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**Facts and Preliminary Considerations for the Feasibility of  
Introducing an Employment Insurance System in the Philippines**

An ILO Paper presented by Dr Kil-Sang Yoo, ILO policy expert in the Philippines and KLI Director-General of Employment Research, at the occasion of the WB-ILO-JMHLW-PDOLE-JIL-ASEM Regional Seminar on Labour Market Policies and Social Protection in Asian Crisis and Recovery, Manila, 1-2 March 2001

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## Introduction

The scope of the social protection system of the Philippines compares favourably with other countries of the region. The Government of the Philippines has remained committed over the years to expand social insurance coverage to workers in need of income replacement when facing different contingencies. Different social security and social assistance programmes exist.

Asian financial crisis of 1997 has attracted much attention to the specific needs of unemployed workers and their families in all spheres of society as the crisis affected everyone. Reviewing the impact of the crisis on workers and populations of Asia, the ILO constituents have recognized that the deficiencies of the pre-crisis economic and social systems need to be remedied. They pointed to the highest priority that should be given to the strengthening of systems of social protection thru the introduction of unemployment insurance where possible and the expansion of social assistance schemes to relieve extreme poverty.<sup>1</sup> This commitment was further reiterated on a number of occasions when the Ministers responsible for human resources and finances meet at regional gatherings since the early days of the Asian financial crisis of 1997. There seems to be general agreement that one of the major lessons learned from the recent financial crisis in the region was that social policies had received insufficient attention during the decades of relative prosperity, with the result that opportunities to develop effective systems of social protection had been lost.<sup>2</sup> Other international institutions, such as the International Monetary Fund, have also encouraged comprehensive and co-ordinated policies for broadening the scope and effectiveness of social protection.<sup>3</sup>

The present study builds on the conclusions and recommendations of a former ILO/UNDP technical assistance project on social protection reform that ended in 1996.<sup>4</sup> The report recommended the adoption of a *National Social Protection Strategy* whose key recommendations remain valid in the context of the present study. They include:

- The social security system of the Philippines provides a wide range of benefit provisions in the context of a commitment towards universal coverage;
- The personal coverage and liability compliance of employers and workers is relatively limited as it mainly reaches workers engaged in large and stable enterprises;

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<sup>1</sup> See *The ILO's response to the financial crisis in East and South-East Asia - The Social Impact of the Asian Financial Crisis: An ILO Governing Body Symposium*, Conclusions of the Reporter, Governing Body, GB.274/4/4, 274<sup>th</sup> Session, Geneva, March 1999, p.2.

<sup>2</sup> See the Joint Ministerial Statement of the Sixth APEC Finance Ministers Meeting in May 1999.

<sup>3</sup> See Peter Heller, 1999 at the World Bank Regional Meeting on Social Issues Arising from the East Asia Crisis and Policy Implications for the Future: "The IMF sought to ensure that the macroeconomic policy framework could accommodate social protection measures and emphasized to the authorities that such measures should be part and parcel of IMF-supported programs".

<sup>4</sup> See ILO/UNDP, *Report to the Government on Social Protection: options and recommendations for reform and development*, Geneva, 1996.

- As a consequence of the lack of compliance, there exists a vast number of informal arrangements among communities and organisations with a common interest to provide forms of social security. Such informal arrangements play a role although limited due to their financial vulnerability and lacking technical capacities. Their role must be taken into consideration by the policy-makers in charge of social protection whilst recognizing that solutions must be developed to respond to their limitations, notably through strengthening of the capacities of existing social security schemes and provision for public financial guarantee, monitoring and technical expertise to community-level initiatives.
- The reform of social protection should balance the need for public and private interventions with a clear mandate to the State for financing social assistance to persons in desperate situations and to sponsor social insurance arrangements on a solidarity and collective basis. Supplementary protections should be afforded through private arrangements.
- There is an apparent need to broaden public understanding and support for social protection in line with national and economic considerations.
- In parallel to the lack of uniformity in the provision of social protection to the different population groups, there is an apparent fragmentation of institutions providing various types of social protection coverage. This points to the need for improving coordination of the national social protection strategy under the umbrella of a governmental institution in charge of social protection and labour affairs, notably the Department of Labour and Employment and the National Economic and Development Agency. The report recommended the establishment of an administrative mechanisms with overall responsibility for policy-making, progress monitoring and coordination.
- The financial management of public social protection expenditure should be improved by way of giving due recognition to the needs and actual coverage of the population.

In relation to the recommendation for improved policy coordination, a Presidential Retirement Income Commission was created in April 1999 under an Executive Order creating the Department of Finance Contractual savings Task Force whilst a Social Affairs Committee under NEDA also assume responsibilities for the reform of social protection in the Philippines.

The personal coverage of the Social Security System of the Philippines (SSS) is mandatory for all enterprise workers in the private sector and for self-employed persons whose earnings are above a threshold amount. Public workers enjoy coverage under the Government Service Insurance System (GSIS). The scope of protection provides benefits in case of sickness, invalidity, death, maternity and old-age whilst the risk of unemployment is not within the scope of the present system. Various loan programmes through the SSS appear to provide some form of financial assistance to SSS members who qualify for the receipt of such loans.

It was recognized that the World Bank is currently undertaking a thorough review of other forms of income support programmes in the Philippines which may likely cover the needs of the population not in wage employment.

In pursuing this endeavour, the Government of the Philippines is committed to find solutions in consultation with workers, employers and civil society so as to ensure a decent living to the entire population notably in times of economic hardship as observed since 1997.

The Department of Labour and Employment of the Philippines has requested technical assistance from the International Labour Office to study the prospects of introducing social protection, notably through income support measures, for the benefit of unemployed workers and their families.

The delivery of the technical assistance is coordinated in the context of a regional effort with the World Bank, the Japan Ministry of Health, Labour and Welfare and the Japan Institute of Labour to address lessons and prospects for active labour market policies and social protection following the Asian financial crisis of 1997.

The team of ILO experts include Kil-Sang Yoo who is policy expert on employment insurance from the Korea Labour Institute. He is responsible for the overall social protection policy analysis with particular reference to the Korean experience and the ones of other countries. Aniceto Orbeta, is an expert in labour market and employment from the Philippines Institute for Development Studies. He has been liaising with the Institute for Labour Studies and other Government agencies to develop a medium-term outlook of macro-economic and employment developments as well as for costing benefit options. Don Fraser is expert in labour administration. He is responsible for the assessment of the administrative capacities of existing employment services and training programmes in the context of a comprehensive employment insurance system. The study is coordinated by the ILO Regional Office for Asia and the Pacific with the technical support of Anne Drouin, Social Security Specialist in Bangkok, in cooperation with other social security specialists from the ILO Social Protection Sector in Geneva, including Clive Bailey, Roger Beattie and Krzysztof Hagemeyer. The ILO team undertook fact-finding missions from May 2000 to February 2001 whilst further technical missions are still to be completed, mainly in relation to the administrative and financial aspects of the present study. Delays have been incurred over the recent months due to the political uncertainties that prevailed and inherently prevented some of the experts from working with counterpart institutions.

At the request of the Department of Labour and Employment (DOLE), the ILO is consulting with representatives of the Government, employers, workers and other stakeholders. DOLE agreed that the Korean experience, notably in relation to the preparations that preceded the introduction of Korea's Employment Insurance System, should serve as the reference for developing a comprehensive system in the Philippines. Other cases of international best practice as well as other regional experiences should also be shared with the Philippines to determine its best course of action to meet the needs of unemployed workers. Reference to Thailand should be useful as the Royal Thai Government has recently expressed its intentions to introduce employment insurance

provisions in the coming years so as to meet its obligations according to the Social Security Act of 1990 that foresees the provision of unemployment insurance.

The preliminary findings of this study are to be shared with national counterparts in the context of a series of DOLE-hosted national consultations, the first of which took place on 13 February 2001 and the second one scheduled on 27 February 2001. DOLE encourages social dialogue and insists that the ILO study be undertaken on the basis of the directions provided by the representatives to the national consultations, notably for the purpose of validating the database and assumptions serving to develop ILO's outlook for the future of employment in the Philippines, to assess existing programmes, to elaborate reform options to develop a system of employment insurance and to review the conclusions of the study. At the outset of the national consultations on 13 February 2001, the participants requested modifications to the macro-economic and employment scenarios as developed by the ILO to reflect different views amongst representatives. ILO was further instructed to prioritize the needs of wage employees who become unemployed in industrial sectors where there is sufficient stability in employment. The consultations served to validate elements of the working assumptions to assess the feasibility of introducing an employment insurance system that would integrate employment services and training to the payment of unemployment cash benefits. The national consultations on 27 February 2001 will validate the characteristics of the benefit options for cash benefits, job search assistance, training, administration and financing. Further national consultations should be scheduled in due course at the initiative of the DOLE as ILO continues to assist the build up of public consensus.

The present paper has been drafted for the purpose of the Regional Seminar on active labour market policies and social protection hosted by DOLE on 1-2 March 2001 in Manila. The ILO presents preliminary recommendations with a view to build up existing national capacities so as to implement a full-fledged employment insurance system at a future time. It presents a set of policy and macro-economic considerations (Section I), options for coverage and a benefits' structure (Section II), options for comprehensive unemployment cash benefits integrated to a system of job search and training assistance (Sections III-V), options for the administration of an employment insurance system – as well as the required adjustments to reach such a level of administration – (Section VI) and options for financing an employment insurance system (Section VII). Based on our preliminary findings, the study sets out that employment insurance provisions should only be implemented at a later stage when the general economic and employment conditions of the Philippines are more favourable. Based on this precept, the study focuses on the important capacity building preparations that must start immediately.

## **I. General Policy Considerations for the Introduction of an Employment Insurance Scheme**

This section reviews the current social protection situation of the Philippines and raises policy considerations for policy-makers.

### **1.1 Social Protection Needs**

Social protection takes various forms ranging from ad hoc support from the extended family, the community, the workplace, and other local support groups to public social insurance. The design and implementation of public measures of social protection can only be successful if it recognizes existing informal forms of social protection and can assess their limitations so as to either strengthen or complement them. This is particularly relevant in the context of the Philippines where public financial resources are limited and must be used in the most efficient manner. Studies have assessed the needs of the population and confirmed that such informal forms of social protection have not been sufficient to provide decent living conditions to the different population groups of the Philippines in the aftermath of the Asian financial crisis of 1997.

When a person no longer has the means to earn a living for herself and the family either through formal employment or informal activities, basic household needs often cannot be fully met such as the cost of family support for food, housing, health and education. Until another economic activity is found for this person to earn a living, the loss of income is posing serious economic hardship to the family. This situation is currently faced by large segments of the population as long as unemployment rates remain at high levels around and above 10 per cent (DOLE-ILS, 2000). While few higher income earners have had access to some source of savings to cope during times of inactivity, the overall level of per capita income for most Filipinos has remained relatively too low such that the majority of the population cannot rely on personal savings to meet basic needs. Concerning low-income earners and informal sector workers, they represent the most vulnerable groups and have witnessed the largest numbers of persons having fallen into poverty over recent years. In practice, such workers are often found in irregular forms of contractual and part-time employment that prevents them from receiving social security coverage.

The Government intervention is thus called for to alleviate the burden of poverty on unemployed workers and their families. Its design must be based on a clear identification of the risk for which the State should be responsible to provide prevention and protection in respect of. Knowledge of the population groups affected should also assist when developing programmes that effectively answer the needs. As available public finances are limited, priorities must be set so as to use them most efficiently.

This study initially focuses on the provision of Government's assistance to unemployed workers at three levels:

- a) Temporary income replacement so as to meet basic household needs until a new economic activity is found;

- b) Social protection in case of risks such as sickness, death, invalidity and maternity; and
- c) Job search support, re-training assistance and wage subsidization so as to increase the prospects of finding a new gainful occupation or preventing the loss of employment.

## **1.5 Existing Social Protection**

The design of social protection reforms addressing the risk of unemployment should give consideration to the current circumstances of the Philippines. Social protection policies must be coherently and complementarily developed with labour and employment policies. Employment generation is a necessary condition for efficient social protection although not sufficient to provide a decent living to all groups of the population. As income support alleviates the burden on workers and provides them a better setting to readjust their lives when facing various risks, such as unemployment, it is crucial that decent employment opportunities be made available to them. Social protection against unemployment, economic growth, training, labour market information, social dialogue are some of the key instruments to achieve decent work.

There are five principal systems providing a range of social protection to the formal employment sector in the Philippines (ILO/UNDP, 1996). They include:

- The Government Service Insurance System covers civil servants;
- The Social Security System covers all workers from private enterprises and offers extended coverage arrangements to self-employed persons;
- The Employee's Compensation Commission is closely linked to the Social Security System for the administration of employment injury benefits;
- The Philippine Health Insurance Corporation to which has been transferred the medical care functions formerly with the Social Security System in April 1998 with the specific aim of extending health care coverage to as many persons as possible; and
- The Home Development Mutual Fund of the Philippines which serves both private and public sector workers.

The social security system established in the Philippines, namely the Social Security System and the Government Service Insurance System, are prime examples of a social protection system where the responsibility of individuals and their employers are reinforced by principles of collective solidarity.

The present system of social security in the Philippines has its practical limits in terms of personal coverage. It is observed that compliance amongst the employers and workers of the Philippines to register and pay contributions to the existing Social Security System is at present significantly lower than it should be if the terms of the law for mandatory coverage and full contribution collection were fully enforced. The potential role of contributory social insurance as a key engine of social protection is still to be met. Thus, before extending the scope of social security to include the risk of unemployment,

a key precursor should be set to reinforce the capacities of the Government to effectively extend the social protection to the workers that should be covered according to the Law. This can be done by way of channeling additional investments into public information campaigns, better service delivery to increase credibility and a more effective inspection force. Another critical measure is the change in social security legislation that does not cover workers earning less than a specified salary amount or engaged part-time. Observed experiences indicate a strong tendency by enterprises and their workers to collude so as to avoid contribution liabilities by way of entering into precarious forms of employment. These issues should continue receiving priority attention by the authorities in charge of social protection and enforcement of social security legislation.

There exists also programmes of social assistance that essentially attempt to reach needy unemployed persons whether formerly engaged in informal or formal economic activities as long as there is no social protection programmes addressing their needs. Their administration is mostly decentralized which makes it relatively difficult to coordinate and monitor. Financing normally comes directly or indirectly from allocations of the State budget. The employers' representatives have indicated their concern and pessimistic view for the need of the Government to mainly focus its attention on preventing current job-holders from losing their jobs before investing into employment generation. Some have pointed to the need for the study to recognize that the majority of worker currently covered by social security are found in large enterprises.

### **1.3 No Social Insurance Provisions in case of Unemployment**

There is no social insurance provision in case of unemployment in the Philippines. Only severance pay provisions exist as a way of bridging the gap in social protection in case of unemployment. There is a number of legislative references in the Philippines that are concerned with the termination of employment. The Constitution obliges the State to assure workers of the right to 'security of tenure' whilst the Labour Code of 1974 sets out principles governing the termination of employment. The level of benefits is determined partly in relation to the cause of termination. Severance pay is set at the rate of one month's salary for every year of service – with a minimum of one month's pay – for employees made redundant because of a labour-saving device or reorganization. The amount of severance pay is set at the rate of half a month's salary for each year of service for employees retrenched due to the closure of a business, or to prevent losses, and for employees dismissed on the grounds of disease (sections 283 and 284 of the Labour Code). In addition, minimum retirement benefits are provided of half a month's pay for every year of service, unless the employee would receive more under a collective agreement or other legislation. In case of the employer's bankruptcy or liquidation, workers enjoy creditor preference up to an amount covering their overdue wages and other acquired benefits.<sup>5</sup> There is no accurate figure on the amounts of severance pay that were paid to unemployed workers following the Asian financial crisis of 1997. Workers' and employers' representatives have indicated to the study figures ranging between 5,000 and 12,000 Pesos.

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<sup>5</sup> See ILO, *Termination of Employment Digest*, Geneva, 2000, pp. 277-279.

Also, loan facilities can be extended to workers who have contributed to the Employee's Compensation Fund. Other measures of social protection should rather be referred to as employment generation support measures such as the numerous programmes of public investment employing workers at low wages.

The only countries of the region providing social insurance against the risk of unemployment include Korea, China and Mongolia whilst Thailand is active at exploring ways to implement its own system associated with the social security system. The case of Korea is the most relevant one to the Philippines mainly because of similar market economy principles.

#### **1.4 Social Insurance Complemented by Social Assistance**

Social insurance measures usually represent one of the most viable option to protect workers and prevent them from poverty as long as they cover a significant share of the population. The ILO Convention No. 102 on minimum standards for social security points to the need for governments to provide social insurance in case of unemployment.

This study investigates the medium and long-term prospects of building social insurance measures against the risk of unemployment on grounds that this is a meaningful way of covering a majority of the Filipino population ultimately. In parallel, it encourages the reform of social assistance and other forms of income support programmes to play a more effective complement until employment insurance is in place and covers the entire population. There will inevitably always remain groups of workers who are not covered by any form of social security and whose desperate needs are not served other than by way of social assistance. It is noted that social assistance is beyond the scope of this study. A separate research is currently undertaken by the World Bank to investigate other forms of income support.

In addition to social insurance, there is an immediate need to improve the current programmes of social assistance, in cash or in kind, to reach needy unemployed persons whether formerly engaged in informal or formal economic activities as long as there is no social protection programmes addressing their needs. Their financing can be met through State budget expenditure allocations. The measures might differ in respect of unemployed persons who are not necessarily in desperate situations but could become vulnerable in the near future if no employment can be found. Public programmes focusing on employment generation might be more appropriate than programmes of social security and social assistance.

#### **1.5 Three Reference Models of Social Protection for the Unemployed**

The social protection systems for the unemployed found in countries where they exist can be classified according to three main Models:

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Model 1:           Contributory social insurance unemployment benefits

	Extended unemployment benefits (exceptional)
	Universal public social assistance on means-tested basis
Model 2:	Contributory social insurance unemployment benefits
	Unemployment assistance
	Universal public social assistance
Model 3:	Unemployment assistance
	Universal public social assistance

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Under Model 1, the first and most important social protection system for the majority of unemployed persons is the provision of social insurance unemployment benefits from the social unemployment/employment insurance system. However, the unemployment or employment insurance system is not a universal coverage. It protects only the unemployed who have been covered by the unemployment or employment insurance system for certain period of time and who are qualified for unemployment benefits, and it is a work-tested programme. Usually the costs for the unemployment benefits are financed from the contributions of employees, employers and sometimes unusually from government subsidies. Those who have not been covered by the unemployment/employment insurance system for the minimum required period for eligibility or who are not qualified to receive social insurance unemployment benefits. The only form of social protection for them comes from public social assistance. The public social assistance is an income support programme mainly addressing the needs of unemployed persons entering into poverty. The costs for the public social assistance are financed from general tax revenues. The coverage of the public social assistance is universal, but it is an income-tested programme. The public social assistance is the last resort for the poor to receive income support usually set at a social minimum level. As the duration of payment of unemployment benefits is limited, additional benefit protection is necessary for protecting covered unemployed benefit recipients whose benefits are expired when the overall unemployment rate is at unusually very high levels such as above 6 or 8 per cent. Under such defined circumstances, the duration of unemployment benefits can be extended for another period of time. Additional costs have to be met through higher contributions or other revenues sources. Model 1 generally corresponds to the systems found in the United States, Japan, Canada, and Korea.

Under Model 2, the first and most important social protection system for the unemployed is the provision of social insurance unemployment benefits from the unemployment/employment insurance system – similar to Model 1. However, since the social insurance unemployment benefits scheme protects only the workers who have been covered by the unemployment or employment insurance system for certain period of time and who are qualified for unemployment benefits, those who are unemployed but not qualified for the unemployment benefits and/or not covered by the unemployment or employment insurance system require protection under another type of system, i.e. the

unemployment social assistance system. Unemployment social assistance is financed from general tax revenues. The unemployment social assistance provides income support programme to poor unemployed persons. The coverage is universal whilst benefits are subject to an income-test and a work-test programme. Similar to Model 1, the public social assistance is the last resort for the poor. However this approach to social protection for the unemployed is more efficient as it provides universal unemployment social assistance despite no special provision for extended unemployment benefits during difficult periods. Germany, France, the United Kingdom, Sweden and many European countries fit under Model 2.

Model 3 is a special case of Model 2 where there is no social unemployment/employment insurance benefits' system. Public unemployment social assistance is the only form of social protection that is financed from general tax revenues. Benefits are provided in the form of income support available to the poor unemployed. The coverage is universal whilst eligibility to benefits is subject to an income-test and/or work-test programme. Public social assistance is meant only as a solution of last resort for the poor. This Model provides no social insurance tools and heavily relies on public budget allocations that may be prone to political manipulations, notably in times of economic difficulties. The social protection systems of Australia and New Zealand fit Model 3.

## **1.6 Unemployment Insurance or Employment Insurance ?**

Historically, voluntary unemployment funds developed in the nineteenth century by trade unions or friendly associations in Europe. They preceded the current compulsory unemployment social insurance systems. Under these programmes, each member of the trade unions or friendly associations contributed to an unemployment fund from which unemployment benefits were drawn when the member was laid off. Only low levels of benefit protection could be afforded. Over time, their management and financial situations were found to be too vulnerable to sudden fluctuations in economic conditions.

Governments gradually began to recognize that the risk of unemployment affected not only specific individual workers or employers but also came as a consequence of economic fluctuations. Broader measures were needed to ensure the livelihood of employees at large. Consequently, governments of several countries began subsidizing the unemployment funds of trade unions and friendly associations. It is noted that this tradition is still alive in countries where voluntary unemployment insurance provisions are found such as in Sweden, Denmark, and Finland.

