence of income risks, policy tools for temporary effects, and social and market-based risk management.

### Prevalence of income risks

First, as could be conjectured by the fact that the term safety net originates from a net to protect acrobat players of a circus from falling to the ground, SSN is related to high risky situations prevalent in contemporary world, where global integration of economic activities has brought about quick and unexpected spillover of shocks over various parts of the world economy. Moreover, the term risk here refers to situations in which it is not necessarily possible to derive probability distributions of outcomes so that one could insure against such conditions. In other words, it is related to the conditions including the situations described by the term uncertainty defined by Frank Knight (1921).

### Temporary policy tools

Second, SSN is a simple and inexpensive measure to protect people from risks, as could be seen from the fact it is named after a simple and inexpensive instrument, a net. It is a temporary means of social security to mitigate direct damages caused by shocks, and is not necessarily related to side effects of the damages. In terms of fiscal expenditures, it is related to short-term expenditures and not to permanent fiscal burdens. Moreover, SSN does not have much to do with structural problems such as inequality of income among different class of people, absolute low-income below the poverty line, or rapid aging of the society. Employment insurance for the provision of short-term assistance to the unemployed is a typical tool for SSN, while poverty alleviation programs such as livelihood protection system or subsidies for education, housing and foodstuffs are social security system largely aimed at structural problems.

### Social and market-based risk management

Third, SSN is not aimed at specified occupations, or any age and sex groups. In principle, it is directed to anonymous constituents of the society. In other words, it is a device to manage risks faced by unspecified members of the society by the society as a whole co-operatively. In the case of employment insurance system, for example, insurance premium is usually paid by employers and employees, so that the system is a sort of mutual assistance, and the government has no fiscal obligation in the operation.

Moreover, effectiveness of SSN is dependent on the role of market. After alleviation of direct damages of income risks, the beneficiaries of SSN are expected to return to the market in order to participate in the competitive process. In this sense, the effectiveness of SSN is closely related to the development of open labor markets.

## (2) Necessity of SSN

There are two basic reasons for the emergence of SSN as an important method for social security in the contemporary world; individualization of the society and the globalization of market economy.

### Individualization of society

Individualization means weakening of various (family, community, or class) ties and relations among individuals in a society (Beck1986). Individualization is different from individualism, but both stands in interactive relationship. The concept of individualism is a moral doctrine, while the concept individualization refers to the state of society in various aspects of socio-economic activities of the people such as consumption, labor and property holding. Quite often, individualism could become a driving force of individualization of society, and individualism could be intensified owing to the development of individualization.

In terms of the history of Western developed countries, individualization has proceeded in two phases. The first phase occurred at the time of establishment of industrial society. When agrarian and community-based economy evolved into industrialized market economy, the development of labor market “liberalized” people from community ties. People left regional communities and joined industrial society in the cities as free hired labor force. Individualism as a personal moral doctrine, combined with liberty, a doctrine about political morality, was one of the driving forces to transform feudal and community-based society into civil and market-based society.

In this phase, however, although people became liberalized from community ties characterized by group work, community-based property ownership, and traditional and custom-based lifestyle, they were still subject to family ties. Moreover, in the industrialized society, there emerged new form of ties in the form of class ties; labor union at occupation level or firm level provided new framework to restrict individualistic behavior in various aspects and joint risk-bearing by the people. As is eloquently described in Esping-Andersen (1990), classical measures of social security system aimed at protecting the welfare of members of particular unions were introduced through the interaction and under the pressure of class interests.

The second phase of individualization proceeding globally in the contemporary developed world has liberalized people from family ties as well as from class-based relationship characteristic to the industrialized economy. Traditional family images have been replaced by modern family system such as nuclear family and single-parent family, and the standardized full-time employment system of industrialized society by diversified and flexible work system such as work-sharing, temporary workers and job-hopping part-time workers (Furi-ta-s in Japanese). Labor unions have felt serious difficulties in representing the interests of diversified labor force. Individualization of this type is no doubt a phenomenon of post-industrialization society. In developed countries in continental Europe, high level of welfare system has elevated the living conditions of all classes (elevator effect), reducing the concerns about class differences and discrimination (Beck 1986). It seems also that individualism in the sense of indifference to the situation of others or lack of sympathy towards others has been one of the main driving forces of individualization in this phase, although specification of exact mechanism at work is not necessarily an easy matter.

Individualization in this phase has taken the form of not only individualization of income risks but also of diversification of income-expenditure patterns. Traditional life cycle patterns related to education, work and retirement, or marriage and child-raising are not typical any more. An increase in the number of newly-graduates without permanent jobs under favorable business conditions is symbolic of this diversification. The concept of social risk management (Holzmann and Jorgenson 1999) or SSN covering the society as a whole and all members indiscriminately could be a workable welfare system under this situation.

### Globalization

Globalization is related to the necessity of SSN in two respects; socialization of income risks, and changing relative role of the government and the market.

First, globalization seems to have enhanced income risks to be accommodated socially. Owing to the increased interdependence of financial markets, local financial crises tend to have global impacts. The Asian crisis that had begun in Thailand in 1997 had serious contamination effects on other Asian countries, and the Lehman shock ten years after had exerted enormous impacts throughout the world. These global financial crises tend to entail income risks to the plural strata of people, so that impacts tend to be social. This is because crises have impacts not only on financial markets but also on goods markets by way of decrease in exports, labor markets by way of impacts on overseas job opportunities, and government budget through reduced tax revenues. Moreover, for each country, these impacts are felt simultaneously usually. Income risks under these conditions need to be accommodated socially.

Second, globalization has changed the pattern of division of labor between the government and the markets. Increased complexity of risks to be managed and decrease in revenue raising capability of the government has made the government increasingly powerless against contemporary income risks. As is argued above, contemporary income risks are related to structural factors such as individualization of the society as well as global factors like financial crises, and the government is getting increasingly impotent against them. Moreover, increased mobility across the borders by footloose production factors such as financial capital and

skilled labor qualified for global job markets has decreased revenue raising capacity of the government (Rodrick1997).

Consequently, the government is obliged to hand over its role in risk management to the market. In the *ex ante* sense, it has increasingly tended to rely on market disciplining measures in place of tight-jacket type regulations. Washington Consensus is a typical policy prescription following this principle. In the *ex post* sense, instead of devoting its resources toward protecting people fully from market risks, the government has come to focus on temporary alleviation of damages to the people and training them for re-challenge in market competition. SSN matches this kind of needs exactly.

### (3) SSN in Asian context

Let us move on to the discussion about the necessity of SSN in Asia.

The introduction of SSN to Asian countries was first recommended by international organizations after the Asian crisis. The logic of these organizations for justifying the recommendation seems to go as follows. The rapid development of the Asian countries during the 1980s and early 1990s was realized because they followed market-friendly policy of deregulation and export-oriented strategy, not by the successful intervention by the development-oriented bureaucrats. However, there still remains a wide room for the promotion of market-friendly policy and further structural reform in this region, because of the persistent power of the bureaucrats, who maintain and promote crony capitalism, utilizing symbiotic relationship with family-based business groups. The crisis could be attributed to the growth of bubble and its burst as the consequence of the overrun of the crony capitalism. Just as the introduction of market-based discipline system in line with the Washington consensus had been an adequate policy, introduction of market-based risk management policy in the form of SSN is most suitable not only as countermeasure for the crisis but also for chronic structural problems in the region.

It has now become standard understanding, however, that the main cause of the Asian crisis lies not in the crony capitalism but in the massive inflow and abrupt outflow of short-term capital. In other words, it was a consequence of integration of Asia into global financial markets, and the imprudent opening of the capital account without careful examination of policy orders.

It follows that the theory of crony capitalism dose not seen to give an adequate justification for the introduction of SSN. We are now led to ask to what extent two factors discussed above are relevant to the Asia. First, there is no denying that Asian countries have been considerably integrated in global markets, so that globalization provides good reasons for the introduction of SSN in Asia. As for another factor, individualization, the degree of influence seems to be quite different from the Western countries, although individualization of the society seems to be taking place also in the region. This is because community ties still remain strongly in this region (Asami 2003). In terms of the two phase framework of individualization, Asian countries seem to be in the first phase or in the phase of transition from community-based to industrialized state by and large, although individualization of the second phase is emerging gradually. It follows that introduction of SSN should be carefully implemented taking this point into consideration.

First, since mutual assistance mechanism based on community system remains effective in Asia, especially in rural areas, risk alleviation measures should take this into account. During the crisis period, labor intensive public work programs in local communities had been highly effective in alleviating income risks through employment creation.

Second, in contemporary Asia, community ties are progressively getting weak, so that income risk of those who had been protected by community ties previously should be attended differently from the damages suffered by those who had been adapted for the industrial society already. Since people in the former category have not received education and training as industrial workers, simple re-training is not sufficient for these people, so that instead of re-training programs of SSN, emphasis should be laid on basic education as industrial workers.

Finally but not the least, in view of the poverty level in Asia, the traditional social security measures aimed at structural poverty are still needed in Asia, so that SSN has to be introduced so as to be complementary with structural measures.

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# Overview of the Evolution of Social Security in Asian Countries

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## I. Introduction

In many of newly industrializing and newly democratizing countries in Asia, social security programs have been remarkably expanded not only quantitatively but also qualitatively in the past two decades. The number, as well as the share, of those who are covered by various social security schemes has drastically increased in many, if not all, Asian countries. Just three decades ago, it was widely believed that economically struggling Asian countries would not afford to have unemployment insurance (UI) for many generations to come. But UI was introduced in South Korea in 1995, Taiwan in 1999, Thailand in 2004, and Vietnam in 2007. Serious discussions on the introduction of UI are now going on in the Philippines and Malaysia.

Because of the wide differences in their cultural and historical backgrounds, level of industrialization, and political configurations, it is not surprising at all for social security in Asian countries to have considerable dissimilarities with each other. Despite such dissimilarities, however, this paper points out that many of newly industrializing Asian countries share some similar basic characteristics in their social security arrangements.

Social security programs can be categorized by the targeted risks such as individual risks, industry/region-wide or nation-wide risks. In many of Asian countries, social security programs was designed mainly to mitigate individual risks in its early stages, and then they were modified and/or expanded to better cope with industry/region-wide as well as nation-wide risks in the later stages. The reasons behind this common trend will be elaborated in the third section of this paper.

Social security programs can also be categorized by funding schemes such as social insurance, provident funds or public assistance. In Asia, many social insurance schemes, especially in its early stages, cover only those who work in the formal sectors as a full-time employee, or in other words, they exclude those who work in the informal sectors, self-employed, and farmers, which still constitute a large portion of their labor force. In Malaysia and Singapore, where provident funds play a pivotal role in their social security arrangements, not only full-time workers but also contingent workers are covered. But, while the provident funds provide a sizable amount of money to highly-paid long-time workers when in need, they often fail to provide adequate protection to lowly-paid workers with intermittent jobs.

Most of irregular workers, self-employed, and farmers in Asia are not well protected neither by social insurance nor provident funds. Their plights are supposed to be alleviated, at least to some extent, by

government-sponsored public assistance. Their effectiveness and their forms vary considerably from country to country.

Social security arrangements, which cover regular employees and government officials in a structurally different and more privileged way than the rest of work force, are called “two-tier social security model” in this paper.

After briefly reviewing some of preceding studies in the next section, we will analyze why most of Asian countries have adopted the two-tier social security model, by focusing on its economic and political rationales in the third section of this paper. Though such economic and political rationales well explain the prevalence of the two-tier social security model in Asia, they alone cannot well explain a wide variation in two-tier social security arrangements in Asia. In order to explain such wide variation, we examine “the supply side constraints” to the evolution of social security in Asian countries in the fourth section. In the fifth section, we briefly overview the evolutionary paths of social security programs in selected Asian countries, namely, South Korea, Taiwan, Thailand, Indonesia, and the Philippines, to check the validity of our arguments presented in the third and fourth section. In the final section, we conclude that a two-tier social security model, if properly designed, can be a feasible second-best compromise for many of Asian countries, which face a number of often mutually conflicting demands from various sectors of the society, and also that, in order to properly design a two-tier social security model, we need to take into consideration the supply-side constraints, especially administrative capability and transparency of each country.

## **II. Review of Literature**

In the 1990s, most of the studies on social security in Asia focused on Japan and four newly industrializing economies, namely, South Korea, Taiwan, Singapore, and Hong Kong. Some of them tried to explain their common characteristics by the influence of Confucianism and/or family-centered cultural values (for example, Jones 1990; Jones 1993). Such cultural explanation was criticized for its lack of explanatory power on inter-temporal changes and intra-regional differences even by some scholars who studied the same group of Asian countries in the 1990s (for example, White and Goodman 1998).

As this paper claims that we can observe certain similarities not only among the above mentioned five Confucian Asian economies but also among non-Confucian Asian countries, such as Thailand, Indonesia, and the Philippines, we cannot rely on cultural explanation much.

Most of preceding studies on social security in Asian countries regarded European countries as a frame of reference, explicitly or implicitly. So their research questions are often, “why so little and so late in Asia,

while so much and so early in Europe.” It is understandable for those who studied social security in Asian countries in the 1980s and 90s when social security arrangements in many of Asian countries were still in their very rudimentary stage to start their researches with such questions. Rapid expansion of social security in some of Asian countries in the 2000s, however, poses a different set of questions. In this paper, the frame of reference is not the social security arrangements in Europe. We focus on intra-regional and inter-temporal differences and changes within Asia. So our questions will be “why now / why not now, why in this country / why not in that country, why in this form / why not in that form.”

In the 1990s, many of those who were not satisfied with cultural explanation on social security arrangements in Asian countries tried to answer the question, “why so little and so late in Asia” either by economic rationales (for example, Deyo 1992; Holliday 2000) or by political rationales (for example, Kwon 1997; Gordon and Goodman 1998). This paper will also focus on economic and political rationales, but analyze them in a very different way from preceding studies in the 1990s, because we deal with a different set of questions, as mentioned above.

Most of those studied social security arrangements in Asian countries with either an economy-centered or politics-centered approach in the 1990s argued that economic imperatives and/or political configuration were such that development of social security in Asian countries was retarded or skewed. This paper, on the other hand, argues that most of Asian countries face more or less similar global economic imperatives but with different economic and political endowments, which resulted in certain similarities as well as unevenness in social security arrangements in Asian countries.

### **III. Two Potentially Conflicting Rationales for Social Security in Asian Countries**

#### **(1) Economic Rationale**

Dominant discourse on economic imperatives on social security in Asian countries in the 1980s and 90s was that export-dependent Asian countries, which rely heavily on cheap labor, would try very hard to keep the expenditure for social security program as low as possible for many years to come. With the benefit of hindsight of two decades or so, in which we saw rapid development of social security programs in some of forerunning Asian countries, such South Korea, Taiwan, and Thailand, we can now safely say that such pessimistic views were too simplistic and static.

Experiences of those forerunning Asian countries show that we cannot keep our economy growing if we rely solely on cheap labor. There are so many developing countries with cheap labor in the world. Unlike in the 1970s when not many of the third world countries tried seriously to export their manufactured products to developed countries, now many of them, if not all, are trying hard to do so. Competitors increased, but the

markets in developed countries shrank. In order to keep economy growing, it is necessary to upgrade industrial structure. Upgrading of industrial structure requires better skilled and well-disciplined workers. Longer years of education are often required to become skilled and well-disciplined workers. Children and their parents face two choices; to become unskilled workers right after they finish their primary education, or to continue their education up to a senior high school level or higher to become skilled workers. A senior high school diploma, however, does not guarantee that its recipients can get a job as a skilled worker. Their possibility to become a higher-paid skilled worker depends not only on their own efforts and talent, but also on the behaviors and decisions of other workers and prospective workers. If the number of those who decide to continue their education up to a senior high school level is too small, the chances of senior high-school graduates to become a higher-paid skilled worker becomes smaller, because investors (in many cases foreigners in many of Asian countries) are less likely to set up factories that employ a large number of skilled workers in a country (or region) where only a small portion of the populace has a senior high-school diploma.

One way to avoid from falling into a vicious circle, in which the paucity of senior high-school graduates discourages investors from creating job opportunities for skilled workers and dim prospect of becoming a higher-paid skilled workers discourages children and their parents from continuing their education up to a senior high-school level or higher, is to increase the expected amount of future income of senior high-school graduates in comparison with the less-educated. Other things being equal, if better social protection is provided only to regular employees in the formal sector where many workers with a senior high-school diploma or higher are employed than to contingent workers in the informal sector where many workers have lower educational background, the expected amount of future income of senior high-school graduates vis-à-vis that of the less-educated will increase.

It is debatable whether it is morally and political correct or not to provide better social protection to higher-paid workers in the formal sectors than to those who work in the informal sectors with lower income (we will discuss this issue later in this paper). It is, in many cases if not always, economically rational to do so from a developmentalist viewpoint. Therefore, it is not surprising to see social security programs in most of Asian countries provide better protection to workers in the formal sectors than their counterparts in the informal sectors.

In the early stage of industrialization, social security programs are usually aimed to cover individual risks, such as industrial injury, work-related diseases and death, childbirth, and retirement. As the upgrading of industrial structure proceeds, social security programs often expand to cover not only individual risks but also industry-wide risks.

Textile industry, which played a leading role in many of Asian countries in its early stage of industrialization, is now very quickly declining not only in the first-tier NIEs such as South Korea and Taiwan but also in the

second-tier NIEs such as Malaysia and Thailand as well, because of ever intensifying competition from less developed countries. Many of skilled textile workers in those first-tier and second-tier NIEs now find “the market value” of their industry-specific skill declined sharply.

In the case of textile industry, it took a few decades for those first-tier and second-tier NIEs to lose their international competitiveness. But product life cycles tend to become shorter and shorter because of intensified global competition and rapid technological changes. In the mid-1990s, Malaysia and Thailand started producing and exporting a large number of floppy disks and floppy disk drives, but within a decade or so, all the production lines of floppy disks and drives in the two countries were shut down.

Middle-income countries, to which many of Asian countries belong, now face a difficult dilemma in promoting skill formation of their work force. In order to further upgrade their industrial structure, they need to have a larger number of workers with industry-specific skills. From a viewpoint of workers, however, it is not without risk to accumulate industry-specific skills, especially in the increasingly competitive globalizing age, because it is difficult to foresee how long their industry-specific skills can maintain their market value. One way to reduce a risk to accumulate industry-specific skills, at least to some extent, is to expand and reform social security programs so that it can cope with industry-wide risks better.

In the process of upgrading industrial structure, some of previously flourishing industries start declining. Rising unemployment among workers who used to be employed in those declining industries often come to be perceived as an industry-wide risk (sometimes as a region-wide risk as well, if such industries are concentrated in a certain region of the country) rather than an individual risk. In many of Asian countries, a risk of involuntary lay-off was (often insufficiently) covered by the compulsory severance payment system, which requires employers to provide a certain amount of money to those whom they lay-off. Bankrupted employers in the declining industries, however, often fail to provide a mandatory severance payment to laid-off workers by claiming that no money is left in their companies’ coffer because of huge debts accumulated over the years. In general, unemployment insurance can cope with such an industry-wide risk of large-scale layoffs much better than mandatory severance payment systems. As mentioned in the first section, unemployment insurance was introduced in South Korea in 1995, Taiwan in 1999, Thailand in 2004, and Vietnam in 2007, and serious discussions on the introduction of UI are now going on in the Philippines and Malaysia.

Many of Asian countries are heavily dependent not only on the exports of manufactured products but also on investment from abroad as well. As industrialization progresses, wider variety of industries come to gain international competitiveness, start exporting their products and receive a huge amount of foreign investment. These changes tend to make their economy vulnerable to external shocks, and increase nation-wide risks. Such nation-wide risks were severely felt by many Asian countries, when the region was hit hard by

international financial crisis in 1997 and by abrupt downturn of the global economy triggered by the so-called Lehman shock in 2008.

Industry-wide risks are often felt more seriously by skilled workers than by unskilled workers. Salaries of unskilled workers are unlikely to change drastically even if they move from one industry to another. But as for skilled workers, especially for those who have industry- or firm-specific skills, their salaries are likely to decrease considerably if they work as an unskilled worker in the other industries. But nation-wide risks pose a serious threat not only to skilled workers but also to unskilled workers. When Asian countries were hit by crises in 1997 and 2008, many of unskilled workers and farmers were not well protected by social security programs, while the plights of skilled workers in the formal sector were at least partially alleviated by those programs.

Through painful experiences during the nation-wide economic crises in 1997 and 2008, farmers, self-employed, and workers in the informal sectors in some of Asian countries came to resent the unequal treatment by the government.

## (2) Political Rationale

Many of Asian countries experienced not only rapid industrialization but also democratization in the past few decades. Many of the preceding studies, which tried to explain some of the characteristics of social security arrangements in Asian countries in the 1980s and 90s argued that the combination of authoritarian pro-growth and pro-business governments and weak societal forces hampered the development of social security arrangement in Asian countries. The political situations in many of Asian countries, however, have changed drastically since then.

Democratization started in South Korea and Taiwan in the latter half of the 1980s. But it took them about a decade to fully experience the impact of democratization. South Korea held the first democratic presidential election after a long authoritarian rule by Park Chung-hee and Chun Doo-hwan in 1987. But it was Roh Tae-woo, a former military general with a conservative political stance, who won the election in 1987. Political space opened up wider after Kim Young-sam won the presidential election in December 1992. Various societal groups, including labor organizations, grew very rapidly under the presidency of Kim Dae-jung (1988-2003) and Roh Moo-hyun (2003-2008). Both Kim Dae-jung and Roh Moo-hyun had close relations with some of the labor leaders when they were opposition politicians. As we will see in the fifth section of this paper, social security arrangements in South Korea went through drastic change in the 1990s and early 2000s.

Democratization in Taiwan progressed gradually after Lee Teng-hui succeeded Chiang Ching-kuo, who passed away in 1988, as a leader of *Kuomintang*, or Chinese Nationalist Party, that ruled Taiwan since the end of the

World War II. The first democratic election of members of the parliament was held in 1992, and the first presidential election was held in 1996. Incumbent Lee Teng-hui won the election, and the rule by *Kuomintang* continued until Chen Shui-bian of Democratic Progressive Party won the second presidential election in 2000. Social security arrangements in Taiwan also went through fundamental changes since mid-1990s.

Many of other Asian countries also experienced democratization, though in a varying degree, in the past few decades. Marcos, a long-time dictator, was expelled in 1986, and the Philippines experienced four presidential elections since then. Another long-time dictator, Suharto, was also disgracefully forced to resign in 1998.

Elections now play a pivotal role in determining who will govern in many of Asian countries. In the elections, no matter whether he or she works in the formal sector or in the informal sector, everyone can cast one vote. In many of Asian countries, those who work as a regular employee in the formal sectors are outnumbered by farmers and workers in the informal sectors. It is getting increasingly difficult for political leaders in Asian countries to win elections without showing willingness to extend some form of social protection to farmers and workers in the informal sectors, as democratization progresses.

As we will see in some detail later, South Korea, Taiwan, Thailand, Indonesia, and the Philippines implemented new public health insurance scheme to cover those who are not regular employees in the formal sectors in the 1990s and 2000s. In the case of South Korea and Taiwan, those health insurance schemes designed to cover the less privileged in the informal sectors were later merged with health insurance schemes for regular employees in the formal sectors.

The implementation of new public health insurance schemes in those countries reduced the inequality between workers in the formal sectors and workers in the informal sectors as well as farmers in their protection from health risks. But, except in South Korea and Taiwan, they were covered by different schemes and there still remains considerable inequality. We will examine the reasons behind such divisions in social security arrangements between the two sectors in the next section.

#### **IV. Supply-Side Constraints**

Not unlike many other preceding studies, our analysis of the changes in social security arrangements in Asian countries in the previous section focused mainly on the demand side. We explained the changes by showing why such changes were necessary and/or desirable. In a harsh real world, however, we sometimes fail to fulfill necessary requirements and often fail to achieve desirable goals. Therefore, we cannot get the whole picture of changes by just pointing out what was necessary and/or desirable. We also need to pay attention to the supply side and examine what was possible and feasible and what was not.

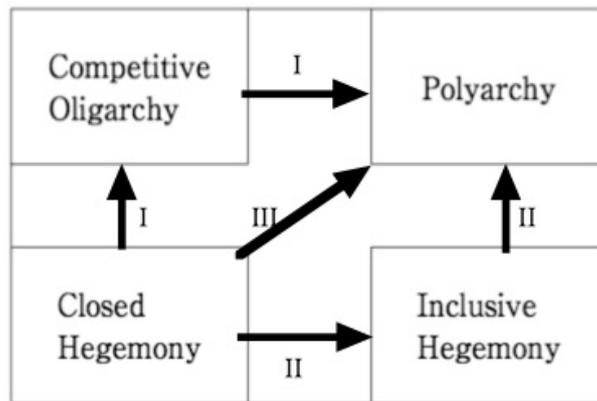
Policy-makers as well as scholars often cite budget constraints as the most serious obstacle to achieve desirable changes in social security programs. They, for sure, pose a very serious obstacle. Budget constraints, however, are not the only obstacle we face. In this paper, we would like to focus on often-ignored but equally, if not more, serious obstacles, namely, lack of administrative capabilities and corruption.

Now, at least as a principle or as a stated goal, the governments in Thailand, Indonesia, and the Philippines vow to provide “free health insurance” to poor families that are not covered by other types of social security schemes. In Thailand, a “free health insurance” scheme now covers almost all the people in the informal sector. But in Indonesia and the Philippines, “free health insurance” has not yet covered all the needy families. The governments in the two countries cite budget constraints as its main reason. But many officers in the fields often cite inadequate and inaccurate data on those who work in the informal sectors as another serious obstacle (Roks 2009; *Jakarta Globe*: October 13, 2009; Lavado 2010; my personal interviews at the Philippines’ Department of Labor and Employment and Philippine Institute for Development Studies in January 2011). Poor maintenance of household records and inadequate personnel at local levels prevent them from figuring out who are eligible for “free health insurance” accurately.

It should also be noted that social security programs in Thailand, Indonesia, and the Philippines have been haunted by corruption scandals (see for example, *ABS-CBN News*: July 10, 2008; *Asian Investor*: July 12, 2006; *Indonesian Observer*: June 30, 2000; *Jakarta Globe*: February 12, 2009; *Jakarta Post*: July 4, 2005; *Jakarta Post*: April 7, 2007; *Krungthep Thurakit*: June 16, 2009; *Krungthep Thurakit*: June 29, 2009; *Nation*: February 14, 2011).

In his influential book, *Polyarchy: Participation and Opposition* (Dahl 1972), Robert Dahl wrote that there were three pathways to full democracy, which he called “polyarchy.” He drew those three pathways as shown in Figure 1 below, where the vertical axis represents the degree of “public contestation,” or in other words, quality of political participation, while the horizontal axis represents the degree of “inclusiveness” or in other words, extent of suffrage. Many of European countries reached full democracy through Path I, that is to say, by raising the quality of political participation among relatively small number of people first, and then gradually expanded the suffrage. Most of developing countries, on the other hand, have been trying to make their way to full democracy through Path II, that is to say, by starting with a political configuration that gives all the people a right to vote regardless of their income or class background, but not much liberty to express their political opinion in public and not much power to influence the decision-making processes of important policies, and then gradually raising the levels of political liberty and quality of participation in the decision-making processes of important policies (Dahl 1972: 1-10).

