




International
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▶ **International practices of
income protection for
unemployed persons:
Implications for Indonesia**

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▶ **International practices of
income protection for
unemployed persons:
Implications for Indonesia**

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Executive summary

The Republic of Indonesia means to join some 80 other countries in implementing an unemployment or employment insurance programme to offer effective unemployment protection to Indonesian jobseekers and their families.

While most countries still refer to their schemes as unemployment insurance (UI), Canada, Japan, the Republic of Korea and Malaysia describe their schemes as employment insurance (EI). This title emphasizes the coordination, through various labour market policies and programmes, of unemployment protection with employment promotion.

Throughout the world at last count, 98 countries provided unemployment protection schemes, not counting countries that relied only on severance payments. (see Figure 1)

Most of the countries, 92 out of 98, provided periodic cash benefits in unemployment situations, and 82 of them provided such benefits under a social insurance scheme described as unemployment insurance.

In Asia, unemployment protection schemes are an important feature for working women and men in such countries as Japan, the Republic of Korea, Malaysia, the Kingdom of Thailand, and the Socialist Republic of Viet Nam, while Indonesia and the Republic of the Philippines are considering similar schemes.

The schemes in Japan and in the Republic of Korea date back to 1947 and 1995 respectively, while UI in Thailand started in 2004, Viet Nam following suit in 2009 and Malaysia in 2018. In combination with periodic cash benefits, those countries adopting a UI programme also offer a variety of labour-

market support measures to help unemployed workers find suitable employment as quickly as possible.

The ILO World Social Protection Report 2017–19 discusses strengthening the link between unemployment protection and labour market policies and employment-generating macroeconomic policies in the following terms (ILO, 2017a):

In light of the persistent high levels of unemployment as well as vulnerable employment and working poverty in many countries, strengthening the link between income support and active labour market policies has become a recent global trend.

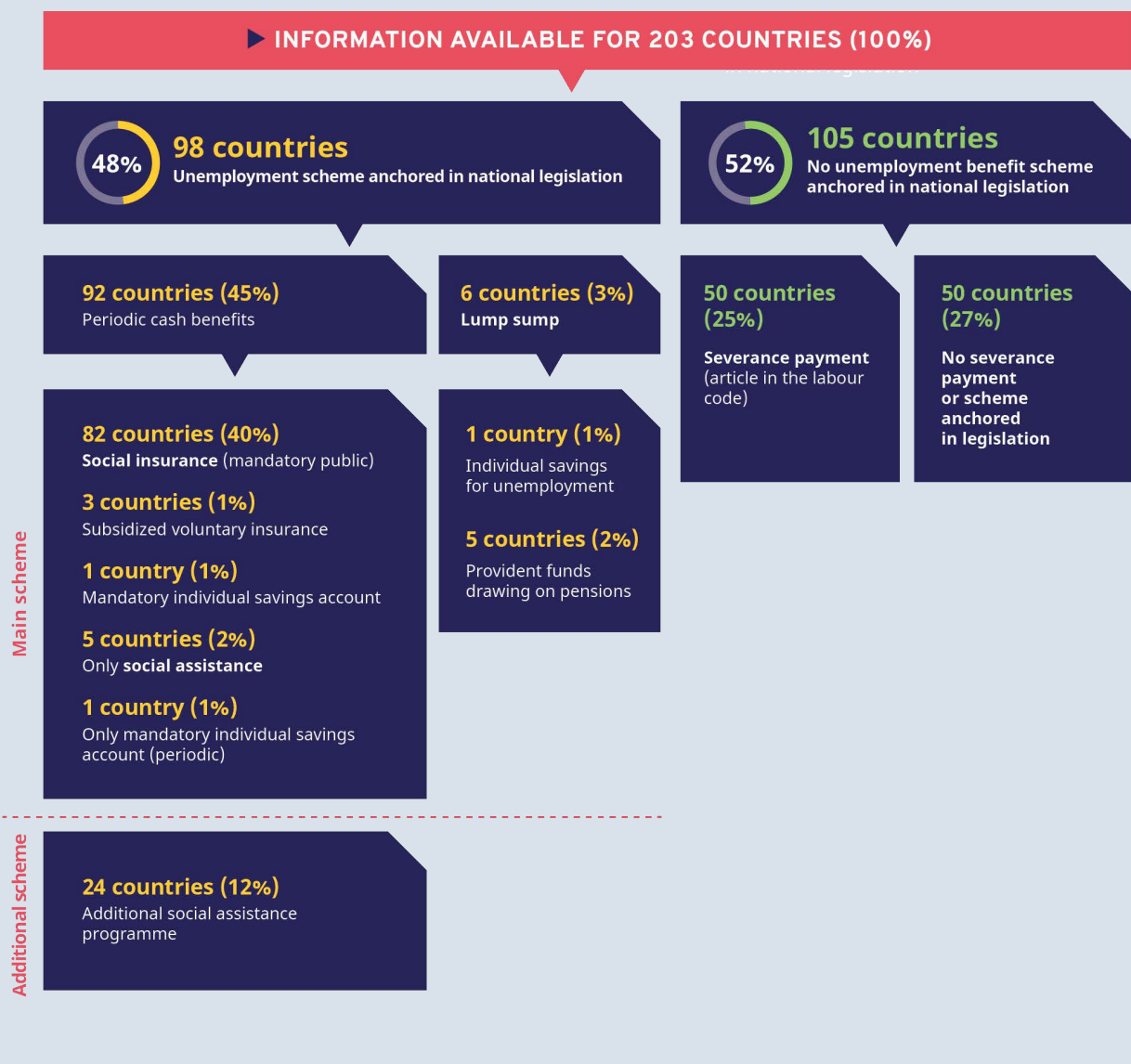
No UI/EI scheme, however, can in itself solve a country's unemployment problems. The main objective of such schemes should be kept as simple and straightforward as possible: i.e. to provide temporary and partial income replacement to insured people who lose their jobs. This approach generates beneficial returns for employers, workers and society as a whole, returns that far outweigh the scheme's minimal costs.

With respect to severance pay schemes (retrenchment or redundancy benefits), in some cases employers are unable or unwilling to meet their commitment to pay severance in cases of plant closure or moves outside the country. This occurs especially in times of crisis where employers are forced into bankruptcy and are left unable to meet their obligations. Severance payments, unlike UI, are rarely pre-funded, and are not guaranteed by the State, offering significant amounts only to longer-term workers. Their overall effectiveness is thus brought into question. Other avenues of

protection for unemployed workers are few and offer only limited benefits, except perhaps in countries that can afford general social assistance benefits and manage them effectively.¹

Figure 1

Overview of unemployment protection schemes, by type of scheme and benefit, 2015 or latest available year



Note: The schemes presented are not mutually exclusive. In many countries, unemployment insurance coexists with unemployment assistance, severance payments and public employment programmes. Countries that were classified as having severance payment have no unemployment benefit programme anchored in national legislation. Also, it should be noted that severance pay does not include redundancy pay. The share is expressed as a percentage of the total number of countries (203 countries = 100 per cent).

Source: ILO (2017a), page 44, figure 3.13.

¹ Australia, a prime example of the latter approach, is not considered in this study. The Australian scheme is part of that country's overall welfare scheme, and is not distinctly focused on unemployed workers, nor does it operate as a social insurance scheme.

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Acronyms

ADB	Asian Development Bank
ALMP	active labour market policy
ASEAN	Association of Southeast Asian Nations
BPJS	Badan Penyelenggara Jaminan Sosial (National Social Security System)
CCT	conditional cash transfer
DOE	Department of Employment (Thailand)
DSD	Department of Skills Development (Thailand)
EC	European Commission
EGS	employment guarantee scheme
EI	employment insurance
EIS	Employment Insurance System (Malaysia)
ESC	Employment Service Centre (Viet Nam)
GDP	gross domestic product
GNI	gross national income
JICA	Japan International Cooperation Agency
JPY	Japanese Yen
ILO	International Labour Organization
LFPR	labour force participation rate
LMP	labour market policy
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee System (India)

MPR	Majelis Permusyawaratan Rakyat (People's Consultative Assembly, Indonesia)
MoM	Ministry of Manpower
NGO	Non-Governmental Organization
NREGA	National Rural Employment Guarantee Act
OECD	Office of Economic Cooperation and Development
OP	Publications Office of The European Union (Luxembourg)
PEP	public employment programme
PWP	public works programme
SDF	Skills Development Fund
SDG 2030	Social Development Goals for 2030
SOCISO	Social Security Organization (Malaysia)
SOE	State-Owned Enterprise
UNDP	United Nations Development Programme
UI	unemployment insurance
US	United States
USA	unemployment savings account
USS	unemployment savings scheme
WEF	World Economic Forum
WSPR 2017-19	World Social Protection Report 2017-19



1

Introduction

Indonesia aspires to join some 80 other countries in implementing an unemployment insurance/employment (UI/EI) insurance programme that ensures effective unemployment protection for the country's workers and their families. Among the ten nations that constitute the Association of Southeast Asian Nations (ASEAN), Malaysia (2018), the Kingdom of Thailand (2004) and the Socialist Republic of Viet Nam (2010) have already established UI/EI schemes. Indonesia and the Republic of the Philippines are each considering doing the same.

While most countries still refer to their schemes as unemployment insurance, Canada, Japan, the Republic of Korea and Malaysia refer to their schemes as "employment" insurance. This characterization emphasizes the coordination of unemployment protection with employment promotion through various labour market policies and programmes. For the remainder of this report, we refer alternatively to both UI and EI for unemployment protection in Indonesia.

As have most countries that implement UI/EI, Indonesia engaged in years of discussion prior to establishing a national programme. In 2002–04, the International Labour Organization (ILO) and the Indonesian Ministry of Manpower and Transmigration undertook a series of studies on restructuring the social security system. At that time, the Government decided not to include unemployment benefits in the 2004 National Social Security Law, choosing instead to continue a national dialogue. After more than a decade of discussion, national stakeholders decided to make establishing an EI system a priority.

In January 2018, the Minister of Manpower (MoM) committed in the Indonesian Parliament to conducting a serious study towards the establishment of an EI system with support from the tripartite employers, workers and government stakeholders. To this end, MoM requested ILO support in the design of an effective EI system to meet Indonesia's needs.

The ILO conducted two missions in April and May of 2018, proposing a project strategy that was accepted with the tripartite stakeholders expressing their willingness to participate in a collaborative process towards a national EI system. The ILO conducted a series of consultation workshops and fact-finding missions including separate national consultation workshops of government's, workers' and employers' representatives, and a national tripartite committee meeting between August and December 2018.

In the consultation process, the ILO produced and shared two major background reports on international practices of income protection for unemployed persons and a national stock-taking study to assess legal, institutional and financial perspectives for promoting evidence-based policy dialogues in Indonesia. This report is one of these reports and therefore contains information and data that were available as of 2018.

2

Unemployment protection
worldwide

Social protection programmes are geared to provide social security to those in need, assisting people at birth, as children, as youths, during their working age and in old age. Generally speaking, countries throughout the world have implemented social security stages in the following order:

- ▶ Employment injury benefits;
- ▶ Old-age pensions;
- ▶ Disability and survivors' benefits; and
- ▶ Sickness, health and maternity coverage.

Benefits for children and families, as well as unemployment benefits, typically come last.

Myanmar presents a good example of this process, where social security benefits are anchored in legislation and implemented for the following: worker injury benefits; sickness, maternity and paternity benefits; funeral grants; and family benefits. At the time of this writing, legislation had been passed but not implemented for the following programmes: disability; old age; and unemployment insurance benefits.

Malaysia also implemented worker injury, invalidity pensions and a provident fund as contributory programmes, while an unemployment insurance scheme was established as recently as January 2018.

Since its inception, essential elements of the ILO's mandate have included social protection and the right to social security (ILO, 2017a). Over a century ago, a minimum number of countries had social protection systems in place. Today, however, a great number of countries have implemented social security systems, and efforts are being made to extend social protection coverage and benefits on an ongoing basis.

Social protection lies at the centre of the 2030

Sustainable Development Goals (SDGs), but the right to social security is not yet a reality for much of the world's population, who still have no or only partial access to comprehensive social protection schemes (UNDP, 2017a). As a result, only 45.2 per cent of the global population is covered by at least one social protection benefit. In terms of unemployment protection, only 21.8 per cent are adequately covered. For the Asia and Pacific region, the population covered by at least one social protection benefit is 38.9 per cent. In addition, only 22.3 per cent of the world's population is covered with adequate unemployment protection benefits, meaning that more than three quarters of the world's population lack any unemployment protection to prevent workers and their families from sliding into poverty.

The SDGs, otherwise known as the Global Goals, represent a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The 17 goals build on the successes of the Millennium Development Goals, while including, among other priorities, new areas such as climate change, economic inequality, innovation, sustainable consumption, and peace and justice. The following chart presents a number of unemployment protection schemes in operation around the world.

This chart shows that fewer than 50 per cent of countries have implemented an unemployment

Figure 1

Unemployment Protection Worldwide



Note: The schemes presented are not mutually exclusive. In many countries, unemployment insurance coexists with unemployment assistance, severance payments and public employment programmes. Countries that were classified as having severance payment have no unemployment benefit programme anchored in national legislation. Also, it should be noted that severance pay does not include redundancy pay. The share is expressed as a percentage of the total number of countries (203 countries = 100 per cent).

Source: ILO (2017a), page 44, figure 3.13.

protection scheme anchored in national legislation. A total of 92 countries have implemented programmes that provide periodic cash benefits, while most (82) have mandatory social insurance programmes (i.e. unemployment insurance schemes). Among the 105 countries that provide no unemployment benefit anchored in national legislation, 50 countries offer severance payments for workers covered by the labour code, which provides a limited level of protection to workers.

Indonesia is among the 50 countries that have severance pay mandated under the national labour code.

While severance payments may lead to higher job stability because employers tend to reduce lay-offs during recessions

so as to avoid such payments, they can also discourage new recruitment in times of economic expansion, which in turn leads to longer unemployment periods and difficulties for young people seeking a first job. For this reason, unemployment benefits based on the principles of social insurance are considered more supportive of structural transformation in the economy than severance pay. (ILO, 2017a)

► 2.1 Legal coverage

Legal coverage is defined as the percentage of the labour force theoretically covered by unemployment protection schemes, without regard to whether or not they actually receive benefits if they become unemployed. For example, in the context of a UI scheme, it would refer to insured individuals paying contributions or those for whom their employers were paying contributions.

Around 38.6 per cent of the global labour force are covered for unemployment protection through mandatory contributory, non-contributory or employment guarantee schemes that fall under national legislation. The following represent the respective percentage of legal coverage ranges for the various areas (ILO, 2017a).