The United Kingdom introduced the compulsory unemployment insurance system for the first time in 1911 after which many other countries followed suit. This was particularly the case following the Great Depression which witnessed changes in many countries changed from a voluntary unemployment insurance system to a compulsory unemployment insurance system.

As explained before, social protection measures providing cash benefits for the unemployed can be classified as unemployment social insurance, on a compulsory or voluntary basis, and unemployment assistance.

Under a compulsory or involuntary unemployment social insurance system, coverage is set in the Social Insurance Law such that legally covered employees and employers cannot be exempted. Covered employees who become unemployed are entitled to claim unemployment benefits provided they meet the eligibility requirements usually set in terms of their prior insured status. This operates on a contributory basis whereby Government budget transfers are not required to finance benefits in principles. Under a voluntary unemployment insurance system, participation in the system is optional although sometimes to the exception of trade union members who may be required to contribute to an alternative form of unemployment social insurance fund managed by the trade union. Under an unemployment social assistance system, cash benefits for the unemployed are subject to means, income and earnings tests. Only the low-income unemployed are covered by the system, and the costs of cash benefits are usually financed from general tax revenues. Some countries have a dual system of a compulsory unemployment insurance system and an unemployment assistance system, or a voluntary unemployment insurance system and an unemployment assistance system.

Traditional unemployment social insurance systems tended to strictly concentrate on remedial measures after unemployment by giving cash benefits to the unemployed. Over time, this tendency however changed as critics of the welfare state approach mounted. Countries such as Germany, Japan, Korea and Canada have institutionalized preventive measures against unemployment as well as having adopting various active labor market policy measures. The unemployment social insurance system is designed not only to help unemployed workers by giving them unemployment benefits, but also to enhance employment stabilization and employability of workers through active labor market programmes within the framework of the unemployment insurance system.

In order to distinguish this comprehensive system of social protection against unemployment from the traditional unemployment social insurance system, the expression of Employment Insurance System (EIS) is referred to. It is worthwhile noting that Japan, Korea, and Canada have changed the name of their respective systems accordingly. EIS is a combination of traditional unemployment social insurance cash benefits and active labor market assistance. This is an approach that is encouraged by the ILO so as to maximize decent employment with the support of social protection. Decent work.

The parallel with the Philippines must carefully account for the large size of the informal sector and agriculture sectors as well as the income capacities. These considerations, among others, are further discussed in a subsequent section.

## **1.8 Policy Considerations for the Introduction of an Employment Insurance System in the Philippines**

### **1.8.1 Choice of a Reference Model of Employment Insurance**

As previously mentioned, there is no institutionalized social protection scheme for the unemployed in the Phillipnes. As the Government is willing to adopt measures to develop social protection systems for the unemployed, the first step should focus on

selecting a reference model from the three models previously explained before proceeding with the necessary adjustment to fit the case of the Philippines.

From the three models presented, the Model 2 is the most developed social protection systems for the unemployed whereby social insurance measures cover limited groups of the population and are complemented by universal social assistance measures for the non-covered groups of the population. Those who are not qualified for unemployment benefits and who have exhausted unemployment insurance benefits can be protected by the universal unemployment assistance. Usually the duration of unemployment social assistance is unlimited in most countries where this Model is found or the duration is relatively longer than the duration of unemployment insurance benefits if the duration of the latter ones is limited. Those who are not qualified for the unemployment assistance can be protected by the universal public social assistance if they are poor. In Model 2 countries, about 70 per cent of the group of unemployed persons is protected by some form of unemployment social assistance. It is important to note that the total social protection expenditure for the unemployed is the highest under Model 2, and the lowest under Model 1, all other things are equal.

Since Model 2 is very costly, it is being implemented only in European welfare states. In order to introduce Model 2 model, some experts have pointed to the need for a level of per capita income that should be equivalent to at least US\$10,000. This is not the case of the Philippines.

Considering the current socio-economic conditions of the Philippines, the study recommends to envisage an employment insurance system along the lines of the presented Model 1 whereby social unemployment insurance is provided on a contributory basis to covered workers under the social security system. Other restricted forms of social assistance may be provided at a minimal level of protection to non-covered workers who are unemployed. This corresponds to the expressed interests of the Department of Labour and Employment during consultations. Workers' and employers' representatives have however expressed concern for the prior strengthening of existing social security operations and financial management before extending the scope of the system to cover the risk of unemployment.

Based on the assumption that the Philippines agree to seriously consider the implementation of an employment insurance system along the lines of Model 1 at a suitable time in the future, the assessment of the feasibility of introducing an employment insurance system in the Philippines must first answer a set of fundamental policy questions as follow:

- a) What should be the pre-conditions, stumbling blocks, precluding the implementation of an employment insurance system?
- b) Do the recent socio-economic conditions of the Republic of the Philippines satisfy prerequisites for introducing an employment insurance system?
- c) Once the Republic of the Philippines satisfies the prerequisites for introducing an employment insurance system, what kind of unemployment or employment system will be more desirable for the Philippines?

- d) How does the Philippines have to protect the unemployed who may not be covered by the unemployment or employment insurance system and who have exhausted unemployment insurance benefits?
- e) What is the timeframe necessary to prepare for the build up of capacities so as to implement an employment insurance scheme in the Republic of the Philippines?

### **1.8.2 What should be the pre-conditions, stumbling blocks, precluding the implementation of an employment insurance system?**

The Korean experience may be helpful to the Philippines. Korea tried to introduce various forms of unemployment insurance and employment insurance measures starting in the late 1960s. However, there was no national consensus on introducing an unemployment or employment insurance system until early 1990s. The first positive signs came in the early 1980s when there were proponents and opponents to the project idea of introducing an unemployment insurance system.

The *opponents to unemployment insurance* argued against the set up of an unemployment insurance system in the 1980's principally on the following grounds:

- 1) The Korean economy had no financing ability to meet the up-front cost for implementing UI;
- 2) Employers and most of the population were strongly opposing UI on various perception grounds;
- 3) Employment generation efforts based on solid economic growth were given priority over the development of social protection for the unemployed whilst Korea's legal severance pay system was considered sufficient given the limited financing capacities of the State, employers and workers;
- 4) The Korean labor market infrastructure was still under-developed; and
- 5) UI was wrongly perceived as a potential cause of increases in the unemployment rate as a result of disincentives to work for unemployment benefit recipients.

The *proponents for unemployment insurance* argued for the set up of an unemployment insurance system in the 1980's principally on the following grounds:

- 1) Social protection of the unemployed is the responsibility of the State;
- 2) The Korean economy has the ability to finance UI benefits;
- 3) The legal severance pay system is unsuitable for protecting the unemployed workers in difficult economic times when enterprises must lay off workers whilst having limited financial resources; this poses undue stress on enterprises when they are least able to face it; and
- 4) The lack of UI protection creates undue workers' resistance to enterprise restructuring changes that may risk laying off workers.

There have been nearly 40 years between the time when the Korean Administration of Labor first raised the issue of social protection for the unemployed in

late 1960s until Korea reached a national consensus supporting the introduction of its present Employment Insurance System (EIS) in the early 1990's.

Based on the Korean experience and other general considerations, the *key prerequisites* for introducing an Employment Insurance System in the Philippines tentatively include:

- a) National consensus on the necessity of social protection provisions against the risk of unemployment for the majority of the population
- b) Sound economic prospects in sight
- c) Sound employment practices
- d) A relatively well-developed vocational training system
- e) A relatively well-developed public employment services system
- f) A relatively well-developed social security contribution collection system and compliance enforcement

### **1.8.3 Do the recent socio-economic conditions of the Republic of the Philippines satisfy prerequisites for introducing an unemployment or employment insurance system?**

The consultations undertaken in the context of the present study have not indicated a clear national consensus on the issue of the necessity of employment insurance. Although everyone agreed to the need for social protection for the unemployed, there is no single answer provided by the various social partners and Government institutions.

#### **1.8.3.1 Perspectives of the Government and Social Partners**

The Government institutions generally agree that they are committed to improve social protection notably for the sake of unemployed workers affected by the Asian financial crisis of 1997. It generally agrees to introduce measures that can be realistically implemented such as by way of extending the scope of the current system to cover the risk of unemployment. The Department of Finance indicated that limited public finance resources are available to meet the up-front costs of such a scheme that it feels has to be on a contributory basis. The finance authorities have further indicated their opposition to the creation of a new Government institution and thus requiring the merging of any new employment insurance scheme to the existing Social Security System and/or to Public Employment Services.

Workers' representatives have voiced their fears in relation to the growing malpractice among employers to use irregular forms of employment so as to avoid the payment of social security contributions. They would therefore give priority to ensuring that such an EIS is not contributory but rather met through the use of other forms of public funds. They also prioritize the improvement of governance and administrative efficiency of existing social security programmes, notably the SSS. Some queries were raised to possibly use the invested SSS pension fund reserves for meeting the cost of unemployment benefits. The representatives from the Social Security System, the

International Social Security Association and the ILO however felt that this should be prevented at all cost and that public understanding of public pensions financing issues should be strengthened. They would not wish to re-consider the relevance of severance pay if an EIS were introduced.

Employers' representatives expressed concerns for the overall issue of employment in the Philippines in the context of the regional global economies. They feel that the attention of the Government programmes should rather focus on retaining the existing jobs and preventing enterprises from moving to other countries where the cost of production, notably for labour, is significantly less than in the Philippines such as in Cambodia and China. They have also argued that the existing social security provisions almost exclusively apply only to workers of large enterprises and that extending the scope of social protection to include the risk of unemployment would only serve the needs of those workers and not of the other workers that are considered more vulnerable to the risk of unemployment.

### **1.8.3.2 Social dialogue**

The study feels that much of the expressed concerns represent issues that must be studied in depth and addressed through public awareness raising and educated public consensus. The ILO assessment of the existing vocational training system and public and private employment services system is relatively positive. In conjunction with the capacities of the Social Security System, all of the basic administrative structures are in place and would only need a minimum of reorganization to develop a comprehensive employment insurance system along the lines of Model 1. However, the general employment and financial situation in the Philippines likely prevents such a system from taking shape immediately as discussed below.

Social dialogue on the issue of employment insurance should continue despite the timeframe for its implementation that may be stretched over still some more years. A commission of national experts should be established under the supervision of the Department of Employment. It should be given a legal mandate supported by acceptable resources to undertake all forms of technical investigations to support the policy debate.

### **1.8.3.3 Macro-economic considerations**

As the economic situation of the Philippines has relatively improved over the recent years, the per capita income of the Philippines has remained at around US\$1,000 that is relatively low in comparison to other middle-income economies of the region.<sup>6</sup>

Another key macro-economic consideration is the proportion of employment that is found in the agriculture sector. A declining trend has been observed as employment in agriculture uses to represent 45 per cent of total employment in 1990 while it only reflected 39 per cent of total employment in 1999. This is nearly double of the size of

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<sup>6</sup> According to 1999 data, the per capita income is more than two-times, three-times and eight-times higher than in the Philippines in Thailand, Malaysia and Korea respectively. Indonesia is the only country with a per capita income lower than in the Philippines.

agriculture that prevailed in Korea when EIS was introduced. There has been a parallel growth of employment in service sector from 40 per cent in 1990 to 45 per cent in 1999 (DOLE-ILS, 1999).

There is an apparent tendency for the informal sector not to decline over recent years. The tendency to grow should definitely be reversed as a pre-disposition for EIS to play a meaningful role. The trend of the proportion of the number of job-seekers to the number of job opportunities should be declining as an indicator of availability of sufficient employment opportunities. If an EIS was introduced while this prerequisite could not be met, this would likely imply that the EIS plays mostly the role of a cash benefit handout system instead of providing temporary income support in times of involuntary unemployment. As previously mentioned, the needs in such circumstances are rather for social assistance than for social insurance benefits. The overall unemployment rate should show signs of a sustained decreasing trend.

The details of the ILO outlook on employment prospects in relation to relevant and possible economic developments is provided in Annex 1. Key details of the analysis in relation to developments in the labour market are reported here.

In consultation with the Government and Social Partners, the study recognizes the need to develop projections of the movement of workers in and out of employment according to the various economic sectors. This however requires rigorous data collection that is in process and must be adapted to the availability of information under the Social Security System. The Government and Social Partners have agreed on 13 February 2001 that the focus to limit the focus of the study to cover wage employees in line with the current social security provisions.

**Labor Supply.** Labor supply is computed as the product of the working-age population and the proportion who are actively participating in the labor market or the labor force participation rate. In the Philippines, the definition of the working-age population is population 15 years and above<sup>7</sup>. The working-age population<sup>8</sup> reported in the Labor Force Survey (LFS) of 1999 was of 48.6 million from a total population of about 74.7 million. It must be noted that, compared to its neighbors, the Philippine population is growing at a faster rate (Orbeta and Pernia 1999) consequently the working age population is expected also to grow faster although with a fifteen-year lag. It is expected that the labor market pressure in the next decade will mostly come from the slow decline in population growth<sup>9</sup> that has been observed over the past two decades. The overall labor force participation rate, is currently around 65.8 percent which is slightly higher than the 64.5 per cent in 1990. Unlike, Thailand, the labor force participation rate has not been showing a clear sign of a decline. Overall it is even

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<sup>7</sup> Given this definition of working age population, the Labor Force Survey (LFS) reports cover only those in the official working-age even if the LFS gather data for individuals 10 years and above.

<sup>8</sup> Up to the July 2000 round of the LFS, the working age population is taken from a population projection based on the 1980 census. Starting the October 2000 round, the LFS used the population projection based on the 1995 census. The estimate of the working age population based on the 1995 census is lower (0.96) of the corresponding estimate based on the 1980 census (NSO Press Release No 2000-87).

<sup>9</sup> According to the 1995 census of population, the population growth rate is 2.3 percent. The preliminary estimate from the 2000 census is 2.02 percent. This is higher compared to Thailand, Indonesia and Vietnam (Orbeta and Pernia 1999).

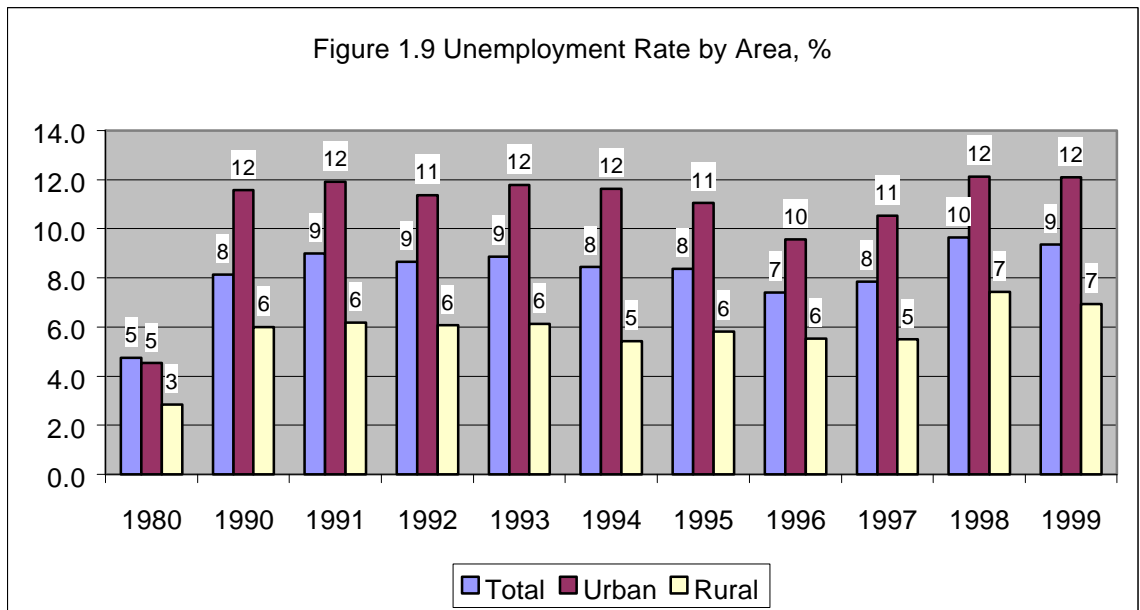
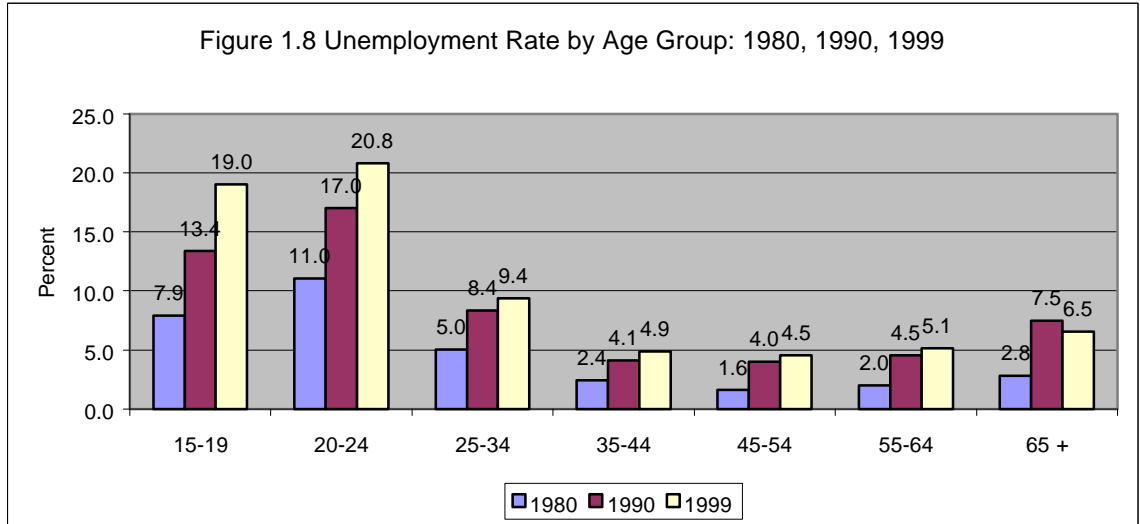
showing a gradually increasing trend. This represents a potential source of additional labor supply pressure that partly explains why the average labor force participation rate is increasing. Combining the working-age population and the labor force participation rate, the labor force size was around 32 million in 1999. It was growing at a rate of 2.8 per cent in 1990-94 and 3.3 per cent percent in 1995-1999.

**Employment Generation.** The most popular analytical framework for determining employment is the interaction of labor supply and demand. However for the purpose of this study that should mostly focus on movements in and out of employment, the required observations of past experience are difficult to spot. The SSS has suggested the necessity for thorough data collection of past trends by way of surveying the movements of a sample of its insured population over a past period of approximately 10 years. In broad terms, it can however be asserted that labor demand is a derived demand dependent on the demand of the final output. Hence, most modeling of labor demand associate it to output. We will assume, for the time being, a limited role for wages and other institutional mechanisms in employment generation.

Owing to slow and inconsistent output growth, employment generation is expectedly slow. Employment was growing at 2.76 per cent between 1990-1994 and 3.03 per cent percent between 1995-1999. Considering the growth of the working age population mentioned earlier, this is barely sufficient to employ new entrants let alone those in the existing pool of the unemployed. Again, this is a consideration which is not fundamental in the analysis of the feasibility of introducing an EIS. In terms of sectoral employment, the agriculture sector still accounts for a substantial proportion of employment (39 per cent in 1999) even if its share in output, as mentioned earlier, is declining. The industrial sector accounts for as much as 35 per cent of output and has been growing faster than agriculture. It currently accounts for only 16 per cent of employment. This is exemplified by the manufacturing sector which generated only less than 10 per cent of employment even if it accounts for as much as 24 per cent of output. Faster employment generation is shown by the service sector. This has prevented the further enlargement of the pool of the unemployed. The sector accounts for an increasing share in employment generating as much as 45 per cent. In terms of classes of workers, the salaried workers comprise 50 per cent in 1999. This is further broken down into 42 per cent working for private enterprises, private households or family operated activities and 8 per cent working for the government. Own account and unpaid family workers account for 37 per cent and 13 per cent, respectively.

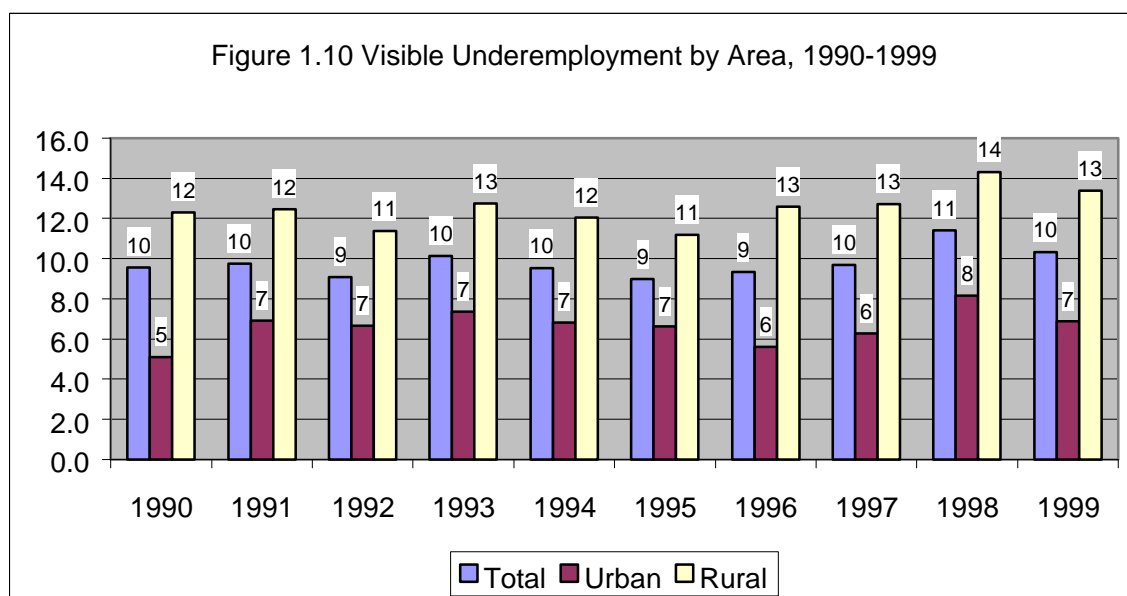
**Unemployment and Underemployment.** The Unemployment rate in the country is one of the highest in the region (Orbeta and Pernia 1999, Manning 1999). This is not surprising given higher population growth rate and the slower and inconsistent growth in output compared to neighbouring countries. In 1999 the open unemployment rate was of 9.4 per cent. Throughout the past decade, the economy has kept this proportion below double-digit numbers. As expected, the unemployment rate of young workers aged 15-24 is highest. This cohort constitutes almost half (48 per cent) of the

unemployed in 1999. The unemployment rate is also higher in urban compared to rural areas.