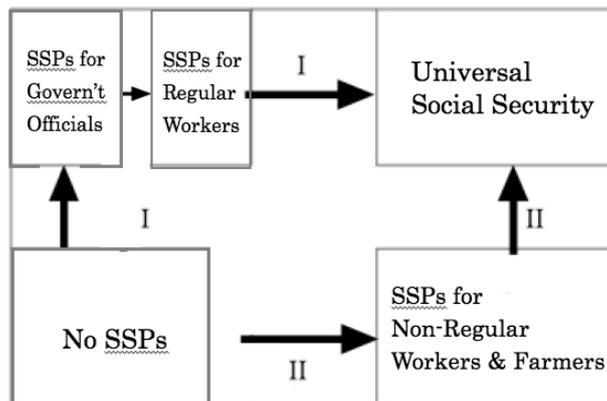
Figure 1: Three Pathways to Full Democracy (Dahl 1972: 7)



Dahl argued that, in the past, going through Path I had had a better chance to reach full democracy than going through Path II or Path III. But he also pointed out that it would be no longer feasible for new nations that attained independence in the latter half of the 20th century to take Path I, and that they had no choice but to take Path II no matter how hilly the road is.

In analogy to Dahl’s analysis of the pathways to full democracy, we can draw two pathways to universal social security, which provides “adequate safety nets for all” as shown in Figure 2 below, where the vertical axis represents the quality of protection, the horizontal axis represents the coverage, and SSP stands for “social security programs.”

Figure 2: Pathways to Universal Social Security



Most of Asian countries set up social security programs that protect government officials, military personnel first, and expanded them to cover regular workers in large private enterprises, and then workers in a small and medium enterprises in the formal sectors. After almost all the workers in the formal sectors are covered by some form of social security programs, separate social security programs, which require no or nominal

premiums but provide poorer quality of social protection, are often set up to cover farmers and workers in the informal sectors.

Unlike the pathways to full democracy described by Dahl, the two pathways drawn in Figure 2 seem to be able to coexist in many Asian countries. There are some important differences between social security and political rights. In the process of democratization, political rights expand and spread to wider public. Those who receive new political rights are usually not required to pay any fee to get them. But in the case of social security, regular workers in the formal sectors are usually required to pay some premiums to be eligible for social security benefits. The amount of premiums often varies in accordance with their level of income. Social security programs for regular workers are often subsidized by the government. But it seldom comes free.

Expansion of social security is usually welcomed by the public, even if they are required to pay some premiums, but not always and not by everyone. That's why the participation in social security programs is often made compulsory for those who are eligible. Unlike political rights, participation in social security programs often comes not only as a right but also as a duty. In Asian countries, some social security programs start with regular employees in large enterprises and then expand to cover those who work in smaller enterprises. In many countries, it is not uncommon for some people who become newly eligible to try to find a loophole to exempt themselves from some social security programs to avoid paying premiums.

Whether and how much one feels willing to contribute premiums depends on the "discount rate" for future loss and benefit as well. It is generally believed that subjective discount rates for future loss and benefit are negatively correlated with the level of income. A small difference in the discount rate often makes a big difference in the present value of future benefit that might come 20 or 30 years later (Farber 1993; Heal 2005). It means that as social security programs expand to cover people with lower income, it becomes more likely to face an unwilling response, unless the rate of premiums is lowered.

As for full-time employees in the formal sectors, it is relatively easy for the concerned government agency to figure out their income more or less accurately. So it is technically feasible to charge different amount of premiums for social security program in accordance of their level of income to reduce the unwillingness of workers with lower income. But it is very difficult to accurately estimate the level of income of farmers and those who work in the informal sectors. So in many Asian countries, social security programs designed mainly for farmers and workers in the informal sectors usually charge a flat rate of premium or do not charge any premiums.

The average income level of farmers and workers in the informal sectors is considerably lower than that of regular workers in the formal sectors in many Asian countries. There exists, however, a considerable variation in the income level even among farmers and those who work in the informal sectors. Social security programs

with a flat rate of premium tend to face stronger unwillingness to participate among poorer segments of farmers and those who work in the informal sectors. But if social security programs, which do not charge any premiums, provide generous benefits to all those who work in the informal sectors regardless of their level of income, it might make regular workers in the formal sectors dissatisfied.

Faced with such a dilemma, many of Asian countries with insufficient administrative capability to gather accurate information on the income of those who work in the informal sectors, have opted to set up social security programs that require no or only a nominal amount of premium but offer lower quality of protection to workers in the informal sectors.

## **V. Brief Overviews of Social Security Arrangements in Selected Asian Countries**

### **(1) South Korea**

A public health insurance scheme was set up in 1963, but the participation was not compulsory, and only a very small fraction of workers were covered by this voluntary scheme. In 1977, it became compulsory for those who work in the enterprises with 500 or more employees to join the public health insurance scheme. A government-sponsored health insurance scheme for government employees was also set up in 1977. The compulsory public health insurance scheme for private employees expanded its coverage gradually. It came to cover enterprises with 300 or more employees in 1979, those with 100 or more employees in 1981, those with 16 or more employees in 1983, and those with 5 or more employees in 1988 (Li 2009: 56; Kim 2009: 13).

As for the self-employed and workers in the informal sectors, a health care program for indigent households was set up in 1977, but it covered only a small portion of those who work in the informal sectors. It was not until the mid-1980s when serious efforts were made to provide a public health insurance program for all those who work in the informal sectors. Democratization movement gained a big momentum in the mid-1980s in South Korea, and the provision of a public health insurance program for self-employed and workers in the informal sectors became one of the most hotly debated issues in many of the electoral campaigns. A health insurance program for the self-employed and those who work in the informal sectors in the rural areas, including farmers and fishermen, was set up in 1988, and another health insurance program for the self-employed and irregular workers was set up in 1989. With the establishment of these programs for the informal sectors at the end of the 1980s, universal coverage was achieved in the field of health insurance. In the latter half of the 1990s, various societal groups came to strongly demand for the integration of public health insurance programs, and after heated political debates, the health insurance program for government employees, that for regular private employees, and those for the self-employed and irregular workers were merged into one scheme in the early 2000s (Li 2009: 56-59).

As for public pensions, government officials and military personnel were covered by the government sponsored pension scheme since the early half of the 1960s. A separate compulsory public pension scheme was set up for private employees who work in enterprises with 10 or more employees in 1988. It later expanded to cover enterprises with 5 or more employees in 1992, and farmers and fishermen in 1995, and finally all the self-employed and irregular workers in the informal sectors in 1999 (Kim 2001: 87).

## (2) Taiwan

Public insurance programs for government employees and military personnel were set up in the 1950s. Regular workers in private enterprises with 20 or more employees have also been covered by a public social insurance program. The social insurance scheme for private employees was expanded to cover enterprises with 10 or more employees in 1970. A separate public health insurance scheme for farmers was introduced in 1989, and another scheme for low-income households that are not covered by other health insurance schemes was set up in 1990. These public health insurance schemes designed to cover different categories of people were merged into one scheme in 1995 (Kojima 2003: 141-143). By merging several public pension schemes into one scheme in 2002, Taiwan now has a universal public pension scheme as well as universal public health insurance.

## (3) Thailand

Government employees and military personnel have been covered by the government-sponsored health insurance scheme since 1978. A social insurance scheme for private employees started in 1991 with those who work in enterprises with 20 or more employees, and came to cover enterprises with 10 or more employees in 1994, and all enterprises with one or more employees in 2000. Unemployment insurance was also introduced in 2004 as a part of the social insurance scheme.

As for farmers and irregular workers in the informal sectors, a free medical welfare scheme for indigent households was implemented in 1981, and the “voluntary health card” program, which entitles card-holders to receive free medical service at government medical facilities for one year at a flat annual fee of 500 baht, was introduced as a pilot project in 1984. These two programs were replaced by the Universal Coverage Scheme, or “a 30 Baht Scheme” in 2001. This 30 baht scheme was one of the most popular election campaign slogans for Thaksin Shinawatra and his party. Thaksin’s party won the largest number of seats in the parliamentary elections in 2001 and 2005. It is widely believed that Thaksin’s popularity was greatly enhanced by this 30 baht scheme. Almost all those who were not covered by social insurance were entitled to receive a 30 baht scheme card, regardless of their income level.

Thaksin was expelled by a military coup in 2006. The military junta that seized power from Thaksin abolished the Baht 30 copayment right after the coup with an obvious political motive to weaken Thaksin’s popularity among the rural and urban poor, and the system is now totally free of charge.

As for public pension, the government officials and military personnel were provided with some form of pension even before the World War II. Their pension schemes were firmly institutionalized in 1951. It was not until 1998 when private employees are entitled for public pension as a part of the social insurance scheme. It started with those who work in enterprises with 10 or more employees, and expanded to all the regular workers in the formal sector two years later.

Most of farmers, the self-employed, and irregular workers are not covered by any public pension program, yet. But the present Abhisit administration started providing 500 baht as a monthly allowance to the elderly, who are not covered by the social insurance scheme in 2009.

#### (4) Indonesia

Government employees and military personnel have been covered by the government-sponsored pension and health insurance schemes since the 1960s. As for private employees, those who work in enterprises with 10 or more employees or having a payroll of at least one million rupiah are provided with public health insurance and public pension by the JAMSOSTEK scheme (the Employees' Social Security) since 1992. It is, however, widely reported that many of those who work in enterprises with 10 or more employees are still not well covered by this JAMSOSTEK scheme.

As for the informal sectors, Indonesia implemented a pilot project called ASKESKIN, and started providing free medical services to the poor households in 2004. Four years later, Askeskin evolved into Jaminan Kesehatan Masyarakat (JAMKESMAS), which now covers 76.4 million poor Indonesians, at least on paper. JAMKESMAS, however, is still in its experimental stage and a number of irregularities and malfunctions are reported, and its further expansion has been hampered by insufficient budget (see for example, *Jakarta Globe*: February 12, 2009; *Jakarta Globe*: October 13, 2009; *Jakarta Post*: February 2, 2010).

#### (5) The Philippines

Government employees have been covered by the Government Service Insurance System (GSIS), which provides a pension as well as the following social security benefits: compulsory life insurance, optional life insurance, retirement benefits, and disability benefits for work-related accidents and death benefits, since as early as 1936.

In 1954, the Social Security System (SSS) was set up to provide social security programs to private employees. When it started in 1954, SSS covered only those who are employed in enterprises with 100 or more employees. SSS gradually expanded its coverage; enterprises with 50 or more employees in 1957, those with 6 or more employees in 1958, and those with one or more employees in 1960. So far as regular employees in the formal sectors are concerned, SSS completed its coverage expansion, at least on paper, much earlier than its

counterparts in other Asian countries. But it took several decades to expand its coverage in the informal sectors. SSS came to compulsorily cover self-employed professionals in 1980, the self-employed farmers and fishermen in 1992, domestic helpers in 1993, other informal sector workers in 1995, and finally irregular agricultural workers and family workers in 1997.

SSS provides old-age pensions, disability benefits, death benefits, sickness benefits, and maternity benefits. Its sickness benefits are provided in the form of daily cash allowance for the number of days in which a member is unable to work due to illness or injury. The daily sickness allowance is equal to 90% of the member's average daily salary, and payable for a maximum of 120 days in one calendar year. Therefore, sickness benefits of SSS often failed to fully cover the insurers' medical expenses.

In order to offer better protection for sickness and injury, a new public health insurance scheme called PhilHealth was set up in 1995. PhiHealth went through structural reform in 2000 and 2005, and now designed to provide full protection from health risks to all the people in the Philippines regardless of their income. Most of regular workers in the formal sectors are required to pay 2.5 – 3.0% of their salaries as a premium. Those who work in the informal sectors are required to pay a flat rate of 1,200 peso annually. Households under the poverty line are exempted from paying premium.

According to their regulation, almost all the people in the Philippines are eligible for PhilHealth. The Philippine government announced that its coverage reached 86% as of February 2010. But many public health specialists cast doubt on the reliability of such estimation. It is widely believed among public health specialists in the Philippines that the actual coverage is around 50% (personal interviews in Manila with public health specialists who prefer to remain anonymous in January 2011).

## **VI. Conclusion: A Two-Tier Model as a Second-Best Compromise**

Peter Katzenstein (1986) argued that small states in Europe, such as Netherlands, Belgium, Austria, Sweden, Norway, Denmark, and Switzerland, had managed to maintain economic prosperity by pursuing a different set of policies from big states, such as the United States, Britain, France, and Japan. He wrote:

For the small European states, economic change is a fact of life. ... These states, because of their small size, are very dependent on world markets, and protectionism is therefore not a viable option for them. ... Instead, elites in the small European states, while letting international markets force economic adjustments, choose a variety of economic and social policies that prevent the costs of change from causing political eruptions. They live with change by compensating for it. ... Their strategy differs profoundly from the liberal and statist principles that inform the political choices and structures of the large industrial states. (Katzenstein 1986: 24)

Many Asian countries, with China and India as notable exceptions, are facing a similar situation to the small states in Europe studied by Katzenstein. Though their population sizes might be a little larger, their sizes of their GDP is even smaller than those of “small” states in Europe. Like their counterparts in Europe, many of Asian countries are very dependent on world markets, and they have been facing the volatility of the global market. Many of Asian countries learned a bitter lesson on how politically disastrous and socially painful the adverse effect of the increasingly precarious global economy can be, when the region was ravaged by the Asian financial crisis in 1997.

If neither protectionism nor a retreat from the global economy is a viable option, Asian countries have only two options: 1) to develop their social security systems and prevent the costs of economic fluctuation and structural change from causing political eruptions as small states in Europe did, or 2) to strengthen the power of the government vis-à-vis various societal groups so that the government can force those who suffer from the adverse impact of the precarious global economy to withstand the pain without any pain-killers, as some authoritarian states did in the past. Under the present circumstances, the first option is less risky and less painful than the second one for many of Asian countries.

It is, however, not feasible for many of Asian countries to develop a full-fledged universal social security system that provides adequate safety nets for all in a short period of time. For many of Asian countries, which need to pursue potentially conflicting economic and political aims at the same time, such as promoting the accumulation of industry- as well as firm-specific skills among their workforce, preventing political and social unrest, providing some basic social protection to the underprivileged, and avoiding the unlimited increase of government expenditure on social insurance, the two-tier social security model, if properly designed and implemented, would work well in many of Asian countries as a Second-Best Compromise until they get ready to move on towards a full-fledged universal social security systems.

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# **Social Safety Net for Employment: ADB Experiences on Public Work Programs \***

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## **Global Crisis and Social Protection**

- Asia is a success story for growth. The past few decades have seen the dramatic reduction in the proportion of Asians living under the poverty line.
- Asia is still the home to 950 million people living below international poverty lines of \$1.25.
- Overall, Asia has rebound from the past crisis. Recovery remains fragile.
- The recent global crisis caused a slowdown in economic growth.
- The recession brought a sharp contraction in employment.
- It is no longer enough to focus on growth. Strategies for growth must be strongly linked to social policies and programs to be sustainable.
- The two economic crises recognize the important role of social protection programs.

## **Social Protection – urgent agenda for Asia and ADB’s Social Protection Strategy**

- During the Asian financial crisis, SP took on new urgency at ADB, the need for more effective coordination strategies became obvious. A framework for SP was approved in 2001.
- ADB’s Strategy 2020 highlights our commitment to support poverty reduction and inclusive growth in its developing member countries.

## **ADB’s Definition of Social Protection**

ADB defines SP as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people’s exposure to risks, and enhancing their capacity to protect themselves against hazards and interruptions or loss of income.

## **ADB’s social protection consists of five major elements:**

1. **labor markets policies** – programs designed to facilitate employment and promote the efficient operation of labor markets. Labor Market Programs consist of active and passive labor market
2. **social insurance** – programs to cushion the risks associated with unemployment, health, disability, work injury, and old age.
3. **social assistance** – programs for the most vulnerable groups with no other means of adequate support.
4. **micro and area-based schemes** – programs to protect and address vulnerability at the community level, and

5. **child protection** – programs to ensure the healthy and productive development of the future Asian workforce.

#### **Active Labor Market Programs include:**

- **Training** – aimed primarily at increasing the skills of the labor force.
- **Public works** – designed to help the poorest gain access to temporary employment. They also could act as programs to create more permanent employment, particularly if they include training components.
- **Employment Services and job search assistance** – provides training on financial and advisory support for start up entrepreneurial activities.
- **Entrepreneurship and micro-enterprise development** – aimed at addressing constraint to the job-search process and thus enhancing its effectiveness.

#### **Passive Labor Market Programs include:**

- Unemployment insurance, work injury insurance, health insurance, old age insurance, etc.
- Income support and wage subsidies
- An appropriate legislative framework that strikes a balance between economic efficiency and labor protection.

#### **Public Work Programs (PWPs) as an Important Instrument Social Protection**

- Effective in reaching the poor and have substantial capacity to redistribute income to the poor;
- Effective in targeting unskilled and/or semi-skilled unemployed or underemployed workers;
- Effective insurance by providing a quick response to changes in circumstances of households;
- Compared to other social protection programs, public work programs do not require complex administration, so they may be quickly set up in areas affected with various shocks;
- Provide opportunity to productively engage temporary surplus labor during economic crisis and slack of agricultural activities.

#### **Objectives of PWPs**

- Provide income transfers to poor households during macro economic shocks such as post-natural disasters, post-conflict rehabilitation, and economic crisis;
- Allow households to meet any consumption shortfalls during slack agricultural seasons or years;
- Construct much-needed infrastructure;
- Have the potential to generate second-round employment benefits as needed when infrastructure is developed; and
- Help many small-scale private contractors to grow.

### Characteristics of PWP in ADB's Projects:

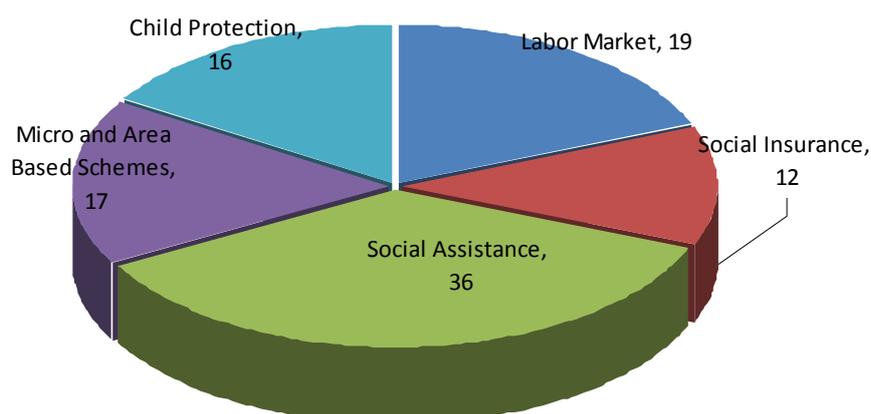
- PWPs are generally defined as public labor-intensive infrastructure development initiatives which provide cash or food-based payments.
- PWPs typically provide short-term employment at low wages for unskilled and semi-skilled workers on labor intensive projects
- Examples of PWPs are: road construction and maintenance; irrigation infrastructure; water and sanitation construction and rehabilitation, soil conservation; reforestation; community social infrastructures such as repairing schools hospital, and local roads, etc.

### Public Work Programs (PWPs) in ADB's Operations

An assessment of SP lending portfolio from 1996-2006 shows labor market comprised the second largest share of the overall ADB SP lending portfolio.

#### Social Protection Loans by Component, 1996-2008

(Share in %)



### Example Projects with Significant PWPs, 2001-2009

Year	Country	Project Name
2009	TIM	<u>Our Roads Our Future-Supporting Local Governance and Community-Based Infrastructure Works</u>
	INO	<u>Rural Infrastructure Support to the PNPM Mandiri Project II</u>
	PNG	<u>Extending the Socioeconomic Benefits of an Improved Road Network to Roadside Communities</u>
2008	BAN	<u>Second Urban Governance and Infrastructure Improvement Project</u>
	INO	<u>Rural Infrastructure Support to PNPM Project</u>
	IND	<u>Orissa Integrated Irrigated Agriculture and Water Management Investment Program</u>
2007	CAM	<u>Tonle Sap Lowlands Rural Development Project</u>
	PHI	<u>Integrated Coastal Resources Management</u>
	PAK	<u>Sindh Coastal Community Development</u>

2006	MON	<u>Urban Development Sector Project</u>
	BAN	<u>Secondary Towns Water Supply and Sanitation Project</u>
2005	INO	<u>Rural Infrastructure Support Project</u>
	INO	<u>Community Water Services and Health Project</u>
	IND	<u>Chhattisgarh Irrigation Development Project</u>
2004	BAN	<u>Secondary Towns Integrated Flood Protection Project II</u>
	NEP	<u>Decentralized Rural Infrastructure and Livelihood Project</u>
2003	INO	<u>Neighborhood Upgrading and Shelter Sector Project</u>
	SRI	<u>North East Province Coastal Development Project</u>
	LAO	<u>Small Towns Development Sector Project</u>
2002	PAK	<u>Punjab Community Water Supply and Sanitation Sector project</u>
	INO	<u>Poor Farmers' Income Improvement through Innovation Project</u>
2001	NEP	<u>Road Development Network Project</u>
	CAM	<u>Northwestern Rural Development Project</u>

Source: <http://www.adb.org/Participation/projects.asp>

## Lessons Learned from ADB PWPs

### 1. The outputs of PWPs:

- Jobs of short duration for work to increase income; and
- Creation of public goods in the form of new improved infrastructure.
- providing temporary income transfer benefits to the poor; and
- ensuring household food security, creating assets, and developing poor areas.

### 2. The Key Design Features

To realize the full potential of PWPs as social protection instrument, there are several key designs to be included:

- The wage rate should be set at a level is no higher that the prevailing market wage;
- Restriction on eligibility criteria should be avoided;
- If the budget is limited, the program should be targeted to poor areas;
- The programs should preferably consist of labor intensive projects;
- The programs should include an asset maintenance component;
- Implementation of the programs should be synchronized to the timing of agricultural slack seasons;
- Ensure appropriate mediation of civil society organizations for protection the right of the poor vis-a-vis programs managers; and
- Ensure observance to core labor standards i.e., no wage discrimination, no child labor, no forced labor, and no restriction to collective bargaining and freedom of association.

### **3. Implementation Issues**

- Institutional capacity for designing and implementing public works programs – different countries have different institutional capacity.
- Decisions as to who participates in the program sometime are taken by the elected officials at the village level, who often exclude members of the socially deprived communities.
- Cross-country evidence suggests that programs are worthwhile if planners give careful attention to the quality of assets to be created, and to their potential to create second-round employment benefits.

### **Some Gender Concerns and Solutions**

- Women’s participation is generally limited except among the very poorest and landless – Provide women access to direct wage employment.
- Women’s representation in decision-making structure is often limited – A minimum percentage of women’s participation is set in the guidelines.
- Piecemeal rates and work allocation may be gender biased – women’s participation by providing equal wage for equal work, childcare service and flexible working hours based on task-based wages or piece rates work.

### **Conclusions and Recommendations**

- ADB’s experience in PWPs in Asia shows positive impact in creating short-term employment.
- PWPs have played a significant role in mitigating the impact of economic crisis.
- In crisis context, PWPs are relatively easy to implement and can be discontinued quickly when no longer relevant.
- PWPs are an important instrument to assist the unemployed.
- PWPs have emerged as an important component of social protection.
- PWPs can also be used as effective as regular anti-poverty programs, employment creation, and assets creation on a regular basis;
- PWPs could increase social capital in communities;
- Across regions, the sustainability of the programs varied greatly depending mostly on the availability of funding and political commitment of governments;
- Gender-sensitive mechanisms should be embedded within project design and implementation.



# **India's Response to Social Dimensions of Global Economic Crisis and Promotion of Employment Safety Nets**

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## **1. Introduction**

India, since mid seventies has emerged as a fast-growing economy with a long term annual average growth rate of around 6 percent leaving behind its earlier average of around 3 percent. The average annual growth since 2004, catapulted to around 9 percent for the next four years. In recent times, India emerged as the second fastest growing economy in the world after China. However, the sustainability of such a high growth rate has now been challenged as a result of the impact of the global financial crisis emanating from the US which has turned itself into a global economic crisis through a recession in most of the high income industrialised countries. India has realised that it is now far more integrated with the global economy than what it was used to.

In India, even in the best of times with a fast growing economy, the challenge of employment as well as poverty and vulnerability of a large segment of its population has been a major area of concern. While a higher growth was perceived by the policy regime to be a necessary condition for generating more employment and providing decent work conditions, Indian policy also recognised the need for a number of directed policies for employment creation, access to credit and a whole range of programmes in the social sector to tackle the basic problems of poverty and deprivation. A few but important steps in this direction were taken during the last four years such as a right-based rural employment programme for unskilled manual work in rural areas and steps for doubling the expenditure on education as a percentage of GDP (from three to six percent) and trebling the expenditure on health (from one to three percent). The impact of the global economic crisis on India has now thrown up fresh challenges not only in its efforts to deepen its anti-poverty and pro-social development programmes but also to maintain the high growth rate. There are clear signs of a slow down in the economy which could even threaten the realisation of a 6 percent long term growth rate if focused measures are not taken up especially in the direction of expanding the domestic demand.

Globally the growth scenario is quite dismal. World growth rate in 2008 is estimated at 2.5 percent as against 4.9 last year and then to around 1.0 in 2009. Both US and EU -27 are expected to register only around one percent growth in 2008 and predicted to have negative growth rates (i.e. a contraction of the economy) during 2009 (UN 2009). This will also have its repercussions on the employment scenario. The ILO projected that world unemployment would increase by 30 to 50 million by the end of 2009. More importantly, it estimated

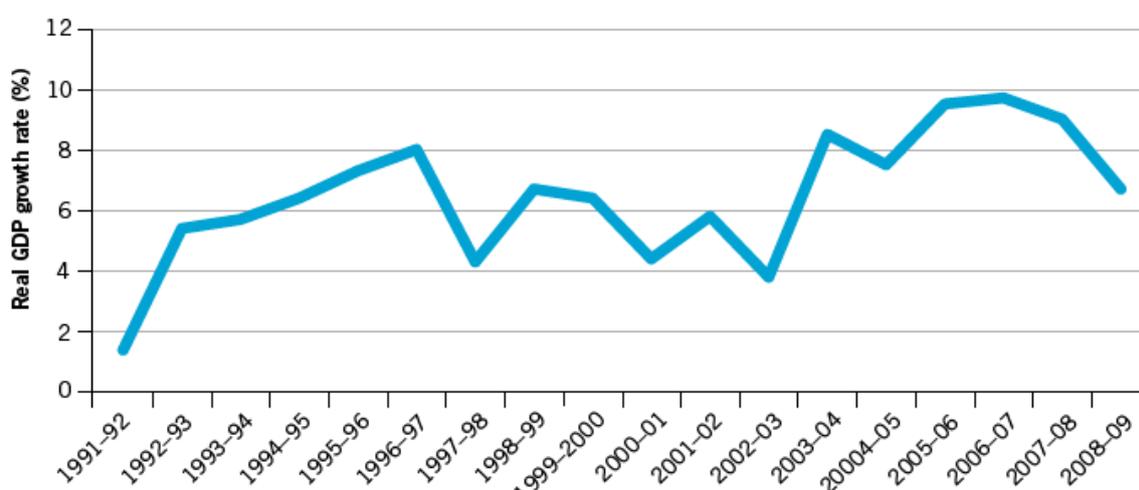
that some 200 million workers, mostly in developing countries, could be pushed into extreme poverty (ILO 2009).