Mandatory schemes here refer to unemployment

Table 1

Legal coverage of unemployment protection schemes

Region	% of labour force
sub-Saharan Africa	4.2%
South-East Asia	15.9%
East Asia	24.8%
Latin America and the Caribbean	33.8%
southern Africa	38.4%
Asia	39.7%
Arab States	60.4%
Central and western Asia	77.6%
Europe, Oceania and North America	More than 80%

Source: ILO, 2017a.

protection that is compulsory under national legislation, while employment guarantee schemes provide a legal entitlement to employment in public works for poor workers in rural settings (prime examples are found in the Federal Democratic Republic of Ethiopia, India, and the Republic of South Africa).

▶ 2.2 Effective coverage

Effective coverage is measured by relating, at any given point in time, the number of actual recipients of unemployment benefits to the number of unemployed workers.

Across the world, only an estimated 21.8 per cent of the unemployed received unemployment benefits, leaving 78.2 per cent of unemployed persons without income support (ILO, 2017a). However, effective coverage varied widely across regions and countries. While 42.5 per cent of the unemployed received unemployment benefits (including non-contributory benefits) in Europe and Central Asia, benefit recipiency fell to 22.5 per cent in Asia and the Pacific, 16.7 per cent in the Americas and only 5.6 per cent in Africa. Relevant

factors included the following:

- ▶ lack of any unemployment protection scheme (particularly in countries with high levels of informal employment);
- ▶ long contribution periods required to qualify; and
- ▶ short duration of benefits, beyond which jobseekers were left to fend for themselves.

For Indonesia, as in any country, the design of an effective UI scheme should thus require contribution periods no longer than necessary to prevent abuse, along with benefit periods long enough to provide adequate protection.

▶ 2.3 Types of unemployment protection

Most people of working age are economically active, and generally earn their livelihoods through income-generating activity, whether in formal or informal employment. If they lose their employment, unemployment protection schemes can assist in replacing part of the lost incomes and ensure they have at least a basic level of income security.

Such programmes, however, usually do not cover the following situations and needs of people and their dependents: (a) those who are economically active but not in formal employment; (b) those whose income from employment is too limited to prevent them and their families from falling into poverty; or (c) those who simply have no income at all, having been unemployed or underemployed for too long to qualify for benefits.

The following are Asia's main types of protection

against unemployment schemes:

- ▶ mandatory unemployment insurance schemes (e.g. Japan, the Republic of Korea, Malaysia, the Kingdom of Thailand and Viet Nam);
- ▶ unemployment savings schemes (e.g. Jordan, understood as part of western Asia);
- ▶ severance payments (e.g. Cambodia, Indonesia and the Philippines);
- ▶ non-contributory programmes – for those who are economically active but only in the informal economy, the working poor in formal employment, and the long-term unemployed; and
- ▶ programmes provided by non-government agencies and social assistance (not considered further in this report).

2.3.1 Mandatory employment insurance schemes

These mandatory schemes most commonly take the form of social insurance (unemployment insurance) financed by contributions shared by employers and employees (and sometimes governments), and cover workers in formal employment.

In Asia, with the exception of Japan, which industrialized early, most countries have yet to achieve an advanced level of socio-economic development. Thus, as of this writing, the only countries that had implemented unemployment insurance schemes were Japan (1947), the Republic of South Korea (1995), Thailand (2004), Viet Nam (2009) and Malaysia (2018). Indonesia and the Philippines were continuing to study various proposals to establish an effective UI plan.

The adoption or revision of UI schemes in those countries has often been influenced by regional or international crises. The expansion of the Korean

EI scheme was partly a response to the Asian financial crisis of 1997. Thailand, having recovered around 2001 from the Asian financial crisis, chose to launch its UI scheme in 2004. Viet Nam perceived the need for unemployment protection to cope with the labour market implications of transitioning from a socialist planned economy to a market-oriented economy.

The role of unemployment benefits during the global crisis that emerged in 2008 highlighted two major policy lessons:

- ▶ Well-designed unemployment benefit schemes are needed that both support structural transformation of the economy in “normal” times, and can be quickly scaled up in the event of major economic shocks to act as automatic stabilizers of aggregate demand.
- ▶ Unemployment benefit schemes can achieve their potential only if they are appropriately financed, whether from contributions or, at least in part, from general taxation. Where financing is insufficient, ill-timed or ill-designed, restrictions on benefits may have adverse effects, which may thwart economic recovery and lead to substantial increases in poverty and vulnerability.

2.3.2 Unemployment savings accounts

Only two actual examples of unemployment savings accounts (USAs) can be offered here, and neither should be viewed as an effective approach under most conditions. For example, a 4 per cent contribution on earnings would produce savings close to one half-month for anyone who becomes unemployed after working 12 months. By comparison, a typical UI scheme would usually offer six months of protection after the same period, at a contribution rate of around 1 or 2 per cent of earnings.

The first example of a USA scheme is a hybrid scheme launched in the Republic of Chile in 2002, the second is a “pure” USA scheme introduced in the Hashemite Kingdom of Jordan in 2011.

Chile. About 80 per cent of contributions are deposited in individual accounts and serve as the primary source of protection in case of job termination. The Chilean model then adds a solidarity or insurance component for jobseekers. For indefinite employees, the savings component is financed by a 2.2 per cent contribution rate (1.6 per cent for employers and 0.6 per cent for workers), which provides about one-quarter of a month's wages after a full year of contributions. An additional employer contribution of 0.8 per cent of earnings funds the solidarity component. For fixed-term employees, the entire contribution of 3.0 per cent is paid by employers, and almost all of it (2.8 per cent) is put into the savings accounts.

A 2015 evaluation of the Chilean model concluded that "... coverage levels and benefit payouts (replacement rates) are so low that the system cannot in good conscience be described as an unemployment insurance system, as its insurance component is extremely limited." (Sehnbruch and Carranza, 2015) The present analysis shows that the proportion of job losers who qualify for benefits is low, maybe around 20 to 25 per cent.² Furthermore, among those who did qualify in 2016, three quarters were ineligible for the insurance component (Comisión de Usuarios, 2017). In 2017, the estimated average monthly benefit paid was just over 40 per cent of the average earnings of contributors.³

Jordan. This country adopted a pure savings model in 2011, based exclusively on individual savings from total contributions of 1.5 per cent of earnings. Most job losers with insufficient savings in their accounts can receive loans from the public Social Security Corporation, but those loans must eventually be repaid or recovered through reduced retirement pensions. Unlike Chile, Jordan does not have a supplemental insurance scheme to pool the risk of unemployment. Jordanian claimants can qualify no matter why their employment terminated (even in cases of voluntary termination

or misconduct), but only after three years, and payment extends for just three months. Jordan's scheme is unlikely to ever reach a significant proportion of the unemployed.

Malaysia rejected the USA model for two main reasons: firstly, stakeholders viewed a contribution rate of 3–4 per cent as too high; and, secondly, such a scheme would have been redundant, given Malaysia's existing national provident fund. There follows a summary critique of savings-based schemes:

... such savings schemes lack the key design element of risk pooling; the savings need to be set at a sufficiently high level to build enough to compensate for lost earnings. They thus provide only limited protection for those who have difficulty in building up sufficiently high savings, if any, due to their work patterns – for example, temporary and seasonal workers, workers in declining economic sectors, workers in declining economic sectors, young workers, among others. (ILO, 2017a)

Indonesia. In this country, the savings-based approach would demand high contributions for only limited protection, and will thus not be further considered.

2.3.3 Severance payments

Severance pay programmes (also called retrenchment or redundancy benefits) have long been applied in most countries. They typically provide lump-sum cash payments to workers who end their service with an employer, whether such payment is mandated through national law, collective agreements or as part of a firm's policy. The size of the payment is related to the amount of time worked and the last wage in the job. Even where severance payments have not been required under national law, many employers

² These calculations are based on administrative data from the Chilean scheme and the national labour force survey, both for 2017. The Chilean scheme allows individuals with six or 12 months of contributions (for fixed-term or indefinite employment, respectively) to access their funds unconditionally – even in cases of misconduct, voluntary resignation or while transferring to another job. In 2017, the average number of beneficiaries stood at 179,000 per month, which was just over one third of job losers, but many of those beneficiaries would not be considered unemployed.

³ Calculated by combining data from the respective annual reports of the Comisión de Usuarios and of the supervisory body Superintendencia de Pensiones (SP).

have seen advantages in promising them as a means of gaining employee loyalty and keeping valued employees.

Severance payments can take the form of various types of cash payment variously described in English as dismissal compensation, redundancy compensation, retrenchment benefits, termination benefits, seniority pay, indemnities, and leaving allowances.

Many countries have instituted mandatory severance pay, along with other employment protections, as traditional instruments to protect employees against unemployment. For governments, these avoid demands on the public purse. For employers, they make the firing of employees more costly, and thus deter them from laying workers off. In many instances, however, to avoid eventual liability they also discourage employers from hiring new workers. Outsourcing presents another option for employers, where workers are effectively rented from an outside agency, a practice that has been criticized by trade unions in Indonesia as it has in many other countries.

Mandatory severance payments provide effective protection for workers with relatively long employment records with the same employers. However, they provide little or no protection for those with short employment records. Trade unions have tended to be very protective of severance-based schemes because many or most of their members are longer-serving workers.

In Asia, situations range from no severance payment provisions (e.g. the Republic of Korea or Japan – although most companies in Japan voluntarily offer severance pay) to severance pay along with redundancy payments (e.g. Thailand and Indonesia). In Viet Nam, since 2009, the years since UI contributions started to be paid for an employee are no longer counted for the calculation of severance pay (see appendix A for

further details on severance pay in Asia).

2.3.4 Non-contributory unemployment protection schemes

Non-contributory benefit programmes fall into two distinct groups:

- ▶ cash transfers for poor and vulnerable households; and
- ▶ public employment programmes (PEPs) – cash for work programmes and employment guarantee programmes.

Cash transfers. Governments often use direct redistribution of resources to poor households. With conditional cash transfers (CCTs), governments or aid organizations apply targeting criteria and such conditionality for making payments to poor households as enrollment of children in public schools, regular check-ups at the doctor's office, or receiving vaccinations. Cash transfers uniquely seek both to assist a current generation that is experiencing poverty and, through the development of human capital, to help break the cycle of poverty for the next generation.

Unconditional cash transfers also exist in many countries. There has been much discussion of the merits of unconditional versus conditional cash payments. Social and unemployment protection usually offer a combination of these types of cash benefits for their citizens.

Public employment programmes (PEPs). These instruments can deliver social and unemployment protection in developing countries through programmes involving direct employment creation by government. The Organisation of Economic Co-operation and Development (OECD) describes

them as “an instrument which can have a key role to play complementing life-cycle based social protection instruments such as cash transfers (OECD, 2009)”.

PEPs are flexible, and can contribute to a variety of development objectives:

- ▶ employment, with an emphasis on job creation in programmes that focus on the State as the employer of last resort;
- ▶ social protection, with an emphasis on income security and transfers in cash or in kind; and
- ▶ labour-based investment, with an emphasis on the quality and nature of infrastructure constructed or services provided.

Among a broad variety of PEPs, two versions stand out:

- ▶ public works programmes (PWPs), which offer cash payments or food for work; traditionally, this instrument has been used as a temporary response to specific shocks and crisis, but may also have a longer-term vision; and
- ▶ employment guarantee schemes (EGSs), which involve long-term rights-based programmes that provide some level of entitlement to work.

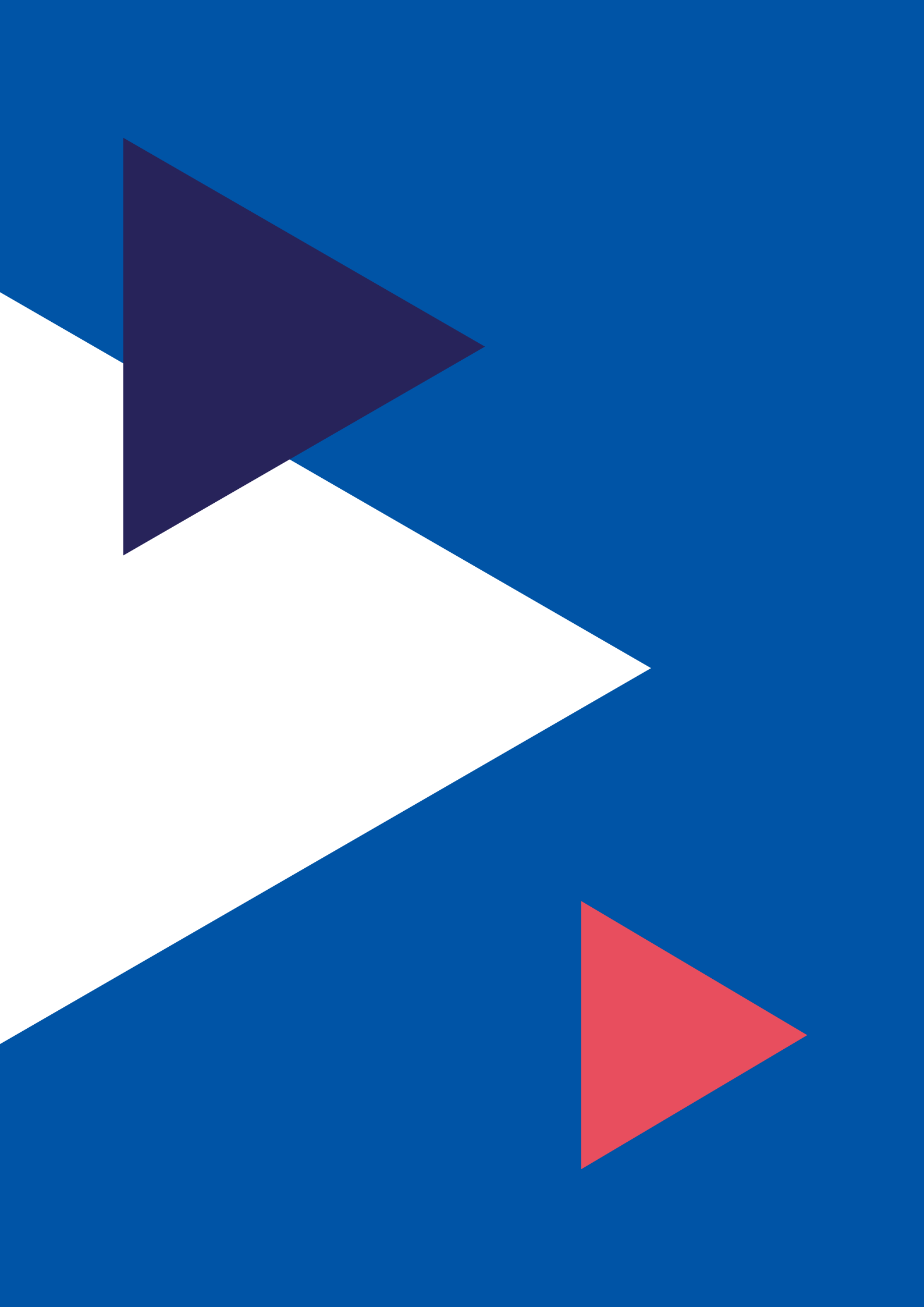
Cash for work programmes such as PWPs may provide an effective alternative to making direct grants to the poor through cash transfers or food stamps. They can help avoid the dependency culture that characterizes some direct grants. PWPs may initiate a dependence on the State to provide work, but they can also prove an effective tool for developing a sense of achievement among workers, increasing self-esteem and enhancing skills.