Underemployment is considerable. In 1999, the proportion of employed persons who expressed desire to have additional work hours either in their current job, in an additional or new job is 22.1per cent. The corresponding number based on the number of employed persons who are working below the statutory 40 hours per week, the visibly underemployed proportion is 11.4per cent. These rates have hovered around these

proportions for the whole decade and have not shown a clear sign of declining. It is also important to note that, while unemployment is higher in urban than in rural areas, the rate of visible underemployment is higher in rural than in urban areas (Figure 1.10).



#### 1.8.4 When the economy of the Philippines will have satisfied the prerequisites for introducing an employment insurance system, what kind of employment insurance system is most desirable?

While the macro-economic prerequisites may not yet be met for the implementation of a full-blown EIS in the Philippines, the study recommends that the DOLE and the SSS should begin coordinating their efforts to prepare and build up administrative capacities for the ultimate operations of a comprehensive employment insurance system rather than a traditional unemployment insurance system. The former involves the provision of cash unemployment benefits in conjunction with unemployment prevention measures so as to help workers retain their jobs and to find new suitable employment. Several active labor market programmes can be included in the system to reduce unemployment as much as possible.

The active labor market programmes can be financed by general tax revenue and/or contributions from employees and employers. Under a traditional unemployment insurance system, the active labor market programmes are usually financed strictly from general tax revenues. This implies an availability of public funds for implementing active labor market programmes that tends to fluctuate in line with the health of the economy and with the political process of government budget (Kil-Sang Yoo and Jemin Seong, 2001; G. Schmid et.al., 1992). Political manipulation often undermines the potential capacity of such programmes whose credibility is in turn undermined.

Under the recommended comprehensive EIS, active labor market programmes are usually financed through both general tax revenues and contributions from employees and employers. The amount of funds for implementing active labor market programmes thus tends to be relatively more stable. The issue of equity between workers not covered by the EIS and those covered by the EIS is raised. Both groups should in principle have access to the same active labour market programmes that are paid out of general tax revenues. Disparities grow however as EIS insured workers should receive additional benefits for participating to supplementary active labour market programmes so as to justify the contributions paid to the EIS for this specific purpose.

Development of the public employment services and vocational training systems is a necessary condition for introducing employment insurance. The study thus favours the adoption of a comprehensive employment insurance system rather than a traditional unemployment insurance system.

#### **1.8.5 How does the Philippines have to protect the unemployed who may not covered by the unemployment or employment insurance system and who have exhausted unemployment insurance benefits?**

In parallel to the promotion of a contributory EIS, the study recommends that a reform of existing public social assistance programmes be undertaken with the aim of improving the social protection targeted to unemployed persons without any means to meet their basic household needs and to assist them for integrating the labour market and to get a 'decent' job. Another study by the World Bank is addressing this specific issue.

In the immediate future, the focus of social assistance should entail cash transfers and public investment programmes that cover the entire pool of unemployed persons in the Philippines as too few social protection measures exist for the benefit of these unemployed persons for the moment. In the medium term future, when a comprehensive EIS is envisaged to be implemented, the provision of social assistance should address more specifically the needs of non-covered persons and of insured persons whose EIS benefits may then be exhausted.

Social assistance measures should also seek to cover the social protection needs of unemployed overseas Filipino workers returning home when they cannot find employment abroad. The characteristics of the latter ones make it difficult to tailor a social protection programmes that is suitable to their needs and that is politically acceptable for benefiting from allocations of State budget revenues. Their savings from abroad usually allow them to meet their needs for a period of 3 to 5 months following their return. Afterwards, they tend not to have difficulties in accepting to take employment opportunities in the Philippines as the wage incentives are not as great as found overseas. They usually use their savings for immediate consumption purposes rather than for investment into small but gainful economic activities.

As the economic situation of the Philippines is relatively improving in recent years, the per capita income of the Philippines has remained at a significantly low level around US\$1,000. Out of the total population, 36.8 per cent were reported to live under poverty line in 1997, including. Alarmingly, 50.7 per cent of the rural population was

under poverty line (See Table 1.1) while 31.8 per cent of the families were under poverty line as of 1997.

Considering the low per capita income and high incidence of poverty, it seems that overcoming the absolute poverty by high economic growth should be a key priority of the Philippines. Although this is beyond the scope of this study, the reform of public social assistance should be immediately undertaken. Income transfers to the poor segments of the population should be the responsibility of the government and a necessary condition for national stability.

**Table 2.1. Poverty Incidence in the Philippines (1997)**  
(in thousands, %)

	Total	Urban	Rural
Magnitude of Poor Population <sup>a)</sup>	26,768	7,455	19,313
Incidence of Poor Population <sup>b)</sup>	36.8	21.5	50.7
Magnitude of Poor Family <sup>c)</sup>	4,511	1,208	3,303
Incidence of Poor Family <sup>d)</sup>	31.8	17.9	44.4

**Notes:**

- a) The number of the population whose per capita income fall below the per capita poverty threshold.
- b) The proportion of the population whose per capita income fall below the per capita poverty threshold.
- c) The number of families whose annual per capita income fall below the per capita poverty threshold.
- d) The proportion of families who's per capita income fall below the per capita poverty threshold.
- e) The per capita poverty threshold in 1997 was 11,318.86 pesos.

Source : National Statistics Office, 1997 Family Income and Expenditure Survey, Manila.

**1.8.6 What is the timeframe necessary to prepare for the build up of capacities so as to implement an employment insurance scheme in the Republic of the Philippines?**

This trivial question could only be assessed following the completion of the present study to assess the feasibility of introducing an EIS. The study specifically proposes to review the capacity of the Government for strong policy and public administration as would normally be required for the successful implementation of an EIS. An assessment of the adjustments required in terms of institutional capacities - number of offices, number of staff, means to assess the job-seeker status of an insured person becoming unemployed, training of staff, EIS policies for employment services and training that are consistent with national strategy, benefit delivery capacity, accessibility

of services, computerization, need for functional simplicity, how to preserve the good assets of the present system of employment services and training both through private and public initiatives, etc. – and financial requirements is necessary in order to draw up a plan of action to prepare for the actual implementation of an EIS.

### **III. Options for Coverage and Basic Structure of Benefits Under an Employment Insurance Scheme**

In this section, options are presented for the definition of personal coverage and the structure of benefits under an employment insurance system (EIS) of the type suggested in Section I.

Although the current socio-economic conditions prevailing in the Philippines tend to indicate that the timing for the actual implementation of an EIS should be postponed until prerequisites are met, the present study insists on the need to prepare and adjust present administrative capacities so as to effectively implement a comprehensive EIS. International experiences indicate that this is a long process which can be best completed through social dialogue with social partners in the Philippines.

#### **2.1 Coverage options**

There are, in principle, two possibilities for coverage under an EIS: either universal or contributory and mandatory coverage. Section I pointed to the issue of non-affordability in case of a wide scope universal coverage EIS. The preliminary analysis instead favours the adoption of an EIS along the lines of the Model 1 type (cf. Section I) that can be achieved on a mandatory and contributory basis. Another coverage option on the basis of voluntary and contributory coverage would exist in according to strict insurance principles. It is not considered relevant for the purpose of the present study as it would not fit the criteria of collective solidarity underlying social insurance systems. Also, it would encourage anti-selection among risk averse insured persons who would likely join the system only if they feel their probability of becoming unemployed are high. This could lead to the definition of a new set of benefit option based on individual accumulations of savings that could be withdrawn in case of unemployment as presented by Martin Feldstein in the early 1990s. The ILO does not consider this as a valid form of social unemployment insurance as it presents no element of risk pooling and would likely not be of any use to the workers most likely to become unemployed involuntarily and in need of income support. Noting that the largest proportion of unemployed persons are aged less than 30, their relatively short attachment to the work force would prevent them from accumulating sufficient individual savings so as to secure a decent income replacement when they most need it. It offers no opportunity of income transfer. The only purpose it could serve with limitation is to pre-fund somehow the potential employers' liabilities towards severance pay.

The recommended definition of coverage should thus focus on: (a) mandatory coverage registration defined according to a strict legal definition of insurable employment and on (b) a contributory coverage of earnings similarly defined through a strict definition of insurable earnings subject to the payment of contributions. Accumulated contributions should serve to determine the eligibility and right to receive a benefit in case of a person should become unemployed. As a matter of simplicity, a similar definition to the one applicable to SSS insured persons from private enterprises is suggested.

Fundamental social insurance principles would apply to an EIS providing mandatory coverage to all enterprise workers. Therefore, all employees in any enterprise should be covered by EIS. Considering the administrative difficulties in collecting the insurance premium in very small enterprises, however, the EIS coverage may begin in enterprises with 10 employees or more at the beginning stage. This option might have to be revisited if the SSS is selected for the administration of the registration and collection of contributions under such a scheme.

The issue of coverage of self-employed persons is raised as monitoring their involuntarily loss of employment is hardly verifiable. Even after the full coverage of EIS, employees in small enterprises such as those with four or less employees found in the agriculture, forestry, fishery and hunting industries, workers employed in small construction companies and workers employed in household services should be excluded from EIS coverage. Employment in these enterprises tends to be occasional, casual, temporary or part-time and it is extremely difficult to get correct information on their employment and wages as well as to determine if they have become unemployed involuntarily. The present SSS does not foresee the coverage of workers earning less than a set threshold amount.

**The study considers that the exclusion of temporary and daily workers from the EIS (and likely under the current SSS as well) can create an incentive for employers to increase the use of temporary and daily employment contracts that in turn reduce employment security in practice. This type of bad practice has been clearly pointed to by workers' and employers' representatives consulted in the context of this study. Given that the objectives of the proposed EIS is to keep people in work, this could be a major drawback that the study urges the policy-makers to rectify and avoid in future. From a purely administrative viewpoint, the effectiveness of spot inspection checks by the social security inspectors may be considerably undermined if employers are able to justify the presence in the workplace of non-insured employees, simply by claiming that they are employed on a temporary basis. Evidence exists in relation to this issue.**

Elderly job seekers aged 60 and over are generally retirees of regular jobs, and there are very few full-time jobs for this age group. Therefore, those aged above the legal retirement age should be excluded from coverage under an EIS. They are covered by the social security system and should instead apply to receive retirement benefits.

Civil servants in both national and local governments may or may not have to be covered by an EIS. Arguments in favour of their exclusion would normally refer to their protection under a special social security system and the fact that they can enjoy a relatively more stable employment status by law. Arguments in favour of their coverage under an EIS would refer to their vulnerability in case of public sector restructuring and the need to include them on a collective solidarity basis to share the cost of social protection against the risk of unemployment along with other workers of the country. In addition, it is noted that there exists special contractual employment categories of Government workers who are not covered by the GSIS. As the study discourages the Government from using such precarious types of employment contracts so as to set the example, these groups of non-protected workers such as government and private school employees, should be covered by the EIS.

Thus, all wage earners in the private sector should be covered by the EIS as a starting point while excluding casual, daily and seasonal workers, and insured workers eligible for old age pensions. At the beginning stage, however, workers in the very small enterprises can be excluded for the coverage.

There would nonetheless remain population groups that would be excluded from coverage under the EIS, notably those who are not engaged into salaried employment. As previously discussed, social assistance measures financed through general tax revenues should be maintained and/or re-designed to effectively meet the needs of those excluded population groups.<sup>10</sup>

## **2.2 Basic Structure of the EI**

A comprehensive EIS benefit structure should include the following elements:

- Income replacement benefits;
- Job search assistance;
- Re-training and on-the-job training assistance;
- Wage subsidy assistance to employers; and
- Coverage to receive other social security benefits during periods of unemployment.

As previously discussed under Section I, there are two types of the systems from which the Philippines can choose: traditional unemployment insurance provision or a comprehensive employment insurance system mixing income transfers and active labour market policies.

The traditional unemployment insurance (UI) system, which is being implemented in most countries, is basically providing only cash unemployment benefits. Active labour market policy measures are not included within the scope of a traditional UI system. They are rather financed by the general tax revenues. While the more comprehensive employment insurance system, which could be called as the employment insurance (EI), includes a set of active labour market policy measures in the system. If a country can finance the stable budget for active labour market policy, it is necessary to include active labour market policy measures in its UI system. If a country has difficulties in financing the stable budget for active labour market policy, a more comprehensive employment insurance system may be more effective in financing the stable budget for active labour market policy.

Most social partners in the Philippines want a comprehensive EI rather than UI. It therefore reinforces the recommendation of the study for integrating active labour market policy measures into a comprehensive EIS in the Philippines.

The next step is to determine the set of active labor market policy measures that should be included in the EIS based on the experiences of other countries.

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<sup>10</sup> See ILO, 1996 report.

Germany, Japan and Korea are representative countries that have active policy measures in their EI/UI schemes. Germany includes almost all kinds of active policy measures in its EI/UI system. Job placement services, wage subsidy programmes for reducing layoffs and for stimulating employment of marginal workers, job creation programmes, vocational training programmes, and even research on labor market and jobs are included in the German system. In Japan, wage subsidy programmes for reducing layoffs and for stimulating employment of marginal workers, vocational training programmes, and welfare programmes for employees are included in their system. In Korea, wage subsidy programmes for reducing layoffs and for stimulating employment of marginal workers and vocational training programmes are included in the system.

Usually wage subsidy programme seeks to prevent massive layoffs, stimulate reemployment of displaced workers, promote employment of marginal workers, expand job opportunities, and improve job matching by connecting job seekers to the right job offers. For these purposes, it provides economic incentives to employers who have avoided massive unemployment and employed marginal displaced workers. In order to prevent massive unemployment, it gives grants to employers who have prevented layoffs by maintaining the same level of employment, reducing work hours, training and relocating workers. However, the overall experience of such wage subsidy programmes in these other countries surveyed has shown mixed results in terms of replacement effects. Although workers' representatives of the Philippines have argued in favour of such programmes, the study does not foresee their usefulness in the Philippines for the reasons just mentioned.

Based on experiences in other countries, the study recommends to limit the scope of benefits to the following three programmes for the EIS:

- a) Job placement and labour market information programme;
- b) Job skill development programme; and
- c) Unemployment benefits in the form of income transfers.

The above list excludes the provision of 'extended benefits' to unemployed workers who have exhausted their entitlements to monthly benefits in difficult economic times when unemployment rates are high. This is justified on grounds of affordability. Some background information on the provision of such extended benefits in Korea is nonetheless provided for the interest of the reader:

### **Korea system of Extended Unemployment Benefits - EIS**

As unemployment benefits are normally paid to eligible claimants for a maximum duration that may usually range between 60 to 180 days after the two-week waiting period. However, when a claimant receives vocational training by the order of the public employment office (Training Extended Benefits) or when the unemployment rate is very high (General Extended Benefits), the duration of unemployment insurance benefits can be extended.

When a claimant receives vocational training by the order of the public employment office, the duration of unemployment insurance benefits can be extended up to 12 months for the training period. If a claimant undergoes

vocational training on his own, however, he cannot receive the Training Extended Benefits because he did not receive a training order from the public employment office. The purpose of the Training Extended Benefits is to assist in reemployment in stable occupations through vocational training.

The general extended benefits programme can be applied to all eligible claimants only when the unemployment rate is greater than a certain threshold such as 10 per cent over three consecutive months (cf. Korea EIS provisions).

### **III. Options for the provision of Income Replacement Benefits Under an Employment Insurance Scheme**

The leading rationale for the payment of unemployment insurance benefits is to provide temporary income replacement so as to allow a laid-off worker to meet basic household needs and thus preventing him or her from falling into a desperate situation where he or she could not have any means to readjust to find suitable and decent employment. The provision of unemployment cash benefits thus provides some minimum means so as to allow the unemployed worker to seek new employment and to undertake training so as to enhance his or her chances of employability.

#### **3.2 Eligibility to Unemployment Insurance Benefits**

Eligibility to unemployment insurance benefits must be carefully addressed to ensure that the EIS is based on insurance principles whereby the risk of control over the employment status of insured individual workers by employers and workers is minimized. Eligibility conditions also serve to limit the expenditure on unemployment insurance benefits in line with the level of affordability intended by the policy of having an EIS. They also prevent abuses in case workers would be tempted to diminish their efforts for find new employment, to unduly lengthen the duration of their unemployment. Eligibility conditions indeed serve to prevent ‘the unemployment trap’ which could have an adverse effect on the supply of labor.

Based on consultations with the Department of Labour and Employment, the following options for eligibility conditions are suggested:

- a) The claimant should have contributed at least 180 days over a past 12- to 18-month based period preceding unemployment. This raises the issue of defining eligibility on the basis of a recent insurability status. This is not a fully recognized concept under the SSS and would thus required serious consideration as this is a necessary condition to ensure the EIS is correctly serving the purposes of social insurance and not social assistance.
- b) The claimant should register as a job seeker with the EIS system, likely an adapted form of the public employment office.
- c) The claimant should be willing to and able to work and should prove that he or she is actively searching for work. As explained in another Section on administrative feasibility, this is a cumbersome requirement that likely requires significant efforts to be enforced.
- d) Those who voluntarily leave their jobs without good cause or who lose their jobs due to negligence may not be qualified for the receipt of benefits.
- e) Payment of benefits may be suspended if the claimant refuses the job placement services and/or vocational training recommended by the public employment office.

Consultations with employers and workers' representatives are necessary to ensure such eligibility conditions are realistically defined and that they will not create distortions in the behaviours of employers and workers that could misuse the system for their own needs other than employment-related.

### **3.2.1 Insured Employment Period and Reference Base Period**

Unemployment insurance benefits should be provided only to unemployed persons who were recently insured employees for a minimum period of time. In all countries where UI/EI benefits are provided, entitlement to unemployment insurance benefits is based on the fulfillment of conditions relating to the claimant's qualifying period of insured employment and/or the amount of earnings within a specified covered period. In any case, such insured employment or earnings must have been fulfilled within a prescribed base period or reference period. Meeting such requirements demonstrates that the claimant has recently been a part of the labor force for at least an insured employment period within a base period.

The length of insured employment period and base period differs among countries as shown in the Table 3.1. If there is greater difference between the two, it would be more difficult for the claimants to abuse unemployment insurance benefits, but it would also be more difficult for the claimants to claim the unemployment insurance benefits.

Considering the experiences in other countries, a minimum of 12-month base period and 180-day insured employment period should be considered for the purpose of an EIS in the Philippines.

**Table 3.1 Base Period and Insured Employment Period in Selected Countries**

<b>Countries</b>	<b>Base Period</b>	<b>Required Time of Insured Employment in the Base Period</b>
Austria	12 months	20 weeks
Canada	12 months	10 weeks
Denmark	12 months	3 months
Finland	24 months	26 weeks
Germany	3 years	360 days
Italy	2 years	52 weeks
Japan	1 year	6 months
Korea	18 months	6 months
Netherlands	1 year	26 weeks
Spain	4 years	6 months
Switzerland	2 years	6 months
Sweden	12 months	4 months

Source: Yoo (2000)

### **3.2.2 Registration as a Job Seeker**

An unemployed person claiming unemployment insurance benefits must register at the EIS office - which corresponds to the public employment office in Korea - as a job seeker immediately after his or her job separation and must be recognized as a qualified eligible unemployed person for unemployment insurance benefits. If an unemployed person does not register as a job seeker and does not claim unemployment insurance benefits, he or she cannot receive the benefits even if he or she is qualified for unemployment insurance benefits.

### **3.2.3 Willing and Able to Work**

A claimant for unemployment insurance benefits should be willing, able and available to work. A claimant cannot be regarded as such unless he or she is readily prepared to accept any offer of employment. A claimant must declare that he or she is willing, able, and available to work when registering with the EIS office as an unemployed person and a job seeker.

The EIS office makes the decision on whether a claimant can be regarded as willing, able, and available to work. The following are typical cases in which the

claimant is regarded as not being willing, able, and available to work under the Korean EIS:

- a) When a claimant has quit his or her job because of pregnancy, childbirth, childcare, an elderly or disabled family member, household affairs, etc., and still fits one of these descriptions.
- b) When a claimant does not want to become a regular worker, but desires a part-time, daily or temporary job, self-employment, subsidiary occupation, etc., which is deemed inappropriate or unreasonable, or for which the claimant lacks experience, without good cause.
- c) When a claimant rejects suitable job offers and insists on an only specific occupation, employment term, and working conditions.
- d) When a claimant insists on specific occupations and working conditions that are unavailable considering local labor market conditions. A careful definition of acceptable work should be set in relation to actively seeking employment for his or her 'own job' or for 'any job'. This mainly refers to personal qualifications.
- e) When a claimant cannot work due to senility, disease, injury, childbirth or other mental or physical conditions.
- f) When a claimant receives temporary disability benefits from the workers' compensation system.
- g) When a claimant cannot work due to household affairs, school studies or other conditions.
- h) When a claimant does not appear on the designated date for job placement services or job guidance services at the public employment offices without good cause.
- i) When a claimant has entered an extended feasible period for unemployment insurance benefits due to pregnancy, childbirth, childcare, injury or disease.