It is in such a difficult scenario, an attempt is being made here to assess the social – mainly employment – dimension of the crisis on India and the policy responses of the Indian government. The Indian case seems to be one of slow down but not a recession. But the slow down, unless tackled with special emphasis on employment and livelihood security of the working poor, could turn out to be one of crisis. This is especially so because India is still a poor developing country with a vast informal sector that gives employment to 86 percent of its workforce including agriculture. Another 6 percent of the workforce is employed as informal workers (i.e. without job or social security) in the formal sector that adds up to 92 percent of Indian workforce as informal workers. This is quite a formidable figure from the point of decent work and long term development. But it also has an immediate meaning because it shows the extent of vulnerability in the face of the still unfolding economic slow down that could turn out to be a crisis. It is also pertinent here to mention that around 9 million people would enter the labour market in India annually till the end of the 11th Five Year Plan (Planning Commission 2008). Given the growth rate in labour force this will continue to be the case for the next ten years or so.

## 2. Overview of Crisis & Employment Situation

In the years preceding the crisis, the Indian economy was among the fastest growing in the world, with growth rate in gross domestic product (GDP) of about 9.6% in the 2005-2007. The annual growth catapulted to around 9% from 2004 and stayed such for the next four years, making it the second fastest growing economy in the world after China. However, the steady impressive growth has not translated into sufficient jobs. Additionally, whatever employment was generated was mostly in the vast informal economy, consisting of the informal sector as well as informal employment in the formal sector.

**Real GDP Growth Rate, 1991-2009 (constant 1999-2000 prices, factor cost)**



Source: Government of India Planning Commission, <http://www.planningcommission.gov.in/data/misdch.htm>

Although the overall impact of the global economic slowdown is not considered to be acute on India, the same had moderate impact on the Indian labour market as well. The falling profitability of Indian industries led to job cuts in general and in export oriented sectors, in particular. Labour Bureau, an organisation under Ministry of Labour and Employment (MoL&E), conducted five quarterly surveys during October 2008 to December 2009 covering sectors like textiles including apparel, metal and metal products, information technology, gems and jewellery, leather, automobiles, handloom/powerlooms and transportation to assess the impact of economic meltdown on job losses. Major findings of Surveys by Labour Bureau are as follows:

- Employment declined by 491,000 during the quarter Oct-Dec, 2008.
- Employment increased by 276,000 during Jan-March, 2009.
- Employment declined by 131,000 during Apr-June, 2009 probably due to seasonality.
- Employment increased by 497,000 during the quarter July-Sep, 2009.

As per latest quarterly quick survey for the period Oct.-Dec. 2009, overall employment has improved by about 638,000 during Dec., 2009 over Sep. 2009 due to substantial increase in employment by 570,000 in the IT/BPO Sector. The estimated employment in the selected sectors has experienced a net addition of 1.28 million during Dec, 2008 to Dec, 2009.

A detailed study conducted by V.V.Giri, National Labour Institute in 2009 indicated that most of the job losses during the economic slowdown had taken place in unorganised sector. In the organised sector, the job loss was minimal as indicated by the Labour Bureau study. Moreover, there was also considerable wage loss. The Indian economy has proved relatively resilient in the face of the global economic crisis. India's large domestic market, along with government fiscal measures, a number of social programmes and a strong banking system have helped to cushion the impact of the drop in demand in export markets. Nonetheless, the crisis initially led to job losses, particularly in export-oriented industries such as textiles and gems and jewellery.

Such numbers, however, provide a partial picture, as they cover only selected industries and relate mainly to formal employment. The situation is much harder to track in the informal economy, which accounts for most employment in India. While estimates vary according to definitions, about 86 per cent of India's more than 500 million workers are in informal employment and over 90 per cent are in what is known as the unorganized sector. These shares have changed little in recent years, indicating that India's strong and steady growth has not yet yielded a significant improvement in terms of broadening access to quality employment.

The decline in the incidence of absolute poverty has not been able to keep pace with that of growth acceleration and working poverty is high. As such, the central vision of India's 11<sup>th</sup> 5-Year Plan (2007-12) is faster and inclusive growth with a broad strategy which includes several interlinked components:

- rapid growth that reduces poverty and creates employment opportunities,
- access to essential services in health and education especially for the poor,
- equality of opportunity,

- empowerment through skills development and education, environment sustainability,
- recognition of women as agents of sustained socio-economic development and good governance.

The strategy is based on sound macro-economic policies envisaging generation of productive and gainful employment, with decent working conditions as a critical strategy element.

#### **The Indian Employment Scenario**

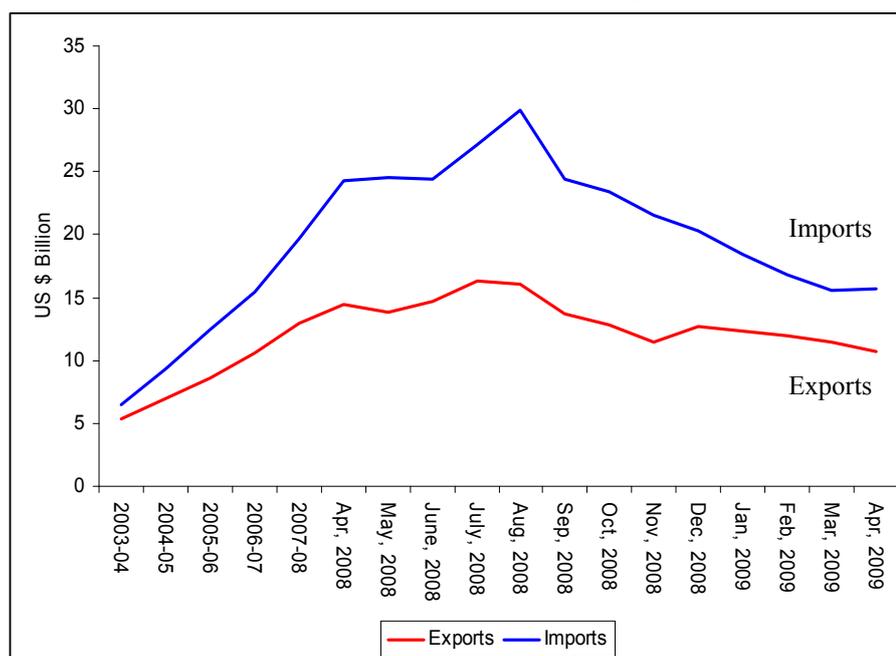
	<b>2004-05</b>	<b>2008-09</b>
	<b>Millions</b>	<b>Millions</b>
<b>Total workers</b>	<b>456</b>	<b>502</b>
<b>Regular workers (15%)</b>	<b>69</b>	<b>76</b>
<b>Self-employed (56%)</b>	<b>257</b>	<b>283</b>
<b>Casual workers (28%)</b>	<b>129</b>	<b>142</b>
<b>Informal Sector workers (86%)</b>	<b>392</b>	<b>432</b>
<b>Workers with casual status in formal sector (6%)</b>	<b>27</b>	<b>30</b>
<b>Share of informal workers who are Poor &amp; Vulnerable (79%)</b>	<b>360</b>	<b>397</b>

Source: NCEUS (June 2009)

India is a somewhat unique case as far as the effects of the global economic crisis are concerned. Increasingly integrated within the world economy, certainly more than at the time of the 1990s economic crisis, India has shown to be relatively resilient to the recent world-wide developments as a result of the global economic crisis as compared to several other countries. Though the recent fiscal measures, a viable domestic market, strong banking system, a number of socially-oriented programmes, etc. are providing the much-needed fallback options/cushions, a slowdown was recorded particularly for employment, given the fact that export-oriented industries and construction, many of which are employment-intensive, showed a significant slowdown with accompanied job losses.

Additionally, the drought situation in 2009 has affected agricultural production and led to rise in overall inflation and food prices. These are important concerns as, despite steady overall growth, India was experiencing slow employment growth with concerns on “quality”, even before the crisis, with its large workforce in the informal economy. The extent of vulnerability in the face of the unfolding results of the economic slowdown and the challenges are compounded by the fact that around 9 million people are projected to enter the labour market annually till the end of the 11<sup>th</sup> Plan. Given the growth rate of the labour force, this will continue to be the case for the next ten years or so.

### Trend in India's Exports and Imports



(Source: Government of India, Ministry of Commerce)

### Annex -1 Quarterly growth rates of the Indian economy before and after the global economic crisis

(Annex 1 captures elements of a “pre and post” economic crisis scenario of selected trends in the country.)

	2007				2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>Primary (A+B)</b>	<b>3.82</b>	<b>3.86</b>	<b>7.74</b>	<b>2.49</b>	<b>3.2</b>	<b>2.78</b>	<b>-0.38</b>	<b>2.56</b>	<b>2.9</b>	<b>1.9</b>
A. Agr., Forstry & Fishing	4.3	3.9	8.1	2.2	3	2.7	-0.8	2.7	2.4	0.9
B. Mining & Quarrying	0.1	3.8	4.2	4.7	4.6	3.7	4.9	1.6	7.9	9.5
<b>Secondary (C+D+E)</b>	<b>9.97</b>	<b>9.5</b>	<b>8.52</b>	<b>6.33</b>	<b>6.13</b>	<b>6.29</b>	<b>2.09</b>	<b>1.42</b>	<b>4.8</b>	<b>8.2</b>
C. Manufacturing	10	8.2	8.6	6.3	5.5	5.1	0.9	-1.4	3.4	9.2
D. Elec., Gas & W. Supply	6.9	5.9	3.8	4.6	2.7	3.8	3.5	3.6	6.2	7.4
E. Construction	11	13.4	9.7	6.9	8.4	9.6	4.2	6.8	7.1	6.5
<b>Tertiary (F+G+H)</b>	<b>10.83</b>	<b>10.33</b>	<b>10.28</b>	<b>11.85</b>	<b>10.2</b>	<b>9.79</b>	<b>10.24</b>	<b>8.62</b>	<b>7.8</b>	<b>9.3</b>
F. Trade, Hotels, Trans. & Comm.	13.1	10.9	11.7	13.8	13	12.1	5.9	6.3	8.1	8.5
G. Financing, Ins., R.Est. & Bus. Services	12.6	12.4	11.9	10.3	6.9	6.4	8.3	9.5	8.1	7.7
H. Commty Soc. & Per. Services	4.5	7.1	5.5	9.5	8.2	9	22.5	12.5	6.8	12.7
<b>GDP at Factor Cost</b>	<b>9.2</b>	<b>9</b>	<b>9.3</b>	<b>8.6</b>	<b>7.8</b>	<b>7.7</b>	<b>5.8</b>	<b>5.8</b>	<b>6.1</b>	<b>7.9</b>

### **Key Drivers to Recovery**

- **High Government Expenditure, funded largely through borrowings.**
- **Increased incomes in rural areas due to greater social spending and high farm good prices;**

### **3. Stimulus Measures**

India's government enacted three fiscal stimulus packages, in December 2008 and January and February 2009, with a particular focus on infrastructure. The packages accompanied the government's basic policy framework of promoting employment through higher economic growth. The overall aim of government policy was to foster inclusive growth and offset the impact of the global crisis by raising government expenditure, increasing rural incomes, lowering interest rates, boosting domestic demand and private consumption and promoting local investment.

The stimulus packages were also designed to rebuild confidence in the economy by :-

- easing the liquidity crisis, especially the flow of credit to medium-sized and large enterprises;
- providing further incentives to export-oriented sectors and industries;
- enhancing access to capital for investment in infrastructure; and boosting local demand for selected goods and services.

The first stimulus package of US\$4 billion in December 2008 was followed by a second package in January 2009, totalling US\$4.2 billion, to prevent a further slowdown of the economy. A third stimulus package, which at about US\$800 million was much smaller than the earlier two, was announced in February 2009. Overall, the stimulus packages totalled about US\$9 billion, less than 1 per cent of GDP.

Their main elements were:

- Funding to support public-private partnership infrastructure projects involving highways, ports and the power sector as well as non-bank finance companies dedicated to infrastructure.
- Financing institutions were allowed to raise funds from multilateral or regional institutions.
- Tax reductions and other benefits totalling about 20 billion Indian rupees (INR) for the textile, handloom, handicraft, gems and jewellery, leather and marine food sectors.
- Injection of capital into the economy. This included assets purchases and lending by the government and the central bank, as well as liquidity provisions and other support, amounting to a total of 5.6 per cent of 2008 GDP.

In addition, the government conducted studies on job losses in sectors affected by the crisis and announced packages for such sectors. The government's 2009-2010 budget proposal aims to extend the Software

Technology Parks of India (STPI) scheme for one more year to enable the information technology industry to counter the economic downturn and help India retain its competitiveness. The government also cut excise duty on a variety of vehicles, including small cars, to 12 per cent to boost demand in the auto industry, and in February 2009 the State Bank of India reduced interest rates on automobile purchase loans. As a result, passenger vehicle sales rose nearly 12 per cent in April to August 2009 from the same period a year earlier.

A key feature of India's response to the crisis has been a participatory social dialogue process. The tripartite Indian Labour Conference, held in February 2009, drew up short- and long-term strategies to cope with the employment impact of the crisis on India. As a follow-up, a Tripartite Expert Group was established, and following a series of studies and consultations this Group submitted consensus-based policy recommendations to the Ministry of Labour and Employment (MOLE). An Inter-Ministerial Group has been constituted by the MOLE to monitor the impact of economic slowdown on employment.

#### **4. Key Policy Interventions**

The following key policy areas/interventions provided fallback options and cushions for the workers and their families affected by the slowdown:

##### **4.1 Employment Promotion & Social Protection**

The major schemes currently running in the country for creation of wage employment are National Rural Employment Guarantee Programme (MGNREGA) in the rural areas and Swarna Jayanti Shahari Rozgar Yojana (SJSRY) in the urban areas.

For rural poor, the Government of India adopted a multi-faceted development strategy that promotes economic growth and also addresses needs of the poor, by ensuring their basic rights. The Mahatma Gandhi National Rural Employment Guarantee Act (NREGA) is the first- ever law that guarantees wage employment at an unprecedented scale. It aims at enhancing livelihood security of rural households by providing at least 100 days of guaranteed wage employment in a year to every household. The works undertaken under MGNREGA rejuvenate the natural resource base and address the causes of chronic poverty such as drought, deforestation, soil erosion, floods, poor rural connectivity. The documents and the legal processes enshrined in the MGNREGA Act are contributing to strengthening grassroots processes of democracy and infusing transparency and accountability in rural governance.

Although the programme predates the global economic crisis, MGNREGA launched in February 2006 has helped cushion the impact of the crisis on employment and livelihoods. For example, it has provided employment for some of those migrating from urban to rural areas as a result of job losses in export industries.

MGNREGA works are likely to improve resilience, reduce vulnerability and adaptive capacity of the production systems, farmers. Resilience and Safety Nets are in-built in MGNREGA activities as they lead to:

- Food security
- Livelihood security
- Water security
- Ecological Security
- Flood risk reduction

The following are some key aspects of MGNREGA:

- Over 3.5 billion workdays have been generated since 2006.
- In 2008, NREGP was extended from 330 districts to 615 districts.
- Families received work :

2006-07	21.0 million
2007-08	33.9 million
2008-09	45.1 million
2009-10	52.5 million
2010-11	41.1 million (upto Dec.2010)
- Women represent approximately 49 per cent of the NREGP workforce.
- Over the past three years, 340,000 road works were carried out under the programme.
- There were 850,000 water conservation works undertaken over the past three years.
- As per latest, more than 100 million people have opened saving accounts in banks or post offices to receive their payments.

The documents and legal processes enshrined in the MGNREGA are helping to strengthen grassroots democracy and promote transparency and accountability in rural governance. In addition, social audits, through which the public and civil society play a vital role in overseeing projects, have been conducted in 172,000 village governance bodies, or Gram Panchayats. Since 2006, expenditure on the programme has totaled US\$ 23.93 billion (approximately) as under:

- 2006-07 = US\$ 2.0 Billion,
- 2007-08 = US\$ 3.53 Billion
- 2008-09 = US\$ 5.45 Billion
- 2009-10 = US\$ 8.42 Billion
- 2010-11 = US\$ 4.53 Billion (upto Dec. 2010)

To promote employment among the urban poor, the government in April 2009 issued revised guidelines for effective implementation of the revamped Swarna Jayanti Shahari Rojgar Yojana (SJSRY). This is a unified Centrally Sponsored Scheme launched in December 1997, in lieu of the erstwhile Urban Poverty Alleviation Programmes. The provisioning of resources for this scheme between the central and state governments is on a

75:25 basis. The basic objectives of SJSRY are to provide gainful employment to urban poor, unemployed and underemployed; setting up self Employment ventures and provision of wage employment; community empowerment through creation of suitable community structures. The wage employment component (UWEP) seeks to provide employment to urban beneficiaries living below the poverty line by employing them for construction of socially and economically useful public assets. Under UWEP of the SJSRY, 69.0 million workdays of employment (cumulative) had been created till March 2009. There have been frequent demands during the last couple of years to put in place an Act similar to MGNREGA for urban areas as well.

## **4.2 Developing Infrastructure and Housing**

The Government has launched Phase-II of one of India's Flagship Programme "Bharat Nirman., a time-bound business plan for rural infrastructure. The programme has succeeded in reaching basic infrastructure of roads, electricity and telephones to a large number of villages. During Phase-I, this Programme achieved most of the targets of rural water supply, rural housing and has increased irrigation potential. The proposed pro-poor infrastructure investments are expected to create additional employment opportunities.

In order to boost domestic demand and employment intensity, the Phase-II focuses on:

- Doubling the target for rural housing to 12 million homes, to be completed in the next five years.
- Setting a target for rural telecommunications coverage of 40 per cent of people living in rural areas in the next five years and expanding broadband to connect every panchayat, or village, to a broadband network in three years.
- Revamping the scheme for Common Service Centres, or e-kiosks, to provide government services to citizens in rural areas.
- Establishing new targets for rural electrification, irrigation and road connectivity.

In urban areas the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) with projects of nearly Rs.50,000 crore (US\$10.7 billion) in 2007-2012 will continue to focus on infrastructure, basic services and governance reform and increase support to 60 cities to upgrade urban infrastructure and public transport. Over 1.5 Million houses are under construction for the urban poor. For the poor living in urban slums, the government has launched a massive housing programme (Rajiv Awas Yojana)

## **4.3 Expanding Social Security Coverage**

This newly introduced Act of 2008 provides an excellent legal framework and aims to provide for social security and welfare of the unorganised sector workers. The funding component of the Act is being worked-out. In India, it is estimated that the workforce in the unorganised sector constitute more than ninety-four per cent of the total workforce in the country. On account of their unorganised nature, these workers do not get adequate social security. Some welfare schemes are being implemented but despite all these efforts, there is a

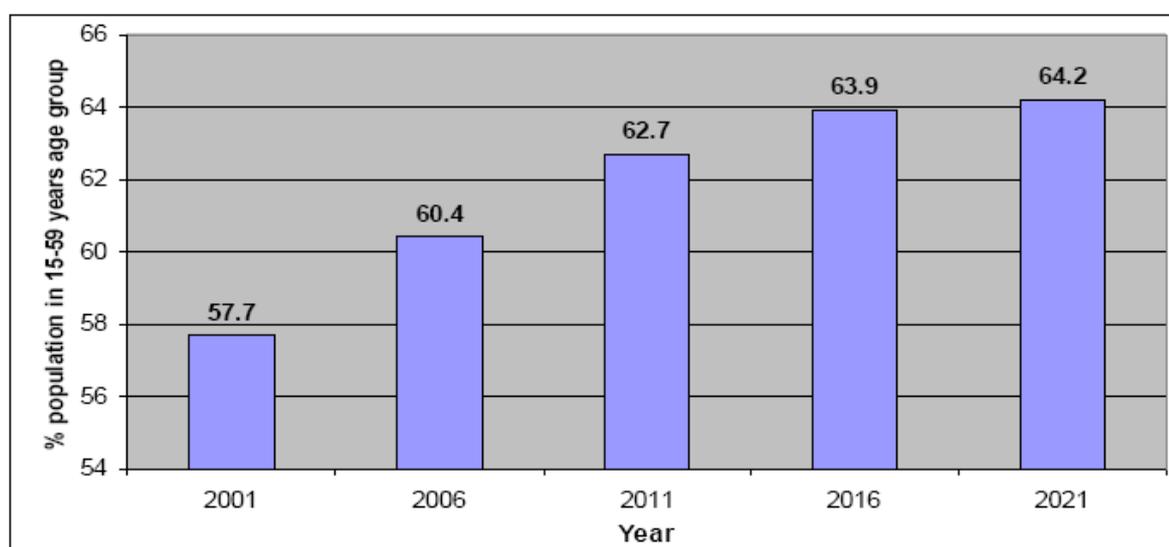
huge deficit in the coverage of the unorganised sector workers in the matter of labour protection and social security.

In April 2008, the Government of India launched a health insurance scheme (RSBY) which not only avoids the pitfalls of the earlier schemes but goes a step beyond and provides a world class model. Currently, the Scheme provides health insurance to “Below Poverty Line” (BPL) families for unorganized sector workers. The scheme provides smart card based cashless health insurance to the below poverty line workers and their families (upto five in all). The scheme offers coverage of Rs. 30,000 (US\$ 660 approximately) for any members hospitalisation during the year. The Scheme provides for portability of smart cards by splitting cash value for migrant workers. Under the scheme, all pre-existing diseases are covered for hospitalization expenses including maternity benefits. The coverage under the programme so far has been impressive and 23 States and Union Territories have implemented the scheme so far. About 15 million Below Poverty Line (BPL) families have been issued health insurance smart cards and 470,000 cases of insurance claims amounting to about US\$ 45 million have been settled till March, 2010.

#### 4.4 Buidling Skills - Training for Recovery

India’s 11<sup>th</sup> five year Plan (2007-12) indicates that “generation of productive and gainful employment, with decent working conditions on a sufficient scale to absorb our growing labour force, must form a critical element in the strategy for achieving inclusive growth”.

**Percentage of Population in Age Group of 15--59 Years**



*Source: Office of Registrar General & Census Commissioner (RGCC), 2006*

The ability to sustain labour-intensive growth depends on the expansion of the labour force’s skills capabilities with skills and knowledge as driving forces of economic growth and social development. Other projections also indicate emergence of a young India with 800 million in the productive age group by 2015. If the present trend continues, 109 million persons will attain working age during the period of the current 5-

Year Plan. A significant share of incremental demand is likely to be for skilled labour. In comparison, at present the capacity of skill development in India is around 3.1 million persons per year. It is estimated based on NSSO data for 2004-05 that only 2% persons in the age group of 15-29 years have received formal vocational training and around 8% are reported to have received non-formal vocational training, indicating thereby that higher proportion of youth population actually enter the world of work without formal vocational training. Many of the developed economies have 60 to 80% of skilled workers.

Currently, India is passing through an unprecedented phase of demographic changes. The ongoing demographic changes are likely to contribute to an ever increasing size of labour force in the country. The Census projection report shows that the proportion of population in the working age group (15-59 years) is likely to increase from approximately 58% in 2001 to more than 64% by 2021.

In absolute numbers, there will be approximately 63.5 million new entrants to the working age group of 15-59 years between 2011 and 2016. Further, it is important to note that the bulk of this increase in the population is likely to take place in relatively younger age group of 20-35 years. Such a trend would make India as one of the youngest nations in the world.

In 2020, the average Indian will be only 29 years old, compared to 37 in China and the US, 45 in West Europe and 48 in Japan. This trend is seen significant on the grounds that what matters is not the size of the population, but its age structure. A population “bulge” in the working age groups, however large the total population, is seen as an important advantage characterised as a “demographic dividend”. Hence, this report, *inter alia*, aims to focus on the young age groups and suggest ways and means to utilise this “demographic dividend” to contribute to the overall economic growth of the country.

Another challenge is the fact that approximately 93% of the country’s workforce is in the unorganized sector, which cuts across all economic activities and includes rural and urban areas. It contributes to about 60% of the GDP. Strengthening the skill base of the unorganized sector will improve productivity, working conditions, labour rights, social security and living standards.. Thus, there is a need for increasing capacity and capability of skill development programs

India’s growing population is being recognized as strength rather than bottleneck. The demographic dividend can be capitalized only by building and constantly upgrading the skill levels of the working population. The thrust is, therefore, on creating a pool of adequately-skilled personnel in appropriate numbers, in line with requirements of ultimate users and enhanced quality training of the labour force the current 3.1 to more than 10 million per year with a multi-pronged strategy.

Against the various challenges, a National Skill Development Policy has been formulated in February, 2009 which targets creating 500 million skilled people by 2022 with the following vision:

- Skill development should harness inclusive growth and reduce economic and social divisions among Indian workforce particularly across rural-urban, male-female, organized- unorganized and traditional/ contemporary.
- Matching the emerging demands for skills across various industries and economic enterprises.
- Evolving National Vocational Qualification Framework comparable with international standards. Developing standard certification system by recognizing and including quality skills acquired through any informal system of learning.
- Greater and more active role for workers' organizations, industry, civil society, Panchayati Raj ( Village Level Governance) Institutions and other professional bodies.
- Greater reduction of poverty through enhanced earnings of skilled workers

The GOI has launched a number of key initiatives to meet this challenge. For example:

- Industrial Training Institutes (ITI) are being upgraded through Public Private Partnership (PPP) mode.
- A large well-resourced Programme on Skills Development Initiative has been launched to provide vocational training to 1 million persons in the next 5 years and thereafter 1 million persons every year in modular employable skills;
- 1500 new ITIs and 50,000 Skill Development Centres are being established

India's skill development initiatives support employment generation, economic growth and social development processes. Skill development policy and programmes will be an integral part of comprehensive economic, labour and social policies and programmes

## **5 Outlook and Challenges**

As far as the immediate future is concerned, it is recognized that India is now on the road to recovery and will probably recover more rapidly than other countries. Recent trends seem to confirm this trend

The Global Jobs Pact has been taken quite seriously in India by the ILO's partners. A number of officials of India's Ministry of Labour and Employment and trade unions have indicated that the steps being taken in India for recovery amounts to operationalisation of elements of the Pact, which the Indian constituents have actively supported.

India's economy is on course to strengthen from last year, with GDP growth forecasts ranging from 7.2 per cent to 7.75 per cent for the 2009–2010 financial year. The government expects growth to pick up further in 2010–2011, and has indicated a target of about 10 per cent. This raises policy questions regarding the extent and timing for withdrawing stimulus measures.

However, while stronger growth may lead to a lower rate of both unemployment and underemployment, it may not alter the share of workers in the informal economy. Specific policy measures to target such workers will therefore continue to be important in the future.

Moreover, the labour force is projected to expand annually by about 9 million net until the end of the 11th Five-Year Plan and to continue to grow between 2015 and 2020, albeit at a slowing pace.

Other challenges are linked to the recent surge in food prices, reflecting the impact of the drought as well as the recovery in the global economy. Ensuring that this does not spill over into wider inflation will be of concern.

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## **ITUC-AP Action for Social Safety Nets**

### **Evolution from Minimum Floor for Social Protection to Re-Distributive Justice**

Noriyuki Suzuki

General Secretary, ITUC-Asia Pacific

#### **Summary**

The ITUC-AP initiated action for establishing Social Safety Nets at the time of Asian Financial and Economic Crisis. The ITUC-AP, by developing its own AP definition of the Social Safety Nets, first infused a wider meaning into the term in 1998. After intensive and extensive campaign for the Social Safety Nets, the term is now recognized by many regional and international organisations and institutions.

Though progresses in Social Safety Nets in the region are visible, however, there are still various deficits in their schemes in terms of their levels of protection and coverage, and financial strength. Due to downturn pressure from globalisation, establishment and improvement of Social Safety Nets are encountering challenging difficulties; however, the ITUC-AP will continue our action, specifically at the national level, to promote, build, defend, and strengthen the Social Safety Nets which is primarily one of the essential instruments to realise distributive justice in economy and society.