In cases where subsidy recipients cannot work because they are too young, too old, sick, injured or otherwise unable to enter the labour force, subsidies could still be offered. For those who can work, a number of public work schemes have been implemented throughout Asia.

The most prevalent form of public works programme in Asia is that which offers temporary short-term employment. Typically such programmes are launched during temporary labour market disruptions such as natural disasters (e.g. flooding, drought or earthquake); at such times there is a need both to provide incomes for the poor at a time when normal wages are disrupted, and to repair damaged infrastructure.

The largest and best-known form of public works are the mass EGSs. These offer participants a number of days’ employment each year in response to cyclical fluctuations in the labour market, often providing income during the lean agricultural season prior to the harvest.

The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) is one example of this form of public works (ILO, 2016). It is implemented in accordance with the National Rural Employment Guarantee Act (NREGA) in India as well as the Maharashtra Employment Guarantee Scheme. Such programmes are intended to provide physical infrastructure such as roads, irrigation systems and assets promoting environmental protection, and in this way contribute to livelihoods and growth even after the period of employment has been completed. Primarily, these programmes aim to provide a form of income replacement, thereby offering social protection to help the chronically poor, particularly in times of special vulnerability. MGNREGS has been implemented in one Indian state for more than 40 years.



3

Active labour market
policies (ALMPs)

Many countries link cash payments with ALMPs to assist unemployed workers with finding permanent work quickly and keeping it. ILO Convention No. 168 recommends that national policies should aim for stable and sustained, non-inflationary economic growth while presenting flexible responses to change.

As part of this, employment promotion commonly directs resources to financing such assistance-oriented activities as vocational guidance, training and rehabilitation. In fact, such policies do offer the best protection against the adverse effects of involuntary unemployment. Nevertheless, involuntary unemployment remains an issue for many people. It is therefore important to ensure that social security systems should provide employment assistance and economic support to such workers. As part of this, national policies should also aim to promote a wide variety of “productive and freely chosen employment”. This includes small undertakings, cooperatives, self-employment, and local initiatives for employment (ILO Convention No. 168).

So far, three of the four countries that use the term employment insurance to describe their unemployment protection programme are from Asia: Japan, the Republic of Korea and Malaysia. The fourth country is Canada.

In studying the Asian nations that have implemented mandatory insurance schemes, one becomes aware of the value of having unemployment insurance complement ALMPs. The main goal of unemployment insurance benefits is to provide temporary partial income replacement to insured workers who have lost their job involuntarily while they seek new gainful employment. Clearly, the main objective is not to create new employment, but rather to provide income security to prevent individuals from falling into poverty when confronted with job loss.

ALMPs, on the other hand, are intended to help individuals to find suitable employment as quickly as possible, and to keep it. However, ALMPs are not a solution to creating employment. They can instead provide unemployed workers with the wherewithal to end their unemployment quickly and go on to participate as a productive member of society.

In principle, ALMPs provide a source of support to both workers and employers. But the question of what types of ALMP are most effective in assisting the unemployed is a matter of continuing worldwide debate. Virtually all countries apply minimal employment interventions to assist unemployed workers and employers, including job referrals, job banks, labour market information, and résumé and job search workshops. These low-cost interventions have minimal impact on UI finances, but can be effective for unemployed workers seeking jobs. Some countries require individuals to develop specific workplans under the guidance of employment centre officers, and to outline how they plan to find suitable work within a reasonable period of time. More intensive interventions, for example training and retraining, may be required. These are necessarily limited to fewer individuals and require close scrutiny due to higher costs.

▶ 3.1 Types of active labour market policies

The OECD promoted ALMPs to assist and motivate unemployed workers to find gainful employment quickly (OECD, 2007). This was deemed especially important in the mid-2000s, an era of dwindling fiscal space and of financial crises, both internationally and regionally:

Over the past few years, strategies to ‘activate’ the unemployed with the help of high-quality employment services have loomed larger in the policy debate. If well designed, such strategies can help ensure that benefit recipients have a better chance of obtaining employment. They are also crucial to minimize the risk that high or long-lasting unemployment benefits reduce work incentives ... [E]mployment services should have adequate resources to implement well-designed active labour market policies, while strictly enforcing work-availability criteria as a condition for benefit payment. (OECD, 2006)

OECD went on to say that

the essence of activation strategies is to encourage jobseekers to become more active in their efforts to find work and/or improve their employability. They feature i) early intervention by the Public Employment Service (PES) during the period of unemployment and a regular meetings between jobseekers and employment counsellors; ii) regular reporting and monitoring of work availability and job-search actions; iii) direct referrals of unemployed clients to vacant jobs; iv) the

setting-up of back-to-work agreements or individual action plans; and v) referral to active labour market programs (ALMPs) to prevent loss of motivation, skills and employability as a result of longer-term joblessness. These strategies aim to apply the principle of ‘mutual obligations’, and in particular to monitor benefit recipients’ compliance with eligibility conditions and implement, when necessary, temporary sanctions or benefit exclusions. (OECD, 2006)

The European Commission (EC) and OECD have established a statistical classification system that distinguishes three broad types of labour market policies (LMPs): LMP services; LMP measures; and LMP supports (OECD, 2009b; OP, 2006).⁴ The first two are usually referred to as ALMPs (see table 2, below, for additional details regarding this classification system).

⁴ OP is the Publications Office of the European Union (Luxembourg).

Table 2

Labour market policies (LMPs) worldwide

	Main types	Sub-types
Labour market services	1. Public employment services and administration	1.1 Placement and related services 1.2 Benefit administration 1.3 Other
Labour market measures	2. Training	2.1 Institutional training 2.2 Workplace training 2.3 Alternate training 2.4 Special support for apprenticeship
	3. Job rotation and job sharing	3.1 Job rotation 3.2 Job sharing
	4. Employment incentives	4.1 Recruitment incentives 4.2 Employment maintenance incentives
	5. Supported employment and rehabilitation	5.1 Supported employment 5.2 Rehabilitation
	6. Direct job creation	
	7. Start-up incentives	
Labour market supports	8. Out-of-work income maintenance and support	8.1 Full unemployment benefits 8.1.1 Unemployment insurance 8.1.2 Unemployment assistance 8.2 Partial unemployment benefits 8.3 Part-time unemployment benefits 8.4 Redundancy compensation 8.5 Bankruptcy compensation
	9. Early retirement	9.1 Conditional 9.2 Unconditional

Source: OECD (2009); OP (2006).

3.1.1 Labour market policy services

LMP services are those made available to jobseekers, primarily through the public employment service. Examples are referrals to job opportunities and job placement services, job search skills, CV preparation and interview skills.

Other measures might include the following:

- ▶ counselling and career planning;
- ▶ individualized return-to-work planning;
- ▶ mobility assistance;
- ▶ labour market information and self-employment assistance; and
- ▶ special assistance offered to disadvantaged groups such as the disabled, the illiterate and others with limited education or skills, long-term unemployed, minorities, older displaced workers, abused women, and female heads of households.

3.1.2 Labour market policy measures

LMP measures include training programmes as well as other measures to keep workers employed or bring them into employment. Training can take different forms, either in an institution, in the workplace or a combination of both. It can address general or specific skills, provide vocational or apprenticeship education, and usually, but not always, offer a formal diploma. Other possible LMP measures include the following:

- ▶ promoting temporary job rotation or job sharing;
- ▶ providing wage subsidies or incentives to recruit new workers or to ensure the continued employment of people at risk of involuntary job loss;
- ▶ supporting the rehabilitation and employment

of people with reduced capacity to work;

- ▶ funding temporary programmes of direct job creation; and
- ▶ funding programmes to help individuals launch and sustain their own business.

3.1.3 Labour market policy supports

LMP supports usually refer to unemployment benefit schemes, but also to publicly funded severance schemes, bankruptcy or wage protection schemes as well as early retirement schemes. The literature has often referred to unemployment benefit schemes as passive LMP measures, perhaps implying (whether or not it is explicitly stated or desired) that many or most unemployed recipients remain inactive while receiving those benefits. Such characterization appears to be an unfair stereotype and, for that reason, will be avoided in this report.

The ILO *World Social Protection Report 2017–19* discusses strengthening the link between unemployment protection and labour market measures and employment-generating macroeconomic policies:

In light of the persistent high levels of unemployment and working poverty in many countries, strengthening the link between income support and active labour market policies has become a recent global trend. This stems from the recognition that providing isolated income support may not improve individuals' employment or social situation when labour markets are rapidly changing or when individuals face barriers to re-employment. Such policies are considered effective in activating and motivating unemployed workers to find suitable employment quickly.... In general, they consist of a combination of measures aimed at matching jobseekers, upgrading and adapting their skills and stimulating job

creation; measures include direct job search assistance and career guidance, training and skills development and employment and wage subsidies. (ILO, 2017a)

The report adds that active LMPs have often been undertaken as part of efforts to strengthen the link between active and passive LMPs as well as to offer integrated employment and social protection policies. The report also warns that:

Even activation policies may not have the expected impact on job creation where jobs

are not available and the economy is demand constrained, especially during a recession. For this reason, effective policies are needed to ensure at least a basic level of income security during periods of unemployment and underemployment, combined with effective labour market, employment and skills development policies, as well as macroeconomic policies that promote jobs to restore labour demand and lift countries out of the low growth and low employment trap. (ILO, 2017a)

▶ 3.2 Country cases

As concrete case studies, this report selected and reviewed six countries more in depth: Japan, the Republic of Korea, Malaysia, Thailand, Viet Nam and Canada. It was deemed appropriate that, in establishing its own EI/UI model, Indonesia could refer to the experiences of five other Asian countries and one developed Western country.

All of these countries provide employment services to help with job search. These services can include counselling, job fairs, assistance with curriculum vitae (CV) writing, labour market information, and job banks. In most cases, programmes are available to encourage UI recipients to undertake approved training, including allowances to cover training-related expenses as well as benefit extensions if the training lasts longer than the UI benefit period. Some of the policies require minimal financing, but are important for unemployed workers in their search for suitable employment. Training is more intensive and costly, and thus requires closer control and management.

Starting in 2018, Malaysia implemented an EI

system for the collection of EI contributions and then, in 2019, for the payment of benefits. A temporary government-financed scheme provided interim benefits during 2018. Canada was chosen as a representative developed country. Four of the countries – Canada, Japan, the Republic of Korea, and Malaysia – designate their schemes as “employment insurance” to emphasize their focus on getting workers back to work quickly. Thailand and Viet Nam use the term “unemployment insurance”, but still apply ALMPs.

3.2.1 Japan

The Japanese EI system is divided between (a) the unemployment benefits scheme (with contributions from employee and employer), which offers support to the unemployed (income replacement, job counselling, allowances for training); and (b) the Two Services scheme, with contributions from employers and the Government, which provides services for employment stability and development of worker capabilities. Under the first component, vocational training allowances

can be paid to beneficiaries during formalized training irrespective of how long a person can receive UI benefits. It also provides for “wide-area job search”, where a person who is interested in finding work outside their area can receive an additional 90 days of UI benefit.

Public employment services known as Hello Work centres manage the UI system and deal with employment consultations and job placement. Hello Work centres also provide enterprises with guidance on employment management so that, from an early stage, they can establish an environment to preserve jobs, for example to keep the elderly continuously employed until age 65 or even to 70 years. Another Hello Work feature is assigning special counsellors to help new graduates find employment.

Young jobseekers benefit from specialized services and dedicated resources through two types of front office:

- ▶ Hello Work for New Graduates was established in 2010 to provide job search support, including job openings and career guidance counsellors in schools and universities, for students and young people who graduated from high school or higher education in the previous three years, but have little or no job experience. There were 57 offices as of 2017.
- ▶ Hello Work for Youths was established in 2012 to provide intensified job search assistance, interview training, and placement to jobseekers with previous experience up to the age of 45 years. Psychological consultations and aptitude tests are also offered. There were 28 offices as of 2017.

Young people in Japan had had to cope with a difficult employment situation during the previous decade and, in that context, Hello Work was to assist new graduates with notable success. The unemployment rate for youth in Japan, which had risen to an all-time high of 10.9 per cent in 2010, had declined to just 3.8 per cent as of May 2018

(Ministry of Internal Affairs and Communications [Japan], 2019).

3.2.2 Malaysia

In October 2017, the Malaysian parliament adopted the Employment Insurance System (EIS) Act, thereby establishing the country’s first mandatory insurance programme for unemployed workers from the private sector (Malaysian Social Security Organisation, 2017). Administered by the Social Security Organization (SOCSO), the system began operation on 1 January 2018 with the collection of employer and employee contributions; payment of benefits from the fund was to begin on 1 January 2019.

Prior to EIS, a variety of labour-market measures existed in Malaysia, including programmes for training and skills development, a national job bank and job fairs. Previously, Malaysia felt that existing mandatory retrenchment benefits, though substantial, had not provided adequate protection to job losers over recent years, and wanted to upgrade protection for jobseekers.

Malaysia’s policies were shaped by the following experiences: (a) study tours conducted in Japan, the Republic of Korea, and Taiwan (China); (b) relevant best practices from other countries; (c) national studies and consultations; and, ultimately (d) extensive formalized national discussions in which the ILO participated.

Malaysia’s EI scheme provides benefits to persons laid off involuntarily for economic reasons but, contrary to normal practice in other countries, not to those whose job terminated at the end of their term contract. Malaysia included the following two initiatives in its EI scheme:

- ▶ an early re-employment allowance; and
- ▶ a reduced income allowance.

Early re-employment allowance. This allowance, not usually found in UI/EI schemes, is a lump sum given to an insured person who accepts an

employment offer, either during the EI waiting period of seven days or while receiving EI benefits. In either case, the unemployed worker who reports to work will receive 25 per cent of their unpaid benefits. After it has operated for sufficient time, the re-employment bonus should be evaluated for cost and effectiveness.

Reduced income allowance. Workers with multiple jobs who lose one of them qualify for a reduced income allowance. A reduced lump sum payment is offered to partially compensate for the lost income. As of this writing, it was not yet clear to what extent this allowance would be used.