A person claiming unemployment insurance benefits should be obliged to show that he or she is actively seeking work. Claimants should be expected, every other week, to give a report of their reasonable active job search efforts. What are considered reasonable efforts for seeking work will vary considering the previous occupation, skills and knowledge of the claimant. Public employment offices will help claimants in their active job search efforts by providing job-opening information, job guidance and counseling services. A claimant is considered to be inactively seeking work if he or she has never responded to job offers and never accepted job placement or job counseling services of the public employment office.

The study cannot yet recommend at this stage a set of conditions that could be feasible in the case of the Philippines as it requires further investigation into the feasibility of administering such eligibility requirements.<sup>11</sup>

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<sup>11</sup> This is planned to be assessed in the context of a forthcoming expert's mission in labour administration to the Philippines.

### **3.2 Restrictions Applicable to the Payment of Unemployment Insurance Benefits**

A claimant who lost his or her job owing to serious misconduct on the job is disqualified from unemployment insurance benefits. The reason for discharge should be related to the claimant's work situation rather than personal life, and the actions should have been willful and deliberate rather than accidental or unintentional.

The following are *typical cases in which the claimant is disqualified from unemployment insurance benefits* due to job loss resulting from misconduct in Korea:

- a) The claimant was in violation of the Criminal Law or work- related laws, or he or she was discharged due to imprisonment or as more severe punishment for illegal labor disputes.
- b) The claimant was discharged owing to willful destruction of company facilities or equipment.
- c) A claimant was discharged for appropriating, pocketing or embezzling public money for his or her own use, or malfeasance.
- d) A personnel management or accounting head was discharged owing to financial damages suffered by the company because of false documents.
- e) A claimant was discharged because he or she informed rivals of company secrets, causing it to sustain considerable damages.
- f) A claimant was discharged because he or she accepted a bribe and deliberately accepted defective goods, causing a failure in the company's production.
- g) A claimant was discharged for stealing or misappropriating company materials or products.
- h) A claimant who voluntarily leaves his or her job without good cause is disqualified from unemployment insurance benefits. "Good cause" implies the reason for quitting was related to health conditions, working conditions, employment terms, the managerial situation of the company or other similar circumstances.

The following are *typical cases in which the claimant has good cause for voluntarily leaving a position* and do not constitute reason for disqualification from unemployment insurance benefits in Korea:

- a) Actual wages and hours of work had deteriorated by 20 per cent or greater, without good cause, or because working conditions had considerably worsened without good cause.
- b) He or she suffered discrimination from colleagues or management for reasons of religion, gender, appearance, etc.
- c) Sexual harassment from his or her boss or colleagues.
- d) He or she received less than 70 per cent of wages or salaries for two consecutive months or longer.

- e) His or her workplace had been temporarily closed for five days or longer in a month, or partially closed for 40 hours or longer per month during the last three consecutive months.
- f) Valid fears of bankruptcy, business closure, or massive layoffs.
- g) The workplace moved to another location, and the daily commute to work became extremely difficult despite measures by the employer to ease the commute. A round trip commuting time of four hours or longer is considered extremely difficult.
- h) He or she has to live away from a spouse or dependants after his or her workplace moved.
- i) A claimant volunteered to leave his or her job at the employer's request for such volunteers.
- j) He or she could not adapt to new technology or new machinery at the workplace.
- k) It has become too difficult to perform his or her job for physical reasons, such as a lack of physical strength, disability, disease, injury or decline in eyesight or hearing ability.
- l) To look after his or her young children or sick dependents, or because he or she moved to a place constituting an extensive commute to the workplace.
- m) An employer asked him or her to produce or sell illegal goods and services.
- n) His or her leave of absence without any payment due to managerial reasons lasted for two months or more.

If a claimant has without good cause refused to apply for suitable employment or refused job placement services offered by the public employment office, he or she is to be suspended from receiving unemployment insurance benefits for two weeks. In this case, the claimant's total duration of unemployment insurance benefits is not affected.

Good cause for refusing employment is closely related to the job's suitability because the circumstances that make particular employment unsuitable for a claimant automatically give him/her good cause for refusing it.

The following are typical examples in Korea of when employment offered is regarded as unsuitable for a claimant. Hence there is good cause to refuse the job offer, and the claimant may continue to receive unemployment insurance benefits.

- a) When the offered employment is not appropriate with respect to the claimant's skills, knowledge, age, health, etc.
- b) When a claimant has to move his or her residence to accept the offered employment, and he or she is not able to do so.
- c) When the proposed wage or salary of the offered employment is much less favorable than what the claimant might reasonably have expected to obtain.
- d) When the working conditions in the offered employment violate labor related laws such as the Labor Standard Act.

- e) When the employer in the offered employment has unpaid wages and has not cleared overdue wages.
- f) When the production or sales of the goods and services of the offered employment is illegal or not in good public interest.
- g) When a claimant has prospective employment that will be substantial or equivalent to the employment offered and lost by accepting the offer.

If a claimant has without good cause refused or failed to avail himself/herself of a reasonable opportunity to receive vocational training suggested by the public employment office, unemployment insurance benefits are suspended for four weeks. In this case, the claimant's total duration of unemployment insurance benefits is not affected.

All vocational training programmes ordered by the public employment office are intended to enhance the skill level of the claimant and promote normal reemployment as soon as possible. Refusal of such a training order without good cause may cast doubt on his or her willingness to work and availability for work. There is a close relationship between good cause for refusing training and the suitability of the suggested training programme, however, because the circumstances which make particular training unsuitable for a claimant automatically give him/her good cause for refusing it.

The following are considered legitimate reasons for refusing a training order in Korea:

- When the suggested training programme is not appropriate for the claimant considering his or her talents, skill level, etc.
- When it is very difficult for the claimant to move residence in order to receive the suggested vocational training because there is no lodging facilities in the training institute, it is difficult to rent a house near the training institute, or because he or she has to live separately from family members who require his or her care.

**Other gainful** occupations. The claimant must report all earnings to the public employment office while he or she receives unemployment insurance benefits. Depending on the amount of these earnings, the amount of his or her unemployment insurance benefits can be reduced.

As previously mentioned, the study cannot yet recommend at this stage a set of conditions that could be feasible in the case of the Philippines as it requires further investigation into the feasibility of administering such eligibility requirements.

### **3.3 Waiting Period**

The rationale for imposing a waiting period before unemployment insurance benefits can be payable is as follows (Yoo and Lee, 1996): first, short-term unemployment periods of less than two to four weeks are unlikely to gravely affect one's family living conditions even without unemployment insurance benefits; second, there is a need to investigate the statements of the claimants in order to determine whether the claimant is eligible for unemployment insurance benefits or not; third, there is a need to

reduce the frequency of quitting by instituting a waiting period: and, fourth, the initial stage of unemployment is often used to rest and identify employment opportunities and thus does not warrant protection under EIS.

Table 3.2 sets the details pertaining to the length of waiting periods under various national UI/EI systems. The first two weeks of unemployment are considered a waiting period, and the unemployment benefit is not paid even to qualified claimants in Korea.

**Table 3.2 Waiting Period in Selected Countries**

<b>Waiting Period</b>	<b>Countries</b>
None	Belgium, Denmark, France, Germany, Netherlands, Portugal, Spain
2 days	Switzerland
3 days	Barbados, Cyprus, Ireland, Norway, Austria, U.K.
5 days	Finland, Israel, Sweden
6 days	Greece
7 days	Australia, Egypt, Italy, Japan, U.S.A.
14 days	Canada, Korea, New Zealand
1 month	Venezuela
60 days	Brazil, Ecuador

Source: Yoo (2000).

In the case of the Philippines, it is important to take account of the level of earnings and the implicit assumption as to the level of savings that can be expected to be built up by an average worker. As the level of salaries are relatively low, a longer duration period could adversely affect newly unemployed workers who cannot cope without receiving any earnings passed a certain period of time. Their capacity to save is likely lower than in the other countries where UI/EI systems exist. Therefore, a waiting period shorter than 14 days should be considered so to avoid causing hardship, particularly for lower paid workers and their families.

The ILO Convention Nos. 102 and 168 require that such a waiting period to be not longer than 7 days.<sup>12</sup>

<sup>12</sup> Although under Convention No. 168, the waiting period may be up to 10 days if declared by the Government as a temporary exemption.

### **3.5 Amount of the Unemployment insurance benefits**

Options for the benefit formula can cover earnings-related benefits and flat-rate benefits. As the proposed EIS is on a contributory basis, it is recommended adopting an earnings-related benefit formula. The amount of unemployment insurance benefits should be based on the individual claimant's previous wage rate rather than a flat amount payable to all claimants. The amount of unemployment insurance benefits in Korea is set at 50 per cent of the claimant's average wage rate during the last six months immediately preceding the layoff. A similar income replacement rate ranging between 50 and 75 per cent of previous average wages is recommended in the context of the present study.

The Philippines should consider adopting a ceiling on insurable earnings that is compatible with other social security provisions of the SSS. A minimum income threshold is however discouraged as it encourages employers to misuse the system so as to avoid the payment of contributions. This is contrary to the objective of an EIS system. Countries like Canada have developed benefit and eligibility formulas that allow the effective coverage of daily and part-time workers. This is however a delicate issue to consider as it could easily discriminate against workers in vulnerable employment situations.

Unemployment insurance benefits should be paid to eligible claimants every two weeks or so for the exact number of unemployed days. Hence, even when a claimant registers at the public employment office immediately following his or her layoff, the first payment is made only at the end of four weeks from the registered day, taking into account the length of the waiting period (2 weeks in Korea) and a two-week or so benefit interval.

### **3.5 Maximum Duration of the Unemployment insurance benefits**

The maximum duration of unemployment insurance benefits in some countries is uniform for all eligible claimants regardless of their duration of covered employment before the layoff. On the other hand, in other countries, the duration of unemployment insurance benefits varies depending on the duration of the individual claimant's covered employment or age of the claimant.

In order to encourage workers to regularly attach to the labor market and considering the fact that it is more difficult to find new employment as claimants become older, the maximum duration of unemployment insurance benefits will vary depending on the insured employment period and the age of the claimant, ranging between a minimum of 60 days and a maximum of 180 days as shown in Table 3.3 (case of Korea).

**Table 3.5. Maximum Duration of Unemployment insurance benefits**

		Insured Employment Period		
		Less than 3 years	3 - 10 years	10 years or more
Age	Less than 35	60	90	120
	35 – 50	90	120	150
	50 or older and disabled	120	150	180

### **3.6 Provision of Extended Benefits**

As referred to under Section II, unemployment insurance benefits are paid to eligible claimants up to 60 to 180 days after the two-week waiting period. However, when a claimant receives vocational training by the order of the public employment office (Training Extended Benefits) or when the unemployment rate is very high (General Extended Benefits), the duration of unemployment insurance benefits can be extended.<sup>13</sup>

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<sup>13</sup> See Section II for further details of such Extended Benefits' provisions in the Philippines.

## **IV. Options for Job Search and Training Assistance Under an Employment Insurance Scheme**

For the purpose of this Section, the case of the Korean EIS serves as the reference basis to analyse possible options for job search and training assistance under a proposed EIS in the Philippines. The study has not yet undertaken all of its relevant field investigation and collected sufficient information before it can surely recommends details for those options. The ILO is concerned that the existing systems in place be first reviewed in their own contexts – which is assumed to work relatively well based on an a priori assessment – and that EIS proposals should not distort such contexts but should rather build on existing and well-functioning mechanisms. The administrative experience of the Australian system of unemployment assistance will be useful for the review of possible alternatives and options in the Philippines.

### **4.1 Job Placement and Labour Market Information Programme**

In order to minimize job mismatch problems and structural unemployment in rapidly changing economic conditions, the Philippines should develop job placement service system and efficient labor market information (LMI) system.

LMI offers information on the labor market that can help job seekers and employers. It includes information on the past, current and future trend of labor force demand and supply, wages, working hours, employment structure, job seekers and job openings, laws and regulations on the labor market, occupations, industries, vocational education and training, job guidance and placement, and labor market programmes and policies. The process or system that collects, analyzes, and distributes this information is called the LMI system.

The LMI system improves the efficiency of the labor market by supplying appropriate, prompt and accurate information to the beneficiaries of LMI. By using correct and prompt information in the LMI system, job seekers can find better jobs in a shorter period of time, and employers can find better staffs. Therefore, well-developed LMI system could reduce unemployment based on the market principle. The LMI system provides schools, training institutes, students and trainees with correct information on the demand in the labor market. The LMI system is the basic infrastructure in delivering labor market policies and programmes to the public. Thus, the LMI system can improve the efficiency of labor market mechanisms by enhancing job placement processes and reducing employment problems. In this sense, one of the most urgent tasks in labor market policies might be to develop an efficient LMI system as soon as possible.

LMI system should be developed so that everyone can access LMI at any time, anywhere and free of charge by an internet, telephone or by visiting the public employment offices. This means that the central government has to play a key role in developing the LMI system. It takes a lot of money, time and highly qualified experts to design and implement the LMI system. Data from different organizations must be

collected, analyzed and modified so that everyone can easily understand and use it. In order to develop an efficient LMI system, it is necessary to strategically plan an integrated system. The beginning stages of developing the LMI system are especially important because a failure in the first step would render the whole system inefficient.

LMI system should be customer-oriented. Once job seekers or job openers access LMI, they should be able to get all the information they need in one stop. All of the information customers want to know on the labor market should be collected, rearranged and supplied in the LMI system. To do this, the system should regularly research what the customer needs.

LMI system should be nationwide so that everybody in the country can easily access it. With the development of transportation and communication technology, the geographical distance is no longer a barrier to finding a job.

LMI should be specialized in order to guarantee the quality of services. Gathering, analyzing and reproducing prompt and accurate labor market information require specialized knowledge on the labor market, occupation, statistics, economics and vocational education and training. Those who are involved in LMI should be equipped with sufficient knowledge in related fields and periodically receive training.

The public employment service network is an essential factor for implementing unemployment/employment insurance system. The Philippines has relatively well developed public employment service network. On February 16, 2000, the Public Employment Service Office (PESO) Act was signed into law. The PESO is the first entry point to labor market information. The institutionalized PESOs are maintained by local government units (LGUs), a number of non-governmental organizations (NGOs) or community-based organizations (CBOs), and state universities and colleges (SUCs). The PESOs are linked to the regional offices of the Department of Labor and Employment (DOLE) for coordination and technical supervision, and to the DOLE central office, to constitute the national employment service network.

As of May 2000, 1,769 PESOs are established, of which 1,8617 are LGU based and 160 are NGO/School based (See Table 3.1.). The number of operational PESOs are 1,530, of which 1,530 are LGU based. The nationwide network of PESOs registered as total of 309 thousand job applicants. The PESOs placed 181 thousand applicants and provided employment counseling to 131 thousand applicants (see Table 4.1).

The Phil-Job Net, which is a computerized job-matching system designed to assist various clients in the labor market, serves as the common ground and meeting place for job seekers and employers as applicants and job vacancies are matched. The system speeds up the matching process, thereby shortening both the unemployment periods of the job applicant and the filling up of vacancies by the establishments. Job seekers and employers could visit the Phil-Job Net web site at <http://phil.jobnet.dole.gov.ph>. As of December 1999, Phil-Job Net has posted over 21 thousand vacancies from 393 firms and registered some 21 job seekers in 43 workstations.

**Table 4.1 PESOs As of May 2000**

<b>PESOS</b>	<b>Numbers</b>
No. of PESO Established	1,769
No. of LGU Based PESO	1,617
No. of NGO/School Based PESO	160
No. of Newly Established PESO	1
No. of Operational PESO	1,530
No. of Operational LGU Based PESO	1,405
No. of Operational NGO/School based PESO	129
No. of Non Operational PESO	239
No. of Non Operational LGU Based PESO	212
No. of Non Operational NGO/School Based PESO	31
No. of Applicants Registered	309,379
No. of Applicants Placed	181,160
No. of Applicants Counseled	131,273
No. of Vacancies Solicited	341,629
No. of Barangay PESO	29

Source: DOLE, 2000.

#### **4.2 Job Skill Development Programme**

The development of technology and information requires knowledge-based workers. If workers lag behind new information and technology, they lose their competitiveness and employability while their enterprises lose competitiveness in the world market. In order to maintain competitiveness, both employers and employees have to invest in building up their human capital.

The employability and employment security of a worker would mainly depend on his or her job skills, which can only be developed through lifelong education and training. Therefore, one of the core strategies for the growth of a nation and enterprise would be to develop an education and training system to produce creative and future-oriented human resources through life-long learning and training. As a result, the world's all countries and enterprises are fiercely competing with each other in a borderless world market for the more competitive labor force. Workers are also faced with unlimited competition not only with other workers in their countries but also workers in other countries.

Rapid changes in know-how and technology would create significant voids in demanded skills, which would result in massive structural unemployment. It will become increasingly important in the 21st century to build up a flexible and efficient life-long

education and training system and to implement efficient and effective unemployment policies and programmes.

In order to enhance the quality of the labor force, a series of programmes for supporting vocational education and training can be included in the Job Skill Development Programme (JSDP). JSDP is an incentive system to encourage employers' and employees' active participation in lifelong vocational training and education through financial support to vocational education and training. In addition, it is designed to provide opportunities for vocational education and training to new entrants to the labor market and the unemployed to improve the occupational skills of the labor force.

JSDP is composed of three major sub-programmes: Assistance to Employers, Assistance to Employees, and Assistance for Training the Unemployed.

Assistance to Employers encourages employers to train their workers by subsidizing training costs. An employer is eligible for the assistance when he or she trains employees and/or new entrants to the labor market. Assistance to Employers is composed of the subsidies for training costs and loan for training facilities.

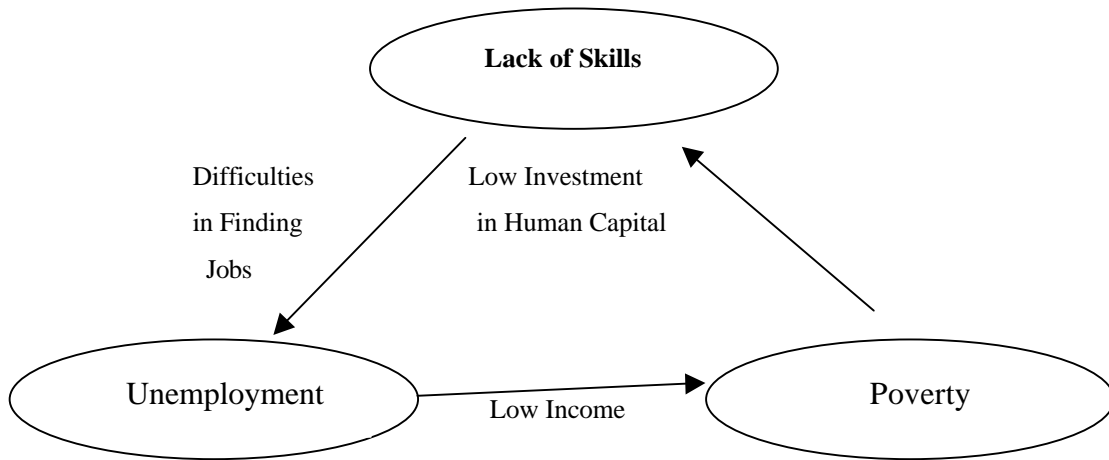
Assistance to employees is provided in the form of direct support to employees participating in training programmes. Assistance to employees is composed of Vocational Training Subsidy for Insured Employees and Loan for Tuition.

Assistance for Training the Unemployed provides free training opportunities and training allowances for displaced workers and new entrants to the labor market. Assistance for Training the Unemployed is composed of Aid for Retraining Displaced Workers and Aid for Youth Training.

As discussed in Section I, the unemployment rate is around ten per cent of the work force, and the youth unemployment rate is especially high - the unemployment rate of age 15-24 was 20.8 per cent in 1999. This high unemployment rate of the youth indicates that the youth are suffering from lack of skills for their jobs.

Lack of skills among job seekers results in unemployment, and unemployment is a major factor of poverty. And poverty of a family results in poor education and training, which results in lack of skills of family members (See Figure 4.1).

**Figure 3.1. Vicious Circle of Poverty**



The Philippines has reformed her vocational education and training system. The Republic Act(RA) 7796 was enacted in 1994 and provided the organic basis for the Technical Education and Skill Development Authority (TESDA). The TESDA is a national authority for planning, coordinating and implementing vocational education and training.