The ITUC-AP will continue our action, specifically at the national level, to promote, build, defend, and strengthen the Social Safety Nets as part of crucial instruments to realise distributive justice in economy and society through promotion of constructive industrial relations on the basis of recognition and efficient operations of trade union

#### **Evolution of Social Safety Nets**

The ITUC-AP (then ICFTU-APRO) commenced its action for Social Safety Nets during the Asian financial and economic crisis that started in July 1997 in view of the massive retrenchment, without adequate unemployment benefit and due procedures, which resulted in increase in poverty, increase in the number of children leaving school, increase in child labour as well as increase in the vulnerability of women. The contributing factors to the social crisis were lack of employment protection and the dominant role of the IFIs over the labour market through their policy recommendations/conditionality to governments.

The then ICFTU-APRO had a dual strategy, one was engagement with the IFIs<sup>1</sup> and the other was campaign for Social Safety Nets focusing on unemployment issue that time.

While pursuing engagement and dialogue with IFIs, through regional forums, the ICFTU-APRO developed the definition of the Social Safety Nets, which had wider coverage than the ILO Convention 102 concerning Social Security because of the alarming consequences of the massive unemployment during the crisis for the working life as a whole.

The ITUC-AP thus defines Social Safety Nets as a comprehensive mechanism encompassing employment insurance with unemployment benefits, vocational and skills training and retraining for employment and job placement, retrenchment benefits, retirement / old age benefits, occupational safety and health benefits, guaranteed minimum wage, maternity benefits and other benefits specific to women; and general social development covering basic medical care and treatment, education, housing, social assistance programmes for special groups, community development and natural disasters<sup>2</sup>.

The components of Social Safety Nets under the ITUC – AP definition involved are as follows:

- Old Age/Retirement Benefits
- Employment Insurance Benefits (unemployment cash benefits, vocational and skills training and retraining and job placement)
- Retrenchment Compensations
- Medical Care Sickness and Employment Injury
- Maternity Benefits and Other Benefits Specific to Women
- Guaranteed Minimum Wage
- General Social Development
  - » Education
  - » General health
  - » Housing
  - » Social assistance for special groups
  - » Community development
  - » Natural disaster

It is clearly seen that the ITUC – AP definition of social safety nets incorporates the schemes under ILO Convention 102 on Social Security (Minimum Standards) and social welfare and assistance programmes as well as social development strategies such as basic education and health because the overarching principle in the provision of the ITUC-AP Social Safety Nets is social justice and equity.

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<sup>1</sup> International Financial Institutions such as the World Bank, the IMF and the ADB

<sup>2</sup> Natural disaster was added to the definition after the devastation of the Indian Ocean Tsunami in 2004.

## ITUC-AP's Regional Campaign 1997- and Achievements

The strategic campaign for Social Safety Nets has both regional and national activities. The regional aspect is to develop policy recommendations and produce publications on these issues for distribution to the affiliates. At the national level training courses and/or programmes with a campaign approach are to be carried out to create awareness and provide education and training

Since 1979, the ICFTU/ITUC-AP has been conducting extensive regional campaigns for Social Safety Nets with 3 surveys, 10 regional meetings and 22 national activities and published 6 reports<sup>3</sup>.

Rigorous trade union campaigns for better Social Safety Nets have successfully created general awareness of the necessity and importance of such nets among governments, employers and other international institutions. Despite difficult situation, affiliates have made certain progress. For instance, NTUC – I and GEFONT in Nepal are now actively campaigning for the provisions of social safety nets where there is hardly any in the country. In Korea the affiliates (FKTU and KCTU) campaigned for the improvement of the employment insurance system. In Thailand the affiliates lobbied for the introduction of the employment scheme which was later put in place. In the case of Hong Kong (HKCTU) and Malaysia (MTUC) the affiliates campaigned for the legislation of minimum wages<sup>4</sup>. The NTUC in Singapore continuously involves itself in improving the skills development of workers especially on a tripartite basis. In India the affiliates campaigned for the right to employment and later the rural employment scheme was introduced by the Government.

However reviews of the campaign for Social Safety Nets under the current downward cost-cutting pressure and demographic changes such as aging and surge in entry of youth into labour market identified three targeted action areas as follows:

- a) establishing social nets and expanding them to non-traditional working populations,
- b) defending existing social safety nets: and
- c) struggling hard to build social safety nets

Many countries have already established to a certain degree social safety nets. However, their coverage is narrow, usually limited only to the formal sectors particularly to the public sector. Of essentially importance is universal application of Social Safety Nets to all population and to informal economy, agriculture workforce, atypical workers and migrant workers in particular.

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<sup>3</sup> See Annexure

<sup>4</sup> Hong Kong has just passed a law on the provision of minimum wages while in Malaysia there are indications that a National Minimum Wage Act would be ready by June 2011.

Before that the term “Social Safety Nets” was understood to refer to only social welfare and assistance program when the ICFTU-APRO first infused a wider meaning into the term in 1998. However, with the vigorous national, regional and global campaigns, the term “Social Safety Nets” is now recognised by other organizations and institutions or commonly used although levels of protection which their term Social Safety Nets envisages are different, from positive protection to a minimum protection to the vulnerable. For instance;

ASEAN: Social Safety Nets and protection from the negative impacts of integration and globalisation...<sup>5</sup>

APEC: Improve Social Safety Nets and reinforce Social Protection and Employment for Vulnerable Group<sup>6</sup>

ADB: Finally, Social Safety Nets must be strengthened to prevent extreme deprivation<sup>7</sup>.

G20 also referred to Social Protection in 2010; we are determined to put jobs at the heart of the recovery, to provide social protection, decent work and also to ensure accelerated growth in low income countries...<sup>8</sup>

### Challenges ahead for Institutional Reform

With the economic growth and progress in social Safety Nets, social indicators show progress to a certain degree. For instance in Nepal<sup>9</sup>:

#### Adult literacy

1985	2006
Male: 42.7	69.0
Female: 9.8	42.0

#### Primary School Net Enrollment

1990	2008
64.0	91.1

#### Infant Mortality Rate per 1000 live births

1990	2006
97.0	48.0

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<sup>5</sup> ASEAN Road Map for an ASEAN Community 2009-2015, p. 73

<sup>6</sup> 5<sup>th</sup> Human Resource Development Ministerial Meeting, 2010, Beijing

<sup>7</sup> ADB Strategy 2020, p. 19

<sup>8</sup> G20 Soul Leaders' Declaration

<sup>9</sup> ADB CPS 2010-2012

Improvement of Social Safety Nets is largely made through institutional reform by means of legislation, except a few areas of bi-partite or trade union schemes such as cooperate based pension and healthcare schemes and cooperatives or social enterprises, which are established and run through collective bargaining or under the unions' own management.

The items of Social Safety Nets as defined by the ITUC-AP clearly indicate that Social Safety Nets are important mechanisms of re-distribution of national wealth. In fact, the effectiveness of the redistributive function of Social Safety Nets is statistically evidenced, one example of which is that GINI Coefficient after adjustment by Social Safety Nets was 0.3726 from the original 0.5318<sup>10</sup>.

In order to build and improve Social Safety Nets, labour friendly legislation with universal coverage and sufficient governmental budget to run Social Safety Nets are crucial. Funding of Social Safety Nets by governments is directly linked to the fiscal and development policies of governments, which leads to, naturally, taxation system. This is where the issues of Social Safety Nets and taxation/fiscal policy are structurally interlocked.

Ultimately, Social Safety Nets are instrumental to realise distributive justice in national economies. Economic growth should be fairly distributed to the labour through collective bargaining or minimum wage, but also re-distributed to the entire population by means of Social Safety Nets.

The key question for trade unions is how to put into practice nationally the regional and global consensus about the necessity of Social Safety Nets. The essential factors for building and improving Social Safety Nets are sustained economic growth and national consensus so that wide variety of Social Safety Nets can be established, grown and run<sup>11</sup> on the basis of diverse political situation and social and economic conditions in countries across the region. To this end importantly, strong bi- and tripartite consensus about the national development and distributive justice under constructive industrial relations are also essential. The ITUC-AP defines the constructive industrial relations as follows:

“On the basis of full recognition and operations of trade unions in compliance with the ILO Conventions No. 87 and No. 98 in pursuit of Decent Work and common welfare, and in a stable political climate for social partners to operate without fear of reprisal; parties concerned share common interest in labour standards, performance of business, conditions of national economy, industries and labour market; and share a principle of fair distribution of output to stakeholders.”

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<sup>10</sup> Japan 2008

<sup>11</sup> Good governance where there is accountability and transparency is essential in the provision of social safety nets. For example workers' representation in provident fund board including the investment body of such a fund is necessary for the democratic functioning of the fund.

The regional campaign of the ITUC-AP for the establishment of Social Safety Nets evolved from the economic and financial crisis and the ITUC-AP has garnered wider support by social partners regionally and globally. On the basis of such recognition of the importance of Social Safety Nets, ITUC-AP will continue our action, specifically at the national level, to promote, build, defend, and strengthen the Social Safety Nets which is primarily one of the essential instruments to realise distributive justice in economy and society.

The ITUC-AP welcomes the ASEM Leaders' Statement which reads, "Leaders recalled how Social Safety Nets operated in times of crisis on economic stabilization and not just as a welfare or redistribution mechanism. Social Safety Nets can foster equal opportunity, remove barriers to social mobility and produce beneficial effects on the allocation of resources, sustainable economic growth and overall macro-economic sustainability<sup>12</sup>." Our action for Social Safety Nets should lead to a "global social protection floor<sup>13</sup>."

Ends

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<sup>12</sup> ASEM Leaders' Statement 2010, Paragraph 27

<sup>13</sup> -do-

## **Annexure:**

### **Regional and sub-regional level action for promotion of Social Safety Nets**

#### **1. Conferences and Workshops on social safety nets**

- ICFTU – APRO/JIL/ILO Regional Workshop on Social Safety Nets, Manila, Philippines, 28 July – 1 August 1998
- ICFTU – APRO/ILO Sub-regional Workshop on Social Safety Nets for East and Southeast Asia, Langkawi, Malaysia, 28 – 30 October 1998
- ICFTU – APRO/JIL Regional Conference on Trade Union Paradigm for the 21st Century – Industrial Relations, Social Safety Nets and Financial Architecture, Langkawi, Malaysia, 1 – 5 September 1999
- ICFTU – APRO/ILO Regional Conference on Social Safety Nets and Dehumanising Market Economy, Singapore, 5 – 9 October 1999
- ICFTU – APRO Regional Conference on Campaigning for National Social Safety Nets in collaboration with the LO-FTF (Denmark), Singapore, 7 – 11 March 2000
- 18th ICFTU – APRO Regional Conference, Kathmandu, 2 – 4 February 2005 : omnibus resolution with a part on institutional reforms that also covers the issue of social safety nets
- ICFTU – APRO Regional Review Meeting on Social Safety Nets, Singapore, 22 – 24 May 2007
- ITUC – AP Regional Conference on Institutional Reform – For A Better Social Safety Nets and Fiscal/Monetary Policies, Bangkok, 6 – 7 August 2008
- ITUC – AP Regional Conference on Minimum Wage Fixing, Petaling Jaya, 18 – 19 November 2009
- ITUC – AP Regional Conference on Social Safety Nets focusing on Provisions for Retirement and Old Age, Singapore, 18 – 19 August 2010

#### **2. Surveys on social safety nets**

- ICFTU – APRO Survey on the provision of social safety nets in selected countries before and after the start of the Asia financial and economic crisis ( Date of completion: February 2000)
- ICFTU – APRO Follow – up Survey on the Provisions of Social Safety Nets After 1999 ( Date of completion: January 2003)
- ITUC - AP Survey on Social Safety Nets (Date of completion: July 2008)

#### **3. Production of reports on social safety nets**

- Report on the ICFTU – APRO/JIL/ILO Regional Workshop on Social Safety Nets, Manila, Philippines, 28 July – 1 August 1998
- Booklet on Social Safety Nets in Asia and the Pacific – for a Better Tomorrow – Statement and Recommendations of the ICFTU – APRO/JIL/ILO Regional Workshop on Social Safety Nets, Manila, Philippines, 28 July – 1 August 1998
- Trade Union Perspective of an Asian Monetary Fund – Conclusions and Action Plans of the ICFTU – APRO Preparatory Workshop , Seoul, 6 – 8 May 1999

- ICFTU – APRO Reference Series No. 1 on Report of the ICFTU – APRO Survey on the provision of social safety nets in selected countries before and after the start of the Asia financial and economic crisis
- ICFTU – APRO Reference Series No. 2 on Report of the ICFTU – APRO/JIL Regional Conference on Trade Union Paradigm for the 21st Century : Industrial Relations, Social Safety Nets and Financial Architecture, Langkawi, Malaysia, 1 – 5 September 1999
- ICFTU – APRO Policy Series No. 1. on Conclusions and Recommendations of the ICFTU – APRO/JIL Regional Conference on Trade Union Paradigm for the 21st Century : Industrial Relations, Social Safety Nets and Financial Architecture, Langkawi, Malaysia, 1 – 5 September 1999

#### **4. National level activities**

- ICFTU – APRO (LO-FTF)/CWC National Conference on Social Safety nets, Colombo, 24 – 26 April 2000
- ICFTU – APRO (LO-FTF)/TUCP National Workshop on Social Safety Nets, Manila, 13 – 16 June 2000
- ICFTU – APRO (LO-FTF)/CMTU National Conference on Social Safety Nets, Ulaanbaatar, 22 – 24 June 2000
- ICFTU – APRO (LO FTF)/NTUC National Conference on Social Safety Nets, Kathmandu, 27 – 29 June 2000
- ICFTU – APRO/ LCT and others National Workshop on Unemployment Insurance Coverage, Nontaburi, 21 – 23 July 2000
- ICFTU – APRO/CFL National Workshop on Social Safety Nets, Taipei, 9 – 11 August 2000
- ICFTU – APRO (LO-FTF)/ICFTU – PC National Conference on Social Safety Nets, Rawalpindi, 16 – 18 August 2000
- ICFTU – APRO/NTUC National Workshop on Campaigning for Social Safety Nets, Kathmandu, 18 – 22 September 2000
- ICFTU – APRO/FKTU/KCTU National Workshop on Social Insurance, Seoul, 17 October 2000
- ICFTU – APRO/LO – FTF)/NTUC Regional Workshop on Campaigning for Social Safety Nets, Pokhara, 11 – 14 December 2000
- ICFTU – APRO(LO – FTF)/NTUC Regional Workshop on Campaigning for Social Safety Nets, Kathmandu, 15 – 18 December 2000
- ICFTU – APRO (LO-FTF)/CMTU National Workshop on Social Safety Nets, Tuv Aimag, 6 – 9 March 2001
- ICFTU – APRO(LO – FTF)/NTUC National Workshop on Campaigning for Social Safety Nets, Kathmandu, 26 – 30 April 2001
- ICFTU – APRO/FTUC National Workshop on Social Safety Nets, Suva, 2 – 4 May 2001
- ICFTU – APRO(LO – FTF) National Workshop on Campaigning for Social Safety Nets, Ulan Bataar, 22 – 25 May 2001
- ICFTU – APRO(LO – FTF)/HMS Conference on Campaigning for Social Safety nets. LOnavala, 5 – 7 June 2001

- ICFTU – APRO/HKCTU Workshop on Social Safety Nets, Hong Kong, 9 – 10 June 2001.
- ICFTU – APRO(LO – FTF)/ICFTU – BC National Workshop on Campaigning for Social Safety Nets, Dhaka, 9 – 13 November 2001
- ICFTU – APRO(LO – FTF)/INTUC National Workshop on Campaigning for Social Safety Nets, Bangalore, 3 – 7 December 2001
- ICFTU – APRO(LO – FTF)/ICFTU – BC National Workshop on Campaigning for Social Safety Nets, 30 Jan – 3 Feb 2002
- ICFTU – APRO(LO – FTF)/INTUC National Workshop on Campaigning for Social Safety Nets, Kolkata, 18 – 22 March 2002
- ITUC – AP/CMTU Round Table Meeting on Social Safety Nets and Fiscal Policy including Taxation, Ulan Bataar, 29 May 2009



## **Dynamics & Issues for Labor Market Reform and Need for Review of Social Safety Net Policies in Pakistan**

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I am happy to represent the Employers' Federation of Pakistan in this very important expert meeting on "Building Social Safety Nets for Employment-Strategies in Asia". This expert meeting is convened in Niigata, Japan by the Ministry of Health, Labor, and Welfare Government of Japan to discuss the importance of social safety nets for employment and to identify the key elements necessary for promoting them. The recommendations of this Expert Meeting are going to be deliberated in the Special Session as a side event of the 15<sup>th</sup> ILO Asia & Pacific Regional Meeting to be held from 10<sup>th</sup> to 13<sup>th</sup> April 2011 in Kyoto, Japan.

In this session on "Challenges and Strategies for promoting unemployment insurance and Active Labor Market Policies in Asia", I wish to throw light on Dynamics & Issues for Labor Market Reform and need for review of Social Safety Net Policies in Pakistan.

Social Safety Nets are socio economic safety programs necessitated to offset the imbalances in the labor market system and to protect the poor and the vulnerable working class from the shocks arising out of such imbalances. It will be relevant in this context to precisely have a look first into the dynamics and issue of Labor Market and the current structure of social safety nets before we can look into some new dimensions of safety net policies and programs.

### **A. Dynamics of Labor Market**

The dynamics of the Labor Market in Pakistan (Kiani & Sheikh PIDE) can be identified with the following features.

- a. According to the 1999-2000 Labor survey, the labor force participation rate (LFP rate) from the total adult population increased from about 44% in 1998-99 to 50% in 2000-01. This increase in LFP is largely due to rise in the female participation in labor force from 16% to 25% mainly in the rural areas where females are mainly engaged in activities relating to farming & live stock.

**Table 1:** Labor force participation and unemployment rates in two panel data sets by gender and rural-urban areas.

Area/Gender	Labor force participate rate			Unemployment rate	
	1998-99	2000-01	2000-01 (standardized)	1998-99	2000-01
Pakistan both sexes	43.7	50.3	48.0	6.1	11.5
Male	68.8	72.2	68.4	4.9	7.1
Female	15.6	25.9	25.3	12.0	25.1
Urban areas both sexes	39.5	47.1	44.7	9.8	13.5
Male	66.9	71.3	67.6	7.4	8.1
Female	8.8	19.9	19.1	31.1	35.4
Rural areas both sexes	46.3	52.3	50.2	4.11	10.3
Male	69.9	72.8	68.9	3.5	6.5
Female	19.9	29.7	29.2	6.7	20.7

Source: Computed from PSES Round I and II.

- b. According to the same survey between the 1997-98 & 1999-2000 period, the level of overall unemployment increased from 5.9 percent to 7.8 percent. This increase of about 2 percentage points in open unemployment in these years is rather too substantial which indicates that macro economic factors have adversely affected the employment initiatives in the country.

**Table 2** Labor force participation and unemployment rates as reported by more recent Labor force surveys by gender and rural urban areas

Area/Gender	Labor force participation rates			Unemployment rates		
	1996-97	1997-98	1999-00	1996-97	1997-98	1999-00
Pakistan -both sexes	43.0	43.3	42.8	6.1	5.9	7.8
Male	70.0	70.5	70.4	4.2	4.0	6.1
Female	13.6	13.9	13.7	16.8	15.0	17.3
Urban areas - both sexes	38.9	37.7	38.1	-	-	-
Male	66.5	65.2	65.0	5.1	5.8	7.5
Female	8.4	7.4	8.8	25.2	28.6	29.3
Rural areas - both sexes	45.1	46.4	45.1	-	-	-
Male	71.8	73.4	73.1	3.8	8.5	5.4
Female	16.3	17.4	16.1	14.6	11.9	14.1

Source: Labor Force Surveys, 1996-97, 1997-98, 1999-2000.

c. According to available data the transition from unemployment to employment is quite slow. Only 41% of the unemployed was able to obtain a job between the 1999-99 and 2000-01 period. One third of them could not get a job even after two years 61% of the long term unemployed were males. More than quarter of the unemployed stock moved out of the labor force between the above period, and more than half of this group consisted of females due to female marriage or other family responsibilities. Approximately 3.7% of total employed stock (1998-99) changed their labor market status and become unemployed in 2000-01. Approximately 6% of individuals who were not in the labor force in 1998-99 also joined the unemployed stock in 2000-01.

**Table 3:** Change in labor market states between the 1998-99 and 2000-01 period.

Labor market states in 2000-01	Labor market states in 1998-99			All	N (Male)
	Employed	Unemployed	Not in labor force		
Employed	79.3 (90.7)	41.4 (84.1)	19.4 (46.8)	44.6 (79.5)	5309 (4220)
Unemployed	3.7 (79.0)	32.6 (60.6)	6.0 (29.0)	5.8 (47.0)	688 (323)
Not in labor force	17.0 (55.8)	26.0 (48.2)	74.6 (25.1)	49.7 (29.7)	5918 (1758)
All	100 (84.2)	100 (67.1)	100 (29.4)	100 (52.9)	-
N (Male)	4891 (4119)	319 (214)	6705 (1968)	11915 (6301)	-

Source: Computed from the PSES Round I and II.

Note: In parenthesis is percentage of males in each cell.

d. More than 60% of the group (that moved from employment to unemployment) was below the age of 30 years in 1998-99 and were predominantly males. It appears that workers who lost their Jobs & joined the unemployed pool between 1998-99 & 2000-01 were primarily young males although 40% of these workers were illiterate, a substantial portion i.e. 24% had in their accounts 10 or more years of education.

**Table 4:** Age and educational distribution of labor force by nature of transition made  
Between the 1998-99 and 2000-01 period.

Age groups/ Education level	No transition: employed in two periods	Transition from employed to unemployed	Transition from employed to out of labor force	No transition :unemployed in two periods	Transition from unemployed to employed	Transition from unemployed to not in labor force
<b>Age groups (years) in 1998-99</b>						
< 20	11.4 (85.7)	23.2 (73.8)	21.3 (59.9)	17.3 (77.8)	31.1 (82.9)	25.3 (66.7)
20 – 29	31.2 (92.1)	37.6 (92.6)	17.9 (53.7)	25.3 (55.6)	37.2 (95.9)	39.8 (36.4)
30 – 39	20.1 (88.9)	12.1 (50.0)	13.1 (36.7)	9.6 (60.0)	12.9 (82.4)	9.6 (75.0)
40 – 49	17.1 (90.4)	11.1 (70.0)	12.0 (32.0)	9.7 (30.0)	9.9 (64.3)	10.8 (11.0)
50 – 59	13.6 (53.4)	8.9 (68.8)	15.5 (50.4)	9.6 (50.0)	6.5 (50.0)	9.6 (62.5)
60 +	6.6 (97.3)	7.2 (100)	20.1 (84.4)	27.9 (67.0)	4.5 (66.7)	4.8 (5.0)
<b>Education</b>						
Illiterate	46.9 (84.6)	40.3 (64.8)	74.3 (42.5)	54.0 (48.2)	32.6 (67.4)	50.0 (27.3)
Primary	16.9 (95.7)	21.0 (75.7)	7.7 (69.6)	16.0 (75.0)	17.4 (78.3)	13.6 (55.6)
Middle	15.4 (98.3)	14.8 (88.5)	8.3 (78.3)	12.0 (75.0)	17.4 (95.7)	9.1 (83.3)
Matriculation	10.7 (96.1)	12.5 (100)	6.8 (85.7)	10.0 (70.0)	9.1 (100)	7.6 (40.0)
Higher	10.9 (91.7)	11.4 (100)	2.9 (85.7)	8.0 (87.5)	23.5 (96.8)	19.7 (46.2)
All	100 (90.5)	100 (79.0)	100 (51.7)	100 (61.0)	100 (84.1)	100 (40.9)

Source: Computed from the 1998-99 & 2000-01 PSES.

- d. Five variables like age, gender, marital status, education & training turned out to be statistically significant factors influencing the probability of transition from unemployment to employment. These factors provide some indication of labor market behavior and has important bearing on policy formulation. Older persons are relatively less likely to be absorbed in the labor market. Males are more likely than the females to leave the unemployment pool. Being currently married is positively associated with making transition from being unemployed to being employed. Only college and

higher level of education had a positive influence on being employed. Training also had a positively significant influence on making transition from unemployed to being employed.

The dynamics of the labor market therefore displayed the following features:

- I. The labor force participation rate from the total adult population showed an increase in recent year.
- II. The level of overall unemployment showed substantial increase.
- III. Transition from unemployment to employment is quite slow.
- IV. Major portion of the group that moved from employment to unemployment was below the age of 30 years & were males.
- V. Workers who lost their jobs & joined the unemployed pool were primarily young males.
- VI. 40% of the workers moving from employed to unemployed were illiterate while 24% of them were with 10 years of school education.
- VII. Variables related to human capital of individual such as age, education, and training appear to have greater influence on the probability of making transitions from unemployment to employment.

These dynamics of labor market may be attributed to deterioration in Pakistan's growth performance during the 1990s. The real GDP growth slowed down in an average of 4.9% in the first half of the decade declining further to an average of 35% in recent years. The large scale manufacturing sector which grew by an average annual rate of 8.2% in the 1980's slowed down to an average of 4.7 percent in the first and further to 2.4% in the second half of the 1990's. The economy at present may be characterized as:

- Growth rate around 3.5% high unemployment rate and an increase in poverty.
- Low investor's confidence and declining investment rate;
- The underlying budget deficit of around 5% of GDP;
- Trade deficit around \$1 billion and surplus in the balance of payments;
- Foreign exchange reserves of over \$ 10 billion: and
- Trimmed down civil bureaucracy which needs to be reduced further.

## **B. Labor Market Issues:**

Labor Market issues in Pakistan largely centre round unemployment, working conditions & Child labor (Sabur Ghayur PDR 1996). Some of them are identified as under:-

- a. Pakistan's Labor Market is unable to continue the past trends of labor absorption. Generation of additional work opportunities commensurate with labor supplies, increasing by over 3% annually is the most serious challenge confronting the labor market.

- b. The twin measure of unemployment & under employment seriously confronts the Labor Market. The most worrying aspect of about 5% of unemployment is its concentration among the youth, the educated and the trained.
- c. The under mobilization of manpower is more visibly reflected in underemployment. These are more than a tenth of the employed who find their work unable to keep them busy for 35 hours a week (FBS 1994).
- d. Out of these employed, a quarter of them find their employment income only meeting half of the subsistence requirements, while a similar proportion find their employment income barely managing to meet the subsistence requirements [NMC (1989)]. Lesser productive and low remunerative work opportunities are thus emerging as the major characteristic of the labor market in Pakistan.
- e. The working conditions prevalent in Pakistan need serious improvement. A significant number of work places has larger working hours & deplorable working conditions including occupational safety and health hazards.
- f. Existing labor laws are outdated, cumbersome, too many and need consolidation, reformation and attuning with the changing demands of the work place. The implementation of labor laws is another major issue due to weak & corrupt labor administration machinery.
- g. Trade union movement suffers from division & fragmentation. Despite long years of experience in turbulent industrial relations environment, both labor & managements pace of response to the challenges of the labor market is too slow and passive.
- h. The existence and widespread prevalence of Child Labor in prominent sectors is highly vulnerable & poses a serious challenge while efforts to combat them are on their way to progress at a slow pace.
- i. labor market is seriously being affected by the pursuit of free trade regimes coinciding with policies of privatization and structural adjustments. These set of policies are being pursued without taking adequate safeguards thereby involving considerable risk of severely affecting domestic manufacturing, employment and labor market conditions.