Malaysia's EI scheme also included the following two features:

- ▶ **Training allowances.** Insured people may request permission from SOCSO to attend approved training while receiving EI benefits or afterwards. Approved claimants are entitled to a training allowance for not more than six months, the amount based on their previous wages, calculated on a daily basis and paid monthly according to the number of training days they attend. In addition, SOCSO will pay, up to a specified maximum, training fees to the training providers.
- ▶ **Re-employment placement programme.** Managed by SOCSO, this programme helps to re-employ insured persons. The Malaysian EI Act requires benefit claimants to immediately enrol in the re-employment programme. (Normal requirements for an effective EI/UI scheme include stipulations that UI claimants be available and prepared to work, look for work, comply with official directives, accept offers of suitable employment, and undergo whatever training is necessary.) It is not yet known how this enrollment will be implemented, but it will likely be linked to JobsMalaysia, the longstanding national job bank, and relevant services.

The EI Act of Malaysia remained at its earliest stage of implementation as of this writing. Policies and procedures were still being established, as the scheme was to start paying periodic benefits only in 2019.

3.2.3 Republic of Korea

The Korean EI programme combines an unemployment benefit programme with both employment stabilization and vocational competency development programmes. These schemes are comprehensive, and are offered to both employers and employees. Under the Korean system, unemployment benefits are divided into (a) a job-seeking allowance that provides partial income replacement while a worker searches for a new job; and (b) employment promotion benefits that provide, in addition to job-seeking allowances, benefits and support for finding work, for attending vocational training, and for moving expenses.

3.2.4 Thailand

In Thailand, as in many countries, programmes and measures to improve employability and re-employment prospects among the unemployed include life-long vocational training, skills development, creation of self-employment, job fairs, and job counselling. The Department of Skills Development (DSD) and the Department of Employment (DOE) closely coordinate their activities in providing these services. DSD's overall responsibility is to supervise and coordinate skills development and vocational training policies and programmes. In addition to supporting the UI scheme, DSD is to oversee the following measures:

- ▶ Check notification of job training and provide counselling to insured unemployed people according to skills and qualifications.
- ▶ Train the insured unemployed as needed.
- ▶ Monitor the training progress of the insured unemployed.

3.2.5 Viet Nam

This country adopted its unemployment insurance scheme in 2009. At that time, Viet Nam's active labour market hinged on strong and prevalent labour market trends, which saw its citizens moving from rural conditions to urban settings and from agriculture to non-agriculture activities. As for the insured unemployed, employment service centres (ESCs) organized job fairs to bring together jobseekers and employers.

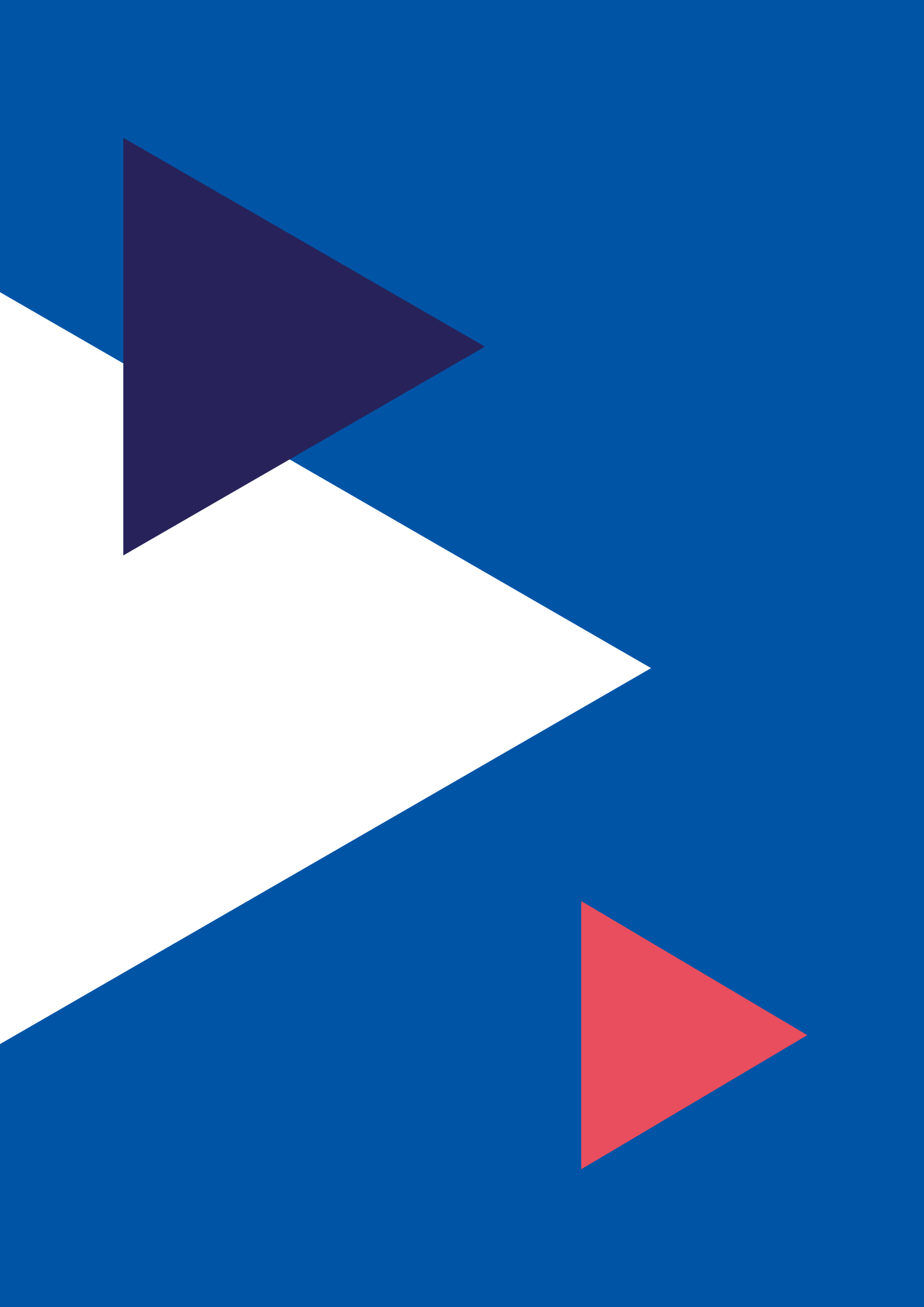
In Viet Nam, once unemployed workers have been approved for receiving UI benefits, they are entitled to a free ESC job-matching service, which assesses worker qualifications and work experience. If workers have taken advantage of the free job-matching service but still cannot find work, they could be eligible to register for vocational training.

3.2.6 Canada

The Canadian EI scheme provides for employment benefits and support measures, the annual total of which cannot exceed a specified limit. The actual amounts spent, however, have amounted to about half the authorized spending, due mostly to the

hard-to-assess effectiveness of many measures, including cost and delivery constraints. Only selected EI beneficiaries are entitled to the more costly employment benefits in the form of training, self-employment assistance, or wage subsidies. Support measures such as action planning, job search skills, job-finding clubs and labour market information are accessible to everyone. Although they are funded by the national EI scheme, most of these programmes are administered by the provinces and territories.

In periods of economic downturn, the EI system also promotes its work-sharing programme. Under this programme, where a reduction in business activity lies beyond the employer's control the EI scheme can provide, for a limited time, partial income replacement to support employees while they work reduced hours or week, until the economic situation stabilizes.



4

International cost comparisons
of UI schemes

▶ 4.1 Financing sources

Financing a UI scheme can be arranged in a variety of ways. But contributions must ultimately come from one or more of three sources, from any one or any combination of them and in any ratio among those three sources:

- ▶ the Government (from general or earmarked tax revenues);
- ▶ employers; and
- ▶ workers.

Some observers cite a fourth source, i.e. the UI claimants themselves. This amounts to saying that any UI benefits must ultimately be paid for by unemployed persons themselves, out of each person's present or future earnings and savings. This removes the "insurance" element from unemployment insurance, turning the scheme into a self-financing savings arrangement. Only two countries have such a system, at least in part: Chile

operates a hybrid savings-plus-insurance scheme, and Jordan has a pure savings scheme. Neither of those schemes has provided effective protection to unemployed persons. Indeed, both can be characterized as high cost and low protection. This approach does not meet even the minimum standards set by ILO Convention No. 102, and this study does not further consider it.

The current analysis focuses on the lessons learned from the 80 or so countries that have adopted UI schemes, ranging from developed economies to developing or semi-developed countries. From the State of Kuwait to Malaysia, from the Kingdom of Saudi Arabia to Viet Nam, a growing number of countries have implemented UI schemes in recent years, adding to the schemes already in place throughout the OECD and elsewhere, from some European countries to Japan, from the Argentine Republic to the Republic of Korea.

▶ 4.2 UI costs: What is included?

One basic question is this: what will be included within the costs of the UI scheme itself? There are the UI benefits themselves, of course, but less obvious costs may also need to be considered. Will the costs of managing the UI scheme be included? This is almost always the case, both for collecting contributions and for managing periodic benefit payments, including the verifications and controls to ensure that individuals are properly entitled to benefits, out of work, and actively looking for work.

Other costs may range from implementing and managing job placement and referral services to counselling services, training and skills development courses for UI-qualified jobseekers, transportation to and from such courses, reemployment and job-creation measures, wage subsidies, and self-employment grants.

▶ 4.3 A debate grounded in relative costs: UI benefits vs ALMPs

The latter costs are often categorized as ALMPs, and are sometimes promoted under the idea that UI benefits, by contrast, represent a passive benefit – a benefit that allows jobseekers to remain more or less idle until someone finds them a job. That characterization unfairly stereotypes jobseekers. Under a well-designed and well-managed UI scheme, jobseekers should be and are required to actively seek out new employment. Their UI benefits, rather than encouraging passivity, instead give them the time and tools to find suitable employment, employment appropriate to their experience and qualifications. Simply forcing UI claimants into any given job would be counterproductive not only for them but also for employers.

The debate over the pros and cons of UI benefits vs. labour market measures should consider the relative costs and effectiveness of each. One lesson learned from international experience is that labour market programmes of the active variety tend to be costly, and their impact is uncertain or difficult to measure and replicate. Because of their cost, they can be provided only to relatively few

individuals. By contrast, periodic UI benefits are designed as a low-cost approach to help a large number of jobseekers subsist through difficult times.

Thus, rather than lumping them in together, the better approach is to have separate sources of financing for UI benefits and for labour market measures, so that the costs of each be properly accounted for. In Malaysia, for example, the UI fund is to be used only for the payment of UI benefits, expenses incurred for re-employment, evaluation costs, administration expenditure and other relevant purposes, as well as for training fees for UI claimants. This aligns with the basic principle that the larger share of what is financed through the UI system should be the costs of the UI benefits themselves. Otherwise, the very rationale for having dedicated UI financing would be difficult to sustain or to defend over the long run. Equally, any employer and employee contributions to the UI system would be more difficult to justify, if they partly relate to expenditures that some might view as less essential or too costly.

▶ 4.4 Cost sharing: Who pays?

We have already mentioned the three potential payers for the UI system: the State, employers and workers. ILO Conventions and ILO principles in general favour tripartite sharing, and many countries do in fact provide for UI financing from each of the three sources.

There is no reason why either employers or workers should bear a larger share of financing, and equal sharing is a common rule. Equal sharing is also desirable so that social partners will recognize each as legitimate partners under the UI system, allowing the opinions of each to

be heard and their influence felt on UI directions and decisions, including eventual amendments, operational decisions and issues.

Lessons learned in the US. By contrast, the UI systems in place in the United States of America have been paid for by employer contributions only, except in three of the 53 US jurisdictions. (In the United States each state has its own UI scheme, including benefit rules and financing.) As a result, employee organizations have had less influence on UI directions, and employers have tended to exert a race to the bottom, reducing contribution rates by cutting back on benefits.

In addition, employer contributions in the US are experience-rated according to each employer's layoffs. Such a system is complex to administer, and tends to give rise to worker and employer litigation. Recent studies have also indicated that experience rating, for firms already under duress, may hamper labour demand and employment during recoveries (Johnston, 2018).

In many countries, employers have often resisted the imposition of compulsory UI contributions, or of other contributions for social security schemes. Nevertheless, a number of economic studies have established that, over the medium to long term, most of the costs of employer contributions are shifted to their employees.

The mechanism for such a shifting of costs is simple. Employers set wages by considering their total payroll costs, including the costs of their social security contributions. Consequently, any new or increased contributions eventually filter through into lower wages, and employees bear those costs.

For employees, the implication is that they should agree to pay UI contributions, since they would otherwise lose their leverage and influence while still having to bear the ultimate costs.

We have left the State's contribution to the last.

When the State is called upon to contribute to a social security scheme such as UI, the actual source of its contributions will be the citizens, consumers and corporations from which it draws its general revenues. Yet the State has a unique flexibility in that it can call on capital markets to finance any deficits or to inject stimulus funds in case of severe economic downturn. So the State should at the least agree to finance any UI deficits that occur during an economic downturn. In addition, in the spirit of tripartite financing and of cooperation between public and private stakeholders, the State should see its way towards paying a share of UI costs, thereby demonstrating its engagement with private sector partners.

In addition, much like employees or employers, the State will exert greater moral sway and legitimacy over the design and operation of the UI scheme if it is seen to be paying a share of programme costs. Finally, ILO Conventions No. 102 and No. 168 both require the State to accept general responsibility for programme administration with respect to unemployment compensation, including "responsibility for the due provision of the benefits" in the case of Convention No. 102.

► 4.5 UI programme financing: How much will it cost?

The actual cost of a UI programme will vary depending on the design of the scheme, the conditions that must be met to qualify, the amount of monthly benefits, their duration and last but not least, the number of people likely to receive those benefits, given unemployment levels, the country’s economic performance and the structure of its labour market. The make-up of a well-designed UI scheme must make it a relatively low-cost venture, otherwise it may not be appropriate for the time and circumstances.

This may still mean that, on a temporary basis, UI benefit costs could rise to fairly high levels during periods of severe economic slowdown and especially during recessions or financial crises. In such circumstances, the UI scheme would be performing as it should. High relative UI costs, however, might also be due to excessive reliance on UI funds to pay for expenses that are not strictly related to UI benefits – and to their main mission of supporting unemployed workers during the temporary periods when they look for alternative employment.

Table 3

Contribution rates for unemployment insurance in selected countries (% of insured earnings)

Country	Employee contribution (%)	Employer contribution (%)	Government contribution (%)	Total (%)	Year adopted
Japan*	0.6	0.6 + 0.35	25 of payment	1.55 plus 25 of payment	1947
Viet Nam	1.0	1.0		2.0	2009
Thailand	0.5	0.5	0.25	1.25	2004
Malaysia	0.2	0.2	1st year interim financing.	0.4	2018
Korea, Repub. of	0.65	0.90 to 1.55	nil	1.55 to 2.20	1995
Kuwait	0.5	0.5	0.5	1.5	2013
Saudi Arabia	1.0	1.0	nil	2.0	2014
Canada**	1.66	2.32	nil	3.98	1941

* In addition to matching the worker contribution, employers pay 0.35 per cent of earnings for “Two Services”, i.e. employment stabilization and skills development.