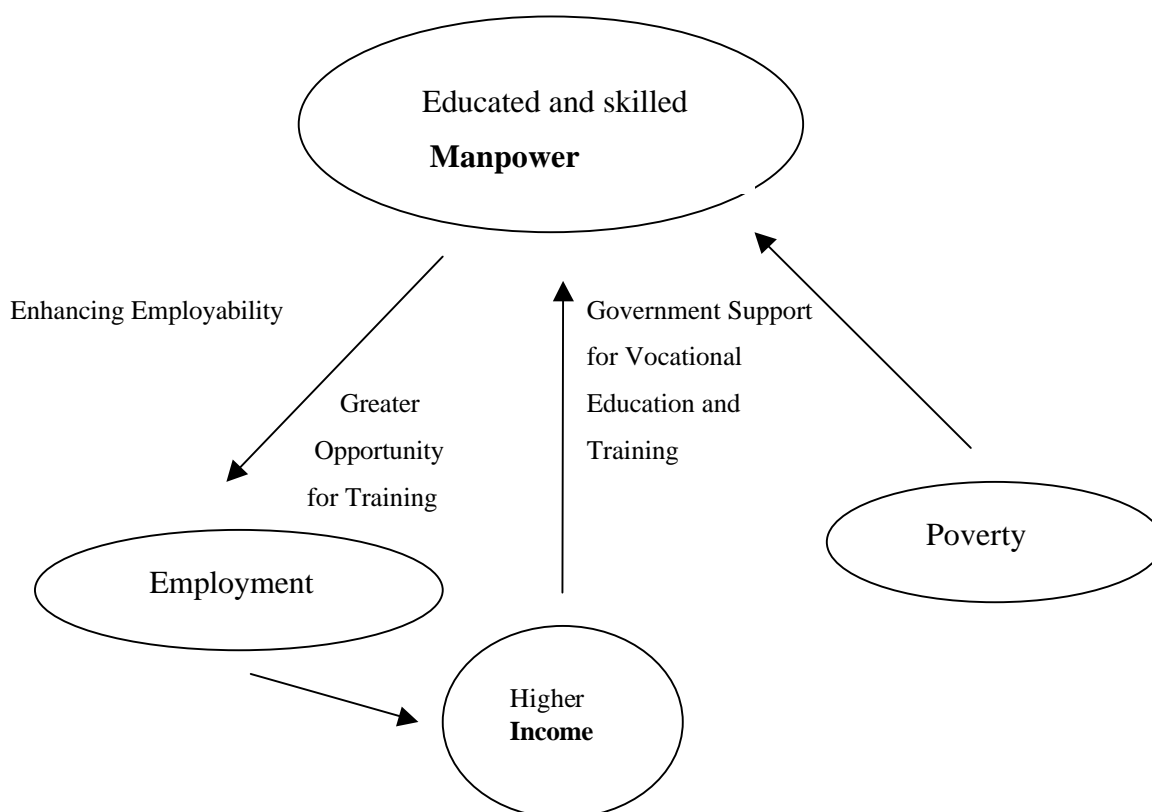
The TESDA Board is headed by the Secretary of Labor and Employment, with the Secretary of Education, Culture and Sports, and the Secretary of Trade and Industry as co-chair persons. Therefore, it may be relatively easy to coordinate related policies among the Departments. Also, since there are two representatives from the employers, three from the labor sector, and two from private technical-vocational institutions in the TESDA Boards, the opinions of the employers and the labor, who are demanders of vocational education and training, can be effectively reflected in the vocational education and training.

The Dual Training Act of 1994 was signed into law in the same year as the TESDA Act. The objective of instituting a dual type of training was to strengthen manpower education and training by combining in-plant training and in-school education. The dual training system offers benefits for the students, for the company as well as for the schools. For students, it offers quality training, enhanced employability as well as allowances for transportation and other expenses. Participating companies are assured of a supply of highly skilled and productive workers in addition to savings from the tax incentive offered by the Dual Training System Act. Vocational education and training institutions participating in the dual training benefit in terms of the enhanced public image brought about by the improved employment opportunities for their graduates. The participating institutions are also able to maximize their use of equipment and facilities, and lessen their need for main sophisticated equipment and facilities.

The TESDA has tried to break the vicious circle of poverty through improved vocational education and training as shown in Figure 4.2.

Table 4.2 shows that the Philippines has trained lots of people. Now the future policy direction should be how to improve quality of training, how to solve mismatch between skills produced by training institutions and those needed at the workplace, and how to finance the cost of training.

**Figure 4.2. Breaking the Vicious Circle of Poverty through Vocational Education and Training**



**Table 4.2. Vocational Training in the Philippines** (in persons)

	<b>1994</b>	<b>1995</b>	<b>1996</b>
Skill training	162,720	132,543	218,221
Livelihood/Entrepreneurship Training	81,366	88,571	129,032
On-the-Job Training	19,984	10,491	6,185
Vocational/Technical skills Training	467,896	498,693	297,146
<b>TOTAL</b>	<b>731,966</b>	<b>730,298</b>	<b>650,584</b>

Source: Employment Generation Reports of Inter-Agency Committee on Employment Programmes Monitoring (IAC – EPM) Member Agencies.

## **VI. Administration Feasibility of an Employment Insurance Scheme**

### **5.1 Introduction**

An EIS can only operate effectively if it has the strong support of good public employment service and vocational training systems. The Korean approach presented so far has been most valid to consider on grounds that the development of the public employment services and vocational training systems is a necessary condition for introducing employment insurance. The study has tentatively assessed that the Philippines has a relatively good public employment service network, managed by the Public Employment Service Office, and vocational training systems implemented by the Technical Education and Skill Development Authority. This should be confirmed in the course of technical mission work still to be completed.

On the face of the agreement on these issues it would seem that the Philippines may already be well placed in terms of the support which an EIS could expect to be able to get from the existing public employment service and vocational training institutions. Indeed, the analysis set out in this Section agrees that the existing institutional arrangements for employment and training services are both conceptually sound and effective in practice, in terms of their current roles. Unfortunately, however, it also shows that there is a huge quantitative gap between their current level of capability and what would be required if an EIS was introduced. More importantly, it tentatively demonstrates that there is a substantial need to examine very closely to what extent the public employment services and public vocational training systems should be expected to play a role in supporting the viability of an EIS.

In brief, the picture which emerges below suggests that overall success in providing effective employment and training services will be more likely if the roles of the existing public institutions are not seen as either exclusive or primary. Rather, they need to be seen as only a part of a broad and flexible framework that also uses and facilitates job finding mechanisms other than the public employment service and skills development mechanisms other than the public vocational training system.

The essential issue to be looked at in this study, therefore, is to try to shed some light on determining just what the current public employment service and vocational training systems should, and should not, be expected to provide by way of support to an EIS. In other words, given that they are already “relatively” good, in what senses do they need to be modified, strengthened or otherwise supported by other mechanisms? Or, in different words, what kind of overall employment services and vocational training system(s) need to be built and/or facilitated in order to provide the kind of support which can give an EIS the best chance of success?

## **5.2 Collecting EIS Contributions and Paying Unemployment Insurance Benefits**

The study recommends that the function of contribution collection should be attached to the existing Social Security System (SSS) since the SSS has good experiences in collecting contributions for other social insurance programmes. In practical terms, this would require minimal administrative efforts. Alternatively, the EIS could have its own contribution agency. In that case, however, the EIS contribution agency should equip its own manpower, computer facilities and network, and organization. This justifies the recommendation of the study to rather use the existing SSS facilities to collect the EIS contributions so as to avoid undue excess administrative costs.

It is recommended adopting an EIS contributory insurable wage basis that is similar to the present provisions of the SSS so as to avoid undue burden on employers who would have to report earnings on two different basis. This could inadvertently affect compliance in addition to wasting time and resources.

Similarly, the SSS could provide assistance for the actual benefit payouts of unemployment insurance benefits once the eligibility has been determined otherwise with the support of other employment-related government institutions.

The government of the Philippines can use this useful asset in introducing its EIS.

## **5.3 What Support can the Public Employment and Vocational Training Services Offer to the EIS?**

This assessment could only be partially completed so far on the basis of documentation made available to this study while the technical mission is yet to come. Based on the assumption of a Korean Model applicable to the case of the Philippines, it is implied that the networks of the Public Employment Service Offices (PESOs) and the the Technical and Skills Development Authority (TESDA) would have to be the essential institutional components necessary to provide the employment services and vocational training needed to enable a viable EIS. There is a significant superficial attraction in this assumption but, as this section will aim to demonstrate, there may be alternative ways to achieve the same end and avoiding the creation of undue distortions on the present infrastructures.

In order to make a more thorough examination of the needs for employment service and training systems in an EIS, it is useful to look in some detail at the precise nature of the supports that are needed. The study has so far suggested that there are three major categories of support to which public employment and training services might be expected to make the primary or major contribution:

- 1) To provide the range of information needed to assess both initial and on-going eligibility to receive EIS benefits
- 2) To prevent and detect attempts by EIS benefit recipients to commit fraud by holding a job at the same time as they are in receipt of benefits
- 3) To facilitate the job search and placement of EIS benefit recipients into paid employment, in the shortest possible time

The assessment of the administrative feasibility of each of these aspects is the subject of the present Section. Alternative solutions that could be brought in so as to adjust the analysis of the Korean reference model will be developed. They refer in particular to the administrative arrangements of the Australian Centrelink system (see model 3 under Section I).

## **5.5 Administrative Issues surrounding the Function of Job Search and Placement**

### **5.5.1 The Public Employment Service Role**

Job search and placement action tends to be categorised as comprising referral to job vacancies, referral to vocational training courses and, somewhat more vaguely, utilisation of “active labour market programs”. For purposes of this study, there is no essential disagreement with this concept, but the nature of what these actions might mean in practice is listed a little more specifically to include actions such as:

- a) Search for vacancies
- b) Matching of applicants with suitable vacancies
- c) Referral of suitable job seekers to employers
- d) Placement of job seekers in job search skills training courses
- e) Placement of job seekers in vocational skills training courses
- f) Arrangements with employers to provide on the job training and/or work experience
- g) Referral of job seekers to public job creation programs
- h) Referral of job seekers to self employment training and /or funding programs
- i) Identification and utilisation of funding programs of various kinds to assist any of the above
- j) Provision of policy advice to government agencies, concerning programs which might enhance employment opportunity

In terms of its ability to perform these functions, the view that the PESO network is a “relatively” good public employment service can readily be accepted. This is true both in terms of what it already does with the resources available to it and in terms of its potential to play a more significant role in the labour market if it had more resources. It does not need a detailed study to arrive at that view. There are a number of very simple observations which speak for themselves. For example:

- The PESO Act gives it a very sound legislative base;
- Despite a difficult labour market with about 10 per cent unemployment, the PESO national placement to applicant ratio of about 58 per cent, in

1999 clearly indicates a genuine ability to be an effective placement agency. By comparison, Thailand (also with a qualitatively good public employment service) had a very similar placement to applicant ratio of about 55 per cent in 1998, but in an easier labour market with less than 4 per cent unemployed.

- With nearly 1,800 office outlets the PESO network is very well placed to be able to ensure a very good level of access to both job seekers and employers. Again, compare Thailand, which operates with only 84 fixed outlets, supported by mobile services
- The capability of the senior management staff (which I have been able to personally observe in a variety of contexts over a number of years) is very high by any standards; although I am also aware that there are concerns about some qualitative deficiencies at local levels –which is quite normal in a network as wide ranging and diversely structured as that of the PESOs

As with the public employment service of any country, there are always qualitative improvements that can be made, but the fundamentals in the Philippines are undeniably sound. Further comparisons with Thailand provide some other useful indicators for assessing administrative considerations. It is always useful to have similar experience from similar labour markets. The very useful starting point of the similarities is that both countries have a workforce of very similar proportions (31-33 million). Given this level of equivalence, there are two main reasons why it would be expected that the PESOS network might have a slightly higher usage by job seekers than its Thai counterpart. One reason is that the Philippines has nearly 1,800 outlets while Thailand has only 84, albeit with mobile service supports. The second reason is that the level of unemployment is significantly higher in the Philippines, i.e. there are more job seekers overall. In fact, the Thai public employment service saw 273,000 new job seekers in 1998, while the PESO network saw 310,000 in 1999. In other words, the totals are very similar and the degree of difference is more or less within the range which might be expected.

On the other hand, it would be expected that the number of vacancies lodged by employers would be higher in Thailand. The main reason for this is that a lower level of unemployment tends to mean that employers need more help in finding workers. A lesser reason may be that because of geographical differences it may be easier for employers to spread their recruitment net wider in Thailand than in the Philippines. Again the facts seem to bear this out, although a significant amount of multiple counting in the statistical collection methodology of vacancy data, in both countries, makes this comparison much less reliable than that for job seekers. For the record, however, the Thai network counted 484,000 vacancies in 1998 and the PESOS counted 342,000 in 1999.

Given the above similarities, it is then of considerable interest to note the proportion of all job seekers who actually use the public employment service network as a means to assist them to find a job. The ILO study in Thailand in 1998 estimated that between 10 and 20 per cent of all active job seekers were using the public employment service. Another 5 per cent were estimated to be using private employment agencies to help them; and the balance (75-85 per cent) were using their own family or friends, direct

contacts with employers and other personal means to seek jobs in the formal sector. By comparison, the Philippines Labor Force Survey for 1999 gives more precise, but remarkably similar figures, showing 15 per cent registered with the PESOS; about 4 per cent with private employment agencies; and 81 per cent using personal methods.

The primary significance of these figures is that a fully operational EIS, which covered all of the workforce and required all applicants for benefits to register with and be assisted in job search by a PESO would, in effect, be requiring close to 100 per cent of all unemployed job seekers to use a PESO. Given that the PESOS currently only provide assistance to about 15 per cent of job seekers a decision of this kind would place enormous pressure on the need to expand PESO resources, notably in terms of number of staff, number of offices, budget requirements, staff training and management among other aspects. These figures suggest that the PESO network would need an increase in resources of at least 600 per cent. The Thai figures, of course, suggested virtually the same thing if an EIS was introduced in Thailand.

It should be noted the 1998 ILO study estimated that the Thai employment service resources would need to expand by 400 per cent to make it able to register and conduct job search on behalf of all EIS applicants. The methodology for assessing the case of the Thailand is different than the one proposed for the case of the Philippines.

Bearing in mind the much higher unemployment rate in the Philippines (10 per cent) than in Thailand (4 per cent), the increase in resources needed by the PESOS network to make it able to meet the expectations of the EIS, would most likely be at the higher end of the range, i.e. at least 600 per cent. By any standards this is a huge increase to any organisation and should not be considered without, at least, looking at other options for achieving cost effectiveness.

One strategy is to argue that if the public employment service network is given more resources it will be able to solicit more vacancies. And, of course, there is a element of truth in this point of view. The problem is that just because the public employment service holds information about more vacancies does not mean that there are more jobs available on the market. Employers do not create more jobs simply because they tell the public employment service about the jobs which are vacant. In other words a better resourced public employment service can certainly gather a larger share of knowledge about the total number of vacancies in the labour market at any given moment, but it has no capacity to affect the total number of vacancies on offer. In short, a bigger or smaller or even non-existent public employment service can have no significant effect on how many jobs are available in the labour market at any point in time.

The corollary is that there is also no reason to believe that a bigger public employment service will necessarily have any effect at all on reducing the number of job seekers who are in receipt of EIS benefits at any one time. Indeed, there is very little evidence to suggest that an increase in the resources of the public employment service would in any way speed up the existing rate at which people find jobs. In other words, it is a very doubtful argument to suggest that placement rates would be faster if, say, the current proportions using the public network (15 per cent) and the proportion using their own resources (80 per cent) could be reversed. Moreover, on current figures, the PESOs only succeed in finding jobs for 58 per cent of the 15 per cent they do see. If they could

then achieve only 58 per cent success for 80 per cent of job seekers (or even 100 per cent), there would still be a very large number of job seekers who would have to find their own jobs in order to be of any help to the EIS actuaries.

Another important issue relates to the PESOS network that should have the mandate to provide all forms of job search assistance for job seekers who need help from the public system. Currently this seems to be about 15 per cent of total job seekers. It may therefore result in major inefficiencies if the PESOS were forced to serve the other 85 per cent of job seekers.

There is another aspect of placement to which consideration needs to be given. This concerns the one way in which the public employment service can use its resources to specifically reduce the amount of time for which EIS beneficiaries need to be in receipt of benefits from that Scheme. In essence, this can be done by giving preferential treatment to job seekers in receipt of EIS benefits, either as a whole or to those who have been beneficiaries for longer than a certain period. Preferential treatment may range from preference in making a simple referral to a known vacancy, to preference in providing access to “active labour market programs.” For example, preference can be given in access to job skills training, for job search training, for work experience, for community service work, for access to job creation work opportunities, for training and funding for self employment, and so on. The provision of preferential treatment to defined categories of job seekers is very common in the public employment services of developed countries. And the category which most commonly gets primary preference is, indeed, job seekers who have been in receipt of unemployment benefits for extended periods of time. This section proposes an alternative that would not require such drastic changes to the way in which the PESOS currently operate.

#### **5.4.2 The Role of the Public Vocational Training System**

The available information to this study does not raise any obvious need to question the current directions of the public vocational training system in the Philippines, under the guidance of the Technical Education and Skills Development Authority (TESDA).

The fact that a good public vocational system does have a role to play in enhancing the capacity of job seekers to find suitable work cannot be debated. Plans to bring employer based training arrangements into the training equation are also commendable in this context.

At the same time, it needs to be acknowledged that simply increasing the skills levels of unemployed job seekers does not in itself create any more jobs. It certainly helps those who have better skills to have an advantage in going for jobs, but that only means that one person gets the available job and another one does not. In other words, there is no immediate likelihood that a better vocational training system can directly reduce the number of unemployed persons in receipt of EIS benefits.

The exception, of course, as already outlined above, is that a policy of giving preference of access to training course to EIS beneficiary recipients can be used to try to give them an advantage in job search compared to non-EIS beneficiaries. Moreover, if

during the time they are in training, their benefits are drawn from other labour market program funds rather than from the EIS, per se, then statistically and financially a positive effect can certainly be achieved to enhance the appearance of the viability of the EIS.

### **5.5 Assessment of Eligibility to EIS Benefits should not be the responsibility of PESOS**

The Korean Model suggested in previous sections pointed that the following eligibility rules may be applied through the EIS office, tentatively fixed on the PESOS, for an insured person to be entitled to unemployment insurance benefits:

- registration with the EIS office as a job seeker
- 180 days of work in the 12 months prior to claim left previous job with good cause and not because of negligence
- is willing and able to work
- maintains job search and/or training activity as recommended by the EIS office

This study does not recommend that these eligibility conditions be undertaken by the PESOS on behalf of every single applicant for EIS benefits. The previous sub-section discussed the difficulties involved in seeking to have the PESOS network shift from the current situation where they assist 15 per cent of job seekers with placement action to a situation where they would aim to assist closer to 100 per cent. It suggested that the increase in resources needed to deal with the increase in workload may be of the order of at least 600 per cent.

Determining eligibility for EIS benefits obviously would add significant additional work load requirements over and above placement action of PESOS. Registration, per se, is not an additional task, but certification that the registrant has worked for 180 days in the past year and checking the reasons why they left their previous job could be very time consuming tasks. Just determining different views between the job seeker and the employer as to why they left can be very subjective and very argumentative. It can be a tough task for experienced industrial relations officials who are trained to deal with subjective debates of this kind. It would have a much higher degree of difficulty for an employment service officer who is trained to provide a much more objective kind of service. The onerous tasks relating to determining original and on-going eligibility for EIS would tend to dominate the functions of the PESOS office. Job placement rates would suffer and, hence, so would the viability of the EIS.

It is not recommended to add these functions across the whole network of 1,800 PESOS offices as this would add too significant logistical support problems. Staff training to such a highly decentralised network is never easy and training for these functions would not just be one-off, but developmental as the methodology of a very new and unfamiliar system evolved. It would be not just technical skills either; the implications for supervisor and management training would need to be given a good deal of thought and effort.

An alternative solution is outlined below.

## **5.6 Detection of Fraud**

The third major area suggested for the EIS is the task of identifying any EIS beneficiaries who might try to cheat the system by claiming benefits at the same time as they actually hold a job. The present PESOs are not in a position to undertake this duty because the PESOs has no knowledge about the employment or unemployment of the job seekers other than the ones it presently serves.

The problem of fraud is cumbersome as it is extremely difficult to assess whether a job seeker is doing or not doing when they are not actually in the PESO office. Certainly there are ways to limit the possibility of fraud, by signing declarations and similar means, but nothing more than that. Many people can and always will find ways to cheat. It has also been well recognised that the any social welfare or security program which is able to keep itself completely free of fraud is probably also denying assistance to a large number of deserving and legitimate beneficiaries. In other words, a good, effective social security program always has to accept that there will always be some people who will obtain benefits to which they are not entitled. All that can be done is to try to minimise it.

In this context it is worth highlighting another finding of the Thai EIS and employment service studies already referred to. In Thailand's case, it was found that the Social Security Department would be in a much better position than the employment service to detect this kind of fraud. This is because all EIS claimants would have a Social Security identification number and this number would have to be entered into the payroll of any employer with a social security obligation of any kind. Hence, an EIS claim from anyone who was employed by any employer with any kind of social security obligation would show up on the Social Security computer as being fraudulent. Of course, if the EIS recipient found a job with an employer who had no social security obligations, then this system would not be able to identify them as a fraudulent claimant either. But neither would any other system, other than pure chance.

Experience tends to show that in widely decentralised public service networks of this kind, functional simplicity tends to be the best way to ensure quality and effectiveness in the placement of job seekers.

There is a need to think through the most appropriate and most efficient means of fraud control, not simply try to foist it onto the PESOs in the mistaken belief that they know when and where everyone in the Philippines starts a new job. Traditionally most countries with EIS simply tested fraud on what was essentially an "honour" system, in which the applicant submitted a signed declaration which, in most cases, was accepted at face value. Unfortunately, time, technology and changing community values have largely eroded the effectiveness of that kind of system. Hence, if the Philippines SSS has, or can create, a similar personal identification system to Thailand it should probably use that as a primary means of fraud control. The PESOs could certainly pass on to the SSS any relevant information they came across by chance, but it is the SSS which would be best placed to take any further action to assess and act on that information.