### **C. Review of existing Social Safety Nets Program:-**

Social safety nets are necessary to alleviate poverty with broader macro economics growth policies which otherwise take a long time to trickle down the benefits to the poor & the working class. The recent economic crises has reversed poverty alleviation gains made in during the earlier part of the decade. The attempts to mobilize the economy through steep reductions in fiscal and current account deficits as part of the ongoing international monetary fund loan arrangement has led to a curbing of public & development expenditure. To mitigate this situation the need for efficient safety nets to ensure the very survival of seizable population of very poor in Pakistan is vital.

The social safety nets program existing in Pakistan may be identified as under:-

- a. Under the Zakat & Ushr Ordinance 1980, Zakat (a religious cess) is compulsorily deduction from the Sunni Muslims once a year @ 2.5 percent on the value of specified financial assets. This principal form of cash transfers to the poor through a publicly administered Zakat system reaches out to less than 35percent of the household living below the poverty line.
- b. The Baitul Mal established in 1992 mainly provide assistance to the needy (such as the minorities not covered by Zakat) from the funds coming in the form of non lapsable grants from the Federal grant and smaller grants from the provisional & local governments.
- c. Ushr is another religious tax levied Zakat & Ushr ordinance on agricultural produce exceeding 948 Kg of wheat or the equivalent value of other crops. Having the potential to become a major source of help to poverty stricken rural households, its effectiveness is seriously hampered by the absence of an efficient administrative machinery for its collective and distributive.
- d. For the employed workforce, the federal government operates state pension fund for employees in the service of the state and for employees in the private sector an Employees Old Age Benefits Insurance Scheme through a semi-autonomous institution of the Employees Old Age Benefits Institution. Managed out of the fund exclusively generated by private sector employers contribution of 5% of the minimum wage in respect of all the employed persons, the secured employees are entitled to a meager pension amount on retirement after reaching the age of retirement and contribution in respect of whom has been paid by their employer for 15years of service. Although the law has been expanded to cover all industrial and commercial establishments employing more than 5 employees, the Institution suffers from administrative issues & trust deficit which is a major hindrance in expanding the real scope of this benefit for the poor and the working class.

- e. A provincial Government sponsored Employees Social Security Institution is another labor welfare legislation through which industrial workers are provided the sickness, medical & other benefits such as marriage grants, death grants, survivors pension, etc. out of the funding paid by the employers at the rate of six percent of minimum wages covering all employees drawing wages up to Rs. 10,000/- the Social Security Institution with its large establishment has not been able to make a very positive impact due to lack of efficiency & transparency in the administration of this scheme.
- f. Under the labor laws industrial and commercial establishments of certain categories are obligated to provide their employees benefits like group life insurance, compensation in case of employment injury, notice pay, gratuity and/or provident fund in case of employees separating from service.

The above forms of social protection have been largely limited to the formal non agricultural economy and the organized state or private sector. The rapid deterioration in the employment and the labor market situation in Pakistan in recent years have made it imperative for policy makers to bring in labor market reforms and employment oriented labor and industrial policies. It goes without saying that when economic growth slows down and unemployment increases its first and foremost impact is on poverty level. The ILO estimates that almost 14 million of the work force in Pakistan of 40 million are living in “working poverty” i.e. the worker and his family live on less than \$1 per day per person.

To meet the Safety Net Challenges the government has been working since the past few years with some major donors organization to prepare a National Social Protection Strategy (NSPS) which met the Prime Minister’s approval in mid 2007. The NSPS had also committed the government to provide regular cash transfers to over six million of the poorest people in the country with in the first five years of implementation under the Benazir Income Support Program. The government has decided to provide Rs. 1000/- per month cash transfers directly to women of poor household across the country under the BISP and to subsequently offer employment generation and other opportunities to these identified families. A poverty scorecard approach is being adopted for selecting beneficiaries on the basis of information including household size and composition, education, household assets etc. The government is currently engaged in social dialogue with its constituent partners i.e. the employers and workers on ways and means to reform the labor markets, consolidate and simplify existing labor laws improve legislative structure in the area of industrial relation and labor welfare, and to review the safety net programs with a view to jointly work on decent work agenda, employment generation and developing new safety nets to prevent the existing workforce in particular the educated youth from the shock of risks arising out of the economy restructuring initiative currently in progress in Pakistan in the shape of privatization of large public sector organizations and strategic mergers of business enterprises due to economic and market pressures. In the long run this may eventually lead to better administration of the now state owned enterprises in the hands of professional managers in the private sectors but in the short run is likely to create further imbalances in the already deteriorated labor market.

In the recent Labor Policy 2010, the government has announced to introduce a comprehensive social insurance for old age benefits and health services on self registration/voluntary basis to allow all workers in formal and informal sectors including self employed to benefit from it. The govt also proposes to extent the coverage of workmen compensation to workers of mechanize farms in the private sector. Workers in the informal economy including home workers and domestic workers will benefit from improved safety and health arrangements and excess to social security and payment of minimum wage. Majors are intended to be taken to gradually expand the coverage of EOABI act including self employed persons and increased its benefits.

#### **D. Need for Review of Safety Net- New Proposal**

It is therefore relevant at this stage for the government, employers and workers to deliberate on the efficacy of the existing safety net programs and to look for new ways and schemes to make safety net more pragmatic to the demands of a vulnerable labor market and macroeconomic changes.

It may be well advised also to deliberate upon the promotion of **unemployment insurance scheme** in the country and to make it work as safety walve in otherwise explosively inactive labor market. The existing Employee Old Age Benefit Institution (EOABI) in collaboration with the State Life Insurance Corporation may look into the possibility of introducing unemployment insurance program by adopting a two dimensional approach:

- i. **One for the educated employed youth:** a large number of educated youth and the vulnerable group of workers thrown out of the active labor force may be provided with technical, vocational and skill training to increase their employability with cash transfers from BISP to support them during their period of unemployment. The amount of cash transfer may be recovered from them in easy installments once they are employed as a result of skill training and retraining.
- ii. **For the large number of employed workforce in the private sector:** employed workforce may be required to make a contribution of 1 - 2% of salary out of their current income to a safety net fund which may be used to generate funding for a national unemployment insurance scheme in which the employers contribution made to the welfare funds comprising of huge transfer funding under the workers profit participation enactment may be included in addition to employers contribution to EOABI and compulsory group life insurance premium. Out of this safety net fund, the contributing employee workforce may be given up to 30 to 50% of their wages during the period of unemployment for a period of 6 months as and when the same occurs due to Macro Economic pressures

The above initiatives in the area of reforming labor market generating decent employment and promoting safety net through the existing social protection schemes and the proposed employment insurance program

can be practically perused more vigorously at a time when devolution of power to the provinces is already in progress due to the 18<sup>th</sup> constitutional amendment now in place to provide greater provincial autonomy.

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# **Employment Structure and Unemployment Insurance in East Asia: A Strategy to Establish Social Protection for All Workers<sup>1</sup>**

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## **1. Why We Need Unemployment Insurance for East Asia**

East Asian economies have deepened their economic interdependence over the past few decades. Recent free trade agreements and economic partnership agreements among economies help confirm market integration in the region. As Stiglitz (2001: x) points out, “free international trade allows a country to take advantage of its comparative advantage, increasing incomes on average, though it may cost some individuals their jobs.” Free trade may bring about social instability through unemployment, in parallel with economic prosperity.

Social instability brought about by unemployment is not merely a domestic problem; it is also a region-wide issue, for domestic social tension can easily lead to international tension. Polanyi (1944: 219) writes that “the strain which sprang from unemployment might induce foreign tension. In the case of a weak country this had sometimes the gravest consequences for its international position. Its status deteriorated, its rights were disregarded, foreign control was foisted upon it, its national aspirations were foiled. In the case of strong states the pressure might be deflected into a scramble for foreign markets, colonies, zones of influence, and other forms of imperialist rivalry.”

Each government is responsible for coping with social instability, not just for domestic integration but also for improving the sustainability of regional economic cooperation. Moreover, it is not just each government but also the region as a whole that is responsible for addressing the issue. Unemployment insurance and related schemes will comprise some of the essential points of the discussion.

In the following sections, I will examine the theoretical definition of “unemployment” (Section 2). Then, I will go through related schemes and argue that unemployment insurance is the best among them and an essential part of a social protection system (Section 3). After glancing through the characteristics of labor markets in East Asia (Section 4), I will explore why some economies have unemployment insurance while others do not (Section 5). I will concentrate my analysis on 11 economies, without excluding other economies

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<sup>1</sup> This is a slightly revised version of the following paper. Kamimura, Yasuhiro, 2010, “Employment Structure and Unemployment Insurance in East Asia: Establishing Social Protection for Inclusive and Sustainable Growth,” Japan National Committee for Pacific Economic Cooperation (ed.), *Towards a More Resilient Society: Lessons from Economic Crisis* (Report of the Social Resilience Project), pp.153-170.

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in the region from the discussion. I will also evaluate the existing unemployment insurance schemes and point out their inadequacies, especially in terms of coverage (Section 6). In the conclusion (Section 7), I will stress the importance of regional cooperation in upgrading social protection systems.

## **2. A Theory of Unemployment**

What does the term “unemployment” mean? As a real-world issue, how should we cope with it? Okochi (1952), the leading social policy scholar in postwar Japan, provides a good starting point. His perspective covers both developed and developing economies, for when he wrote his theory, Japan was a developing economy that was on the verge of experiencing a high-growth era. He stressed three aspects of the concept of unemployment.

First, unemployment denotes that a worker who does not have his own means of production has lost his workplace. If he has his own workshop, land, or store, he cannot be unemployed. In such a case, if that worker cannot earn enough money to live, he is called “poor” or “underemployed,” but he is not “unemployed” in a precise sense (*ibid.*: 9).

Second, the idea of unemployment presumes that the unemployed worker retains his willingness to work. It implies that he shares a characteristic of modern wage workers that Weber calls “the spirit of capitalism.” Such a worker should not be idle and should make every effort to earn his own bread (*ibid.*: 12).

Third, if a worker cannot find a job that suits his skill or ability set, it can be said that he is “unemployed.” In economies where unemployment insurance is inadequate, dismissed workers may be ready to accept whatever job is possible. If they get a new job that is not appropriate to their skills, however, it is a kind of unemployment, in the sense that they are misallocated from the viewpoint of the efficiency of the whole of industrial society (*ibid.*: 16).

How do these three points relate to our current issue? The first point suggests that only employed workers can be unemployed. Self-employed workers such as farmers or petty traders cannot, by definition, be unemployed. Their problems related to poverty or underemployment cannot be solved with unemployment insurance. Other measures such as industrial policy or education policy should be put in place to improve their lives. Even in this case, however, unemployment insurance can reduce the uncertainty of wage workers at least. Of course, it requires great effort to cover wage workers in the informal economy (ILO 2007).

The second point reminds us of discouraged workers. In developing economies, dismissed workers may go back to their home village and join the family business as unpaid workers. As such, they may not appear to be unemployed. Even in developed economies, dismissed female workers and older workers are sometimes discouraged from seeking a new job; instead, they rely on their families. For these people, active labor market policies such as training programs are more suitable than unemployment insurance.

The third point implies a merit of unemployment insurance. If there is an adequate unemployment insurance scheme in place, dismissed workers can retain their skills until they find a suitable job that makes use of their abilities. If their skills are outdated, they can undergo training to acquire new skills that are suited to their abilities. In either case, unemployment insurance is helpful for the unemployed in maintaining or

upgrading their skills; this is good not just for them but also for the efficiency of the whole of an industrial society.

### **3. Unemployment Insurance and Its Related Schemes**

Besides unemployment insurance, other compensation schemes related to unemployment are severance pay, unemployment insurance savings accounts, unemployment assistance, and work programs (Vodopivec 2004, Berg and Salerno 2008: 81).

*Severance pay* is a benefit paid by the employer to the employee upon termination of the employment contract (ibid.). If all employers were honest and generous when dismissing employees, the function of severance pay would be similar to unemployment insurance. In reality, however, the employer of a bankrupt company may run away without offering severance pay to employees. Nonetheless, it is better than nothing. Economies like Malaysia, the Philippines, and Indonesia, neither of which have unemployment insurance, mandate severance pay (ILO 2010, Asher and Mukhopadhaya 2004).

*Unemployment insurance savings accounts* are private savings accounts that workers can draw on in the case of job loss (Berg and Salerno 2008: 81). They contain no risk-pooling mechanism. They are not very helpful for the most vulnerable of the unemployed, that is, those who have not accumulated sufficient savings prior to becoming unemployed (ibid.). Several Latin American economies (Brazil, Argentina, Chile, Colombia, Ecuador, Panama, Peru, Uruguay and Venezuela) have introduced this type of scheme (Vodopivec 2004: 40).

*Unemployment assistance* is a means-tested benefit program that helps workers in greatest need (Berg and Salerno 2008: 81). Australia and New Zealand have developed this type of scheme, instead of unemployment insurance (Palme et al. 2010). Economies such as Germany use this type of scheme to support job seekers who cannot receive benefits from unemployment insurance (Toda 2010). In Japan, it has been discussed to introduce it as a second-tier safety net between unemployment insurance and social assistance in supporting job seekers (Hamaguchi 2010).

*Work programs* also self-select from the neediest groups by paying wages that are at or below the minimum wage in exchange for public work, such as building roads, schools and clinics (Berg and Salerno 2008: 82). When combined with skills training, such programs resemble those enacted by active labor market policies.

Among these four schemes, the first two are meager alternatives to unemployment insurance; the latter two are complements rather than alternatives to unemployment insurance. After all, unemployment insurance is an essential part of social protection systems in protecting unemployed workers.

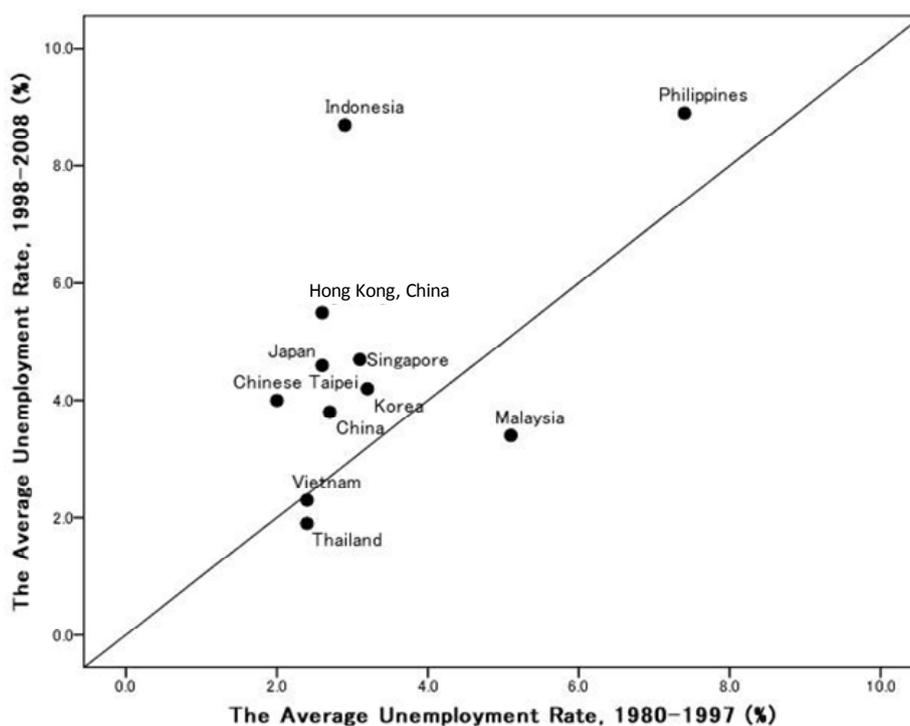
### **4. Varieties of Labor Markets in East Asia**

Before examining unemployment insurance, we should outline the varieties of labor markets in East Asia. There are similarities as well as differences in this respect among East Asian economies. The most striking similarity is that they have maintained low unemployment rates until recently. The most salient differences concern each economy's economic level and the sector-based structure of its labor market. If you apply convergence theory, however, it can be interpreted that each economy is proceeding on the same road,

but is currently at a different point. On the other hand, some divergent characteristics in each labor market, such as those pertaining to the employment rates of young mothers and the elderly, cannot be explained by convergence theory.

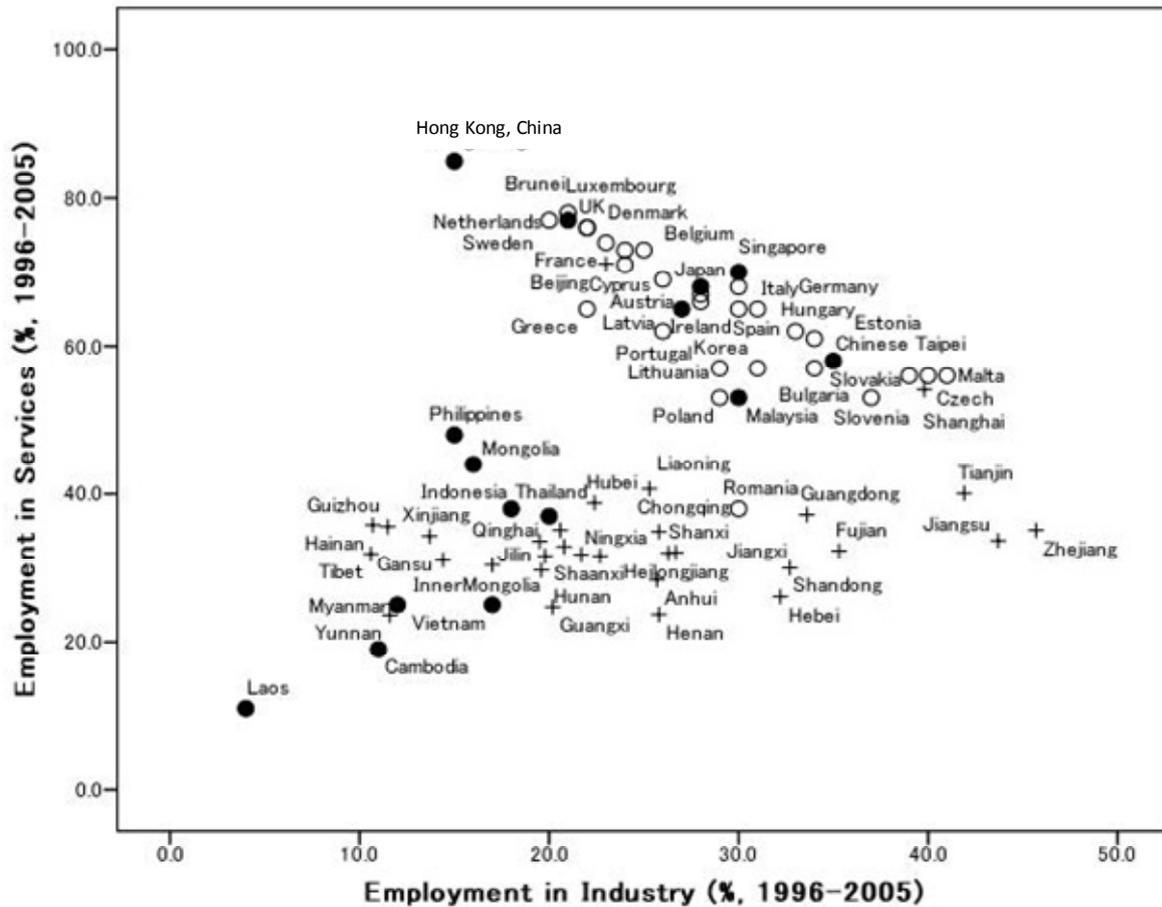
Figure 1 compares the unemployment rates before and after the Asian economic crisis of 1997–98. Before the crisis, most economies other than the Philippines and Malaysia had achieved nearly full employment. After the crisis, most economies other than Malaysia, Thailand, and Vietnam experienced a rise in unemployment. Of course, we should be careful with the different definitions of unemployment in each economy. For example, the unemployment rate in Thailand is a figure that excludes the “seasonally inactive labor force”; this workforce component becomes sizeable during the agricultural off-season. On the other hand, the unemployment rate in Indonesia after 2000 includes discouraged workers (Dhanani et al. 2009: 54). Obviously, Thailand’s rate is underestimated, while that of Indonesia is overestimated. In any case, the unemployment problem in East Asia has emerged since the economic crisis.

Figure 1: Unemployment is a new experience for East Asia



Data Source: ILO, *Key Indicators of the Labour Market*

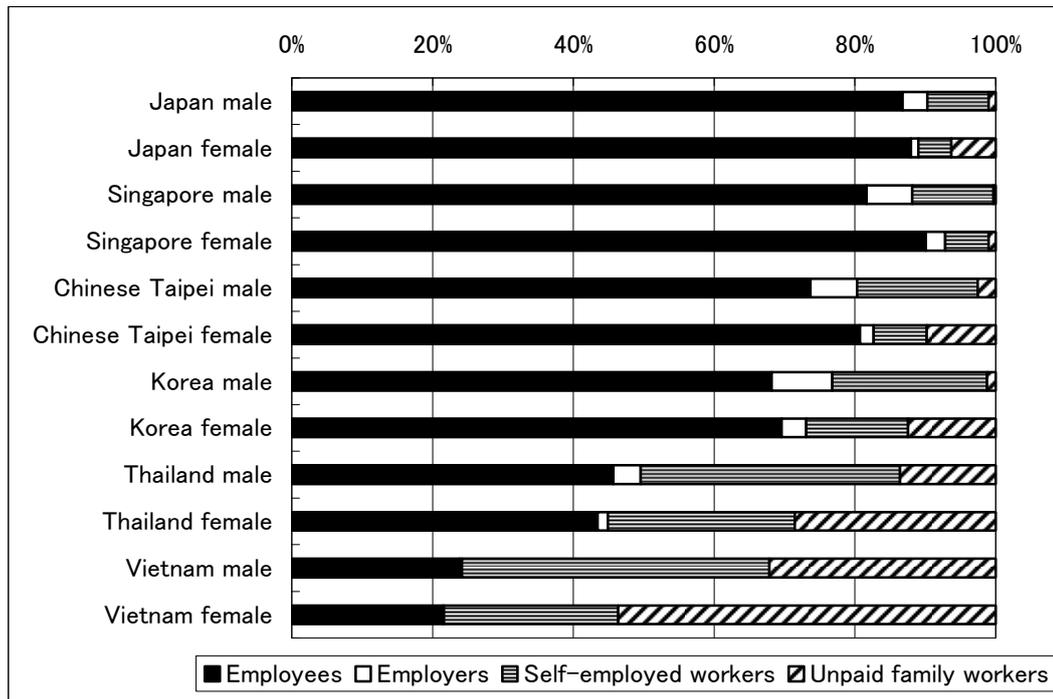
Figure 2: Different phases of industrialization



Data Sources: UNDP, *Human Development Report 2007/2008*. For Chinese Taipei, Directorate General of Budget, Accounting and Statistics, *Statistical Yearbook of the Republic of China 2007*. For China, National Bureau of Statistics of China, *China Statistical Yearbook 2008*. For the EU economies, OECD, *StatExtracts* (data for 2005).

The significance of unemployment, however, varies depending on the sector-based structure of each economy. In agrarian economies, underemployment and poverty rather than unemployment may be the central problems, whereas industrial economies likely have many workers who need traditional types of unemployment insurance. In post-industrial economies, the scheme should bear the characteristics of active labor market policy that make it suitable for the knowledge economy. As figure 2 shows, while there are some post-industrial economies in the region, such as Japan, Korea, and Chinese Taipei, most East Asian economies seem to still be in the industrialization process. (Black dots represent East Asian economies; white dots, as a reference, represent EU member countries. Chinese provinces are represented by “+.” Here I would like to stress China’s internal disparities.) Some of the coastal provinces of China, such as Zhejiang, Jiangsu, and Tianjin, seem to be at the peak of the industrial stage and are worthy of the name “Workshop of the World” (Kamimura 2010: 90). Thus, it is time to introduce or strengthen unemployment insurance in such economies.

Figure 3: Different labor-market structures

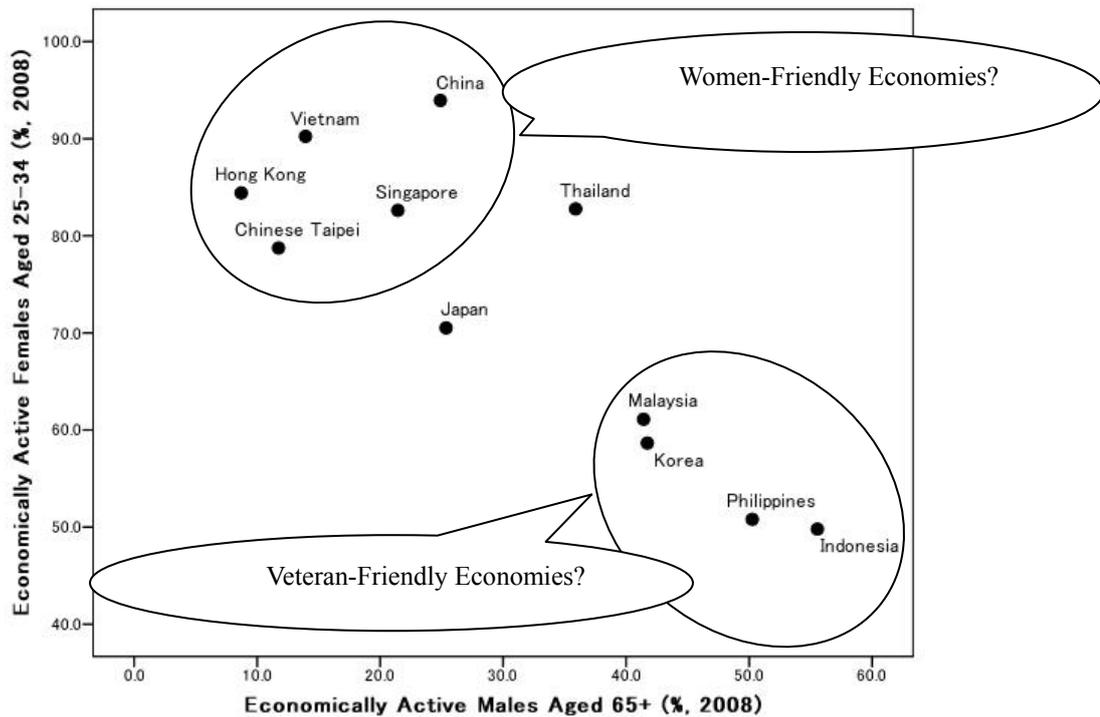


Data Sources: For Japan, Statistics Bureau, *Labor Force Survey 2009*. For Singapore, Ministry of Manpower, *Report on Labour Force in Singapore 2009*. For Chinese Taipei, Directorate General of Budget, Accounting and Statistics, *Manpower Survey 2009*. For Korea, National Statistical Office, *Economically Active Population Survey 2008*. For Thailand, National Statistical Office, *Report of the Labor Force Survey 2009*. For Vietnam, ILO, *Vietnam Employment Trends 2009* (data for 2007).

Figure 3 illustrates that there are certain people who work as employees, even in largely agrarian economies such as Vietnam. Of course, sector-based distribution varies from economy to economy. It is difficult to introduce unemployment insurance for self-employed workers or unpaid family workers; however, even in economies where the agricultural sector dominates, there are certain unemployment insurance needs.