** Rates for 2018. In Canada, contribution rates are revised each year, and only about half of UI spending is for programmes strictly related to job loss.

It should be emphasized that the preceding table is for illustrative purposes only, because the level of contribution rates will depend on each country's circumstances, its labour market, the costs that are included under UI financing, and the relative generosity of the UI scheme.

Nevertheless, the expectation of low costs for UI, as in most countries, may speak in favour of distinct UI contributions, and should not require financial support from other existing sources.

▶ 4.6 Administration and organization

The above considerations rest on the assumption that, in implementing a new UI scheme, there exists (or there could be created) an organization or body able to competently manage that scheme. This requires an organization that has a broad scale within the country, that can reach out effectively to all regions and provide front-line services everywhere they are needed.

In Indonesia, a new body was launched on 1 July 2015 to assume the responsibility for old-age lump sums, a newly defined benefit pension scheme, employment injury, and funeral benefits. BPJS Ketenagakerjaan (BPJS Employment) operates on a not-for-profit basis and reports directly to the President of Indonesia. It is the successor to PT Jamsostek, which previously undertook those responsibilities, and thus appears to have adequate background and expertise in the social security arena.

Yet Indonesia is a very large, dispersed and decentralized country, perhaps more difficult to operate in than is the case in some other countries. In deciding whether or not to proceed with a UI scheme, an evaluation of BPJS offices and facilities was needed to determine their readiness to manage a UI scheme.

The status, location and effectiveness of human resources and placement offices also needed to be determined. A 2009 study conducted on behalf of the Indonesian Government, for example, reported "large variations in employment services available in different regions due to the differences in priority and perception in each local government" (Hamada, 2009). Whether or not this issue has been successfully addressed would have to be verified. A report on the feasibility of introducing a UI scheme in Indonesia, although now outdated, expressed concerns about the potential administrative capacity to run an unemployment benefit system in that country (ILO, 2003). Much has undoubtedly been done since then, but a current evaluation would have to be conducted and any resulting costs determined.

▶ 4.7 Autonomy and protection of UI fund

The safeguarding of UI funds sometimes arises as a special aspect of UI financing. It is important that these funds be used only for the purpose for which they are collected, and not diverted to other uses or other programmes. Some country authorities raid the UI fund when it develops surpluses, or amend laws so that non-related programmes can be financed through UI contributions. Such actions are detrimental to the public credibility and potentially to the long-term sustainability of any social security scheme. The implicit contract between stakeholders and government should be that funds collected for a specific purpose will be used only for that purpose.

The raiding or diversion of funds can be protected

against, at least to some degree, by adopting legislation that clearly specifies the inviolability of UI funds, and by requiring transparent and regular reports to stakeholders. One outstanding arrangement, in Chile, is that all of the UI funds collected by the Government are turned over to a private firm and cannot be accessed by the Government.

▶ 4.8 How does all of this fit in Indonesia?

These are the broad parameters of how a UI scheme might be financed in Indonesia. None of the above provides for simple and straightforward rules. Instead, it presents a set of issues that need to be discussed and agreed upon.

Plans are underway in Indonesia to study and eventually introduce, along with an unemployment compensation scheme, a revitalized Skills Development Fund (SDF) at the time of this writing. Five related challenges have been flagged by the Minister of Manpower (Koran-Jakarta, 2018):

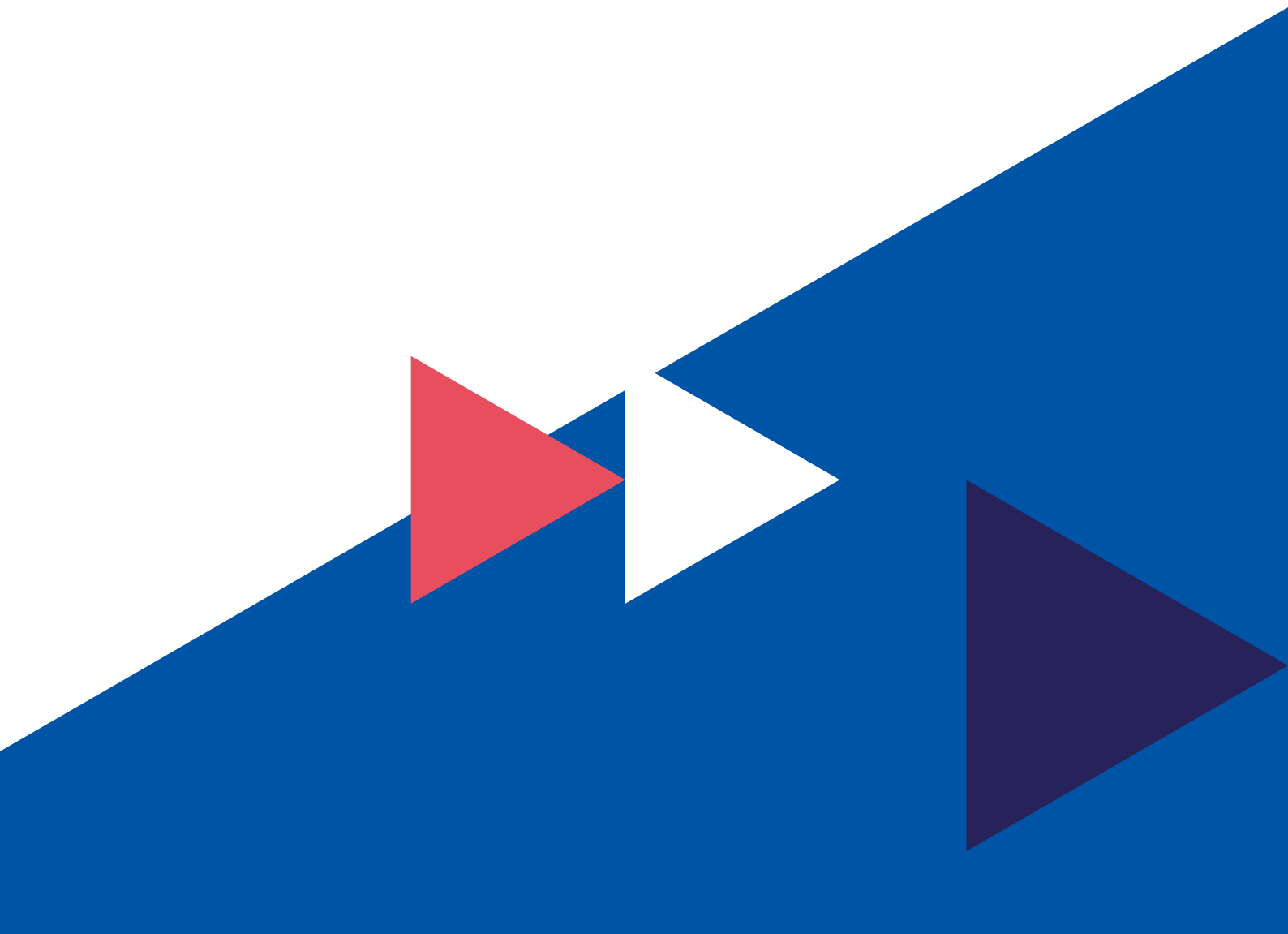
- ▶ the importance of quality employment and of decent work;

- ▶ the reorientation of education to ensure quality learning, relevant to the modern economy;
- ▶ upskilling and reskilling opportunities for workers;
- ▶ unemployment benefits for layoff victims; and
- ▶ quality labour market information, to supplement existing information that is felt to be weak and unreliable.

The Minister's vision is for a combination of state budget allocations, increased SDF funding, and unemployment benefits provided by BPJS

Employment, to achieve straightforward objectives:
“In short, we want SDF and unemployment benefits to be sustainable and well run.” (Purba, Gervin Nathaniel, 2018)

It is not possible at this point to provide directions that UI financing and SDF funding might take, together or separately, except to re-emphasize the need for affordable and well-designed schemes. It is understood that UI benefits do tend to have a larger audience and application than SDF programmes, which, given their costs, must be focused on a more limited number of individuals.



5

Implications for an effective
unemployment insurance scheme in
Indonesia

Given the limited information currently available with regard to potential UI design in Indonesia, an “effective” unemployment insurance scheme for this country remains a complex and uncertain issue. Indeed, consultations and dialogue are only beginning to address the subject, and a consensus has yet to be realized regarding what a national UI plan should look like and what objectives it should aim to achieve.

An issue in Indonesia is the fact that many workers actually work in informal employment, who may not be registered with the public authorities. It is often challenging to include such workers under any social security scheme. One way to encourage workers to extend social security coverage to them might be to offer attractive or even free short-term benefits such as sickness or maternity benefits as part of comprehensive social security benefits.

The creation of a relatively generous UI scheme might also incentivize workers in informal employment to join the formal workforce. Denmark, for example, by subsidizing its UI system, has achieved high UI coverage while keeping enrollment voluntary. This expectation must, however, be kept within reasonable bounds, and UI can be viewed as only one of the measures in the policymakers’ toolbox. Viet Nam is one

example of a country that adopted a UI scheme in spite of a very high level of informality in the workforce, with the view that UI would serve as a long-term impetus to increasing participation in the formal economy.

In broad terms, an effective UI plan would probably be one that meets the following main objectives at a fairly low cost:

- ▶ provides reasonable income replacement to jobseekers;
- ▶ helps and incentivizes unemployed individuals to find new employment;
- ▶ supports employers when they need to restructure or adjust their human resource needs;
- ▶ supports communities and regions in economic downturns or slowdowns; and
- ▶ assists public authorities in dealing with labour adjustment issues.

Table 4 below presents direct and indirect benefits provided by UI, and can be used to describe, according to the above criteria, what would be an effective UI plan.

Table 4	
Main benefits offered by a UI system	
Category	Benefits
Unemployed people and families	<ul style="list-style-type: none"> ▶ Reduced hardship and poverty ▶ Better chance of finding suitable job ▶ Reduced stress and health problems ▶ Avoiding financial difficulties that can lead to family conflicts ▶ Increased employability through training and retraining

Category	Benefits
Firms	<ul style="list-style-type: none"> ▶ Flexibility to adjust to technological or structural changes ▶ Terminations easier to accept by employers and workers ▶ “Sheltered” workforce during temporary layoffs ▶ More stable economic and business environment ▶ Potential for better matching of vocational training with the needs of enterprises ▶ Less pressure in case of cutbacks or bankruptcy
Workers	<ul style="list-style-type: none"> ▶ Security and reassurance ▶ Reduced need for savings
Governments	<ul style="list-style-type: none"> ▶ Economic stabilization during recessions ▶ Higher tax revenues ▶ Reduced costs of public assistance schemes ▶ Reduced need for special government interventions
Society	<ul style="list-style-type: none"> ▶ Social stability in terms of reduced unrest, delinquency and crime

Unemployed people and their families gain from the adoption of a UI scheme because it will allow many of them to avoid falling into poverty. The resulting preservation of human dignity and self-esteem can help to reduce stress and health problems as well as family conflicts. Some studies come to general conclusions, “Employment insurance makes a difference to the health of the most vulnerable populations, low-wage and poorly educated workers” (McLeod et al., 2012).

The temporary income afforded by UI, along with the provision of re-employment assistance and skills training, can provide jobseekers with better opportunities to find employment suited to their experience, education and aspirations.

Indonesia has in the past cared for unemployed workers mainly through the labour code provisions for notice and severance benefits. However, many workers are fixed-term employees and hence not

entitled to severance pay. Others do not work long enough to build up significant entitlement for severance benefits. In addition, laid-off employees can find themselves in a precarious situation if their former employer goes bankrupt and is thus unable to provide the mandatory period of notice and severance benefits. Alternatively, employers under duress may be unable to pay all of the wages owed, or may only be able to pay or be forced to pay after lengthy legal proceedings. Studies of these issues could help to clarify the need for a UI scheme.

Employers and firms should also benefit from UI, which facilitates the recruitment of workers better suited to their needs. Workers are more likely to be productive and less prone to leaving a job prematurely if their decision to join the firm was made without urgent pressure to earn a subsistence income. A UI system can also help firms to manage workforce reductions more

flexibly, since they and their workers are able to depend on a temporary financial backstop, fully guaranteed by a public UI scheme.

UI benefits can also facilitate a firm's recourse to temporary layoffs, making it more likely that workers remain available when normal business activity resumes, thus avoiding the need to hire and train new staff. Alternatively, some countries allow employers to temporarily place their workforce on reduced hours and wages, with UI work-sharing benefits subsidizing part of their workers' lost income. This can enable employers to maintain all of their staff on active payroll. In the Federal Republic of Germany, for example, a job-sharing scheme covering 500,000 workers during the global financial recession preserved an estimated 120,000 jobs (Federal Employment Agency, 2011). Work-sharing benefits have been adopted in countries including Canada, the Kingdom of Denmark, the French Republic, and the United States.

On a macro-economic level, firms also gain from the greater economic stability that UI provides within their communities and within the country, which in turn helps to stabilize business activity and revenues.

Active workers also gain from a UI system, which assures them of some social protection should it be needed. This can reduce their need to maintain liquidity reserves in low-yielding bank accounts as security against possible job loss. Excessive liquidity reduces the capacity of individuals to undertake personal or family investments that might improve their standard of living.

Government and society gain from UI in a number of ways:

- ▶ economic stabilization during recessions;
- ▶ higher tax revenues;
- ▶ reduced cost of public assistance schemes;
- ▶ reduced need for government interventions;

and

- ▶ improved social stability, including reduced public unrest, delinquency and crime.

Higher tax revenues should flow both from sustained consumer spending during economic downturns, or in temporarily depressed regions, and from the added economic activity generated by a reduction in the precautionary savings held by employed persons.

UI systems distribute their costs not only over the covered group but also over time. Consequently, the contributions collected under a UI system should remain relatively stable over a business cycle, for contributors as well as the economic system as a whole. In times of economic slowdown, UI benefits will act as an automatic stabilizer for the economy, providing basic income to the unemployed and thus supporting consumer spending, which in turn helps to stabilize business and economic activity. In the United States, for example, it was estimated that spending on UI benefits during 2009 contributed to reducing the fall in GDP by 18.3 per cent (Vroman, 2010).

In the absence of an automatic stabilizer such as UI, governments may have to intervene with special measures to support workers and affected communities during times of economic downturn, as occurred in many countries during the global economic crisis of 2008–09. It is likely that, with the presence of a UI system, some of this stimulus spending could have been avoided.

In conclusion, an effective UI scheme for Indonesia should be affordable and it should make the benefits of improved financial security and economic stability available to all stakeholders – to workers first, but also to employers and public authorities.