## **5.7 Possible Lessons From Recent Australian Experience in Administering Unemployment Assistance**

In 1998, the Australian government abolished the public employment service known by the name Commonwealth Employment Service (CES). It replaced it with a new arrangement under which the public purse continues to pay for the costs of providing free employment services to employers and job seekers, but does so by paying a fee for service to a wide range of private sector and non government agencies. In effect, this means that while employers and job seekers still obtain free services, about 95 per cent of those services are delivered to them by private sector agencies who are paid by the government for the services they provide.

The changes have proved workable in practice, but there is no evidence to suggest that they are any more effective or less costly than the arrangements they replaced. There is no reason, therefore, to recommend that any other country, including the Philippines, should adopt quite such a radical strategy in total, but there are some aspects of the revised Australian arrangements which do warrant some consideration.

To put the Australian changes in context it is useful to make an overview of what went before.

- Over the 50 years that the CES had operated prior to its abolition in 1998, it had played a central role both as an employment service, per se, and as a key component of the national system of unemployment benefits. Indeed, to all intents and purposes the two systems had grown and developed together even though they were always operated by two distinctly separate government agencies (Employment/Labour and Social Security). The relationship was so close, in fact, that it was accepted statistical practice to regard the number of unemployed job seekers registered with the CES as being the most accurate means of counting the total number of unemployed persons throughout Australia, at any given time. In other words, virtually 100 per cent of unemployed job seekers were registered with the CES.
- Australia's system of unemployment benefits was, and still is very different in concept from what is proposed for the Philippines. It is fundamentally different because it requires no direct contributions from workers or employers. All benefits are paid out of the central taxation revenue pool, otherwise known as consolidated revenue. Any person of normal working age may apply for benefits at any time they are unemployed. There is no time limit on the period of time for which any one applicant can receive benefits. Theoretically, it is possible for an unemployed job seeker to receive benefits throughout his/her entire working age life, even if he/she never worked one day in the whole period.
- Up until 1998, the key factor in gaining and retaining access to unemployment benefit depended on three separate sets of actions. The first involved registration as unemployed with the CES. The second involved making an application to the Department of Social Security (DSS) for the payment of benefit. DSS would require proof that the applicant was registered with the CES as unemployed and, subject to meeting other DSS criteria concerning family income, and a two weeks waiting period, benefits would begin. The third required cooperation with the

CES in actions designed to find a job. Continuation on benefit was possible until such time as work was obtained or the CES reported to the DSS that they believed that the benefit recipient was not actively seeking work or was no longer available for work. In short, the interest of the CES in the unemployment benefits scheme involved two main functions. One was to answer enquiries from DSS as to whether or not an applicant for unemployment benefits was in fact registered with the CES as being unemployed. Two was to advise DSS if it felt that a beneficiary was not properly meeting their obligation to actively seek work (the “work test”) or that the applicant was no longer available for work.

This relationship between the CES and the unemployment benefits system worked without major problems for more than 50 years. It is not dissimilar in concept from what has been proposed to be put in place between the Philippines EIS and PESO network. The major difference between the two, however, is that the Australian system was from its very beginning a jointly operating system and both components were able to grow and develop together. From the outset, all unemployed persons who wished to claim unemployment benefits had to first register with the CES, which meant that the CES always had virtually 100 per cent of Australia’s unemployed job seekers on its books. It was therefore possible to start the joint system with a relatively small level of resources, enabling both arms of the system to grow at a similar rate. It is also notable that during the first 25 years of this joint development unemployment in Australia was always below 2 per cent and often below 1 per cent; and economic prosperity was very high. In such a balanced and prosperous labour market environment, placement of job seekers was quick and easy. At no time, therefore, was there a need for more than marginal changes in resources and the country could easily afford these.

In contrast, the Philippines finds itself in a situation where the PESO network has been built to deal with only 15 per cent of those who are unemployed at any one time. It is a very big leap indeed to try to suddenly shift upwards to 100 per cent; especially during a period when unemployment is 10 per cent or higher and the economy is struggling. These are very different circumstances from those which accompanied the growth of the relationship between unemployment benefits and employment services in Australia. There may well be ways to make a sudden upward leap in the resources of the PESO network, but it is worth looking first at ways which might help to keep the leap to more acceptable proportions.

The rationale used in Australia for the overall changes to the public employment service was presented under the politically correct guise of “privatisation”. It can, however, be seen, more correctly, in the form of outsourcing of government functions to the private sector. In other words, the services are now delivered by private sector agencies but they are still paid for in full by the public sector. In the form used, therefore, there are no identifiable budgetary savings to the government. Nor were the changes based on any substantive evidence that there was anything wrong in the existing system at the time. Nor has hindsight changed that perception, despite the fact that the new arrangements, following some initial problems, are now working quite acceptably. In other words, the overall changes offer nothing at all for the Philippines in terms of the present discussion.

Central to the process of implementing the new arrangements, however, were two changes to the 50 year old relationship between the unemployment benefits scheme and the formal/official employment service which do seem to warrant consideration in the Philippines PESO/EIS discussions. In fact, both of these changes could have been made under the old system in Australia. They do not depend for their value on the so called “privatisation” of the employment services network.

The first of these changes, was the recognition that every job seeker does not necessarily need a public employment service office to help him/her find work. In effect, this simply recognises what actually happens in the Philippines, and Thailand (and most developing countries, for that matter), that the vast majority of job seekers are just as capable of finding their own job as is the public employment service – in many cases more so.

The second change, was the establishment of a new network of public service offices known by the name “Centrelink”. Centrelink is, in fact, the new network for the administration of all social security programs, including unemployment benefits, but it is the changes in relation to unemployment benefits which are of interest here. It is important to note that no changes of substance were made to the unemployment benefits scheme, per se. It is still available from consolidated revenue, and without any specific limitations on the amount of time for which a beneficiary may continue to receive it.

What these two changes mean in practice is that if a job seeker believes that they may have an eligibility for unemployment benefit, their first place of call is not to a public employment service office, but to a Centrelink office. At Centrelink the applicant’s eligibility for benefits is assessed and if he/she is found to be eligible, an informal job search “contract” is drawn up between Centrelink and the beneficiary.

In this “contract” the beneficiary undertakes to pursue a set range of job search actions over an agreed period – which may be from 1-4 weeks. These actions may include one or several of things, such as registration with an official employment service office (95 per cent of which are now non-government); search through newspapers and preparation of written applications; attendance at a vocational skills training course; referral to someone who can assist with preparation of a cv or someone who can help with job interview techniques or even dress and grooming skills; telephone calls or walk-ins to employers; attendance at self employment training courses; and so on.

In other words, the new arrangements in Australia place a great deal of emphasis on applicants developing and using their own job search skills, with a reduced level of reliance on the assistance offered by official employment service offices. (In effect this has meant that Australia has chosen to acknowledge what Thailand and the Philippines have always known: that not everyone needs the help of the public employment service to find a job.)

At the end of a “contract” period, if success has not been achieved, the job seeker must return to Centrelink and report on their job search activities. They must bring proof, such as copies of applications and replies, names and addresses of employers contacted, report from employment service office of action, if any, taken with its involvement, and so on). A revised “contract” is then drawn up for the next period; and so the process

continues. Of course, failure to meet the requirements of a “contract”, without acceptable reasons, may result in cancellation of benefits.

This set of processes also plays a role in limiting opportunities for fraud, firstly, because it tends to account for much of the job seekers time and, secondly, because the details of the job seekers report can be checked if there are any suspicions.

What this means in practice is that there is no longer any need for every unemployed job seeker to register at an employment service office. Moreover, any one who does register with the employment service (because their “contract” requires it), is essentially treated the same as any other registered job seeker, unless the contract includes special requirements (eg placement in a training course) and funds to facilitate it (eg to pay the course fees). The formal employment service can therefore get on with doing what it does best ie look for jobs for people who genuinely need help with their job search processes. Its tasks in providing services specifically related to the administration of unemployment benefits - such as initial registration and application of the work test - are now primarily the task of Centrelink. The employment service only becomes involved for those unemployed job seekers who are referred to it by Centrelink under “contract” terms. The employment service network still contributes to this task in respect of many job seekers, but not by any means for 100 per cent any more.

If the Philippines was to adopt this kind of approach, the PESOs might expect to come gradually to deal with somewhat more than the 15 per cent they currently attract, but probably not by more than 5-10 per cent at most.

An arrangement of this kind might be an option worth considering in the Philippines. Its principle attractions appear to be that:

- The Centrelink role could be taken on by the administrative arm of the EIS itself, either within or separately from the SSS as a whole
- The establishment of an EIS administrative arm (the Centrelink equivalent), would be the only initial cost to the Government and even that, conceivably, could be fully funded from the EIS fund
- The ongoing Centrelink administrative role could also, conceivably, be funded from the EIS
- The PESO role would not necessarily change from what is presently the case; any growth would emerge only to the extent that EIS “contracts” required it; and in many cases the EIS “contracts” may require no more than that the job seeker make use of PESO self service facilities
- The PESOs would thereby strengthen their positive image as the employment service rather than tend to be seen in the more negative sense as the unemployment service
- The overall costs to the Government budget, per se, could be virtually nil; at worst, its growth could be managed within normal recurrent expenditure constraints

It is, of course, not quite that simple. There is at least one major variant which needs to be raised. This concerns the way in which active labour market programs

(ALMPs) are administered in the revised Australian arrangements and what relevance, if any, this might have for the Philippines.

Under the Australian arrangements introduced in 1998, there are broadly five categories of job search activity which can be built into a “contract”. In brief these can be termed:

- Self help – where essentially the job seeker searches for employment without the help of an employment service office
- Job brokerage – where in addition to self help the job seeker must also register with and accept assistance from an employment service office in finding a suitable job
- Job search training – where in addition to the above the job seeker must enter an approved course of training in job search skills, such as cv preparation, interviewing technique, job application letter writing, dress and grooming, etc
- Intensive assistance – where in addition to all of the above the job seeker may have to undergo job skills training, or be given assistance with fares to search for jobs more widely, or be added to a government job creation project, or be entitled to offer an employer an approved wage subsidy, or (in the case of disabled job seekers) to have workplaces modified, and virtually anything else which may help to achieve a placement
- Self employment assistance – where the job seeker may be referred to agencies providing self employment/small business training and/or financial assistance

What this means is that when Centrelink draws up a job seeker’s contract they assess the nature and degree of assistance which the applicant needs in order to help him/her find a job. The “contract” will be based on one of the above levels of assistance. Each level, except the last, may include any or all of the levels above it, so that Intensive Assistance could include elements of the other three levels, too. Of course, any assessment will probably change from contract period to contract period. For example, as time progresses without a job being found the job seeker’s “contract” will probably tend to shift away from self help towards Intensive Assistance. Self employment assistance can be added or deleted at any time, as appropriate.

It is crucial to understand that the two higher levels of assistance – Job Search Training and Intensive Assistance – have dollars attached to them. In other words, if the “contract” includes Job Search Training then it will also include a provision that the training must be provided by a Centrelink approved provider (which includes some, but not all, employment service offices) and an undertaking that Centrelink will meet the fees, if any, charged by the approved provider. Similarly, if the “contract” includes Intensive Assistance, the nature of that assistance will be specified and a financial component will usually be attached to it. For example, if the assistance is to be in the form of job skills training, Centrelink will include provision to meet the cost of the fees. Or if it is to be a wage subsidy, Centrelink will specify the amount of the subsidy which may be offered to any employer who engages this job seeker for a specified period. Other types of Intensive Assistance may have similar kinds of financial support arrangements.

It needs to be kept in mind that, in Australia, all of the funds both to pay unemployment benefits and to pay the costs of Job Search Training and Intensive Assistance are derived from general taxation, not from any specific contributions by employers and workers. It does not rest on any need to be actuarially controlled. It is controlled entirely by decisions made in the budget formulation processes

In contrast, the proposed Philippines EIS is intended to be funded principally from contributions and therefore it must be actuarially sound if it is to be a permanent program. But this still leaves the question as to how would the Philippines fund things like Job Search Training and Intensive Assistance (the active labour market programs)? Should it be funded as part of the actuarially controlled EIS Fund? Or should it be regarded as a part of recurrent expenditure in the national budget?

The recommendation of this section which is concerned by the administrative feasibility would be that these funds should be regarded as recurrent expenditure. This is purely because the extent to which it will need to be utilised will be determined by the state of the labour market and it can therefore be controlled according to its current level of priority in budget policy decision making. In a depressed or volatile labour market the need and/or temptation to use actuarially accumulated funds might be such that the EIS Fund could quickly suffer long term damage.

It is recommended, however, that if it was decided to have a recurrent budget program specifically for things like Job Search Training and Intensive Assistance (ie for active labour market programs) that these funds should be allocated to the Centrelink agency and not to the PESOs. The reason is simply that, as proposed above, these funds should be attached to the needs of the job seeker (via the “contract”) and the contract will not always require that a PESO should be part of the job search requirements for any given EIS beneficiary. Indeed, to the extent that the role of the PESOs will tend to stabilise at not much more than its present 15 per cent of job seekers, the overall costs of the EIS to the Government will be very small.

It is also worth noting that funds for active labour market programs are a legitimate tool for labour market management at any time. They should be established on grounds quite separate from any issues related to the EIS. Strictly speaking, therefore, any allocation of funds for these kinds of program should not be viewed as a “cost” of introducing an EIS.

## **5.9 Administrative Options for the Introduction of an Employment Insurance Scheme**

### **5.9.1 Administrative Option 1:**

#### **Employment Services Administered mainly through the PESOS Network**

This is essentially the option if the Korean administrative approach was applied to the Philippines. The study does not encourage following this option for the time being for the reasons already explained and recapitulated again. It would require that the PESOS network:

- be the first point of registration of a claim for EIS benefits;

- take primary responsibility for certifying whether or not the the claimant has met the basic eligibility conditions of employment history;
- take the primary responsibility for assisting the claimant with job search activity;
- take the primary responsibility for detecting fraudulent claims for benefits.

The case for adopting this approach is that it more or less mirrors the approach taken in many developed countries where the employment service has established a position in which it is the first point of registration for a very high proportion of unemployed job seekers. It also has some attraction because of the fact that the PESO network includes nearly 1,800 offices throughout the country, thereby offering very good locational access to potential EIS claimants.

The major case against it, however, is that the PESO network is currently the first point of registration for only 15 per cent of job seekers, whereas a fully operational EIS would need it to be capable of dealing with closer to 100 per cent. It would, in addition, require the PESOs to take on the primary responsibility functions listed above; each of which is time consuming and very different in knowledge and skill requirements from current PESO functions. It is likely, therefore, that the PESO network resources would need to be increased by more than 600 per cent in order to enable it to carry out the functions as described above. It could also be expected that its role in the administration of the EIS would tend to diminish its role as an employment service; and its competence as an employment agency would almost certainly decline significantly.

Perhaps most importantly of all, the proposed EIS role for the PESOs would effectively force a large proportion of the other 85 per cent of unemployed job seekers that do not currently use the PESOS to do so in as so long as they are insured under the EIS. Current evidence suggests that only 15 per cent choose to do so. Nor does the current usage by only 15 per cent suggest that the PESOs are not effective job search agencies.

### **5.9.2 Administrative Option 2:**

#### **Employment Insurance Scheme Administration separate from public Employmentn services and attached, at least partly, to the Social Security System**

Under this option, the provision of employment services would be achieved simply by utilising the existing mechanisms available in the community. More specifically, the PESO network would continue to provide services to those unemployed job seekers who find the PESO helpful; the private agencies would continue to provide services to those job seekers who find them helpful; and all other job seekers would continue to use their own job search skills to help them find work. Under this arrangement the 15 per cent, 4 per cent and 81 per cent proportions may not necessarily remain static, but they would not be subjected to any particular pressures designed to change their role unnecessarily. Most significantly, there would be no need to aim to make any significant change to the role of either the PESOs or the TESDA institutions, simply in order to introduce an EIS. Their role may grow or decline under an EIS as outlined below, but that should be allowed to happen naturally, not because of any

artificial initiatives. The key issue is that by adopting this approach, introduction of an EIS would have no direct public resource implications, at all, in respect of the provision of employment services or vocational training services, public or otherwise.

There would be administrative and program resources needed for the EIS, of course. However, the administrative costs associated with the EIS could, if required, be built into the actuarial calculations which would form the basis for employer, worker and government contributions to the Fund. The program costs (for what are termed below as Job Search Skills Training and Intensive Assistance) would be best financed from the national recurrent budget, so that the amount of funds allocated to them can be varied according to Government policy. It should be noted, of course, that these program costs should be the same whether there is an EIS or not.

A suggested operational structure to implement this option is as follows:

1. The SSS could set up an EIS Registration and Job Search Advisory Centre (JSAC) at each of its 160 locations throughout the Philippines (roughly modeled on the Australian “Centrelink” network). These JSACs would be quite distinct, in organisational terms, from the SSS unit concerned with collection of EIS contributions and the payment of benefits to eligible claimants. They would be resourced entirely from the EIS Fund and would therefore be cost free to the SSS recurrent budget.
2. EIS registrants would have their employment background and other aspects of their initial and on-going eligibility checked by the JSAC. If they are then designated as eligible for EIS benefit, payment of benefits would be dependent on their entering into a “job search contract” (JSC) with the JSAC, under which they will undertake to pursue and report back on job search activity as agreed in the JSC. Each JSC will be reviewed at regular intervals and modified as appropriate to improve the chances of success. Review intervals may be different for each individual but would normally be not less than one week or more than four weeks. Failure to pursue the required action of the JSC, or to report on it, may result in cancellation of benefit.
3. The JSC may require or facilitate any or all of the following types of job search action and funds to ensure the viability of these actions would be administered by the JSAC from a recurring budget allocation or contributions:
  - Direct Job Search Action, which may emphasise self help, assistance from a PESO or assistance from a private employment agency, or any combination of these
  - Job Search Skills Training, which may specify participation in a JSAC approved course or counseling session(s), designed to improve the ability of a job seeker to identify and be successful in obtaining a job on their own initiative; courses may be

provided by any JSAC approved provider (such as a TESDA institution or a PESO or a suitable private trainer)

- Intensive Assistance (or active labour market program assistance), which may specify such things as undertaking
  1. a vocational training course at a TESDA institution
  2. a vocational course at any other JSAC approved training institution
  3. skills training (but not a job) provided by a public or private employer
  4. unpaid work experience with a public or private employer
  5. employment with a wage subsidy to the employer for a limited time
  6. temporary employment on a government job creation project
  7. any other activity designed to enhance the chance of finding a job
- Self employment or Small Business Skills Training and/or Financial Assistance, which may specify or facilitate the kind of training and financial assistance to be sought, and from whom, in order to assist the ambitions of suitably motivated self employment seekers.

The major attraction of the second Option over the first one is that it is designed to make use of existing job search and vocational training arrangements, including private sector and personal ones, and does not require any initial changes to their structure, content, organisation or resource levels. This does not mean that they will remain unchanged, but it does mean that change can take place steadily and in response to genuine needs. In contrast, Option 1 requires a complete restructuring of the PESO network, at huge cost and largely in response to an artificial need viz a forced need for virtually 100 per cent unemployed job seekers to use the PESO, when only 15 per cent really see it as useful to the success of their job search.

A secondary attraction, is that Option 2 provides for the perceptions of a more objective allocation of job search activity than would be possible under Option 1. The EIS administration, through the JSAC, is placed in a position where it can direct where and when and what and how the job seeker must do in order to retain EIS benefits; and it is not constrained as to which job search mechanisms it can utilise to do that. It can take and develop a completely objective view as to which mechanisms work best in which circumstances. In contrast, Option 1 would give prime responsibility for choice of job search activity to the PESOs which, because of their own role as a job placement mechanism, would at best be perceived to be less objective in using or recommending mechanisms other than their own.

## **VI. Options for the Financing of an Employment Insurance Scheme**

The EIS proposed should be financed by equal contributions from employers and employees. The contribution rate of EI must be determined within the limit of contributions considering the projected financial situation of the EIS Fund.

The Study cannot assess the financial considerations related to the proposed options at this stage. Further data must be collected, notably in close cooperation with the SSS so as to develop a thorough understanding of unemployed persons' behaviours. The SSS proposed using its database.

The Study should recommend establishing a national commission that would assume this responsibility as the actuarial valuation of the costs of a comprehensive EIS is an onerous task and bears limited significance at this stage assuming that the implementation of an EIS in the Philippines is not foreseeable in the near future. The national consultations should serve to validate these assumptions.

Nonetheless, reference can be made to the cost of UI/EI systems in other countries. The ILO feasibility study for the introduction of unemployment insurance estimated that the cost of the scheme should initially be of approximately 2.5 per cent of insurable wages and decreasing to around 0.5 per cent of wages after 6-7 years of operations. These calculations were based on a rather optimistic outlook of the Thai economy with unemployment levels returning to pre-crisis levels by year 2007 (nominal terms).

## **Conclusions and Preliminary Recommendations**

Based on the preliminary findings of the present study, it appears that it may not be an appropriate time to implement an Employment Insurance Scheme in the Philippines as of 2001. The roadmap should however be fixed to build up national capacities that will be required to operate an Employment Insurance Scheme.

The study recommends the establishment of a specially mandated commission in charge of planning the introduction of employment insurance within an accepted time frame of 2-3 years.

Social partners in the Philippines do not eagerly want to introduce EI/UI as their top policy priority. There have been several attempts to introduce unemployment insurance or unemployment assistance in the Philippines since 1992. Such as Senate Bill No. 492 in 1992, Unemployment Insurance Study by the Social Security System in 1994, 1998, and 2000, House Bill 4081 in 1995, and House Bill 618 in 1998.