It is worth noting here that, to date, there is a dearth of comparative study into labor markets in East Asia, at least upon which social policy arguments can be based. Figure 4 suggests that there are different types of labor markets in East Asia. Differences here cannot be explained away by economic levels or by any other single factor. This kind of divergence requires further investigation.

Figure 4: Different types of labor market?

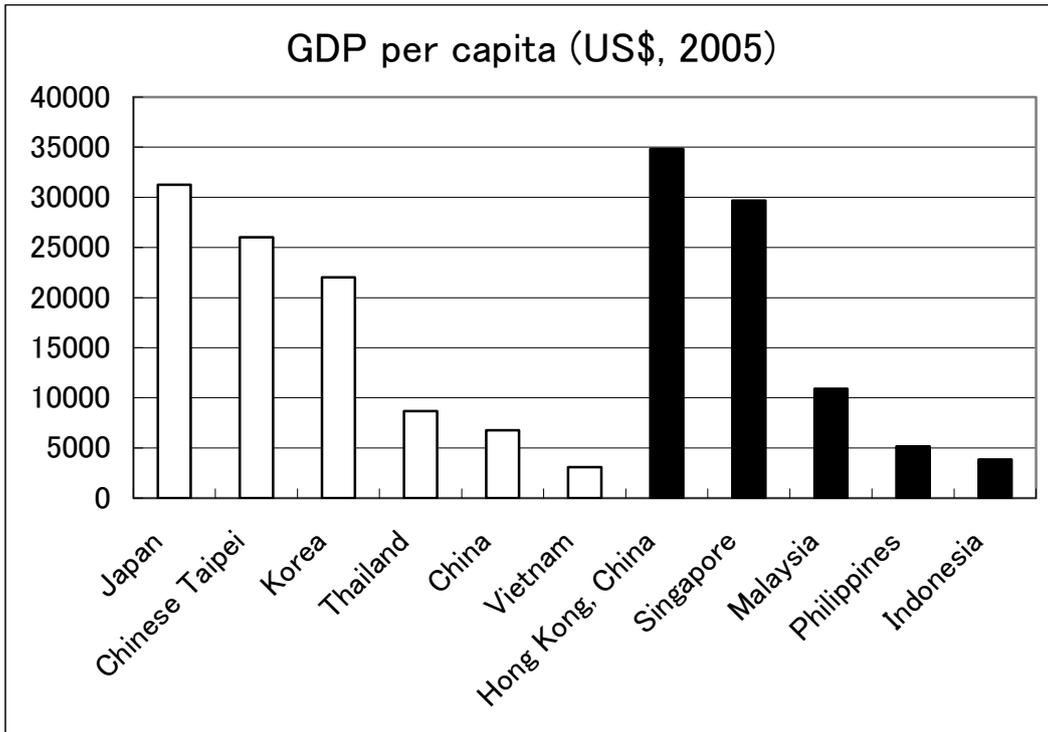


Data Source: ILO, *Key Indicators of the Labour Market*

### 5. Structure Does Not Explain the Lack of Unemployment Insurance

There are economies that have unemployment insurance schemes: Japan, Chinese Taipei, Korea, Thailand, China, and Vietnam. There are also economies that do not have unemployment insurance schemes: Hong Kong (China), Singapore, Malaysia, the Philippines, and Indonesia. What explains the differences between them? The purpose of the following analysis is not to criticize the latter set of economies; every economy has its own philosophy and measures to cope with unemployment. I would like to suggest, however, that sharing experiences among economies is useful in removing misunderstandings concerning structural barriers to the introduction of unemployment insurance schemes.

Figure 5: Economic level does not matter

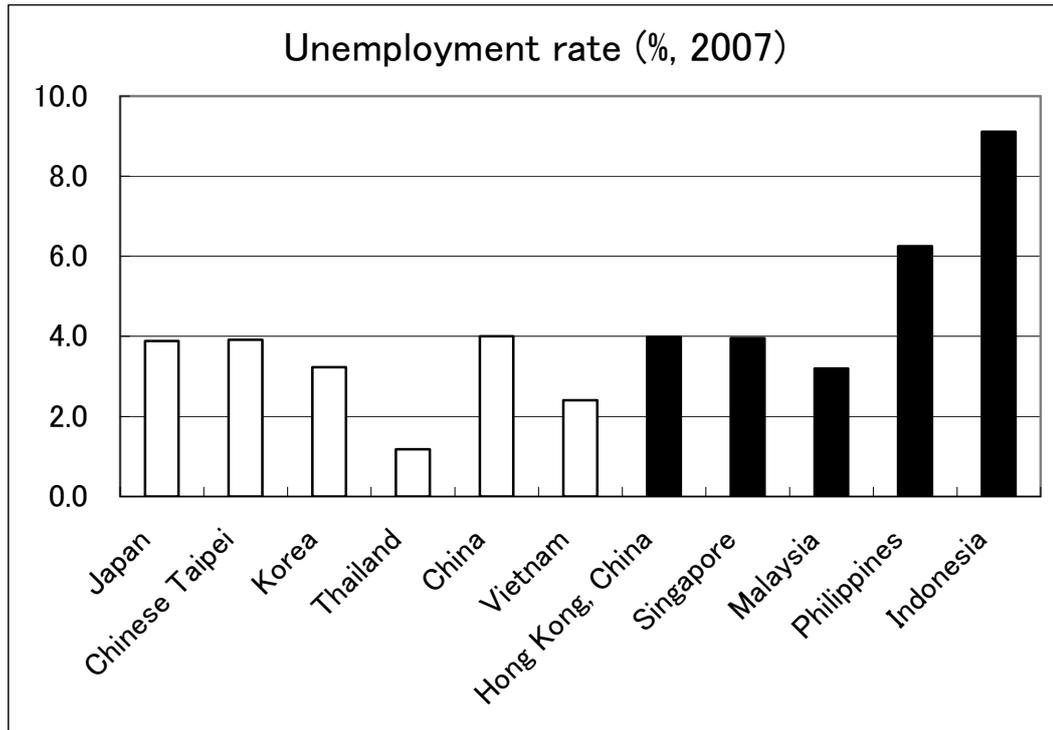


Data Sources: UNDP, *Human Development Report 2007/2008*. For Chinese Taipei, Directorate General of Budget, Accounting and Statistics, *Statistical Yearbook of the Republic of China 2007*.

Some people believe that only rich economies can afford unemployment insurance. That is not the case, however. Figure 5 compares the economic levels of economies that have unemployment insurance (white bars) and those that do not (black bars). Both sets include rich and not-so-rich economies. Obviously, one cannot conclude that economic level matters with regard to unemployment insurance provisions.

Some people may worry that unemployment insurance discourages the unemployed from searching for work and eventually increases the overall unemployment rate. This is not the case in East Asia, however. Figure 6 shows that unemployment rates in economies that have unemployment insurance are not necessarily higher than those in economies that do not. Note that the high rate in Indonesia and the low rate in Thailand are due to different definitions of “unemployment” in each economy, as discussed.

Figure 6: Social protection does not cause unemployment

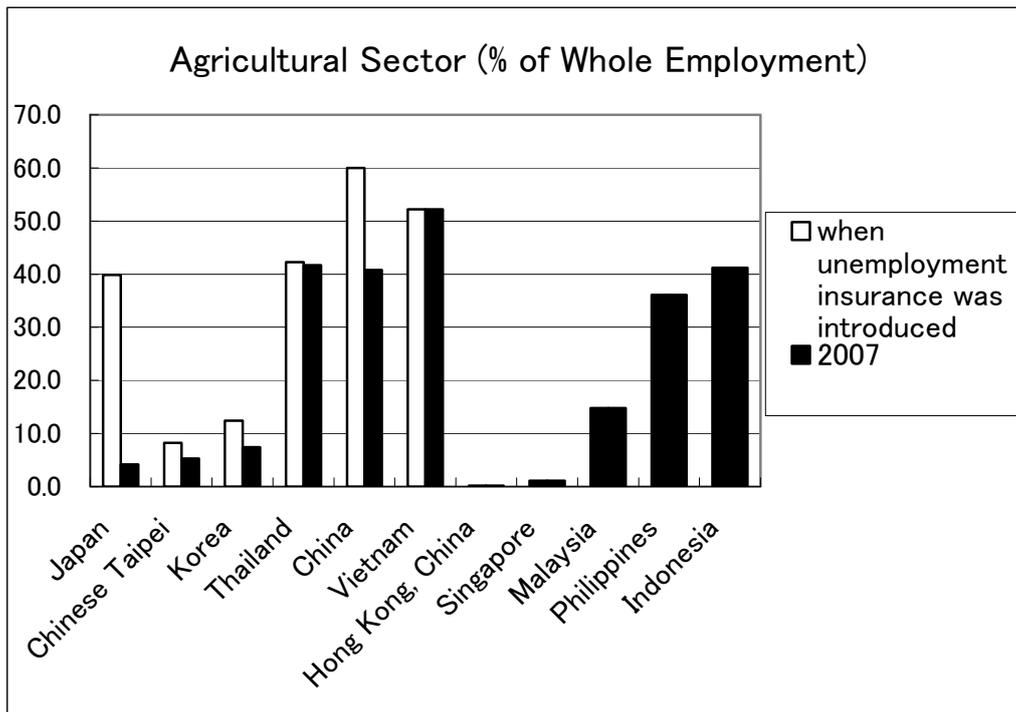


Data Sources: ILO, *Key Indicators of the Labour Market*. For Vietnam, ILO, *Vietnam Employment Trends 2009*.

Some people may think that agrarian economies like Indonesia and the Philippines do not need unemployment insurance, for two reasons. One is that self-employed farmers do not need unemployment insurance if they have their own land; the other is that dismissed workers in agrarian economies can go back to their home village and rely on their family. As discussed in previously, however, there are employees even in agrarian economies, and not all dismissed workers can rely upon their family. Figure 7 shows that some agrarian economies like Vietnam, Thailand, and China have already introduced unemployment insurance. Moreover, Japan was a highly agrarian economy when it introduced unemployment insurance in 1947. Thus, the size of an economy's agricultural sector is not a structural barrier to its introduction of unemployment insurance.

To conclude, structural barriers do not interfere with the introduction of unemployment insurance. Whether or not unemployment insurance is feasible depends upon an economy's philosophy and political leadership, rather than its structural conditions.

Figure 7: Agriculture and introduction of unemployment insurance



Data Sources: ILO, *Key Indicators of the Labour Market*. For Japan (when unemployment insurance was introduced), Statistics Bureau, *Labor Force Survey*. (However, the data is for 1953, not for 1947.) For Chinese Taipei, Directorate General of Budget, Accounting and Statistics, *Manpower Survey 2009*. For China (2007), National Bureau of Statistics of China, *China Statistical Yearbook 2008*. For Vietnam, ILO, *Vietnam Employment Trends 2009*.

## 6. Existing Unemployment Insurance Is Not Necessarily Effective

How do existing unemployment insurance schemes function in Japan, Chinese Taipei, Korea, Thailand, China, and Vietnam? Are the existing schemes effective, especially in terms of coverage? Comparisons make it possible to detect and improve weak points in each economy.

### *General Description*

As Table 1 shows, Japan introduced unemployment insurance relatively early, as part of postwar reforms. China introduced it following the start of economic reforms. Korea and Chinese Taipei each introduced it after democratization, and Thailand and Vietnam each introduced it only recently.

Table 1: Unemployment insurance in East Asian economies

	Japan	China	Korea	Chinese Taipei	Thailand	Vietnam
First implementation (Current law)	1947 (1974)	1986	1995	1999 (2002)	2004	2007
Type of program	Social insurance	<u>Local government-administered social insurance</u>	Social insurance	Social insurance	Social insurance	Social insurance
Covered persons	Employees	<u>Employees of urban enterprises and institutions</u>	Employees	Employees	Employees	Employees
Qualifying conditions	12 months of insurance during the last 24 months.	12 months of insurance; <u>must be involuntarily unemployed.</u>	6 months of insurance during the last 18 months; <u>must be involuntarily unemployed.</u>	12 months of insurance; <u>must be involuntarily unemployed.</u>	6 months of insurance during the last 15 months.	12 months of insurance during the last 24 months.

Data Source: International Social Security Association, *Social Security Country Profiles* ([www.issa.int/aiss/Observatory](http://www.issa.int/aiss/Observatory))

Unlike the schemes in the other economies studied, unemployment insurance in China is run by local governments, and only employees of urban enterprises are covered. Okochi's aforementioned theory of unemployment teaches us that unemployment insurance need not cover those who have their own means of production. Farmers who have their own land need not be covered, for example. Employees who work in rural areas, however, should be covered under a certain scheme.

In each of China, Korea, and Chinese Taipei, benefits are provided only to those who are "involuntarily unemployed." The differences between "voluntary" and "involuntary" unemployment are not clear, however; it is difficult to generate a precise demarcation between the two categories. It is therefore advisable to include both categories of unemployed workers in the scheme.

### **Contributions and Benefits**

As table 2 indicates, contribution rates vary among economies. The highest two are those of China and Vietnam, the two socialist economies in the study sample, while the lowest is that of Chinese Taipei. Table 3 shows the benefits; the benefit rate in most economies is proportional to the former average earnings of the unemployed, while in China it is a flat rate that is determined by the local government. The duration of benefits in China is longer than in the other economies.

Table 2: Contributors to unemployment insurance

	Japan	China	Korea	Chinese Taipei	Thailand	Vietnam
Employee	0.5%	1.0%	0.45%	0.2%	0.5%	1.0%
Employer	0.9%	2.0%	0.7~1.3%	0.7%	0.5%	1.0%
Government	Subsidies	Subsidies	None	0.1%	0.25%	1.0%

Data Source: International Social Security Association, *Social Security Country Profiles* (www.issa.int/aiss/Observatory)

Table 3: Unemployment insurance benefits

	Japan	China	Korea	Chinese Taipei	Thailand	Vietnam
The amount of benefit	50 to 80% of the insured's average daily wage; The minimum daily benefit is 1,656 yen. The maximum daily benefit is 7,775 yen.	Higher than the local public assistance benefit but lower than the local minimum wage.	50% of the insured's average daily earnings. The minimum daily benefit is 22,320 won. The maximum daily benefit is 40,000 won.	60% of the insured's average monthly earnings.	50% of the insured's average daily wage for the involuntarily unemployed, 30% of the insured's average daily wage for the voluntarily unemployed. The maximum daily benefit is 250 baht.	60% of the insured's average monthly earnings.
The duration of benefit	3 to 11 months	12 to 24 months	3 to 8 months	6 months	6 months in any 1 year for the involuntarily unemployed, 3 months in any 1 year for the voluntarily unemployed.	3 to 12 months.
Exchange rate	US\$1.00 = 105.52yen.	US\$1.00 = 6.94yuan.	US\$1.00 = 1028.50won.	US\$1.00 = 30.40NT\$.	US\$1.00 = 38.49baht.	US\$1.00 = 16,245dong.

Data Source: International Social Security Association, *Social Security Country Profiles* (www.issa.int/aiss/Observatory)

### Legal and Effective Coverage

The most important matter with respect to unemployment insurance schemes is how many people are protected from the economic uncertainty caused by unemployment. Table 4 reveals the real function of each scheme. *Legal Coverage* refers to the ratio of insured persons as a percentage of the total labor force (Scholz et al. 2010: 345). Rates vary from economy to economy; the highest is that of Japan, while the lowest two are those of Vietnam and Thailand.

It is misleading, however, to conclude that unemployment insurance in these latter two economies is not useful. As shown earlier, Vietnam and Thailand each has a large agricultural sector, and so there are many self-employed workers for whom unemployment insurance would not be suitable. If we take the ratio of insured persons to all employees (i.e., *Covered Employees*), there we find an unexpected proximity: the rates of Vietnam and Thailand are almost similar to that of Korea. We can guess that the schemes of these economies have a significant role in the formal sector, at least.

Table 4: Unemployment insurance coverage

	Japan	China	Korea	Chinese Taipei	Thailand	Vietnam
Legal Coverage (Insured/Labor force)	56.1%	4.7~54.4% (varies among provinces)	38.5%	49.9%	24.4%	11.8%
Covered Employees (Insured/Employees)	64.3%	NA	56.0%	65.0%	54.8%	52.3%
Effective Coverage (Beneficiary/Unemployed)	22.9%	11.7~74.2% (varies among provinces)	NA	23.7%	6.7~17.7% (varies among months)	0.7%

Data Sources: Calculated by the author based on national statistics (2007 for China, 2008 for other countries).

For the rates of Thailand, I am grateful to Professor Yasuhito Asami for providing the data.

When it comes to *Effective Coverage*, which is the ratio of the beneficiaries to all those unemployed (ibid.), the picture changes. Rates are quite low across all the economies studied. Compared to other advanced economies, even the rates of Chinese Taipei and Japan are ranked at the bottom. The rates of European economies such as the United Kingdom, France, and Sweden are above 50%, and Germany's rate is almost 100% (Scholz et al. 2010: 349).

Goishi (2009) points out that the decline in effective coverage in Japan can be explained by increases in non-regular employment and long-term unemployment in that economy. Moreover, there are some vulnerable groups such as young workers who are not effectively covered by the existing scheme. As figure 8 shows, more than half of young workers in Japan, Korea, and Chinese Taipei are legally covered by unemployment insurance. As figure 9 reveals, however, their effective coverage in Japan and Chinese Taipei (possibly in Korea also) is quite low. Unemployment insurance in these economies is inadequate for coping with current "youth problems" (Kamimura 2011).

Figure 8: More than half of young workers are legally covered

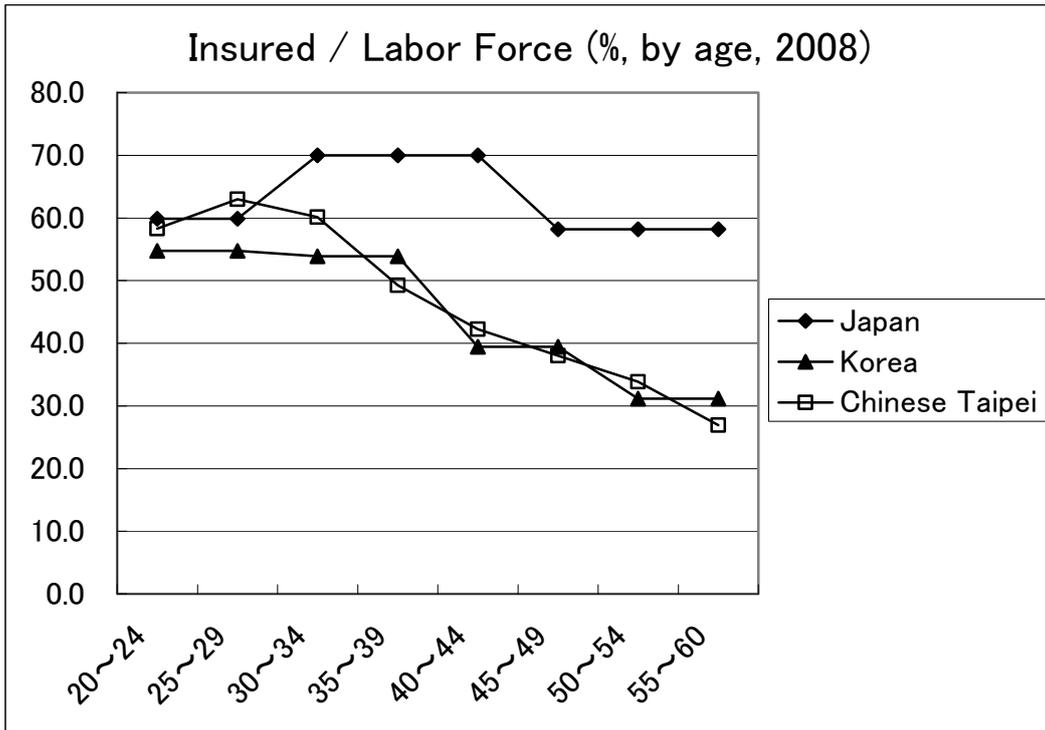
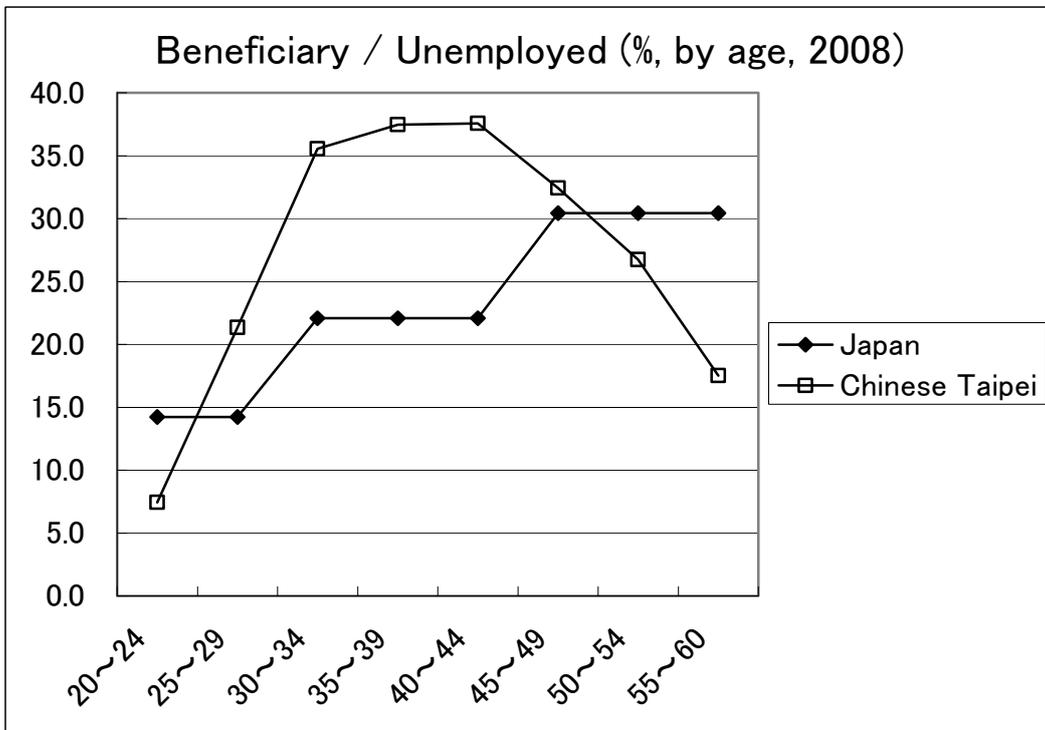
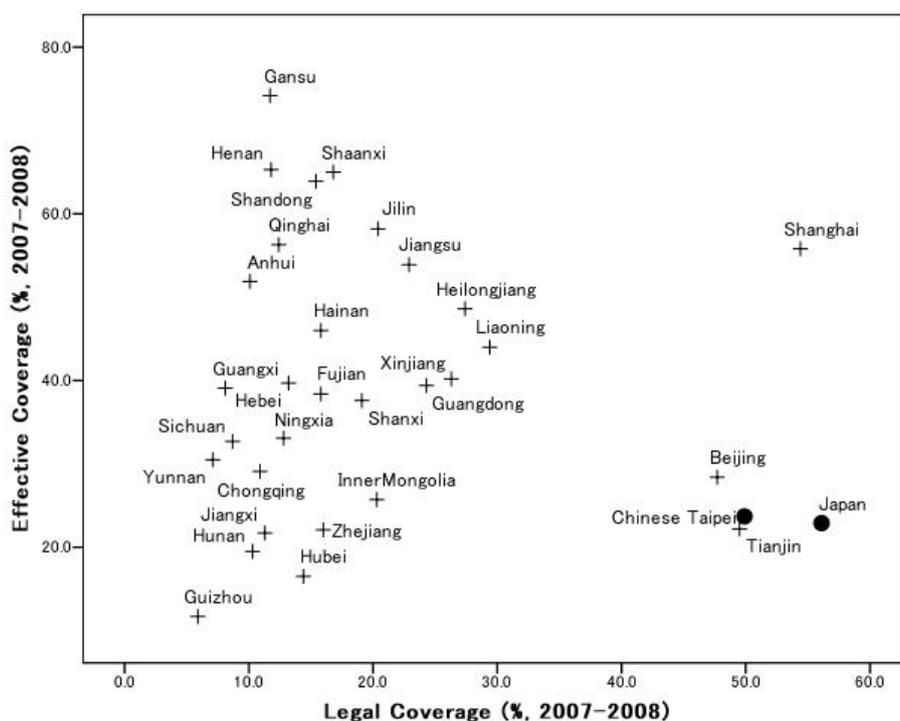


Figure 9: Young workers are not always covered effectively



Data Sources for figures 8 and 9: For Japan, Ministry of Health, Labour and Welfare, *Yearbook of Employment Insurance Program 2008*. For Korea, Korea Employment Information Service, *Employment Insurance*

Figure 10: Diversity of legal and effective coverage



Data Sources: For China (data for 2007), National Bureau of Statistics of China, *China Statistical Yearbook 2008*. For Japan, Ministry of Health, Labour and Welfare, *Yearbook of Employment Insurance Program 2008*. For Chinese Taipei, Council of Labor Affairs, *Labor Insurance Statistics Yearbook 2008*.

Here it is appropriate to note diversities in legal and effective coverage among the provinces of China. As figure 10 shows, while the legal coverage (horizontal axis) is lower than 30% in most provinces, the effective coverage (vertical axis) varies widely among the provinces. One may guess that, in some provinces with high effective coverage, unemployment insurance is a kind of privilege for the former employees of state enterprises. If this is true, Chinese unemployment insurance also seems inadequate for supporting those who truly need help.

### 7. Conclusion

There are two conclusions. First, it is possible for Hong Kong (China), Singapore, Malaysia, the Philippines, and Indonesia to consider introducing unemployment insurance or strengthening other schemes that would suit their situation. As noted above, the choices that each economy makes depend upon the economy's philosophy and political leadership rather than structural conditions. The economies that already have unemployment insurance can provide technical cooperation. Unilateral assistance is, however,

inappropriate in an era of regional cooperation. Each economy can freely draw lessons that are learned through comparative study. It is useful to compare the merits and demerits of relatively advanced systems of Japan, Korea, and Chinese Taipei as well as to learn from the experiences of economies with similar labor market structures. For example, it is advisable for Indonesia to investigate the policies and practices of Thailand if it is looking to introduce an unemployment insurance scheme.

Second, for economies that already have unemployment insurance, it is recommended that they reform the schemes that cover people who really need social protection. The most important challenge is to increase the effective coverage of unemployment insurance. It is advisable to extend legal coverage to non-regular workers, and it is also worth considering a combination of unemployment insurance with an unemployment assistance scheme. The problems that Japan, Korea, and Chinese Taipei face are not totally different; these economies can compete with each other in proposing policies to increase effective coverage, and in developing active labor market policies. Such competition would be beneficial not only for the economies involved but also for other economies. To promote policy innovation, it is essential to compile comparable and longitudinal data; for this purpose, it is expected that a regional statistical office such as StatsAPEC (<http://statistics.apec.org/>) will be upgraded to the level of the Eurostat in the EU.

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**Promoting Unemployment Benefits and Income Security Measures  
for Workers in Asia:  
Current Debate, Situation and Way Forward**

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

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

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

Table 1 - Unemployment rates during & after the crisis

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

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

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

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

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

Income security measures for workers are also perceived as an efficient way, in the long run, to shift from export oriented economies to a more balanced economic development model relying on a stronger domestic market, or to facilitate the just transition to green economy. Investments in social security can also help to ensure that progress in poverty reduction is not reversed. It can last but not least contribute to the redistribution of the fruits of growth as emphasized by APEC's statement in Singapore<sup>1</sup> "Unemployment remains unacceptably high in many of our economies. We will work together, and with other international fora, to ensure that the recovery does not stall and to lay a foundation for growth that is inclusive, balanced and sustainable (...)"