6

UI/EI experiences
and lessons learned

► 6.1 UI/EI experiences throughout the world

Worldwide, 82 countries administer mandatory social insurance schemes, and a few of these plans have been in operation for over 100 years. Each national scheme is distinctive, shaped by such factors as national history, political circumstances, unemployment features, labour market characteristics, and domestic legal provisions.

Each country needs a clear idea of what a UI/EI scheme should achieve, as well as a realistic view of the limits of such an instrument. No UI/EI scheme, however well designed and even

if it is accompanied by ALMPs, can solve the unemployment problems of a country. The main objective of a UI scheme should be kept as simple and straightforward as possible: i.e. to provide temporary and partial income replacement to insured persons who lose their jobs while they seek to obtain new employment.

The following chart presents the unemployment rates for selected countries.

At the time of this writing, the unemployment

Table 5

Unemployment rates for selected countries

#	Country	Unemployment rate (%)	Youth unemployment rate (%)
1	Indonesia	5.1 (May 2018)	15.6 (2017)
2	Japan	2.4 (Mar. 2018)	3.8 (2018)
3	Malaysia	3.3 (May 2018)	10.6 (2017)
4	Korea, Repub. of	3.7 (June 2018)	9.1 (2018)
5	Thailand	1.1 (June 2018)	5.2 (2018)
6	Viet Nam	2.0 (Dec. 2017)	7.0 (2017)
7	Canada	6.0 (June 2018)	11.7 (2018)

Source: Trading Economics (2019).

rate for Indonesia was higher than that in some other Asian countries, though it remained relatively low by international standards. What this meant for benefit costs and contribution rates cannot be determined without a full analysis of the labour market and a determination of the parameters of a UI scheme for Indonesia. The youth unemployment rate for Indonesia (15.6 per cent) was substantially higher than for other countries in South-East Asia. However, Indonesia had reduced the youth unemployment rate from

22.3 per cent (Statistica, 2007) to 15.6 per cent, a significant decrease over the previous ten years. Japan (3.8 per cent) and Thailand (5.2 per cent) each had low unemployment rates for youths.

The following chart presents the population and labour force participation rates for the six Asian countries selected for this research plus Canada.

The LFPR is defined as the proportion of the

Table 6

Population and labour force participation rates (LFPR), selected countries

#	Country	Population(millions)	LFPR* (%)	LFPR for women** (%)
1	Indonesia	262	69.0	51
2	Japan	127	61.7	50
3	Malaysia	32.5	68.4	51
4	Korea, Repub. of	51.45	63.8	52
5	Thailand	66.19	67.6	60
6	Viet Nam	95.5	76.9	73
7	Canada	36.96	65.5	61

* From Tradingeconomics.com (June 2018).

** From World Bank (2017), <https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS> [accessed 22 Mar. 2019].

population aged 15–64 years who are either employed or unemployed, as compared to the total population between those ages. Indonesia, at 69.0 per cent, ranks among the highest in this group of countries in terms of LFPR. For women’s

participation, at 51 per cent, Indonesia ranks among the lowest, along with Japan, the Republic of Korea, and Malaysia.

▶ 6.2 Lessons learned from other countries

6.2.1 Importance of national consultations

Learning from selected countries in this study, we emphasize the need for a national consensus before implementing or amending a EI scheme. Developing a proper EI system is a process that should react to labour market and economic conditions while conducting ongoing discussions with stakeholders. With both Mongolia and Thailand, an important lesson learned in the interests of ensuring their sustainability was to keep the UI programme and processes simple.

A viable option for Indonesia could be to introduce EI in two or three stages. The initial stage might establish the main EI component, i.e. a mandatory contributory scheme with temporary income replacement for those who have involuntarily lost their employment and who are actively seeking work, with the requirement that jobseekers report regularly on their job hunts. A second stage might add low-cost employment measures such as job-search and resume-writing workshops to the UI programme, while a third stage could introduce vocational training together with a quality monitoring mechanism.

The aim is to develop a straightforward, uncomplicated but effective system that recognizes the needs of Indonesians and seeks the opinions of all stakeholders, especially employer and worker groups. International experience has shown that all must benefit from UI implementation.

6.2.2 Collaboration with other ministries

Achieving an effective EI scheme for Indonesia will require the strong collaboration of the concerned ministries. For example, many countries employ a single-window service approach, where various ministries co-locate for the convenience of workers and employers as well as to deliver quality services to the public at reasonable cost. Governments are under constant pressure to balance budgets and provide quality services to all citizens, as well as to innovate and modernize their systems. This can be accomplished by ministries sharing service locations and staff to handle administrative issues such as receiving claims and providing in-person services. The same could be applied to electronic services on the internet.

6.2.3 Lessons learned from Chile

While Sehnbruch and Carranza's working paper (2015) focused primarily on the limitations of the savings-based model in Chile, it held valuable lessons for the countries in general. The Chilean savings-based approach, as already mentioned, should hold little interest for Indonesia, but some of the lessons learned for developing countries are worth mentioning:

- ▶ In the desire to avoid so-called moral hazard, countries should not limit themselves to approaches or rules that provide ineffective benefits. While the system in Chile has

definitely succeeded in avoiding moral hazard, coverage levels and benefit payouts (replacement rates) are so low that the system cannot in good conscience be described as an unemployment insurance system, as its

insurance component is extremely limited. (Sehnbruch and Carranza, 2015)

- ▶ The same study also noted that proper analysis and study is needed:

Despite political pressures, governments should not design public policies off-the-cuff without first gathering appropriate information. In this case, Chilean policymakers clearly instituted an unemployment insurance system (in response to a political necessity) without reliable information on the combination of salary levels, types of contracts, employment durations, and unemployment durations. [Subsidiary to that is the fact that] the absence of reliable data frequently creates a space for ideological distortions, which can significantly skew policy debates. (Sehnbruch and Carranza, 2015)

- ▶ An issue that will probably stir as much debate in Indonesia as it did in Malaysia and elsewhere, is that of severance and retrenchment payments, and the problems associated with such systems:

In addition, the quality of jobs and the functioning of social protection systems in Latin America and in other developing countries, is likely to improve if unemployment insurance systems (together with higher contributions to pension systems so that workers do not lose out), were to replace existing severance pay rights. This would have the additional advantage of decreasing differences between open-ended and short-term contracts, and would obviate the excessive use of the latter. (Sehnbruch and Carranza, 2015)

The latter point leads into the following subsections.

6.2.4 Severance pay

Severance pay is compensation that an employer provides to an employee who has been laid off,

whose job has been eliminated, or who through mutual agreement has decided to leave the company, or who parted ways with the company for other reasons. It compensates an employee for loss of seniority and job-related benefits. It also recognizes an employee's years of service or tenure. Some countries have legal provisions and/or collective agreements protecting workers in this way, or they may be provided in a written contract of service. Typically, severance pay amounts to a stipulated number of weeks or months of pay depending on the number of years the employee was with the company.

In Indonesia, "severance" refers to one of four types of termination benefits: (i) mandatory severance payments; (ii) reward for working time; (iii) compensation fee (or refund of unused leave and rights); and (iv) voluntary severance pay.

Both severance pay and unemployment benefits provide financial assistance, but in very different ways, and in each case with a distinctly different guarantee: (i) severance payments provide significant lump-sum payments to employees after long tenure; while (ii) unemployment benefits provide periodic earnings-related compensation to jobseekers following much shorter employment tenure. Severance payments fall under a particular labour code, and are only paid if employers are still solvent, able and willing to meet their obligations to former workers. Unemployment benefits, on the other hand, are guaranteed by the State under social security law.

Another difference is that severance payments do not link to re-employment support policies, while UI aims to help workers to return to work quickly. As a consequence, severance payments are paid whether or not unemployed persons look for work, unlike unemployment benefits, where finding suitable employment is a condition for payment of benefits.

When considering whether or not to implement a UI/EI scheme, each country must consider the impact of existing severance payments and how to deal with those payments. In Viet Nam, employers

had to provide severance payments for service up to 1 January 2009 but no longer need to do so for service covered by the UI scheme since then.⁵

However, some countries maintain separation payments and a UI/EI scheme. In Thailand, the present study found, the UI scheme does not take severance payments into account, so that UI benefits are paid in full even in the presence of legally mandated payments to terminated workers. In Canada, on the other hand, severance payments are deducted from UI benefits otherwise payable, thereby delaying the start of the UI claim. Under Mongolia's UI scheme, the start of UI benefits are also deferred until after the last payment of a firing allowance.

Indonesia can consider those approaches as possible options around which to develop its own position.

6.2.5 Lump sum re-employment bonuses

Some countries allow for the payment of a lump sum when a person finds a permanent job. In the Republic of Korea, for example, a worker who finds a job before receiving all of their benefits receives 50 per cent of the remaining benefits as a bonus. For example, if a worker was entitled to six months of benefits and found a job after receiving two monthly payments, they would receive a lump sum equal to two months' worth of benefits (half of the remaining entitlements).

Beginning in 2019, Malaysia is to follow a similar route. If qualified UI claimants receive a job offer and reports to duty within the specified period, they will receive 25 per cent of the remainder of unpaid entitlement.

Viet Nam used to pay the remaining UI benefits in a lump sum once UI claimants found employment or commenced military service, even if they returned to work with the same employer. These provisions led to every job loser or leaver receiving maximum

benefits, a proposition that was not viable over the long term. As a result, the provisions for lump-sum bonuses were removed effective 1 January 2015.

The effectiveness of a re-employment bonus has been questioned, appearing in some studies to enhance fast returns to work, in other studies to have little beneficial impact. Indonesia would perhaps find it prudent to delay any such approach for future consideration.

6.2.6 Actuarial studies and evaluations

When a country considers implementing a new social security scheme or wishes to update an existing scheme, it is imperative to conduct an analysis and an actuarial valuation. Actuarial valuations are intended to review the present and expected future financial developments of social security schemes. In the case of existing schemes, they make it possible to assess the sustainability of structural reforms, reforms imposed by changes in such external parameters as population ageing or structural unemployment. Actuarial valuations are also an important step in the design of new schemes, providing an opportunity to assess the financial viability and costs of the proposed parameters.

An actuarial valuation is recommended once a decision is made to look further into implementing a UI/EI scheme in Indonesia. Then, once the scheme is implemented, it is recommended that regular actuarial valuations be conducted, perhaps every three years after the implementation date. Provisions to that effect should be written into the UI/EI Act.

In addition, it is recommended that all administrative aspects of the new UI/EI scheme be formally evaluated, including legal, financial, IT systems, business considerations, and client satisfaction issues. Viet Nam conducted two evaluations: one of them six months after the implementation date,

⁵ Article 139: Transition provisions, paragraph 6 of the Social Insurance Law (2006) states "The duration for which labourers pay unemployment premiums under the provisions of this Law shall not be counted for enjoyment of job loss allowances or job severance allowances under the provisions of the labour law or the law on cadres and civil servants."

and another two years after that. Findings and recommendations from these two evaluations led to a number of significant amendments to improve overall administration of the UI scheme. To ensure transparency, the evaluations were to be conducted by the country's social security experts in conjunction with independent experts.

6.2.7 Female unemployment

Social insurance schemes such as UI must be gender neutral, providing equal access to coverage and benefits for both men and women. However, female workers are often discriminated against and experience difficulties when entering the labour market. Compounding the problem, female workers are more likely to be employed in the informal economy. They are also frequently paid lower salaries and may be less favoured in hiring practices. Women also appear proportionally more often among new applicants for employment following a period devoted to taking care of a child or of a sick parent, or after a divorce, separation or loss of a spouse.

It may at times be unclear to what extent the law should go to address these situations. However, UI schemes frequently provide that absences from work to give birth or to care for a newborn child will be given special treatment. In Canada, a female worker can be entitled to a maximum of 15 weeks of benefit to help the mother make up her lost income during the period surrounding the birth, as well as to bond with the child. In addition, the Canadian EI act has provisions to allow an additional 35 weeks of parental benefits for either parent.

Most countries in the world have provisions to cover maternity leave, usually partly paid, and sometimes paternity leave, either under their UI schemes (e.g. in Japan or Canada) or as separate schemes for the other countries. The latter approach, of separate schemes, might be better, for transparency and equity purposes.

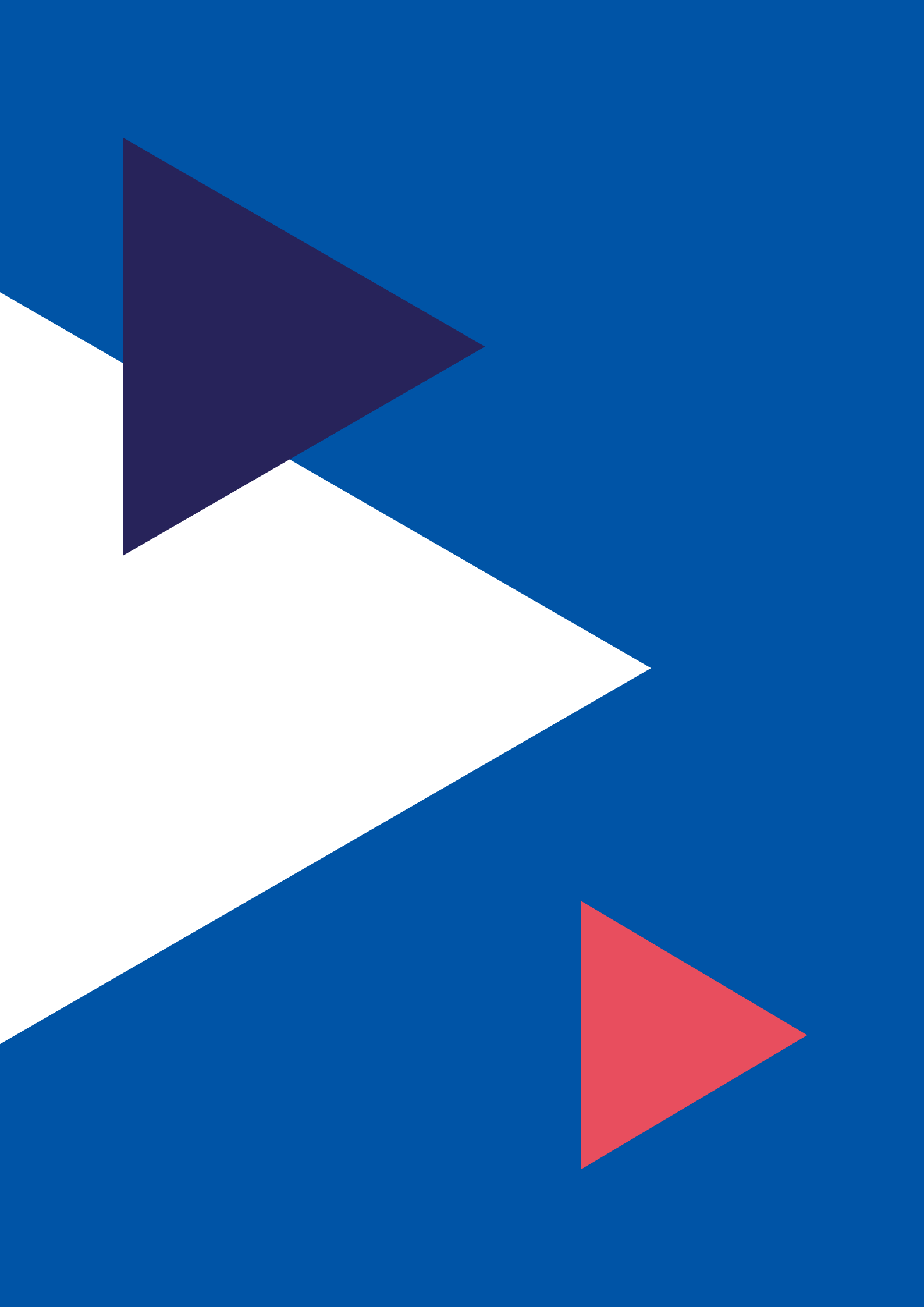
A further consideration for women is that they are often more engaged in part-time or informal work

than are men, which leads to lower coverage and qualification rates. This is evidenced in WSPR 2017–19. For example, in Eastern Asia only 21 per cent of the female labour force is covered by law, despite the fact that women comprise 24.8 per cent of the overall labour force, and in Northern Africa only 29.3 per cent of the female labour force is covered by law, despite the fact women comprise 38.4 per cent of the overall labour force there.