The affordability of additional contributions for an EIS is questioned. The proportion of paying members out of total membership of the Social Security System is about 30 percent and most of them come from large enterprises. This shows that more than 50 percent of the covered employees may not pay their contributions when the Philippines introduces EI/UI. When consulting with representatives of employees and employers, they stated their clear reluctance to pay contributions for EI/UI. This is an obstacle that must definitely be resolved before an EIS is introduced at the risk of negatively affecting compliance and credibility of the scheme.

The low level of industrialization and per capita income (PCI), and high unemployment rate may not guarantee the stability of financing status of the EI/UI fund. Certain level of industrialization is necessary condition for a country to implement EI/UI successfully. Low level of industrialization may result in high unemployment rate, which may threaten the stability of EI/UI fund. As shown in Table 5.1, the PCI in most countries implementing EI/UI above US\$3,000. When PCI is quite low, major concern of the people is economic development, not social welfare.

Considering the low per capita income and high incidence of poverty, it seems that overcoming the absolute poverty by high economic growth should be a key priority of the Philippines. Although this is beyond the scope of this study, the reform of public social assistance should be immediately undertaken. Income transfers to the poor segments of the population should be the responsibility of the government and a necessary condition for national stability.

### Distribution of PCI in Countries Implementing EI/UI (1992, in US \$)

PCI	Type of EI/UI			
	Total	Compulsory	Voluntary	UA
20,000 or more	16	13	3	-
15,000~20,000	4	2	-	2
10,000~15,000	4	3	-	1
8,000~10,000	2	2	-	-
6,000~8,000	5	5	-	-
4,000~6,000	-	-	-	-
3,000~4,000	4	2	-	2
2,000~3,000	6	4	-	2
1,000~2,000	2	1	-	1
Less than 1,000	5	5	-	-
<b>Total</b>	<b>48</b>	<b>37</b>	<b>3</b>	<b>8</b>

Source : Yoo & Lee(1996)

There is no national consensus on introducing EI/UI in the Philippines. In order to introduce EI/UI, most people should want EI/UI and there should be national consensus on introducing EI/UI. As of now, however, there is no national consensus on introducing EI/UI in the Philippines.

In order to introduce EI/UI in the near future, there should be social dialogue on EI/UI. As mentioned above, there have been several attempts to introduce UI or unemployment assistance in the Philippines. When the Philippines tried to introduce UI or unemployment assistance, however, there were not enough social dialogues among social partners. The social dialogue among social partners will improve mutual understanding on EI/UI and help to find the best way for developing social protection system for the unemployed. The social dialogue will also result in national consensus on EI/UI in the near future. Starting the social dialogue today is social investment for the future. If there is no social dialogue in advance, there might be lots of social costs when the Philippines introduces its EI/UI in the future. For effective social dialogue among social partners, there should be an initiative body for leading the social dialogue.

Since there are lots of poor unemployed people and there is no EI/UI system in the Philippines, the government of the Philippines has to develop its public assistance programs for the poor even before introducing EI/UI system. The public assistance system is the last resort of the poor people. As of January 2000, there are six million unemployed persons and 27 million poor persons in the Philippines. Even though the Social Security System (SSS) covering the private sector and the Government Service

Insurance System (GSIS) exist in the Philippines, both SSS and GSIS apply to formal sector workers employed regularly. For most people in informal sector, there is no social protection system in the Philippines. Therefore, the Philippines has to develop minimum social protection system for the poor, even before introducing EI/UI. Considering the low per capita income and high incidence of poverty, it seems that overcoming the absolute poverty by high economic growth is the number one priority of the Philippines. Nevertheless, development of the public assistance system cannot be delayed further. The minimum protection of income for the poor is a duty of government and a necessary condition for national stability.

Continuous sound economic growth is the best way for curing unemployment problem. Therefore, the Philippines should concentrate its energy on economic development for the time being. Continuous high economic growth will lead to consensus on EI/UI in the near future. When the study consulted representatives of employees and employers in August 2000, they said that their first priorities are economic development and human resource development, not introducing EI/UI.

Development of the public employment services and vocational training systems is a necessary condition for introducing EI/UI. Therefore, there should be an effort for developing current public employment services and vocational training systems. The Philippines has relatively good public employment service network managed by the Public Employment Service Office and vocational training systems implemented by the Technical Education and Skill Development Authority (TESDA). Development of the public employment services and vocational training systems will be good infrastructure for introducing EI/UI in the future.

The share of contribution paying members out of the total membership of the social security system is less than 30 per cent. This means that there are many problems in record-keeping and record-reporting system of employment and contribution collecting system in the Philippines. Therefore, the government of the Philippines should check the problems of the current record-keeping of employment and contribution collecting system, and reform these systems in order to introduce EI/UI in the near future.

The social protection for the unemployed can be classified as three types as mentioned in Section 1. Among the three types of the model, Model 2 is most developed social protection for the unemployed in the sense that the safety nets are most dense. However, the total expenditure for the social protection for the unemployed is highest in Model 2, and lowest in Model 1, if other things are equal. Model 2 is very costly, and it is being implemented only in highly developed countries. Considering current economic and social development stage, the study would recommend the Philippines to take Model 1 for the social protection for the unemployed.

Once the Government of the Philippines and social partner decide to take Model 1 model, the study would recommend the Philippines to introduce a comprehensive employment insurance system rather than the traditional unemployment insurance system. The reason for this is that preventing unemployment is much more important than unemployment benefits after unemployment. In the comprehensive employment insurance system, several active labor market programs can be included in the system to reduce unemployment as much as possible. In order to get stable fund for the active labor market programs, the comprehensive employment insurance system is superior to the traditional unemployment insurance system. In this sense, THE STUDY would like to recommend the Philippines to introduce a comprehensive employment insurance system rather than the traditional unemployment insurance system.

If the Philippines opt for a comprehensive EIS, both active labor market policies and income support programmes should be included in the system. Therefore, programs of EI are parts of employment policies of the government. Hence, the Department that is in charge of employment policy and social security policy should deal with policy of EIS. Other institutions that should administer an EIS should be involved as their experience should give an insight to policy-making. This refers to EIS administration that includes collecting contributions, managing insured employees and covered enterprises, giving unemployment benefits to the qualified applicants with work test, collecting and distributing information on the labor market, serving job placement services, implementing vocational education. The Department of Labor and Employment (DOLE) should be in charge of policy of EIS with close collaboration with the authorities in charge of social security policy.

There are some countries that the Department of Welfare is in charge of a part of EIS policy. The United Kingdom is a typical case of this. Even in the United Kingdom, however, the Department of Welfare is only in charge of decision of unemployment benefits. The Department of Education and Employment is in charge of employment related policies of unemployment insurance system in the United Kingdom.

Other relevant issues that must be taken into serious consideration when recommending an EIS include:

- Based on our preliminary findings, the study sets out that employment insurance provisions should only be implemented at a later stage when the general economic and employment conditions of the Philippines are more favourable. Based on this precept, the study focuses on the important capacity building preparations that must start immediately.

- Emphasis should be placed on strengthening current social security coverage through intensive public information and better enforcement mechanisms.

- Informal arrangements play a role although limited due to their financial vulnerability and lacking technical capacities. Their role must be taken into consideration by the policy-makers in charge of social protection whilst recognizing their limitations that could likely be resolved through strengthened existing social security schemes and solutions providing public financial guarantee, monitoring and technical expertise.

- The study recommends the establishment of a National Employment Insurance Research Commission in charge of the Introduction of Employment Insurance. It should be under the supervision of the Department of Labour and Employment with a close linkage to the Social Security System as it requires a multidisciplinary approach to integrate social security cash benefits to the provision of various employment-related assistance, notably for job search and training.

- The financial management of public social protection expenditure could be improved by way of giving due recognition to the needs and actual coverage of the population.

- Observed experiences indicate a strong tendency by enterprises and their workers to collude so as to avoid contribution liabilities by way of entering into precarious forms of employment.

## **ATTACHMENT**

### **ILO Review and Medium-Term Outlook of the Philippines Macroeconomic and Labour Market Outcomes**

#### **1.1. Introduction**

The macro-economic framework should serve the purpose of providing the background information to the assumptions that required for the cost projections required by the study.

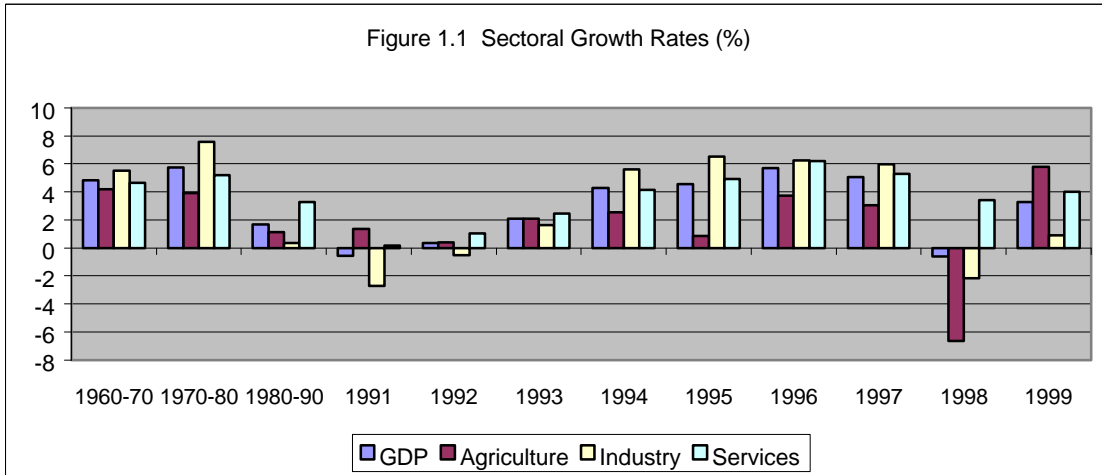
In consultation with the Government and Social Partners, the study recognizes the need to develop projections of the movement of workers in and out of employment according to the various economic sectors. This however requires rigorous data collection that is in process and must be adapted to the availability of information under the Social Security System. The Government and Social Partners have agreed on 13 February 2001 that the focus to limit the focus of the study to cover wage employees in line with the current social security provisions.

The cost projections under this study could only be completed given that sufficient and reliable data is provided. As pointed by the SSS, there is a need to consider the set up of a national task force of experts to further deepen the costing of policy options.

#### **1.2. Developments in the Macro-Economy**

##### **1.2.1 Output (Gross Domestic Product (GDP))**

Since the early 1980s, the economy has been undergoing a boom-bust growth performance. Figure 1.1 depicts this boom-bust performance very well. The economy suffered from political turmoil in the early 1980s which dragged on for most of the decade. After a mild recovery in the late 1980s, it was hit by several military coups in the late 1980s and by a severe power crisis in the early 1990s. It was starting to recover in the middle of the 1990s until the financial crisis struck in the middle of 1997. While the economy was mildly affected compared to neighboring countries and was recovering by 1999, the current political turmoil has already led to several rounds of downward revisions of the growth forecasts for the economy already. If this is not resolved soon, this will result in another round of low economic growth years.



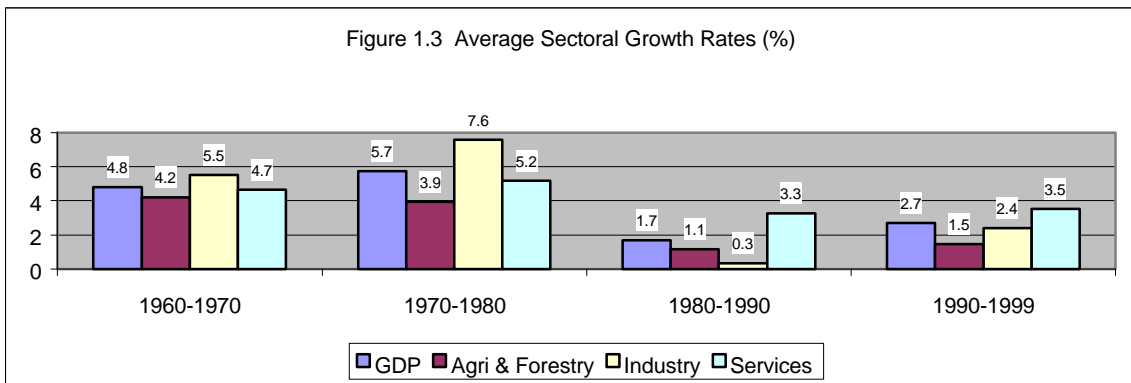
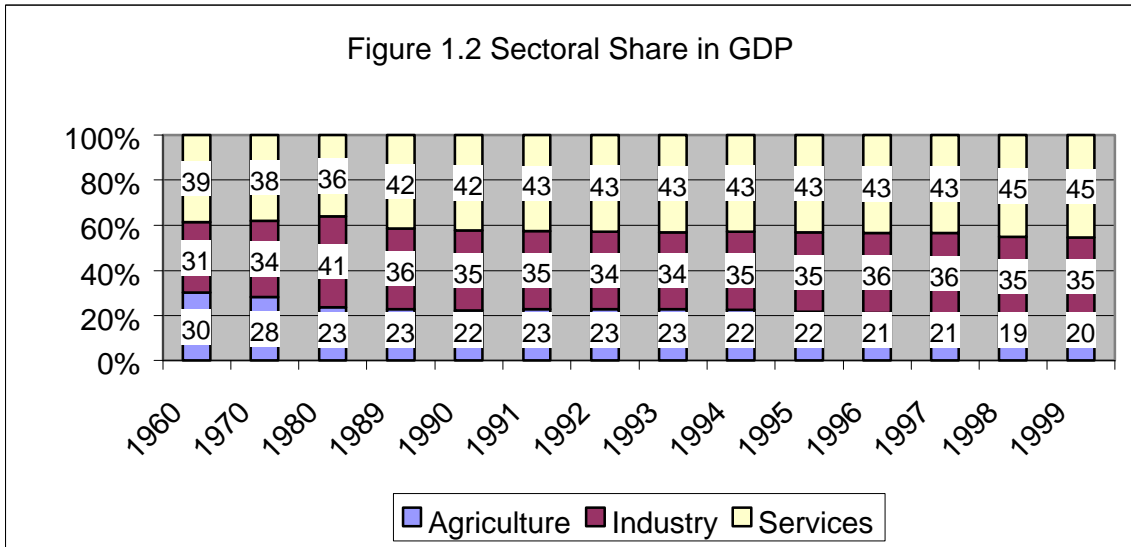
Given this scenario it is difficult to provide a long-term forecast for output. There are, however, available forecasts of the performance of the economy in the near and medium term. The official (National Economic Development Authority's) GDP growth forecast for 2000 and 2001 is from 4 – 5.<sup>14</sup> Given the existing political turmoil, the planning agency head<sup>15</sup> admitted already that even a growth rate of 4 in 2000 might be difficult to attain. The Asian Development Bank (ADB), on the other hand, provided a less optimistic growth forecast of 3.8 and 4.3 for 2000 and 2001, respectively (ADB 2000a). A similar less optimistic forecast was also provided in Yap (2000). An even more pessimistic forecast is given by the Consensus Economics (ADB 2000b). If the current political problem is not resolved soon, these less optimistic forecasts may even be adjusted downward further.

### 1.2.2. Sectoral Composition of Output

The sectoral composition in output has not changed much in the past three decades (Figure 1.2). While the share of the agricultural sector is declining, the share industrial sector has not changed much so that it is the service sector that has taken up a larger share. In terms of sectoral growth, while a strong industrial sector growth is seen in the 1960s and 1970s, it faltered in the 1980s (Figure 1.3). It is the service sector that is leading the way in the 1980s and 1990s.

<sup>14</sup> This has been revised from 4.8-5.4 stated in the Medium Term Development Plan, 2000-2004.

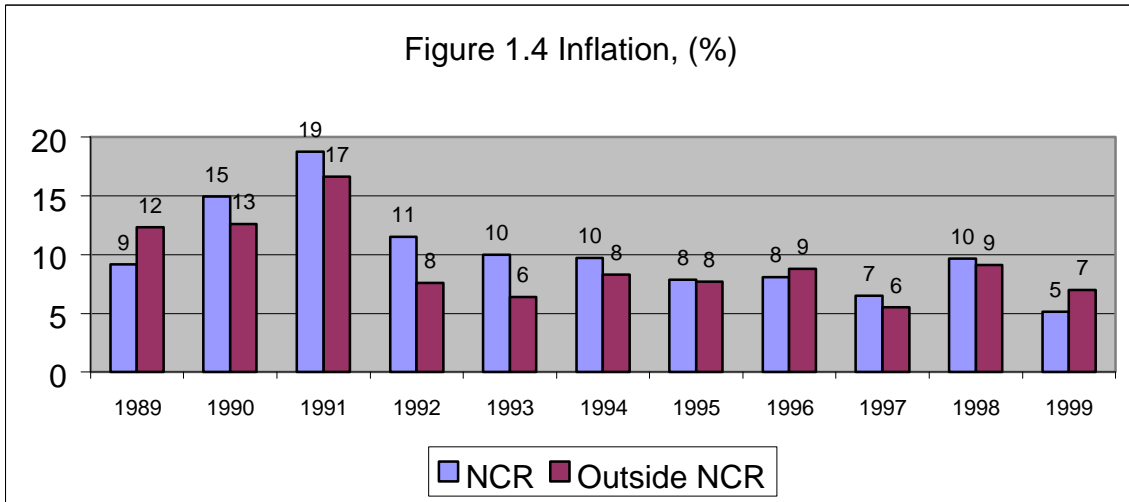
<sup>15</sup> Businessworld, 6 November 2000.



### 1.2.3. Prices

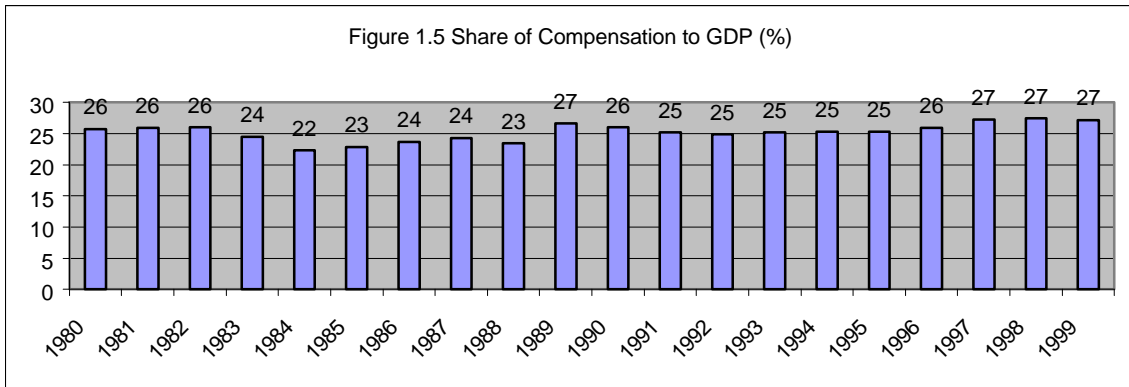
Consumer prices have been relatively stable (Figure 1.4). The peak in 1991 was due to the severe power crisis. The spike for 1998 is mainly due to the Asian financial crisis.

Barring any ultra disruptive incident, an inflation rate of about 8% would be reasonable to assume.



#### 1.2.4. Functional Distribution of Income

The share of compensation of employees to GDP between 1980-1990 ranged from a low of 22% to a high of 27% (Figure 1.5).



### 1.3. Developments in the Labor Market

#### 1.3.1 Labor Supply

Labor supply is computed as the product of the working-age population and the proportion who are actively participating in the labor market or the labor force

participation rate. In the Philippines, the definition of the working-age population is population 15 years and above<sup>16</sup>.

The working-age population<sup>17</sup> reported in the Labor Force Survey (LFS) is 48.6 million from a total population of about 74.7 million in 1999. It must be noted that, compared to its neighbors, the Philippine population is growing at a faster rate (Orbeta and Pernia 1999) consequently the working age population is expected also to grow faster although with a fifteen-year lag. It is expected that the labor market pressure in the next decade will mostly come from the slow decline in population growth<sup>18</sup> during the past couple of decades. Based on the LFS, the computed growth rate of the working age population is 2.9% between 1990-1994 and 3.2% between 1995-1999 (Annex Table 1).

The overall labor force participation rate, is currently around 65.8 percent which is slightly higher than the 64.5% in 1990. Unlike, Thailand, the labor force participation rate has not be showing a clear sign of a decline. It is even showing an gradual increasing trend. In fact, except for the youngest group of workers aged 15-19 and those in retirement age (65+), labor force participation rate of all other age-groups have increased between 1990 and 1999 (Figure 1.6). The decline in the labor force participation rate of the young workers is mainly due to a rising enrollment rates in the secondary level. Another thing that should be noted is that, unlike Thailand and most of the mainland Southeast Asian countries, the labor force participation of women in the Philippines is only slightly over half that of men (Figure 7). This represents a potential source of additional labor supply pressure that partly explains why the average labor force participation rate is increasing.