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

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

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

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

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

working on their own accounts, or contributing to family businesses. This, in turn, resulted in an increase in the number of workers in vulnerable employment.

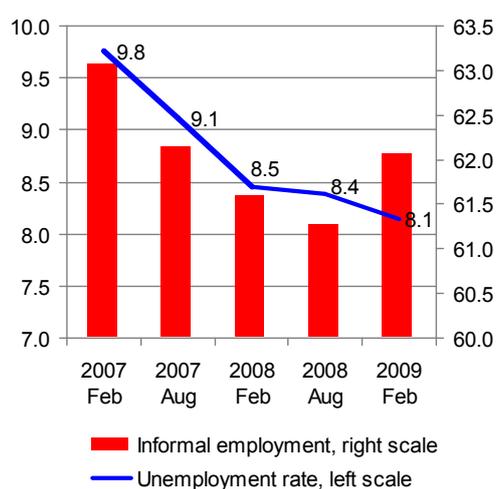
Table 2 – Share of vulnerable employment in Asia

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

Source: ILO, 2011. Global Employment Trends 2011.

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

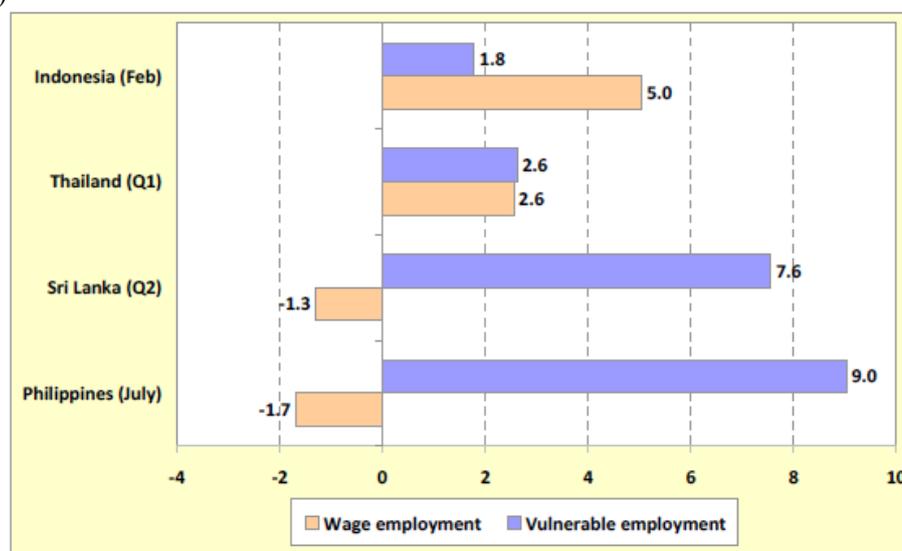
Figure 1 - Indonesia- increase of informal employment during the crisis



Source: ILO, 2010. Indonesian Jobs Pact Scann.

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

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



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

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

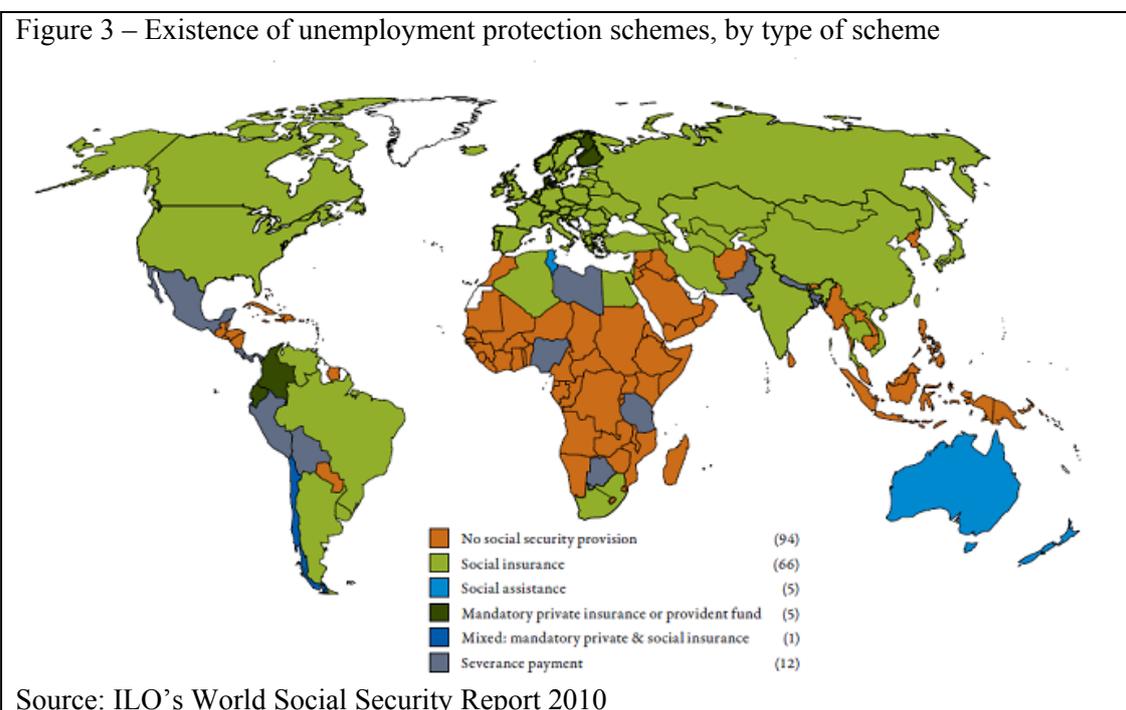
For workers in vulnerable employment that have to work in order to survive the main issues are underemployment and the often extremely precarious character of existing employment opportunities. The long-term solution relies on sustainable employment-generating policies, but there is still a need for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

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

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

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

schemes: (1) contributory unemployment insurance (UI) schemes; (2) non-contributory, tax financed unemployment assistance for all workers or for those that are no longer eligible to UI benefits.



In Asia countries can be divided in the following groups:

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

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

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

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

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

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

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

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

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

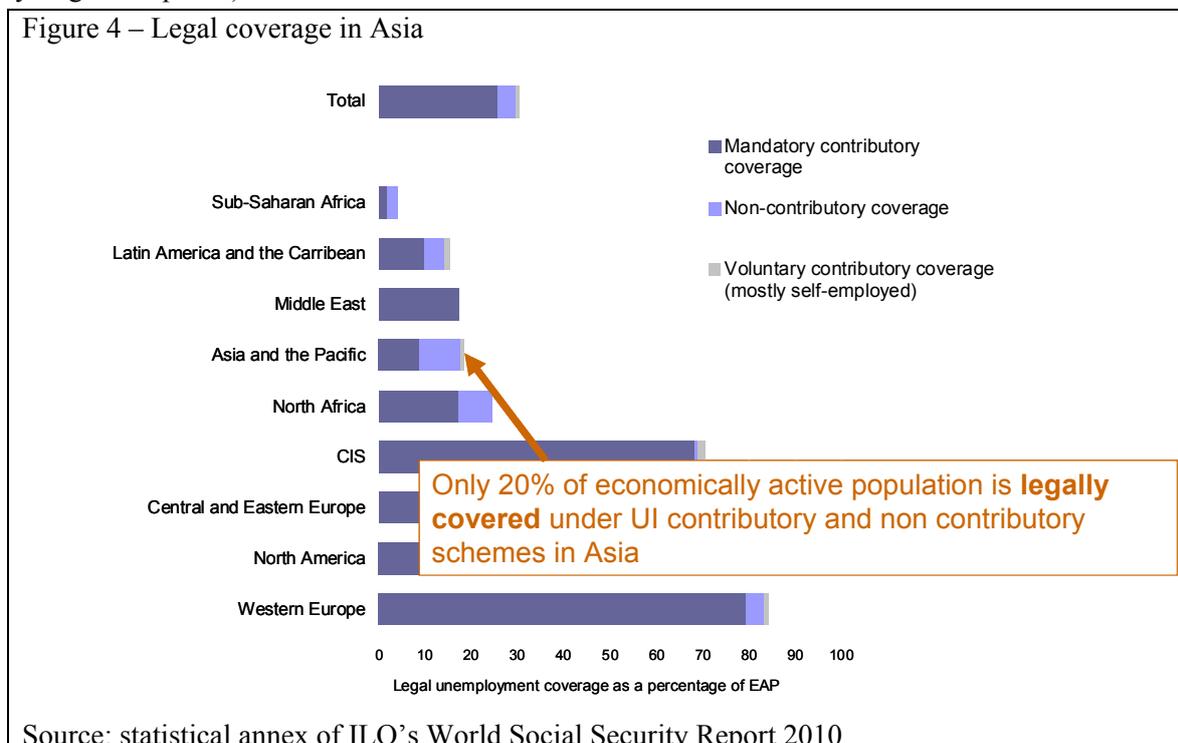
Table 4 – Level and duration of benefits

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

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

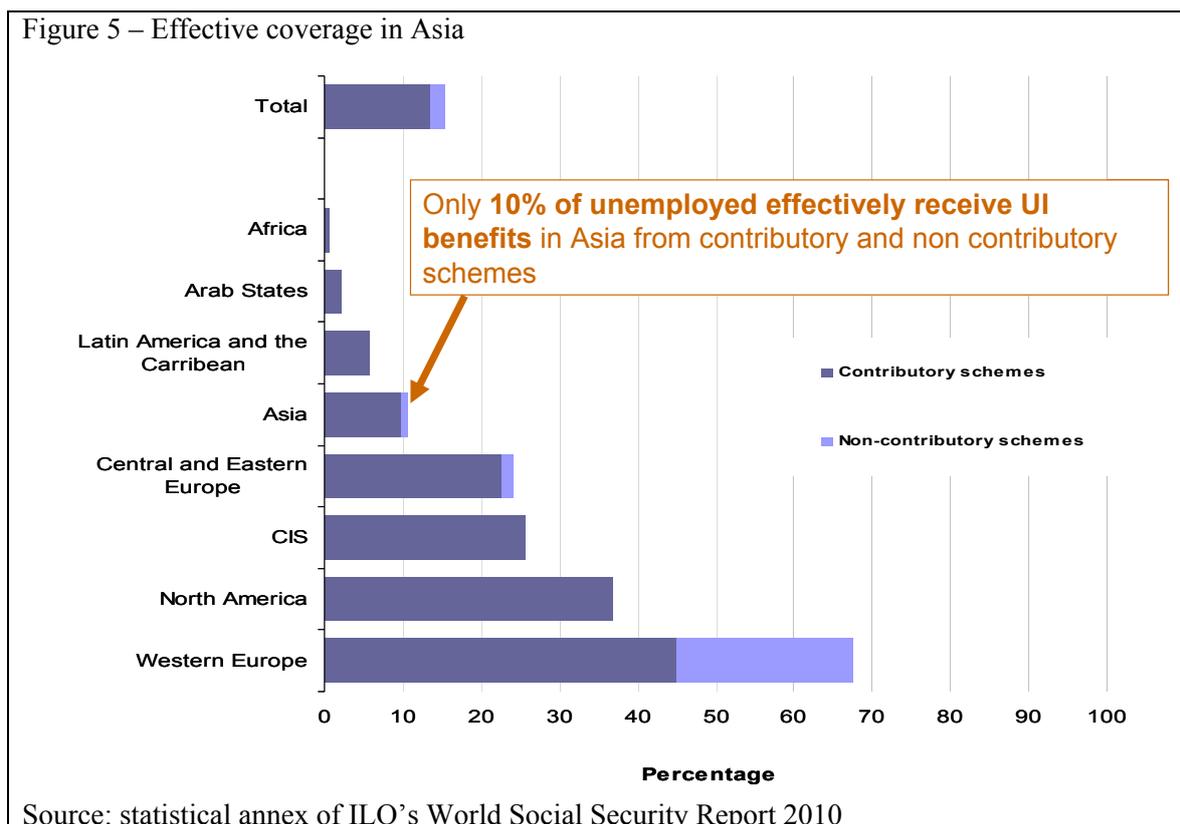
### 3 The problem of low coverage (legal & effective) of UI/EI schemes

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



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

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



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

Table 5 – Legal and effective coverage

	<b>Legal coverage (% of EAP)</b>	<b>Effective coverage (% of unemployed receiving benefits)</b>
Bahrein	66.5	34.2
China	31.9	12.9
India	1	...
Japan	83.8	23.5
Korea, Republic of	66	37.2
Mongolia	29.5	16.8
Thailand	44.1	14.7
Viet Nam	14.2	...

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

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

#### **4 The inadequacy of protection under the severance pay system**

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

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

international standards according to which unemployment benefits should be periodical payments, not one-off payments.

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

The flagship program in this respect is the new rural employment guarantee scheme that provides a guarantee of 100 days of employment to rural households at a wage level of 100 Rupies per working day. The worker has the possibility to claim for the income equivalent to the 100 days of work in case the local authorities are not able to provide him/her with employment within 15 days. A similar employment guarantee scheme has been established in Indonesia although the number of days guaranteed is so far limited to 18 days. In other countries public employment schemes may provide employment opportunities and some kind of income security, although the minimum income is not guaranteed. In China the minimum living standard guarantee schemes provide basic income security to 66 million urban and rural residents (2008). Other income security measures include transfers in cash or in kind, such as the huge CCT program “4Ps” in the Philippines, or the Rice for the poor program (distribution of rice at a subsidized price) in Indonesia.

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

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

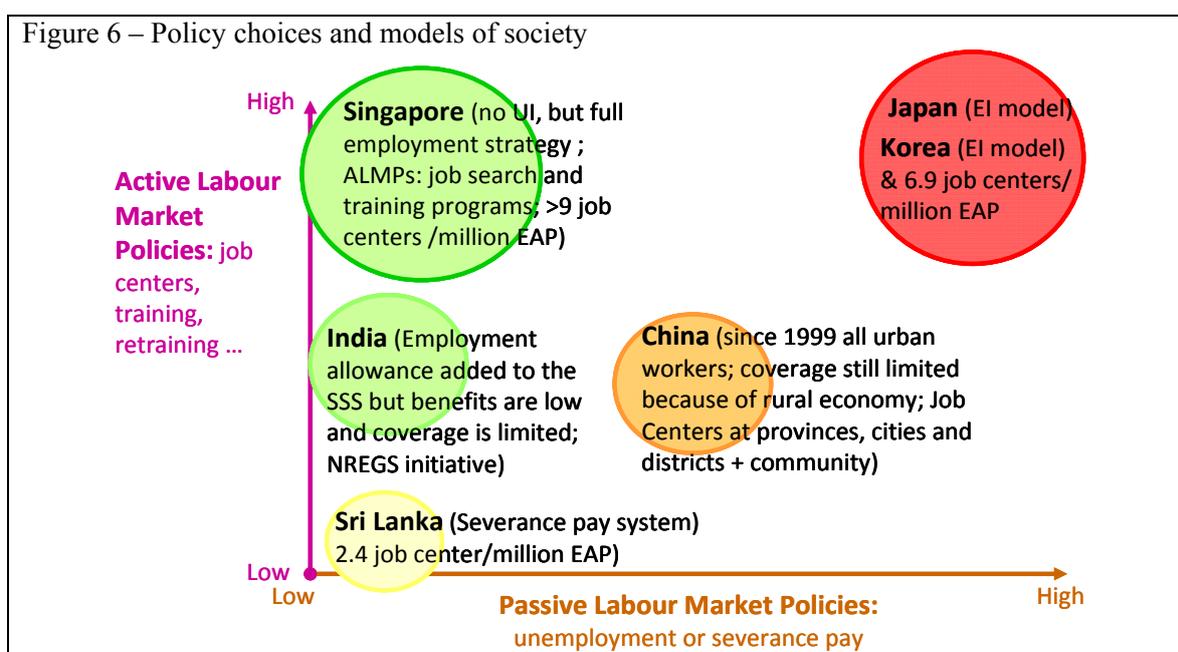
Labour market policies can be divided in two categories: Active policies and Passive policies. Passive policies aim at providing temporary ‘income security’ for the unemployed. They include:

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

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

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

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



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

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

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

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

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

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

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

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

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

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

Table 6 – Typology of passive and active LMPs

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

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

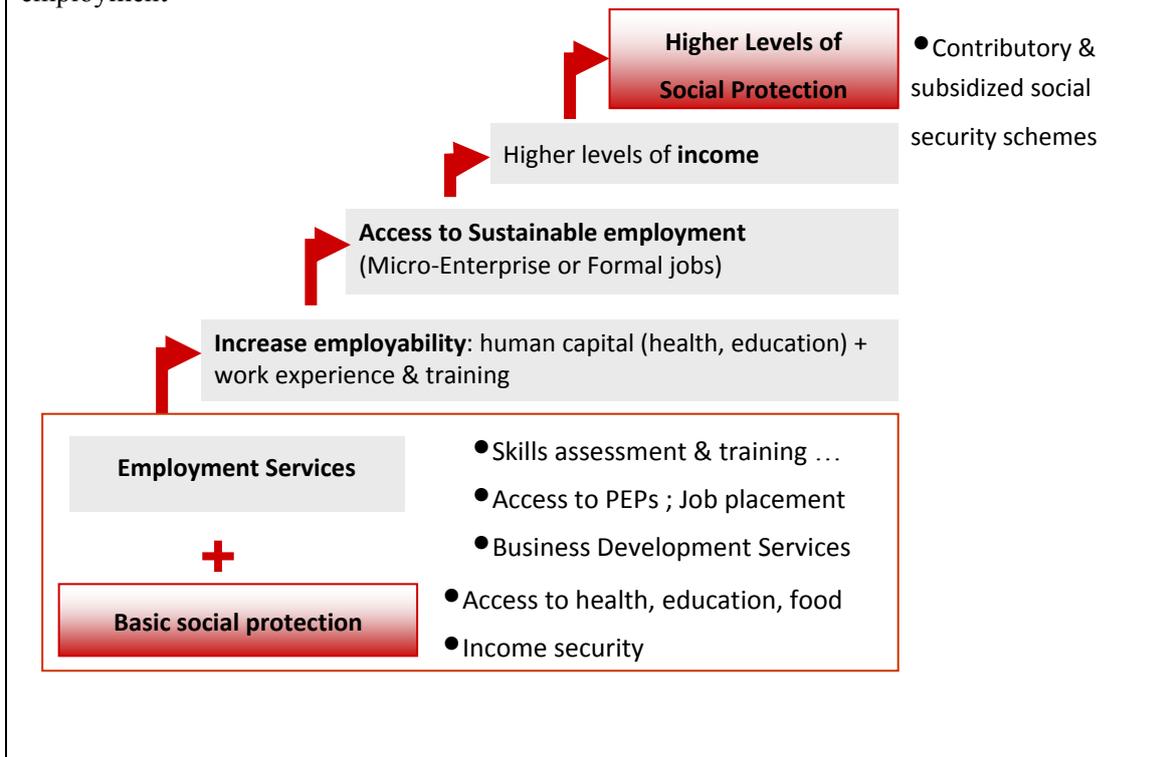
The social protection floor promotes a guarantee of basic income security for economically active population: “All those in active age groups who cannot (due to unemployment, underemployment, sickness or invalidity) or should not (in case of maternity) earn sufficient income on the labour market should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

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

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

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

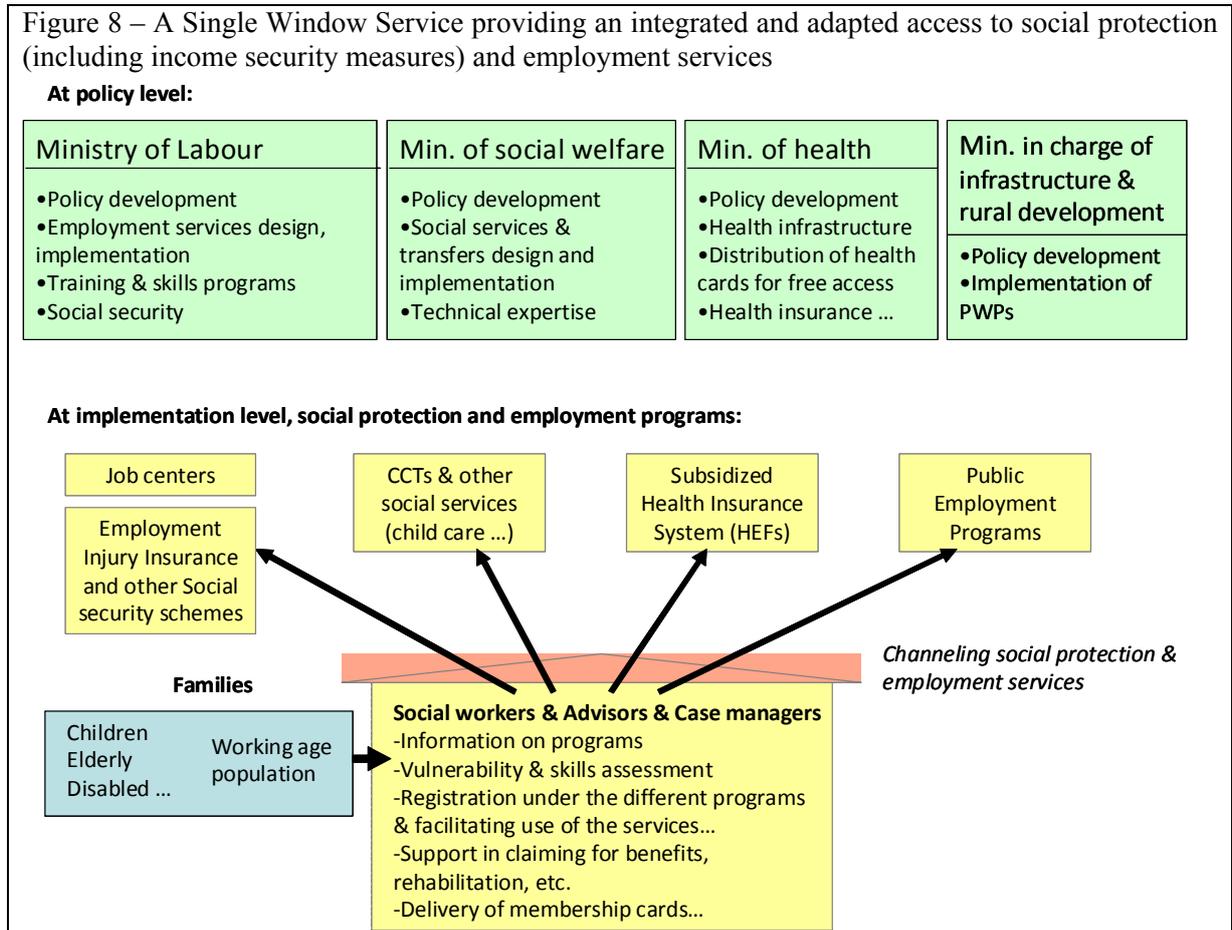
Figure 7 – Moving up the staircase: towards higher levels of social protection and sustainable employment



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

The working age population would progressively have access to more sustainable employment, generate higher levels of income, and be increasingly able to contribute to social security schemes. This integrated approach could be build around existing social protection schemes (CCTs, PEPs, etc.) or existing employment

services that would be the core or backbone in the convergence of various social protection schemes & employment services currently in place.



VS, 9 March 2011.



**Challenge to improve the public employment services in Indonesia**  
**– From the experiences of “The Study on the Improvement of Employment Services in the Republic of Indonesia” by JICA (Japan International Cooperation Agency) –**

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Senior Specialist for Analysis of Unfair Labour Practice Cases,  
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1. Outlook of Labor Market Conditions in Indonesia

The population of Indonesia now exceeds 231 million, and the labor force population constitutes approximately 117 million of total population. The percentage of young people (aged under 30) in the total population is around 50%, which means Indonesia is rich in young human resources. Despite an abundance of labor force, Indonesia has seen tough labor market conditions since the currency crisis in 1997. The unemployment rate has been improved these past four years, but labor market problems are still very serious. Further, the substantive unemployment rate which adds the number of the involuntarily-unemployed among job seekers and the number of the completely-unemployed exceeds 20% every year, showing that approximately one in five labor forces is unemployed. Among others, youth unemployment is a serious problem. The majority of the unemployed have been concentrated in the age group between 15 and 24, and the number in this group alone counts approximately 4.82 million as of August 2009. This number is equivalent to 53.8% of the total unemployed people of nearly 8.96 million. Moreover, the addition of the age group between 25 and 29 leads the number of the unemployed to approximately 6.36 million, making up 71.0% of its total.

Solution to the employment issues is one of the most important tasks under the current administration of the Indonesian Government. According to the Presidential Directive “National Mid-term Development Plans (2010-2014)”, the target of the government is to lower the complete unemployment rate to 5 - 6% by 2014.

2. Safety net for employment

Basic safety net policy for employment in Indonesia is public employment service and vocational training. There is no unemployment insurance system in Indonesia.

(1) Public employment service

The public employment exchange agency in Indonesia is the Manpower Office of local government (hereinafter referred to as “MOLG”) located in 465 Kabupaten(districts) and Kota(cities) nationwide. After the Regional Autonomy Law was put into effect in 2001, MOLG is being under the control of local government. The quality of services provided by MOLG became worse because of a shortage of experts or experienced staff in the field of employment services. Its public awareness being low hinders its effective functioning as an

organization that connects employers and job seekers. Depending on the policy of each local government, the difference in staff assignment of public employment services is taking place after the decentralization.

After the JICA's Study mentioned below, Ministry of Manpower and Transmigration (hereinafter referred to as "MOMT") has been promoting the employment service improvement in cooperation with JICA in order to spread the effective job matching service system through Indonesia.

## (2) Vocational training

After the decentralization, most of vocational training facilities and staff were handed over to local governments, at Kabupaten/Kota level.

In recent years, most of the vocational training service centers are facing problems of budget constraints, decrepit facilities, a shortage of trainers etc. MOMT has been implemented the revitalization of vocational training centers through increasing the number of trainers and budgeting for renovation of facilities.

Vocational training service centers can provide employment service by permission of local governments. The ministry has been promoting "3 in 1 policy" which is the combined services of vocational training, skill certification and placement. In order to implement "3 in 1 policy", the "Kiosk 3 in 1" (a service unit), which is intended to provide information about training, certification and placement, were established in eleven national vocational training centers in 2009.

## (3) Unemployment insurance system

There is no unemployment insurance system in Indonesia.

Based on the Labor Law No.13/2003, employers have to pay a large amount of retirement allowance regardless of reason of worker's retirement, which plays a similar role to unemployment benefit for workers.

## 3. The Study on the Improvement of Employment Services in the Republic of Indonesia

Under the above-mentioned circumstances, the Government of Indonesia has requested the Government of Japan to support them for this development study called "The Study on the improvement of Employment Services in the Republic of Indonesia (hereinafter referred to as "the Study") to analyze and improve the public employment exchange system. On the basis of this request, the development study was implemented with the Directorate General of Manpower Placement Development in MOMT as the counterpart.

The Study (1) collected and analyzed the basic data about the labor market and employment status across Indonesia, and the basic statistics and general information on employment exchange services provided by MOLGs; (2) investigated the present situations of labor and employment administration by the Central Government; (3) investigated the relationship between the Central Government and the MOLGs; (4) investigated the present situations of the employment services provided by the MOLG as the responsible organization for such services; (5) investigated collaboration between the MOLG and educational and vocational training organizations; and (6) investigated job seekers and business establishments as the users.

In addition, the Study developed the “Model Program” regarding employment services and their implementation procedure that must be performed in the MOLG nationwide, and implemented the Pilot Project to verify the program.