6.2.8 Unemployment and persons with disabilities

Persons with disabilities face challenges as they seek to integrate into the labour market or in having their work recognized under various public schemes. Many non-governmental organizations (NGOs) raise funds to develop welfare facilities for the needy, including persons with disabilities. In the Republic of Korea, the employment stabilization programme within the EI scheme provides loans to enterprises to upgrade their facilities with a view to encouraging recruitment of jobseekers with disabilities and senior jobseekers.

In Canada, the EI scheme supports a number of employment programmes and services to assist persons with disabilities to integrate into the labour market. The Canadian EI scheme also includes provisions to allow some flexibility to persons affected by illness or disability as regards the period during which they must qualify as well as the period allowed for the receipt of EI benefits.





7

Unique characteristics of
UI/EI mandatory schemes

▶ 7.1 Coverage

In all six countries in this study, salaried workers in the private sector are traditionally those covered by the UI/EI schemes. The following table lists some exclusions.

Table 7

Exclusions from UI/EI coverage

Country	Excluded from UI/EI coverage
1 Japan	<ul style="list-style-type: none"> ▶ Those older than 65 years (except for continuously insured older workers); ▶ part-time workers with fewer than 20 hours (except insured day workers); ▶ occasional workers with fewer than 31 days of work; and ▶ seasonal workers expected to work fewer than four months and 30 hours of work.
2 Korea, Repub. of	<ul style="list-style-type: none"> ▶ Companies engaged in farming, forestry, fishing and housekeeping; ▶ workers working less than a month (fewer than 15 hours a week); and ▶ those with family ties to the employer.
3 Malaysia	<ul style="list-style-type: none"> ▶ Foreign workers, domestic workers, self-employed people, business owners and their spouses as well as members of the armed forces and police.
4 Thailand	<ul style="list-style-type: none"> ▶ Farmers, domestic workers, companies with pre-2004 “superior employee benefit” schemes).
5 Viet Nam	-
6 Canada	<ul style="list-style-type: none"> ▶ Self-employed and business owners.

Article 11 of Convention No. 168 generally requires countries to cover 85 per cent of all employees, including public sector employees unless otherwise protected by national laws. The Convention also requires, under article 6, that countries provide equal and non-discriminatory treatment to all protected persons, including migrant workers. (Coverage of migrant workers has often presented an issue, especially since in most countries they must leave and return to their home country if they lose their employment.) Convention No. 102 would only require that 50 per cent of employees be covered.

Some countries have excluded workers in firms with less than a specified number of employees. This type of limit may be more of a hindrance than a help, yet might prove fruitful as a temporary measure, at the start, to facilitate the adoption and implementation of a UI scheme. In the initial design for EI in the Republic of Korea, it was stipulated that the EI scheme would cover only employers with a minimum of 30 employees. This number was later reduced to ten and eventually eliminated so that all workers would be covered. In Viet Nam, only employers with ten or more employees were covered under the UI scheme at the start of the UI programme, but this limitation was also soon removed (effective 1 January 2015, five years after the implementation of a UI scheme) to increase coverage for workers.

Another type of exclusion has sometimes been used. Until recently, for example, Viet Nam was to exclude workers hired on short-term contracts. The problem with this approach is that it risks encouraging employers to do as much of their hiring as possible under such contracts, thereby avoiding payment of UI contributions. Such exclusions are not recommended.

The exclusion of foreign workers goes against international standards of equal treatment. They are the first to lose their jobs during an economic downturn. The attendant problem, however, is that, in many or most countries, foreign workers must leave the country soon after their employment ends, making them ineligible for unemployment benefits. Thus forcing them to pay EI contributions could in fact represent a cost rather than a benefit, as small as it might be. One possibility could be to provide departing foreign workers with a refund of their EI contributions or a flat benefit.

Domestic workers are covered in Canada, and other countries should consider this group for UI/EI coverage. The same applies to seasonal and part-time workers who are also covered under the EI programme in Canada, as are the armed forces, police and public sector employees.

▶ 7.2 Contributions

Of the six selected countries, full tripartite sharing only exists in Thailand (see the following chart). Prior to 2015, Viet Nam also operated a tripartite sharing arrangement: 1 per cent each from employees, employers and the Government for

a total of 3 per cent. Employers and employees share the costs of UI in Japan, the Republic of Korea, Malaysia, Viet Nam and Canada (Canada had tripartite sharing from 1941 to 1990).

Table 8

UI/EI contributions, selected countries

Country	Contributions From employee (%)	From employee (%)	From Government (%)	Total (%)
Japan	0.6	0.6 + 0.35*	25 of payment	1.55 plus 25 of payment
Korea, Repub. of	0.65	0.90 to 1.55		1.55 to 2.20
Malaysia	0.2	0.2	1st year interim financing	0.4
Thailand	0.5	0.5	0.25	1.25
Viet Nam	1.0	1.0		2.0
Canada**	1.66	2.32		3.98

* Only employers contribute to Two Services (employment stabilization and skills development).

** Reviewed annually. Only about half of UI financing in Canada is dedicated to unemployment benefits.
Note: The figures were obtained in 2018.

▶ 7.3 Maximum insured earnings

Virtually all countries have a provision in their EI Act that imposes a ceiling amount on insured earnings of workers in high-income situations. This measure aims to ensure sustainability of the EI fund against unnecessary risks.

ILO Convention No. 102 stipulates the following: "The earnings ceiling shall cover the average earnings of a skilled manual employee (alternatively, [it] may be a level higher than the earnings of 75 per cent of all insured persons or 125 per cent of the average earnings of all insured persons)."

The ceiling amount is sometimes already defined by one of the social security programmes in existence when a country is considering the implementation of a UI/EI system, and will use the same ceiling amount (e.g. for pensions and EI).

▶ 7.4 Monies on separation

Many workers who are separated from their employment could receive monies on separation such as pay in lieu of notice, bonuses, unpaid wages and leaves that have been earned but not yet paid. In the case of unpaid wages, they are usually allocated to the past period of work and do not have impact on the claim for EI benefit. The other types of monies on separation mentioned above usually do have an impact on a EI claim for benefit and could delay the start date of a benefit period.

But severance payments are not as clear as the monies on separation described above. As mentioned in section 8, above (“Lessons learned”), when considering whether or not to implement a UI/EI scheme, each country must consider the impact of existing severance payments and whether or not to continue these payments. In the case of Viet Nam, employers had to provide severance payments for service up to 1 January 2009 but no longer needed to do so for any employees that had come under the UI scheme since then.

However, some countries have separation payments and a UI/EI scheme. In Thailand, we find that the UI scheme does not take severance payments into account, so that UI benefits are paid in full even in the presence of legally mandated payments to terminated workers. In Canada, on the other hand, severance payments are deducted from UI benefits otherwise payable, acting to delay the start of the EI claim.

Indonesia will need to determine whether or not severance payments will be continued, reduced or eliminated. If severance payments are kept, furthermore, it is necessary to decide whether the payments will affect an EI claim for benefit (delay the start date of the claim for benefit) or if the payments will be ignored and not delay provision of the benefit.

▶ 7.5 Qualifying conditions: Work needed to qualify

There are two issues to consider when determining whether an insured person qualifies for EI benefits: (a) the previous work and contributions needed to qualify; and (b) the reason for separation – whether it must be totally involuntary, or is voluntary quitting allowed in some or most circumstances, and how the scheme should deal with forced or unavoidable resignations.

Regarding the first issue, both Conventions No. 102

and No. 168 suggest that the qualifying period not be longer than necessary to avoid abuse. Countries usually require six to 12 months of contributions to qualify. Countries that require six months within a qualifying period of 12 months are Japan, the Republic of Korea and Thailand. Malaysia requires an insured person to accumulate 12 months of contributions within a qualifying period of 24 months.

Canada’s requirements are unique in that they are

linked to regional unemployment rates. In a high unemployment region (where the unemployment rate exceeds 13 per cent), someone could qualify with as few as 420 hours, or about ten to 12 weeks of full-time work within a qualifying period of 12 months. The Canadian EI scheme is also unique in expressing its work conditions solely in hours. Canada's EI scheme also allows for seasonal claims, permitting a significant number of individuals

to receive benefits each year, usually during the winter months. Climate is of course a factor in this case. See appendix B for additional information.

► 7.6 Qualifying conditions: Reasons for separation

After dealing with the required number of contributions, how and why someone terminated their employment will help to determine whether or not a person qualifies for UI/EI benefits. Article 20 of Convention No. 168 thus allows for the denial of benefits when someone loses their job due to their own misconduct or quits without any valid reason. Convention No. 102 has similar provisions.

Almost all countries will allow benefits to be paid if someone was forced to leave their employment, due to such factors as unpaid wages, harassment, dangerous working conditions or illegal employer action. Other circumstances, though unrelated to one's employment, are often also accepted, for example, leaving one's job to accompany a spouse to another residence or relocation to escape domestic violence.

Viet Nam and Kuwait are countries that allow insured persons to quit for any reason and still receive UI benefits. At the other end of the spectrum, Canada and Malaysia deny any EI benefits to those who quit without just cause or are fired because of their own misconduct. Some other countries adopt a position somewhere between the latter two, where an insured individual who quits without "good" reason is subject to a prolonged waiting

period (e.g. in Japan, an additional three-month waiting period). In Thailand, benefits to quitters, rather than being deferred, are paid at a low rate of 30 per cent of earnings instead of the normal 50 per cent, and for three months instead of six.

Establishing clear reasons for leaving employment may involve greater administrative difficulties, since employer and worker can express different versions of why employment was terminated. This is especially true when it comes to considering whether an employee quit because of dangerous or illegal working conditions, harassment, or other issues where the employer and worker will likely offer opposing viewpoints. See appendix B for additional information.

▶ 7.7 Waiting period

Once qualification is established, most countries require a short initial waiting period before any benefits are paid. No benefits are paid for this initial UI/EI waiting period, thus requiring insured persons to bear part of the costs of unemployment. This “deductible” feature is similar to that found in automobile and some other types of insurance, and avoids having to deal with multiple minor claims and attendant administrative expenses.

ILO Conventions No. 168 and No. 102 both prescribe a maximum waiting period of seven days. Most countries have a one-week waiting period (Japan, the Republic of Korea, Malaysia and Thailand). Canada had a two-week waiting period from 1972 to 2016, but in 2017 reverted to one week, which had been the rule from 1941 to 1971.

Note that this waiting period should not be

confused with administrative delays that occur before a decision is taken regarding benefit claims. Many decisions can take two or more weeks because of missing employer or worker information, to verify inconsistent or conflicting information, or to conduct fact finding on reasons for termination.

▶ 7.8 Benefit rate

Once a jobseeker has qualified, duration and level of benefits become the main elements in the benefit formula. Article 67 of Convention No. 102 stipulates that “the amount of benefits for a standard beneficiary (man with wife and two children) should attain at least 45 per cent of [previous earnings].” Article 15.1 of Convention No. 168 states that “benefits must attain 50 per cent of previous earnings.”

In Thailand, unemployed workers who are laid off receive 50 per cent of insured earnings, but those who quit voluntarily receive only 30 per cent of insured earnings. In the Republic of Korea,

insured workers will also receive 50 per cent of their previous earnings, but if a worker finds a job quickly, they receive 50 per cent of their remaining benefits as a re-employment bonus. In Canada and Viet Nam, the benefit rate is 55 per cent and 60 per cent respectively.

Malaysia applies a declining benefit rate to UI claims:

- ▶ 80 per cent of the monthly wage for the first month;
- ▶ 50 per cent of the monthly wage for the second month;

- ▶ 40 per cent of the monthly wage for the third and fourth month; and
- ▶ 30 per cent of the monthly wage for the fifth and sixth month.

Higher rates in the early stages of unemployment reduce the burden of an insured individual who has been separated from employment. The declining rate, on the other hand, motivates the insured person to seek re-employment quickly.

Payment of UI benefits, designated a “job search allowance” in Malaysia, is made to the insured person after a seven-day waiting period following approval of a claim for such benefit. See appendix B for additional information.

▶ 7.9 Duration of benefits

Under article 19 of Convention No. 168, UI benefits should last at least 26 weeks for each period of unemployment, or 39 weeks over any two-year period. Under Convention No. 102, the requirement is for at least 13 weeks of benefits each year.

Each national mandatory insurance scheme is unique, so the maximum time for which benefits are paid varies significantly from one country to the next. Discussion among interested groups in Indonesia is needed to set an appropriate maximum number of months for UI benefits, considering costs and available data on how long jobseekers are out of work between jobs. Benefits duration is also linked to the qualification requirements, so that countries with “easy” conditions for qualification tend to provide benefits for lesser periods than for those who qualify with minimum work effort.

As will be seen below, Viet Nam places special emphasis on long-term service. In some countries, duration depends not only on previous time worked but also on jobseeker age, with longer

durations given to older claimants. This is true of Japan and the Republic of Korea.

A number of countries have provisions for longer-lasting UI benefits in times of high unemployment or due to natural disasters. Sometimes, special legislation is passed when the need arises. This has happened in Japan, Thailand and Canada.