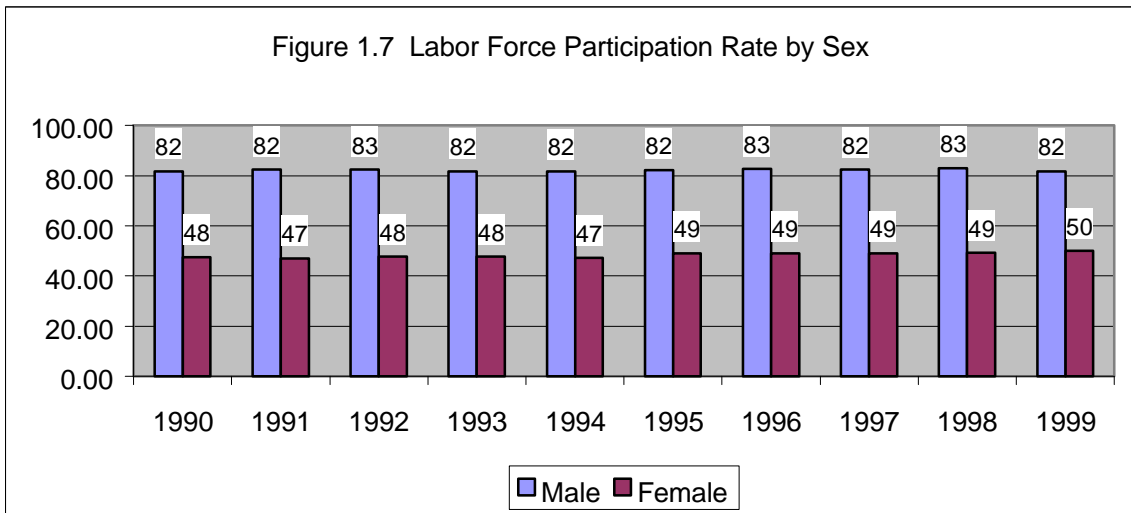
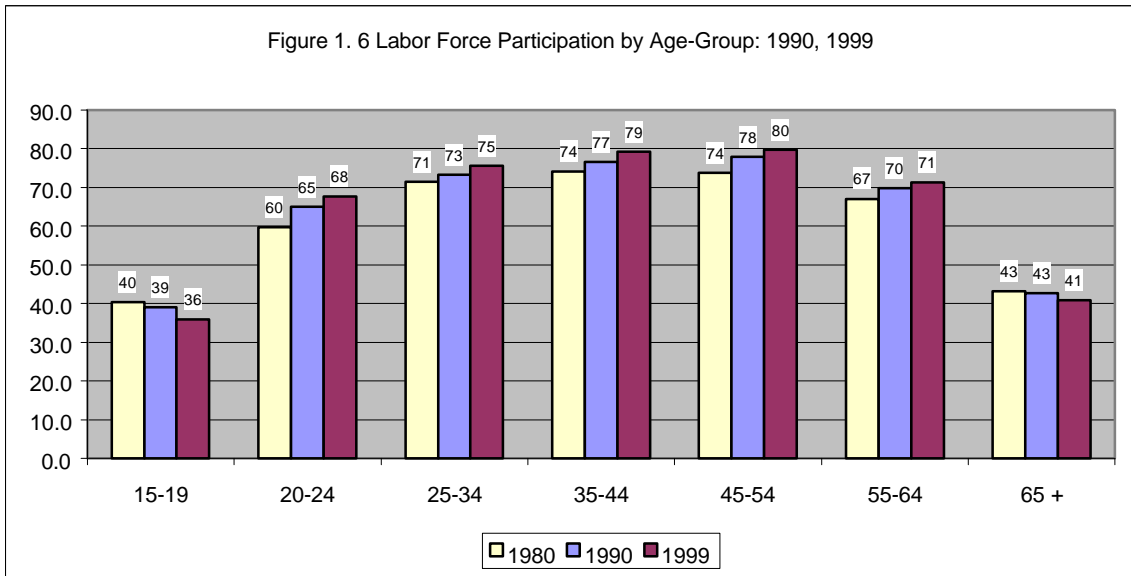
Combining the working-age population and the labor force participation rate, the labor force size is a little over 32 million in 1999. It is growing at a rate of 2.8% in 1990-94 and 3.3% percent in 1995-1999.

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<sup>16</sup> Given this definition of working age population, the Labor Force Survey (LFS) reports cover only those in the official working-age even if the LFS gather data for individuals 10 years and above.

<sup>17</sup> Up to the July 2000 round of the LFS, the working age population is taken from a population projection based on the 1980 census. Starting the October 2000 round, the LFS used the population projection based on the 1995 census. The estimate of the working age population based on the 1995 census is lower (0.96) of the corresponding estimate based on the 1980 census (NSO Press Release No 2000-87).

<sup>18</sup> According to the 1995 census of population, the population growth rate is 2.3 percent. The preliminary estimate from the 2000 census is 2.02 percent. This is higher compared to Thailand, Indonesia and Vietnam (Orbeta and Pernia 1999).



### 1.3.2. Employment Generation

The most popular analytical framework for determining employment is the interaction of labor supply and demand. Labor demand is a derived demand - - it is dependent on the demand of the final output. Hence, most modeling of labor demand associate labor demand to output. We will assume, for the time being, a limited role for wages and other institutional mechanisms in employment generation.

Owing to slow and inconsistent output growth, employment generation is expectedly slow. Employment is growing at 2.76% between 1990-1994 and 3.03% percent between 1995-1999 (Annex Table 4). Considering the growth of the working age population mentioned earlier, this is barely sufficient to employ new entrants let alone those in the existing pool of the unemployed.

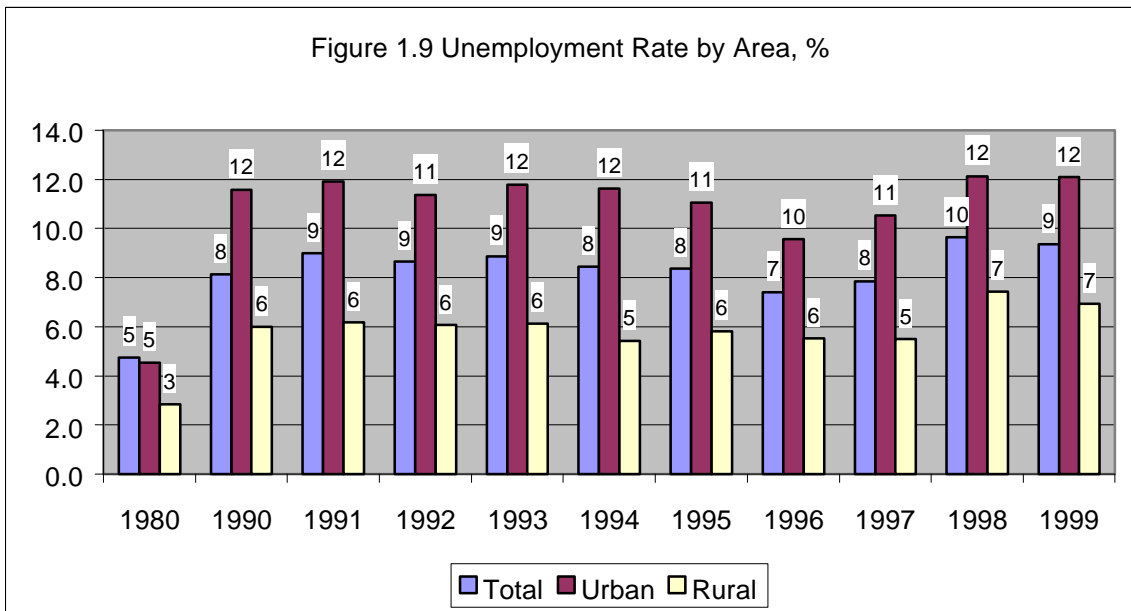
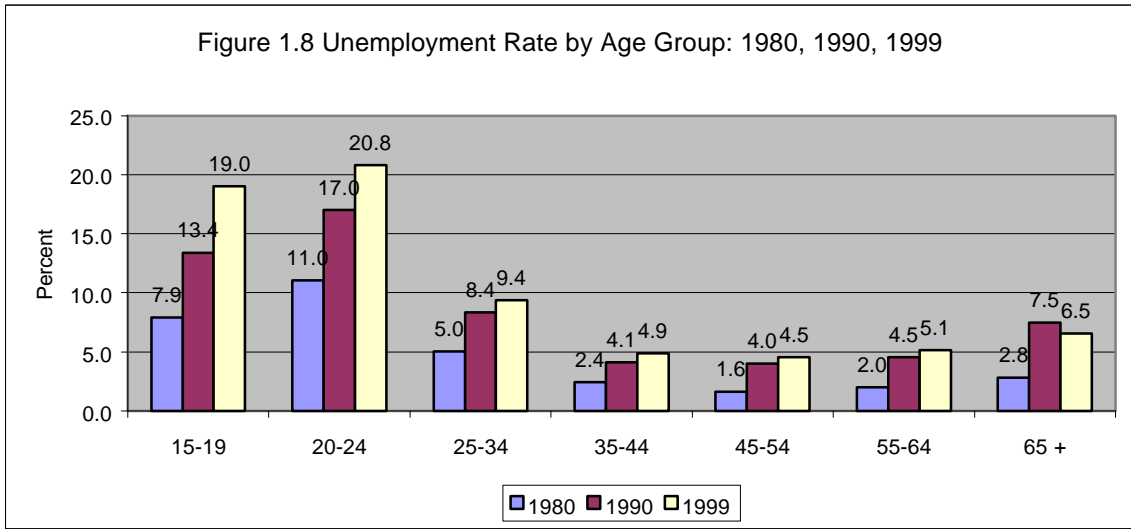
In terms of sectoral employment, as shown in Annex Table 6 the agriculture sector still accounts for a substantial proportion of employment (39% in 1999) even if its share in output, as mentioned earlier, is declining. Industry which account for as much as 35% of output and is growing faster than agriculture, accounts for only 16% of employment. This is exemplified by the manufacturing sector which generated only less than 10% of employment even if it accounts for as much as 24% of output. Faster employment generation is shown by the service sector. This has prevented the further enlargement of the pool of the unemployed. The sector accounts for an increasing share in employment generating as much as 45%.

In terms of class of workers, the salaried workers comprise 50% in 1999 (Annex Table 7). This is further broken down into 42% working for private enterprises, private households or family operated activities and 8% working for government. Own account and unpaid family workers account for 37% and 13%, respectively.

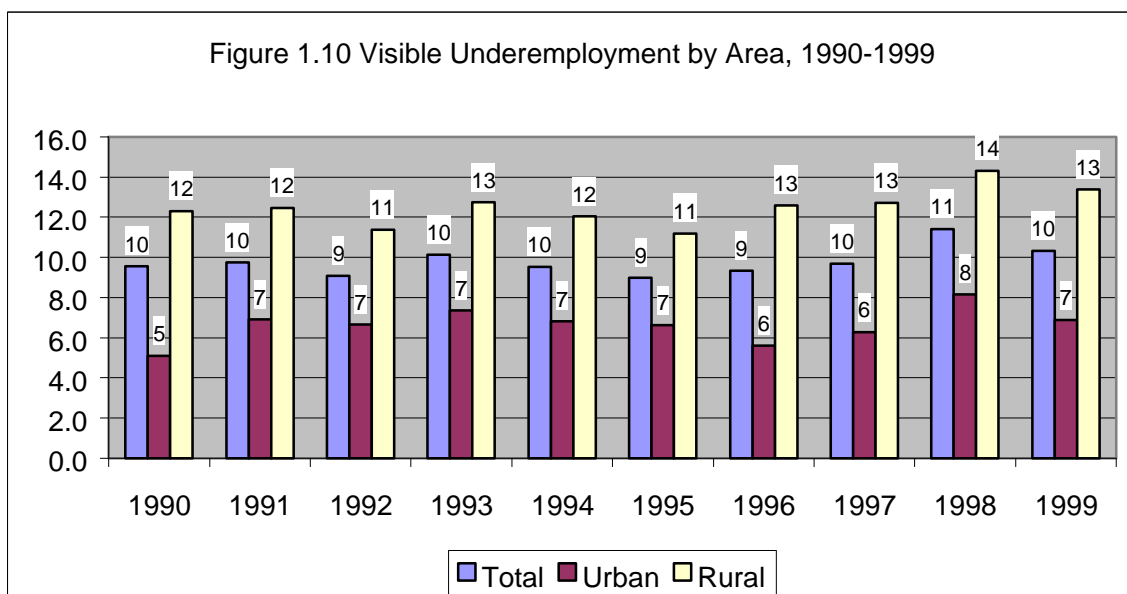
### **1.3.3. Unemployment and Underemployment**

Unemployment rate in the country is one of the highest in this part of the globe (Orbeta and Pernia 1999, Manning 1999). This is not surprising given higher population growth rate and the slower and inconsistent growth in output compared to its neighbors. In 1999 the open unemployment rate is 9.4%. Throughout the decade, the economy has kept this proportion below double-digit numbers.

As expected, the unemployment rate of young workers aged 15-24 is highest (Figure 1.8). This cohort constitutes almost half (48%) of the unemployed in 1999. The unemployment rate is also higher in urban compared to rural areas (Figure 1.9).



Underemployment is considerable. In 1999, the proportion of employed persons who expressed desire to have additional work hours either in their current job, in an additional or new job is 22.1%. The corresponding number based on the number of employed persons who are working below the statutory 40 hours per week, the visibly underemployed proportion is 11.4%. These rates have hovered around these proportions for the whole decade and have not shown a clear sign of declining. It is also important to note that, while unemployment is higher in urban than in rural areas, the rate of visible underemployment is higher in rural than in urban areas (Figure 1.10).



#### 1.3.4. Wage Rates

The determination of wage rates is dependent on the structure of the labor market as well as the institutions that exogenously affect the setting of wages. Under the neoclassical paradigm, wage is assumed to move to equalize labor supply and demand. It rises when demand rises faster than supply and vice-versa. Wages, however, can be rigid for some reason. When some wage rigidity is assumed, several variations can happen. For instance, in a dualistic labor market, one sector pays higher wage rate and all those who cannot be admitted into this protected sector will be paid subsistence wages. Besides the structure of the labor market, there are institutional structures that affect wages. Two of the most common are the minimum wage legislation and collective bargaining agreements and /or unions.

In the Philippines, the minimum wage rate is set at the regional level by the Regional Wages and Productivity Tripartite Boards since 1989<sup>19</sup>. There is, therefore, no national minimum wage. As estimate of the national wage rate, analysts use either a simple average of the regional minimum wage rates or use the wage rate in the national capital region to provide continuity with pre-1989 wage rates. Annex Table 9 shows the regional minimum wage rates. Inflation is known to be the primary determinant of minimum wage setting. In fact, minimum wage adjustments were done primarily to maintain real wages (Reyes 1999). Considering inflation, the adjustments were able to protect real wage rates from declining. It must be noted, however, that there is substantial violation of the minimum wage legislation, up to 25.5% in 1998 for example. As expected the incidence

<sup>19</sup> This pursuant to RA 6727 or the Wage Rationalization Act.

is high in small firms. In terms of sector, agriculture leads in non-compliance followed by personal services and construction (Reyes 1999).

Labor productivity, the other well-accepted determinant of wages, is declining or at least not rising (Jurado and Sanchez 1998). Annex Table 11 shows the output per worker during the last decade has not increased. Only the output per worker in the agriculture sector has shown an increase during the decade, although it is very minimal.

It is difficult to establish and analyze the trend in wages because of the absence of a consistent wage series. In recent years, there are at least three sources of wage data. One is the occupational wage survey (OWS) conducted by the Bureau of Labor and Employment Statistics (BLES) of the Department of Labor and Employment. In 1989-1993 surveys this covered 22 low paid occupations in non-agricultural establishments with 5 or more employees. The coverage was changed to enterprises with 50 or more employees in 1994-1995. This is currently being revised to generate wages by industry rather than by occupation. Another source of wage data is the Bureau of Agricultural Statistics of the Department of Agriculture. It gathers data on agricultural wages. Finally, there is also earnings data in the October round of the LFS. Unfortunately, the latest LFS data released containing earnings is 1995. Annex Table 9 provides a listing of the different wage data converted into monthly wage equivalents for comparability.

### **1.3.5. Impact of the Asian Financial Crisis on Employment**

A common question is: what is the effect of the recent Asian financial crises on the labor market? Compared to other countries in the region, the impact of the financial crisis on the Philippines is mild (Reyes, et. al 1999). There were no massive layoffs as firms have resorted to other adjustment measures. What the crisis did was hamper the absorption of new entrants into the labor force thereby contributing to a slight increase in unemployment. It was even pointed out that the impact on employment of the dramatic decline in agricultural output due to the drought was even bigger than what the financial crisis brought.

It has been noted also that the laying off of workers was not the only way that firms used in adjusting to the crisis. Other methods have been used notably, cutting down on work hours (Lamberte, et al. 2000). This would mean there were more increases in underemployment compared to increase in visible unemployment. Younger workers and new arrivals were also found to be laid-off first before older workers (Lamberte et al. 2000). This is understandable since firms have still limited investments on younger workers.

### **1.3.6. Overseas Filipino Workers**

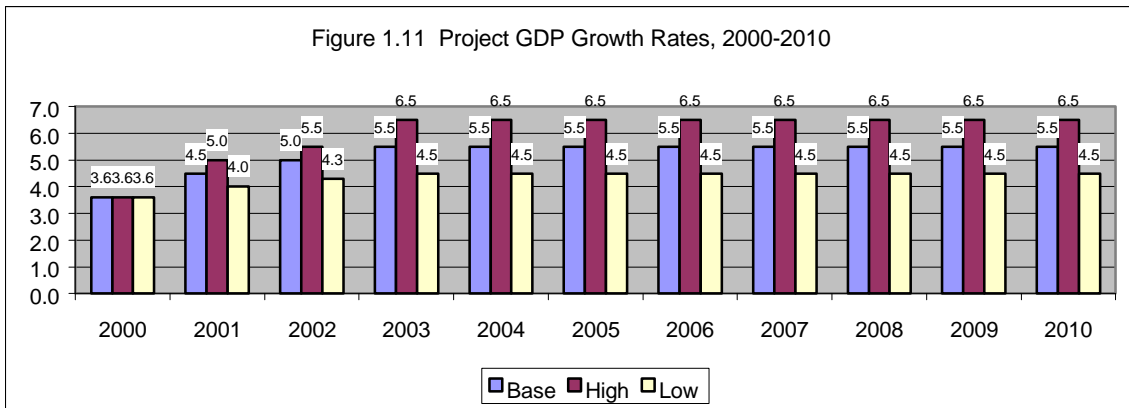
A discussion of the Philippine labor market is not complete without a discussion of overseas workers. This is because the country is known as a major supplier of overseas workers. While neighboring countries have attracted foreign direct investments, the country sent workers abroad given limited work opportunities at home (Orbeta and Sanchez 1997). Given official recognition of the role of remittances from overseas workers when the economy was faltering, this phenomenon even led outside analysts to consider the sending OFWs as part and parcel of the country's employment strategy rather than being a stop-gap measure.

What are the prospects for the flow of OFWs? It has been argued (Orbeta and Sanchez 1997) that if the economy continues to grow steadily, blue-collar workers will be returning given that the salary differential is may no longer be big enough to cover the social costs of working abroad. The blue-collar workers that will be left working abroad in the near future will be those working in nearby countries where geographical proximity and similarity in cultures lower adjustment costs. For professional workers, on the other hand, it is much more complex as the large salary differential and the lure of working experience in more sophisticated work environments may keep them from going home soon. The current political crisis, obviously, will not contribute to the reduction of the flow of overseas workers.

### **1.4. Medium-term Employment / Unemployment Scenarios**

Based on the foregoing discussions, we provide employment / unemployment scenarios in the medium term. The estimation used some of the basic features of the ILO Social Budget Model (ILO 1999). The estimation of labor demand and employment is based on an assumed growth rate of output and output per worker. The estimation of labor supply is based on the official population projections and an assumed labor force participation rate. The role of wages and other labor market institutions is, for the moment, assumed away. Annex Table 12a-12c provide the summary of the scenarios.

Three output scenarios are generated to correspond to the base case, high and low growth scenarios. The base case assumes that the economy will grow at 3.6%, 4.5%, and 5%, between 2000-2002, respectively, and 5.5% thereafter. The high scenario assumes growth rates of 3.6%, 5% and 5.5% for 2000-2002, respectively, and 6.5% thereafter. Finally, the low scenario, assumes growth rates of 3.6%, 4%, and 4.3% for 2000-2002, respectively, and 4.5% thereafter. The actual and assumed output growth scenarios are shown in Figure 1.11.



Output per worker is assumed to grow starting at 1% in 2001 and reaching 3% start 2003 and thereafter.

The distribution of the employed workers into wage and salary workers, own-account and unpaid family workers uses the proportion obtained in the base year -- 1999. The same methodology is used to estimate the number of underemployed and visibly underemployed.

In terms of growth in labor supply, we use the medium series population projection based on the 1995 census<sup>20</sup> in computing the working age population (NSO 1997). The working age population is assumed to grow annually at 2.7% and 2.6% between 2000-2005 and 2005-2010, respectively. The age-sex labor force participation rate is assumed to stay at the 1999 values for the rest of the simulation period.

Like the ILO model, a minimum level of unemployment of 3% is assumed.

Expectedly, the growth scenarios led to different employment/unemployment scenarios. The base case, predicts an employment growth rate to stabilize at 2.5% starting 2003 and unemployment rate ranging between 4.8% - 5.7% from 2003 (Annex Table 13a). The high growth scenario predicts an employment growth rate stabilizing at 2.6% and unemployment rate at the assumed minimum of 3% starting 2003 (Annex Table 13b). Finally, the low growth scenario predicts an employment growth rate of 1.5% starting 2003 and unemployment rate rising to 14% by 2010 (Annex Table 13c).

<sup>20</sup> The latest census was conducted in May 2000 but the age composition data of the population has not yet been released. The county has a Task Force on Population Projection that is convened and tasked to generate the official population forecast after the completion of the Census of Population.

## ATTACHEMENT

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