Bearing in mind these implementation results, the Study provided some recommendations to establish the fair, equal and efficient employment exchange system.

(See the attached summary of project’s final report)

#### 4. After the Study – On-going project by JICA

Setting a high valuation on the result of the study, the Government of Indonesia requested the Government of Japan to continue to support them for spreading improved employment service system to whole Indonesia.

JICA started a new project, “Developing Capacity of Employment Service Center(ESC) in the Republic of Indonesia” in September, 2009 (Project Period: September, 2009 - September, 2012).

In this project, JICA, in cooperation with MOMT, has been developing program for job-matching and labor market information connecting the network and model/guideline of employment services targeted, which should be utilized in every employment service offices in Indonesia.

#### 5. Conclusion

Public employment services at public employment exchange agencies are one of the basic and important programs of social safety nets for employment.

In Indonesia, most of 465 public employment exchange agencies under the control of local governments are not functioning well because their services provided with do not meet the needs of job seekers and employers. In order to improve the serious employment situation of youth in Indonesia, public employment services should be improved and strengthened through introducing such services as conducting job counseling for job seekers, positive job canvassing, utilizing labor market information or database concerning job seekers and job vacancies, improving the expertise and the motivation of each staff by training, developing well managed job matching system through using information technology, etc., which JICA’s on-going project is introducing.

It would be useful to investigate the actual conditions of public employment services in Asian developing countries and develop model programs for each countries to establish the efficient employment exchange system of a basic and important program of social safety nets for employment.

## Appendix 1

## LABOR FORCE SITUATION IN INDONESIA (million people)

	2007		2008		2009		2010	
	February	August	February	August	February	August	February	August
a. 15 歲以上人口 Population 15 Years of Age and over	162.35	164.12	165.57	166.64	168.26	169.33	171.02	172.07
b. 勞働力人口 Labor Force	108.13	109.94	111.48	111.95	113.74	113.83	116.00	116.53
: b-1 就業者人口 : Working	97.58	99.93	102.05	102.55	104.49	104.87	107.41	108.21
: b-2 失業者人口 : Unemployment	10.55	10.01	9.43	9.39	9.26	8.96	8.59	8.32
c. 非勞働力人口 Not in Labor Force	54.22	54.18	54.09	54.69	54.52	55.49	55.02	55.54
d. 不完全就業者人口 Underemployment	30.24	30.37	30.64	31.09	31.36	31.57	32.80	33.24
: d-1 非自發的不完全就業者人口 : Involuntary Underemployment	14.91	14.90	14.60	14.92	15.00	15.40	15.27	15.26
: d-2 自發的不完全就業者人口 : Voluntary Underemployment	15.32	15.47	16.05	16.17	16.36	16.17	17.53	18.01
e. 實質的失業者人口 (b-2+d-1) Substantive Unemployment	25.46	25.48	25.48	25.56	25.62	25.13	26.12	26.33
勞働力率 (b/a)	66.60	66.99	67.33	67.18	67.60	67.23	67.83	67.72
Labor Force Participation Rate (%)								
失業率 (b-2/b) %	9.75	9.11	8.46	8.39	8.14	7.87	7.41	7.14
Unemployment Rate								
實質失業率 (e/b) %	23.55	22.66	21.55	21.72	21.33	21.40	20.57	20.24
Substantive Unemployment Rate (%)								

出所：中央統計局 Statistics Indonesia, Labor Force Situation in Indonesia

**THE STUDY ON THE IMPROVEMENT OF  
EMPLOYMENT SERVICES  
IN  
THE REPUBLIC OF INDONESIA**

Summary

March 2009

**JAPAN INTERNATIONAL COOPERATION AGENCY**  
**Overseas Vocational Training Association**

# THE STUDY ON THE IMPROVEMENT OF EMPLOYMENT SERVICES IN THE REPUBLIC OF INDONESIA

## Study Background

### 1.1 High in unemployment rate mainly among the young

Since the economic crisis in 1997, Indonesia had experienced continuous growth of the number of the unemployed, hitting the complete unemployment rate of 11.24% in 2005. Despite the rate having declined to 9.8% in 2007 and to 8.5% in February 2008, the recent global financial crisis may cause the rate to rise again in the future. Further, the substantive unemployment rate which adds the number of the involuntarily-unemployed among job seekers and the number of the completely-unemployed exceeds 20% every year, showing that approximately one in five labour forces is unemployed.

The majority of the unemployed have been concentrated in the age group between 15 and 24, and the number in this group alone counts approximately 4.56 million as of February 2008. This number is equivalent to 48.4% of the total unemployed people of nearly 9.43 million. Moreover, the addition of the age group between 25 and 29 leads the number of the unemployed to approximately 6.33 million, making up 67.1% of its total.

Positioning a solution to the employment issues as one of the most important tasks under the current administration, the Indonesian Government has sought to lower the complete unemployment rate to 5.1% by 2009 in the Presidential Directive “National Mid-term Development Plans (2004-2009)”.

### 1.2 Low in usage of public employment exchange agency

The public employment exchange agency in Indonesia is the Manpower Office of local government (hereinafter referred to as “MOLG”) located in 465 provinces and cities nationwide (444 at the time of the preliminary survey). However, its public awareness being low hinders its effective functioning as an organization that connects employers and job seekers.

A questionnaire survey to Japanese companies revealed that at the time of their recruiting activities many of them adopted a way unique to them (e.g. direct recruiting at schools, newspaper ads, request to private employment exchange agencies) without using the MOLGs.

Further, while the number of the unemployed as of February 2007 was approximately 10.55 million, the MOLGs had about 2.36 million registrations as job seekers as of September, showing there are a large number of the unemployed who do not make use of the MOLGs.

### 1.3 Offering fair and equal employment opportunities

At present, job seekers wishing to acquire job information have to rely on informal information paths including those provided by the school they belong to or by someone they know. Therefore, their availability of information varies depending on their position or status, and thus depriving them of fair acquisition of job information. Although employment exchange must be fairly and equally implemented, “offering fair and equal employment opportunities” has not been achieved due to such situations as frequent recruiting through a personal connection, regional differences in the demand of workers, or regional gaps in the levels of their employment services.

## **1.4 Request by the Indonesian Government**

Under the above-mentioned circumstances, the Government of Indonesia (hereinafter referred to as “GOI”) has requested the Government of Japan (hereinafter referred to as “GOJ”) to support them for this development study called “ The Study on the improvement of Employment Services in the Republic of Indonesia (hereinafter referred to as “the Study”) to analyse and improve the public employment exchange system. In the Study, preferable circulation of economic growth and employment expansion will be promoted by improvement of the employment environment including reduction of the unemployment rate, and such accomplishment will be fairly distributed to the entire nation to contribute to reduction of poverty.

On the basis of this request, the development study was implemented with the Directorate General of Manpower Placement Development (hereinafter referred to as “DGMPD”) in the Ministry of Manpower and Transmigration (hereinafter referred to as “MOMT”) as the counterpart.

### **Objectives and Implementation of the Study**

## **1.5 Objectives of the Study**

The objectives of the Study is to propose an efficient employment exchange system deployed in what MOMT and MOLGs must do to provide the “fair and equal” employment services.

The Study also seeks to enhance the ability of the staff engaging in employment exchange in terms of their employment exchange services in the MOLG.

## **1.6 Study implementation procedure and system**

The Study was implemented with the following three stages:

[Stage 1]: Survey of present situations and development of the Model Program

The Study was implemented in relation to information on employment and the labour market in Indonesia, the methods for services in public employment exchange agencies, and the relationships among vocational training organizations, educational organizations, business establishments and the public employment exchange agencies. Based on this survey, the issues on employment services were analysed to develop the “Model Program”. The implementation areas for the Pilot Project which experiments the “Model Program” were also selected.

[Stage 2]: Implementation of the Pilot Project

The Pilot Project which experiments the “Model Program” was implemented in the selected areas to verify its effectiveness and adaptability. Further, the “Model Program” was modified based on the evaluation of the experimentation results.

[Stage 3]: Development of recommendations based on results of the Pilot Project

This stage developed the recommendations that contribute to improvement of employment services, with a view to functional enhancement of MOLGs using the “Model Program” and the nationwide future deployment of such Model Program in Indonesia.

## **Study Overview**

### **1.7 Present situations and issues of Indonesian employment services**

The Study investigated and considered the employment services provided and implemented in the MOLGs, and extracted the issues of the following four fields:

1. Issues regarding services related to job seekers with handling of employment applications including inadequate job counseling and lack of pre-employment training ;
2. Issues regarding services related with handling of accepting employer's order for workers and insufficient job canvassing for order for workers;
3. Issues to more effectively and efficiently implement employment exchange services including systematic business implementation, data management, utilization of information on the labour market, and implementation of job fairs;
4. Issues regarding the framework to improve employment services such as improvement of the user's convenience, development of human resources, and improvement of the staff's quality, expertise and motivation.

### **1.8 Pilot Project implementation**

The Study developed the "Model Program" regarding employment services and their implementation procedure that must be performed in the MOLGs nationwide, and implemented the Pilot Project to verify the program.

As for the areas to implement the Pilot Project, Bekasi of West Java was selected as the "employment exchange model in an industrial area near a metropolis where there are a large number of job opportunities", Semarang of Central Java as the "employment exchange model in a local city where there is a smaller number of job opportunities than the number of job seekers" and the "employment exchange model of data management/operation using the computer and the use of these data", and Batam of Riau Islands as the "regional employment exchange model collaborating with the other MOLGs to a free-trade zone (e.g. Batam Desk in the Semarang MOLG)".

With the survey of these areas implementing the Pilot Project, the Model Program was verified from six pillars including job counseling by each MOLG, job canvassing for order for workers, effective implementation of job fairs, pre-employment training before being employed, collaboration with related organizations (e.g. educational organizations, vocational training organizations), and data management/search by using the computer.

### **1.9 Content of Recommendations**

Based on the results of the pilot program, recommendations regarding the following four fields were made to establish the fair, equal and efficient employment exchange system:

#### **1. Handling of services for job seekers**

Reviewing the content, the services for job seekers should be reorganized as the job counseling task by the addition of: (1) collection of desired occupations conditions, (2) creation of database on the collected information, (3) supply of information on the labour market, (4) supply of job information corresponding to one's desired occupations condition(s), and (5) job counseling. The regular pre-employment training sessions regarding successful job interviews, attitude towards working, etc. (pre-employment training) should also be provided to job seekers before being employed.

## 2. Handling of services for employers

Reviewing the work for taking employer's order for workers should newly add: (1) instructions to employers regarding compliance and setting of fair recruiting conditions, (2) collection from job vacancy information such as employment application conditions and employment conditions, (3) creation of database on the collected information, (4) introduction of job seekers corresponding to their employment application condition(s), and (5) follow-up to employers including response to the results of introduction or insufficient recruiting. Further, systematic and institutional visit to business establishments should be made for job canvassing for order for workers

## 3. Method to implement employment exchange more effectively and efficiently

This field includes systematic business implementation, data management/operation by using the computer; reviewing how to collect information on the labour market and its analysis and utilization; improvement of job fairs; establishment of the collaborative system between MOLGs; intraregional and regional employment exchange in collaboration with private employment exchange agencies and business establishments; and collaboration with related organizations.

## 4. Framework to improve employment services

This field aims at improvement of the user's convenience through establishment of a committee on improvement of services for speedy and kind response, change in layout, or establishment of a satellite office. It also includes activities to improve employment services such as training the staff in charge of employment exchange, systematic and institutional training, and improving the staff's quality, expertise and motivation by building the principles on services.

## Recommendations overview

### 1. Recommendations regarding handling of services for job seekers

Proposal 1	Implementation of job counseling
	Reviewing the content, the services to register job seekers should be reorganised as the employment counseling task by the addition of: 1) collection of desired working conditions, 2) creation of database on the collected information, 3) supply of information on the labour market, 4) supply of job information corresponding to one's working condition(s), and 5) job counseling.

Proposal 2	Implementation of pre-employment training sessions
	The regular training sessions regarding successful job interviews, attitude towards working, etc. should be provided to job seekers before being employed.

### 2. Recommendations regarding handling of services for employers

Proposal 3	Establishment of recruiting acceptance system for active and efficient employment exchange
	Reviewing the work for recruiting acceptance should newly add: 1) instructions to employers regarding compliance and setting of fair recruiting conditions, 2) collection from employers of information such as application conditions and employment conditions, 3) creation of database on the collected information, 4) introduction of job seekers corresponding to their recruiting condition(s), and 5) follow-up to employers including response to the results of introduction or insufficient recruiting.

Proposal 4            Enhancement of job canvassing for order for workers  
Systematic and institutional visit to business establishments should be made for recruitment exploitation.

### 3. Recommendations regarding methods for more efficient employment exchange

#### (1) Implementation of systematic service

Proposal 5            Implementation of systematic services  
An annual service plan should be developed to implement appropriate services securing the local government budget and the Ministry's delegated budget (subsidies). In addition, the service plan should regularly be monitored and evaluated to develop and implement improvement measures as appropriate.

#### (2) Data management/operation

Proposal 6            Adoption of a computer-aided service system  
A computer-aided service system compliant with the database standard should be adopted for swift and accurate employment services. The system used will be gradually improved, and the data centre should be established in the future to collectively manage the data on job seekers and recruiting provided by each labour bureau.

Proposal 7            Development of and instruction on a database standard  
MOMT should establish a team to develop the database standard for its development. The information on this database standard should be published and informed thoroughly while labour bureaus having developed their own system should be instructed to comply with the standard.

#### (3) Utilisation of information on labour market

Proposal 8            Unification of information items (definition) on the labour market, and modification of a report form  
The information items (definition) on the labour market should be unified, and the report form should be modified to develop the system so that the information minimum required can be swiftly and timely collected.

Proposal 9            Variety of information contents on the labour market  
Statistics Indonesia (Badan Pusat Statistik: BPS) should analyse the labour market in cooperation with the labour force survey so that the DGMPD in MOMT offers a variety of information contents on the labour market.

Proposal 10           Effective utilization of information on the labour market  
The information on the labour market should be used to promote employment services and to improve public relations with labour bureaus.

#### (4) Implementation of small job fairs

Proposal 11           Implementation of small job fairs  
Small job fairs should be implemented with several companies capable of selecting job seekers corresponding to their employment condition(s) and of efficient matching.

- (5) Offering recruitment information in special economic zones (implementation of intraregional and regional job placement)

Proposal 12	Offering recruitment information in special economic zones (implementation of intraregional and regional employment exchange)
A collaborating system should be established to share recruitment information between MOLGs, and training and instruction to private employment exchange agencies should be enhanced. The employment exchange services in collaboration with employers should also be provided.	

- (6) Collaboration with related organisations

Proposal 13	Collaboration with related organisations
Periodic meetings with related organisations should be held to share information and to promote the system of special job placement offices.	

#### 4. Recommendations regarding the framework to improve employment services

- (1) Improvement of user's convenience

Proposal 14	Establishment of a satellite office
A satellite office should be established as required to improve the user's convenience.	

Proposal 15	Establishment of committee on service improvement
The "committee on service improvement" should be established to improve the user's satisfaction.	

Proposal 16	Improvement of a public image
The content of services provided by MOLG should be informed to the related organisations, students and general public to improve its image.	

Proposal 17	Improvement of layouts, spaces, information boards, etc.
Facilities should be improved by such ways as elaborated layouts or information boards and as securing space for relaxed consultation, for the user's convenience.	

- (2) Framework to improve employment services

Proposal 18	Development of human resources engaging in employment services
All staff in the department of employment services should be trained to develop human resources capable of employment exchange services.	

Proposal 19	Implementation of systematic and institutional training
In addition to the existing training, a systematic and institutional one should be implemented setting the training to bring IT into services. A trainer's training should also be implemented so that training can be made to the "general staff" rather than to "experts".	

Proposal 20	Building principles on services
Ensuring to offer the services needed by users, the missions and objectives of MOLG should be clarified to improve the user's satisfaction. The staff's quality, expertise and motivation should also be improved.	

These recommendations above, which are to be submitted to the Central Government (MOMT), importantly need their dissemination to MOLGs across the nation and efforts by the Government for on-site implementation as the employment services are to be implemented by the MOLGs.

See Figure 4-1 for tasks to be done by MOLG in case of the contents of these recommendations being implemented.

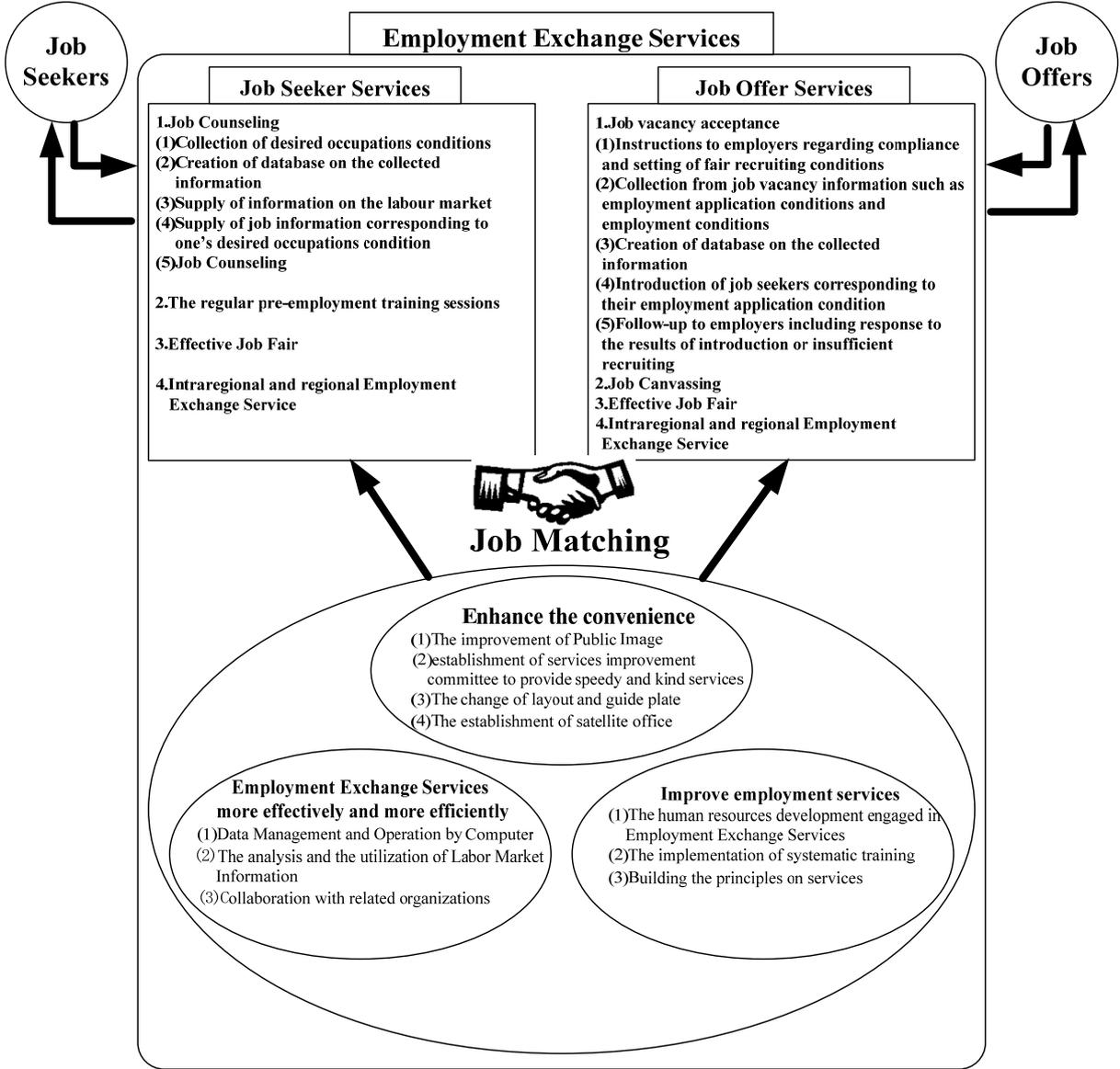


Figure 4-1 Tasks of MOLG in case of the contents of these recommendations being implemented

## **Enhancement of efforts by the Central Government**

At present, differences in budget allocation or personnel distribution have resulted in large variations in employment services available in different regions due to the differences in priority and perception in each local government (regency/city). The Central Government is thus required to correct these variations so that any Indonesian citizen can fairly and equally receive effective employment services. Implementation of the recommendations necessitates enhancement of efforts by the Central Government, particularly that of the actions to local governments. The following shows the efforts to be made by the Central Government in each recommendation:

( 1 ) Actions to local government chiefs;

It is hard to implement the recommendations without the cooperation by the chiefs of regencies and cities as the responsible organizations for the employment services, and therefore their understanding and cooperation for improving such services is required. In particular, they essentially need to commit themselves to budgetary steps with a view to organizing the system and institution, distributing personnel and promoting IT into the services.

( 2 ) Enhancement of collaboration with local governments (provinces);

The Central Government should make efforts to cooperate with the provincial MOLGs for the programs to improve employment services, especially the training programs for MOLGs staff.

( 3 ) Appropriate subsidy allocation to MOLGs and monitoring/evaluation;

( 4 ) Appropriate training to MOLG staff;

( 5 ) Clear expression to MOLGs of the policies of employment services and various criteria and provision of manuals, guidance or as such regarding their implementation;

( 6 ) Enhanced functions of monitoring and evaluating employment services to MOLGs.

<b>Common program to the 3 areas</b>		
6 basic pillars	1 Job counseling	
	2 Cultivating job vacancy	
	3 Job Fair	
	4 Pre-employment training	
	5 Cooperation with related organizations	
	6 Data management and searching	
Other functions	1 Improving the convenience of users	
	2 Organization and system	
	3 Prompt and kind services to the users	
	4 Improving public image	
	5 Improving quality, professionalism & motivation of the staff	
<b>Individual program per each area</b>		
Kabupaten Bekasi MOLG	Kota Semarang MOLG	Kota Batam MOLG
1 Establishment of satellite office	1 Establishment of special desk for Kota Batam & overseas	1 Expansion of job counseling corner
2 Change of layout	2 Establishment of special desk for specific recruitment service to Job Seeker	2 Establishment of wide-range employment service desk
3 Job fair of large scale and small scale	3 Conducting follow-up service for participants enterprises in Job Fair	3 Cultivating job vacancy based on the employment schedule of enterprises
4 Composition of project team for cultivating job vacancy.	4 Conducting Job Fair targeting SME	
	5 Improvement of present data	



About On-going Project

- Project Title : The Project for Developing Capacity of Employment Service Center (ESC) in the Republic of Indonesia
- Project Period : September, 2009 – September, 2012 (Three years)
- Target Areas : Regencies (kabupaten) and cities (kota) in which ESCs selected from all ESCs across the nation (hereinafter referred to as the Selected ESCs) are located.
- Target Group : i) ESC staff in regency and city engaged in employment service (around 40) in the Model ESCs (10 ESCs chosen from around 100 nationwide Selected ESCs), and the Manpower Office of Local Government (MOLG) staff in province in charge of Model ESCs, ii) ESC staff in regency and city engaged in employment service (around 400) in the Selected ESCs (excluded 10 Model ESCs), and MOLG staff in province in charge of Selected ESCs, iii) Job seekers and employers who utilize Selected ESCs.

**1. Overall Goal**

Employment is promoted in all Selected ESCs through providing the improved employment service.

**2. Project Purpose**

Fair, equitable and efficient employment services (services improved in terms of (1) - (4) below) come to be provided in all Selected ESCs.

- (1) Improvement of job-seeking tasks by the implementation of career counseling and provision of accurate job vacancy information etc.
- (2) Improvement of the job-placement tasks by the implementation of job canvassing etc.
- (3) Provision of effective and efficient employment service by introduction of the data management and operation using computers etc.
- (4) Implementation of tasks responding to users' demands and skills development of staff's capacity

**3. Outputs**

- (1) The cooperation framework among nation, provinces, regencies and cities regarding management of Qualified ESCs is shared in each local government.
- (2) The contents and the implementation procedure for fair, equitable and efficient employment service implemented by Qualified ESCs are clearly identified.
- (3) The employment service including the capacity of job canvassing in Model ESCs is improved.
- (4) Know-how obtained in Model ESCs is transferred to other ESCs.

**4. Activities**

0-1 Conduct the baseline and endline surveys.

1-1 Build an organization in MoMT (tentative name: ESC promotion team) to guide and support MOLG in provinces, regencies and cities for smooth ESC management.

1-2 Define the role of MoMT, and MOLG in provinces, regencies and cities in terms of ESC management, and clarify the function to be performed and the measures to be carried out by each organization from the aspects of the organizational operation, personnel training, budget, monitoring & evaluation, etc.

1-3 Identify the situation of the cooperation framework among nation, provinces, regencies and cities in Model ESCs, and extract problems and challenges.

1-4 Consider the measures for improving the problems and challenges, and conduct on trial of the improvement measures by cooperation with provinces and regencies and cities in Model ESCs.

1-5 Improve the management framework based on the trial result, and hold the seminar on the concept of cooperation framework for MoMT, provinces, regencies and cities in which Selected ESCs are located.

- 2-1 Regarding existing guidelines, operation manual and operation flow for public employment service, verify the appropriateness of the contents to implement fair, equitable and efficient service, and revise as necessary.
  - 2-2 Identify the situation of data standardization in the operating support system for employment service, and confirm its suitability to the manuals and operation flow.
  - 2-3 Select Model ESCs (10 ESCs) based on the locational conditions, the number of users and staff.
  - 2-4 Standardize information to be collected from job seekers and employers.
  - 2-5 Clarify the network connection and operational condition in Model ESCs.
  - 2-6 Implement trial service with adopting the operating support system in Model ESCs.
  - 2-7 Verify feasibility of the fair, equitable and efficient service implementation in Model ESCs using the operating support system, and extract problems and challenges based on 2-1.
  - 2-8 Review the operating manual and operating flow for fair, equitable and efficient employment service, and implement the remedy based on this activities.
  - 2-9 Develop the accreditation criteria and assessment scheme, and prepare checklist to accredit ESCs.
- 
- 3-1 Identify problems and challenges through confirming job canvassing service in Model ESCs, then plan and implement the reform measures.
  - 3-2 Identify problems and challenges through confirming career counseling service in Model ESCs, then plan and implement the reform measure.
  - 3-3 Identify problems and challenges through confirming the flow of whole employment service in Model ESCs, and plan and implement the reform measures, and establishing the framework for improving Model ESC operation.
  - 3-4 Develop the training plan based on knowledge and ability required for staff of ESCs.
  - 3-5 Prepare the training curriculum and teaching materials regarding the tasks using the employment service including operating support system.
  - 3-6 Conduct training on the employment service including operating support system to the trainers of MoMT and MOLG in provinces.
  - 3-7 Conduct training on the employment service including operating support system to the staff of employment service in Model ESCs.
  - 3-8 Carry out round of visits to each Model ESC, and provide advice and guidance by MOLG specialists.
- 
- 4-1 Hold seminars on Qualified ESC management to Selected ESCs.
  - 4-2 Hold seminars to introduce employment service using the defined guideline, operating manual, operation flow and operating support system to Selected ESCs.
  - 4-3 Conduct training on the operating support system and employment service to staff of employment service in Selected ESCs in cooperation with MOLGs in provinces.
  - 4-4 Carry out round visit to Selected ESCs, and provide advice and guidance by MOLG specialists in provinces.
  - 4-5 Hold seminars on introduction of accreditation criteria and framework of Qualified ESCs.