Duration of benefits within six selected countries:

Japan

Duration depends on age and length of contributions:

- ▶ separation due to bankruptcy or redundancy – 90 to 330 days;
- ▶ other separations – 90 to 150 days;
- ▶ fixed-term contract – 90 to 150 days;
- ▶ voluntary separations (all ages) – 90 to 150 days (after extra waiting period of three months).

Republic of Korea

- ▶ Depends on age and work: 90 to 180 days if younger than 30 years; 90 to 210 days aged between 31 and 50 years; and 90 to 240 days if aged over 51 years or with disabilities.
- ▶ Extended benefits may be paid for an extra 60 days for those who exhaust benefits, under strict criteria.
- ▶ “High unemployment” extended benefits apply when the ratio of job-seeking benefit recipients to all EI-insured persons exceeds a certain level.

Malaysia

Three to six months of benefits are payable to qualified jobseekers.

Thailand

- ▶ Unemployed workers who are laid off get up to 180 days within one year;
- ▶ Unemployed workers who voluntarily resign can only receive up to 90 days within 1 year;
- ▶ After the 2008 economic crisis, UI compensation was extended to 240 days for workers unemployed in 2009.

Viet Nam

- ▶ From 2010 to 2014, the number of months of benefit an unemployed worker could receive was the following: for 12 to 35 months of contribution, three months of benefits; for 35 to 71 months of contribution, six months of benefits; for 72 to 143 months of contributions, nine months of benefit; and for 144 or more months of contribution, 12 months of benefits.
- ▶ As seen in the following table, as of 1 January 2015, the schedule for the maximum number of months of benefits has been expanded.

Table 9

Contributions and unemployment benefits in Viet Nam (As of 1 January 2015)

Contribution months	Benefit months
12–35	3
36–47	3
48–59	4
60–71	5
72–83	6
84–95	7
96–107	8
108–119	9
120–131	10
132–143	11
144 or more	12

Canada

- ▶ Regular benefits are paid for between 14 and 45 weeks, depending on hours worked and the regional rate of unemployment.
- ▶ Canada also pays sickness, maternity, parental and compassionate benefits.
- ▶ Benefits are paid every two weeks.

See appendix B for additional information.

► 7.10 Ongoing entitlement

Once beneficiaries qualify for EI benefits, they must continue to maintain their status to receive compensation on a regular basis. UI/EI rules almost always require that jobseekers actively search for work, and that they remain capable of and available immediately for suitable employment at all times. This is in line with article 10 of Convention No. 168. As a practical matter, claimants are usually asked to report regularly to the local employment office, either in person or, under many UI/EI schemes, by mail or telephone or even via the Internet. Some countries require beneficiaries to complete a job-search statement during an interview and to report any offers of employment.

Claimants would generally be expected to accept any suitable employment offered them, considering their experience, training and personal circumstances, as described in article 21 of Convention No. 168. Referrals to training and employment measures should also be followed up in accordance with article 20(f) of Convention No. 168 and article 69 of Convention No. 102.

There are varying degrees of enforcement among

countries to ensure claimants are following the rules and fulfilling their obligation to find suitable employment as quickly as possible. In the absence of enforcement, unemployment benefits risk being considered what are sometimes known as “passive benefits”. Nevertheless, this characterization should not be indiscriminately applied to individual jobseekers, most of whom would, under most circumstances, prefer gainful employment to unemployment benefits. In Canada, for example, it was found that only 31 per cent of recipients of unemployment benefits used all their benefit weeks and that most claimants (55 per cent) reported other gainful work while on claim (Employment and Social Development Canada, 2016).

► 7.11 Governance

Article 71 of ILO Convention No. 102 recommends that benefit and administration costs be borne collectively either by insurance contributions or by taxes, aiming to avoid subjecting low-income workers to unnecessary hardship. It also asks for governments to assume responsibility for sound governance, which might include mandatory calculations and periodic actuarial reviews. Convention No. 168 is less specific, but also asks

countries (article 28) to assume responsibility for the sound administration of such schemes. As a matter of good governance, countries are also asked under both Conventions (article 72 of Convention No. 102 and articles 3 and 29 of Convention No. 168) to consult with and involve employers and workers in the operation of these schemes.

8

Conclusion

One of the main conclusions to be drawn is the need to have a clear idea of what should be achieved by adopting a UI/EI scheme, as well as a realistic view of the limits of such an instrument. Unemployment benefits aim, on the one hand, to guarantee at least partial income replacement, enabling the beneficiary to maintain a certain standard of living until returning to work. On the other hand, they support the unemployed in seeking new employment and increasing their employability.

No UI/EI scheme, however well designed and even where accompanied by ALMPs, can solve a country's unemployment problems. An effective UI/EI scheme should aim to keep its main objective as simple and straightforward as possible: i.e. to provide temporary and partial income replacement to insured people who lose their jobs. The adoption of a UI/EI scheme will have beneficial returns for employers, workers and society as a whole. These returns far outweigh the minimal costs of a UI/EI plan.

Countries such as Japan and the Republic of Korea, for example, have prioritized assisting individuals via ALMPs with returning to work as quickly as possible. To achieve this goal, the Republic of Korea's EI system operates labour market programmes consisting of workplace training and job creation subsidies. Japan has established a close relationship between EI benefits and labour market policies. EI beneficiaries who find work while still entitled to more than one third (and also more than 45 days) of their prescribed period of benefits are paid a lump sum comprising employment promotion benefits that complement EI benefits.

Linking an effective UI system with labour market measures offers clear advantages. Services such as capacity building in job search, résumé writing and interview skills have generally been found to be the most cost effective. Most countries use job-matching portals in both the public and private domains to link unemployed workers with vacant positions.

Countries with UI programmes often offer unemployed workers training or retraining in skills development while they are receiving UI benefits. Training and retraining programs, though highly promoted, must be managed with careful regard to their costs, effectiveness and targeting, but should nevertheless be considered for implementation as long as the budgets for those measures are kept under tight control.

So far as severance pay schemes (retrenchment benefits) are concerned, in some cases employers with financial difficulties may renege on commitments to pay severance in cases of plant closure or moves out of country. This could occur especially in times of crisis, where employers are forced into bankruptcy and are unable or unwilling to meet their obligations. Severance payments and UI are distinguished one from the other by the fact that the former falls under employment law, and is neither pre-funded nor fully guaranteed, while the latter is governed by social insurance law, and is guaranteed by the State.

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Appendixes

► Appendix A - Severance pay programmes in Asia – 2017

SEVERANCE PAY ACCORDING TO TENURE				
Country	Tenure			Remarks
	1 Year	10 Year	20 Year	
Bahrain	-	-	-	There is no mandatory severance pay.*
Cambodia	15 days	150 days	6 months	Payable if worker is dismissed other than for serious misconduct.
China	1 month	10 months	20 months	Severance pay amounts to one month's salary per year of service.
Indonesia	2 months (SP) 0 months (RWT)	9 months (SP) 4 months (RWT)	9 months (SP) 7 months (RWT)	<p>Four types of termination benefits:</p> <ul style="list-style-type: none"> ► Severance payment (SP) ► Reward for working time (RWT) ► Reimbursement of rights (unused leave, etc.) ► Voluntary separation pay (as agreed) <p>Note. The figures shown are basic figures only. The actual amounts paid would usually be higher, depending on the reason for termination, e.g. bankruptcy, retirement, sickness, downsizing, quit for reason vs. fired for misconduct, resigned with or without 30-day notice, merger, or acquisition.</p>
Japan	-	-	-	No statutory severance pay or redundancy payment. Contracts often provide for severance pay in case of dismissals.
Korea, Repub. of	-	-	-	No statutory severance pay as such or redundancy payment.
Malaysia	10 days	200 days	400 days	Known as retrenchment benefits and payable in case of redundancy.

SEVERANCE PAY ACCORDING TO TENURE				
Country	Tenure			Remarks
	1 Year	10 Year	20 Year	
Mongolia	1 month	1 month	1 month	Additional compensation in the event of termination of large number of employees and agreement between employer and employees representatives.
Philippines	1 month	5 months	10 months	If the termination is due to installation of labour-saving devices or redundancy, the separation pay is one month's pay for every year of service or one month, whichever is higher (double amount for ten and 20 years).
Singapore	-	-	-	No mandatory severance pay. But may exist in collective agreements or negotiated settlements (usually, from two weeks to one month salary per year of service).
Thailand	90 days	300 days	300 days	<ul style="list-style-type: none"> ▶ Does not apply to employees who have a fixed term contract of employment. ▶ In addition, employees with at least six years of continuous service can receive, in addition to severance pay, a special compensation equal to 15 days' wages for every year of service in the event of termination for economic reasons.
	Since 2009, the years for which UI contributions are paid for an employee are not counted for severance pay. This means that a person who has worked ten years prior to 1 January 2010, will still be entitled to a severance pay equivalent to five months of past earnings (half a month of severance pay per year of tenure).*			
Viet Nam	½ month	5 months	10 months	Severance pay is reserved for cases where the employer has made an illegal termination of employment contract and the employee does not wish to be reinstated.
	2 months	10 months	20 months	Employers must pay a job-loss allowance when the employment contract is terminated due to changes in structure, technology or economic reasons.

Source: ILO (2017b).
* ILO (2013).

► Appendix B - Benefit packages under selected UI/EI schemes

BENEFIT PACKAGES UNDER SELECTED UI/EI SCHEMES

Country	Qualification criteria	Duration of benefit	Benefit levels
Japan	<ul style="list-style-type: none"> ▶ Basic allowance requires at least six months of insurable employment in previous two years. ▶ Involuntarily unemployed or extra three months waiting period. 	<ul style="list-style-type: none"> ▶ Duration depends on age and period of paid contributions. ▶ Separation due to bankruptcy or redundancy: 90 to 330 days. ▶ Other separations: 90 to 150 days. ▶ Fixed-term contract: 90 to 150 days. ▶ Voluntary separations (all ages) 90 to 150 days (after extra waiting period of three months). 	<ul style="list-style-type: none"> ▶ Daily rate depends on average wages over previous six months: JPY2,330–4,650: 80% JPY4,650–11,770: 80% to 50% JPY11,770–15,780: 50%; ▶ If aged 60 to 64 years, the 50% of above table is replaced by 45%.
Korea (Repub. of)	<ul style="list-style-type: none"> ▶ Must have worked at least 180 days in previous 18 months, with a minimum of 60 hours per month. ▶ Unemployed workers must register for job placement. ▶ Must be available for work. ▶ Penalty imposed if job offers are rejected or leave their job voluntarily. 	<ul style="list-style-type: none"> ▶ Depends on age and work: 90 to 180 days if under 30; 90 to 210 days if 31 to 50; 90 to 240 days if over 51 or with disabilities. ▶ Extended benefits may be paid for extra 60 days, under strict criteria, for those who exhaust benefits. ▶ “High unemployment” extended benefits applied when the ratio of job-seeking benefit recipients to all EI-insured persons exceeds a certain level. 	<ul style="list-style-type: none"> ▶ EI benefit paid is 50% of the standard daily wage, based on average wage. ▶ If a worker finds a job quickly, they receive 50% of their remaining benefits as a re-employment bonus.

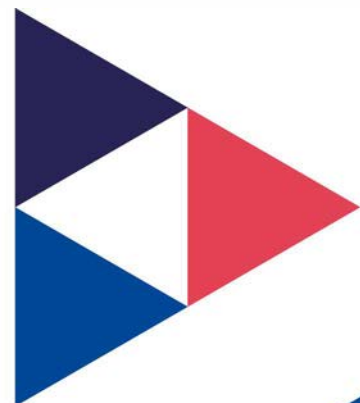
BENEFIT PACKAGES UNDER SELECTED UI/EI SCHEMES

Country	Qualification criteria	Duration of benefit	Benefit levels
Malaysia	<ul style="list-style-type: none"> ▶ Insured persons must have paid 12 months of contributions within the previous 24 months. ▶ Will pay benefits when involuntarily unemployed. ▶ No benefits paid for: voluntary resignation; end of fixed-term contract; retirement. ▶ Must register for job placement. ▶ Must be available for work. 	<ul style="list-style-type: none"> ▶ Three to six months of benefit are payable to qualified jobseekers. 	<p>Malaysia has a declining benefit rate, as follows (% of monthly wage):</p> <ul style="list-style-type: none"> ▶ 80% for the 1st month; ▶ 50% for the 2nd month; ▶ 40% for the 3rd and 4th months; ▶ 30% for the 5th and 6th months.
Thailand	<ul style="list-style-type: none"> ▶ At least six months of contributions in the 15 months before termination; ▶ Registered with the Employment Office. ▶ Termination of employment not due to a job violation, a pre-meditated criminal act against the employer, or an illegal act resulting in serious damage to the employer's business. 	<ul style="list-style-type: none"> ▶ Unemployed workers who are laid off get up to 180 days within one year. ▶ Unemployed workers who voluntarily resign only receive up to 90 days within one year. ▶ Following the 2008 economic crisis, UI compensation was extended to 240 days for workers unemployed in 2009. 	<ul style="list-style-type: none"> ▶ Unemployed workers who are laid off receive 50% of insured earnings, based on the highest paid three months in the nine months before job loss. ▶ Unemployed workers who voluntarily resign only receive 30% of insured earnings.

BENEFIT PACKAGES UNDER SELECTED UI/EI SCHEMES

Country	Qualification criteria	Duration of benefit		Benefit levels
Viet Nam	<ul style="list-style-type: none"> ▶ Paid UI contributions for at least 12 months within the previous 24 months. ▶ Registered for unemployment with the Employment Service Centre. ▶ Applied for UI benefits within working 15 days after the date of registration. ▶ Jobless for 15 working days after registering. ▶ Not in receipt of a pension. 	<p style="text-align: center;">Months of work</p> <ul style="list-style-type: none"> 12–47 48–59 60–71 72–83 84–95 96–107 108–119 120–131 132–143 144 or more 	<p style="text-align: center;">Months of benefits</p> <ul style="list-style-type: none"> 3 4 5 6 7 8 9 10 11 12 	<ul style="list-style-type: none"> ▶ The benefit rate is 60% of the average contributory earnings over the previous six months, limited to 20 times the value of minimum wages. ▶ Benefit rate and duration apply similarly either the termination is voluntary or involuntary.
Canada	<ul style="list-style-type: none"> ▶ 420 to 700 hours of insured work in last year, depending on the regional unemployment rate; ▶ New entrants need 910 hours. ▶ Voluntary quitters and those fired due to misconduct are denied benefits. ▶ Good reasons for quitting are accepted. 	<ul style="list-style-type: none"> ▶ Regular benefits: 14 to 45 weeks of benefits, depending on hours worked and regional unemployment rate. ▶ Benefits are paid every two weeks. 		<ul style="list-style-type: none"> ▶ 55% of average weekly earnings to a maximum of CAD\$547 (in 2018)

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